One warm day in November, about 50 people met for their annual lunch at Toronto's waterfront Westin Hotel. By all accounts the mood was convivial, the lunch was up to customary high standards and the conversation was warm as befits a group of people who all share common values, even if they haven't all met before.

But it's what wasn't formally discussed by the group—the five families that control Torstar Corp.—that is most interesting. At the time, their company was in the middle of its biggest takeover ever, the hostile $748-million bid for rival Sun Media Corp.

It was an ambitious battle that Torstar eventually lost to Montreal's Quebecor Inc., which on Tuesday expects Sun Media shareholders to approve its $883-million bid. But Torstar—which runs The Toronto Star, Canada's largest newspaper—has extracted a consolation prize of sorts: Quebecor is selling it four broadsheet newspapers for $350-million.

That move consolidates Torstar's dominance of the lucrative Southern Ontario newspaper market. But it has also cast attention on the operation of the company and raised questions about its seemingly uncertain plans for the future. It has led to speculation, which is adamantly denied by several Torstar board members, that the families are unhappy about the outcome of the failed takeover and are split over how it was undertaken.

It has also turned some of the focus to the families themselves, the children and grandchildren of the men charged with furthering the liberal goals of Toronto Star founder Joseph E. Atkinson, who died 51 years ago. Indeed, some critics now question whether they have been so preoccupied with social principles that their attention to the core business of newspapers has slipped, thereby allowing more focused, aggressive and politically conservative competitors to reshape the newspaper business.

"In April, they talked in their annual report about children's educational books being the way of the future," said a newspaper executive who has followed the situation. "On Oct. 28, they said they were going to sell off educational books because newspapers were the way of the future. Now they've withdrawn educational books and are saying educational books is the way of the future again. They're butchering their company."

But Torstar chief executive officer David Galloway, who oversees Torstar's diversification during the past decade, disagrees with that assessment.

Mr. Galloway, a Harvard MBA who helped found a consulting company before he was recruited by Torstar in the early 1980s to run their romance book publishing company, Harlequin Enterprises Ltd., said Torstar has always wanted to expand in newspapers but has found little opportunity to do so.

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Toronto Star founder Joseph E. Atkinson promoted a 'small-l liberal' agenda for the paper that some say is largely responsible for Canada's existing unemployment insurance and social welfare programs.
**Torstar’s family values**

"It wasn’t that we had a lack of interest in newspapers; there were no opportunities for us, at least at a price that we could justify," Mr. Galloway said. "People who say differently are just wrong."

The five families — Atkinson, Honderich, Hindmarsh, Thall and Campbell — own 100 per cent of Torstar’s voting A shares. Through additional holdings of non-voting B shares, they own about 30 per cent of the company’s total equity.

With this they control the destiny of Canada’s largest newspaper, an opinion leader that has been so influential in promoting a liberal agenda for the country that some family members and executives say the Star is largely responsible for Canadians having unemployment insurance and some welfare programs.

They have pledged to run the company according to Mr. Atkinson’s ideals, a collection of philosophy compiled from his editorials, writings and his will.

"They commit the paper to continue its tradition of supporting small-L liberal principles," said Torstar chairman John Evans, a medical doctor who is also chairman of Allelix Biopharmaceuticals Inc. and Alcan Aluminium Ltd. and who is not related to any of the Torstar families. "They are concerned with the care of those who are disadvantaged in society. Mr. Atkinson was a strong supporter of unionization, for instance, and of Medicare."

On his death in 1948, Mr. Atkinson left the newspaper to a charitable foundation charged with furthering his ideals. Shortly after that, however, Ontario’s Conservative government introduced legislation that made it illegal for a charity to own more than 10 per cent of a private business. The Atkinson Charitable Foundation was the only charity affected by the new law, which was widely regarded as a politically motivated attack on an institution that opposed Conservative philosophies.

By 1957, four of Mr. Atkinson’s colleagues and his son, Joseph S. Atkinson, bought the paper from the foundation and established the corporate structure that continues today. They pledged before an Ontario court to further the founder’s principles of liberalism, independence and a free flow of information.

