IRA RENNERT'S HOUSE OF CARDS

The financier erected a $170.2 million home in the Hamptons. He built his troubled business empire on debt.

By Peter Robison

Across a cornfield in Sagaponack, New York, over the dunes and beyond the brown rushes, looms Fair Field—the grandest and, at $170.2 million, the most-expensive home in the Hamptons. It has taken financier Ira Rennert more than five years to build his beachfront palace in the priciest hamlet on the east end of Long Island. Behind the Italianate facade lie 29 bedrooms and 39 bathrooms. A dozen chimneys tower from the Mediterranean-style tile roof. The formal dining room stretches 91 feet in length. That's three feet shorter than a basketball court—another amenity Fair Field has, along with a bowling alley, a pair each of tennis and squash courts and a $150,000 hot tub, according to building plans and other documents filed at the Southampton town hall.

Mosaic floors, carved-wood walls, frescoed ceilings and golden sinks adorn the mansion, says Judith Mahanna, a property appraiser who has assessed the 100,000-square-foot compound and levied 2004 property taxes of $392,610.24. On a blustery Tuesday in May, two orange earthmovers squatted nearby as pickup trucks rattled down the lane to the 64.8-acre estate and disappeared beyond the guardhouse gate. Rennert, 70, received his occupancy permit that month, just in time for the 2004 summer social season.

Amid such splendor, Rennert faces a sober reality: Renco Group Inc., his privately held industrial empire, has been rocked by a chain reaction of debt, default, bankruptcy and litigation. Since March 2001, three Renco companies—Lodestar Energy Inc., a Lexington, Kentucky–based coal company; Magnesium Corp. of America, a Salt Lake City–based magnesium producer; and WCI Steel Inc., a Warren, Ohio–based steelmaker—have spiraled into bankruptcy.

Lodestar was largely liquidated in 2003. Renco and MagCorp, which Rennert has purchased out of bankruptcy and renamed U.S. Magnesium LLC, are now battling a U.S. Justice Department lawsuit claiming the magnesium company dumped toxic chromium that leached into Utah's Great Salt Lake. The companies deny the charge. If the government prevails, Rennert, who is also named as a defendant in the complaint, may face civil penalties of as much as $900 million, according to the U.S. Environmental Protection Agency. WCI Steel bondholders, meantime, have been fighting to wrest that company from Rennert in federal bankruptcy court. Rennert has been maneuvering to buy it back. The final hearing was scheduled to take place on July 21.

A fourth Renco company, St. Louis–based Doe Run Resources Corp., confronts eight lawsuits from residents of Herculaneum, Missouri, claiming that its lead smelter there has tainted the town and poisoned local children. The Missouri

Department of Natural Resources says homes in Herculaneum, located 25 miles south of St. Louis, have been contaminated with lead—a metal that can cause learning disabilities, seizures, coma and even death, according to the U.S. Centers for Disease Control and Prevention. Several suits claim Doe Run knew of the danger and failed to warn residents. Doe Run denies the charge and says it has cleaned up the town and reduced emissions. In a June filing with the U.S. Securities and Exchange Commission, Doe Run's auditor, KPMG LLP, said the company's survival was in doubt.

His empire besieged, Rennert has hired J.P. Morgan Chase & Co. to sell a fifth company, AM General Corp. of South Bend, Indiana. Maker of the U.S. Army Humvee and its civilian counterpart, the Hummer, the company may fetch $1 billion, says Brett Levy, head of high-yield-bond research at RBC Capital Markets in Greenwich, Connecticut.

Rennert declined to be interviewed for this story.

It's a stunning downfall for Rennert, a Brooklyn native who built Renco during the 1980s and '90s by issuing more than $1 billion of high-yield junk bonds. From his headquarters on the 42nd floor of 30 Rockefeller Center, Rennert bought struggling smokestack companies. By 2001, his collection of mills, mines and manufacturers employed more than 8,500 people and generated combined annual sales of more than $2 billion, according to Renco SEC filings.

