

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

In re NEWS CORPORATION)
SHAREHOLDER DERIVATIVE)
LITIGATION)
Consolidated
C.A. No. 6285-VCN

**VERIFIED AMENDED CONSOLIDATED SHAREHOLDER DERIVATIVE
AND CLASS ACTION COMPLAINT**

Co-Lead Plaintiffs The Amalgamated Bank, as Trustee for the LongView LargeCap 500 Index Fund, LongView LargeCap 500 Index VEBA Fund, LongView Quantitative LargeCap Fund, and LongView Quantitative LargeCap VEBA Fund (“Amalgamated Bank”), Central Laborers Pension Fund (“Central Laborers”), and plaintiff New Orleans Employees’ Retirement System (“NOERS”) (“Plaintiffs”), by and through their undersigned counsel, assert this action derivatively on behalf of News Corporation (“News Corp” or the “Company”) and directly on behalf of themselves and all similarly situated public shareholders of News Corp against defendants Rupert Murdoch, James Murdoch, Lachlan Murdoch, Chase Carey, David F. DeVoe, Joel Klein, Arthur M. Siskind, Rod Eddington, Andrew S.B. Knight, Thomas J. Perkins, Peter Barnes, José María Aznar, Natalie Bancroft, Kenneth E. Cowley, Viet Dinh, and John L. Thornton (the “Individual Defendants,” “Defendants” or the “Board”). Plaintiffs make the following allegations upon knowledge as to themselves and upon information and belief (including the investigation of counsel and review of publicly available information) as to all other matters, and allege as follows.

SUMMARY OF THE ACTION

1. Rupert Murdoch (“Murdoch”) – News Corp’s founder, Chairman, Chief Executive Officer and controlling shareholder – habitually uses News Corp to enrich himself and his family members at the Company’s and its public shareholders’ expense. Plaintiffs bring this shareholder derivative and class action because recent self-interested transactions and revelations about News Corp’s operations giving rise to this action are the proverbial straws that break the camel’s back.

2. Continuing a long history of abuses, Murdoch recently caused News Corp to buy 100 percent of Shine Group Ltd. (“Shine”), the television and film production company that was run and majority-owned by his daughter Elisabeth Murdoch, at an artificially inflated price (the “Transaction”). To consummate the Transaction, News Corp paid \$615 million – approximately \$480 million for Shine’s equity and \$135 million to repay Shine’s outstanding debt. News Corp also assumed an undisclosed (and unexplained) amount of Shine’s net liabilities. As a result, Elisabeth Murdoch is now at least \$250 million richer and, more importantly, from her father’s perspective, back within the News Corp executive suite and board room.

3. Murdoch did not even pretend that there was a valid strategic purpose for News Corp to buy Shine. Rather, Murdoch publicly proclaimed that his purpose in causing News Corp to enter into the Transaction was to bring Elisabeth back to the family business and to put her on News Corp’s already conflicted and dominated Board of Directors (the “Board”). Murdoch’s desire to place Elisabeth on the Board has been evident for some time: he previously offered Elisabeth a Board seat in 2009, and since

early 2010, the Board has inexplicably permitted her to participate in meetings as a non-voting observer. Now that the prodigal daughter is formally back in the News Corp fold, she vies with her brothers, long time Board members James Murdoch and Lachlan Murdoch, for control of Rupert Murdoch's global media dynasty. As he has done without restraint for decades, Murdoch has caused News Corp to spend its own money – in this instance at least \$615 million – out of blatant nepotism and without regard for the interests of the Company or its public shareholders.

4. The Transaction made little or no business sense for News Corp, and is far above a price any independent, disinterested third-party would have paid for Shine. Further, even if the pricing was proper or there was some business justification for News Corp to acquire a start-up, niche television production company, there was no reason for News Corp to acquire Shine specifically, except to enrich the Murdoch family, perpetuate the family's involvement in the senior management of News Corp, and further tighten Murdoch's control over the Company. Nevertheless, the Transaction was rubber-stamped by News Corp's Board at Murdoch's urging. That is how Murdoch and the Board have interacted for years.

5. The Transaction is not even the most recent revelation regarding Murdoch's and the News Corp's Board's improper conduct. It has now become public that, over at least the last decade, reporters at *News Of the World* – a United Kingdom newspaper run by News International, News Corp's 100%, wholly-owned British newspaper division – engaged in the unlawful interception of voicemail and cell phone traffic from literally thousands of people in the UK. The victims of these intercepts

included members of the Royal Family, actors, politicians, and ordinary citizens who have been the victims of (or relatives of victims) of high profile crimes and terrorist attacks. The conduct is so outrageous that on July 7, 2011, News Corp announced it was shuttering the 168 year old *News of the World* – which has been the largest circulation English language newspaper in the world.

6. The egregious conduct triggering this stunning turn of events was not limited to reporters. Former *News Of The World* employees involved in the phone hacking have indicated that at least two editors-in-chief of the paper were aware of and condoned the hacking in order to obtain news stories that would drive readership. Rebekah Brooks (“Brooks”), a very close friend of Murdoch and his family who has repeatedly been promoted by Murdoch (most recently to the position of Chief Executive Officer of News International), and Andy Coulson (“Coulson”), a Murdoch political ally and a close friend of Brooks who became an aide to British Prime Minister David Cameron, both were editor-in chief of the paper while the illegal hacking was on-going and have been linked to explicit knowledge of the practice. Coulson, in fact, has been arrested on suspicion of phone hacking and making payments to police and faces criminal indictment for his conduct.

7. These revelations should not have taken years to uncover and stop. These revelations show a culture run amuck within News Corp and a Board that provides no effective review or oversight. In fact, Brooks was promoted while the scandal has been unfolding. Murdoch’s son and fellow Board member, James, has been personally involved in the cover-up of the extent of the scandal, as he finally confessed on July 7,

2011. And although the scandal first came to light in 2005, given the close relationships with Murdoch, Brooks and Coulson, it is inconceivable that Murdoch and his fellow Board members would not have been aware of the illicit news gathering practices at the newspapers that Brooks and Coulson ran. Yet, the Board took no real action to investigate the allegations until July 7, 2011, when Murdoch selected two of his co-directors to deal with the imbroglio.

8. The Board's acquiescence to Murdoch's desire to benefit his daughter, and the Company's willingness to overlook transgressions on the part of Murdoch protégés is nothing new. Throughout his tenure, Murdoch has treated News Corp like a family candy jar, which he raids whenever his appetite strikes. Ignoring the distinction between the business of a public corporation and a family business, the Board has repeatedly permitted Murdoch to: (i) intertwine rampant nepotism in the conduct of Company business; (ii) undertake actions designed to maintain his control over News Corp; (iii) use News Corp resources for his own personal and political objectives; and (iv) reward himself handsomely with excessive compensation.

9. The Board's impotence against Murdoch's use of the Company's money to pursue his own agenda reflects that Murdoch utterly controls the majority of the Board, including the members of the ostensibly independent Audit Committee. Those Directors – all Murdoch family members, long-time friends, News Corp executives, or people with extensive business relationships with Murdoch and his media empire – consistently place Murdoch's interests ahead of those of News Corp and its public shareholders.

10. The Board's approval of the Transaction provides a strong example of its deeply disabling conflicts vis-à-vis Rupert Murdoch. Sir Roderick I. Eddington ("Eddington") is News Corp's lead "independent" director and the Chair of the Audit Committee that ostensibly approved the Transaction. Besides being a long-time friend of Murdoch, Eddington has served as J. P. Morgan Chase's Non-Executive Chairman for Australia and New Zealand since 2006. Putting aside the millions of dollars in fees that J.P. Morgan and its affiliates have received from News Corp over the years, J.P. Morgan served as Shine's advisor on the Transaction. A more clear conflict is hard to fathom.

11. In agreeing to the Transaction, the Individual Defendants breached their fiduciary duties to the Company and its public shareholders. Additionally, the entire fairness standard applies to the Transaction, as Murdoch stood on both sides of the Shine deal, as did his daughter, who has been serving as a "non-voting" Board member. As set forth in detail below, the Transaction violated the entire fairness standard both on the basis of price and process. In addition, by failing to take action to investigate, control and limit the fallout from the hacking scandal, the Board breached its duty and exposed the Company to billions in losses that could have otherwise been avoided.

JURISDICTION

12. This Court has jurisdiction over this action pursuant to 10 Del. C. § 341.

13. As directors of a Delaware corporation, the Individual Defendants have consented to the jurisdiction of this Court pursuant to 10 Del. C. § 3114.

14. This Court has jurisdiction over News Corp pursuant to 10 Del. C. § 3111.

THE PARTIES

15. Co-Lead Plaintiff Amalgamated Bank (“Amalgamated”) is a New York state chartered bank that manages approximately \$12 billion for institutional investors, including Taft-Hartley plans and public employee pension funds. Amalgamated has locations in New York, New Jersey, California, Nevada, and Washington D.C., with its main office located in Manhattan. Amalgamated brings this action as Trustee for the LongView LargeCap 500 Index Fund, LongView LargeCap 500 Index VEBA Fund, LongView Quantitative LargeCap Fund, and LongView Quantitative LargeCap VEBA Fund (the “Funds”). Amalgamated, through the Funds, holds nearly 1 million shares of News Corp common stock.

16. Co-Lead Plaintiff Central Laborers Pension Fund is an Illinois-based Taft-Hartley pension fund that owns shares of News Corp and has been a shareholder at all times relevant to the claims asserted herein.

17. Co-Lead Plaintiff New Orleans Employees’ Retirement System is a shareholder of News Corp and has been a shareholder at all times relevant to the claims asserted herein.

18. Nominal Defendant News Corp is a Delaware corporation with its principal executive offices located at 1211 Avenue of the Americas, New York, New York. News Corp is the world’s biggest and most influential media company. It has operations in the following eight segments: (i) filmed entertainment, (ii) television, (iii) cable network programming, (iv) direct broadcast satellite, (v) integrated marketing services, (vi) newspapers and information services, (vii) book publishing, and (viii) other.

Its properties include the Fox networks, the *Wall Street Journal*, British Sky Broadcasting Group (“BSkyB”) and the *New York Post*. It also owns 49% of NDS Group Limited (“NDS”). Both BSkyB and NDS have managers and board members who are related to Murdoch and/or are senior executives/Board members at News Corp. The Company is publicly traded on the NASDAQ under the ticker symbol “NWSA.”

19. Defendant K. Rupert Murdoch (“Murdoch”) has been Chief Executive Officer of the Company since 1979 and its Chairman since 1991. Although it owns only 12% of the overall equity of the Company, the Murdoch family, through the Murdoch Family Trust, beneficially owns almost 40% of News Corp’s voting Class B common stock, and thus has effective control over corporate matters. In addition to his positions at News Corp, Murdoch served as a Director of BSkyB from 1990 to 2007, as a Director of Gemstar-TV Guide International Inc. (“Gemstar-TV Guide”) from 2001 to 2008, as a Director of DirecTV from 2003 to 2008 and as a Director of China Netcom Group Corporation (Hong Kong) Limited from 2001 to 2005. Murdoch is the father of James Murdoch, Lachlan Murdoch and Elisabeth Murdoch. For the fiscal year 2008, Murdoch received over \$30 million in compensation from News Corp. For each of 2009 and 2010, Murdoch received \$22 million.

20. Defendant James R. Murdoch (“James Murdoch”) has been a Director and the Chairman and Chief Executive, Europe and Asia of the Company since 2007. As of March 30, 2011, James Murdoch became Deputy Chief Operating Officer as well as Chief Executive Officer of the Company’s international divisions. James Murdoch was the Chief Executive Officer of BSkyB from 2003 to 2007. He has served as a Director of

BSkyB since 2003. In a move described as a “clear breach of [the UK financial services industry] best practice,” Rupert Murdoch, after resigning as Chairman of BSkyB in 2007, immediately appointed his son, James Murdoch, to replace him as Non-Executive Chairman, a position which James continues to hold. James Murdoch has served as a Director of NDS Group since 2009. James Murdoch was also the Chairman and Chief Executive Officer of STAR Group Limited, a subsidiary of the Company, from 2000 to 2003. In addition, he previously served as an Executive Vice President of the Company, and served as a member of the Board from 2000 to 2003. James Murdoch is the son of Murdoch and the brother of Lachlan Murdoch and Elisabeth Murdoch. James Murdoch received over \$17 million in News Corp compensation for the fiscal year 2008. In each of 2009 and 2010, James Murdoch received over \$10 million.

