

# UNIVERSITY OF ROCHESTER

William E. Simon Graduate School of Business Administration

**Finance 423**  
Corporate Financial Policy & Control

**Professor G. William Schwert**  
Fall 2006

## *NewsCorp Poison Pill*

### **Liberty Media Team**

Study the information from the *Wall Street Journal* in Appendix A, below, about the poison pill that was recently supported by the shareholders of News Corp. John Malone, the largest blockholder of Liberty Media, has requested your analysis and recommendations concerning the large position held by Liberty Media.

Among the issues your report should cover include:

- (a) the viability of simply retaining Liberty's large minority position if News Corp. maintains its the poison pill and the status quo;
- (b) the desirability of Liberty to pursuing a premium takeover bid for News Corp.;
- (c) the desirability of negotiating a disengagement, where Liberty sells its stock back to News Corp. for either cash or for some asset owned by News Corp. that it values.

The case web page contains a spreadsheet (NWS.XLS) that contains the daily closing prices and volumes for the two classes of News Corp. stock from January 2001 through October 20, 2006. It also contains closing prices and volumes for Liberty Media from May 15-October 20, 2006 (under the symbol LCAPA) and from January 2001 through December 31, 2005 (under the symbol LMC). The spreadsheet also contains the S&P 500 index.

You may use any information available before October 21, 2006, but nothing that occurs after that date. Your report is due in class on Wednesday November 29.

APPENDIX A

Information from the Wall Street Journal



October 21, 2006

## News Corp. Fends Off Liberty Media

Holdings Extend Poison Pill  
By Narrow Margin, Protect  
Murdoch Family's Control  
By JULIA ANGWIN  
October 21, 2006; Page A3

NEW YORK -- **News Corp.** shareholders approved a controversial "poison pill" takeover-defense plan at the company's annual meeting Friday, enhancing Chairman Rupert Murdoch's leverage over the company's second-biggest shareholder, **Liberty Media Corp.**



Rupert Murdoch

The poison pill was put in place two years ago to block advances by Liberty, which is controlled by investor John Malone. Liberty has accumulated a 19% voting stake, potentially threatening the Murdoch family's control of News Corp., exercised through a 31% voting interest.



John Malone

Mr. Murdoch said at the meeting that Mr. Malone's attempt to amass a larger voting stake was akin to a takeover attempt through the "back door." "If somebody wants to buy an asset or take control of our company, we expect them to come through the front door," he said.

Friday's vote will keep the pill in place for another three years, potentially giving Mr. Murdoch the upper hand in off-and-on negotiations with Liberty over a way for News Corp. to buy out Liberty's stake. One scenario under discussion is for News Corp. to swap its controlling stake in satellite-TV firm DirectTV Group Inc. for Liberty's shares in News Corp. Mr. Murdoch said he was in no hurry to get a deal done with Liberty, now that he has protection for three years. "We're quite relaxed," he said.

Still, the pill won by a relatively narrow margin, 57% to 43%. Liberty Media voted against renewal of the poison pill. Liberty Chief Executive Greg Maffei said that, while Liberty is generally supportive of News Corp. management, "it's hard for us to vote for a pill that would restrict our flexibility."

Mr. Maffei added that a majority of independent, non-Murdoch-family shareholders also voted against the pill. "The people who had a free right to vote -- almost two-thirds of them thought we should have the liberty to increase our stake," he said.

Mr. Murdoch had fought against having a vote on the poison pill at all. When the board first

adopted the pill in November 2004, the company promised it would expire in one year, unless shareholders voted to renew it. But a year later, News Corp. extended the pill without a shareholder vote. Its explanation was that the board had changed the policy.

A group of angry shareholders, mostly from News Corp.'s former home of Australia, sued for breach of promise in Delaware Chancery Court. In April, the two sides agreed to a settlement requiring News Corp. to hold a vote on the poison pill at Friday's meeting.

Evelyn Y. Davis, a shareholder activist, said the vote should be a lesson to Mr. Murdoch. "Mr. Murdoch, you need to learn to keep your promises," she said.

At the meeting, Mr. Murdoch also faced criticism from a conservative group worried about his support of Democratic Sen. Hillary Rodham Clinton of New York and Democratic Rep. Harold Ford of Tennessee, and his relationship with Saudi Arabia's Prince Alawaleed bin Talal, who is a large News Corp. shareholder.

"Many of us self-described conservatives are very concerned about the direction of this company," said Cliff Kincaid, editor of Accuracy in Media.

Mr. Murdoch said he is "independent" and described Ms. Clinton as "a very intelligent and smart, charming politician." He also said News Corp.'s political-action committee has doled out roughly the same amount of money to Republicans and Democrats.

News Corp. shares fell 16 cents to \$21.76 in 4 p.m. composite trading on the New York Stock Exchange, and Liberty shares fell 16 cents to \$87.72.



October 14, 2006

*Media*

## A Bitter Pill for Murdoch?

By JULIA ANGWIN  
October 14, 2006; Page A2

News Corp. Chairman Rupert Murdoch next week faces an unprecedented referendum on his leadership -- and his family's long-term control of the media conglomerate.

At the company's annual meeting Friday in New York, shareholders will vote on whether News Corp. should renew the "poison pill" takeover defense it adopted two years ago to ward off advances from media investor John Malone.

