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**FORMER HOLLINGER CHAIRMAN CONRAD BLACK AND THREE OTHER
EXECUTIVES INDICTED IN U.S. - CANADA CORPORATE FRAUD SCHEMES**

***Shareholders in U.S. and Canada allegedly cheated in sales of U.S. and
Canadian community newspapers, including \$2.1 billion CanWest deal***

CHICAGO – New federal fraud charges involving the \$2.1 billion sale of several hundred Canadian newspapers and the alleged abuse of corporate perks were returned today against **Conrad M. Black** and three other former top executives of a largely-dismantled global publishing empire. Black, the former chairman and chief executive officer of Hollinger International, Inc., is among three new defendants charged with cheating public shareholders in the U.S. and Canada and Canadian taxing authorities in an expanded indictment returned by a federal grand jury in Chicago, announced Patrick J. Fitzgerald, United States Attorney for the Northern District of Illinois.

Today's 11-count indictment alleges two new fraud schemes in addition to realleging a separate scheme first alleged in an indictment in August that the defendants fraudulently diverted more than \$32 million from the U.S.-based Hollinger newspaper holding company through a complex series of self-dealing transactions. The first new scheme alleges that the defendants fraudulently diverted an additional \$51.8 million in 2000 from Hollinger International's multi-billion-dollar sale of assets to CanWest Global Communications Corp. Both of these schemes allege

that the defendants engaged in a series of either secret or false and misleading transactions involving sales of various newspaper publishing groups in the United States and Canada. These allegedly fraudulent sales were designed to enrich the defendants by funneling payments disguised as non-competition fees, and, in the CanWest transaction, payment of a “management agreement break-up fee” either to a now-bankrupt corporate co-defendant they controlled or to themselves individually, at the expense of Hollinger’s public shareholders and corporate assets.

The second new scheme alleges that Black and one of his co-defendants fraudulently misused corporate perks, including a company jet for a vacation by Black and his wife in the South Pacific, two Park Avenue Apartments in New York City, and corporate funds to throw a lavish birthday party for Black’s wife.

The alleged fraud schemes involved Hollinger International, Inc. (“International”), a U.S. holding company based in Chicago that is publicly traded on the New York Stock Exchange, and Hollinger Inc. (“Inc.”), a Canadian holding company based in Toronto that is publicly traded on the Toronto Stock Exchange. Through various operating subsidiaries, International owned and published newspapers around the world, including the *Chicago Sun-Times*, *The Daily Telegraph* in London, the *National Post* in Toronto, the *Jerusalem Post* in Israel, and hundreds of community newspapers in the United States and Canada. Inc.’s primary asset was its controlling interest in International. Although Inc. held less than a majority of International’s equity, it controlled a majority of International’s stock voting power through heavily-weighted Class B common stock that had 10-1 voting preference over the Class A common stock held by International’s public shareholders.

The defendants are described in the indictment as follows:

Conrad M. Black, 61, who was trained as an attorney, and was a Canadian citizen until 1999, when he became a dual citizen of Canada and the United Kingdom. In 2000, Black renounced his Canadian citizenship and became a member of the British House of Lords. Black has residences in Toronto, London and Palm Beach, Fla. During the period of the alleged frauds, he often stayed at a New York City apartment that was owned by International until December 2000, when he purchased it from International. Through Conrad Black Capital Corporation, Black owned approximately 65.1 % of **The Ravelston Corporation Limited**, and he was chief executive officer and board chairman of Ravelston, Hollinger Inc., and International until November 2003, when he resigned as CEO of International but kept his other positions. At International, Black oversaw corporate operations, finances and strategy, including all significant acquisitions and sales of assets.;

John A. “Jack” Boulton, 62, a chartered accountant in Canada and a Canadian citizen who resides in the Toronto area. Through Mowitz Holdings, Inc., Boulton owned approximately .98 percent of Ravelston. Boulton was: 1) chief financial officer of Ravelston; 2) chief financial officer, executive vice president and a director of Inc.; and 3) executive vice president and, for a time, chief financial officer of International. At International, Boulton oversaw finances, including matters relating to taxes;

