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HOLLINGER AND THE DOWNFALL OF CONRAD BLACK

Research Associate Alicia Micklethwait prepared this case under the supervision of Professor Stewart Hamilton as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

On Friday, 13 July 2007, Lord Black of Crossharbour stood up in a Chicago courthouse, together with three colleagues from Hollinger International Inc. (HII), to hear the jurors' verdict in their five-month trial. Convinced of his innocence, Black looked on stony-faced as the verdict was announced: guilty of fraud and of obstructing justice.[1]

A few years earlier, Black had been at the height of his power: master of a global and influential media empire and recently ennobled as a British life peer,[2] he enjoyed a glittering lifestyle. Black and his associates had built Hollinger into a vast newspaper empire. At one point, Hollinger owned 60% of Canada's daily newspapers (37% of daily circulation) and over 400 papers in the US. It was the proprietor of the *Daily Telegraph*, Britain's largest quality newspaper, one of the top two Chicago papers, the *Chicago Sun-Times* and the *Jerusalem Post*. Although Black only owned 19% of the equity of the publicly quoted HII, through a complex arrangement of 'B' class shares and a web of public and private company shareholdings, he had voting control over the company. Even after selling most of HII's North American small community newspapers, in 2003, when Black was forced to resign as CEO of HII, the company still owned papers with a book value of $1.6 billion. Now, in 2007, all that was left was the *Chicago Sun-Times* and other small newspapers in the Chicago area. The company itself had been renamed Sun-Times Media Group Inc. to reflect its new status.

[1] Black was cleared of the more serious racketeering charges (often levied against mafia bosses).
[2] British life peers are members of the UK's second legislative assembly, the House of Lords.

Early Years

Born in 1944 to a wealthy Toronto family, Conrad Black was brought up in privileged surroundings. A bookish, slightly awkward boy with an athletic brother, Montegu (Monte), and an extended family of similarly endowed self-confident cousins, Black found himself isolated. He became an obsessive reader with an encyclopaedic memory. He hated school, where his confrontational style earned him many beatings. He got his revenge by stealing final exam papers and selling them to boys with low grades. Expelled after his exploit was discovered, Black only lasted a year at his next school before being asked to leave for throwing an ink pot at a teacher.

After an undistinguished period at university in Ottawa, Black went to Quebec in 1966 at the invitation of his friend Peter White, a ministerial aide in the federal government. White introduced Black to the world of politics and, via his ownership of a local weekly newspaper, the Eastern Townships Advertiser, to newspapers. Black bought a half-share in the paper from White for $500, becoming its editor and manager but gave up his role as editor one year later to study for a law degree at French-speaking Laval University. He continued to be involved with the paper while studying but also started to look for other opportunities.

In 1969, Black, White and a recent acquaintance of White, David Radler, bought the *Sherbrooke Record* for C$18,000, financed by a bank loan. Radler became the chief operating officer and quickly implemented deep cost cuts at the loss-making paper. Half the employees were fired, expenses slashed and news space cleared for advertisements. Radler's famed parsimony – he once fined an employee two cents for wasting paper when writing him a letter of complaint – contributed to the dramatic turnaround at the paper. Two months after acquisition, the paper showed a monthly profit of C$15,000 compared to monthly losses of C$10,000 under the former owners Busy with his law degree and, later, a Master's degree in history, Black mostly limited his involvement in the paper to writing long articles on political affairs.

Building on their success with the *Record*, Black and his associates bought a further 21 small newspapers, financed by bank loans of $6.7 million, to form Sterling Newspapers. Radler and Black implemented the same cost-cutting techniques that had worked so well at the *Record*, with the same degree of success. Radler later boasted to the 1981 Kent Royal Commission on Newspapers that his chief contribution to Canadian journalism was "the three-man newsroom, and two of them sell ads".

In 1974, disillusioned by Quebec politics, Black left Quebec for good and moved to Toronto where he opened a small office for Sterling Newspapers. In the last six months of 1975, it reported a net profit of C$680,000.

Argus Corporation

Both of Black's parents died in June 1976 leaving Conrad and Monte a substantial inheritance, the largest component being their shares in Argus Corporation and its majority shareholder, the privately owned Ravelston Corporation. Argus Corporation was a public company holding minority stakes in a wide variety of Canadian companies, such as Massey Ferguson (farm machinery), Dominion Stores (grocery chain) and Hollinger Mines (iron ore). Conrad Black's father, George, owned 20% of Argus shares and had successfully turned around one of its affiliates, Canadian Breweries. But after George provoked the unions into an expensive strike, Argus directors forced him to resign, leaving him feeling bitter and betrayed.

Despite only owning minority shareholdings, Argus exercised substantial control over its affiliates, which had assets of over $4 billion, by appointing its own powerful board directors and through the sheer force of personality of Argus's leading shareholder Bud McDougald. As Conrad explained later to his biographer: "One of the reasons my brother and I succeeded where the others didn't is that they never really understood his [McDougald's] technique…It was all based on manoeuvring personalities".[i] McDougald was Conrad's mentor. He acknowledged McDougald as "a snob, a bigot…and an unlearned revolutionary, but he was also tough, purposeful and crafty".[ii] He also recognised that McDougald's lavish lifestyle was largely paid for by skimming money off Argus and its affiliates.

When their father died, both Conrad and his brother took up positions at Argus. But when McDougald died, two years later, the other shareholders manoeuvred to push the Black boys out. Black responded by approaching McDougald's widow and her sister,[3] who owned 47% of Ravelston's shares between them. With the help of his lawyer (who was also the widows' lawyer), he persuaded them to give him voting control of their shares. Black then used his voting power to force out the other directors and take control of Ravelston. The widows soon regretted their actions, "Like absolute idiots and birdbrains, we signed and signed without reading at all."[iii] Black responded with, "The whole arrangement was requested by the rapacious ladies, vetted by them, explained laboriously to them in monosyllables and with examples adapted to the mind of a child of ten, and they understood and approved every letter of every word of the agreement."[iv] Having signed away control, they agreed to sell Black their shares for C$18 million. The remaining shareholders soon capitulated, costing Black a further C$12 million, financed by borrowing and by selling some Ravelston shares to close friends.

In 1978 Argus was in bad shape. Bled dry by its controlling shareholders and badly managed for years, many of its affiliates were struggling. Chief among these was Massey Ferguson which reported a C$257 million loss for 1978, forcing it to lay off a third of its workforce. Its problems were complicated and it needed a large injection of cash – which Black did not have – rather than his talk of new strategies. In 1980, after Massey had suffered another horrendous year, Black cut his losses and transferred Argus's shareholding to Massey's pension fund. A few years later, the Dominion Stores rationalisation became a cause célèbre when Dominion applied for regulatory approval to use C$60 million of its pension fund surplus to fund its restructuring and layoffs. After a series of court cases Dominion settled for half the amount.

Other affiliates were restructured or sold. Black put in motion a complex reshuffle of assets and liabilities between Argus and Ravelston, one of the results being an infusion of cash to the private company. For example, in one transaction Hollinger Mines paid C$88 million in cash and shares to Ravelston three days after the mining subsidiary generated C$80 million from the sale of an investment. In exchange for the transfer to Ravelston, Hollinger Mines received shares in Argus.[v] As Black said, "We originally created wealth out of thin air but in a way that was totally licit."[vi] Financial journalists and analysts found it virtually impossible to understand Black's complex manoeuvres of assets and liabilities from published sources. Journalists were further deterred from comments by Black's habit of issuing writs for defamation whenever any criticism was published.

[3] The widow of Eric Philips, one of Ravelston's key shareholders.

The SEC Takes Action

In 1981, Black attempted to use the Argus affiliate, Norcen Energy Resources, to acquire the American iron ore producer, Hanna Mining Company of Cleveland. Norcen bought a small shareholding in Hanna with the intention, as recorded in the board minutes, of acquiring a controlling stake later. However, Norcen's filing with the SEC[4] stated that the shareholding was merely an investment stake. When Norcen made a contested bid for a controlling stake in Hanna, Hanna and the SEC filed suit against Norcen and Black for fraud and racketeering on the grounds that their SEC filing was untrue. Black claimed that the Norcen minutes were incorrect and that he had signed them without reading the part about Hanna. The judge did not believe him and Hanna was granted an injunction restraining Norcen from buying any more of its shares. The SEC then charged Black with fraud. To avoid prosecution, Black, while not admitting guilt, was forced to sign a consent degree with the SEC promising not to violate its regulations in the future. If he did so, the case could be reopened.

