



Marie-Josée Kravis Says Hollinger Panel Lacked Expert (Update2)

By Andrew Harris and Bob Van Voris

April 30 (Bloomberg) -- Hollinger International Inc.'s audit committee kept watch over company finances for four years without any financial experts, a former member testified at the fraud and racketeering trial of ex-Chairman Conrad Black.

Economist Marie-Josée Kravis, wife of Kohlberg, Kravis & Roberts Co.'s Henry Kravis, was on the committee when Black allegedly helped steal \$60 million from the company. She said that no one on the audit committee between May 1999 and May 2003 had the financial experience required by its governing charter.

When asked by Black's lawyer why she didn't resign since she knew the committee wasn't doing its job, Kravis replied, "I thought I was doing my job."

Kravis, 57, is the second audit committee member to testify at the trial of Black and three codefendants in Chicago federal court, now in its seventh week. Black, 62, is charged with fraud and racketeering and may spend the rest of his life in prison if convicted of the most serious charges.

Former Chief Financial Officer John Boulton, 63, ex-Vice President Peter Atkinson, 60, ex-General Counsel Mark Kipnis, 59, and Black allegedly stole the money, disguised as noncompete payments, as part of Hollinger's sell-off of more than \$3 billion in assets between 1998 and 2001, prosecutors claimed.

Prosecutors claimed Kipnis helped the others conceal the noncompete payments from Hollinger's board and its investors.

Senior Fellow

Kravis is a senior fellow at the Washington-based Hudson Institute. She also has served on the boards of Ford Motor Co., Vivendi, Canadian Imperial Bank of Commerce and IAC/Interactive Corp.

Last week, she said three of the Hollinger deals prosecutors claim were the subject of the alleged fraud took place with only retroactive notice to the board.

Today, Black's attorney, Edward Greenspan, challenged her testimony that she can't remember getting a package of Hollinger financial information before a 2002 audit committee meeting.

"Sir, I can't remember reading something I don't recall receiving," Kravis told Greenspan.

"We just can't rely on your memory for anything, can we?" Greenspan said.

Greenspan questioned Kravis about 11 documents from early 2002, including some that were filed with the U.S. Securities and Exchange Commission. The documents contained information about noncompete fees paid to the defendants related to community newspapers Hollinger had sold.

'Partly Disclosed'

"They were only partly disclosed in most of those cases," Kravis said of the payments.

Black and a holding company he controls gained \$5 million from sales of company assets in 2000. When questioned last week by Boulton's lawyer, Patrick Tuite, Kravis said she erred in signing a financial

statement the next year stating the board had approved the deals when it had not.

``I must have missed it," she said during her testimony April 27.

Today, Kravis said she overlooked disclosures that Black, Boulton, Atkinson and former Hollinger President David Radler were paid at least \$15 million during 2000 for signing non-compete agreements. The agreements with buyers of Hollinger properties barred the men from competing in the same markets.

``You missed that too?" Tuite asked.

``I did," Kravis said.

Defense attorneys claimed the agreements were required by the purchasers as a precondition to closing each deal, not used to hide money that belonged to the company.

Chief Witness

Radler, 64, the prosecution's chief witness, has pleaded guilty to a fraud count and may testify as early as this week.

Black's attorney, Greenspan, showed Kravis the audit committee charter adopted in 1999, requiring all members to have financial literacy. The charter also required that one member have accounting or related financial management experience.

Kravis said the board members were financially literate while not having any specific accounting or financial management expertise.

The audit committee was without the required expert until May 2003, when Gordon Paris joined the board of directors. Paris succeeded Black as chief executive officer six months later.

Former Illinois governor James R. Thompson, who was chairman of Hollinger's audit committee, is scheduled to testify tomorrow.

The case is U.S. v. Black, 05cr727, U.S. District Court, Northern District of Illinois (Chicago).

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