



Third Point CEO **Daniel Loeb** hurls scorn to shake up companies—and boost his returns.

Hedge Fund RABBBLE- ROUSER

By Deepak Gopinath

◆ Daniel Loeb, who runs a \$3.5 billion hedge fund firm called Third Point LLC, has always had a big mouth. When he was 12, Loeb hectored the bullies at Paul Revere Junior High School in his native Los Angeles. After the kids threatened to beat him up, Loeb fought back—with his wallet. He hired a classmate, Robert Schwartz, as his bodyguard. “Dan’s mouth would get him into trouble,” Schwartz recalls. “He told everyone that he was paying me 25 cents a day, and no one ever bugged him or me again.”

Now 43, Loeb is still sounding off—only these days, he’s staking millions of dollars on his sharp tongue. Loeb has positioned himself as Wall Street’s merchant of venom, pillorying chief executive officers who don’t make him enough money. His weapons: letters, filed publicly with the U.S. Securities and Exchange Commission, bemoaning the management failures of companies he’s invested in.

Loeb bets on stocks, and sometimes against them, and then agitates to drive their prices in his

favor. After Loeb bought into Potlatch Corp. and the stock slumped, he branded CEO Pendleton Siegel a “CVD”—chief value destroyer. He called two great-grandsons of one of the wood and paper company’s founders members of the “Lucky Sperm Club.” To Irik Sevin, CEO of fuel distributor Star Gas Partners LP, another one of his picks, Loeb wrote: “Do what you do best: Retreat to your waterfront mansion in the Hamptons where you can play tennis and hobnob with your fellow socialites.” After that, Sevin quit.

Loeb’s goal is to shame companies into replacing their CEOs, shaking up their boards—whatever it takes to boost the value of his investment. He pans executives’ competence, social mores and what he often calls their “inexplicable insouciance.”

Loeb’s pungent prose and hard numbers have earned him a readership among analysts and money managers, says Steven Chercover, a senior analyst at D.A. Davidson & Co. in Portland, Oregon. Each tirade gets e-mailed among financial professionals, who savor Loeb’s taunts and research. “Loeb is the Hunter S. Thompson of activist letter writing,” Chercover says, a reference to the writer who unleashed the concept of freewheeling,

Troublemaker: Third Point’s **Daniel Loeb**

gonzo journalism in books such as *Fear and Loathing in Las Vegas*.

So far, Loeb's gonzo shareholder activism has made him and his investors rich. New York-based Third Point has posted an average annual return of 28.9 percent since Loeb founded the firm in 1995, he says. That's more than double the 12.5 percent gain logged by similar hedge funds during that period, according to Credit Suisse First Boston Tremont Index LLC, a New York-based firm that tracks fund performance. Like many hedge fund managers, Loeb charges an annual management fee of 2 percent and takes a 20 percent cut of all profits.

A lifelong surfer who counts among his friends hip-hop impresario Fab 5 Freddy, Loeb goes out of his way to court controversy. His letters have outraged executives and unnerved some investors. "I've dealt with all kinds of people on Wall Street, and Loeb is pretty much at the extreme," Potlatch's Siegel says. Third Point's tactics have prompted at least one lawsuit, later dropped, claiming that Loeb smeared a company on the Silicon Investor Internet message board. Loeb's Web handle, according to the 1999 suit: Mr. Pink, the name of one of the criminals in Quentin Tarantino's 1992 film *Reservoir Dogs*. "I can't confirm or deny any relationship with Mr. Pink," Loeb says. "But I do agree with some of the views he expresses."

Loeb is an extreme example of the shareholder activism that's ripped through corporate America since the 1980s. Public pension funds such as the \$190 billion California Public Employees' Retirement System led the way, flexing their financial muscles on issues ranging from shareholder returns to workplace violence. Then, mutual fund managers such as Michael Price, now president of Short Hills, New Jersey-based MFP Investors LLC, charged in, as they amassed a growing share of the nation's corporate equity during the 1990s stock market boom. Over the years, institutional shareholders have helped oust the CEOs of some of the mightiest companies in the land, from John Akers of International Business Machines Corp. to Carly Fiorina of Hewlett-Packard Co. to Philip Purcell of Morgan Stanley.