Influential Friends

As a newspaper proprietor and CEO of Argus, Black made new and influential friends. In 1981 he was invited to attend the annual Bilderberg conference.[5] There he cemented his friendship with the former US Secretary of State, Henry Kissinger, and met the former British Foreign Secretary, Lord Carrington. It was at the 1985 Bilderberg conference that Black met Andrew Knight, editor of *The Economist*,[6] a meeting that, ultimately, was to transform his life.

Back to Newspapers and the Battle for the *Telegraph*[7]

After his close brush with the SEC and divestment of many of Argus's shareholdings, Black returned to his newspaper interests. He and Radler recommenced their purchases of small weekly or daily newspapers (known as community papers) in Canada and the US. Most of these papers were either monopolies or duopolies in their local areas and were picked up relatively cheaply by the duo. Radler then imposed his tried and tested restructuring techniques to reduce costs but rarely interfered in editorial policy.

Black, meanwhile, had his eye on larger game. Recently outbid for Toronto's *Globe and Mail,* Black was delighted when in 1985 Andrew Knight approached him with news of an opportunity to acquire the UK-based *Telegraph.* While still the English-speaking world's largest-circulation conservative broadsheet, the *Telegraph* was losing around £1 million a month. Circulation had fallen, hitting advertising revenue, and the trade unions were effectively blackmailing the paper by threatening to strike just before the paper was due to be printed. As a result, the paper was vastly overmanned and unable to realise savings from radical changes in printing technology that were being introduced at that time. The solution of Lord Hartwell, the *Telegraph's* owner, was to build two modern printing plants, one in

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[4] Securities Exchange Commission., US financial regulator.

[5] The ultra high-powered think-tank that either cooks up plans to run the world (according to over-heated conspiracy theorists) or merely makes its members feel as if they might be able to (according to more sober analysts).

[6] British weekly news magazine sold throughout the world.

[7] The Telegraph Group Limited was the owner of the *Daily Telegraph* and the *Sunday Telegraph* newspapers.

London's Docklands and one in Manchester, at an estimated cost of £130 million. Halfway through the construction, when costs had spiralled to £220 million, Rothschild's agreed to lend the *Telegraph* a further £50 million provided that Hartwell could raise £30 million by selling a stake in the *Telegraph.* By May 1985, Hartwell was having trouble raising the last £10 million.

Britain's newspaper industry was going through a period of great uncertainty as it tried to face down the unions. Knight, who knew the industry and the *Telegraph* well, found its prospectus unrealistic. Calculating that the *Telegraph* would need another cash injection before long, he saw an opportunity for Black to take full control of the paper. Black offered to buy 14% of the Telegraph Group for £10 million via Argus's publicly quoted subsidiary, Hollinger Inc. (Hollinger). Included in the agreement was a condition that if Hartwell needed to raise more money, Black would have the right of first refusal and that any such investment would give him control of the company. Unable to believe that he could need more cash, Hartwell agreed.

Only six months later, the *Telegraph* was haemorrhaging money and urgently required a cash infusion to avoid bankruptcy. When the banks refused to increase their loans, Black made an offer to buy a further 36.5% of the company for £20 million. Reluctantly, Hartwell accepted and control of the *Telegraph* passed to Black, who appointed Knight as managing director.

Events were moving rapidly in Black's favour. In January 1986, Rupert Murdoch, Australian media tycoon and owner of the UK's second-largest broadsheet, *The Times*, moved his entire newspaper operations to a new site in the East End of London and sacked all his printers when they went on strike. Murdoch's papers would now be printed by 570 members of the electricians union rather than 2,000 traditional printers. Despite a series of violent clashes on the picket lines, Murdoch had the government's support and the trade unions eventually capitulated.

The knock-on effects of Murdoch's success helped Knight's negotiations with the unions. This, together with changes in the *Telegraph* introduced by the new editor, Max Hastings, enabled the paper to make a small profit in 1986. Three years later the *Telegraph* reported an operating profit of £29 million, increasing to £40 million in 1990 despite declining advertising revenue, due to the recession. During this period Hollinger gradually increased its shareholding in the *Telegraph*, reaching 83% by 1992.

Knight persuaded Black to leave him alone to manage the *Telegraph* and Black only intervened at Knight's request. But in 1989, soon after Black moved to London with his family, Knight left the *Telegraph,* to join Black's fiercest rival, News Corporation, owner of *The Times*, much to Black's fury. Black launched himself into London society making friends with important business and political figures, some of whom he appointed to the boards of the *Telegraph* or Hollinger. Black's marriage was a casualty of the move, as his wife hated her new lifestyle, and they separated in 1991.

Burgeoning Empire

After finalising Hollinger's purchase of the *Telegraph*, Black reorganised his newspaper properties. His original newspaper business, Sterling, was transferred to Hollinger and a new American subsidiary, American Publishing Corporation (APC), was formed to be the holding company for Hollinger's US newspapers. Over the next few years Hollinger, bought more than 80 US newspaper properties. These additional papers allowed Hollinger to achieve economies of scale as it could print several papers at the same plant. It also bought

Unimédia Inc, which owned several newspapers in Quebec; 15% of Toronto's *Financial Post*; and one of Israel's two biggest daily papers, the *Jerusalem Post*. Radler, an observant Jew, was the prime mover behind the purchase of this unprofitable paper which he bought for US$17 million, twice the bid of its nearest rival.[vii] Hollinger tried to impose the same cost-cutting techniques as it had in previous acquisitions but trouble with the unions and security difficulties arising from the first Gulf War made progress slow. It was not until 1992 that the *Jerusalem Post* first showed an operating profit.

In the UK, Black wanted to acquire a community newspaper group so Hollinger bought minority shareholdings in two newspaper groups, Trinity plc and United Newspapers plc. Unable to gain control over either group, Hollinger eventually sold its stakes.

In 1991 Black set up a consortium, through the *Telegraph,* to buy the Australian newspaper group, John Fairfax Group, from its receivers. Fairfax owned some of Australia's largest daily papers and claimed a 20% share of national readership. Australian laws on foreign ownership of media companies limited the *Telegraph's* ownership to 15%, an investment which cost it C$97 million. In 1993 the *Telegraph* was allowed to increase its shareholding to 25% but was still not able to exercise full control over the company and in 1996 the *Telegraph* sold its holding in Fairfax for double its investment cost.

Telegraph Flotation

By 1990, the *Telegraph* was by far the most important, and profitable, part of Hollinger. In 1990 it contributed 58% of revenues and 83% of operating profits (some of which had to be redistributed to minority shareholders) and its 1991 results were similar. Meanwhile, Hollinger and its subsidiaries had racked up large debts (C$852 million including convertible debentures of C$125 million) by the end of 1991 giving it a debt to equity ratio of nearly two to one. Its equity was biased towards (interest-bearing) preference shares which accounted for 52% of issued share capital at the end of 1991. The sale of the United Newspapers shareholding and the issue of C$140 million of preference shares reduced the debt but in early 1992 Black was considering issuing *Telegraph* shares in order to raise cash, while still retaining control.

However, as the bankers pored over the figures to write the prospectus they noticed that the *Telegraph* had loaned £33 million to other Hollinger companies since December 1990 without the consent of its minority shareholders. Black claimed that the requirement to get approval from minority shareholders had been "inadvertently overlooked". The loans were quickly repaid by the transfer of Hollinger's holding in Trinity plc to the *Telegraph.* With this in mind and recognising that Black was executive chairman of both the *Telegraph* and also Hollinger, the bankers insisted on safeguards to reassure investors that their interests would be protected. The *Telegraph* would run Hollinger's European and Australian interests while Hollinger would control the rest. More importantly, if the *Telegraph* declined to complete a deal but Hollinger continued with the same deal on its own account, the *Telegraph's* minority shareholders would have to approve it. Black fumed: "Can you imagine anything so fatuous, so monstrously *ultra vires*,"[viii] but was forced to accept the clause. But investors, uncomfortable with their minority status, made some inevitable comparisons to Maxwell, whose raids on the pension funds of his publicly quoted subsidiary, the Mirror Group, had recently been discovered,[8] and stayed away from the sale taking up

[8] After Lord Maxwell drowned in 1991, his private company, Maxwell Communications, collapsed amid revelations of the diversion of funds from subsidiaries to the holding company.

only 3 million of the 13 million shares offered. However, the share offering was fully underwritten and Hollinger collected £85 million, reducing its stake to 68%.