Renco enriched itself by driving its companies into debt. From 1996 to '98, five Rennert companies sold $975 million of bonds, and Renco collected $311.5 million of the proceeds—32 percent of the total—in the form of dividends from those companies, according to the securities' prospectuses. As of 1998, Rennert and his family owned 98 percent of Renco, according to a Lodestar SEC filing that year.

With his wealth, Rennert has entered an inner circle of New York society. He has donated $1 million to the Center for Jewish History in New York, says Bruce Slovin, the organization's chairman. He has given $2.5 million to Barnard College, an affiliate of Ivy League school Columbia University, to support a professorship in Judaic studies. And he has endowed the Ira Leon Rennert Professorship of Entrepreneurial Finance at New York University. Rennert's philanthropy extends to Israel, where he has supported Jewish study centers in Jerusalem, Hebron and elsewhere.

Author Elie Wiesel, winner of the 1986 Nobel Peace Prize, says Rennert and his wife, Ingeborg, 61, host dinner parties at their Park Avenue apartment at which Wiesel and other guests, such as Alon Pinkas, Israel's consul general in New York, discuss Hebrew scripture and Middle East politics. Rennert is chairman of the Fifth Avenue Synagogue, one of New York's most-prestigious houses of worship and the spiritual home of visiting Israeli dignitaries.

Wiesel, who wrote of surviving Nazi concentration camps in his 1958 memoir *Night,* says he's shocked by the controversy surrounding Renco. Rennert is affable and compassionate, a generous patron of charities, says Wiesel, 75. "When I hear these negative things, it's not the man I know," he says.

As Rennert repairs to Fair Field, his bondholders can tally their losses. The price of WCI Steel's 10 percent bonds due in December 2004, for example, plunged to as little as 21 cents on the dollar in 2002 as the company hurtled toward bankruptcy. The bonds were trading at 54 cents on the dollar on July 13. Rennert's list of investors reads like a who's who of Wall Street heavyweights. It includes Carlyle Group Inc., Citadel Investment Group LLC, Credit Suisse Asset Management Ltd. and Goldman Sachs Group Inc. None of those firms would comment for this story.

Bondholders are fighting back. As WCI creditors battle Rennert in Ohio, bondholders of Renco Metals Inc., parent of MagCorp, have sued him in federal bankruptcy court in New York to recoup at least $95 million of dividends, executive bonuses and other fees. Lee Buchwald, the court-appointed trustee in the MagCorp bankruptcy, says the bond sale amounted to a "fraudulent conveyance"—a transfer of assets that rendered the company insolvent. The sale siphoned money out of the company that it needed to meet environmental liabilities, says Buchwald, a 46-year-old former Rothschild Inc. investment banker. He is leading the bondholder suit. "It's a sad way to make money," he says of Rennert's business dealings.

Michael Ryan, a lawyer for Renco, says Rennert's companies disclosed their plans to pay the dividends and that declining metals prices, not excessive debt, weakened them. Ryan, a partner at Cadwalader, Wickersham & Taft LLP in New York, says the state of Missouri made mistakes in collecting lead samples near Doe Run and that both Doe Run and MagCorp have reduced emissions since Rennert bought them and now exceed environmental standards. "It's easy to take cheap shots," says Ryan, 56. "The bondholders in all these occasions knew where the money was going."

Born in 1934, during the Great Depression, Ira Leon Rennert has been beating the odds since his boyhood in Brooklyn. His mother, Sadie, was born in Warsaw in 1902 and emigrated to the U.S. as a young girl, according to the Web site of MaTaN, which operates Judaic study centers in Israel and lists the Rennert family as a patron. Wiesel says Rennert never mentioned his parents to him.

