

## **The Man who brought down Cinar, Report on Business Magazine, 2000**

### **Sarah Scott**

It would be easy to misjudge Claude Robinson. He is a middle-aged cartoonist with untamed hair and fingers that smell of cigarettes, a little unkempt. He could easily be cast as a wino. These days he hangs out in his studio in the working-class Pointe St-Charles district of Montreal, painting large, angry canvases and complaining about the prominent producer that he says stole the best thing he ever created, a cartoon series about a curious explorer called Robinson.

You might dismiss him as another raving artiste. But as kids' cartoons are fond of pointing out, appearances can be deceiving. For one thing, Robinson has a photographic memory. For another, he is a meticulous researcher. Everything connected with his cartoon, Robinson Curiosity--even 15-year-old hotel receipts and boarding passes--he has filed in neat little cardboard boxes. Most of all, he's determined. For the past five years he has been obsessed with a single goal: to regain possession of his cartoon and make the people who he says stole it acknowledge and pay for what they did.

The whole thing started on Sept. 4, 1995. It was Labour Day, and Robinson had just cleaned up the house, so he slumped down on the sofa and switched on the tube. By chance, he saw a promo for a new cartoon series, Robinson Sucroe.

Robinson was stunned. The new cartoon was co-produced by Cinar, the celebrated Montreal producer of children's TV shows--the sunny kind with no guns or violence and lots of sharing and learning. But from what he'd seen, this was his own concept, Robinson Curiosity, come to life.

Robinson had used his own persona as the inspiration for his character, a curious explorer-filmmaker who lives on a remote tropical island. Robinson's character even looked like him, beard, round glasses and all. The lead character in the Cinar version was almost identical, Robinson says. "When I look at that [Robinson Sucroe], I'm looking at myself." The shock plunged him into such a depression that his wife took him to a psychiatric hospital. When Robinson explained why he was a mess, the doctor uttered a response that grates even today: "Do you often feel like you're being persecuted?"

The psychiatric skepticism was just a prelude of the reaction Robinson would receive for challenging the top dogs--and hence the entire cozy power structure--of Montreal's incestuous film community: "Nobody wants to talk to you, nobody wants to employ you. You're a pariah. "

While Robinson was fuming in Pointe St-Charles, Ronald A. Weinberg and Micheline Charest were on top of the world up in Westmount. The company the husband-and-wife team founded, Cinar Corp., had grown in 20 years from a struggling distributor to one of the most significant independent producers in Canada. Their kids' TV shows were in the best Canadian Anne of Green Gables tradition--as Weinberg put it, "non-violent, pro-social and potentially educational." They sold them around the world.

During the five years that Robinson toiled on his lonely crusade, the Cinar story just got better. Apart from producing new series such as Arthur and The Busy World of Richard Scarry, the company was building up an impressive library for reruns--no cost, all profit--and embarking on a big, new strategy. It was going to be a provider of all children's products--books, TV shows, computer stuff and, above all, educational supplementary materials, a field that offered juicy 50% profit margins. The idea was simple: Use popular cartoon characters to help kids read and write at school, and at home they'll be clamouring for more of those same favourite characters.

The market and the analysts loved it. Ever since the company had gone public in 1993, revenues had climbed nearly 50%, profits 64.2%, and the stock price 50%--each and every year. "The company," said CIBC Wood Gundy analyst Adam Shine a year ago, "has an absolutely unbelievable and unblemished record of rewarding shareholders."

It was particularly rewarding for the biggest shareholders, co-CEOs Charest and Weinberg. At the peak of Cinar's stock market success, their 12% share of the company was worth about \$200 million. As for remuneration, in 1998 alone they pulled in nearly \$2 million--not including nearly \$400,000 in an interest-free loan for their stone-and-brick mansion in upper Westmount, nor the 2.5 million share options granted by the board's options committee, a committee whose sole member was Ronald A. Weinberg. Over the years, Weinberg and Charest had sold nearly \$50-million worth of company stock.

Of the two, the driven, disciplined Charest shone brightest, and naturally became Cinar's public face. She was courted for corporate boards and Liberal fundraisers--in fact, she organized a big one herself in 1997 for Prime Minister Jean Chretien. Charest was No. 19 on Hollywood Reporter's 1997 list of the 50 most powerful women in show biz, ahead of Madonna and Barbra Streisand. Yet not even the heavy responsibilities of the business and of raising two teenage boys ate up all her energy. Charest ran the New York marathon in 1998 in 4 hours 6 minutes. She was mad that she didn't make it in four hours.