A few weeks later, Black married Barbara Amiel. Born in Britain and brought up in Canada, Amiel was an intelligent and beautiful woman. A journalist by trade, she was moody and neurotic and had a reputation as a drama queen. Black soon made her a director of Hollinger and the *Jerusalem Post* and she was later appointed vice president editorial of Hollinger International Inc. (HII). Once married to Black (her fourth husband), Amiel was able to indulge her taste for luxury. As she told a *Vogue* reporter in 2002, after showing her cupboards filled to overflowing with expensive clothes: "My extravagance knows no bounds."[ix] Although Black had previously lived reasonably unostentatiously, once married to Amiel, he started to enjoy a luxurious lifestyle, using the company planes to fly between their homes in London, Toronto, Palm Beach, Florida and the HII apartment in New York. As Amiel said, to the same *Vogue* reporter, "It is always better to have two planes because however well one plans ahead, one always finds one is on the wrong continent."

Further Expansion

Since the early 1980s Black had been stalking Southam Group, Canada's largest newspaper chain, accounting for 28% of Canada's total daily newspaper circulation. Southam had been languishing for years, suffering from very restrictive (and expensive) union practices and with operating margins well below those of Hollinger's North American papers. Losses in 1991 and 1992 amounted to C$168 million and C$263 million respectively, driving it to initiate a restructuring programme. In 1993 Hollinger bought a 23% stake in Southam for C$259 million (reduced to 19% by Southam share issues), but the company fought off Black's bid for control with poison pills and share issues.[9] Southam sold its book shops division and started a programme of redundancies but improvements were slow to materialise. When Black proposed a break-up plan, Southam's independent directors vetoed it.

In early 1994, APC bought the *Chicago Sun-Times* and two groups of community newspapers distributed in and around Chicago for $180 million. The *Sun-Times,* a daily tabloid newspaper with the eleventh-highest circulation in the US, provided Black with a power base in the US after a failed bid to buy the *New York Daily News* in 1992. Unlike most of Hollinger's previous acquisitions, the *Sun-Times* was only second in its market behind the daily broadsheet, the *Chicago Tribune*. Aimed at Chicago's poorer citizens, the *Sun-Times* had lower advertising revenue than the *Tribune* with its middle-class suburban readership. Radler turned the editorial direction towards the right in order to attract more wealthy readers and imposed the same cost-cutting regime that had worked so well with Hollinger's community newspapers.

In the UK, *The Times* started a price war with the *Telegraph.* The *Telegraph* fought back with promotional offers but circulation still fell. In May 1994, Hollinger sold another tranche of shares in the *Telegraph*, reducing its shareholding to 58%. Five weeks later, with *Telegraph's* circulation fallen to under one million and the gap with *The Times* closing, Black sanctioned a price decrease to match *The Times*. *The Times* retaliated, dropping its price by a third. The share price fell 40%, from the £5.87 offer price in May, provoking fury among investors. One fund manager was quoted as saying: "Black has raised two fingers to the City and it will be a long time before anyone buys anything from that man again."[x] The *Telegraph's* blue chip brokers, Cazenove, added to the furore by taking the unusual step of publicly resigning. One

[9] Hollinger sold 50% of its holding in Southam to the *Telegraph*.

year later HII bought out the *Telegraph's* minority shareholders for $455 million, but not until its independent directors forced Black to increase his offer price close to the issue price of May 1994.

Despite the price difference, by running promotional campaigns and by offering coupons, the *Telegraph's* circulation figures stabilised, but at a huge cost: operating profit for the first six months of 1995 were more than 70% (£14.7 million) down on prior year results. Both the *Times* and the *Telegraph* began to raise their cover prices that year as newsprint costs spiralled but it was not until 1997 that the price war finally ended.

In 1994 Black also took the time to write his own autobiography, a 550-page tome that was published towards the end of the year.

Reorganisation

Hollinger partially financed its purchase of the *Sun-Times* by floating APC on the NASDAQ in New York in 1994, raising $108 million. By adopting a 2-tier equity structure (not permitted by the London Stock Exchange), where B-class shares (100% owned by Hollinger) had a 10 to 1 voting weight compared to A-class shares, Hollinger was able to retain a 95% voting interest while owning only 64% of the total equity. Foreseeing difficulty in raising more capital in London, Black decided to transfer ownership of the *Telegraph* to America in order to increase the capitalisation of APC and thus make it easier to raise funds. In 1995 APC was renamed Hollinger International Inc. (HII) and acquired Hollinger's interest in the *Telegraph* and the *Jerusalem Post* in exchange for shares. The reorganisation allowed HII to list on the New York Stock Exchange in early 1996 raising $134 million in a stock issue and $250 million in debt (*refer to **Exhibit 1** for a chart of the group structure*).

Dominance of the Canadian Newspaper Market as Expansion Continues

In 1996, Southam's other major shareholder finally sold its shares to HII which, together with some additional share purchases, allowed the Hollinger group to raise its joint shareholding to just over 50% for a cost of $331 million. Hollinger now controlled over 50% of Canada's daily newspapers representing more than 40% of circulation although it still lacked a national daily. Black became Southam's Chairman and initiated a cull of its independent directors and top management. A radical reorganisation was put in place while Southam also acquired 15 more Canadian daily newspapers, partially paid for by the divestment of its trade show arm. The papers were sold by Thomson Corporation which had for some time been divesting its newspaper assets in order to concentrate on the area of electronic media, the importance of which Black had been slow to recognise. HII also acquired some Thomson papers in America. The Hollinger group continued to raise its shareholding in Southam and by 1999 had bought out its remaining minority shareholders for a total sum of $533 million.

The following year Hollinger sold its shares in the majority of its Canadian newspapers to HII for $382 million including $250 million in cash. The cash element allowed Hollinger to distribute a $111 million special dividend to shareholders of which around $47 million went to Black. As Black later said, "[HII] served no purpose as a listed company other than the relatively cheap use of other people's capital."[xi]

Situation at the End of 1997

For HII, 1997 was a good year: the growing economies of North America and the UK had driven up advertising revenues while newsprint prices, one of HII's largest costs, were falling. Earnings had more than doubled over 1996 to $105 million although they included $67 million (pre-tax) gains from the sale of Fairfax ($58 million in 1996). Southam was now the most profitable business operation, contributing $59 million to post tax earnings after minority interests were been deducted. UK papers (primarily the *Telegraph*), still suffering from the after effects of the long price war with the *Times*, only contributed 9% to operating profits compared to 22% of revenues. HII was financed by more than $1.4 billion of debt, giving it a debt to equity ratio of 2:1.

Tight Grip on Control

At the end of 1997, Black's empire was headed up by his private company, Ravelston, in which he held a 66% stake. In simplified terms, Ravelston controlled 63% of the publicly quoted Hollinger which in turn owned 60% of the equity of HII and, via its B-class shares, 84% of the voting power. Hollinger was now an investment company with one principal shareholding, HII, while HII controlled all of Black's newspaper interests. Over the next few years, shareholders in Hollinger were encouraged either to convert their shares to interest-paying preference shares or to shares in HII. As a result, Ravelston's equity holding in Hollinger grew from 63% in 1997 to 78% in 2002 (*refer to **Exhibit 2** for a chart of Ravelston and Hollinger ownership percentages*).