21. Defendant Lachlan K. Murdoch (“Lachlan Murdoch”) has been a Director of the Company since 1996. He served as an advisor to the Company from 2005 to 2007, and served as its Deputy Chief Operating Officer from 2000 to 2005. Lachlan Murdoch served as a Director of NDS from 2002 to 2005. Lachlan Murdoch is the son of Murdoch and the brother of James Murdoch and Elisabeth Murdoch. For the fiscal year ended June 30, 2010, Lachlan Murdoch received almost \$2 million for his role with the Company.

22. Defendant Chase Carey (“Carey”) has been the President, Chief Operating Officer and Deputy Chairman of the Board since July 2009. Carey previously served the Company and its affiliates in numerous roles beginning in 1988, including as Co-Chief Operating Officer from 1996 to 2002, as a consultant from 2002 to 2003 and as a

Director from 1996 to 2007. Carey has served as the Chairman of the Supervisory Board of Sky Deutschland AG, a German pay-television operator and affiliate of the Company, since July 2010. Carey served as a President and Chief Executive Officer of DirecTV from 2003 to 2009 and as a Director of DirecTV from 2003 to June 2010. Carey also served as a Director of BSkyB from 2003 to 2008. For the fiscal year ended June 30, 2010, Carey received over \$26 million in compensation from News Corp.

23. Defendant David F. DeVoe (“DeVoe”) has been a Director of the Company and its Chief Financial Officer since 1990. DeVoe has served as Senior Executive Vice President of the Company since 1996. DeVoe has been a Director of BSkyB since 1994 and a Director of NDS since 1996. He served as a Director of DirecTV from 2003 to 2008. DeVoe received News Corp compensation for the fiscal years ended 2008 through 2010 of almost \$10 million, \$9 million and \$7 million, respectively.

24. Defendant Joel Klein (“Klein”) joined the Board in January 2011 and currently serves as Executive Vice President, Office of the Chairman. Klein is also the Chief Executive Officer of News Corp’s education division. Klein is expected to receive a yearly salary of \$2 million, and an annual bonus of at least \$1.5 million, in addition to his \$1 million signing bonus. This compensation is a material increase from Klein’s income as Chancellor of the New York City Public School System.

25. Defendant Arthur M. Siskind (“Siskind”) has been a Director of the Company since 1991 and the Senior Advisor to Murdoch since 2005. Siskind served as the Company’s Group General Counsel from 1991 to 2005, as Senior Executive Vice

President from 1996 to 2005 and as Executive Vice President from 1991 to 1996. Siskind has served as a Director of BSKyB since 1991 and as a Director of NDS from 1996 to 2009. For the fiscal year ended June 30, 2010, Siskind earned almost \$4 million for his role with the Company.

26. Defendant Sir Roderick I. Eddington (“Eddington”) has been a Director of the Company since 1999, and serves as the Chairman of the Audit Committee and as a member of the Compensation Committee. Eddington has served as Non-Executive Chairman, Australia and New Zealand of J.P. Morgan since 2006. J.P. Morgan has done substantial business with News Corp and Shine, including in just the last few months. Previously, Eddington served as a Director of News Limited, News Corp’s principal subsidiary in Australia, from 1998 until 2000, and as Chairman of Ansett Holdings Limited and as a Director of each of Ansett Australia Limited and Ansett Australia Holdings Limited from 1997 until 2000. Until then, News Corp owned 50% of Ansett Australia. For the fiscal year ended June 30, 2010, Eddington earned \$274,000 for his role with the Company.

27. Defendant Andrew S. B. Knight (“Knight”) has been a Director of the Company since 1991, and serves as a member of the Audit Committee that approved the Transaction. Knight was the Chairman of News International, a subsidiary of the Company, from 1990 to 1995. For the fiscal year ended June 30, 2010, Knight earned \$281,960 for his role with the Company.

28. Defendant Thomas J. Perkins (“Perkins”) has been a Director of the Company since 1996 and serves as a member of the Audit Committee that approved the

Transaction. For the fiscal year ended June 30, 2010, Perkins earned \$258,000 for his role with the Company.

29. Defendant Peter L. Barnes (“Barnes”) has been a Director of the Company since 2004 and is a member of the Audit Committee that approved the Transaction. For the fiscal year ended June 30, 2010, Barnes earned \$236,000 for his role with the Company.

30. Defendant José María Aznar (“Aznar”) has been a Director of the Company since 2006. Aznar served as the President of Spain from the 1996 to 2004. For the fiscal year ended June 30, 2010, Aznar earned \$220,000 for his role with the Company.

31. Defendant Natalie Bancroft (“Bancroft”) has been a Director of the Company since 2007. Bancroft is a professionally trained opera singer. In connection with the Company’s acquisition of Dow Jones, Bancroft was appointed by Murdoch as a Director pursuant to the terms of an agreement whereby the Company agreed to elect a member of the Bancroft family or another mutually agreed upon individual to the Board. For the fiscal year ended June 30, 2010, Bancroft earned \$220,000 for her role with the Company.

32. Defendant Kenneth E. Cowley (“Cowley”) has been a Director of the Company since 1979. Cowley served as a senior executive of News Limited, a subsidiary of the Company, from 1964 to 1997, including as its Chairman and Chief Executive from 1980 to 1997. For the fiscal year ended June 30, 2010, Cowley earned \$231,000 for his role with the Company.

33. Defendant Viet Dinh (“Dinh”) has been a Director of the Company since 2004. For the fiscal year ended June 30, 2010, Dinh earned \$258,000 for his role with the Company.

34. Defendant John L. Thornton (“Thornton”) has been a Director of the Company since 2004. He has received hundreds of thousands of dollars from News Corp from serving in those roles. For the fiscal year ended June 30, 2010, Thornton earned \$242,000 for his role with the Company.

SUBSTANTIVE ALLEGATIONS

A. THE BOARD’S LONGSTANDING PRACTICE OF LETTING MURDOCH OPERATE NEWS CORP AS HIS OWN PRIVATE FIEFDOM

35. Murdoch has amassed a personal fortune of over \$6 billion while running News Corp as little more than a sole proprietorship. The lack of Board oversight or constraint on Murdoch’s whims is so well understood in the market that News Corp is subject to the “Murdoch discount.” In a February 7, 2009 article, the *Financial Times* noted: “In good times, investors in News Corp fret about ‘the Murdoch discount’ - the worry hanging over the stock that at *any moment its dominating chairman and chief executive might decide to spend shareholders’ money on a large investment with uncertain payback.*” (Emphasis added.) Similarly, in an August 2, 2010 valuation analysis of News Corp, Evercore Partners Inc. stated: “Given the Murdoch family dominance, the dual class structure, and the fact that the *Murdoch interests may not be totally aligned with those of public shareholders*, we use a higher 30% discount in calculating our public market valuation.” (Emphasis added.)

36. Other analysts view News Corp similarly:

- Bear Stearns Cos. Inc., June 15, 2006: “We note that News Corp. has historically traded at a discount to its U.S. peers given acquisition risk and a complexity discount.”
- Credit Suisse Group, November 3, 2010: “We are maintaining our Neutral Rating on News Corp., which is trading at ~6 EV/EBITDA on our FY11 estimate, a -27% discount to its peers, relative to its historical 10%-50% discount.”

37. The existence of the Murdoch discount is the result of an extensive history of self-dealing by Murdoch, who uses News Corp to push through corporate transactions, including the acquisition of Shine, for his and his family’s benefit. As explained herein, the News Corp Board consistently fails to act in the public shareholders’ best interest, permitting related-party transactions and Murdoch-driven deals to proceed despite their harm to the Company and its shareholders.

38. That Murdoch has directed the Company to accomplish his own goals rather than creating value for News Corp or its public shareholders is further evidenced by the fact that News Corp lags behind its peers in equity returns to investors as measured by dividends and stock buybacks. Indeed, an analysis of net share repurchases and dividends by News Corp and its peers posted on September 2, 2010 on *The Motley Fool* shows that News Corp lags well behind its peers, such as CBS, The Washington Post Co. and Time Warner, in the amount of cash the Company spends on both dividends and net share repurchases.

39. The results of this behavior have had a significant negative impact on News Corp’s valuation. In fact, News Corp’s total 10-year return has been negative 11% and its 1-year, 3-year and 5-year returns are all below peer averages.

40. If Delaware law is applied to restrain Murdoch's abuse of his corporate kingdom, all News Corp shareholders will benefit, and the stock price will reflect an improvement in the protection of its minority investors.

41. Numerous examples reflect that the News Corp Board has totally abdicated its responsibility of independent oversight, and has become a rubber-stamp for the desires of its domineering CEO, including: (i) condoning blatant nepotism in conducting the Company's business; (ii) approving actions designed to perpetuate Murdoch's control over News Corp; (iii) allowing Murdoch to pick and choose who is on and who is off the Board; (iv) permitting actions driven by Murdoch's personal or political agenda; and (v) accepting excessive compensation for Murdoch. In addition, the Board's lax oversight over Murdoch has allowed him and/or his senior executives to embroil News Corp in illegal behavior. More importantly, these examples demonstrate that the Board is unwilling or unable to prevent Murdoch from running News Corp in any way he sees fit.

1. The Board's Approval Of Nepotism Within News Corp's Management

42. Murdoch runs News Corp like a "family business" – a practice continued through the Transaction. Indeed, Murdoch already has two family members on News Corp's Board, and soon, by virtue of the Transaction, will have three on the Board including his daughter.

43. At Murdoch's behest, his son, Defendant Lachlan Murdoch, was elevated at a very young age to very senior executive positions within the Company. In fact, Lachlan was handed a seat on the Board, which he continues to hold even though he left

the Company in 2005, disappointing Murdoch's plan for Lachlan to take the reins of the Murdoch media empire. Significantly, when Lachlan resigned, his position as Deputy Chief Operating Officer, which has been described by news sources as "a concocted one" was eliminated and his responsibilities simply divided between other executives. Despite the fact that Lachlan's position was fabricated merely to give him a glorified title, the Board still granted him an \$8 million severance package.

44. Murdoch also installed his other son, James, at News Corp in 1996, when Murdoch caused the Company to buy an 80% stake in James's money-losing start-up, Rawkus Entertainment. The acquisition was rationalized by many as a means to bring James Murdoch into the News Corp fold, where he has remained ever since. Rawkus ceased operations in 2004.

45. Murdoch ensured that James rose too rapidly within the Company, to the point that James is now a Director and the Chairman and Chief Executive, Europe and Asia, responsible for News Corp assets such as News International, SKY Italia and STAR TV. He is also non-executive chairman of BSkyB, in which News Corp has a controlling minority stake and which it may soon own outright. Until the deal with Elisabeth Murdoch, James had been considered the heir-apparent to Murdoch's media dynasty.

46. On March 30, 2011, James Murdoch was elevated, by his father's fiat, to the newly re-created (but still "concocted") position of Deputy Chief Operating Officer, while still retaining his prior title as Chief Executive Officer of the Company's international divisions. This position gives James Murdoch the access and experience to

prepare him to take the helm of the Company. He will move to New York to work even more closely with his father and with defendant Carey.

47. In addition to larding the executive ranks of the Company with his offspring, Murdoch constantly engages in transactions designed to benefit family members. Indeed, the Transaction is part of a pattern of Murdoch using News Corp to expand his daughter's role at the Company. Elisabeth's first position out of college was as a manager for News Corp-owned FX Networks. Elisabeth Murdoch subsequently worked for her father as an executive at BSKyB.