If the pill is overturned, Mr. Malone's **Liberty Media Corp.** potentially could threaten the Murdoch family's control of News Corp., which it exercises through a roughly 30% voting stake. Liberty has 19%, and Mr. Malone has said he would buy more if he could.

A negative vote wouldn't immediately kill the pill but would put its future in the hands of a Delaware court. Still, in the short term, a vote against the pill would weaken Mr. Murdoch's bargaining leverage with Mr. Malone. The two have been negotiating on various ways News Corp. can buy Liberty out, including by swapping News Corp.'s stake in DirecTV for Liberty's stake in News Corp.

Ultimately, the vote is a test of whether shareholders view the company's future as inextricably tied to Mr. Murdoch's family. While there is little doubt investors would prefer Mr. Murdoch over Mr. Malone as chairman -- Liberty's track record in recent years has disappointed many, while News Corp. shares have performed strongly -- Mr. Murdoch is 75, and the question of his succession is an issue for some investors. He has said he would like one of his children to succeed him. Voting to uphold the pill could help protect the Murdoch family from any threat to their long-term control.

Complicating matters, News Corp. has angered many shareholders with its handling of the poison pill. At the time the board adopted the pill, in November 2004, the company promised it would expire in one year unless shareholders voted to renew it. Mr. Murdoch hoped to persuade Mr. Malone to swap his shares for a News Corp. asset. But a year later, the two hadn't reached an agreement -- so News Corp. extended the pill without a shareholder vote. Its explanation was that the board had changed the policy.

A group of angry shareholders, mostly from News Corp.'s former home of Australia, sued for fraudulent breach of promise in Delaware Chancery Court. In April, the two sides agreed to a settlement requiring News Corp. to hold a vote on the poison pill. The two also agreed that the vote would only be advisory. If the pill is defeated and News Corp. extends it anyway, the two sides go back to court to resume the original case.

With his family controlling one-third of the votes, Mr. Murdoch goes into the vote with an edge. Saudi Prince Alwaleed bin Talal, who owns a 5.7% stake in News Corp., also has pledged to support Mr. Murdoch.

On the other side, possibly, is Liberty, which has hinted it could vote against the pill. Many of News Corp.'s big institutional investors also oppose poison pills. The influential voting-advisory service Institutional Shareholder Services recommends its clients reject News Corp.'s pill because it is too wide-reaching in its provisions.



September 16, 2006

## How News Corp., Liberty Can Save \$4.5 Billion

By JULIA ANGWIN and JESSE DRUCKER  
*September 16, 2006; Page A3*

**News Corp.** and **Liberty Media Corp.**, which are in talks over an asset swap that would give Liberty control of **DirecTV Group Inc.**, are considering structuring the deal in a way that would save the two companies as much as \$4.5 billion in capital-gains taxes, according to a tax analyst.

The companies are contemplating trading Liberty's 19% stake in News Corp. for the New York media giant's 38% stake in DirecTV. If completed, the deal would solidify News Corp. Chairman Rupert Murdoch's control of his company and end a nearly two-year-long stalemate between the companies over Liberty's stake in News Corp.

But the deal is likely to renew the spotlight on a controversial tax-related structure, known as the "cash rich split-off," used in the past by companies selling stock in other companies. After the technique drew attention 18 months ago, the White House and the congressional Joint Committee on Taxation sought to change the law to restrict such deals. But after pressure from some big companies and tax attorneys, the changes were watered down so much that many tax experts think the new law encourages such deals.

In this deal, the structure is essentially the same as that used in "cash-rich" deals -- but with a relatively small portion of cash. News Corp. would likely transfer its DirecTV stake, valued at about \$9 billion at current market values, along with about \$2 billion in cash, to a new corporation created specially for the deal. It would then swap that corporation to Liberty in exchange for Liberty's roughly \$11 billion stake in shares of News Corp.

The swap would be tax-free. The precise tax liability isn't known, but Lehman Brothers corporate-tax accounting analyst Robert Willens estimates that Liberty's gain on its News Corp. stake would be \$8 billion to \$9 billion, while News Corp.'s stake in DirecTV likely has risen by \$3 billion to \$4 billion since the media company purchased it in late 2003. Based on these figures, Mr. Willens estimates the two companies would have had a combined tax liability of as

much as \$4.5 billion.

"It's unusual for a company to be able to convert one investment into another without having to pay taxes for the privilege," says Mr. Willens. "Normally they would have to sell the investment they hold in the market and pay tax on the gain, and then have only the after-tax proceeds available to reinvest. They're getting to that result without taxes intervening."

Liberty, based in Englewood, Colo., declined to comment. Liberty officials told analysts at an investment conference sponsored by Merrill Lynch & Co. this past week that a DirecTV-News Corp. transaction could potentially be completed in a tax-efficient manner, according to a person familiar with the situation. News Corp. declined to comment.

Richard Greenfield, an analyst at Pali Capital, says the tax benefits would be a big incentive for Liberty to do a deal, despite doubts about the future of DirecTV. Both DirecTV, El Segundo, Calif., and its main satellite rival, **EchoStar Communications Corp.**, Englewood, Colo., have seen subscriber growth rates slow sharply in the past year as competition from cable-TV companies intensifies.

That slowdown is thought to be prompting News Corp. to look to exit from the satellite industry. However, "this gives [Liberty Chairman John] Malone an operating company that he controls," Mr. Greenfield said. "With News Corp., ... he's just a passive investor."