Now, hedge fund managers have joined the fray, says Patrick McGurn, executive vice president of Institutional Shareholder Services, a Rockville, Maryland-based company that advises fund managers on corporate governance. Loosely regulated investment vehicles for institutions and the rich, hedge funds have what it takes to rattle companies: money—



'Ridicule is a radiating weapon,' Chapman says.

and lots of it. Their combined assets have soared to about \$1.1 trillion this year from \$490 billion in 2000, according to Chicago-based Hedge Fund Research Inc.

"Hedge funds are taking the mandate of leadership," McGurn says. As investors such as Loeb have asserted themselves in the U.S., a new generation of hedge fund managers has taken aim at European companies. (See "Europeans Are Angry, Too," page 56.)

What sets Loeb apart, in addition to his returns, is his hyperkinetic—and hyperpublic—style. He trumpets his grievances, and rather than gathering shareholder proxies to swing corporate votes like many other activist shareholders do, he heckles management. "Loeb hasn't been in proxy contests—he's more of a rabble-rouser," says Ray French, chairman of Cayman Islands-based Strongbow Capital Management Ltd., which manages an activist fund.

Loeb makes some investors nervous, says Paul Isaac, chief investment officer of Cadogan Management LLC, a New York-based asset management firm that invests in hedge funds. "It doesn't reflect on Dan's ability as a fund manager, but some investors are not comfortable with the public positions he takes," he says.

Sitting in an open-neck, short-sleeve shirt in his glass-walled

'Do what you do best: Retreat to your waterfront mansion in the Hamptons.'

—Daniel Loeb to Star Gas CEO Irik Sevin

office on Madison Avenue, Loeb doesn't come across as a curmudgeon. Five feet 9 inches tall and a trim 158 pounds, he's a practitioner of Ashtanga yoga, which involves synchronizing the breath with a series of postures to detoxify the body and calm the mind. He travels to a yoga school in Mysore, India, every 18 months. His face is unlined, and his brown hair is just starting to gray.

On his bookshelf, *Optimal Trading Strategies*, a math-heavy tome about how to minimize trading costs, sits alongside *Art Law*, a legal guide for artists and art collectors. Nearby is a novel by 1978 Nobel Laureate Isaac Bashevis Singer, whose stories often draw on Jewish folklore and mysticism. Stacked against the wall is part of Loeb's burgeoning art collection: photographs by Richard Prince, whose work explores America's obsession with celebrity, originality and ownership. Prince's most controversial work is *Spiritual America*, a photographic image of actress Brooke Shields, in the nude, at age 10.

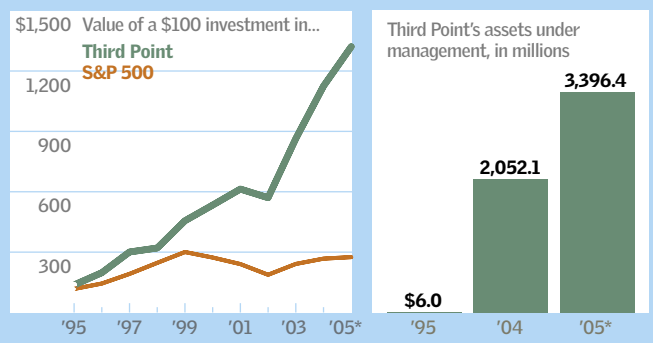
Between typing e-mails and calling out instructions to his traders, Loeb defends his approach to investing and shareholder activism. "Most of what we do is good stock picking," Loeb says, his voice low. "We don't like investors who have a conformist mentality and are drawn to mediocre managers who guarantee them dull but, in their opinion, predictable results."

Daniel Seth Loeb has been prowling for an edge since his boyhood days catching waves at Third Point, the biggest break at Malibu Surfrider Beach, for which he named his company. One of three children of Ronald and Clare Spark Loeb, young Dan grew up in a 4,000-square-foot house in Santa Monica Canyon. His father was a partner at the Los Angeles law firm of Irell & Manella LLP. His mother is a historian. Loeb's great-aunt, Ruth Handler, created the Barbie doll and co-founded Mattel Inc.

Even as a kid, Loeb dreamed of striking it rich, classmate Schwartz says. At Palisades High School, one of Loeb's English teachers nicknamed him Milo Minderbinder, after the scheming entrepreneur who controls the black market in Joseph Heller's novel *Catch-22*, says Schwartz, a partner at Third Point Ventures, Loeb's venture capital unit in Silicon Valley. "Dan was investing in stocks in high school and idolized Milo Minderbinder," Schwartz says. "The fact is, anyone who knew Dan in high school, it would be a no-brainer that he would be doing the things he's doing now."

