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## Conrad Black trial hears of payment diversions

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By Andrew Stern

CHICAGO (Reuters) - U.S. newspaper executives who bought community newspapers from Hollinger International Inc. testified on Tuesday they unwittingly agreed to divert some of the proceeds to a Canadian holding company that enriched media magnate Conrad Black, who is on trial for fraud.

A lawyer and two executives representing three different U.S. newspaper groups testified at Black's trial in U.S. District Court they signed purchase agreements in 1999 and 2000 that contained clauses inserted by Hollinger International that shared non-compete payments with Toronto-based Hollinger Inc.

Hollinger Inc. has voting power over Hollinger International and is part of a web of companies that was created by Black to control his now defunct media empire.

Prosecutors have told jurors that money from the proceeds of newspaper sales by Chicago-based Hollinger International were siphoned off by Black and three cohorts. This was done by diverting money to holding companies in which Black and the others held larger stakes, ensuring them bigger portions of the proceeds, U.S. prosecutors said.

Attorney Thomas Henson, a witness for the prosecution, told the jury that he signed two newspaper sales agreements worth \$550 million (280 million pounds) with Hollinger International that diverted \$12.75 million of the \$53 million in non-compete payments to Hollinger Inc.

"It was my understanding that they were trying to accomplish something from a tax standpoint," he said.

But Henson and another executive at privately-held Community Newspaper Holdings Inc. testified they refused a Hollinger lawyer's request to arrange to send a total of \$9.5 million in non-compete payments directly to Radler, Black, and co-defendants Jack Boulton and Peter Atkinson.

"At the end of the day, I did not feel comfortable wiring money to these individuals, two of whom (Boulton and Atkinson) I did not know," Henson said.

Prosecutor Eric Sussman read a memo to the jury in which Hollinger International attorney Mark Kipnis, who is also on trial, directed that \$9.5 million be disbursed to Black and Radler, in checks for \$4.3 million each, and to Atkinson and Boulton, for \$450,000 each. Kipnis also wrote he was entitled to a \$100,000 bonus.

Non-compete payments are not taxed in Canada, while bonuses are.

### DEFENCE BLAMES RADLER

Defence attorneys, meanwhile, painted Radler as the profane mastermind of the scheme who went "nose-to-nose" with Henson, shouting an obscenity while refusing to accept Henson's offer for about 100 community newspapers owned by Hollinger. Radler had been posturing, Henson said, and subsequently agreed to accept the offer.

Henson, who practices in Charlotte, North Carolina, and has a southern accent, elicited laughter in the courtroom when he doubted an attorney's reference to Radler as a "gentleman."

Executives for newspaper groups headquartered in Paducah, Kentucky, and Fargo, North Dakota, testified their purchase agreements with Hollinger International included clauses that said both Hollinger International and Hollinger Inc. would not compete by opening or buying newspapers in the same area.

The executives both testified Hollinger Inc. was included in the deal by Hollinger International.

"It did not cost us any money. We did not ask. I don't think we focussed on it," said David Paxton, president of Paxton Media Group in Kentucky, of the \$500,000 allocated to Hollinger Inc. from the \$2 million non-compete payment included in his deal with Hollinger International.

Typically, Paxton said, he would arrange non-compete payments with individuals only if the newspaper being bought was family-owned and the former owners were remaining in the community and might pose a competitive threat. Hollinger executives did not pose such a threat, he said.

Black's attorney, Edward Genson, questioned the North Dakota newspaper executive about a separate newspaper holding company partly owned by Radler and Black that could have owned or bought newspapers in the same region, which might have necessitated a broader non-compete arrangement.

But Judge Amy St. Eve sustained prosecutors' objections that it was an improper line of questioning because the executive was unaware of the company at the time of the purchase.

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