

OPENING STATEMENT OF PHILIP A. FALCONE

HEARING OF THE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
“HEDGE FUNDS AND THE FINANCIAL MARKET”

November 13, 2008

Thank you, Chairman Waxman, Ranking Member Davis, and other Members of the Committee. My name is Philip Falcone. I am the Senior Managing Director and co-founder of Harbinger Capital Partners® Funds.

I am extremely proud of the work that we have done at Harbinger: year-in, year-out, we have generated substantial returns for our investors, which include pension funds, endowments, and charitable foundations. We have achieved success for our investors by doing things “the right way.” Through our investments, we have also provided much-needed capital to American companies, supporting them as they pursue their business plans and giving them a second chance to reach their potential.

I appreciate the Committee holding today’s hearing in order to learn more about hedge funds and their positive role in the financial markets. I am hopeful that this Committee can take four points away from the testimony:

Number 1: Compensation in the hedge fund industry is performance-based. I think that is the right way to do business, because it creates incentives for hard work and innovation.

Number 2: Hedge funds use a variety of investment strategies, including traditional approaches. Investors, especially large institutions, want a broad array of strategies and disciplines so they can diversify their portfolios.

Number 3: Short selling is a valuable, longstanding feature of our markets. It isn't short selling that puts companies out of business, but rather over-leveraged balance sheets, poor management decisions, and flawed business plans.

Number 4: I support greater transparency and better reporting in the hedge fund sector.

I would like to take just a moment to tell you a bit about myself. I currently reside in New York City with my wife of 11 years and two children. By way of background, I was born in Chisholm, Minnesota, population 5,000, on the Iron Range in Northern Minnesota. I was the youngest of nine kids who grew up in a three-bedroom home in a working class neighborhood. My father was a utility superintendent and never made more than \$14,000 per year, while my mother worked in the local shirt factory. I take great pride in my upbringing, and it is important for the Committee and the public to know that not everyone who runs a hedge fund was born on 5th Avenue – that is the beauty of America.

I attended Chisholm Senior High and went on to Harvard University, where I received an A.B. in Economics in 1984. After college, I pursued my first love, hockey, although an injury cut short a professional hockey career abroad. I then moved to New York and

began working as a high-yield bond trader at Kidder, Peabody. A few years later, at the age of 28, I teamed up with a friend to complete a leveraged buyout of a small company based in Newark, New Jersey. Unfortunately, the recession in the early 1990's made that venture quite difficult. As a result, by 1994, I was so 'financially challenged' that the power in my apartment was shut off because I could not afford to pay the electric bill. That experience, as painful as it was, stayed with me over the years and taught me several valuable lessons that have had a profound impact upon my success as a hedge fund manager.

Through hard work, and perhaps a little bit of luck, Harbinger Capital Partners has been able to generate substantial returns for our investors since 2001. Our investment philosophy is very simple; we study, often for months, the fundamentals of companies to identify those that are undervalued or overvalued, and we act decisively when opportunities present themselves. We are not momentum traders, nor are we day traders; we are investors. It is not magic. My analysts perform thorough due diligence, rather than relying on ratings agencies or other research reports -- like many of the reports that improperly valued securitized mortgage products over the past few years.

My compensation is based upon the returns that we generate for our investors, which have far exceeded the performance of the overall market. There is no doubt that as a result of the success of the Harbinger Funds, I have done extremely well financially. But this is not a case where management takes huge bonuses or stock options while the company is failing. My success is tied to that of my investors, and I have reinvested a

substantial portion of my compensation over the years back into the Funds, alongside my investors, who are fully aware of the compensation formula when deciding whether to place their money with us.

Because of the events of the past few months, the American public, including my investors, have justifiable concerns about our financial markets and the economy. The important thing to remember, however, is that we must keep things in perspective and not overreact, misperceive, or misrepresent what has happened. We are a resilient society. We must focus on the positives and continue taking steps forward rather than backward.

Hedge funds play an important role in the economy by providing needed capital and encouraging creativity and “outside the box” thinking. Many viable companies struggling under a huge debt load or poor cash flow have not only survived, but flourished, through an infusion of hedge fund capital, saving thousands of jobs. I am proud of Harbinger’s track record of helping these types of companies emerge from bankruptcy and helping others avoid filing in the first place.

Finally, I would like to offer a thought or two on how Congress and the hedge fund industry can work together to increase public confidence not only in our industry, but in the financial markets as a whole:

- I support some additional government regulation requiring more public disclosure and transparency for hedge funds, as well as for public companies. All investors, whether individuals or sophisticated institutions, have a right to know what assets companies have an interest in -- whether on or off their balance sheets -- and what those assets are really worth.
- I also support the creation of a public exchange or clearinghouse for derivatives trading, especially credit default swaps. An open and transparent market for these transactions would reduce confusion and improve understanding, as well as help with valuation issues.

In summary, while I was growing up, my family may have lacked money, but one thing we didn't lack was integrity and pride in what we did and how we did it. It was the cornerstone then, and it remains the cornerstone of my family and my business today. In 1990, one of my investors told me something that continues to resonate with me today -- he said, "I can't guarantee that if you work hard you will be successful, but I can guarantee that if you don't work hard, you won't be successful." We should never lose sight of that.

Needless to say, I love this country and am grateful for the opportunity that I have been provided. That being said, we are living in difficult times now. Consequently, I hope that this Committee, and indeed the entire nation, will look at the hedge fund industry as

part of the solution to our economic turmoil. Given the tightening of credit markets, access to capital is more important than ever, and I believe that hedge funds can and should be a source for this capital.

Thank you for permitting me the opportunity to make this statement and I would be happy to answer questions that you may have.

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