The whole operation was tightly controlled by a small group of insiders. Ravelston's shareholders – Black, Radler, Daniel Colson, Peter Atkinson, Jack Boultbee, Charles Cowan, Peter White and Dixon Chant – were all directors of Hollinger and Black, Radler, Colson and Boultbee were also directors of HII. Black was executive chairman and CEO of both companies while Radler was their president and chief operating officer. Boultbee, who had long been Black's tax advisor, was chief financial officer of both companies; Colson, chief architect of the agreement with Hartwell, which had secured Black control of the *Telegraph*, was vice chairman of both Hollinger companies and CEO of the *Telegraph*; and Atkinson, Black's lawyer since his early days, was vice president and general counsel of both Hollinger companies.

HII, Hollinger and the *Telegraph*, also had a number of well-connected independent directors (*refer to **Exhibit 3***), two of whom – Kissinger and Kravis – were long-time friends of Black. HII also had an international advisory board, whose members included such luminaries as Lady Thatcher (prime minister of the UK, 1979–91), President Giscard D'Estaing (president of France 1974–81), Lord Carrington (secretary general of NATO 1984–88) and Paul Volcker (chairman of the US Federal Reserve system 1979–87). These advisors had no power to affect decisions at Hollinger but their names made an impressive addition to Hollinger's annual report.

Black had control over the boards of Hollinger and HII through his shareholding in Ravelston and his power to elect new board members. Independent directors served on board committees including the audit committee and were required to approve transactions that concerned other group companies such as the transfer of assets from Hollinger to HII. The audit committee members, Thompson, Burt and Kravis, did not have any specialist financial expertise but the independent directors did employ outside advisors to advise them on large transactions.

The main board of HII delegated its powers to the executive committee (Black, Radler and Richard Perle) from 1997. While Perle, neoconservative and advisor to the Pentagon, was a non-executive director of HII, from 1996 he was also the CEO of Hollinger Digital and therefore no longer an independent director. Perle did not recall ever attending a meeting of the executive committee. Instead, he received documents to sign which he did without any discussion with Black or Radler and, indeed, often without reading them.[xii] Where necessary, executive committee decisions were ratified by the full board although members were not always given the full text of the actual resolutions (at least in the case of the December 2000 board meeting).[xiii]

Management Fees and Compensation

Apart from the salary he received from the *Telegraph* in his position as chairman, Black did not receive any salary from Hollinger or its subsidiaries (after 1996). Instead, Ravelston charged Hollinger, HII and Southam management fees for the services it provided, including the time of Black, Radler and other Hollinger executives. The salaries they received from Ravelston were not disclosed since it was a private company. HII's fees were $4.1 million in 1995 growing to $26.5 million in 1997, as it absorbed more of Hollinger's assets, and reached a maximum of $40.3 million in 1999 (*refer to* ***Exhibit 4***). Part of the fee was paid directly to two shell Caribbean companies, owned by Black and other Ravelston shareholders. The level of the fees was decided by Black and Radler and presented to the audit committee of HII for approval. Very little detail accompanied the request and it was invariably signed off without dispute. The report of investigation by the special committee of the board of directors (special committee) later claimed that the cost of running Ravelston (excluding executives' salaries) was less than $1 million a year (estimate for 2004).[xiv]

Black and Radler also received substantial benefits directly from the Hollinger Group, aside from their directors' fees (which earned Black $112,000 in 1997) and share options. HII bought a $3 million apartment for Black in New York and paid for the refurbishment of a second apartment he bought in the same building, while Radler was bought an apartment in Chicago. HII also contributed to Black's household expenses in New York and London ($1.4 million from 1997 to 2003), paid for several cars and a considerable sum in expenses. In addition, HII paid for maintaining, financing and operating three company planes (two primarily for Black and one for Radler) which cost the company more than $60 million between 1995 and 2003. Black and Radler also used company funds to wholly or partially finance their own charitable donations and significant donations were made to some of the pet charities of the independent directors.

Change in Focus

1998 saw the first sell-off of Hollinger's community newspapers. Black was concerned about HII's debt levels and felt that the investment community was undervaluing the company compared to the value of its component assets. (Taking HII's flotation in 1994 as the base level, cumulative returns for HII stockholders were 12% compared to 90% for the Newspapers Industry Index.[xv]) The argument was that by selling some of the papers, investors could realise the profits on these assets. Also, Black's interests were now focused on Hollinger's prestige papers such as the *Telegraph* and the *Sun-Times* and he had ambitions to launch a new national paper in Canada. The large number of small, but profitable, local papers that had been the foundation and strategic focus of the company in previous years no longer held the same attraction. The first group of 80 US community papers were sold in January 1998 to a private equity fund. Another 45 were sold in February

1999 to Community Newspapers Holdings Inc. (CNHI) for $456 million. The proforma effect of this later sale was to reduce EBITDA by $23.9 million and interest payments by $17.2 million for the first nine months of 1998.[xvi] Most of the remaining US community papers were sold over the next two years, including a further sale to CNHI.

In 1998 Southam bought the *Financial Post*, Canada's national daily business paper, and later that year it launched the *National Post*, a national daily paper incorporating the *Financial Post* as its business section. For years Black had been frustrated by what he saw as the mediocrity and "soft-left orthodoxy"[xvii] of Canada's newspapers. However, there would be fierce competition. Toronto already had three daily papers and much of the readership won by the *Post* in other cities would be cannibalised from his existing papers. Unfazed by this, Black went ahead with the launch of the *Post* amid a blaze of publicity in October 1998. In order to attract readers, the paper had a low subscription price and many copies were given away in order to boost circulation. Despite these attractions and the undoubted high quality of the writing, the paper's circulation lagged behind that of its main competitor, the *Globe and Mail,* which, spurred by the threat posed by the *Post*, improved its content. The *Post's* strong right-wing bias and support for Black's favoured political parties alienated many Canadians who felt more comfortable with the centrist opinions of the *Globe and Mail*. Black's vision came at a cost: from launch to mid-2000, when Black sold 50% of it to CanWest, the *Post* cost Hollinger $84 million. One year later, with the *Post* still losing money, Black sold the remaining 50% to CanWest for $1.

Black's ownership of the *Post* had an unexpected consequence. In mid-1999, a journalist at the *Post* uncovered a scandal involving the liberal prime minister of Canada, Jean Chrétien. The *Post* attacked Chrétien personally for his involvement in "Shawinigate"[10] and for any other impropriety or failing that it could uncover. Black supported the *Post* in its campaign and paid the penalty when Chrétien blocked him from receiving a peerage from the British government by invoking the seldom used Nickle Resolution (1919).[11] Black was furious and, when Chrétien refused to give way, issued a court writ alleging an abuse of power by the government. In 2001, after he finally lost his case, Black decided to renounce his Canadian citizenship in order to take up his life peerage in Britain as Baron Black of Crossharbour.

Non-competition Payments

Non-competition payments are a common feature of many newspaper acquisitions. For tax and accounting reasons, part of the sales price is allocated to the non-competition agreement. In Canada, a court ruling on a tax appeal meant that taxes were not applied to non-competition payments, either to companies or to individuals, from 1999 to 2003 when the tax loop-hole was closed. Another advantage of non-compete payments was that while HII's loan agreements restricted the use of receipts from the sale of assets, non-compete payments fell outside these covenants.

Whereas in the first of HII's bulk sales, in 1998, the non-compete payment went to HII alone, future non-competes for the sale of the US community papers were split between HII and Hollinger in the ratio 1:3. Between 1998 and 2001, Hollinger received $16.5 million in such non-competition payments although it had no operations in the US, or anywhere else

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[10] Allegations that Chrétien had awarded a loan from government funds to support a bankrupt hotel owned by a friend. Chrétien denied any wrongdoing although eventually he had to admit that he had influenced government officials to grant the loan.

[11] A non-binding resolution banning the sovereign from granting honours to Canadian citizens.

for that matter. Black and Radler were both officers of HII and so were already bound by any non-competition agreement signed by HII.

The HII board approved all the asset sales and the adoption of non-compete agreements but were not made aware that Hollinger was party to those agreements and would receive payment for them (copies of the agreements were not given to them). No mention of these payments was made in any SEC filings for HII or Hollinger until December 2003.

In addition to the non-compete payments referenced in the original sales and purchase agreements, Radler arranged for a further $9.5 million to be transferred directly to Black ($4.5 million), Radler ($4.5 million), Atkinson ($250,000) and Boultbee ($250,000) in relation to the second CNHI sale. Their names were added to the non-compete agreement on the day of closing. Since the change did not alter the purchase price, CNHI made no objection. No approval was sought from the audit committee.