After two years at the University of California, Berkeley, Loeb set off for New York, the money capital of the world, to study economics at Columbia University. As he'd done at

Flying high Dan Loeb's funds have outperformed the S&P 500 and their assets have grown by more than \$1 billion this year.



*As of July 31. Return data is for Third Point Partners and is net of fees. Source: Third Point

Palisades High, he kept playing the stock market. By 1983, when he was a college senior, Loeb was sitting on \$120,000 in profits, he says.

On a roll, Loeb reached for more. He sank his money into Puritan-Bennett Inc., which makes medical respirators. Shares of that company, now owned by Bermuda-based Tyco International Ltd., fell

after its ventilators were associated with several deaths. Loeb lost everything. Not only that, he'd leveraged his investments by buying on margin. He also owed his dad \$7,000 for tax liabilities. Loeb says it took him almost 10 years to pay back his father. "That was a 10-year lesson in the perils of leverage and overconcentrating positions," Loeb says.

After graduating from Columbia with a degree in economics, Loeb joined Warburg Pincus LLC, where John Vogelstein, one of his father's friends, worked. "He was very ambitious, very entrepreneurial," says Vogelstein, now the firm's vice chairman.

And like Milo Minderbinder, Loeb was hungry for a profit. He says he persuaded his godfather, Robert Robin, an outside counsel for Chicago-based CNW Corp., to introduce him to management. Loeb looked over the books and decided the company was undervalued. After Warburg Pincus bought a stake in CNW, the stock rose and the firm pocketed \$20 million, Loeb says. "We made a nice profit," Vogelstein says.

Restless, Loeb left Warburg Pincus in 1987 and joined Island Records Inc. in New York as director of corporate development. The record company got its start in Jamaica with reggae music before going on to make its money with U2 and The Cranberries. Loeb spent the next year helping Island Records secure debt financing. At one point, he traveled to Kingston, Jamaica, with Island founder Chris Blackwell to try to resolve a dispute over



Fab 5 Freddy calls Loeb 'financial hip.'

Europeans Are Angry, Too

By Jacqueline Simmons and Katherine Burton

When Jean-Claude Marian, the supervisory board chairman of Medidep SA, arrived at the sumptuous Hotel Le Parc in Paris on June 21, angry shareholders were waiting. Among them was hedge fund manager Mathieu Dubicq.

Dubicq and the other investors had arrived at Medidep's annual general meeting that day to give Marian, 66, an ultimatum: Quit, or we'll vote to have you fired. Dubicq, 32, says Marian had to go because he was working for Medidep while simultaneously running its chief competitor, Orpea SA. Both companies are based in Paris and operate nursing homes.

Marian walked out. Twenty minutes later, he returned and told the crowd he would resign. Applause broke out.

"We felt that if we didn't react with other shareholders, the situation would stay as it was," says Dubicq, who runs the London-based Mellon HBV European Special Situations Fund. "In our opinion, they were taking advantage of the situation as a competitor."

Dubicq is part of a new generation of hedge fund managers turned shareholder activists who have set their sites on Europe. So far this year, these investors have led revolts at more than 10 European companies, including Deutsche Börse AG,

IWKA AG, Nestlé SA, Royal Dutch Shell Plc and Suez SA.

Europe is ripe for such shareholder activism, says Stephen Davis, president of Davis Global Advisors, a Boston-based international corporate governance consulting firm. "Hedge funds are waking up to the fact that activism pays, so they are going the activism route and going for it quickly," Davis says. "In Europe, there is a large population of underperforming companies that have never been exposed to market pressures."

It's a golden opportunity for the hedge funds, whose combined assets under management have more than doubled to \$1 trillion since 2001. These private partnerships for institutions and the rich are eager to boost their performance: Hedge funds posted an average return of only 1.9 percent during the first half of 2005, according to Hedge Fund Research Inc., a Chicago-based firm that tracks the industry.

There are now about 90 activist hedge funds worldwide, according to Thomas Taylor, head of Greenwich, Connecticut-based Taylor Cos., which was planning to launch its own activist hedge fund of funds in September. That's up from 40 three years ago. Many of these

newcomers are run by 30-somethings such as Dubicq and Christopher Hohn, 38, who started London-based Children's Investment Fund Management LLP in 2003.

"They're young and hungry," says Sophie L'Helias, a New York-based lawyer. "They're not part of the establishment, and they don't have an ax to grind.

