Strained Relations
At News Corp., a Bitter Battle Over Inheritance Splits Family

Rupert Murdoch’s Third Wife Seeks Stake for New Kids, Upsetting Adult Children

Lachlan Quits Corporate Post

When News Corp. Chairman Rupert Murdoch married his third wife, Wendi Deng, in 1999, all four of his adult children attended the twilight ceremony aboard a yacht in the New York harbor. But since then, the marriage has opened a rift between Mr. Murdoch and his older children, one that throws into doubt who will control the company after the media titan’s death.

The bitter battle has all the hallmarks of a classic family drama. It pits Ms. Deng, a Chinese-born woman in her mid-30s, against Mr. Murdoch’s children from his first two marriages. One of the key debates: Who should inherit the family’s $5 billion family fortune and Mr. Murdoch’s control of News Corp. Should it be just the media titan’s adult children, as originally envisioned, or also his two youngest children by Ms. Deng?

One byproduct of the split came Friday when Lachlan Murdoch, 33 years old, Mr. Murdoch’s eldest son, abruptly quit as News Corp.’s deputy chief operating officer, a decision that shocked News Corp. executives. For Lachlan, the catalyst was a sense that his father was undercutting his work at News Corp., especially regarding the company’s television stations, according to people familiar with the matter.

But relations between all four of the older children and Mr. Murdoch are severely strained, according to two people close to the situation. Lachlan Murdoch, who was once seen as his father’s heir apparent, said in a written statement last week he will relocate to Australia, which he considers home, with his wife and young baby. He will retain a seat on News Corp’s board.

Over the weekend, Rupert Murdoch said through a spokesman: “There is no dispute. All my children will be treated equally.” He also said he looks “forward to the day when Lachlan wants to return to our company.”

At the heart of the strife tearing apart the extremely private Murdoch family is tension over Ms. Deng’s role in the family. Further complicating matters is stress caused by the coming generational shift, especially as the older children become more assertive about their financial interests, according to one person familiar with the situation. Mr. Murdoch “has been alienated and isolated from his older kids,” says a separate person close to the matter.

These broader problems have coalesced around the question of the Murdoch family’s control of News Corp., one of the world’s biggest media conglomerates. Its far-flung properties include News Corp.’s revenue last year totaled $21 billion. The company’s holdings include:

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<tr>
<th>REVENUE (IN BILLIONS)</th>
<th>OPERATING INCOME (IN MILLIONS)</th>
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<tr>
<td>TV $5.03</td>
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<td>Film 5.19</td>
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<td>Cable-network</td>
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<td>Newspapers 3.43</td>
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<td>Book publishing 1.28</td>
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<tr>
<td>Other 0.86</td>
<td>158</td>
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<tr>
<td>Satellite TV 1.67</td>
<td>267</td>
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Note: Results for fiscal year ended June 30, 2004
Source: the company
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papers, the Fox broadcast TV network, Fox News Channel, control of satellite TV services such as BSkyB in the United Kingdom, Sky, Italy and DirecTV in the U.S., as well as the 26th Century Fox film studio.

Under the terms of Mr. Murdoch's divorce with second wife Anna, control of the vast majority of the Murdoch family's roughly 39% stake in News Corp. would be preserved for Anna's three children—Elisabeth, Lachlan and James. Murdoch, a daughter from a previous marriage, according to two people familiar with the matter. The older children believe this means that Ms. Deng and her future offspring are not to share in the block of stock held through a family trust, now valued at $5.1 billion. It is clear, however, that the younger children could inherit more than $200 million in voting and nonvoting shares owned by Mr. Murdoch through a separate trust.

Mr. Murdoch has since attempted to change the arrangements, according to people familiar with the matter, to give some control of the stake to the two children born to his new wife, Grace 3 and Chloe. 2.

Mr. Deng's rise is not without precedent. In 1995, while the Murdoch family's stake in News Corp., controlled by media titan John Malone, emerged late last year with an 18% voting stake in News Corp., fewer than a dozen percentage points below the Murdoch family's 29.5% stake.

Control of the Murdoch family trust, and any funds it may ever distribute, is dictated by the ability to appoint directors to the trust company. Mr. Murdoch's four older children can appoint one representative each to the board—a right set down in the divorce agreement between Mr. Murdoch and his second wife. Mr. Murdoch appoints the other four, who will be chosen by the board upon his death and will not be replaced.

The trust owns 23.5% of News Corp., voting shares, according to SEC filings, a stake now valued at about $23 billion. The trust's other assets include ownership of units that hang in News Corp.'s offices and Mr. Murdoch's homes. Mr. Murdoch separately controls an additional 15% of voting shares and a tiny minority of nonvoting shares. The trust has never paid a dividend to the kids; they've worth a lot but they don't have much cash.

Since Ms. Deng gave birth to Grace in 2000 and Chloe in 2002, Mr. Deng and Mr. Murdoch have been trying to alter that arrangement. Mr. Deng wants her children eventually to have the right to appoint directors, effectively giving them a degree of control over the company, say several people close to the situation.

This request has upset Mr. Murdoch's older children. They think Mr. Murdoch is giving them a second wife's control over his second wife, according to people familiar with the matter. The children are particularly sensitive about the issue because they think Anna Murdoch gave up a larger share of Mr. Murdoch's fortune in the divorce as her price for an agreement on the trust arrangements.

People familiar with the situation say neither Mr. Murdoch nor the older children are pushing a strong resolution. One person close to the situation said there are possible compromises.

For the first time in 50 years, Mr. Murdoch's control has come under threat. Liberty Media Corp., controlled by media titan John Malone, emerged late last year with an 18% voting stake in News Corp., fewer than a dozen percentage points below the Murdoch family's 29.5% stake.

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Hawaiian Pidgin Finds a Place in the Classroom

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under the name "Braisaw," by which he means Brother Joe. "There's a resurgence, with the appearance of pidi as an art form in literature," Mr. Hudy says. "Hala-alain languages remain in persistent and ongoing contact with one another. One of the contributing languages is usually dominant. What started as a necessity soon be-