A further $5.5 million was paid to Black, Radler, Atkinson and Boultbee in 2001 under the guise of a non-compete agreement with APC, the operating entity that had owned most of HII's US community papers. However, APC now owned virtually no papers so would not appear to need any non-compete agreement. Black later claimed that the payments were actually management fees, reclassified in order to take advantage of favourable tax treatment. However, the payments were not deducted from the management fees paid to Ravelston.

The CanWest Deal

Although HII had raised a considerable sum of money from the sale of its US community papers, it had spent almost as much buying out Southam's minority shareholders and on the acquisition of the *Financial Post*. As a result, HII's debt burden had in fact increased from $1.4 billion at the end of 1997 to $1.7 billion at the end of 1998. Meanwhile, it had sold some high margin assets and was haemorrhaging cash at the *Post*. Black put his Canadian assets on the block.

In July 2000, HII sold most of its Canadian community papers and metropolitan papers, representing half its sales and two-thirds of its EBITDA, to CanWest Global Communications Corp., one of Canada's leading broadcasters. The sales price was $2.1 billion (including $1.1 billion in cash and 15% of the equity of CanWest), calculated as 10 times "sustainable fiscal year 2000 EBITDA" for the businesses being sold. Since CanWest had not managed newspaper businesses previously, it wished to retain HII's services for an interim period for an agreed annual payment. Under the pricing mechanism, 10 times the cost of this fee would be deducted from the purchase price. Black stated that the annual fee, similar to the management fees paid by HII to Ravelston, should be $12.3 million. When CanWest responded by asking for a breakdown of the fee and saying that it charged its companies only $1.9 million in central services, Black simply reduced the fee to $3.9 million. The final sales agreement required CanWest to pay the management fee directly to Ravelston and to pay Ravelston $29 million if CanWest terminated the service contract.

CanWest demanded non-compete agreements with Black and Radler but did not stipulate the amounts to be paid. It was not concerned about the level of payments, which would be allocated from the purchase price already negotiated, as long as they were not more than $51.8 million (2.5% of the purchase price). The final non-compete agreement also included HII, Hollinger, Ravelston, Atkinson and Boultbee. Black and Radler each received $11.9 million, Atkinson and Boultbee $1.3 million and Ravelston $26.4 million. HII received nothing.

HII's audit committee approved the CanWest deal and non-compete payments in September 2000 having been told by Radler that CanWest had insisted on the payments to individuals and that Ravelston was owed a "break fee" for reducing its management fees to HII for 2000 (which it had not done). HII's auditors, KPMG, supplied the audit committee with a generic memo explaining non-compete payments but they themselves were not aware of the allocation of the payments until late the following year. Immediately after the audit committee meeting the full board met and, among other things, approved the non-compete payments. Neither the audit committee nor the board spent much time considering the matter, indeed, "[HII's] board may have had interesting lunches, but its deliberations do not reflect a serious effort to understand what Black and Radler were doing".[xviii]

The non-compete agreements were disclosed in a filing HII made with the SEC in December 2000 but no mention was made of the size of the payments. In early 2001, lawyers advising HII on a debt issue discovered the payments and read the September board minutes which characterised the Ravelston payment as a break-fee. The lawyers insisted that the payments be properly disclosed to shareholders but first the board had to reapprove the non-competes as they had been described in the sales agreement. The audit committee complied and waved through the increased non-compete to Ravelston despite the fact that its majority shareholders had already received hefty non-compete payments themselves. HII's first quarter filing for 2001 characterised the payments as being in addition to the purchase price paid by CanWest and as having been demanded by them as a condition of the sale. Later, when questions began to be asked, at the annual shareholders' meeting in 2002, Black stated that he and his fellow beneficiaries had not directly negotiated the non-competes, they had been determined by the independent directors.

Two later sales of Canadian papers in 2001 included $5.2 million in non-compete payments, all of which were paid directly to Black, Radler, Atkinson and Boultbee. Audit committee approval was sought, and given, retrospectively. All in all, between 1998 and 2001, of the $120.5 million of the sales price of assets sold allocated to non-compete payments, $43 million went to Hollinger or Ravelston and $47.3 million was paid directly to Black, Radler, Atkinson and Boultbee (*refer to* ***Exhibit 5***).

Horizon and Bradford

In 1999, as HII began to sell off its US community papers, Radler and Black set up a new company, Horizon, together with two managers of HII, to purchase some of those assets. Radler owned 49% of Horizon, and Black 24%, although half of Radler's holding was in a trust in which he had the agreement of the trustee that he would vote only as Radler directed. This arrangement meant that in regulatory filings Black and Radler were described as having only a minority interest in the company.

While the audit committee was required to authorise the sales as related party transactions, it was given misleading information by Radler which allowed Horizon to buy the properties at discounted prices. Although it asked for a fairness opinion on some of the deals, it was Radler who engaged and instructed the advisor, and the opinion appears to have been based on false information. Moreover, the audit committee was not made aware that third parties were interested in buying some of the properties at a higher price than that paid by Horizon.[xix]

Another Black/Radler vehicle, Bradford Publishing Company, funded a management buy-out of four papers. They were bought for $38 million, including a $6 million non-compete payment to HII which was structured as a non-interest bearing loan from HII to Bradford. The deal was approved by the audit committee with no fairness opinion and without it being aware that there was other keen interest in buying the properties. Although the deal itself was disclosed in HII's next proxy statement, the non-interest bearing loan was not mentioned in any filings until March 2003, two years later.

Hollinger Digital

Hollinger Digital (Digital) was formed in 1997 with the goal of rationalising HII's investments and developments in "new media" (mostly internet) businesses and soon began to invest in early-stage internet and new media ventures. The company then began to discuss an incentive plan appropriate for what was a venture capital style business. The plan that the directors eventually implemented in 2000, with HII audit committee approval, awarded executives up to 22% of the profits (including unrealised profits[12]) on the portfolio's winning investments with no clawback resulting from losses on its unsuccessful ventures. This was an unusually generous plan by industry standards. In total $15.5 million was paid out under the plan in 2000 and 2001 although the fund suffered losses of $68 million by the end of 2003. Perle, Black, Colson and Radler benefited to the tune of $4 million, $2.4 million, $1.8 million and $680,000 respectively over the two years.

The Beginning of the End

By 2001 HII was showing the effects of its divestments. Although its debt burden and interest payments had more than halved, it had lost its high margin community papers and was now stuck in an advertising recession in the wake of the technology stock crash. First quarter earnings were only $1.4 million and the next three months were even worse with a loss of $15.5 million (compared to 2000 first half profit of $4.7 million). HII's shareholders were disturbed, but it was when Laura Jereski of investment managers Tweedy Browne (HII shareholders since 1999), saw the disclosures about the CanWest non-compete payments that the trouble really began. Jereski did some detailed research, uncovering the extent of the management fees remitted to Ravelston, and wrote to HII's directors demanding to know how management's performance justified the level of service fees.

Black was furious but as HII made more disclosures about previous non-compete payments and transactions with related parties such as Horizon, the pressure grew to reduce Ravelston's fee. Black was determined not to give in to the pressure:

> There has not been an occasion for many months when I got on our plane without wondering whether it was really affordable. But I'm not about to re-enact the French Revolution renunciation of the rights of nobility. We have to find a balance between an unfair taxation on the company and a reasonable treatment of the founder-builder-managers. We are the proprietors, after all, beleaguered though we may be.[xx]
>
> These companies have always been run in the Argus tradition of proprietary businesses where the controlling shareholders take reasonable steps to ensure their comfortable enjoyment of the position they, (we, in fact) have created for themselves.[xxi]

[12] When the portfolio companies were floated on the stock exchange Hollinger Digital had to retain a substantial shareholding for a period of time. The unrealised profit comes from the paper profit on these unsold shares. If, as was indeed the case, the price of the shares fell between the date of the flotation and the date the shares were sold, the actual profit realised from their sale would be less than that used to calculate the bonuses.

However, other shareholders joined the protest and in September 2002 Black announced that Ravelston would reduce its management fees that year by $2 million to $22 million.