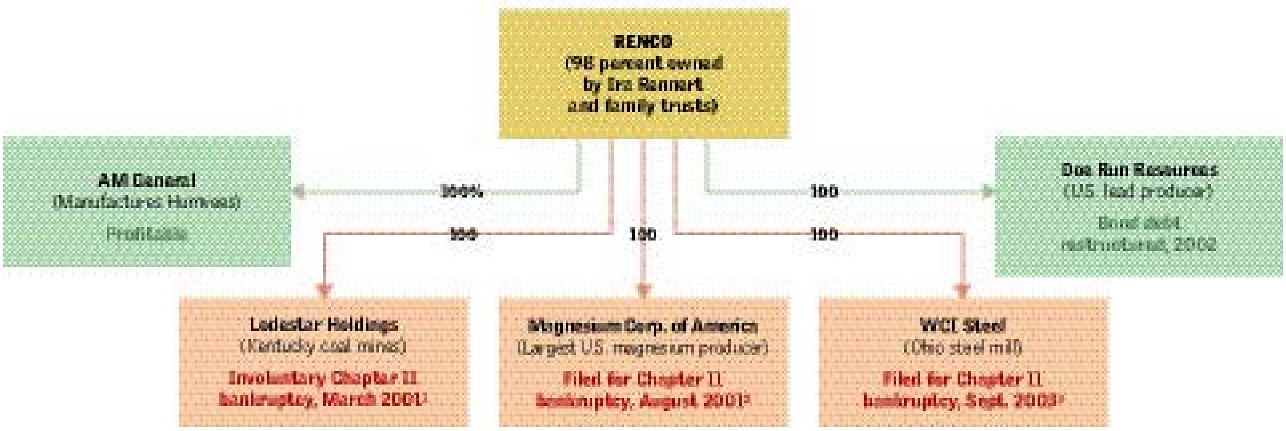
The young Rennert stayed close to home. He attended Brooklyn College, established in 1930 as the first public coeducational liberal arts college in New York. A six-line entry in the 2002–2003 edition of *Who's Who in Finance and Industry* (Marquis Who's Who) says Rennert graduated in 1954. The college's own records show he graduated a year later, in 1955, with a degree in political science, says Joseph Fodor, a Brooklyn College spokesman. Rennert hasn't stayed in touch with his alma mater, Fodor says. "This is the mystery man of all time," he says.

After receiving an MBA from New York University in 1956, Rennert hopped from job to job, according to his *Who's Who* résumé. In 1956, he joined M. Lowenstein Corp., a New York–based textile company, as a credit analyst. Two years later, in 1958, he signed on at Francis I. DuPont Co., a brokerage founded by a member of the DuPont industrial dynasty. Two years after that, in 1960, Rennert established a securities firm, I.L. Rennert & Co. That lasted until 1964. For the next 11 years, Rennert worked as a consultant, according to *Who's Who*. That's all his entry says: "cons."

In 1975, Rennert reached for more. That year, he acquired New York–based Consolidated Sewing Machine Corp. and became its president. He began buying other companies, using the cash flow from one to finance his purchase of the next, says Jay Zises, one of Rennert's former business associates. In 1980, Rennert formed Renco Group.

Zises, now president of Associated Capital Inc., a New York investment firm, says he first ran into Rennert in the '80s at weddings and bar mitzvahs of mutual friends. By then, Rennert already owned half a dozen companies, says

Shaky empire Ira Rennert, chairman and chief executive of Renco, built an industrial group that reported more than $2 billion in sales in fiscal 2001.



[1]Majority of assets were liquidated for $27 million. [2]Assets sold to U.S. Magnesium, a Renco unit, in June 2002. [3]Case pending before bankruptcy judge in Ohio. Renco's ownership of Magnesium Corp. and WCI is through holding companies. Sources: Bankruptcy court filings, SEC filings

Zises, 59, who counts among his friends Benjamin Netanyahu, former Israeli prime minister and current finance minister. Among Rennert's companies at the time were a Kansas City, Missouri–based boating supplies company called Covert Marine Inc.; New Castle, Pennsylvania–based King's Jewelry Inc.; and Consolidated Sewing Machine. The two men hit it off, and in 1986, Zises invited Rennert to join the board of his company: Integrated Resources Ltd.