Peter Y. Atkinson, 58, a licensed attorney in Canada and a Canadian citizen who resided in the Toronto area. Atkinson also owned .98 percent of Ravelston. Atkinson was vice president and general counsel of Inc., and executive vice president of International. At International, he oversaw legal affairs;

Mark S. Kipnis, 58, of Northbrook, Il., an attorney specializing in transactional law since 1974. Kipnis was vice president, corporate counsel and secretary of International and worked at International’s office in Chicago. His duties included: 1) documenting and closing the purchases and sales of newspapers by International and its subsidiaries; 2) preparing International’s annual proxy statement, which was distributed to shareholders and was filed with the U.S. Securities and Exchange Commission; 3) acting as secretary at meetings of International’s board of directors and audit committee, and as keeper of the official corporate minute books; 4) preparing the agenda and collecting materials for the directors in connection with board and audit committee meetings; and 5) presenting all related-party transactions to International’s audit committee, which functioned as International’s independent director committee, for its review and approval.

Black, Boulton, Atkinson and Kipnis each owed undivided loyalty to International, which required them to provide honest services to International, to refrain from benefitting themselves or anyone else at International’s expense, and to disclose all material facts to International’s independent directors regarding any transactions involving International and any of International’s officers, directors and controlling shareholders; and

The Ravelston Corporation Limited, a Canadian company based in Toronto and which is now in Canadian bankruptcy proceedings. Ravelston was a privately-held company with 98.5 percent of its equity owned by officers and directors of International and Inc. Black was Ravelston’s

controlling shareholder, and Ravelston's principal asset was its controlling interest in Inc., which it held directly and through various subsidiaries, and which at all relevant times exceeded 70 percent of Inc.'s equity. Thus, Ravelston was the controlling shareholder of International through its controlling interest in Inc.

Among the three new defendants, Black and Boulton were each charged with eight counts of mail fraud and wire fraud, and Atkinson was charged with six counts of mail fraud and wire fraud. Of the two defendants indicted in August and again today, Kipnis was charged with nine counts of mail fraud and wire fraud, and Ravelston was charged with the same seven counts of mail fraud and wire fraud that were brought previously.

The indictment also seeks criminal forfeiture of at least \$80 million from Black, Boulton, Atkinson and Kipnis, more than \$8.5 million in net proceeds that was seized last month from Black's sale of the Park Avenue apartments, and Black's Florida home.

Kipnis has pleaded not guilty to the earlier charges and is free on bond pending a new arraignment a later date in U.S. District Court in Chicago. Ravelston's arraignment on the earlier charges is still pending.

Arrest warrants were issued for Black, Boulton and Atkinson. U.S. officials said they will allow the three defendants to appear voluntarily in Federal Court in Chicago; otherwise they will seek extradition.

Another co-defendant, **F. David Radler**, 63, of Vancouver, B.C., a Canadian citizen and former publisher of the *Chicago Sun-Times*, who was indicted in August with Kipnis and Ravelston, pleaded guilty to a fraud count on Sept. 20 and is cooperating in the ongoing investigation. Through FDR Ltd., Radler owned approximately 14.2 percent of Ravelston, of which he was president. He was also the deputy board chairman, president and chief operating officer of both International and

Inc. At International, he managed the newspaper operations of the company in the United States and parts of Canada. On those occasions when International or its subsidiaries bought or sold newspapers, Radler often was involved in negotiating the business terms of those transactions.