By October 2002, the Hollinger group's financial structure was beginning to look shaky. Nervous lenders refused to renew loans and HII had to issue $300 million of junk bonds. Further, in March 2003, Hollinger sold $120 million of junk bonds to replace credit lines that its long-standing banks would not renew, requiring Black to pledge most of his shares in HII as collateral for the loan. Hollinger also required regular cash infusions from Ravelston in order to service its loans.

In April 2003, investors were surprised to see a voluminous annual report from HII. To Black's horror, much confidential data had been added to the report by mistake, including the information that Black had got HII to buy the papers of F.D. Roosevelt for $8 million just when he was completing a biography of the late president. (The papers were sold two years later for $2.4 million.)

The media caught on to the story, making HII's independent directors nervous. Then, three days before HII's 2003 annual general meeting, Tweedy Browne publicly issued a demand for a special investigation and threatened to launch a lawsuit should the board fail to act. The audit committee quickly formed a special committee to investigate the allegations. Investment banker George Paris, about to be appointed to the board, would be chairman and Richard Breeden would be its chief advisor. Breedon, former chairman of the Securities and Exchange Commission, was a leading corporate governance consultant as a result of his work as corporate monitor for the failed telecoms company WorldCom.

The Show is Over

Threatening legal action and referral of the matter to the SEC, the special committee forced Black to resign as CEO in November 2003 although he was allowed to remain chairman. Radler, Boultbee and Atkinson were also forced to resign. Black's erstwhile supporters backed the special committee, fearful of charges against themselves.

It had become clear that the best way forward was to sell some or all of HII's major assets. The board appointed the investment bank Lazards to run the sales process but they wanted to be sure that Black would not derail the process with a side deal. Black signed a restructuring agreement in which he contracted to repay the non-compete fees he had received and not to support a sale of Ravelston's Hollinger shares unless Hollinger was itself in dire financial straits.

Unfortunately for Black, his agreement failed to divert the attention of the SEC which promptly issued subpoenas to him and others as part of their investigation into HII. Later that day Black set the ball rolling for a sale of Hollinger to the reclusive Barclay brothers who had long coveted the *Telegraph*. Hollinger's financial state looked precarious. It had long been supported by loans from Ravelston, financed by HII's management fees, in order to make interest payments. Now HII's board had given notice to Ravelston that it was cancelling the management contract. With its latest refinancing at sky-high interest rates and with the imminent shut-off of management fees to Ravelston, Hollinger looked to be in trouble although Black assured HII's directors that it was safe. The Barclays bid £260 million for Ravelston's 78% stake in Hollinger and agreed to refinance the $120 million of junk bonds Hollinger had issued.

HII got wind of Black's deal with the Barclays and adopted a "poison pill" that would make it impracticable for the brothers to complete their bid. It also launched a law suit against Black, Radler and others to recover unauthorised payments and filed an injunction to block the deal. HII won its case and the judgement included a devastating indictment by Judge Strine against Black himself:

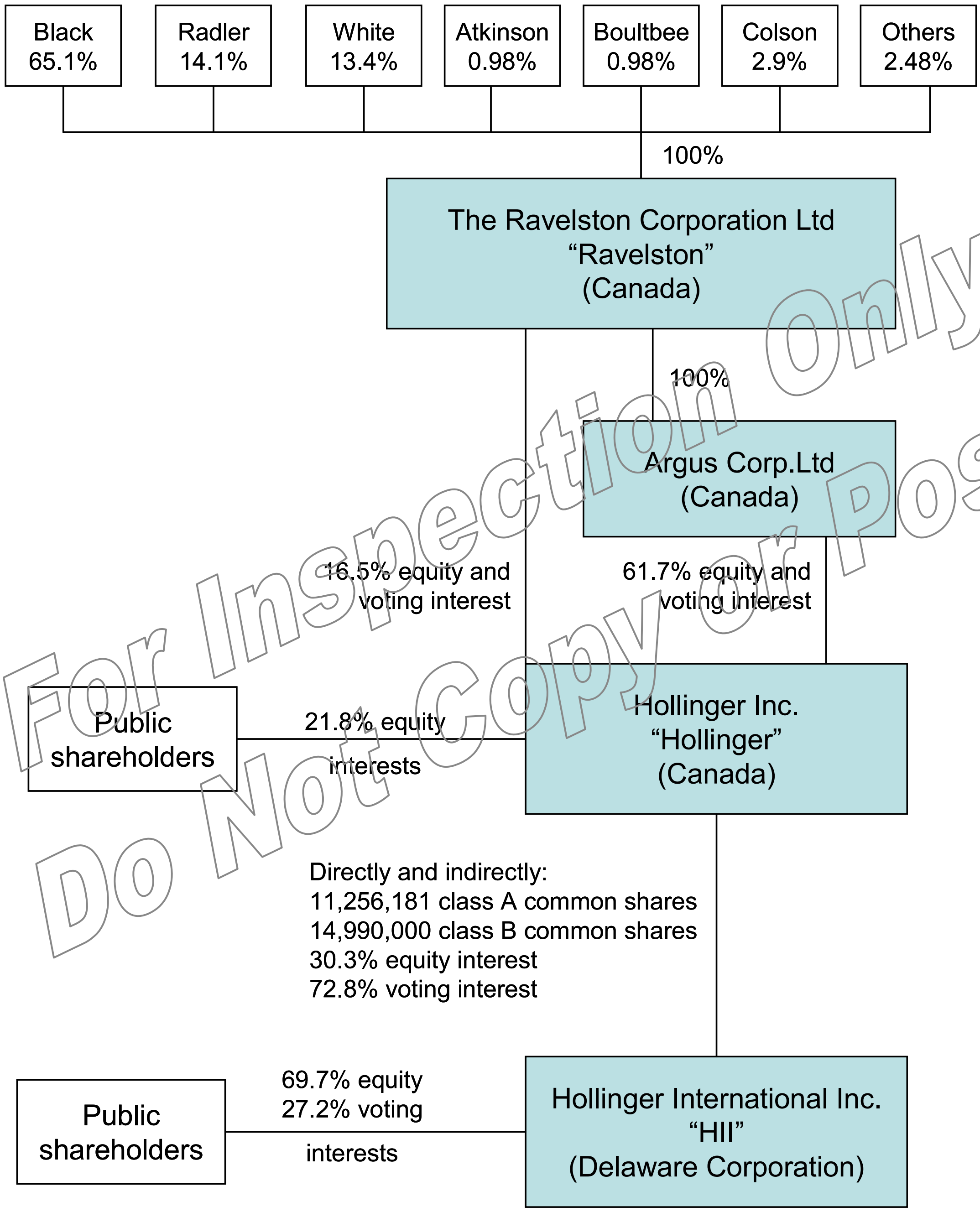
> I found Black evasive and unreliable. His explanations of key events and his own motivations do not have the ring of truth.[xxii]

Lawsuits now started to descend like confetti as claims and counterclaims multiplied against all parties involved. Radler eventually made a plea bargain with the SEC. In return for testifying at Black's trial he would be sentenced to 29 months in prison on one charge of fraud. Black was eventually found guilty on three counts of fraud and one of obstruction of justice and sentenced to six-and-a-half years in prison. His latest appeal would be heard in late 2009. Black sold his New York and London residences but would be able to choose between his Palm Beach and Toronto mansions at the end of his sentence.

Aftermath

HII sold the *Telegraph* to the Barclay brothers for $1.2 billion (£665 million) in cash and the *Jerusalem Post* for $13.5 million. It recovered $63 million from Radler and his companies in a settlement which included the SEC. Atkinson repaid all of his non-compete fees while Black (and Hollinger) had to be forced by the Delaware courts to repay $30 million in non-compete fees (including interest). In other settlements, HII recovered $30 million from Torys (Hollinger's law firm) and $7.5 million from HII's auditors, KPMG, in no-fault agreements. Hollinger and Ravelston both went into receivership once the flow of cash halted and the lawsuits multiplied. In 2009, the *Sun-Times* (the renamed HII), filed for bankruptcy protection, weighed down by a $608 million US tax liability due to the IRS's reassessment of its accounts prior to 2003 on such matters as the deductability of management fees. Legal fees, including contributions to the defence of Black and his associates, added at least another $100 million in costs.