Zises had built Integrated Resources, a New York–based real estate investment firm, with the help of Michael Milken, the junk bond king of Drexel Burnham Lambert Inc. Rennert left the board in 1989, Zises says. In February 1990, Integrated Resources collapsed, along with Drexel Burnham. Zises and Rennert were later named in a class-action suit filed by Integrated Resources investors. In 1995, company executives agreed to pay a total of $10.6 million to settle various investor suits, without admitting or denying wrongdoing. Insurance covered the payout, Zises says.

Back in the go-go '80s—before Drexel went bust and Milken went to jail—leverage ruled, and Ira Rennert embraced it. In 1988, he bought WCI Steel from LTV Corp. for $140 million. In 1989, he bought Magnesium Corp. from Amax Magnesium Corp. for an undisclosed sum. Then, in 1992, he bought AM General from LTV for $133 million.

At first, employees at WCI Steel saw Rennert as their savior. Warren, Ohio, is a world away from the Hamptons. A few miles south along Route 422 is Youngstown, whose idle mills and embittered scarfers struck a chord with Bruce Springsteen. "These mills, they built the tanks and bombs that won this country's wars," Springsteen sings in *Youngstown,* his 1995 ode to the city.

WCI traces its history to 1912, when Trumbull Steel Co. began firing iron ore on the site on Pine Avenue where WCI now stands. Rusting chain-link fences and a web of catwalks and pipes surround the blast furnace. At the plant entrance, a red-lettered sign proclaims, "Stand Up For Steel." Outside the corrugated-metal union hall of the United Steel Workers of America, Local 1375, a life-size statue of a weary steelworker slumps on a pedestal. Locals half joke that Warren's biggest export nowadays is its kids. In the faded town hall, Mayor Michael O'Brien says the city's population has dropped by a third since the '70s, to about 46,000. More than 16 percent of Warren families live in poverty compared with 9.2 percent nationwide, according to the 2000 U.S. Census. About three in five local youngsters graduate from high school, O'Brien says.

In this milieu, Rennert cut a dashing figure. He usually flew in monthly on a private jet to meet WCI Steel executives and beamed as he donned goggles to tour the plant, says WCI Vice Chairman Edward Caine. The former boss of Local 1375, Ray Reber, says that he met Rennert while he was negotiating to buy WCI Steel and that the CEO told him he wanted to buy WCI to hand down to his son, Ari, then 10. At a tool shop behind the union hall, Local 1375's James Daniels remembers how Rennert brought his son to WCI a few years later and set him to work. Ari, then in his teens, operated a 30-foot crane and ran a locomotive carrying steel slabs, says Michael

Rubicz, the current chief of Local 1375.

By the early '90s, however, trouble was brewing elsewhere in the Rennert empire. In 1992, Covert Marine, Renco's Kansas City boating supplies company, abruptly collapsed. Rennert had purchased Covert Marine from its owner and president, Bud Kahn, in April 1980. With debt financing, Rennert expanded into California, Michigan and South Carolina, says Kahn, who ran Covert Marine for Rennert until 1984. Kahn, now 73 and retired, says he traveled with Rennert to hunt for takeover targets. When Rennert found one, he'd pay himself a finder's fee of $75,000–$100,000, Kahn says. Rennert also usually collected an annual management fee of more than $100,000 from Covert Marine, Kahn says.

Kahn says he got along with Rennert. The two men shared an interest in skiing. Kahn recalls Rennert telling him of a ski trip to Switzerland during which the Renco chief had hired two ski instructors at the same time. "Why two instructors?" Kahn asked. "'I have one on each side, and I give them a bonus if I don't fall,'" Rennert told him.