Unlike his wife, Weinberg has never sought the public's attention. "If you go to dinner with them, you will not hear three words from him; she does all the talking," says one entertainment executive. Yet there's no doubt they're a team. "He is the alter ego, the double, the cosmic partner, sentimental and financial, with whom she created two children and built, brick by brick, not her but their empire," La Presse columnist Nathalie Petrowski wrote a year ago. Together Charest and Weinberg kept tight control over the company they had founded, via a share structure that gave them about 63% of the vote. It is said that they even ruled over the menu in the company cafeteria.

Government favoured their enterprise. The federal and Quebec governments have long handed out big dollars to nurture a homegrown movie and TV business--\$272 million in 1998-99 alone, not counting tax credits worth far more. In Quebec, nearly 30% of the \$634-million worth of production in 1998-99 came from federal and provincial governments. The public contribution to Cinar--\$75 million in the period 1993-98--exceeded the company profits, \$54 million.

Such a system obliged producers such as Cinar to specialize in decoding the sociology of the Ottawa bureaucracy, says Matthew Fraser, a communications professor at Ryerson Polytechnic University: "The creative community in this country spends more time meeting bureaucrats than on the set."

Charest cultivated the links. She counted among her friends prominent Liberals like former federal communications minister Francis Fox and Pierre Trudeau's former chief of staff, Senator Jack Austin--a Cinar board member. Some key Cinar staffers also worked at Telefilm Canada, the engine of the federal money train. Robert Armstrong was Telefilm's director of policy, planning and research prior to working at Cinar in 1996 and 1997, while Suzan Ayscough returned to the Cinar fold last fall after working at Telefilm as communications director. Cinar even once employed the son of Telefilm's current chairman.

Claude Robinson first met Charest and Weinberg in 1985, when he was trying to get Robinson Curiosity produced. Robinson had just partnered with Pathonic International, the production arm of a Quebec broadcaster. In January, 1986, Weinberg signed a letter to Pathonic, promising advice on Robinson Curiosity's characters, story line and format--for \$5,000 (U.S.) per month for six months. Things initially went well; Disney even offered Robinson and Pathonic \$100,000 per episode, Robinson says. But then Pathonic pulled out of the deal over a dispute about its cut of the proceeds. Robinson spent the next few years hunting for alternative financing. He was still nowhere with it when Robinson Sucroe appeared on la Canal Famille in the fall of 1995.

On Oct. 2, 1995, Robinson's lawyer sent Cinar a polite letter about his client's authorial rights. The curt response: "Cinar's archives do not show any relations between your client and Cinar." After a second, more detailed letter, Cinar's lawyers insisted that Robinson Sucroe was "developed completely independently of your client and his work." Robinson persevered. He launched a \$2.5-million lawsuit.

Robinson also complained to the RCMP. In October, 1995, Charest assured an RCMP officer that Robinson Sucroe was conceived and developed by Christophe Izard, a French businessman. (Izard, then with Productions SDA, saw Robinson's pitch for Robinson Curiosity at the 1987 Cannes film festival. In 1991, he went to work at France-Animation, Cinar's co-producer on Robinson Sucroe.) Charest "said finally she had no memory of Claude Robinson or his project," according to a court document filed to obtain a search warrant. The document relates that in November, two RCMP officers visited Weinberg in his office. Sitting with Charest and Marie-Josée Corbeil, Cinar's vice-president and general counsel, he gave the officers a written statement. "Ronald Weinberg initially denied remembering Claude Robinson's project," the RCMP submission says. "Then he identified three documents dated 1986, documents that showed that contrary to his claims, he was exposed to the Robinson Curiosity project, including scripts, drawings and development, and this since 1986. Two of these documents included his signature."

Charges were not laid, but Robinson pressed on. He started tracking down everyone who had had anything to do with Robinson Sucroe and Cinar. There was one name that eluded him. The credits for Robinson Sucroe said the script was written "with the collaboration of Erica Alexandre." No one knew who she was--even though Alexandre had pulled in nearly \$1 million in royalties from various shows over five years, more than almost any other screenwriter in Quebec. One day Robinson put all the Cinar names up on the wall of his studio. He studied them closely. Ronald A. Weinberg. Suddenly it clicked. The clue was the initial: A. It's not Erica, Robinson thought, it's Eric and Alexandre--Charest and Weinberg's two sons. They had used their children's names to create a pseudonym for the writer credits.

In February, 1999, Robinson and his lawyer, Marc-Andre Blanchard, met Weinberg and Charest in their lawyers' office. It was a busy time for the power couple. They had just restructured the company into two divisions--entertainment and education--and put out a prospectus for their public offering, which would raise \$143.6 million. Weinberg was impatient, looking all around the room, until Blanchard popped the question: "Who's Erica Alexandre?"

There was a long, long silence.

"It's Helene Charest," Weinberg replied.

"Who's Helene Charest?" asked Blanchard.

"It's Micheline's sister."