They just have to perform."

The better these managers do, the more they'll be paid. Hedge funds generally charge a 1.5 percent management fee and take a 20 percent cut of any profit.

The chance for a big paycheck appeals to long-time activists, too, some of whom recently opened partnerships to take advantage of the popularity of funds geared toward shaking up companies. Corporate raider Carl Icahn, 69, for example, started a fund last year that charged 2.5 percent of assets and 25 percent of any gains. Guy Wyser-Pratte, 65, a longtime New York-based activist, has been raising money for a fund, too.

In Europe, hedge funds' new, aggressive stance has increased concern that these investors will put their own profits ahead of jobs and companies' long-term



Hedge fund activist **Mathieu Dubicq**

welfare. Hohn, for example, this year led an assault on Frankfurt-based Deutsche Börse, Europe's largest stock exchange by market value, to stop a \$2.3 billion bid for London Stock Exchange Plc. Hohn and other shareholders said the deal was too expensive. The uproar prompted Deutsche Börse Chief Executive Officer Werner Seifert to quit, along with the company's supervisory board head, Rolf Breuer, and three other board members.

While Hohn's move boosted Deutsche Börse stock, it drew fire from German politicians. Franz Müntefering, chairman of the country's Social Democratic Party, characterized Hohn and other international hedge fund managers as "a swarm of locusts, destroying everything and moving on."

Wyser-Pratte, recently involved in a shake-up at German machine maker IWKA, says Hohn and fellow shareholders may have gone too far at Deutsche Börse. "It was right to revolt against the London Stock Exchange bid, but to go after Breuer, there I part ways," he says. "They had accomplished their goal. What was that

Eurotrashers These hedge funds have taken on European companies.

Fund (location)	Manager(s)/founder(s)	Target	Assets, in millions
Icahn Partners (New York)	Carl Icahn	Metso	\$2,000
Euro Value Fund (Cayman Islands)	Guy Wyser-Pratte	IWKA	500*
Cevian Capital (Stockholm)	Christer Gardell, Lars Forberg	Lindex	400
Mellon HBV European Special Situations (London)	Mickey Harley, Mathieu Dubicq	Medidep	350
Children's Investment Fund (London)	Christopher Hohn	Deutsche Börse	NA

*Still in the process of raising the funds. Source: Bloomberg

for, to humiliate him?" Hohn declined to comment.

Christer Gardell, 45, who runs Stockholm-based Cevian Capital AB, says he's prowling for corporate targets. So far, he has focused on Nordic companies, partly because investors and boards in Scandinavia tend to support long-term shareholders, he says. "We have more-active owners; it's a tradition up here," says Gardell, citing holding companies such as the Wallenberg family's Investor AB.

His current targets include Swedish life insurer Skandia AB, which he says should cut costs, and Intrum Justitia AB, Europe's leading debt collection company. Gardell won't say what his objectives for the latter are. Icahn has his own money in Gardell's fund and also has invested alongside him through his Icahn Partners LP.

Unlike many activist fund managers, Gardell generally takes a seat on the board. He says that's the most effective way to elicit change, especially in Scandinavia, where boards tend to hold more sway than CEOs. He's now looking to expand his activities in Switzerland and the U.K., which he calls "virgin territory" for active investors. "There are no active owners on the boards in the U.K.," he says. "The institutions there are so polite."

One of Gardell's targets says his meddling is useful—to a point. "I'm used to having very good discussions and working with active shareholders," says Jorgen Johansson, who headed Swedish apparel retailer Lindex AB from March 2001 until March '04. Gardell bought a stake in Lindex and joined the board in January 2004.

Johansson says he began

meeting with Gardell in June 2003, about six months before Gardell first acquired shares in Lindex. "In Scandinavia, there's a fundamental culture of team playing," he says. Then in March 2004, Gardell and other directors went after Johansson, blaming him for an error that left the company with too much women's apparel to sell and causing Lindex's first loss in nine quarters. Johansson resigned.

"They needed to show strong reaction and said they had to make it public that this was my responsibility," Johansson says, adding he has "no hard feelings." Even so, he says his initiatives, including improving information technology systems, are helping the company make money today. As of Aug. 9, Lindex stock had almost doubled since he quit.