Yet under Renco, Covert Marine soon sank into the red, Kahn says. Founded in 1927, the company financed its expansion by borrowing at interest rates of as much as 27 percent in 1981, 6 percentage points more than the U.S. prime rate, which reached 21 percent that year, Kahn says. Kahn persuaded Covert Marine's lenders to reduce the rate to 2 points over prime if Rennert would personally guarantee the debt. Rennert refused, Kahn says. "That stunned me," Kahn says.

Scott Abbey, who later became Covert Marine president, says Renco drove the company into bankruptcy by cutting its credit line to about $4 million from $9.5 million. Starved for cash, the company could no longer afford to buy inventory. Abbey says he flew to New York and asked Rennert to guarantee Covert Marine's debt. Rennert refused, Abbey says. Covert Marine filed for bankruptcy, and its 250 employees were thrown out of work.

"There was a strategic decision made that sucked the life right out of the company," says Abbey, 52 and now president of Oz Accommodations Inc., a property management company in Lenexa, Kansas.

Competition from large companies, rather than Renco's actions, drove Covert Marine into bankruptcy, Ryan, the Renco lawyer, says.

Back in Warren, Rennert's honeymoon with Local 1375 was souring. During pay negotiations in 1995, WCI Steel replaced union employees with nonunion workers for 54 days. The move prompted violent clashes outside the WCI plant, Rubicz says. "People were shocked," he says.

A short while later, Rennert turned to dividend deals—bond sales in which an issuer passes a portion of the proceeds to its owner in the form of a dividend. In July 1996, Renco Metals, parent of MagCorp, sold $150 million of 11.5 percent, seven-year bonds. Renco Metals paid more than half of the proceeds—$75.7 million—to Renco Group as a dividend, according to the prospectus for the bonds. That November, WCI Steel sold $300 million of 10 percent senior notes due in 2004. Renco collected $108 million as dividends.

The deals kept coming. Rennert established a holding company above WCI Steel called Renco Steel Holdings Inc., which in February 1998 issued $120 million of 10.875 percent senior notes due in 2005. The company passed $100 million of the proceeds to Renco. That March, Doe Run issued $200 million of 11.25 percent senior notes due 2005 and $55 million of floating-rate notes due 2003. Renco collected $5 million. That May, Lodestar issued $150 million of 11.5 percent senior notes maturing in 2005. Renco received $27.8 million.

Each time, the dividends were disclosed in the prospectuses. Renco companies also warned investors that the debt posed dangers. "The company's high leverage presents substantial risks," Renco Metals wrote in its June 1996 prospectus. The bond sales by Lodestar, Renco Metals/Magnesium Corp. and WCI more than doubled those companies' combined debt, to $723.6 million from $352.6 million.

Lodestar in Kentucky was the first to buckle. After the coal company's bonds tumbled to 20 cents on the dollar, Wexford Capital LLC, a private equity firm based in Greenwich, Connecticut, bought most of the debt and forced the company into bankruptcy. Wexford eventually lost about $40 million on Lodestar, according to court documents. Renco lost its equity and paid $5.5 million to the Lodestar trustee to settle claims. Wexford declined to comment.

After the price of magnesium fell 60 percent in the late '90s, Magnesium Corp. filed for Chapter 11 in August 2001. Doe Run Resources missed a $15 million interest payment on its bonds in March 2002 and subsequently agreed to grant to bondholders warrants giving them as much as 39 percent of the company in exchange for forgiving $156.4 million of the company's $332.2 million of debt. WCI Steel filed for Chapter 11 in September 2003. That October, the U.S. Internal Revenue Service placed a lien on Rennert's Park Avenue apartment after he failed to pay $2.8 million of 2002 federal income taxes, according to records in New York's Office of the City Register. The IRS lifted the lien a month later.