Mr. Fitzgerald and Assistant Attorney General Alice S. Fisher of the Justice Department's Criminal Division, both members of the President's Corporate Fraud Task Force, announced the charges together with Robert D. Grant, Special Agent-in-Charge of the Chicago Office of the Federal Bureau of Investigation; Kenneth T. Laag, Inspector-in-Charge of the U.S. Postal Inspection Service in Chicago; and Byram W. Tichenor, Special Agent-in-Charge of the Internal Revenue Service Criminal Investigation Division in Chicago. The Corporate Fraud Task Force was created by President Bush in July 2002 to oversee and direct federal law enforcement actions against fraud and corruption at American corporations.

“Officers and directors of publicly traded companies who steer shareholders’ money into their pockets should not lie to the board of directors to get permission to do so,” Mr. Fitzgerald said. “The indictment charges that the insiders at Hollinger — all the way to the top of the corporate ladder — whose job it was to safeguard the shareholders, made it their job to steal and conceal.”

“Today’s indictment demonstrates the Justice Department’s continuing commitment to thorough investigations of all cases of corporate malfeasance, and the prosecution of anyone who illegally perpetrates a fraud against investors, the marketplace and the government,” Ms. Fisher said. “Even the highest-level executives must know that they cannot escape responsibility if they engage in fraudulent misconduct.”

Mr. Grant of the FBI added, “The frauds alleged in this indictment were blatant and pervasive: they extended from back rooms to the board room, and from Park Avenue to the South

Pacific. Our job is to protect investors from Wall Street to LaSalle Street and in other global financial markets.”

The alleged CanWest fraud scheme involves International’s sale in 2000 of several hundred Canadian newspapers, an internet investment called Canada.com, and a 50 percent interest in the *National Post* to CanWest for approximately \$2.1 billion. Approximately two-thirds of the assets sold were owned solely by International, and approximately one-third were owned by Hollinger Canadian Newspapers, Limited Partnership (HCNLP), of which International owned 87 percent and the remaining 13 percent was owned by public investors. Black negotiated the deal, according to the indictment, while Boulton, Atkinson and Kipnis participated in reviewing and finalizing the transaction, which allocated approximately \$51.8 million to non-competition agreements. This was allegedly done as a mechanism to pay Boulton and Atkinson a bonus to take advantage of tax benefits that legitimate non-competition payments receive under Canadian tax laws.

Between May 2000 and May 2002, Black, Boulton, and Atkinson allegedly fraudulently inserted Boulton and Atkinson as promissors not to compete and fraudulently caused approximately \$51.8 million of the sale proceeds to be allocated to the non-competition agreements. Black, Boulton, Atkinson and Kipnis failed to disclose this self-dealing to International’s audit committee, the indictment alleges, and caused false and misleading statements to be made to International’s independent directors about the non-competition payments. Although International was the seller and signed a non-competition agreement, all \$51.8 million, plus interest, was diverted from International and, instead, was distributed to Black, Radler, Boulton, Atkinson and Ravelston.

After an outside attorney for a bank discovered and questioned these payments during the course of a due diligence inquiry, Black, Boulton, Atkinson and Kipnis returned to International’s

audit committee and sought ratification of the payments on different grounds, claiming that the information previously provided to the directors misdescribed the transaction in a number of “inadvertent” respects. In fact, the previous submission’s falsehoods were not inadvertent, and the second submission was also false and misleading. After International’s independent directors ratified these payments, Black then lied to International’s shareholders about the payments at International’s 2002 annual shareholder meeting, according to the indictment.

The information first submitted to the audit committee on Sept. 1, 2000, was allegedly false in that:

- ▶ only \$32.4 million, not \$51.8 million, was allocated to non-competition agreements;
- ▶ CanWest had requested Boulton and Atkinson to sign non-competition agreements when it had not done so;
- ▶ International would be paid \$2.6 million when it actually received nothing;
- ▶ it proposed that Ravelston be paid \$19.4 million as a break-up fee to end a long-term management agreement with International. In fact, Ravelston had no right to any payment if International terminated its management agreement with Ravelston; and
- ▶ it failed to disclose that although approximately \$647 million of the CanWest consideration would go to HCNLP, Black, Boulton and Atkinson had unilaterally decided that International would pay 100 percent of the non-competition consideration. The first submission also failed to disclose that this decision was made to avoid having to raise the non-competition payments with the HCNLP audit committee, which Black and the other two executives feared would ask more questions than the International audit committee. As a result, International bore 100 percent of the non-competition allocation attributable to the assets sold by HCNLP, rather than its 87 percent pro rata share, a difference of approximately \$2.1 million.