Other CEOs aren't as forgiving. Marian says he didn't expect that shareholders would force him out at the June Medidep meeting. He downplays the potential conflict of interest that angered investors. "I'm an industrialist," he says. "The plan was to merge the companies when we first got in." The plans changed when Medidep's shares became too expensive, he says. Orpea sold its stake in Medidep after the June shareholder meeting.

Investors may have forced him out, but Marian and Orpea shareholders have gotten rich as a result. Since his resignation at Medidep, Orpea stock has soared, gaining 32 percent through Aug. 9. Marian owns a third of that company. Medidep shares, meantime, have gained 1.7 percent. "They should give me a medal," Marian says of the activists.

the estate of reggae superstar Bob Marley, who died in 1981.

"Dan saw value in Island Records when no one else did," says Blackwell, 68, who went on to found Palm Pictures Inc. in New York. A big investor eventually saw value in Island, too: Blackwell sold his company to Baarn, Netherlands-based PolyGram NV in 1989 for \$272 million.

By now, Loeb had spent almost a decade in New York and had immersed himself in the city's art and music scene. Along the way, he'd met Fred Brathwaite, aka Fab 5 Freddy. A graffiti artist in the 1980s, Freddy went on to become one of the most popular figures in hip-hop, helping to take rap music mainstream as the first host of *Yo! MTV Raps*, a music video program on the MTV cable television network. Freddy says he turned Loeb on to cutting-edge urban music. He and Loeb hung out at the Odeon, the chrome-tinged temple of hard partying immortalized in Jay McInerney's 1984 novel *Bright Lights, Big City*. Once, they went out to genteel East Hampton and blasted NWA, the pioneers of hardcore gangsta rap, across Georgica Beach, Freddy says. For a while, Loeb lived on 7th Street at Avenue D, in the gritty East Village. "I'm hip-hop; he's financial hip," Freddy, 44, says of Loeb.

From Island Records, Loeb bounced to Lafer Equity Investors LP, a New York-based hedge fund, and then, in 1991, to Jefferies & Co. in Los Angeles, as an analyst. Following the 1990 collapse of Michael Milken's Drexel Burnham Lambert Inc., Jefferies CEO Frank Baxter was hiring ex-Drexelites and pushing into the market for high-yield bonds. Loeb dug into Drexel and struck gold. Drexel had issued certificates of beneficial interest to creditors and employees. CBIs designate nonvoting securities with underlying assets of one corporation as debt securities of another company. Drexel's were undervalued, Loeb concluded.

Loeb says he began to track down and trade the CBIs on his own. Working off a list of holders he'd gotten from the bankruptcy court, Loeb arrived at work at 2 a.m. to call investors in Europe. His colleagues envied his knack for turning seemingly oddball ideas into profit, says Jon Brooks, who worked with Loeb at Jefferies and now runs JMB Capital Partners LP, a \$500 million hedge fund firm in Los Angeles.

Soon, Loeb says, he was forging business relationships with hedge fund managers and Wall Street heavy hitters such as David Tepper, who ran junk bond trading at Goldman, Sachs & Co. and later opened his own hedge fund firm: Chatham, New Jersey-based Appaloosa Management LP. Hoping to pull down more money, Loeb jumped to Citicorp Securities Inc. in 1994, as a junk bond salesman. A year later, he struck out on his own, founding Third Point in New York.

He got off to a rocky start. Loeb says he'd hoped to raise \$10 million for his fund. Instead, he says, he cobbled together just \$3 million from friends and family. He didn't hire his first full-time employee until 1997.

It was about this time that Mr. Pink made his appearance on www.siliconinvestor.com, a Web site now owned by Kansas City-based InvestorsHub.com Inc. that enables

'Since you ascended to your current role of Chief Value Destroyer, the shares have dropped over 45 percent.'

—Loeb to Potlatch CEO Pendleton Siegel

people to post anonymous messages about publicly traded companies. At 5:36 p.m. on March 10, 1997, someone calling himself Mr. Pink started a new Silicon Investor thread: "Mr. Pink's Picks: Selected event-driven value investments." Mr. Pink listed "Minister of Truth/Lord of All Things" as his occupation and title. His early picks included Consolidated Freightways Corp., mortuary operator Loewen Group Inc. and Ralcorp Holdings Inc., maker of Ry-Krisp crackers. He warned his readers to avoid poorly managed companies. "When you sleep with dogs, you wake up...poor," he wrote that April.

Over at Third Point, Loeb was hunting for dogs. He began shorting the shares of shaky companies that had been swept upward during the longest stock market boom in history. "It was like shooting fish in a barrel," Loeb says.