Exhibit 1
Simplified Ownership Structure of the Hollinger Group in 2002



Source: Report of Investigation by the Special Committee of the Board of Hollinger International Inc., 30 August 2004, p. 95

Exhibit 2
Ravelston and Hollinger Inc. Ownership Percentages

	Ravelston equity control of Hollinger Inc	Hollinger Inc. ownership interest in Hollinger International Inc	
		Voting power	Equity interest
1994	49.2%	94.7%	64.2%
1995	49.5%	88.2%	66.5%
1996	49.3%	77.8%	51.2%
1997	62.6%	84.3%	59.9%
1998	59.8%	73.9%	41.3%
1999	67.1%	75.2%	41.1%
2000	68.6%	73.3%	37.0%
2001	77.8%	71.8%	32.1%
2002	78.2%	72.6%	30.3%

Source: SEC filings

Exhibit 3
Directors of Hollinger International Inc., 1 January 1998

Name		Position in HII	Background and other significant directorships
Dwayne O. Andreas	1996	Non-executive director	Chairman of Archer-Daniels Midland Co and its CEO from 1966 to 97; Chairman of President Reagan's Task Force on International Private Enterprise 1983–85; director of Salomon Inc. 1982–97
Barbara Amiel Black	1995	VP Editorial	Director of Hollinger Inc, Jerusalem Post and Southam; columnist for the *Telegraph*
Lord Black	1990	Chairman and CEO, Executive Committee member	Chairman and CEO of Hollinger Inc; Chairman and director of the *Telegraph,* Southam, *Jerusalem Post,* and Hollinger Digital; director of the Canadian Imperial Bank of Commerce (CIBC), EdperBrascan, Livent and Sotheby's Holding Inc
The Hon. Richard Burt	1994	Non-executive director	Chairman International Equity Partners; Partner at McKinsey (91–94); Chief Negotiator in Strategic Arms Reduction Talks with USSR 1989–91; US ambassador to The Federal Republic of Germany 1985–91; Director of Video Lottery Technologies, Weirton Steel Corp and Archer-Daniels-Midland
Raymond G. Chambers	1996	Non-executive director	Chairman of the Amelior Foundation for "at risk youth" and Points of Light and READY Foundations; co-founder of Wesray Capital Corp (leveraged buy-out firm) 1981-89; director of King World Productions
Daniel Colson	1995	Deputy Chairman and CEO of the *Telegraph*	Director of Hollinger Inc, Southam and The Molson Companies Ltd
Dr Henry Kissinger	1996	Non-executive director	Chairman of Kissinger Associates Inc. (consulting firm); member of the President's Foreign Intelligence Advisory Board 1984-90; US Secretary of State 1973–77; director of Continental Grain Company, Revlon Inc, Gulfstream Aerospace Corporation and Freeport-McMoran Copper and Gold Inc
Marie-Josee Kravis	1996	Non-executive director	Senior Fellow, Hudson Institute; director of Seagram company Ltd, Hasbro Inc. and Ford Motor Company; economist specializing in public policy analysis; well-known philanthropist
Shmuel Meitar	1996	Non-executive director	Director of Jerusalem Post; Vice-Chairman, Aurec Ltd (provider of communications, media and information services); director of Evergreen-Canada Israel Investments Ltd

Exhibit 3 (continued)

The Hon. Richard Perle	1994	Chairman and CEO of Hollinger Digital Inc, Executive Committee member	Director of the Jerusalem Post; Fellow of the American Institute for Public Policy Research; Assistant Secretary for the US Department of Defense, International Security Policy 1981–88
David Radler	1990	President and COO, Executive Committee member	President and COO of Hollinger Inc, director of Southam, the *Telegraph, Jerusalem Post* and Hollinger Digital; director of Dominion Malting Ltd and West Fraser Timber Co
Robert S. Strauss	1996	Non-executive director	Partner of Akin, Gump, Strauss, Hauer & Feld (law firm); US ambassador to the Soviet Union and the Russian Federation 1991-92; director of Archer-Daniels-Midland Co and Gulfstream Aerospace Corporation
Alfred Taubman	1996	Non-executive director	Chairman of The Taubman Company (retail shopping centres business) and Sotheby's Holdings Inc. (international art auction house); director of Livent Inc
The Hon. James Thompson	1994	Non-executive director	Chairman of Winston & Strawn (attorneys at law); Governor of Illinois 1977–91; director of FMC Corp, Prime Retail Inc, Jefferson Smurfitt Group plc, Union Pacific Resources and American National Can
Lord Weidenfeld	1996	Non-executive director	Director of the Jerusalem Post; Chairman of Weidenfeld & Nicholson Ltd (book publisher)
Leslie Wexner	1996	Non-executive director	Chairman and CEO of The Limited Inc. (clothes retailer); chairman of Intimate Brands Inc. and Abercrombie & Fitch

Source: Company accounts for Hollinger International Inc.

Exhibit 4
Management Fees Paid by Hollinger International Inc. to Ravelston and Associated Companies

	Management fees
1995	$4.1 million
1996	$8.5 million
1997	$26.5 million
1998	$32.0 million
1999	$40.3 million
2000	$38.0 million
2001	$30.7 million
2002	$24.9 million
2003	$26.0 million

Source: Report of Investigation by the Special Committee of the Board of Hollinger International Inc., 30 August 2004, p106 and proxy reports filed with the SEC.

Exhibit 5
Summary of HII's North American Newspaper Divestments

Purchaser	Gross transaction value	Negotiated closing date	Non-compete consideration	Amounts paid to: Individuals*	Amounts paid to: HLG/Ravelston
Liberty Publishing Co.	$310 m	Jan 98	$30,915,000		
Interec Publishing Co.	$75 m	May 98	$2,000,000		$2,000,000
CNHI	$472 m	Feb 99	$50,000,000		$12,000,000
Horizon Publications Inc. **	$46.8 m	Mar 99	$5,000,000		$1,200,000
Forum Communications Inc	$14 m	Sep 00	$400,000		$100,000
Paxton Media Group	$59 m	Oct 00	$2,000,000		$500,000
CanWest Global Communications	$2.35 b	Nov 00	$52,900,000	$26,500,000	$26,400,000
Newspaper Holdings Inc. (CNHI)	$95 m	Nov 00	$3,000,000	$9,500,000***	$750,000
Osprey Media Group	$144 m	Jul 01	$4,470,000	$4,470,000	
Osprey Media Group	$3.3 m	Nov 01	$700,000	$700,000	
American Publishing Co. "non-compete" payment	None	N/A	None	$5,500,000	
April 2001 "non-competes"****	None	N/A	None	$600,000	
	$3.57 b		$120,460,000	$47,270,000	$42,950,000

Note: the remaining non-compete payments were given to HII

- Black, Radler, Boultbee and Atkinson

** Controlled by Black and Radler

*** Not included in transaction documents. Individuals names added to the agreement at Radler's request on day of closing but amounts not mentioned.

**** Radler told the Special Committee that they were related to the Forum/Paxton sales. No documentation in the sales contracts.

