

SEC subpoenas Hollinger

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The U.S. Securities and Exchange Commission has sent subpoenas to **Hollinger International Inc.** and its audit committee, and the Ontario Securities Commission is also probing the firm, as the crisis surrounding Conrad Black's complex media empire mounts.

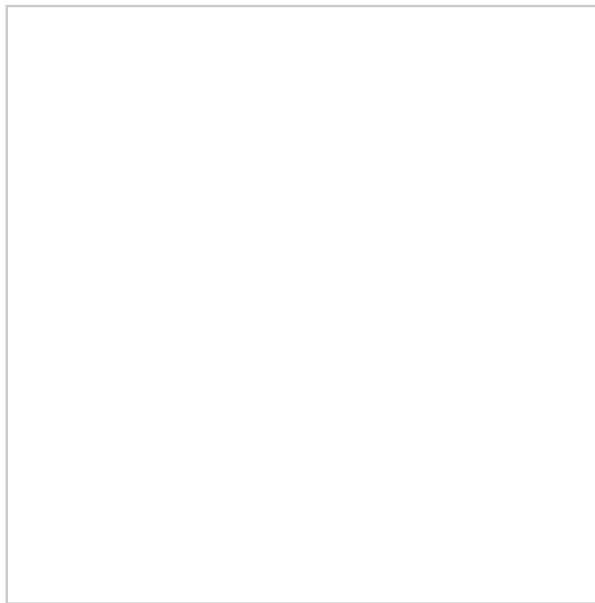
Regulators on both sides of the border are now looking into certain of the firm's dealings, barely two days after it shook up its management ranks amid revelations of unauthorized payments to top company executives.

The controversy at the media company took several twists Wednesday as Hollinger International missed a crucial 5:30 p.m. deadline to file its third-quarter financial statement with the SEC.

The company had been on track to meet the deadline, but Lord Black surprised the board by resigning at 5 p.m., two days ahead of an earlier plan to step down as chief executive officer tomorrow. The company said last night Lord Black quit earlier on the advice of his lawyer. Consequently, there was no CEO to certify the documents as required by SEC rules. Incoming CEO Gordon Paris is not scheduled to take over until tomorrow, and the company said the documents were expected to be filed without his signature.

As well, the company's auditors, KPMG LLP, had not completed its review of the quarterly financial statements, and as a result the company may be forced to file unaudited statements.

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Also last night, Hollinger said it was grounding its two corporate planes and looking at several initiatives to cut costs.

Separately, a board meeting of parent Hollinger Inc. was held in Toronto Wednesday.

Although there was pressure on directors to seek the resignations of Lord Black and three senior executives, no decisions were taken, sources said.

The SEC had already launched a formal investigation amid revelations that some Hollinger executives, including Lord Black, received more than \$32-million (U.S.) in unauthorized "non-competition" fees, and late Tuesday it issued subpoenas seeking information.

Paul Healy, a spokesman for Hollinger International, acknowledged that the company has been served with subpoenas from the SEC requesting "certain documents," and said the company and its audit committee will "co-operate fully" with the regulator.

The OSC, which has jurisdiction over Hollinger International's Toronto-based parent, Hollinger Inc., signalled yesterday for the first time that it is also getting involved. The OSC plans to work on the file with the SEC, and is expected make its own requests for information from the company and some of its executives.

"The OSC is making appropriate inquiries into the Hollinger matter," said Eric Pelletier, a spokesman with the country's largest securities regulator. "We've been in contact with the SEC on the matter and we'll co-ordinate our activities with them."

Mr. Pelletier would not say if it was a formal investigation.

A special committee of Hollinger International directors, which has been charged with conducting an internal review of the improper payments to executives, recently forwarded its findings to the SEC. The committee is being advised by former SEC chairman Richard Breeden.

"They got Breeden in there, former chairman of the SEC, digging into the company and seeing what was going on — that's a pretty credible source," one person close to the matter explained yesterday.

"These are serious charges and they're also credible charges, so we have no choice but to ramp it up as a formal [investigation] right away."

Sources close to Hollinger Inc.'s board of directors said yesterday that, like its operating arm, the parent company has also created a special committee of independent directors.

The directors were advised by legal counsel to request the resignations of Lord Black and three of his senior executives who departed earlier this week from Hollinger International Inc.

Sources said Toronto law firm Davies Ward Phillips & Vineberg was recently retained by the special committee to help it navigate thorny corporate governance issues raised by the growing corporate scandal.

"The special committee is facing huge corporate governance issues," said one person close to the company. "The thinking is if it is inappropriate for

Black and his executives to be directors of the operating company [Hollinger International] then it should be inappropriate at the holding company [Hollinger Inc.]."

Adding pressure on Lord Black to resign as CEO of Hollinger Inc. was the prospect of resignations from some, if not all, of the company's independent directors.

Sources say the special committee includes former Canadian diplomat Allan Gotlieb, Toronto consultant Maureen Sabia and retired Toronto retail magnate Fredrik Eaton.

As a result of the recent resignation from the Hollinger Inc. board of Vancouver forest-products executive Henry Ketcham, the only other independent director on Hollinger's 12-person board is Douglas Bassett. Mr. Gotlieb, Ms. Sabia, Mr. Eaton and Mr. Bassett either declined to comment or did not return phone calls.

"These directors have their reputations to think about," one legal expert said. "It would be appropriate for them to resign if they are concerned about the company's management."

On Monday, Hollinger International said that Hollinger Inc., Lord Black, former vice-chairman David Radler and executive vice-president Peter Atkinson each would repay their share of the \$32-million.

In a press release late Tuesday, Mr. Breeden said the committee is "moving beyond recovery of these payments to an even broader spectrum of concerns."

But Laura Jereski, an analyst at Tweedy Brown Co., the New York investment firm that initially forced the probe, said yesterday that the payments issue is by no means resolved.

"Our payment questions haven't been addressed."

Tweedy Browne's initial complaint to Hollinger International revolved around the \$80-million in non-compete payments received from CanWest Global Communications Corp., and the more than \$200-million in management fees paid to executives through Ravelston Corp. Ltd., Lord Black's private holding company.

Those two issues have not yet been dealt with publicly by the special committee, Ms. Jereski said.

"Despite all the furor of this week, I view it as largely a sideshow, since none of the issues that we raised have been addressed," she said. "I'm not the least satisfied, happy or contented."

Gordon Paris, who is now acting CEO at Hollinger International, said in an interview yesterday that the special committee will investigate any potential problems that come to light. "[Mr. Breeden] was just alluding to the fact we will continue on and we will very vigorously and thoroughly investigate all other matters and ensure that those and anything related to that is thoroughly investigated," Mr. Paris said.

Hollinger International moved quickly this week to fill the job of publisher at one of its key newspapers, the Chicago Sun-Times, after the resignation Monday of Mr. Radler, who was also vice-chairman and chief operating

officer of the firm.

Canadian journalist John Cruikshank, formerly co-editor of the Sun-Times, is now publisher and chief operating officer of the firm's Chicago group.

Mr. Cruikshank said yesterday that turmoil at Hollinger "is very much external" to what is a "successful, lean and efficient daily newspaper."

He acknowledged that the Sun-Times could be sold as part of the restructuring of Hollinger.

But he said that within the paper "there is considerable relief that I'm in this chair, because I'm not some guy from the outside who is coming in just to package this place to sell."

He said he has reassured people that the issues have more to do with shareholders than the everyday life of the paper.

With files from Gordon Pitts



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