In 1998, for example, when the near collapse of Long-Term Capital Management LP roiled Wall Street, Loeb bet against FirstPlus Financial Group Inc., a mortgage lender that had put itself up for sale. Loeb figured the market turbulence would scupper any deal. That April, FirstPlus stock traded as high as \$54.875. By December, it had cratered to \$1.937—a boon for a short seller like Loeb.

Another company that caught Loeb's eye was Hitsgalore.com Inc., a Web portal company that had reported less than \$20,000 of revenue in 1998. The stock leaped to \$20.125 in May 1999 from \$2.38 that March, valuing the Rancho Cucamonga, California-based company at \$1 billion.

Hitsgalore soon came crashing back to earth. On May 11, Bloomberg News reported that founder Dorian Reed had had a run-in with the Federal Trade Commission over false claims he'd made to customers of an earlier Internet firm. Hitsgalore stock, trading under the ticker HITT, tanked. Mr. Pink piled on, referring to the company as "sHITT," declaring on his thread, "These crooks belong in jail." Mr. Pink dared the company to sue him.

Hitsgalore obliged, suing Mr. Pink, whom it identified as Loeb. Loeb says he was shorting Hitsgalore stock at the time. In the suit, filed in June 1999 in U.S. District Court in Tampa, Florida, the company claimed that Loeb and other

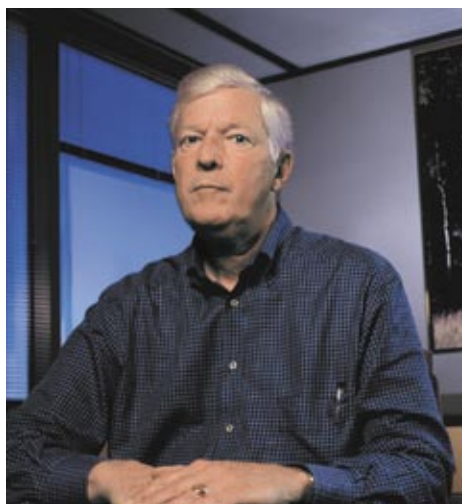
Web posters had conspired to defame Hitsgalore. The company dropped the suit in April 2000. That same month, Hitsgalore sued Bloomberg News for libel; Los Angeles County Superior Court Judge Paul Boland dismissed that complaint in October 2000. Hitsgalore has since abandoned its Internet business; in March 2001, the company changed its name to Diamond Hitts Production Inc.

By early 2000, Third Point's assets under management had grown to a modest \$136 million, and Loeb was looking for a way to gain leverage over companies. That March, an activist hedge fund manager named Robert Chapman wrote an angry, public letter to J. Michael Wilson, CEO of American Community Properties Trust, a St. Charles, Maryland-based real estate investment trust. Third Point also owned a stake in American Community Properties, and Chapman's missive caught Loeb's attention.

Chapman, 39, who runs Los Angeles-based Chapman Capital LLC, had attached his letter to a Schedule 13D form, a public document that the SEC requires investors to file when they buy or sell shares if they own more than 5 percent of a company's outstanding stock and intend to influence how the company does business. In his 13D, Chapman analyzed American Community Properties, its value and prospects and laced into the company's management. "The power of hostile 13Ds comes from the publicity," Chapman says now. "Ridicule is a radiating weapon, like a nuclear bomb."

Loeb says he liked Chapman's style. That September, Loeb fired off a 13D letter of his own to William Stirtz, chairman of both Agribrands International Inc. and Ralcorp Holdings, both based in St. Louis. Ralcorp, one of Mr. Pink's early picks, had offered \$39 a share for Agribrands, which makes animal feed. Loeb, who owned 505,400 shares of Agribrands, argued the bid was too low. Cargill Inc. agreed. That December, Cargill bid \$54.50 for Agribrands, topping the Ralcorp offer. Loeb says he made \$20 million following the purchase.

Since then, Loeb has filed about two dozen other 13D letters, with varying results. If nothing else, his dispatches are a departure from run-of-the-mill business correspondence.



Potlatch's Siegel calls Loeb 'extreme.'