Helene Charest readily admits she never wrote a word. She's a Quebec City stockbroker working for Merrill Lynch. Blanchard and Robinson didn't know it, but in this fake writer credit they had found the end of a ball of string. All they had to do was pull.

If Robinson's persistence made Charest and Weinberg nervous as 1999 progressed into spring, they didn't show it. They were on a roll. Cinar's Arthur was nominated for its second Emmy. The cartoon series, based on the popular series of books by Marc Brown, is the very stuff of little kids' lives--trouble with the teacher, wishing for a pet, a copycat sister, all seen through the eyes of a spunky eight-year-old aardvark.

The Emmy awards were held at the theatre at Madison Square Gardens on May 20. When co-host Whoopi Goldberg announced the winner of the prize for best children's animated series, you could hear the Arthur crew shriek with joy as the show's catchy theme song started up. Charest, Weinberg and the gang practically skipped down the aisle to the beat:

Open up your eyes, open up your ears.

Get together and make things better by working together.

Back in Montreal, Robinson continued his detective work. In the summer of 1999, he contacted a Montreal Urban Community police officer, Sgt.-Det. Alain Lacoursiere. At 40, Lacoursiere has hair down to his shoulders, a cool charcoal-grey suit and a flippant attitude toward police authority. Lacoursiere specializes in art theft and authors' rights. He was very interested to hear about Helene Charest's screenwriting credit. Robinson suggested that Lacoursiere contact Thomas LaPierre, the writers' supervisor on the Robinson Sucroe series. LaPierre, who worked for Cinar from 1990 to 1996, is the son of Laurier LaPierre, chairman of Telefilm Canada.

Early on Oct. 7, 1999, Lacoursiere knocked on Thomas LaPierre's door. LaPierre was still in his pyjamas. The timing was intentional. Lacoursiere wanted to talk to LaPierre when he was most vulnerable, at home with his family. The two men retired into LaPierre's office, and LaPierre started talking. What came out was that during his Cinar stint, LaPierre had received writing credits for two episodes of Cinar's prep-school sitcom Chris Cross that he didn't write. He said Cinar sent him the cheques and told him to forward the money to the real authors, Gary Cohen and Don Rifkin, both based in New York.

LaPierre later handed over the paper trail. There was a Jan. 14, 1993, contract to write two scripts for \$13,800 a piece. It came from Marie-Josée Corbeil, Cinar's general counsel. But the letterhead identified her as vice-president of Schooldays Production Inc., which had the same east-end Montreal address as Cinar. There was LaPierre's deal with the two New Yorkers to write the scripts, at \$12,400 a piece. There was a March 1, 1993, "Dear Thomas" letter from Weinberg. He promised to pay all fees for accountants and lawyers "with respect to servicing the transaction," and went on to say: "We would suggest you pay Stansfield (Productions Inc.) [Cohen's company] and Don Rifkin directly, from your personal bank account, once you've received the monies from Cinar." There was another "Dear Thomas" letter dated Jan. 26, 1996, from Corbeil. The letter told LaPierre he would not receive any royalties on the shows, and warned him to not say anything about the transaction "without prior, written consent of Cinar."

LaPierre told the detective that he acted as a prete-nom (borrowed name) because Cinar wanted him to do it, and because it would help to get him other work. After taxes, he didn't make any money on the deal, and according to Lacoursiere, he didn't have any criminal intent to participate in a fraud. LaPierre didn't try to hide anything from Lacoursiere, either: "He felt trapped," the detective says.

Cinar needed LaPierre's co-operation because Canadian names are crucial in this business. They allow a producer to qualify for rich federal and provincial support. To be eligible, a production must score at least 6 out of 10 on a made-in-Canada test administered by a federal agency.

As it turned out, it was easy to get around the rules because government agencies didn't monitor the river of money pouring into the TV and movie business too carefully. The prete-noms were only one way to twist the rules to extract more money. A producer could, for instance, charge a high producer's fee and overstate all the items in the

production budget--and so increase the government funding, which was calculated as a percentage of the production budget. And who would notice if some of that money was spent on home renovations?

This remarkable latitude was generating public discussion even before the Cinar scandal broke. Fabienne Larouche, a writer for some of Quebec's most popular TV shows, in September, 1999, accused producers of pocketing money that ought to have shown up on the screen. "This system cannot justify two deluxe cars, three houses, a 60-foot yacht and a condo in Florida," all thanks to the generosity of taxpayers supporting "mediocre productions," she wrote in *La Presse*. Larouche was not referring to Cinar; indeed, after the scandal broke, Bloc Quebecois leader Gilles Duceppe claimed that "many people" were bilking Ottawa out of millions of dollars: "We know that names were used, that phony corporations were set up by law firms for the purpose of diverting federal public funds."