The families meet at least once a year to reaffirm those principles, said Nelson Thall, a communications consultant, research director of the private think-tank Centre for Media Sciences and a Torstar director. His father, Burnett, had been the Star’s production manager.

"It’s like a cult," Mr. Thall said. "The belief in the principles keeps us together."

While most family board members did not return calls seeking comment or were travelling and not available, other board members were interviewed.

Each of the families has a director on the 12-member board. The Atkinson estate holds about 31 per cent of the A shares; the Hindmarsh family has 18.5 per cent, and the other three families each have 14.6 per cent. (Various family members hold the remainder.)

The Honderiches are represented on the board by Star publisher John Honderich, the son of former editor-in-chief Beland Honderich.

Ruth Anne Winter, an Oakville, Ont., real estate agent, represents the Hindmarsh family. Her grandfather Harry Hindmarsh was the Star’s president at the time of Mr. Atkinson’s death; her grandmother Ruth was Mr. Atkinson’s daughter.

The Campbell family is represented by Campbell Harvey, a finance professor at Duke University and grandson of former Star advertising manager W.J. Campbell.

The Atkinson estate is represented by Catherine Atkinson-Murray, who is also president of the Atkinson Charitable Foundation, which raises money for various causes in and around Toronto.

Investors who own Torstar’s non-voting B shares may be surprised to learn that the Star’s principles call for it to be operated for more than just profit. For instance, The Star does not accept advertisements from strip bars, and at least one board member thinks family members would not support an investment in a liquor company.

Critics, however, say that Torstar has bigger obstacles than its principles to overcome.

They point to the way the Sun Media takeover attempt was handled, saying it demonstrated flawed strategy, and to the on-going, off-again diversification strategy in the 1990s that took Torstar away from newspapers into other forms of information publishing.

This was best demonstrated, say the critics, by Torstar’s inability to capitalize on its pivotal 23-per-cent stake in Southam Inc. Despite repeated efforts to buy the rest of the national newspaper chain, which had papers in all the major cities except Toronto, Torstar ultimately sold its Southam stake to Conrad Black in 1993.

But then in October, 1998, Torstar suddenly changed course and made a bid for Sun Media. It put its information publishing holdings up for sale to finance the takeover — only to reverse course six weeks later and say it would keep most of the holdings after all.

Of Torstar’s actions, the newspaper executive cited earlier said "they blundered from beginning to end. We cannot figure out the stupidity of the advisers they got. To be honest, we were laughing at them."

Torstar made three major mistakes in the takeover bid, he said.

The company offered $16 a share for Sun Media when they were trading for less than $10, without first buying up to 10 per cent of the company’s shares in the open market as permitted under securities law, he said. That would have given..."
it a strong base from which to build a stake and significantly lowered the cost of a takeover. Then, it upped its own bid to discourage another bidder from coming forward, without gaining any concessions from Sun Media's big shareholders in return for the higher bid.

But most important, the executive said, Torstar erred in its overall business strategy.

He says Torstar lost its focus on newspapers, and he puts some blame for that on Torstar's corporate structure.

"The problem is these guys have been acting for the family trust for so long that they forgot," he said. "They took the safe route — what they thought was the safe route — by doing nothing and watched everybody else grow. Imagine, they had the biggest daily newspaper company in Canada. Then they let the 19 Thomson Corp. newspapers get away to Southam. They let Armadale [a group of Saskatchewan papers] get away to Southam. They let the London Free Press get away to Sun Media. Then suddenly they realized, 'Oh my God, we are going to be in last place.'"

The five families, including (clockwise, from top) Toronto Star publisher John Honderich, Ruth Anne Winter, granddaughter of a former Star president, and Catherine Atkinson-Murray, descendant of founder Joseph E. Atkinson, own roughly 30 per cent of the company's total equity.
He speculated that the jobs of top management may be in jeopardy because of blunders.