48. When Elisabeth got married, her husband, Matthew Freud, was also given an executive position with a News Corp subsidiary. According to News Corp's Proxy Statement, Freud Communications – which is controlled by Elisabeth's husband – provided “external support to the press and publicity activities of the Company” during fiscal 2010. The Company paid Freud Communications approximately \$350,000 in fees for the fiscal year ended June 30, 2010.

49. Murdoch's other family members also have drawn from the proverbial News Corp well. In 2010, Murdoch caused the Company to engage Murdoch's current wife, Wendi Murdoch, to provide “strategic advice” for the development of the Company's former MySpace operation in China. Before becoming Mrs. Murdoch, her professional experience amounted to a junior position at a News Corp subsidiary.

50. Prudence MacLeod, Murdoch's daughter from his first marriage and half-sister of James, Lachlan and Elisabeth Murdoch, is a member of the Board of Directors of Advertiser Newspapers, a subsidiary of the Company. Alasdair MacLeod, Prudence

McLeod's husband and the son-in-law of Murdoch was, until January 2010, a salaried employee of News Limited, another subsidiary of the Company.

2. The Board Has Permitted Actions Designed To Perpetuate Murdoch's Control

51. The Board has also permitted Murdoch to engage in transactions designed to strengthen his control over the Company, even when such transactions cost News Corp millions of dollars. For example, in 2004, John Malone's Liberty Media built up a 19% voting stake in News Corp. At the time, Murdoch controlled just 31% of News Corp's voting shares. In response to Malone's acquisition of News Corp stock, Murdoch imposed a strong anti-takeover poison pill on News Corp to thwart any attempted takeover bid by Liberty Media. The Company subsequently extended the poison pill without seeking shareholder approval, despite the fact that Murdoch had promised to drop the pill, thereby triggering a shareholder lawsuit that forced the Company to put the pill to a shareholder vote.

52. Then, in 2006, Murdoch agreed to effectively swap News Corp's 38% stake in DirecTV to Liberty Media in exchange for Liberty Media's stake in News Corp. Given DirecTV's success up to that time, News Corp gave away what could have been a sizeable premium for its DirecTV stake. Murdoch, however, was willing to forgo the premium from Liberty Media because, by treating the transaction essentially as a buyback and retiring Liberty Media's 188 million shares of News Corp itself, Murdoch increased his control of News Corp to almost 40%. Put another way, the Board unanimously recommended that shareholders approve a transaction that cost the Company and its shareholders the premium that could have been earned on News Corp's

DirecTV shares, with the purpose and effect of insulating Murdoch from outside challenges to his domination of Company affairs.

53. Significantly, in the Proxy statement recommending this transaction, the Board recognized that this transaction would “eliminate[] Liberty as a potential voting counterweight to [Murdoch] in the event that [Murdoch] attempted to pursue a course contrary to the interests of the Company’s public stockholders.” But in a demonstration of its unwavering loyalty to Murdoch, the Board dismissed this concern, stating that “the board...found this potentially negative aspect of the [transaction] to be substantially mitigated by the fact that [Murdoch] ha[s] pursued stockholder enhancing strategies throughout the Company’s history and ha[s] been the primary source of the strategic vision which has made the Company’s success up to this point possible....”

54. The DirecTV deal also unwound News Corp’s 20-year quest to gain a foothold in the U.S. satellite TV industry – a goal the Company finally achieved only three years earlier. To close the DirecTV deal, Murdoch not only gave up the Company’s valuable stake in DirecTV, but also caused News Corp to pay Liberty Media \$550 million in cash plus three television networks. The harm to News Corp cannot be mistaken or overlooked. DirecTV shares have roughly doubled in value since Murdoch gave away the Company’s stake in order to ensure his control over News Corp.

3. The Board Allows Murdoch To Decide Who Is On and Off The Board

55. Murdoch’s ability to appoint loyalist directors and then force those directors to leave provides further evidence of his domination and control over the Board. Virtually all of the directors (thirteen of sixteen, not including Rupert himself

once Elisabeth takes her position) are Murdoch's family members (James, Lachlan, and Elisabeth), were senior executives at News Corp or a subsidiary at the time they were appointed (DeVoe, Siskind, Eddington, Klein, Carey, Cowley, Knight), were directly picked by Murdoch out of a group of potential board members (Bancroft), or share Murdoch's political ideology (Aznar, Thornton, Dinh).¹ This shows a board completely dominated by Murdoch:

- a. Elisabeth Murdoch – She will join the Board in 2012. Murdoch has expanded the board from sixteen to seventeen members to permit her to join, and has publicly stated that one of the reasons he purchased her company, Shine, was to get her back into the family business.
- b. James Murdoch – He was appointed to the News Corp Board in 2007, when he was only 35 years old. His work experience consists solely of jobs handed to him by his father. He studied film and history in college, but dropped out in the mid-1990s without completing his degree. He then set up an independent record company that was eventually bought by News Corp. In 1996, his father appointed him chairman of a News Corp music label. Four years later, he was appointed chairman and chief executive of News Corp's Asian satellite service, Star Television. He remained there for three years before his father appointed him to the top job at BSkyB in 2003, where he became the youngest ever boss of a FTSE-100 company.
- c. Lachlan Murdoch – He was appointed to the Board in 1996, when he was only 25 years old, only two years after he graduated from college. His only job experience was working at several Australian newspapers owned by News Corp. In fact, upon his graduation from college, he was appointed by his father as general manager of Queensland Newspapers, which publishes *The Courier-Mail* in Brisbane. One year later, his father appointed him as publisher of Australia's first national paper, *The Australian*. He left News Corp in 2005, to return to Australia.
- d. Kenneth Cowley –Cowley has been on the Board since 1979. He has worked for Murdoch for nearly 50 years. He served as a senior executive of News Limited, a subsidiary of the Company, from 1964 to 1997,

¹ Only Thomas Perkins and Peter Barnes out of seventeen Board members do not have clear personal ties to Murdoch or his ideologies.

including as its Chairman and Chief Executive from 1980 to 1997. He is so close to the family that, for many years he has served as the Chairman of the Murdoch Trust – which holds the Murdoch family assets.

- e. David DeVoe – He was appointed to the Board in 1990 at the same time he became Chief Financial Officer. He is a long-time Murdoch assistant, having worked at the Company in multiple capacities since 1983.
- f. Arthur Siskind – He was appointed to the Board in 1991, and also was appointed to the then new position of executive vice president, legal affairs (worldwide). Siskind was with the Company’s main outside U.S. law firm, Squadron, Ellenoff, Plesent & Lehrer and has worked closely with the company for 17 years on major corporate matters. Upon joining the Company, Siskind reported directly to Murdoch. Upon Siskind’s retirement as General Counsel in 2004, Murdoch stated:

For more than 30 years, Arthur has been one of the true driving forces in the growth and success of this company. Since 1973, when he first helped News Corporation acquire the San Antonio Express and News, there hasn’t been a single deal or significant corporate development, that didn’t bear Arthur’s firm imprint. He’s a man of unbending principles, a man of integrity, and most importantly, a good and trusted friend. I’m lucky to have had him at my side for all these years and I am glad to be able to call on him as an advisor in the future.

- g. Roderick Eddington – He was appointed to the Board in 1999. He has a long tenure of working with Murdoch. At the time of his appointment to the Board, he was an Executive at two News Corp companies. He was the Executive Chairman of Ansett Holdings Limited – which was owned by News Corp and was Deputy Chairman of News Limited – a News Corp subsidiary. He has since become affiliated with J.P Morgan, where he has obtained substantial volumes of business from News Corp and from Elisabeth Murdoch as her advisor in News Corp’s acquisition of Shine.
- h. Joel Klein – He was appointed to the News Corp board in early 2010. In November 2010, he left his position as chancellor of the New York City Public Schools and was hired as an Executive Vice President in the Office of the Chairman where he serves as “senior advisor” to Rupert Murdoch. The closeness of his relationship to Murdoch is indisputable. When asked by a New York magazine to name the most prominent living New Yorker, Murdoch signaled his admiration for Klein by proposing his name.

- i. Chase Carey – He was appointed to the Board in 2009. Carey had worked with Murdoch for fifteen years prior to joining DirecTV when Murdoch controlled DirecTV and, according to the Guardian newspaper, Murdoch personally “lured” Carey back to News Corp to become deputy chairman, president and chief operating officer as well as a member of the board. In fact, Murdoch was issued a statement noting: “Chase has been one of my closest advisers and friends for years and I am delighted we’ll once again be working together ...”
- j. Jose Maria Aznar – He joined the Board in 2006. He was the former prime minister of Spain and, according to numerous sources, including a *Financial Times* article of June 22, 2006, was “appointed” by Murdoch. Mr. Aznar, who shares Murdoch’s conservative political views, was a personal friend of Murdoch for several years prior to his appointment and, in fact, Murdoch attended the wedding of Mr. Aznar’s daughter in 2002.
- k. Natalie Bancroft – She joined the Board in 2008. She was only 27 years old at the time of her appointment and had no experience in business. She was trained as an opera singer. Under the terms of News Corp’s acquisition of Dow Jones, the Bancroft family (former owners of Dow Jones) was entitled to a seat on the News Corp Board. According to an article in the November 7, 2007 *Financial Times*, Murdoch rejected several of the family’s suggested potential board members and “settl[ed] on Natalie Bancroft.”
- l. Viet Dinh – He was appointed to the Board in 2004. He was a Professor at Georgetown University and a former Bush administration appointee. He served as a U.S. Assistant Attorney General for Legal Policy and was the chief architect of the Patriot Act – a legislative initiative strongly supported by Murdoch. Upon his appointment, Murdoch noted about Mr. Dinh “His work as a key advisor to the Bush Administration in the war on terror has been invaluable to the security of the American people.”
- m. Andrew Knight – He was appointed a director in 1991. At that time, he was the Chairman of News International. At the time of Knight’s appointment, Murdoch noted that he had “contributed significantly to the development of the Company.”
- n. John Thornton – He was appointed to the Board in 2004. He was a professor at Tsinghua University of Beijing beginning in 2003, shortly after his retirement as head of Goldman Sachs Group. He shares Murdoch’s views on unfettered capitalism, having noted that New York is an example of “unfettered capitalism” that involved “killing each other.” He further noted “A lot fall by the wayside. When I look at the

tombstones of the last 15 years! It's a Darwinian model and the survivors are very fit.”

56. Murdoch's control over the Board process is further exemplified by his willingness to eject members of the News Corp board when it suits him. For example, former loyalist Peter Chernin was removed from the News Corp board in 2009. Although he was a key executive in charge of film and television for News Corp, he was removed by Murdoch. Michael Woolf, the media commentator who had unprecedented access to the Murdoch family in writing “The Man Who Owns The News: Inside the Secret World of Rupert Murdoch,” wrote about Chernin's departure: “Number one. Rupert wanted to get rid of Chernin, and I think his only hesitation was the share price. Number two, Rupert is a gutsy guy, and he didn't want Chernin to stand in the way of his children” Murdoch acted similarly with respect to his ex-wife Anna Murdoch Mann. Anna Murdoch's negligible credentials as a junior news reporter did not stop Murdoch from putting her on the Board in 1990. When the couple split nine years later, Murdoch simply kicked her off the Board, telling her that she was “an embarrassment to everyone else on the board.”

4. The Board Permits Murdoch to Further His Personal and Political Agenda

57. The Board has repeatedly allowed Murdoch to use the Company's resources to advance his own political and personal agenda. For example, in 2007, the Board approved Murdoch's decision to have News Corp pay \$5 billion to acquire Dow Jones, representing a whopping *70% premium* to Dow Jones's stock price. Murdoch's true and undisguised aim in buying Dow Jones was to acquire the *Wall Street Journal*,

which Murdoch coveted because he could use it to further his conservative political agenda on a national scale. As *The New York Times* reported before the Dow Jones acquisition, “Murdoch unabashedly uses his London papers – which also include The Sun, The Times of London and The Sunday Times – to advance a generally conservative, pro-business line.” Murdoch’s political affiliations are no secret, and, as reported by the *Washington Post*, “[News Corp has] made a decision that they want to see Democratic governors go down to defeat. It’s a jaw-dropping violation of the boundary between the media and corporate realm.”