Cinar's reign as Canada's most celebrated TV producer ended Oct. 15, when the Bloc revealed that it was being investigated for faking names to obtain funding. In 36 hours the stock plunged from \$30.25 to \$17.50 (U.S.) on Nasdaq. But that was only the opener of a crash scene more spectacular than even Robinson could have imagined.

At first, Charest and Weinberg tried to reassure investors: "Cinar believes that such allegations will not have any material adverse impact on the financial position or the results of the company," a Cinar press release said in October. Four months later, on Feb. 18, that statement was contradicted by a cryptic but devastating update: "The financial and accounting impacts of the outcome of those reviews [into the fake names] are expected to be greater than initially expected." The auditors assigned by Cinar to check the books had found serious trouble. Weinberg still wouldn't say what the trouble was, and it's easy to see why. Cinar had just quietly handed over nearly \$1 million to the SACD, the private French agency that collects royalties for authors. That was the royalty money that had been paid to Helene Charest. (Although the true authors had signed away their royalty rights as Cinar required them to, the SACD does not allow those royalties to be paid to anyone else.) Meanwhile, the RCMP was busy verifying Robinson's facts on the Thomas LaPierre case.

But even that paled in comparison with what the auditors were uncovering. Some \$122 million (U.S.)--for the most part, the money that Cinar had raised in the public offering the previous spring--had been invested in the Bahamas, without the approval of the board of directors. What's more, \$86 million (U.S.) of that money had been used as collateral to borrow money for other investments--non-investment-grade commercial paper.

Reacting to that bombshell, Cinar promptly fired senior executive vice-president Hasanain Panju, saying he'd been responsible for bypassing the board. But then Charest and Weinberg resigned as co-CEOs and, on March 14, took "administrative leave," stepping out of management while remaining on Cinar's board. Cinar's stock plunged 70% before trading was halted March 9. The federal funding agencies and private funds turned off the tap, which means Cinar can't start new projects.

One might wonder why the board didn't know about the Bahamian investment. After all, \$122 million (U.S.) was big money for a company with a market capitalization of about \$1.8 billion before the scandal hit. But the board was not exactly an independent powerhouse. Four out of the nine members were insiders. The five outsiders included Charest's political friend, Senator Jack Austin, and Metro Inc. president Pierre Lessard, Charest and Weinberg's neighbour and golfing partner. None of the outsiders was on the powerful management committee. "The last time so many insiders were observed sitting on a board was at Livent Inc.," noted J. Richard Finlay, chairman of the Centre for Corporate and Public Governance.

According to Cinar's new management, Weinberg himself and two other executives signed the documents authorizing the Bahamian investment. The \$122 million (U.S.) was transferred to Norshield International Ltd. in the Bahamas. A Norshield affiliate, Globe-X Management, margined \$86 million of that money to buy commercial paper issued by its affiliate, Globe-X Canadiana. The details of the investment are still murky, but one intriguing calculation has been made by Nicholas Martin Hodson, a partner in the fraud-risk solutions practice at Ernst & Young in Toronto. According to an affidavit he filed in a Bahamian court, the annual cost of borrowing was \$1 million higher than the return. "This makes no commercial sense," his affidavit said. "I can think of no legitimate business purpose which would justify purchasing what are essentially fixed-income corporate bonds using a margin loan where the margin interest rate exceeds the interest paid on corporate bonds." Cinar has offered no public explanation, which only heightens suspicions. If it were just a conventional attempt to increase the rate of return for money waiting to be invested in acquisitions, wouldn't someone have said so by now? "Somebody somewhere has something to hide," says Roger Dent, Yorkton Securities' director of research. "But who or what--I wouldn't want to guess."

In Dent's view, it's unlikely that Charest and Weinberg will run a public company in North America again. They're in disgrace in their hometown, and they face lawsuits from Canadian and U.S. shareholders that could ruin them financially. Any political aspirations that Charest might have entertained--she has mused about becoming prime minister--are dead.

The Cinar scandal has also embarrassed the federal government. The optics are all wrong. A government handing out money to millionaire producers, without even checking whether the cash was going to Canadians. A bureaucracy that's altogether too cozy with the producers asking it for money. A black eye for Canadian content. "The Cinar scandal has undermined the legitimacy of the entire system of federal subsidies to the Canadian TV and movie industry," says Matthew Fraser.

And what about Claude Robinson? He's still suffering from the loss of his cartoon. Once he was a curious soul with a generous spirit. Now he doesn't draw cartoons. He's become suspicious, obsessed by l'affaire Cinar. "I don't live with the same man any more," his wife, Claire Robert, says. Even if he eventually wins his case, Robinson wonders whether the firm will be in a position to pay out. But he does find some small consolation in the

Cinar debacle. "Today," he says, "people are starting to understand: It's not an imaginary story."