But Torstar chairman John Evans and all the other directors contacted insist that is not the case.

"The board was kept informed regularly about what was happening," Mr. Evans said. "The board fully agreed with what was done. There was no dissenting view. There really was a high degree of consensus at each step. The board and management remained in sync throughout this process."

Instead, Mr. Evans says that at the board's last meeting in December, directors passed a resolution thanking chief executive officer David Galloway and John Honderich, publisher of the Star, for their work on the takeover.

"The directors were very complimentary to management about the way they'd handled the process," he said.

Mr. Campbell said the families are not divided over the outcome of the takeover and fully supports management.

In addition, when the board meets next this month, he expects directors will approve bonuses for management for acquiring the four southern Ontario papers, Mr. Evans said.

As for Torstar's falling rank in the list of Canadian newspaper companies, Mr. Evans questioned whether that matters. With the addition of the four Ontario papers, it will have 14.2 per cent of the Canadian newspaper market. That puts it in third spot after Southam's 40.7 per cent and Quebecor's 21 per cent (after the Sun Media and Torstar transactions).

"I don't think success is really a function of the percentage of the newspaper market in Canada that they reach," he said. "It will be the effectiveness of the companies in reaching their constituencies across the country that really counts."

As for the suggestion that the takeover strategy was mishandled, Mr. Galloway disagreed.

If it had bought Sun Media shares in the open market prior to announcing a bid, it would have driven up the price because Sun Media is lightly traded.

"Then, instead of offering a 65-per-cent premium over the market price, it could have been much lower, 20 or 30-per-cent premium, and how would that have gone over with shareholders?" Mr. Galloway said.

He added that Torstar made the second, higher bid without getting concessions from Sun Media shareholders because it was trying to make a pre-emptive strike to prevent another bid from coming forward. Torstar was also worried that Sun Media might strike a deal to sell the Southern Ontario papers to entice another bidder to come forward.

"Those were pretty important to Torstar so we didn't want to see properties dealt away," he said.

"That didn't work but how could we have known that Quebecor would come forward with so much higher a price?"

To the question of Torstar's future, Mr. Galloway said there should be no confusion about its commitment to the children's supplementary educational publishing (CSEP) division, which publishes classroom learning material such as books on phonics, math and the sciences.

The CSEP division contributed operating profit of $2.1-million on operating revenue of $216-million in 1997. Torstar's total operating profit was $157-million on operating revenue of $1.3-billion.

Mr. Galloway said the decision to sell was made only to finance the Sun Media bid, not because Torstar wanted out of the business.

"When it became apparent that we weren't going to succeed with that, we immediately decided to withdraw it from the market," Mr. Galloway said. "It's a shame we put the education division on the market before the deal closed. But we had no choice. Our shares were included in our offer, and if we hadn't demonstrated how we were going to finance it, our shares would have dropped. Nobody wanted to sell the education division. We've put our heart and soul into it."

The decision to bid for Sun Media does not reflect a sudden change of heart about the newspaper business or the broader diversification strategy that also took it into the Harlequin romance book publishing, he said.

"There has never been a great opportunity to buy newspapers," he said. "From 1985 to 1992 we owned 25 per cent of Southam and we did everything possible to buy the rest of the thing. But we could never afford it, we could never justify the price. The size of it was just too big for us."

To finance the purchase of Southam, Torstar would have had to issue shares and further dilute the proportion of equity controlled by the five families, he said. Just to buy the first 25 per cent of Southam, the amount of total Torstar equity controlled by the voting trust dropped to 30 from 50 per cent, he said.

Principles became an issue.

"Conrad Black or someone like him might just issue shares to do it," he said. "But the voting trust wants to be able to stand tall and not be criticized for relying on the voting shares to control the company."

So Torstar took a more careful route ultimately ending up with a strong holding in the Southern Ontario market, its home turf, which should provide modest cost-savings and advertising sales advantages in the future.

And Mr. Atkinson's principles remain intact. For now.