In April 2003, for example, Loeb started to pick a fight with Spokane, Washington-based Potlatch. CEO Siegel says Loeb berated management for the company's stock performance during an analyst meeting that month. Then Loeb sent Siegel an open letter criticizing the CEO's performance and blasting the company for its phased-voting rule, which required shareholders to own Potlatch stock for four years before being eligible for full voting rights. "Since you ascended to your current role of Chief Value Destroyer ('CVD') when you assumed the formal title of CEO in 1999, the shares have dropped over 45 percent, a destruction of shareholder value in excess of \$520 million," Loeb wrote. "We find it ironic that shareholders must endure four years of your destructive stewardship in order to be entitled to a full vote."

Potlatch dropped its voting rule in May 2005. Its stock, which traded as low as \$18.75 in March 2003, before Loeb began his campaign, closed at \$56.37 on Aug. 9, for a gain of 200 percent. Siegel says Loeb had nothing to do with the rule change. "He was equally responsible for the fall of the Taliban," he says.

Last February, Loeb fired off another letter, this one to Sevin, CEO of Stamford, Connecticut-based Star Gas, which distributes heating oil. "A review of your record reveals years of value destruction and strategic blunders which have led us to dub you one of the most dangerous and incompetent executives in America," Loeb wrote.

Loeb, who owns 6.5 percent of Star Gas, didn't stop there. He said he'd learned that Cornell University offered a scholarship in Sevin's name. "One can only pity the poor student who suffers the indignity of attaching your name to his academic record," he said.

Sevin resigned on March 7, three weeks after Loeb sent his letter. Star Gas stock has fallen since Loeb bought in late October 2004, losing 25 percent through Aug. 9. "Sometimes a town hanging is useful to establish my reputation for future dealings with unscrupulous CEOs," Loeb says. Star Gas spokesman Robert Rinderman says Sevin declines to comment.

Loeb doesn't always get what he wants. After buying into Salton Inc. in September 2004, Loeb began agitating for CEO Leonhard Dreimann to resign. Last February, he wrote to the board of the Lake Forest, Illinois-based company, which makes

George Foreman grills, and berated the directors for what Loeb saw as management failures. He also criticized them for squandering money sponsoring the U.S. Open tennis final, where twin pop icons Mary-Kate and Ashley Olsen were among the celebrity spectators that year. Loeb said he was shocked to see the Salton name emblazoned on the stadium walls. "My bewilderment quickly turned to anger when I saw the crowd seeking autographs from the Olsen twins just below the private box that seemed to be occupied by Mr. Dreimann and others who were enjoying the match and summer sun while hobnobbing, snacking on shrimp cocktails and sipping chilled Gewürztraminer," Loeb told Salton's board.

Loeb wrote to Dreimann again in April, this time to say he was unloading his 708,300 shares, which had fallen 80 percent since he started buying in September 2004. "The final decision to exit the position was not based on your incompetence, arrogance and innumerable shortcomings alone," Loeb said. "It was my conclusion that the company's board is governed by a toothless crew of cronies or pathetically weak individuals who I can only conclude are in way over

their heads and unable to take appropriate action." Dreimann didn't return calls seeking comment.

Some shareholder activists disagree with Loeb's in-your-face style. Working behind the scenes is often more effective, says Eric Miller, who manages \$2.4 billion of stocks at Heartland Advisors Inc., a Milwaukee-based mutual fund company that's taken an activist stance. "Going public can be time-consuming and costly," Miller says. "It is our last option."

What's more, dealing with a single, aggressive shareholder can distract executives from job one: running the company. "Businesses today have too many other problems to waste time with one investor," says corporate investor Irwin Jacobs, who earned the nickname "Irv the Liquidator" in the 1980s. Jacobs, now 63 and chairman of Genmar Holdings Inc., a Minneapolis-based boat company, frequently bought minority stakes, pushed for change and then sold his stake at a profit, either to the target company or to another investor. "A lot of what I did in the 1980s, I wouldn't do anymore," he says.

Whatever his critics say, Loeb has so far had just one down year. Third Point lost 7 percent in 2002. Today, he enjoys the trappings of success. He lives in Greenwich Village and owns a Rafael Viñoly-designed house in the Hamptons. This year,

Loeb's picks Sears, Loeb's biggest investment, gained 56 percent in the first seven months of this year.

Holding	Value, in thousands
Sears Holdings	\$232,850
Dade Behring Holdings	168,591
Consol Energy	155,166
Canadian National Resources	144,891
Western Gas Resources	127,465

For the quarter ended on March 31. Includes only securities required to be disclosed to the SEC. Source: Third Point SEC filing

'It was my conclusion that the company's board is governed by a toothless crew of cronies.'