58. As one analyst at BTIG LLC noted in a May 28, 2010 comment on the Dow Jones deal: “You would be hard pressed to find anyone inside News Corp (without the name of Murdoch) who wanted to acquire Dow Jones at the price News Corp was paying, but the deal happened because Murdoch wanted it to.” The fact that Murdoch caused the Company to overpay for Dow Jones simply to advance his personal agenda is supported by fact that, within eighteen months of that acquisition, News Corp was forced to write-down half of the value of the deal: \$2.8 billion.

59. News Corp’s 2005 purchase of InterMix Media, the parent of the social-networking website MySpace, was another example of Murdoch’s willingness to recklessly spend significant sums of shareholders’ money on his own pet projects. Two former News Corp executives cited in a recent *Business Week* article said that “Murdoch [] was initially enamored of his new digital play thing [but] lost interest in MySpace as his pursuit of the *Wall Street Journal* . . . consumed his attention.” The consequences of the MySpace acquisition are now coming home to roost. News Corp has sold MySpace

for \$35 million – mostly in stock of the acquirer – a miniscule fraction of the \$580 million News Corp paid for it in 2005.

60. Recently, in furtherance of Murdoch’s conservative political agenda, News Corp donated \$1 million each to the Republican Governors Association (“RGA”) and U.S. Chamber of Commerce, raising the ire of shareholders about Murdoch’s use of corporate funds to promote partisan attack ads. Murdoch admitted to a *Politico* journalist that he made the donation to the RGA because of his personal friendship with Republican gubernatorial candidate John Kasich; he also acknowledged that he expected the donation to the U.S. Chamber of Commerce to remain secret. Indeed, according to Murdoch “The RGA [donation] we did [expect to become public, but] [w]e didn’t expect the other one,” *i.e.*, Murdoch did not expect the Chamber of Commerce donation to become public. At the 2010 Annual Shareholders’ Meeting (held less than a month before the 2010 general election), Murdoch unabashedly confirmed that these donations were made to support his well-known conservative political ideology: “We believe that it is certainly in the interest of the country and all the shareholders . . . [that] there be a fair amount of change in Washington.”

61. Eddington, the supposedly independent lead director, demonstrated Murdoch’s total domination over him when he was asked about the contribution to the Republican Party at that October board meeting. Rather than expressing his understanding of the basis of the Board’s decision, he merely echoed Murdoch stating: “[t]he Board takes its advice from the executives on this” In addition, when pressed

by a shareholder on the Chamber of Commerce contribution, he merely noted “well, I think our Chairman answered that particular piece.”

62. Murdoch’s friendship with Kasich has exposed the Company to other liability, as evidenced by a complaint filed in September 2010 with the Ohio Elections Commission by the Democratic Governors Association. That complaint alleges that News Corp subsidiary Fox News made an illegal in-kind donation to Kasich.

5. The Board Accepts Murdoch’s Excessive Compensation

63. Murdoch’s personal compensation is additional evidence of his control of the News Corp Board. In the last three fiscal years alone, he has made nearly \$75 million for serving as the Company’s Chairman and CEO, which includes an extraordinarily high annual base salary of \$8.1 million. He also receives annual cash bonuses and discretionary grants of time-based restricted stock units and changes in the Company’s compensation structure position Murdoch to earn a bonus of up to \$25 million in 2011.

64. During the same three-year period when Murdoch reaped that compensation, News Corp’s stock has had a negative return and has underperformed the S&P 500. News Corp’s stock has also underperformed its peers – such as Viacom, Time Warner and Disney – by a large margin. At the same time, Murdoch’s base salary dwarfed those received by the chief executive officers of News Corp’s peers. In fact, Murdoch was ranked 178 out of 189 of chief executive officers listed in *Forbes*’s April 28, 2010 “Bang For The Buck” report ranking chief executive officers’ performance versus pay.

6. Other News Corp Insiders Are Also Excessively Compensated

65. Other News Corp executives are also grossly overpaid, ensuring their loyalty to Murdoch and his personal initiatives. In 2010, national proxy advisory firm Glass Lewis & Co. (“Glass Lewis”) gave the Company an “F” grade for its executive compensation using a proprietary pay-for-performance model. In fact, the Company has received a grade of “F” or “D” from Glass Lewis on executive compensation in each of the last six years. News Corp’s continued practice of excessive executive pay and the large disconnect between pay and performance suggest that News Corp. executives are being compensated for loyalty to Murdoch more so than they are for achievement or ability.

66. The overall excessive executive compensation is also a product of Murdoch over-compensating members of his family who serve in executive capacities with the Company, such as his son James, who has received almost \$40 million in pay for his service to News Corp over the last three fiscal years. Under the Board’s supine approach to dealing with Murdoch, the Company pays more than its peers, but performs worse than its peers.

7. Murdoch’s Fellow Board Members Are Excessively Compensated

67. Murdoch further exercises control over the Company by commanding loyalty from non-executive members of the News Corp Board in exchange for excessive director compensation. In addition, a number of News Corp Directors own valuable amounts of News Corp restricted stock units and thus cannot defy Murdoch without risking forfeit of their equity pursuant to the Company’s compensation policies.

68. Specifically, non-executive Directors receive an annual retainer of \$220,000 per year paid partly in cash (\$100,000) and partly in deferred stock units (\$120,000), plus extra cash depending on participation in the Board's various committees. The value of the shares is paid in cash on the fifth anniversary date of when it is credited to the respective Director's account, unless the Director leaves the Board before such date. *If a Director is terminated, that Director will forfeit unvested restricted share units.* This prospective forfeiture allows Murdoch additional leverage over News Corp Directors as their disloyalty might result in not only cessation of future earnings, but also forfeiture of valuable compensation that is in arrears.

69. The potential forfeiture is significant based on the current number of outstanding stock units previously showered on the News Corp Board. Significantly, as of June 30, 2010, defendant Bancroft had almost 25,000 unvested units of stock for a total value of \$457,000. As of the same date, defendant Aznar had almost 32,000 unvested units valued at \$585,600, and each of defendants Barnes, Cowley, Dinh, Eddington, Knight and Thornton had 37,282 unvested units valued at \$682,260 per person. Lachlan Murdoch, whose loyalty to his father cannot be contested, had 36,148 as of the same time valued at \$661,508, and defendant Siskind had 116,763 unvested units valued at approximately \$2.14 million.

8. The Board Disregards a Pattern Of Improper Or Illegal Behavior At News Corp

70. In addition to the numerous oversight issues noted above, the Board has demonstrated its refusal to function as an effective overseer of the business. The Board

has failed to respond to years of reports of illegal conduct by News Corp employees, including in particular some of Rupert's favorite senior managers.

71. In January 2008, News Corp paid nearly \$11 million to settle a lawsuit brought by Judith Regan, a former News Corp employee. Regan accused the Company of asking her to lie to federal investigators about Bernard Kerik, the former New York City police commissioner, who was once her lover, and had tried to smear her. On February 24, 2011, *The New York Times* revealed that it was none other than Roger E. Ailes, the powerful chairman of Fox News and a News Corp Board member, whom Ms. Regan accused of urging her to lie.

72. Further, as detailed below, News Corp has been embroiled in a scandal over its news gathering practices involving illegal wiretapping and phone hacking of not only public officials and celebrities in Britain but, incredibly, as only recently publicly reported, of private individuals, including a 13-year old murdered girl. Yet the Board has remained silent and passive on this issue.

B. THE BOARD'S FAILURE TO OVERSEE AND INVESTIGATE MURDOCH'S PROTÉGÉS AT NEWS OF THE WORLD AND THE SUN HAS HARMED NEWS CORP

73. The most recently revealed manifestation of the Board's utter capitulation to the control and domination of Murdoch is their complete failure to oversee the news gathering practices carried out under the watch of Murdoch's close friends, confidantes, and staunch supporters, Rebekah Brooks and Andy Coulson, both of whom served as the chief editors of *News Of The World*, News Corp's premier UK newspaper. Brooks also served as chief editor for the *Sun*, another of News Corp's British tabloids, and is

currently CEO of News International, News Corp's British newspaper division. While serving in those roles, employees working under Brooks and Coulson systematically engaged in illegal wiretapping, phone-hacking, and bribery. The Board failed in its duty to investigate this egregious conduct in the face of red flags, for to do so would have required Defendants to be objective, critical, and non-biased, which they are incapable of being, given Murdoch's control over all of the Board's affairs.

74. The Board has adopted a Statement of Corporate Governance that sets forth the Company's corporate governance guidelines and practices. It states that the Board is responsible for the corporate governance of the Company and oversees management with a focus on enhancing the interests of stockholders. It further provides that the Standards of Business Conduct are to be followed by all Directors, officers and employees of the Company, its subsidiaries and divisions and that such intention is communicated to each new Director, officer and employee and communicated to those in such positions at the time the Standards of Business Conduct were adopted.

75. To promote further ethical and responsible decision-making, the Board established a Code of Ethics specifically for Murdoch, among other executive officers, that is included in the Standards of Business Conduct.

76. The Board also adopted the Standards of Business Conduct which confirms the Company's policy to conduct its affairs in compliance with all applicable laws and regulations and observe the highest standards of business ethics. It provides that a conflict of interest arises when personal interests or divided loyalties interfere with the Individual Directors' ability to make sound, objective business decisions on behalf of

the Company. In that regard it states: “We are committed to a work force that is clearly and obviously motivated by the best business interests of our Company.” It also provides that “The Company’s reputation is one of our most valuable assets. Therefore, we are always careful to be sure that we don’t do anything that would harm that reputation, or that would otherwise bring the Company into disrepute.”

77. The Board failed in its duty of oversight with respect to its duties described in these internal documents. Its failure to oversee Murdoch’s actions has allowed him to run News Corp without any restraints on his pursuit of his political and personal agendas, which has led the Company to engage in improper and illegal conduct. Murdoch and the Board also have jointly failed to exercise their duty of oversight by permitting News Corp to participate in illicit activities.

**1. The Board Learns of Illegal Newsgathering
At Two Of News Corp’s British Newspapers**

78. Recent revelations have demonstrated that, over the past decade, both junior and very senior employees at the British tabloid the *News of the World* and its sister newspaper the *Sun* were engaged in a massive scheme to intercept voicemail and other forms of electronic communication in order to obtain stories for the papers.

79. News Corp’s Board should have learned that reporters from *News of the World* were using illegal means to gather news during Brooks’ tenure as chief editor of *News of the World* from 2000 to 2003. Given Murdoch’s close personal and professional relationship with Brooks, described more fully below, and the fact that Brooks herself was fully aware of and even involved in this conduct, it is inconceivable that he and his

fellow Board members would not have been aware of the manner in which Brooks ran *News of the World* and, later, the *Sun*.

80. News Corp's Board received (or should have received) its next red flag when, in 2005, Prince William's staff notified authorities that William's phone had been hacked. The Prince's aides noticed that voicemails to which they had never listened were showing up as "saved" messages in William's inbox. At the same time, *News of the World* was running a series of articles that reported startlingly intimate details of the Prince's life. Indeed, one *News of the World* article quoted verbatim a hacked voicemail in which William imitated Prince Harry's girlfriend.

81. An initial police investigation into the newspaper's conduct resulted in the January 2007 convictions of Clive Goodman, *News of the World*'s royal family correspondent, and Glenn Mulcaire, a private investigator hired by the tabloid. Andy Coulson, the paper's editor, resigned in the midst of the scandal, but assured the public that Goodman's and Mulcaire's conduct was an aberration, the work of "rogue reporters." Likewise, News International Group's then-executive director, Les Hinton (currently Dow Jones' CEO), testified before the House of Commons in March 2007 that News International, after conducting a "full, rigorous internal inquiry," determined that Goodman "was the only person" in *News of the World*'s newsroom who had engaged in illegal wiretapping.

