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UPDATE: Harbinger Investors Sue Falcone, Fund Over LightSquared

--Suit contends Harbinger should have known about GPS interference

--Suit says investors weren't told about fund's ambitions

--LightSquared prevented from operating by FCC

(Updates with details of suit throughout)

By Greg Bensinger
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NEW YORK (Dow Jones)--Investors in Philip Falcone's Harbinger Capital Partners sued the fund and Falcone himself Friday, saying the "all in" investment in wireless startup LightSquared Inc. squandered billions of dollars.

The suit, filed in the Southern District of New York, contends Falcone made "deceptive and misleading statements" by not disclosing that he intended to form the new wireless company, which was told this week by the Federal Communications Commission it couldn't operate its network because of Global Positioning System interference concerns.

Harbinger and Falcone "knew from the outset, or were reckless in failing to know, that LightSquared's technology interfered with GPS systems," according to the suit. As a result, investors "stand to lose substantially all of the value of their investments."

Lili Schad, the lead plaintiff represented by Zamansky & Assoc. LLC, invested \$4 million into Harbinger, the suit says. She is seeking the return of funds lost from October 2007 through the end of last year due to the decline in LightSquared's value.

Schad is a film director and producer from Walkill, N.Y.

Harbinger last year reported its largest fund declined 47% due to a write-down of the value of LightSquared, which has faced resistance from lawmakers, the Defense Department and GPS device manufacturers, among others, who say its wireless airwaves can jam GPS signals.

The FCC action marked the culmination of months of network testing and regulatory scrutiny. LightSquared contended it was the victim of flawed tests and political agendas, with Falcone vowing to investors on a conference call Friday that he would fight to keep the start-up afloat.

The suit said Harbinger failed to disclose to investors in offering materials that it had plans to form a wireless company or that it would invest up at least 60% of its main fund into LightSquared. Harbinger "implemented a very different investment strategy, which bore little or no resemblance to the investment strategy described in the offering materials," the suit contends.

A spokesman for Harbinger had no immediate comment.

Harbinger had assets of \$5.7 billion at the end of 2011, with about \$3 billion of that invested into LightSquared, and the firm closed the fund to withdrawals in early December, according to the suit. LightSquared has said it has enough money to operate for several quarters, without giving specifics.

LightSquared received a conditional waiver from the FCC last year to build a nationwide fourth-generation mobile broadband network to cover 260 million Americans by the end of 2015. The Reston, Va.-based company hoped to sell the service wholesale to other wireless carriers.

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