"These companies just couldn't handle the debt load when the markets went soft," says Thomas Watters, a credit analyst at Standard & Poor's in New York.

Leslie Warden, who went to high school in Herculaneum, says the Missouri town shoulders a heavy load, too. Doe Run's smelter, located at 881 Main St. and in operation since 1892, abuts residential neighborhoods to the north, west and south and the Mississippi River to the east. The company trucks lead ore into Herculaneum (population: 2,805) from mines 75 miles to the south. The Main Street lead works includes the smelter, a sulfuric acid plant and a 24-acre slag pile.

In 1989, Warden and her husband, Jack, moved into a gray, vinyl-sided house a quarter mile from the plant's 550-foot stack. Their son, Eric, was six. Leslie, a 41-year-old secretary, says Doe Run representatives visited her house in the '90s and assured her the family was safe. Still, she worried about Eric. White stains pockmarked cars parked on the street, she says. An acrid, chemical smell pervaded the air. Worst of all, a mysterious metallic dust blanketed the entire neighborhood—the sidewalks, her back yard, her above-ground pool. "It just coated the streets," Warden says.

When Eric was in fifth grade, Warden had his blood tested for lead. He was fine. She urged her sister-in-law, Robyn Warden, to test her toddlers, Aaron and Gracie. Those tests showed more than 20 micrograms of lead per deciliter of blood, Leslie Warden says—twice the safe level recommended by the CDC. She talked to neighbors and discovered some were complaining about lethargy, joint pain, nausea—all symptoms of lead poisoning, according to the CDC.

The Wardens helped organize a public meeting at the Herculaneum United Methodist Church in August 2001. Joining them from St. Louis was David Mosby, chief of enforcement at the Missouri Department of Natural Resources. It was near 11 p.m. when they persuaded Mosby to walk through the streets with them and collect some of the gray dust, Leslie Warden recalls.

Mosby bent down and scooped some of the material into a plastic bag. He says now that he could tell from its luster that the dust was "hot." He says he was shocked to learn just how hot it was: One sample measured 300,000 parts of lead per million, he says. His agency puts the safe level for home backyards at 400 parts per million. "We considered it a very serious issue," says Mosby.

The Missouri government ordered Doe Run to stop hauling lead concentrate via truck through Herculaneum unless it could keep it from dispersing into the streets. Blood tests conducted by the Missouri Department of Health and Senior Services in August and October 2001 showed 28 percent of Herculaneum children age six and under had elevated levels of lead in their bodies. More than half of the youngsters living within a quarter mile of the smelter—56 percent—showed high levels.

Working with the EPA, the Missouri Department of Natural Resources ordered Doe Run to decontaminate Herculaneum. The company has installed equipment to wash trucks before they leave the Main Street plant and spent $11 million on new equipment that cut emissions from the smelter stack, says Doe Run spokeswoman Barbara Shepard. Doe Run has also replaced soil in some residents' yards and agreed to buy as many as 160 contaminated homes for an estimated $10 million, or an average of $62,500 apiece. As of early July, the company had met federal air pollution standards for eight consecutive quarters, she says. "We did need to do a better job on our housekeeping," she says. "There was a problem, and we addressed it."

Such steps have made Herculaneum safer, Mosby says. Samples taken by his agency in 2004, however, show lead levels are still rising in the city—so much so that backyard soil may have to be replaced again within a decade, he says. "They do what it takes to minimally comply," Mosby says of Doe Run. "We'd like to see a better effort."

Ryan, the Renco lawyer, says the methods that the Missouri Department of Natural Resources used to collect samples in Herculaneum are flawed. He characterized Doe Run's response to the contamination this way: "Significantly in excess of the company's legal compliance responsibilities."

