

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

By Martin Peers, Julia Angwin and John Lippman

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 operat-

Chip Off the Old Block?

■ News Corp.'s experience raises thorny issue of family succession at shareholder-owned companies. Meanwhile, James Murdoch earns plaudits for reviving viewership at U.K. broadcaster BSkyB. Articles on B1 and A6.

ing 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 familiar with the situation, in part over the children's unhappiness about their father's relationship with Ms. Deng. The broader drama made it impossible for Lachlan and his father to work out their workplace clashes, problems that might have been solved in the past, according to

Mass Media

News Corp.'s revenue last year totaled \$21 billion. The company's holdings include:

	REVENUE (IN BILLIONS)	OPERATING INCOME (IN MILLIONS)
TV	\$5.03	
Film	5.19	
Cable-network programming	2.54	617
Newspapers	3.43	592
Magazines	0.98	271
Book publishing	1.28	158
Other	0.86	-150
Satellite TV	1.67	-267

Note: Results for fiscal year ended June 30, 2004

Source: the company

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. Mr. Murdoch, 74, said he was "saddened" by his son's decision in a written statement Friday.

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 the New York Post and London Times news-



Lachlan Murdoch

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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 Italia and DirecTV in the U.S., as well as the 20th 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 30% stake in News Corp. would be preserved for Anna's three children—Elisabeth, Lachlan and James—plus Prudence, a daughter from a previous marriage, according to two people familiar with the matter. The older children believe this meant that Ms. Deng and her future offspring were 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.

Ms. Deng, once a junior executive at News Corp.'s Star TV unit in Hong Kong, has long held an outsized influence in News Corp. affairs. She quit her job but maintained a discreet but important role in the company for the first year or so after the wedding, helping identify potential investments and acting as a liaison in China. In the past four years, she has been in the U.S. looking after her two young children.

The family split comes at a sensitive time for the media giant. 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.

The two are trying to find ways to unwind Liberty's stake. The status of the talks isn't clear. A spokesman from Liberty Media had no comment.

The immediate catalyst for Lachlan Murdoch's resignation was the way his father undercut his role at the company, according to people familiar with the matter. Lachlan grew up on the Upper East Side of New York. His first job in the family business was as an intern at the *Mirror* newspaper in Sydney, Australia, cleaning the presses. After graduating from Princeton University, he began working as an executive in the Australian newspaper business.

In the six years since Mr. Murdoch married Ms. Deng, Lachlan has played an increasingly prominent role at the company. Just months after the wedding, he was given oversight over all of News Corp.'s U.S. print operations. A year later, he was named deputy chief operat-

ing officer, reporting to President and Chief Operating Officer Peter Chernin, with added responsibility for the TV-station group.

But despite his job title, the only business Lachlan had a free hand in managing was one of News Corp.'s smallest, the *New York Post*, a tabloid paper that was one of his father's first acquisitions after he moved to the U.S. in the 1970s. As a perpetual loss-maker, it didn't attract attention from other executives in the company.



Rupert Murdoch

The younger Murdoch quickly found himself being undermined in his attempts to deal with the station group, one of the biggest sources of conflict between Lachlan and his father. News Corp.'s 35 TV stations are one of the company's most important profit generators. Lachlan soon found himself out of the loop, in part because of the close relationship between the station group's CEO, Jack Abernethy, and Fox News chief, Roger Ailes, a close confidante of the elder Mr. Murdoch.

Mr. Ailes has touted his influence at the station group since Mr. Abernethy took over. "We have lunch every week now," Mr. Ailes said at a press breakfast in March. Neither Mr. Abernethy nor Mr. Ailes could be reached for comment.

News Corp. veterans say his father's interference shouldn't have come as a surprise to Lachlan. Mr. Murdoch, known for a hands-on and imperious management style, reviews detailed reports from each of his businesses around the world once a week.

Lachlan saw his sister Elisabeth quit a job with BSKyB in 2000 to start her own TV production company. In an interview last year, 37-year-old Elisabeth said: "In some ways it's easier to be a Murdoch outside News [Corp.] than inside." Only their younger brother James, 32, is still with the company, as CEO of BSKyB. He is now seen as a possible heir. (Mr. Murdoch's older daughter Prudence isn't directly involved with the company but serves on a subsidiary board.)

More broadly, Lachlan opposed his father's decision to shift News Corp.'s

domicile from Australia, where the company was founded, to the U.S. The younger Mr. Murdoch felt that News' Australian roots created a corporate culture that helped drive the company.

As part of the move, Mr. Murdoch proposed that News Corp. buy a majority stake in an Australian newspaper chain owned by the Murdoch family. News Corp. agreed to buy the outstanding stake in the chain, Queensland Press, for about \$2 billion, payable in stock. Some family members later questioned if they received the best price because News Corp. was under pressure to make the deal appear fair to public shareholders, two people close to the situation say.

News Corp. said at the time that the buyout helped simplify the Murdoch family's tax situation and made News Corp.'s structure easier to understand.

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Control of the Murdoch family trust, and any funds it may ever disburse, 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 out in the divorce agreement between Mr. Murdoch and his second wife. Mr. Murdoch appoints the other four, who will leave the board upon his death and won't be replaced.

The trust owns 28.5% of News Corp. voting shares, according to SEC filings, a stake now valued at about \$5 billion. The trust's other assets include nonvoting shares and works of art that hang in News Corp.'s offices and Mr. Murdoch's homes. Mr. Murdoch separately controls an additional 1% of voting shares and a tiny number of nonvoting shares. The trust has never paid a dividend to the kids; they're worth a lot but they don't have much cash.

Since Ms. Deng gave birth to Grace in 2001 and Chloe in 2003, Ms. Deng and Mr. Murdoch have been trying to alter

that arrangement. Ms. 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 has reneged on a promise he made to his second wife to maintain the trust for them. The children are particularly sensitive about the issue because they think Anna Murdoch gave up a bigger share of Mr. Murdoch's fortune in the divorce as her price for an agreement on the trust arrangements.

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

For months, Lachlan had tried to dis-

cuss these various concerns with his father, according to one person close to the situation. Their discussions came to a head last week but the issues couldn't be resolved.

"There is a huge gap" between the chairman and the three older children, says one person close to the matter. As a result, problems "have been left to fester," leaving a sense of "betrayal" that made it easier for the older children to make decisions that otherwise would have been difficult, this person added.

Wall Street shrugged off the news of Lachlan's departure, in part because many think his day-to-day role is less crucial than that of Mr. Chernin, the president and chief operating officer.

"The reality is from an investor standpoint, it's a positive that Chernin appears to be a successor," said Rich Greenfield, analyst at Fulcrum Global Partners. "I think there were fears of nepotism broadly across Wall Street."

—Aaron Patrick and Joe Flint
contributed to this article.

Hawaii Pidgin Finds a Place in the Classroom

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under the name "Bradajo," by which he means Brother Joe. "There's a resurgence, with the appearance of pidgin as an art form in literature," Mr. Hadley

gible languages remain in persistent and long-lasting contact with one another. One of the contributing languages is usually dominant.

What started as a necessity soon be-

groundbreaking classes at Hawaii Pacific. Kent "wen grumble little bit, cuz das mo' work for him." Mr. Tsuchi explains in an email. "But I toll 'em bruh, we doing it for da pidgin revolution."