

September 1, 2004

## PAGE ONE

# Report Slams Hollinger's Black For a 'Corporate Kleptocracy'

By MARK HEINZL and CHRISTOPHER J. CHIPELLO

Staff Reporters of THE WALL STREET JOURNAL

September 1, 2004; Page A1

Some parts of the Fourth Estate are comfier than others. Outlays at Hollinger International Inc., which publishes the Chicago Sun-Times and other newspapers, included \$24,950 for "summer drinks" and \$3,530 for a corporate jet's silverware.

Those are among the findings of an investigation commissioned by a special Hollinger board committee.

Former company officials Conrad Black and David Radler siphoned off more than \$400 million in the course of seven years through "aggressive looting" of the publishing concern in what amounted to a "corporate kleptocracy," according to the committee's report, released yesterday.

The report says the total cash taken by Lord Black, Mr. Radler and their associates represents 95.2% of Hollinger's entire adjusted net income during the period 1997-2003.




Reuters

Conrad Black and his wife  
Barbara Amiel Black

Lord Black and Mr. Radler "made it their business to line their pockets at the expense of Hollinger almost every day, in almost every way they could devise," said the 513-page report, which was filed in a federal court Monday and with the Securities and Exchange Commission. The investigation was headed by former SEC chairman Richard C. Breeden.

Lord Black, Hollinger's former chief executive officer, and Mr. Radler, the former president and chief operating officer, resigned last fall when the company alleged that they and other officials had received \$32 million of unauthorized payments from Hollinger. Since then, Hollinger and Lord Black have engaged in an escalating legal battle, spurred by Hollinger shareholders seeking recompense for the alleged improper payments made to former executives.

## DOW JONES REPRINTS

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit:

[www.djreprints.com](http://www.djreprints.com).

- [See a sample reprint in PDF format.](#)
- [Order a reprint of this article now.](#)

## BLACK AND WRITE AND READ ...

- [Page One: Le Cirque Is Out: Getting Lord Black Off Hollinger's Tab](#) <sup>5</sup>

11/28/03

The report provides a detailed account of how Lord Black allegedly milked

Hollinger through fees paid to holding companies he controls. It also sheds new light on the lavish personal spending allegedly charged to the company by Lord Black and his columnist wife, Barbara Amiel Black. Among those expenses, aside from the drinks and silverware: \$2,083 for exercise equipment, \$2,463 for handbags and \$2,785 for opera tickets. According to the report, a birthday party for Ms. Black at New York's La Grenouille restaurant cost the company \$42,870 and fed 80 guests, including Oscar de la Renta, Peter Jennings, Charlie Rose, Barbara Walters and Ron Perelman. The company's tab for three dinner parties for director Henry Kissinger and his wife totaled \$28,480.

The report also asserts that Richard Perle, a former Defense Department official, "repeatedly breached his fiduciary duties as a member of the executive committee" of the board, by authorizing "unfair related-party transactions" that enabled Lord Black and Mr. Radler to evade disclosure to the audit committee. The report calls on Mr. Perle to return more than \$3 million in compensation received from the company.

Mr. Perle didn't respond to requests for comment. A statement by a spokesman for Mr. Radler said the special committee's report "is not an objective review of the evidence in its possession. It is a highly inaccurate and defamatory closing argument. ...In sum, there is nothing new of any substance in the report as it relates to David Radler."

A statement issued by Lord Black's holding company denounced the special committee's report for "recycling the same exaggerated claims laced with outright lies that have been peddled in leaks to the media and overreaching lawsuits since Richard Breeden first began his campaign against the founders of Hollinger International.

"Hollinger International has been governed by a group of renowned and sophisticated directors, audit-committee members and advisers whose personal integrity has not been doubted," the statement said. The special committee has "squandered more than \$25 million of shareholders' money in a futile 14-month investigation that paralyzed Hollinger International, eroded the value of its assets and persecuted and defamed the men and women who created the value they are now vandalizing," it said. The report is "full of so many factual and tainting misrepresentations and inaccuracies that it is not practical to address them in their entirety here," but will be resolved in court, the statement said.

The scandal at the trans-Atlantic publishing company is among the first in the recent wave of U.S.-centered corporate-governance scandals to wash into Canada and Britain. It underscores the potential pitfalls for public shareholders in a company whose board fails to adequately scrutinize the behavior of a controlling shareholder.

While Messrs. Black and Radler "were by far the most culpable people in causing damage to Hollinger," the report states, "the Hollinger board (and particularly the audit committee) was not alert and didn't notice when Black and Radler were driving their bloated fee requests past them." The audit committee consisted of James Thompson, Richard Burt and Marie-Josée Kravis.

Mr. Thompson, a former governor of Illinois, didn't return calls seeking comment. Ms. Kravis, a senior fellow at the Hudson Institute, couldn't be reached for comment.