Doe Run confronts a litany of woes. The company had losses of $70.9 million in fiscal 2002 and $44.9 million in fiscal 2003, according to its June 10-K filing. It held $16.8 million in cash as of Oct. 31, 2003, most of that in a unit called Doe Run Cayman Ltd. Its debt totaled $408.7 million. The company has been battling four lawsuits in Maryland, two in Illinois and 44 in Peru, where it operates lead, copper and zinc mines. In the 10-K, auditor KPMG wrote, "The company has suffered recurring net losses, has a net capital deficiency and has liquidity concerns that raise substantial doubt about its ability to continue as a going concern."

Leslie and Jack Warden, for their part, never sued Doe Run. They got out of Herculaneum. The family accepted the company's offer to buy their home and moved to Festus, 10 miles away. Eric, now 20, is healthy, Leslie Warden says. Robyn Warden and her husband, Robby, sued Doe Run in September 2002, claiming lead exposure has left Aaron and Gracie, now 7 and 5, with learning disabilities. Robby Warden died of a heart attack on June 29 at the age of 37, Leslie Warden says.

For now, members of Local 1375 have sided with Rennert. As part of its bid to buy back WCI, Renco has agreed to guarantee past employee pension obligations, which total about $20 million a year, union chief Rubicz says. "He's the best deal for us, but we'll also keep an eye on him," he says.

The legal fight for WCI Steel was scheduled to end in Akron, Ohio, on July 21, before Judge Marilyn Shea-Stonum of the U.S. Federal Bankruptcy Court for the Northern District of Ohio. At a June 8 hearing there, Judge Shea-Stonum urged the two sides to compromise.

Thomas Mayer, a lawyer representing WCI Steel bondholders, said the dividend payments that Renco collected from WCI bond sales had undermined the steel company and may be considered fraudulent conveyances.

Adam Rogoff, a lawyer representing Renco, rose to his feet and interjected: "All of which were expressly permitted by the very terms of the notes that Mr. Mayer's clients purchased! I won't sit here silent."

Now that WCI Steel is profitable again—court documents filed by Mayer show the company is earning about $50 million annually—Rennert was trying to repurchase the company on the cheap, Mayer said. After collecting $208 million in dividends from the WCI and Renco Steel bond sales, Renco has offered to repurchase WCI for $35 million.

As the fate of WCI Steel hung in the balance in mid-July, the 2004 season was going into high gear in the Hamptons. Even on the east end of Long Island, playground of the rich and famous, Rennert's compound, at 281 Daniels Lane in Sagaponack, shocks and awes. Owned by Renco unit Blue Turtles Inc., Fair Field dwarfs the 48,000-square-foot mansion that Bill Gates, the richest man in the world, built on Lake Washington outside Seattle. Worried Rennert might use

Fair Field as a resort or religious retreat, Sagaponack residents appealed to the zoning board in 1998 to stop Southampton from issuing building permits. Their appeal failed.

In a letter to the *Southampton Press* on April 16, 1998, Rennert said that he intended to use Fair Field as a private home for himself; his wife, Ingeborg; and their children, Tamara, now 33, Yonina, 31, and Ari, 25. He wrote:

To the editor:

> *I understand a number of people have inquired as to my intended use of my property in Sagaponack. I am writing this letter to confirm that I intend to use the property as a private residence for the use and enjoyment of my family.*
> *Very truly yours,*
> *Ira Leon Rennert, Chairman*
> *The Renco Group Inc.*

Novelist Kurt Vonnegut, who owns a wood-shingled home half a mile from Fair Field, says the flap over Rennert's mansion has marred Sagaponack. "It made me feel lousy about the Hamptons," says Vonnegut, 81, author of *Breakfast of Champions* and *Slaughterhouse-Five*.

Bondholders have joked about trying to wrest Fair Field from Rennert to recoup some of their money, says Levy, the RBC Capital analyst. First, they'd have to beat Rennert in court, says Magnesium Corp. trustee Buchwald. For while Ira Rennert built his Renco kingdom on debt, he never pledged his castle as collateral.

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