82. The world later learned, though an even minimally attentive Board would have known for years, that News International's "rogue employee" story was a complete fabrication. In a scathing report issued on February 9, 2010, a British Parliament

committee found that it was “inconceivable” that the one reporter blamed by News Corp for the scandal was the only person at News Corp to have been involved. The report then chastised the Company for failing in good faith to adequately investigate the scandal: “Despite [evidence that others were involved], there was no further investigation of who those ‘others’ might be and we are concerned at the readiness of all of those involved . . . to leave [sic] Goodman as the sole scapegoat without carrying out a full investigation at the time. The newspaper’s enquiries were far from ‘full’ or ‘rigorous’, as we – and the [Press Complaints Commission] – had been assured.”

83. The magnitude of the problem must have been apparent to the Board as far back as 2009. *The Guardian* reported on July 8, 2009 that “27 different journalists from the *News of the World* and four from the *Sun*” made more than **1,000** requests to private investigators to secure wiretaps, phone records, or otherwise illegally obtain personal and confidential information. According to *The Guardian*, “These purchases were not secret within the *News of the World* office: ***they were openly paid for by the accounts department with invoices that itemised [sic] illegal acts***” (emphasis added). Moreover, evidence seized in connection with the 2006 Goodman investigation reveals that “***several thousand*** public figures” were targets of News International’s illegal newsgathering practices, including, during a single month in 2006: then-deputy prime minister John Prescott; Tessa Jowell, a government official then responsible for regulating the media; Gwyneth Paltrow; George Michael; and Jade Goody.

84. Both Coulson and Brooks must have been aware of the rampant use of multifarious forms of privacy invasion to illegally gather news at News International’s

papers; the pattern and practice was so widespread, so ingrained, that neither officer could *not* have known. Indeed, Sean Hoare, a former reporter who worked at *News of the World* for over ten years, often closely with Coulson, told *Vanity Fair*, “Either [Coulson] was a dreadful editor or a liar. You cannot run a newspaper and not know where things come from.” Indeed, at *News of the World*, phone hacking “was encouraged as long as you didn’t get caught. [Coulson] was aware that the practice was going on.” Hoare also told *The New York Times* that he played illegally hacked voicemails for Coulson while the two worked together at the *Sun*.

85. Likewise, Paul McMullan, a former features executive and then member of the *News of the World*’s investigations team, told *The Guardian* that he personally commissioned private investigators to commit “several hundred acts which could be regarded as unlawful, that use of illegal techniques was no secret at the paper, and that senior editors, including Coulson were aware this was going on.” McMullan asked, “How can Coulson possibly say he didn’t know what was going on with the private investigators.”

86. One former desk editor who worked under Coulson in 2006, described the pervasiveness of illegal behavior at News International papers to *The Guardian*:

The hacking was so routine that people didn’t realise [sic] they were doing anything wrong. They were just doing what was expected of them. People were obsessed with getting celebs’ phone numbers. There were senior people who were really scared when the Mulcaire story came out. Everyone was surprised that Clive Goodman was the only one who went down.

87. Another veteran reporter who worked for Coulson said that “Coulson absolutely knew. They all knew It was a regular daily joke in conference: ‘say no more.’ Andy would ask questions in conference. And he’d be told: ‘nudge, nudge.’”

88. Yet another former reporter told *The Guardian* that Mulcaire performed illegal services in connection with almost every news story *News of the World* ran, from hacking into voicemail to accessing confidential databases:

The paper was paying Glenn Mulcaire £2,000 a week, and they wanted their money’s worth. ***For just about every story***, they rang Glenn. It wasn’t just tapping. ***It was routine***. Even if it was just a car crash or a house fire on a Saturday, they’d call Glenn, and he’d come back with ex-directory phone numbers, the BT list of friends and family and their addresses, lists of numbers called from their mobile phones. This was just commonplace. We reckoned David Beckham had 13 different sim cards, and Glenn could hack every one of them. ***How could senior editors now know that they are spending £2,000 a week on this guy, and using him on just about every story that goes into the paper.***

89. Brooks was also well aware that News International’s papers were routinely engaging in illegal conduct that jeopardize News Corp’s financial health. McMullen told *Vanity Fair* that Brooks “knew that the practice [of engaging in phone hacking] was common.” Billing records kept by one investigator show that he provided confidential data to nineteen *News of the World* reporters while Brooks was its editor, and, on at least two occasions, provided confidential information to Brooks *personally*.

90. Indeed, some of the most shocking invasions of privacy happened while *News of the World* was under Brooks’ stewardship. While Brooks ran the paper, *News of the World* commissioned private investigators to hack into the phones of several child murder victims, as well as phones belonging to family members of both fallen soldiers and victims of a 2005 London terrorist attack.

91. One such child murder victim presents a particularly egregious, indeed, inhuman, example of the mixture of greed and callousness that pervaded News International's papers' newsrooms. Thirteen year-old Milly Dowler was kidnapped on her way home from school and later found murdered. While Dowler was missing, *News of the World* paid Mulcaire to hack into the child's voicemail. As the girl's friends and family filled her mailbox with messages pleading with her to come home, *News of the World* recorded every word. Once Dowler's mailbox filled up and would no longer accept new messages, however, the reporters hit a wall. Greedy for more material, the paper deleted messages that had been left in the first few days after her disappearance, allowing newer messages to be recorded. The paper's illegal interference gave false hope, and caused incalculable pain, to the girl's family and friends who, once again able to leave messages on the her phone, mistakenly believed that it was Dowler who had deleted the voicemails herself. Monstrously, *News of the World* reporters then obtained an exclusive interview with the Dowler family, in which family members expressed their hope that the young girl was still alive, unaware that it was *News of the World* that had falsely kindled that hope. The newspaper's conduct also created confusion for police, obscured the investigation, and destroyed potentially valuable evidence.

92. Additionally, in 2003, while Brooks ran *News of the World*, the paper paid at least £100,000 pounds in cash bribes to between three and five Metropolitan police officers. At a 2003 select committee hearing, Brooks cavalierly admitted to "paying the police for information."

93. Brooks has a close personal and professional relationship with Murdoch. According to *The New York Times*, sources say that Murdoch “regard[s] her as a kind of favorite daughter.” *The New York Times*, quoting another source, reported that “Rupert Murdoch adores [Brooks] – he’s just very, very attached to her.” Murdoch has promoted Brooks swiftly through his newspapers’ ranks: Brooks went from secretary to editor-in-chief at *News of the World* in just eleven years. Murdoch then moved Brooks to the top spot at the *Sun*, Britain’s highest-selling newspaper. Two years ago, Murdoch promoted Brooks to her current position, CEO of News International. In light of the recent scandal, “the most sensible thing that News Corp could do would be to dump Rebekah Brooks, but [Murdoch] won’t,” a source told *The New York Times*. Indeed, Brooks has offered her resignation. Yet, despite widespread calls for Brooks’ dismissal, including a comment by the prime minister that her resignation should have been accepted, Murdoch has pledged to stand behind her. Given Brooks close, almost familial, relationship with Murdoch, it is inconceivable that she did not discuss her papers’ illicit modus operandi with him. Indeed, given the publicly available information about Brooks’ papers’ practices, it is inconceivable that Murdoch did not actively inquire into the tabloids’ workings.

94. The Board’s refusal to inquire into whether Murdoch loyalists had implicated News Corp in unlawful and reprehensible activity further confirms its complete inability and unwillingness to cross him, much less to make the hard but necessary decisions independent of Murdoch’s personal demands and desires

2. The Cover-Up

95. In fact, the evidence is now clear that, not only did News International and/or its parent fail to effectively investigate the widespread wrongdoing at the *New of the World* and the *Sun*, News Corp's most senior executives actively sought to conceal the problems.

96. In the course of its 2006 investigation into Goodman and Mulcaire, Scotland Yard seized copious computer records, audiotapes, handwritten notes, and other documentary evidence. Those records contained the names of 4,332 people whom the two men were interested in targeting, 2,978 mobile phone numbers, thirty tapes appearing to contain voicemail messages, and ninety-one PIN codes used to access voicemailboxes. Despite the mountains of evidence at its fingertips, Scotland Yard notified only five individuals (apart from members of the royal household) that their voicemails may have been intercepted. Two of those five people, Gordon Taylor, CEO of the Professional Footballers' Association, and Max Clifford, a powerful British publicist, chose to sue News Group Newspapers ("News Group"), a subsidiary of News International.

97. Taylor was the first to sue. Initially, News Group executives denied that the company had been involved in hacking Taylor's phone and claimed that no records of any intercepted voicemail messages had been kept. But, at the request of Taylor's lawyers, the court ordered the production of evidence seized by Scotland Yard in the Goodman inquiry and a subsequent Information Commission investigation. The documents produced, of course, contradicted News Group's positions, revealing that, in

fact, Mulcaire had provided a recording of Taylor's phone messages to a *News of the World* journalist, who then transcribed them and emailed them to a senior reporter. The documents also revealed that a *News of the World* executive had offered Mulcaire a substantial bonus for the story related to the intercepted messages.

98. Based upon these revelations, in June 2008, News Group sought to stop the lawsuits by offering Taylor £700,000 pounds in exchange for his silence. News Group then quickly made a similar deal with Clifford and one other individual, paying more than £1 million in gag money in total.

99. As these payments came to light and as the scandal – particularly the revelations about Milly Dowler – reached a fever pitch, on July 7, 2011, James Murdoch the Deputy COO of News Corp and a member of the News Corp Board admitted to *personally* approving these settlements. According to *The Guardian*, News International's head of legal, Tom Crone, and *News of the World* editor, Colin Myler, took the settlement figure to Murdoch for his approval. "James Murdoch was apprised of the situation and agreed with our recommendation to settle," Myler told *The Guardian*. There are also allegations that these payments had been signed off on by the full Board of News in June of 2008. This unusual step, demonstrates that officers in the upper echelons of News Corp's corporate structure were aware of the grave threat presented by these lawsuits: that damaging evidence of News Corp's illegal newsgathering apparatus would be exposed.

100. News Group also managed to persuade the British courts to seal all proceedings, hiding evidence of News Corp's misconduct from public scrutiny.

101. The scandal further intensified in early 2011, when a “lost” hoard of emails sent by senior executives in Murdoch’s newspaper empire at the height of the phone-hacking scandal were found, prompting further criminal investigations in Britain. The *New York Times* reported based upon its review of the new information that at least some of the impetus for the News Corp wiretaps was Murdoch’s unabashed political motivations.

102. James Murdoch’s own statements in the wake of this scandal demonstrate that News Corp’s Board failed to exercise any oversight over the Company’s affairs, and, indeed, affirmatively sanctioned or, at the very least, turned a blind eye to rampant illegality taking place at News Corp’s newspapers. In a press release issued July 7, 2011, James said, “*The News of the World* is in the business of holding others to account. But it failed when it came to itself.” James further admitted that “*News of the World* and News International failed to get to the bottom of repeated wrongdoing that occurred without conscience or legitimate purpose.” With respect to payment of gag money, James said “The Company paid out-of-court settlements approved by me. I now know that I did not have a complete picture when I did so. This was wrong and is a matter of serious regret.”

103. The misconduct not only has caused harm to News Corp’s reputation but has resulted in major advertisers pulling ads – and revenues – and costly settlements with those harmed by the acts of News Corp’s employees. As one *Reuters* columnist observed: “The U.S. media group’s handling of this crisis has been inexcusably weak. If the allegations now being made are true, they strongly reinforce the impression of chronic

weakness in the governance of Rupert Murdoch's empire. . . The mishandling of the *News of the World* affair is the biggest symptom of weak governance under Murdoch.”

104. On July 6, 2011, the day the scandal broke, News Corp lost more than \$1 billion in market capitalization. On July 7, News Corp informed the world that *News of the World* – with the largest circulation of any English language Sunday mass market newspaper on the planet – will be shut down permanently in just a few days. Further, the damage the scandal has caused to News Corp's reputation and goodwill is immeasurable.

105. Of equal significance, the British government announced that it has delayed its ruling on whether to approve News Corp's proposed \$12 billion acquisition of BskyB – a deal the British government had been expected to approve by July 8, 2011. This scandal may well have sounded the death knell for the lucrative deal, since News Corp will have to satisfy a “fit and proper” test in order to absorb the remainder of the valuable broadcaster. Indeed, some 256,000 Britons angry over news of Murdoch's companies' out of control journalistic practices have registered their opposition to the deal with the British government. The government has said that it may take months to sift through the citizen complaints. Finally, the scandal has caused immeasurable damage to News Corp's goodwill.