In an interview, Mr. Burt, a former U.S. ambassador to Germany, said that "I don't agree with the special

## KEY FINDINGS

Read the [principal findings](#)<sup>1</sup> of the committee report, or the [full text](#)<sup>2</sup> (about 500 pages).

committee's conclusions concerning the performance of the board." Other board members during the 1997-2003 period included: A. Alfred Taubman, head of the Taubman Co. and former chairman of Sotheby's Holdings Inc.; Leslie Wexner, chairman of Limited Brands Inc.; and Robert Strauss, former ambassador to Soviet Union.

Mr. Black named all the directors because he controlled the votes to elect them. Many of them "had longstanding social, business or political ties" to him, the report notes. "The board Black selected functioned more like a social club or public-policy association than as the board of a major corporation, enjoying extremely short meetings followed by a good lunch and discussion of world affairs," according to the report. "Actual operating results or corporate performance were rarely discussed."

The report paints a picture of an executive who used his control of Hollinger's share-voting structure to dictate affairs at the company and keep his handpicked board in the dark as much as possible. Lord Black, who launched his newspaper empire in his native Canada, eventually climbed all the way into the U.K.'s House of Lords. He holds voting control over Hollinger through his voting control of Hollinger's parent company, Toronto-based Hollinger Inc., even though that company only holds about 30% of Hollinger International.

"Black unquestionably saw Hollinger as his company," the report says. Paul Healy, Hollinger vice president for corporate development and investor relations, related a 2002 telephone exchange with Lord Black, who turned down Mr. Healy's suggestion to provide certain information to Mr. Thompson, the audit committee member, the report said. "This is my company. I am the controlling shareholder and I'll decide what the governor needs to know and when," Lord Black said, according to the report.

The report outlined various ways in which it said Lord Black and Mr. Radler diverted money to themselves. Many of the moves had been alleged previously in pending lawsuits against Lord Black and others by Hollinger and certain shareholders.

Between 1997 and 2003, the report found Lord Black and Mr. Radler received \$218.4 million in "management fees" through entities that managed Hollinger assets. The fees were "tens of millions" of dollars above what Hollinger could have paid to retain direct management, and the true reason for the structure was "to shift cash to Black and Radler in amounts far greater than any direct compensation package could ever do," the report said. While there has been discussion of those fees for months, the report provides the most detailed analysis to date of the payments.

The report also concluded that the use of noncompetition payments to Lord Black and Mr. Radler "was probably the most unusual and offensive practice." Between 1999 and 2001, Lord Black and associates "collected a bonanza of more than \$90 million purportedly as compensation for" agreeing not to re-enter newspaper markets in communities where Hollinger had sold one of its publications. The payments were "in effect a device for allowing Black and Radler to take a cut of the sales proceeds" from sales of publications, the report said.

But the report is also critical of the board for failing to challenge the many transactions that enriched Lord Black and Mr. Radler.

"The performance of the audit committee and the board in reviewing the non-compete payments was unacceptable," and the audit committee displayed "inert behavior" with regard to the management fees, the report said. It also noted that the board often was misled or lacked necessary information.

Mr. Perle is singled out for particular criticism. The report says he received more than \$3 million in bonuses under an incentive plan of Hollinger Digital, a Hollinger private-equity vehicle, as part of \$8.3 million of such incentive payments made to Lord Black and other officials, even though Hollinger Digital generated \$68 million of losses as of Dec. 31, 2003.

Hollinger also made a \$2.5 million investment in Trireme, an investment fund in which Lord Black and Mr. Perle had a financial interest, without seeking audit-committee approval.

The report says Hollinger board members Mr. Kissinger, U.S. secretary of state in the 1970s, and Shmuel Meitar, a director of Israeli communications concern Aurec Group, "certainly could have done more" in reviewing numerous related-party transactions, but they were "acting reasonably in relying on the reports of the audit committee." Mr. Kissinger didn't respond to requests for comment. Mr. Meitar couldn't be reached for comment.

**--James Bandler contributed to this article.**

Write to Mark Heinzl at [mark.heinzl@wsj.com](mailto:mark.heinzl@wsj.com)<sup>3</sup> and Christopher J. Chipello at [chris.chipello@wsj.com](mailto:chris.chipello@wsj.com)<sup>4</sup>

**URL for this article:**

<http://online.wsj.com/article/0,,SB109395499363105646,00.html>

**Hyperlinks in this Article:**

- (1) <http://online.wsj.com/article/0,,SB10939555729105651,00.html>
- (2) <http://wsj.com/public/resources/documents/hollingerreport20040831.htm>
- (3) <mailto:mark.heinzl@wsj.com>
- (4) <mailto:chris.chipello@wsj.com>
- (5) <http://online.wsj.com/article/0,,SB106998240269408200,00.html>

**Copyright 2004 Dow Jones & Company, Inc. All Rights Reserved**

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones

Reprints at 1-800-843-0008 or visit [www.djreprints.com](http://www.djreprints.com).