When the CanWest transaction closed, and Ravelston, Black, Radler, Boulton and Atkinson caused approximately \$52.8 million to be disbursed to themselves – approximately \$11.9 million

each to Black and Radler, approximately \$1.3 million each to Boulton and Atkinson, and approximately \$26.4 million to Ravelston. (The extra \$1 million dollars was interest from July 30 to November 16, 2000.) Although the audit committee was told that International would receive \$2.6 million for its non-competition agreement, in fact, International received nothing.

Following additional scrutiny of the transaction, the defendants allegedly decided to alter the paper record on which the CanWest payments were approved. In May 2001, Kipnis allegedly submitted additional false information to International's audit committee, including its chairman, who, in turn, relying on the false information, reported the committee's ratification of the CanWest payments, to the full board later that month. Black, Boulton, Atkinson and Kipnis attended the board meeting and, despite their fiduciary obligations to International, none of them corrected any of the false information that was provided, the indictment alleges.

The defendants also allegedly caused similar false disclosures to be made to the SEC in March 2002. Two months later, Black allegedly made numerous false statements about the CanWest payments at International's annual shareholders' meeting.

The indictment also contains a separate fraud scheme, first alleged in the August indictment, that Ravelston and its agents, including Black, Boulton and Atkinson, repeatedly abused their authority as managers of International to fraudulently benefit themselves at the expense of International and its public shareholders. On multiple occasions, these defendants fraudulently inserted themselves and Inc. as recipients of millions of dollars of non-competition fees – ostensibly to ensure that they, as sellers, did not subsequently operate a rival newspaper – that should have, and otherwise would have, been paid exclusively to International. The defendants failed to disclose these “related party transactions” – or self-dealing – to International's audit committee, which enabled

them to conceal the scheme, continue as International's managers, and quietly siphon away International's assets.

Between at least January 1999 and May 2002, the defendants allegedly defrauded International and its shareholders in connection with six separate sales by International and its subsidiaries of community newspapers and a trade publication. These transactions were as follows: *American Trucker*, sold for \$75 million in May 1998; Community Newspaper Holdings Inc. (CNHI I), sold for \$472 million, Feb. 1, 1999; Horizon Publications Inc., owned by Radler, Kipnis and other International executives, sold for \$43.7 million, March 31, 1999; Forum Communications Inc., sold for \$14 million, Sept. 30, 2000; PMG Acquisition Corp., sold for \$59 million, Oct. 2, 2000; and Newspaper Holdings Inc. (CNHI II), a subsidiary of CNHI I, sold for \$90 million, Nov. 1, 2000.

The indictment states that in 1996, a Canadian tax court held that non-competition fees were not taxable under Canadian tax law, and a higher court upheld this decision in December 1999. Boulton was extremely knowledgeable about tax law, according to the indictment, and was the architect of much of the tax strategy employed by International and the defendants, who were mostly Canadian taxpayers.

After two initial instances of diverting International assets through fraudulent non-competition payments, Black, Boulton, and Radler decided, with assistance from Kipnis, in January 1999 to create what became a "template," for future transactions. The template provided that Inc. would be inserted as a non-compete promisor and would receive 25 percent of the proceeds allocated to the non-competition agreement from all future sales of International's U.S. community newspapers. The indictment alleges that using the template would effectively siphon off 25 percent

of any proceeds allocated to International's non-competition agreement regardless of whether the buyer requested or valued Inc.'s agreement not to compete.