106. On July 8, 2011, British Prime Minister David Cameron ordered two inquiries into allegations that News Corp's British papers had systematically violated privacy laws. Additionally, both Coulson and Goodman were arrested. Further, the *Guardian* is reporting that police are also investigating reports that an executive with News International tried to delete millions of emails from a *News of the World* archive in

“an apparent attempt to obstruct Scotland Yard’s inquiry” into allegations of privacy invasions. As late as December 2010, News International had maintained that this same database did not even exist.

107. As for the rest of the News Corp Board, they remain, as ever, in thrall to Murdoch. Despite criminal convictions of *News of the World* personnel based upon information made known to News Corp in 2005, and despite alleged internal investigations in 2007 and again in 2011, it was not until the recent allegations of illegal phone-hacking into the voice mail of Milly Dowler that the Board finally decided to act, assigning Klein and Dinh for the first time *in July 2011*, to investigate – even though evidence of the phone-hacking scandal had been public since 2005, and the misconduct evidently began in 2002.

C. BACKGROUND OF THE SHINE TRANSACTION

1. Elisabeth Murdoch Leaves News Corp To Start Shine

108. As alleged above, and as was the case with Murdoch’s sons James and Lachlan, Elisabeth Murdoch was given positions at News Corp when she began her career. In the early 1990s, she started at FX Networks, after which she worked at BSkyB, the satellite broadcaster in which News Corp has a controlling minority stake. In 2000, she left her father’s employ after feuding with her then-boss at BSkyB, Samuel Chisholm.

109. Elisabeth Murdoch formed Shine in 2001. Murdoch helped ensure that Shine would not immediately founder, causing BSkyB to “sign[] a deal guaranteeing to buy an agreed amount of Shine programming for two years” according to news reports.

Since then, Shine grew by aggressively acquiring other companies. Before the Transaction closed, Elisabeth owned 53% of Shine, Sony Pictures Entertainment (“Sony”) owned 20%, BSkyB owned 13% and certain minority shareholders owned the rest.

2. The Transaction Furthers Murdoch’s Goal of Returning His Daughter To The Family Business

110. Murdoch recently turned eighty. With his inevitable departure from News Corp looming, Murdoch has turned his attention to devising and executing a succession plan ensuring that News Corp will remain a family business, notwithstanding that a majority of its shares are in public investor hands. Unsurprisingly, it is News Corp’s shareholders who will be expected to foot the bill for Murdoch’s plan to consolidate his family empire and secure his personal and pecuniary legacy.

111. Sources inside News Corp have reportedly stated that Murdoch’s overriding ambition of late is to return his two eldest children, Lachlan and Elisabeth, to News Corp and divide his empire between the two of them and his son James. According to these sources, the three elder Murdoch children have been openly discussing plans to work together again. According to another source close to Murdoch, the patriarch has talked in the past about a scenario in which Elisabeth would oversee News Corp’s entertainment assets; James would continue as head of News Corp’s European and Asian assets, with a focus on its satellite and distribution operations; and Lachlan would be brought back to lead its newspaper assets. Specifically, a former News Corp insider stated, “Rupert would love to have Lachlan back running newspapers.” Under that plan, Carey would remain Murdoch’s top lieutenant until Murdoch was ready to name a

successor from within his family. Indeed, as part of the Transaction described below, Elisabeth joins News Corp, while Carey will oversee Shine's operations.

112. While Murdoch provided support to Shine, his central goal has been to return Elisabeth to News Corp. As *CNNMoney.com* reported on February 25, 2009, Murdoch's then second-in-command, Peter Chernin, was leaving and Murdoch wanted his daughter to join the Board. She rebuffed him at that time. Murdoch, however, devised other ways to keep Elisabeth involved in the family business.

113. According to *The Guardian*, over the last year, Elisabeth Murdoch has been a non-voting observer of the Board, which voluntarily allows her to sit in on Board meetings. That shadow role for Elisabeth, however, was not enough for Murdoch. According to industry sources, Murdoch has explicitly stated that he would purchase Elisabeth's business in order to get her back into the family fold. According to Michael Wolff, author of "The Man Who Owns The News: Inside The Secret World of Rupert Murdoch" and the editorial director of *AdWeek Media*, "Murdoch told me if he had to buy his daughter's company to get her to come back to News Corp. he certainly would...." Other analysts agree. For example, Ken Doctor, a veteran news industry analyst for Outsell and author of "Newsonomics: Twelve New Trends That Will Shape the News You Get," has observed that, at News Corp, the line between preserving the business and preserving the *family* business are often blurred: "Certainly, most public companies separate out family dynasty from business decision-making... [b]ut the two have always been intertwined at News Corp, and the acquisition of Shine fits that tradition."

114. Murdoch has explicitly acknowledged his dynastic ambitions. In a 2009 interview with Sky News, Murdoch said he is “sure” one of his children will emerge to succeed him: “Every parent likes to see that.” Indeed, in an extensive expose of the workings of the Murdoch family, *New York Magazine* reported that long-time News Corp executive Chernin could never rise to be CEO because, as stated in the article, “he’ll never be a Murdoch, a key qualification for the top job.” That report quoted Andrew Neil, who worked for Murdoch for a dozen years, saying “Rupert really did . . . feel that he was creating a dynasty.” These statements demonstrate the complete control that Murdoch has over the Board. The next chairperson of the Board should be selected by the Board from members nominated by the Board and approved by the shareholders, not handpicked by Murdoch.

115. According to sources inside News Corp, James, Elisabeth, and Lachlan, guided by their patriarch, “are working together as a group on a master plan.” Indeed, a number of unusual meetings and trips signify the claim that the three children are preparing to divvy up their father’s empire. In fact, just weeks before the Transaction was announced, all three children met in London. Elisabeth and Lachlan also attended the Consumer Electronics Show in Las Vegas together this January.

116. On February 21, 2011, Murdoch announced his latest move to shore up that dynasty. On that day, News Corp issued a press release announcing that News Corp and Shine had reached an agreement in principle for News Corp to acquire 100% of Shine. A second press release issued on April 5, 2011, announced that the Transaction had closed. Murdoch had forced News Corp to pay the price tag of £290 million, or

approximately \$480 million, in “aggregate proceeds” which was the take away amount left after News Corp paid for retiring Shine’s debt and assuming other liabilities. The Company’s quarterly report on Form 10-Q for the quarter ended March 31, 2011 broke down the purchase price as follows:

The total consideration for this acquisition included (i) approximately \$480 million for the acquisition of the equity, of which approximately \$60 million has been set aside in escrow to satisfy any indemnification obligations, (ii) the repayment of Shine Group’s outstanding debt of approximately \$135 million and (iii) net liabilities assumed. Elisabeth Murdoch, Chairman and Chief Executive Officer of Shine Group, and daughter of Mr. K. R. Murdoch and sister of Messers. Lachlan and James Murdoch, received approximately \$214 million in cash at closing in consideration for her majority ownership interest in Shine Group, and is entitled to her proportionate share of amounts that are released from escrow.

Thus, in exchange for letting her father’s Company own Shine, and for the “privilege” of paying off Shine’s debt and assuming Shine’s liabilities, Elisabeth Murdoch received approximately \$250 million of News Corp’s money, and she will continue to help manage Shine now that it has become part of News Corp’s operations. Equally important, she is being handed a seat on News Corp’s Board on a silver platter from her father. In a February 21, 2011 press release announcing the Transaction, Murdoch stated: “I expect Liz Murdoch to join the board of News Corporation on completion of this transaction.” Murdoch, for his part, will have the satisfaction of having planted yet another family member in the senior hierarchy of News Corp and on its Board, and of further solidifying his control over the Board and the Company.

117. One source inside Shine explained that the Transaction “is the first step towards [Murdoch] setting the kids in place at News Corp.” That same source explained

that, from the outset, the Transaction was set to close quickly, shielding it from searching, rigorous scrutiny. “This deal is going to happen and it is going to happen fast.”

118. Murdoch’s recent conduct makes clear that the Transaction is indeed just the “first step” in a larger scheme to consolidate his family’s power over the Company. A week before News Corp announced its deal with Shine, Murdoch took the next step, purchasing another 1.2 million shares of News Corp Class A stock. By increasing his stake in the Company, Murdoch tightens his grip over its destiny. There is no doubt that he will use that control to push through other transactions that serve his interests at the expense of the Company.

119. On March 30, 2011, just days before the Transaction closed, Murdoch took another step towards cementing his succession plan, announcing that James would become News Corp’s Deputy Chief Operations Officer, and moving him ever closer to the top spot at the Company.

120. The Transaction fails to meet the exacting standards of entire fairness that apply in the present circumstances. Murdoch has appropriated the excess value paid to Shine for his own ends, to the exclusion of, and detriment to, News Corp and its public shareholders.

121. Murdoch’s transparent use of corporate resources to execute his succession plan has met with widespread criticism. In an article for *Fortune*, Allan Sloan wrote, “all-in-the-family deal-making just isn’t right for a public company.” Similarly, in a March 4, 2011 article, *Daily Variety* observed, “Wall Street was not quite as enamored with News Corp.’s \$675 million buyout of production company Shine Group, which

promises to bring News Corp chairman Rupert Murdoch's daughter and Shine topper Elisabeth back into the family business. Critics said the deal smacked of family favoritism and was not shareholder friendly."

3. The Transaction Allows Murdoch to Funnel News Corp's Cash to His Daughter

122. In addition to Murdoch's non-pecuniary interest in the Transaction, Murdoch clearly had a direct financial interest in the deal *vis-à-vis* his daughter's ownership of Shine. Murdoch's use of his influence over News Corp Board to cause the Company to overpay for Shine is improper simply because it allowed him to divert corporate funds to a close family member – a clear case of self-dealing.

123. Murdoch stood on both sides of the Transaction because Elisabeth Murdoch controlled Shine, and she, as Murdoch's daughter, is a related party. Because he stood on both sides of the transaction, Murdoch's use of his power as both controlling shareholder and director to effectuate the Transaction on terms not entirely fair to News Corp constitutes a breach of his duty of loyalty to the corporation.

124. Even if Murdoch did not stand on both sides of the Transaction in the classic sense, he had a personal interest in the Transaction which was not shared with News Corp's public stockholders. As detailed above, Murdoch has gone, and is going, to great lengths to ensure that his children have a place at the head of his empire. He has secured employment on their behalf and set up a lavish trust in their favor. To say that Murdoch is "interested" in this Transaction, through which one of his children stands to significantly and substantially gain, is an understatement.

D. THE TRANSACTION WAS NOT ENTIRELY FAIR

1. The Board Overvalued Shine

125. While, as consequence of the Transaction, Murdoch is now one step closer to gratifying his imperial ambitions, and his daughter has pocketed roughly \$250 million from News Corp's coffers, News Corp has significantly overpaid to consummate a Transaction that adds little value to the Company.