Source: Report of Investigation by the Special Committee of the Board of Hollinger International Inc., 30 August 2004: 149

Appendix 1
Hollinger International Inc.
Balance Sheet for the Years Ending 31 December

$m	2002	2001	2000	1999	1998	1997	1996
FIXED ASSETS							
Net intangible assets	650.9	658.2	938.3	2,031.6	1,858.8	1,671.2	1,641.5
Net tangible fixed assets	299.7	309.3	360.6	711.6	661.6	615.6	561.7
Investments in affiliates	45.8	-	-	-	-	50.0	198.5
Other investments	124.1	144.0	899.1	208.2	143.3	75.7	487.5
Other fixed assets	173.9	220.6	66.7	134.7	118.1	106.1	12.6
	1,294.4	1,332.1	2,264.7	3,086.1	2,781.8	2,518.6	2,901.8
CURRENT ASSETS							
Cash	113.4	479.5	137.7	39.9	57.8	107.4	148.6
Other current assets	780.3	246.4	348.6	377.0	412.1	397.9	375.1
	893.7	725.9	486.3	416.9	469.9	505.3	523.7
TOTAL ASSETS	2,188.1	2,058.0	2,751.0	3,503.0	3,251.7	3,023.9	3,425.5
CURRENT LIABILITIES							
Bank loans and current portion of LT debt	509.7	3.0	4.8	40.7	101.7	35.6	539.3
Due to affiliates		-	-	-	-	-	273.7
Other current liabilities	575.9	575.3	739.0	489.4	509.9	413.3	406.4
	1,085.6	578.3	743.8	530.1	611.6	448.9	1,219.4
LONG TERM DEBT							
Long term debt	574.7	809.7	807.5	1,613.2	1,397.8	1,392.9	675.4
Other long term liabilities	382.2	278.7	240.2	288.0	285.8	215.6	128.9
	956.9	1,088.4	1,047.7	1,901.2	1,683.6	1,608.5	804.3
MINORITY INTEREST	17.1	16.1	89.2	155.9	107.0	203.0	109.9
REDEEMABLE PREFERRED STOCK	8.6	8.6	13.1	13.6	31.6	75.9	605.6
SHAREHOLDERS EQUITY							
Convertible preferred stock	-	-	-	6.4	6.4	195.1	195.1
Common stock and additional paid-in capital	302.5	364.5	489.7	445.0	576.2	344.7	337.5
Accumulated other income	(84.3)	(173.3)	(163.6)	(21.9)	(65.8)	(28.0)	23.0
Retained earnings	(98.3)	175.4	531.1	472.7	301.1	175.8	130.7
	119.9	366.6	857.2	902.2	817.9	687.6	686.3
TOTAL LIABILITIES AND EQUITY	2,188.1	2,058.0	2,751.0	3,503.0	3,251.7	3,023.9	3,425.5

Source: SEC 10-K filings

Appendix 2
Hollinger International Inc.
Profit & Loss Statement for the Years Ending 31 December

$m	2002	2001	2000	1999	1998	1997	1996	1995
Operating Revenues								
Advertising	710.8	804.5	1,543.9	1,557.0	1,565.8	1,556.0	1,364.5	699.4
Circulation	247.2	278.3	447.1	487.0	517.6	535.4	562.1	301.7
Other	48.2	63.5	105.0	103.4	114.4	120.1	147.4	77.4
	1,006.2	1,146.3	2,096.0	2,147.4	2,197.8	2,211.5	2,074.0	1,078.5
Operating Costs								
Newsprint	150.4	204.4	304.2	310.9	343.8	312.0	346.4	204.1
Compensation costs	309.0	363.0	662.4	684.4	699.1	736.2	731.7	319.1
Deprecation and amortisation	54.2	73.7	122.6	125.4	114.8	114.6	102.4	57.5
Other operating costs	435.4	541.2	785.1	813.9	758.0	761.0	745.5	436.0
	949.0	1,182.3	1,874.3	1,934.6	1,915.7	1,923.8	1,926.0	1,016.7
Operating Income	57.2	(36.0)	221.7	212.8	282.1	287.7	148.0	61.8
Other Income/(Expense)								
Interest expense	(58.8)	(78.6)	(142.7)	(131.6)	(105.8)	(113.6)	(84.4)	(44.7)
Interest and dividend income	18.8	64.9	18.5	7.7				
Net gains/(losses) on sale of assets	5.3	(147.1)	525.7	273.6				
Write-down of investments	(40.5)	(48.0)	(20.6)	-				
Other exceptional income	(18.0)	(100.7)	(27.1)	52.8	331.4	67.3	58.3	14.7
Other income	(108.8)	(11.7)	(26.5)	(2.5)	(1.0)	2.7	8.1	17.7
	(185.6)	(321.2)	327.3	200.0	224.6	(43.6)	(18.0)	(12.3)
Earnings before Tax and Minority Interest	(128.4)	(357.2)	549.0	412.8	506.7	244.1	130.0	49.5
Income taxes	66.9	(8.3)	374.9	155.2	223.1	93.6	51.9	20.6
Minority interest	2.2	(13.8)	50.8	7.1	81.6	46.0	33.1	22.6
Extraordinary item	41.3	-	6.2	5.2	5.1	-	2.2	-
Net Earnings	(238.8)	(335.1)	117.1	245.3	196.9	104.5	42.8	6.3
Earnings per share (diluted) $		-3.42	1.05	2.09	1.43	0.87	0.39	0.09

Source: SEC 10-K filings

Appendix 3
Hollinger International Inc.
Cash Flow Statement for the Years Ending 31 December

$m	2002	2001	2000	1999	1998	1997	1996	1995
Cash flows from operating activities								
Net earnings	(238.8)	(335.1)	157.4	245.4	196.9	104.5	42.8	6.3
(Gain)/loss on sale of assets and investments	(5.3)	147.1	(605.9)	(336.7)	(363.1)	(69.4)	(67.8)	65.0
Other adjustments to reconcile to net cash	290.5	105.5	238.5	153.3	270.3	230.0	171.1	-
Changes in working capital	12.0	(51.7)	269.8	44.2	(50.4)	(22.3)	52.4	(50.1)
	58.4	(134.2)	59.8	106.2	53.7	242.8	198.5	21.2
Cash flows from investing activities								
Net purchases of PP&E	(13.8)	(44.4)	(65.5)	(113.2)	(141.9)	(112.7)	(73.0)	(25.2)
Purchase of subsidiaries stock and other investments	(11.4)	(45.2)	(79.6)	(441.7)	(224.0)	(67.3)	(780.2)	(57.3)
Acquisitions	-	-	(117.1)	(28.7)	(332.5)	(58.8)	(400.1)	(164.8)
Disposals	0.1	840.3	1,341.8	520.0	602.0	247.4	191.9	-
Other	2.7	6.0	1.2	4.0	4.1	(0.2)	166.1	29.9
	(27.4)	756.7	1,080.8	(59.6)	(92.3)	8.4	(895.3)	(217.4)
Cash flows from financing activities								
Repayment of debt	(470.8)	(93.5)	(1,266.2)	(1,363.4)	(246.1)	(141.6)	(330.7)	(16.6)
Issuance of debt (net of issue costs)	284.3	88.6	448.1	1,438.4	337.1	839.0	386.0	20.0
Net proceeds from/(repayment of) bank loans	315.0	-	-	-	-	(495.8)	338.6	131.6
Change in borrowings from affiliates	26.3	(9.5)	(41.1)	12.3	5.2	(302.6)	(34.6)	(79.4)
Net proceeds from issuance of equity	4.3	6.9	5.5	1.4	2.0	-	440.9	-
Issuance of stock by subsidiary	-	-	-	154.5	0.8	8.1	21.8	4.1
Repurchase of common/special shares	-	(139.2)	(58.2)	(123.5)	(37.8)	(15.1)	-	-
Redemption of preference shares	-	(3.8)	-	(19.4)	-	(116.9)	-	-
Dividends paid	(28.8)	(53.2)	(61.2)	(64.8)	(66.4)	(57.6)	(42.5)	(3.2)
Escrow deposits	(533.4)	(12.6)	-	-	-	-	-	-
Acquisitions paid for by Hollinger	-	-	-	-	-	16.1	68.6	67.8
Dividends paid to minority shareholders	(0.9)	(53.7)	(63.1)	(112.5)	(3.7)	(10.4)	(33.4)	(20.9)
Other	(0.9)	(1.3)	(4.0)	(14.0)	(6.8)	(0.1)	-	0.3
	(404.9)	(271.3)	(1,040.2)	(91.0)	(15.7)	(276.9)	814.7	103.7
Effect of exchange rate on cash	7.7	(9.4)	(2.6)	26.5	4.7	(15.5)	6.9	(1.1)
Net increase/(decrease) in cash	(366.2)	341.8	97.8	(17.9)	(49.6)	(41.2)	124.8	(93.6)
Cash at beginning of year	479.5	137.7	39.9	57.8	107.4	148.6	23.8	117.4
Cash at end of year	113.3	479.5	137.7	39.9	57.8	107.4	148.6	23.8

Source: SEC 10-K filings

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[xv] Hollinger International Inc. Proxy statement, 6 June 1998.

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