

PRESSROOM CONFIDENTIAL

Funny Numbers

The *Journal Sentinel* is charged with overstating circulation. BY PETER ROBERTSON

Mark Belling, talkshow host on WISN-AM (1130), called it "an enormous crisis," while media insiders say it could be a blockbuster story. Yet nobody involved is talking about it because the legal stakes are so high.

What is it? Shorewest Realtors Inc. vs. Journal Sentinel Inc., an epic Goliath vs. Goliath lawsuit that pits Wisconsin's largest paper, the *Milwaukee Journal Sentinel*, against one of its biggest advertisers, Shorewest.

An issue is alleged circulation fraud. Simply put, publications base their advertising rates on the number of copies distributed or sold to readers. The Audit Bureau of Circulation sets rules for how to count readers, and Shorewest has accused the *Journal Sentinel* of deliberately breaking the rules since 1996.

With similar cases in New York, Illinois and Texas leading to arrests, criminal fraud charges, grand jury probes, mass layoffs and mass payoffs, the shock waves from Shorewest's showdown here may bounce the morning newspaper right off your doorstep.

In a Milwaukee County Circuit Court complaint filed April 25, Shorewest and its army of lawyers say newspaper officials "knowingly overstated the *MJS*' weekday and weekend circulation rates for the express purpose of charging and extracting higher rates from advertisers." Declaring class-action status, the complaint calls the newspaper's conduct "wanton, willful, malicious and/or intentional."

"Class action," of course, means thousands of other advertisers could join the suit. Among other things, the complaint alleges that the *Journal Sentinel* wrongfully counted as paid cir-

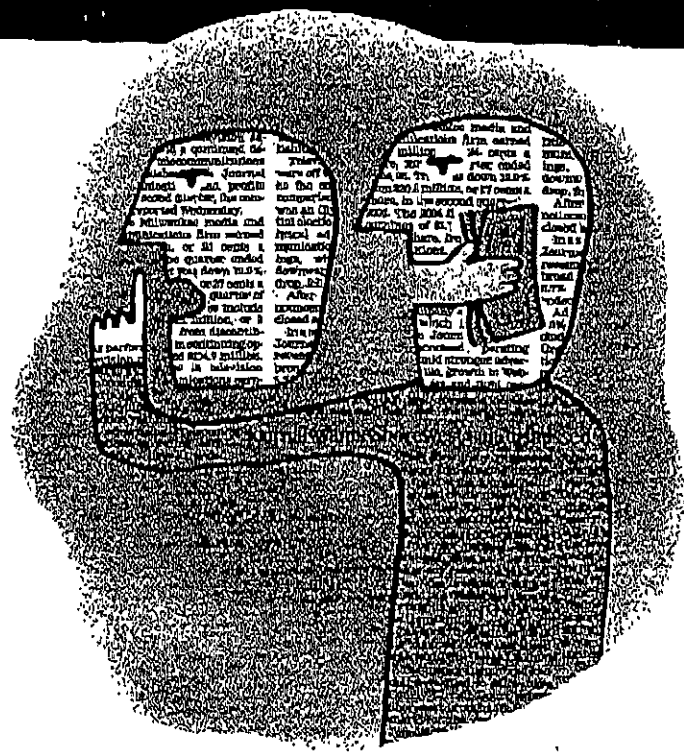
ulation newspapers that were thrown into dumpsters or given away at schools, businesses, sporting events, Summerfest, parades, to entire neighborhoods and individual homes.

Interestingly, Shorewest President Joseph Horning, Shorewest lawyers, Journal Communications CEO Steve Smith and *Journal Sentinel* Publisher Betsy Brenner all declined interviews. Since nobody's talking, we looked at other major papers with similar scandals to see what might happen here. The forecast looks stormy indeed.

In February 2004, advertisers sued Long Island's *Newsday* and the Spanish-language *Hoy* newspapers. According to reports in *Newsday* and *Editor & Publisher* magazine, parent company Tribune Co. admitted inflating circulation at both newspapers. Federal and local authorities investigated. The publishers of both newspapers retired. *Newsday* fired 13 circulation officials. The Tribune Co. set aside a whopping \$90 million for advertiser refunds. Shareholders sued the Tribune Co. for lax oversight. *Newsday's* editor resigned and the paper cut 100 jobs. Federal agents arrested three former *Newsday* and *Hoy* circulation officials for criminal fraud.

In June 2004, the *Chicago Sun-Times* admitted to inflating circulation up to 50,000 copies daily since 1996. Facing lawsuits by advertisers and shareholders, parent company Hollinger International Inc. reserved \$27 million to refund hundreds of advertisers, reports *Crain's Chicago Business* newspaper.

In August 2004, *The Dallas Morning News* also admitted to overstating circulation, ac-



ording to *American Journalism Review* and *DallasNews.com*. A circulation vice president resigned. Advertisers sued the newspaper and shareholders sued parent company Belo Corp. The company set aside at least \$23 million for advertiser refunds. The newspaper cut 150 jobs. The district attorney's office launched a grand jury investigation into possible criminal wrongdoing.

Here, new *Journal Sentinel* Publisher Brenner initiated a review of circulation early this year after former Publisher Keith Spore's retirement, the *Journal Sentinel* reports. In March, Brenner announced that three top circulation and marketing executives were "no longer with the *Journal Sentinel*." By April, CEO Smith and Brenner admitted they would not include thousands of copies in their latest circulation report because an Audit Bureau review uncovered substandard practices. Shorewest filed suit 11 days later.

Journal Communications had this to say in an April 27 press release: "*Journal Sentinel* values its relations with its advertisers. We believe the lawsuit is without merit and intend to defend the action vigorously."

IN AN ABSURD TWIST, two prominent members of Jour-

nal Communications' board of directors offered to come to the rescue of the Milwaukee Public Museum during its own financial scandal this summer.

JS reporter Dave Umhoefer broke the news in May that the museum was hiding a multimillion-dollar deficit. Turns out the chairman of the museum's board of directors was David Meissner, who also happens to serve on the *Journal* board. When museum President Michael Stafford quit in June, Meissner took over as acting CEO to help the institution through its troubles. That is, until the media started asking why Meissner and the museum board were clueless about the mounting deficit. So Meissner abruptly quit as museum chairman and CEO on June 16, the same day a new knight in shining armor came forward.

It was none other than Journal Communications Chairman and CEO Steve Smith.

Also chairman of the Greater Milwaukee Committee, Smith vowed to start a task force to "search for ways to stabilize and rebuild the institution's finances," the *Journal Sentinel* reported.

Before they try to save any other local institutions, Smith and Meissner might want to make sure their own books are in order at the *Journal Sentinel* and Journal Communications.

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