126. Comparing Shine to its peers demonstrates that the Company overpaid to buy Murdoch his daughter's company. While the Company has impeded any such comparison by not disclosing current financial information for Shine, analysis of available information shows that the purchase price is unreasonably high. For example, Shine's EBITDA for 2009 – the last year for which Shine's audited financial results are available – was approximately £28.40 million, putting the deal's enterprise value/EBITDA multiple at 13.10x (based on an enterprise value for the deal of £372 million). In contrast, as set forth in the below chart, the mean enterprise value/EBITDA multiple of Shine's peer companies is only 5.91x and the median multiple is only 5.56x. Shine and News Corp have not released Shine's 2010 financial results, but even accepting reports of Shine's projected 2010 results, the production company's estimated 2010 EBITDA of approximately £35 million results in an enterprise value/EBITDA multiple of nearly 10.60x, about twice that of its peers:

**Summary of Shine Group Ltd. Public Comparables:
Enterprise Value Multiples vs. Shine Transaction Multiples**

Company	As Of Date	LTM Net Sales (millions)	EBITDA Margin	EBIT Margin	Enterprise Value (millions)	LTM EBITDA (millions)	LTM EBIT (millions)	Enterprise Value/EBITDA Multiple	Enterprise Value/EBIT Multiple	
Pinewood Shepperton PLC	12/31/2010	£43.41	29.56%	20.91%	£116.9	£12.83	£9.08	9.11x	12.88x	
DQ Entertainment	9/30/2010	\$26.40	41.07%	25.25%	\$47.89	\$10.84	\$6.66	4.42x	7.19x	
STV Group PLC	6/30/2010	£104.8	16.13%	13.74%	£110.85	£16.90	£14.40	6.56x	7.70x	
Eros International PLC	9/30/2010	\$103.5	76.71%	36.73%	\$140.46	\$79.43	\$38.04	4.29x	8.95x	
								Mean	5.91x	9.18x
								Median	5.56x	8.32x

		EV/EBITDA Multiple	EV/EBIT Multiple
<u>Shine Group Ltd. Deal Multiples</u>			
Enterprise Value of Transaction (mlns)	£372.00		
2009 Shine Group EBITDA (mlns)	£28.40	13.10x	
2010 Shine Group EBITDA (mlns) (projected)	£35.00	10.63x	
2009 Shine Group EBIT (mlns)	£15.46		24.07x

127. Moreover, a comparison of the multiples implicit in the Shine deal to multiples of companies comparable to News Corp provides still further evidence that the Company overpaid for Shine. Examining the trailing twelve months (“TTM”) enterprise value of News Corp’s peers divided by their EBIT and EBITDA results in averages for News Corp’s peers of 8.12x (EBITDA) and 15.86x (EBIT). The value of Shine based on the Transaction is much greater: 13.1x (2009 EBITDA) and 24.07x (2009 EBIT). Even if Shine’s projected results for 2010 were considered, it would still yield a vastly higher multiple of 10.63x EBITDA.

128. Analysts have been resoundingly critical of the Transaction. For example, an analyst at The Nomura Group, warned that the Transaction would result in significant fallout:

We can't help but think that News Corp's acquisition of a Murdoch family-owned company will be seen by some as more evidence that the company is not as shareholder friendly as its peers. In fact, as happened post News Corp's Dow Jones acquisition (albeit at a much higher purchase price), we think this deal will likely return News Corp to the penalty box and restrain its multiple expansion for the near future. . . . News Corp. could be shunned by some institutional investors who see more shareholder-friendly actions and clear capital return strategies at other media companies."

129. Missing from the announcement of the Transaction was any statement of how News Corp would benefit from owning Shine. Neither the February 21, 2011, press release nor the April 5, 2011, press release contained any suggestion of any synergies to the Company by owning Shine. Ultimately, the Transaction provided no material benefits to the Company, only a windfall to Elisabeth and Murdoch.

E. THE TRANSACTION WAS THE PRODUCT OF AN UNFAIR PROCESS

1. The Audit Committee Was Incapable Of Independently Evaluating The Transaction

130. Thumbing their noses at proper corporate governance practices, Murdoch and the Board gave no thought to appointing a special committee of truly independent outside Directors to evaluate the Transaction. As shown below, no independent committee of the Board to review the Transaction could be formed because there is not a single Individual Defendant who is independent of Murdoch and has shown the willingness to oppose Murdoch's overwhelming control over News Corp.

131. The Transaction was evaluated and allegedly approved by the Board's Audit Committee, consisting of Eddington, who serves as Chairman, and Board members Barnes, Knight and Perkins. Incredibly, Eddington did not disqualify himself despite the clear conflict of interest in the consummation of the Transaction given his position with J.P. Morgan and J.P. Morgan's involvement as an advisor to Shine.

132. The Audit Committee's nominal approval of the Transaction is a mirage that Defendants erected in the wake of litigation to lend a patently interested and unfair deal some semblance of legitimacy. In truth, by the time the Board decided to delegate sole authority for approval of the Transaction to the Audit Committee, the Company had already decided that it would proceed with the Transaction, and Plaintiffs had filed this action. As a defensive reaction to Plaintiffs' filing, the Board sent the Transaction off to the Audit Committee for rubber-stamping. In a matter of weeks, the Audit Committee, a group of part-time directors, was supposed to select a financial adviser, retain independent counsel, review the terms of the Transaction, perform independent and thorough due diligence, evaluate all relevant conflicts, and digest the implications of a Transaction that had already been agreed to and announced. Indeed, as discussed, one Shine insider predicted in January, before the agreement was announced, "This deal is going to happen and it is going to happen fast."

133. Ever since the Transaction was announced, News Corp consistently created the impression that the Audit Committee was going to act only in an advisory capacity with respect to the Transaction. According to a press release issued by the Company on February 22, 2011, the Transaction was to receive full consideration and

approval by both the **entire News Corp Board** and the Audit Committee. The release provided that the Transaction “will be subject to customary closing conditions including approval by the audit committee *and the full board of News Corporation*, receipt of an independent fairness opinion, and Shine Group board approval” (emphasis added). This arrangement, full board approval with the Audit Committee acting in an advisory (rather than executive) capacity is consistent with the Audit Committee’s charter, which provides that the committee is responsible for, among other things, “*assist[ing] the board* in its oversight of . . . the review, approval and ratification of transactions with related parties.”

134. When the deal closed on April 5, 2011, the Company issued another press release, which indicated that the chosen corporate governance and approval mechanism had shifted at some point since the time the deal itself had been announced. According to the April 5 release, “[t]he transaction was approved by the Audit Committee of the News Corporation Board of Directors.” Though Defendants did not explicitly articulate their change in plans, much less defend their post-hoc decision, the implication is clear enough. The reason for the Board’s wholesale delegation of authority to approve the transaction is obvious; after all, the only event to transpire between the announcement of the deal and its closing was the filing of this action on March 16, 2011.

135. In fact, there is reason to believe that the Board did not decide to delegate the authority to approve the Transaction to the Audit Committee until after March 18, 2011. On that date *The Los Angeles Times* ran an article about this lawsuit under the headline “Bank sues News Corp. over purchase of Shine Group.” The author of the article quoted News Corp’s reaction to the lawsuit: “The media company has said that

the board's audit committee and an outside firm *will evaluate the purchase.*" Had the Board decided by this time to remove itself entirely from the Transaction, and delegate full authority to *approve* the Transaction, surely the Company's spokesperson, having every incentive to bolster the integrity of management's approval process, would have said so. The fact that, as of March 18, 2011, the Company's position was that the Audit Committee would "evaluate" the Transaction, rather than act as the final arbiter of its fate, is evidence that the Board did not actually delegate that authority prior to March 18.

136. Additionally, though the Audit Committee was tasked with selecting an independent financial advisor, it simply accepted the choice thrust upon it by Murdoch and the full Board: Centerview Partners. Centerview Partners was no stranger to News Corp, having previously advised the Company on the massive Dow Jones acquisition and having reaped fees as a consequence. As a newcomer to Wall Street still in the process of compiling a book of business, Centerview Partners has a strong interest in preserving its relationship with News Corp (and the prospect of future fees), and, at the very least, would not risk its nascent reputation on the Street by torpedoing one of Murdoch's pet projects. The firm's own website provides an indication of how dearly it views its relationship with News Corp; Centerview Partner's "About Us" page highlights just twelve deals it has helped execute, one of which is News Corp's acquisition of Dow Jones – another one of Murdoch's pet projects.

137. Given that the sole impetus for delegating the authority to approve the Transaction to the Audit Committee was, ostensibly, to facilitate diligent, meaningful, and – above all – independent review of the deal, the committee's retention of

Centerview Partners is inexplicable. In hiring Centerview as its advisor, the Audit Committee shirked the duties it had been delegated by the Board and compromised whatever semblance of independence its approval was supposed to afford the Transaction.

138. Indeed, while the Company's April 5 press release announcing the deal's closing referred to Centerview as an "independent investment bank," that characterization, for the reasons stated above is misleading.

139. Even putting aside the abridged timeframe in which the Audit Committee had to review the Transaction, and putting aside the fact that, for all practical purposes, the Transaction had already been approved, and putting aside the fact the Audit Committee utterly failed in its task to retain an independent advisor, the members of the Audit Committee are not independent of Murdoch.

140. Specifically, Eddington's conflict and role as chairman disables the entire Audit Committee. In addition, given the composition of the Audit Committee, it was impossible for the Committee to actually render an assessment independent from that of Murdoch. A majority of the members of the Audit Committee were prevented from providing a disinterested and independent examination as a result of the financial compensation they receive from the Company, their close ties to Murdoch, and other professional and financial conflicts.

141. Eddington has other conflicts as well, rendering him utterly incapable of exercising disinterested judgment regarding the Transaction. Eddington has been a Director of News Corp for well over a decade. Since 2006 alone, he has been paid over

\$1.1 million in compensation (including fees and stock awards). As of June 30, 2010, he held 37,282 shares of unvested News Corp stock. Eddington also has served as Non-Executive Chairman, Australia and New Zealand of J.P. Morgan since 2006. J.P. Morgan is the adviser to News Corp on the proposed acquisition of BSKyB. In February 2011, J.P. Morgan served as the sole book-runner for the \$2.5 billion debt offering by News America Inc., a company owned by News Corp. J.P. Morgan also is currently advising News Corp on a possible purchase of Formula One motor racing. In the past, J.P. Morgan has served as the syndication agent for a \$2.25 billion credit agreement that a News Corp subsidiary entered into in May 2007, and in 2008, J.P. Morgan provided the debt financing for a transaction in which minority shareholders of a publicly-held News Corp subsidiary were cashed out. Previously, Eddington served as a Director of News Limited, News Corp's principal subsidiary in Australia, from 1998 until 2000, and as Chairman of Ansett Holdings Limited and as a Director of each of Ansett Australia Limited and Ansett Australia Holdings Limited from 1997 until 2000. Until then, News Corp owned 50% of Ansett Australia. Further, according to *The Guardian*, in 2010, News Corp's minority shareholders planned to vote against Eddington's re-election to the Board in protest of Murdoch's donation of approximately \$2 million to Republican Party interests. Eddington's long tenure as a Board member, his relationship with Rupert Murdoch, and his various interrelated business relationships prevent him from providing an independent and disinterested evaluation of the Transaction.

142. Most fundamentally, Eddington could not serve with independence to assess the Shine Transaction because J.P. Morgan was serving as *Shine's financial*

advisor on the deal. To take a hard line to ensure News Corp paid the lowest price to acquire Shine or to insist that News Corp explore alternatives to acquiring Shine would not only leave Eddington in Murdoch's crosshairs, it would also leave Eddington at odds with his other employer, J.P. Morgan. The notion that he could act with independence in approving the Transaction is simply ludicrous.

143. Knight has been a Director of the Company for two decades and, since just 2006 alone, has made well over \$1 million in fees and stock awards as compensation for serving in that role. As of June 30, 2010, he held 37,282 shares of unvested News Corp stock. Knight has been the Chairman of J. Rothschild Capital Management Limited since 2008. He was the Chairman of News International, a subsidiary of the Company, from 1990 to 1995. Knight served a Director of Rothschild Investment Trust Capital Partners plc from 1997 to 2008. According to media reports, Lord (Jacob) Rothschild and Rupert Murdoch each purchased equity stakes in Genie Oil and Gas Inc. and both serve on Genie Energy's Strategic Advisory Board. Jacob Rothschild is Chairman of the J. Rothschild group of companies and of Rothschild Investment Trust Capital Partners plc on whose board Mr. Knight served. Murdoch reportedly named Knight as his "backstop and successor" at News Corp prior to Knight retiring from an executive position in June 1994. Knight's twenty-year tenure as a Board member, his ongoing relationship with Murdoch, and his former employment with the Company prevent him from providing an independent and disinterested evaluation of the Transaction.