—Loeb to Salton Inc. CEO Dreimann

The CEO was 'hobnobbing, snacking on shrimp cocktails and sipping chilled Gewürztraminer.'

—Loeb to Salton's board

he and his wife, Margaret, were feted at the Waldorf-Astoria Hotel by Prep for Prep, a foundation that helps send minority kids to elite New York private schools. The couple had pledged \$1 million to the charity. Loeb's art collection now includes works by German pop artist Sigmar Polke and California artist Mike Kelley. In August, Loeb was preparing to move Third Point from its Madison Avenue digs to two floors in Lever House, the Modernist landmark on Park Avenue.

Loeb says he didn't set out to become a shareholder activist. "We are not trying to take over companies," he says. "We are not trying to change control. We are just trying to get boards and managements to do the right thing." All the same, Loeb doesn't rule out getting even tougher on

corporate bosses. "I'm sure that there'll come a day when we'll make an offer for a company or fight for control of a board," he says.

As for Mr. Pink, he still posts occasionally on Silicon Investor, where his thread has received more than 18,000 messages since 1997. In April, Mr. Pink posted a Web link to a news story about Loeb, noting, "Interesting article about an activist." Lately, Mr. Pink's picks have included Consol Energy Inc., a coal company; Dade Behring Inc., which makes medical diagnostic equipment; and Magellan Health Services Inc., which manages mental health treatment for insurers.

Dan Loeb's Third Point owns all three. ▶

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BLOOMBERG TOOLS

Letters From Loeb

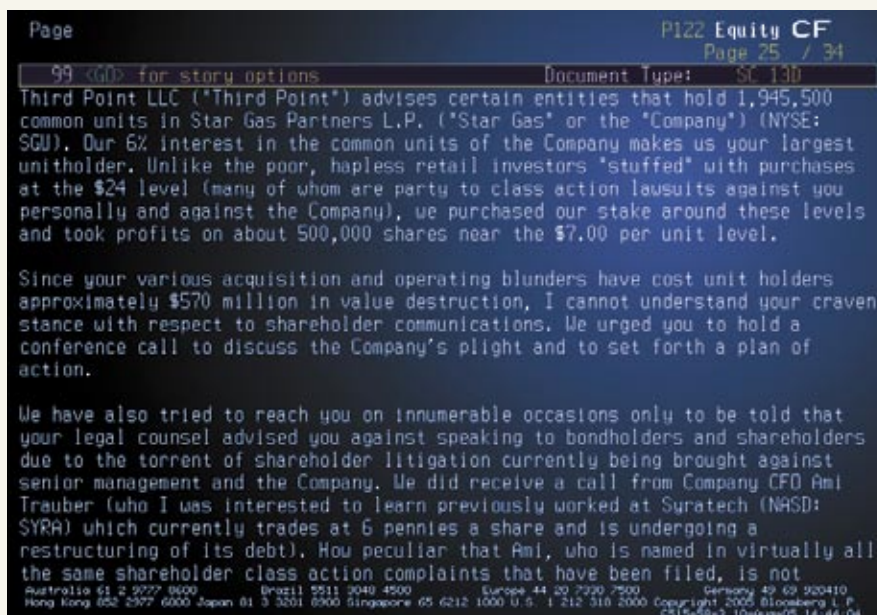
Letters that Daniel Loeb wrote to chief executive officers of companies he viewed as mismanaged are usually attached to Schedule 13Ds. Schedule 13Ds are forms that an individual or group that owns 5 percent or more of a company's outstanding stock are required to file with the U.S. Securities and Exchange Commission.

To locate the letter Loeb sent this year to Irik Sevin, CEO of Star Gas Partners, type `SGU US <Equity> CF <Go>` for a list of Star Gas Partners' filings. Enter 13D in the SEARCH FOR field, and press <Go>. Click on the 13D filing with a received date of Feb. 14, and then type `1 <Go>` to view the full text. Type `25 <Go>`, enter `IRIK` in the WORD SEARCH field and press <Go>.

To view a list of beneficiary owners of a company's stock, you can use the Holdings Search function. Type `PHDC <Go>` and click on

1 in the Run column to generate a list of shareholders sorted by the size of their holdings. According to filings, Third Point, which controlled 6.5 percent of shares outstanding, was the second-biggest holder of Star Gas shares as of June 30.

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For a list of hedge funds ranked by one-year performance, type `HFND <Go> 6 <Go>`.