According to the indictment, this practice and the subsequent fraudulent reapportionments of millions of dollars in non-competition payments from International to Inc. significantly benefitted Black and Radler as controlling shareholders of Ravelston. Thus, despite having only a minority ownership in International, Black and Radler were able to maintain voting control over International through Inc.'s ownership of International's "super-voting" Class B Common Stock. The result of International's ownership structure was that every \$100 transferred out of International and into Inc. would effectively "cost" Black and Radler \$19, but give them \$62 as Inc.'s controlling shareholders, thus tripling their funds at the direct expense of International's non-controlling shareholders. Similarly, every \$100 that was transferred out of International and into Ravelston again would cost Black and Radler \$19, but give them \$79. As for funds transferred out of International directly to Black and Radler, they would receive the full amount of the funds, forgoing their 19 percent equity stake in International. Thus, Black and Radler were in a position to exert both their management positions and voting control at International to transfer money to themselves, and away from International's non-controlling and public shareholders, at a very low cost given their minority equity stake in International.

The third fraud scheme charges only Black and Boulton, alleging that between May 1998 and August 2002 they schemed to repeatedly abuse the corporate perquisites that International provided to Black to benefit him at the expense of the corporation and its public majority shareholders. Black exacerbated these breaches of fiduciary duty by determining himself what the corporation would pay to him, or on his behalf, and failing to present the related party transactions

between himself and the company to International's audit committee. As a result, Black fraudulently obtained millions of dollars from International, and he and Boulton fraudulently deprived International of its right to receive their honest services, the indictment alleges.

The abused perks are alleged in the indictment as follows:

- ▶ in the summer of 2001, Black fraudulently caused International to pay for his use of its corporate jet to fly himself and his wife on a personal vacation to Bora Bora in French Polynesia. The couple left Seattle for Bora Bora on July 30, 2001, and returned to Seattle on Aug. 8, 2001, logging a total of 23.1 hours in flight. There was little, if any, business purpose to this vacation. To lease and operate the jet for Black's personal vacation cost International tens of thousands of dollars. When International's accountants sought to have Black reimburse International for this cost, Black refused, stating in an e-mail to Atkinson that "[n]eedless to say, no such outcome is acceptable;"
- ▶ in December 2000, Black fraudulently caused International to pay more than \$40,000 for his wife's surprise birthday party on Dec. 4, 2000, at La Grenouille restaurant in New York City. The party cost approximately \$62,000; related expenses included 80 dinners at \$195 per person, and \$13,935 for wine and champagne. The party was a social occasion with little, if any, business purpose. Yet Black, without any disclosure or consultation with International's audit committee, determined that International would pay approximately \$42,000 for the party, and that he would pay only \$20,000; and
- ▶ Black and Boulton defrauded International of millions of dollars in connection with International's renovation of the ground floor apartment, and his purchase from International of the second floor apartment at 635 Park Ave., which Black used when he was in New York City and which provided proximate quarters for his servants. Last month, the government seized approximately \$8.9 million in proceeds from Black's sale of the two apartments and the indictment alleges that those funds are now subject to criminal forfeiture.

The government is being represented by Assistant U.S. Attorneys Robert W. Kent, Jr., Eric H. Sussman, Thomas Shakeshaft and Edward Siskel.

As to the individual defendants, upon conviction each count of the indictment carries a maximum penalty of five years in prison and a \$250,000 fine. As an alternative maximum fine, the

Court may impose a fine of twice the gross profit to any defendant or twice the loss to any victim, whichever is greater. As to Ravelston, the penalty is a fine of \$500,000 for each count of conviction or the alternative fine explained above. The Court, however, would determine the appropriate sentences to be imposed.

The public is reminded that an indictment contains only charges and is not evidence of guilt. The defendants are presumed innocent and are entitled to a fair trial at which the government has the burden of proving guilt beyond a reasonable doubt.

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