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Four Directors Quit At Hollinger Inc. As Black Remains

By MARK HEINZL Staff Reporter of THE WALL STREET JOURNAL

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TORONTO -- Four directors of Conrad Black's holding concern Hollinger Inc., who made up its board's audit committee, resigned after the board blocked their move to oust the newspaper magnate as chief executive over the recent discovery of large unauthorized payments.

The defections added to the upheaval at Lord Black's newspaper empire, where an investigation into \$32.2 million of unauthorized payments and other issues has triggered management turmoil, possible asset sales and an investigation by the Securities and Exchange Commission.

Hollinger Inc. of Toronto owns about 30% of Chicago-based newspaper publisher Hollinger International Inc. and controls about 73% of its voting shares. Lord Black controls Hollinger International through his control of Hollinger Inc., where he is chairman and CEO.

Lord Black last week resigned as Hollinger International's chief executive after a board committee disclosed that he

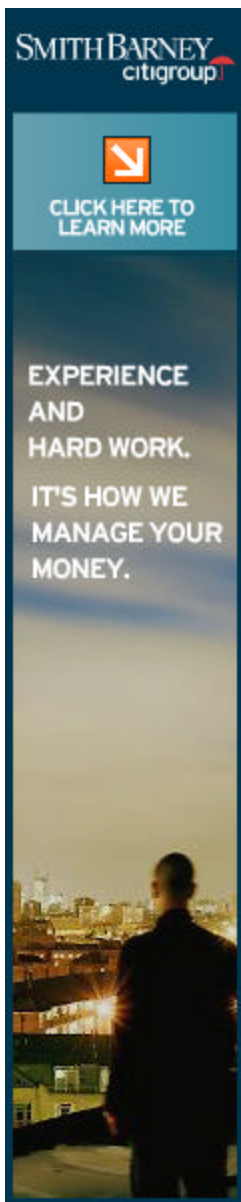
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and other top officials received unauthorized "noncompetition" payments tied to the sale of newspapers by Hollinger International. The payments totaled \$32.2 million, including \$16.6 million paid to Hollinger Inc. Lord **Black** has agreed to return \$7.2 million of noncompetition payments to Hollinger International.

The four directors of Hollinger Inc. investigated the payments and last week proposed management and board changes. They suggested Lord **Black** take steps similar to the ones he took at Hollinger International -- where he resigned as CEO but is remaining as chairman, people familiar with the situation said.

After deliberations, the Hollinger Inc. board -- which includes several close colleagues of Lord **Black** and his wife, Barbara Amiel **Black** -- on Friday voted against the proposal. "Accordingly, the members of the audit committee believe that they are no longer in a position to serve effectively Hollinger and its shareholders," the audit-committee members said in a statement. The four directors are prominent Canadians, led by Maureen J. Sabia, a Toronto businesswoman. The board members didn't return phone calls or couldn't be reached for comment.

"The recommendations with respect to management and board changes were not appropriate and not in the best interests of Hollinger," Lord **Black** said in a statement.

Through a spokesman, Lord **Black** added: "The recent management and board changes at Hollinger International related to circumstances specific to that company, not to Hollinger Inc., and so, the Hollinger Inc. board concluded that making similar changes as proposed by the independent directors was neither appropriate nor in the best interest of their company."

Separately, Hollinger International late last week filed its third-quarter financial report with the SEC,

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but without the certification of its newly appointed CEO Gordon Paris and Hollinger's auditors, KPMG LLP. Mr. Paris didn't have enough time to review the financial situation and KPMG was unable to complete its review because of the investigation, Hollinger International said. The SEC therefore will find the filing "deficient," Hollinger said.

The company said its net loss for the third quarter narrowed to \$7 million from \$32.2 million a year earlier. Revenue rose 4% to \$253.1 million from \$244.4 million.

Write to Mark Heinzl at mark.heinzl@wsj.com

Updated November 24, 2003

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