144. Perkins has been a Director of the Company since 1996, and has received well over than \$1 million in compensation for serving in that role in the past eight years

alone. As of June 30, 2010, he held 37,282 shares of unvested News Corp stock. Perkins is a personal friend of Rupert Murdoch – in fact, as reported by *Newsweek*, he was Murdoch’s sailing mentor. According to Perkin’s autobiography, *Valley Boy: The Education of Tom Perkins*, in 2000, Perkins planned to have Murdoch become a co-investor (along with himself and Roel Piper) in a newly-developed smartcard technology. Rupert and Wendi Murdoch hosted a book party in New York to launch Perkins’s pulp novel *Sex and the Single Zillionaire*, and Murdoch provided an endorsement of it as well. Perkins’ long tenure as a Board member and his personal relationship with Rupert Murdoch prevent him from providing an independent and disinterested evaluation of the Transaction.

145. Barnes has been a Director of the Company since 2004. Over the past eight years, Barnes has been paid well over \$1 million in fees and stock awards as compensation for serving in that role. The stock and options awards granted to him in 2007 and 2008 alone had a grant date fair value of more than \$1 million. As of June 30, 2010, he held 37,282 shares of unvested News Corp stock. Although nominally independent, Barnes’s unremarkable tenure on the Audit Committee in failing to ever reject a transaction that Murdoch wanted to push through demonstrates his inability to provide any meaningful oversight of interested transactions which prevents him from providing an independent and disinterested evaluation of this Transaction.

2. News Corp Failed To Make Public Any Opinion Made By An Advisor In Connection With The Transaction Or To Consider Alternatives To Shine

146. There is no real evidence that the Board, or anyone at News Corp other than Murdoch, meaningfully analyzed whether this was an appropriate deal or an appropriate price. Although News Corp disclosed that the Audit Committee retained Centerview Partners to evaluate the appropriateness of acquiring Shine and whether the price was fair to News Corp, no opinion in that regard has been made public by the Company. The only other entity to have an outside advisor was Shine, which retained J.P. Morgan, whose head of operations in Australia and New Zealand is none other than Eddington, the Audit Committee Chairman.

147. It further appears that to the extent the Board did any evaluation whatsoever of the Transaction, it never exercised any initiative to explore meaningful alternatives to Shine or even considered whether News Corp should buy a television production company at all. If News Corp wanted to buy a production company, the Board should have canvassed the scores of production companies that exist to find the best fit. It defies logic that of all those companies, Murdoch's daughter's company was coincidentally chosen after such a canvass of the market.

F. MURDOCH'S FIDUCIARY DUTIES TO NEWS CORP AND ITS SHAREHOLDERS

148. Murdoch, in his capacity as a News Corp shareholder and, through his actual or virtual ownership of almost half of News Corp's voting stock, wields effective control over News Corp's affairs. Through the Murdoch Family Trust, Murdoch owns nearly 40% of News Corp's voting stock. Moreover, six members of News Corp's 16-

person board are either Murdoch's direct subordinates at News Corp or his children (James Murdoch is both), while nearly all of the remaining directors share close personal or business relationships with him. And Eddington stands on both sides of the Transaction because of his position with J.P. Morgan and J.P. Morgan's role as financial advisor to Shine.

149. As explained, Murdoch has used this control to force News Corp to carry out his personal agenda, from causing the Company to make exorbitant, highly partisan, and potentially illegal campaign contributions to providing his children with lucrative sinecures to overpaying for companies Murdoch hopes to use as platforms from which to spout his personal political ideology.

150. Both the marketplace and the media widely acknowledge Murdoch's effective control over News Corp. Specifically, with respect to the Transaction, the Los Angeles Times, for example, reported on February 22, 2011 that "[t]he deal by **Rupert Murdoch's company** to buy his daughter's production firm in a stock swap valued at \$674 million **further consolidates the family's control** over the global media giant." On February 21, 2011, the Telegraph ran the following headline: "**Rupert Murdoch's** News Corp buys daughter's Shine Group for £415m." In a post announcing that News Corp and Shine had reached a deal, the *New York Times*' blog *DealBook* referred to News Corp as "[Murdoch]'s company." These reports confirm that Murdoch's power to influence News Corp's affairs is not a matter of speculation or conjecture, but is instead a fact about the Company as well known and uncontroversial as its mailing address or its capital structure, a fact supported by Murdoch's 30-year course of dealing with the

Company. That reputable news sources routinely and matter-of-factly refer to News Corp as “Murdoch’s company” demonstrates that Murdoch’s status as a controlling shareholder cannot be reasonably debated.

151. Murdoch’s control over the Company is further fortified by his close alliance with his friend, Prince Alwaleed bin Talal, who wields an additional 7% of the voting power through his Kingdom Holding Company. Murdoch enjoys the public support of the Prince. For example, to defend Murdoch from a Liberty Media takeover, the Prince increased his holdings in News Corp, publicly stating: “Last November I said that I had the utmost confidence in Mr. Murdoch, his management team and his succession planning, and that if necessary, the Kingdom companies would replace their non-voting shares with voting shares. . . The Kingdom companies now own a significant interest in News Corporation voting shares and may purchase more if the situation warrants.” In January 2010, Alwaleed met with Murdoch and discussed “future potential alliances with News Corp.” By October 2010, News Corp had bought a 9% stake in Rotana Group, a Middle East media group owned by Alwaleed. By then, Alwaleed’s Kingdom Holding held a 5.7% stake in News Corp. Alwaleed then increased his holdings in News Corp to 7% and News Corp increased its stake the Prince’s Rotana Group to more than 14%. Alwaleed reportedly has such influence with Murdoch that he has been known to call Murdoch up and instruct him to change Fox News taglines that he does not approve of.

152. Therefore, because Murdoch's effective voting power, as measured by both share ownership and board loyalty, allows him to wield tremendous influence over News Corp's affairs, Murdoch is a controlling shareholder under Delaware law.

153. Because Murdoch is a controlling shareholder, he owes News Corp and its shareholders fiduciary duties of loyalty. Specifically, Murdoch was duty-bound to refrain from using his control to appropriate to himself a corporate asset or benefit to the exclusion of, and detriment to, the Company and its minority shareholders.

154. Likewise, Murdoch, as chairman of the News Corp Board, owes News Corp fiduciary duties of loyalty. A director's duty of loyalty, a duty even more exacting than the duty owed by a controlling shareholder, requires a director to refrain from self-dealing and place the interests of the corporation and its shareholders ahead of any personal interest not shared by the corporation's shareholders. Under Delaware law, directors may not use their corporate position to make a personal profit or gain, or for other personal advantage.

155. By causing the Company to overpay for an asset in which Murdoch has significant personal interests not shared by News Corp's public stockholders generally, and/or, standing on both sides of the Transaction, causing the Company to consummate that Transaction on unfair terms, Murdoch appropriated to himself a benefit rightfully belonging to the Company, to exclusion of, and detriment to, News Corp and its shareholders. In subordinating the interests of the Company and its public stockholders to his own in this fashion, Murdoch breached his fiduciary duties to News Corp and its shareholders.

156. Murdoch's public statements about the Transaction demonstrate that he proposed the Transaction, set its terms, and caused the Audit Committee to approve it. In the February 22, 2011 press release announcing that Shine and News Corp had reached a deal in principle, it was Murdoch, and *only* Murdoch, describing deal's purported benefits to the market. No member of the Audit Committee stood before the press to tout the deal; no senior executive or board member, apart from Murdoch, justified its terms.

157. In the press release, Murdoch said "I expect Liz Murdoch to join the board of News Corp on completion of this transaction." Murdoch's choice of words is telling. Murdoch did not say "Board will determine whether Liz Murdoch will join the board" or "I hope Liz will join the Board." Murdoch's expectations were firm deal terms because he controlled the Transaction, and because he dictated its terms.

158. Moreover, given Murdoch's power and influence over News Corp, and his extensive history of dealing with it at less-than arm's length, one can reasonably infer that Murdoch wielded that influence so as to push through the Transaction in which he had significant personal interests, economic and otherwise. Murdoch had both the motive and the means to propose the Transaction, dictate its terms, and force the Audit Committee to approve it.

159. Any person who has poured his life into building a business is entitled to take a certain amount of pride in what he has accomplished, and to want to ensure that the enterprise to which he has lent not only his name, but his lifeblood, will continue to thrive, to be a force for the public good, long after he has gone. However, once the founder of an enterprise sees fit to ask the public for its money, to ask millions of

investors to trust him to prudently manage the business in which they have been persuaded to take a stake, then that founder's duty to his co-owners becomes paramount. It is the very essence of disloyalty for the founder *qua* corporate fiduciary to treat a public corporation as though it were no more than a grand monument to his personal glory, to view the shareholders not as co-owners, but as mere obstacles to immortality. Rather than allow News Corp to be managed for the benefit of its owners, Murdoch has, once again, appropriated to himself the Company's assets and resources. His only thought is to the fulfillment of his own whims, his whole heart focused only on his own aggrandizement. Equity cannot tolerate this; Delaware law does not countenance it.

G. THE BOARD'S AND THE AUDIT COMMITTEE'S FIDUCIARY DUTIES TO NEWS CORP AND ITS SHAREHOLDERS

160. The board of directors of a Delaware corporation, and any committee thereof, owes the corporation's shareholders unremitting duties of loyalty and good faith.

161. A board of directors, or any subcommittee thereof, breaches its duty of loyalty when its independence is materially affected by an actual and material self-interest of one or more of the individual directors or controlling shareholders. Thus, where disinterested directors vote to approve an interested transaction on terms not entirely fair to the corporation, they breach their fiduciary duties of loyalty to the corporation if their independence is affected by the self-interest of the conflicted director or controlling shareholder.

162. The Board breached its duty to News Corp by exercising its statutory authority to delegate its power and responsibility to manage the Company's affairs in bad faith. Specifically, the Board abdicated its responsibility to stand up to Murdoch, and

defend the Company and its shareholders from his self-interested looting of its assets. Though the Board had originally planned to approve the Shine Transaction itself, once this litigation was initiated, it took defensive measures that, rather than remediate the Transaction's deficiencies, simply masked them. The Board sent the Transaction off to the Audit Committee for rubber-stamping, knowing that there was no way that the committee, itself beholden to Murdoch, could give the Transaction the independent, thorough consideration it warranted.

163. The Audit Committee breached its duties of loyalty to News Corp by voting to approve the Transaction on terms not entirely fair to News Corp. The Audit Committee members, by virtue of their personal and professional relationships, are incapable and/or unwilling to oppose the will of Murdoch.

164. The Audit Committee, though it was tasked with retaining an "independent" financial consultant, acceded to Murdoch and the Board's demands that the Audit Committee retain Centerview Partners, a fledgling financial firm that not only needs to preserve its *ongoing* business relationship with News Corp, but cannot risk its reputation by standing up to Murdoch. The Committee was asked to pass on the adequacy of a transaction that had already been announced and approved, and upon which Murdoch had already placed his imprimatur. To second-guess the Transaction, not only would the Audit Committee have to risk making Murdoch look the fool, it would likely risk causing his daughter's enterprise material harm.

165. Accordingly, the Board including the Audit Committee members breached their fiduciary duties to News Corp.

DERIVATIVE ALLEGATIONS

166. Plaintiffs bring this action derivatively to redress injuries suffered by the Company as a direct result of the breaches of fiduciary duties by the Individual Defendants.

167. Plaintiffs have owned News Corp stock continuously during the time of the wrongful course of conduct by the Individual Defendants alleged herein and continue to hold News Corp stock.

168. Plaintiffs will adequately and fairly represent the interests of News Corp and its shareholders in enforcing and prosecuting its rights and have retained counsel competent and experienced in shareholder derivative litigation.

DEMAND ON THE NEWS CORP BOARD IS EXCUSED AS FUTILE

169. Plaintiffs have not made a demand on the Board to bring suit asserting the claims set forth herein because pre-suit demand was excused as a matter of law.

170. First, demand is excused because the acquisition of Shine from Murdoch's daughter was plainly an interested transaction and, as alleged above, was not entirely fair to the Company – in terms of both price and process. Because the acquisition of Shine was not entirely fair to the Company, the Transaction cannot be deemed a product of the valid exercise of business judgment, and demand is excused as a matter of law.

171. Second, a majority of the Board suffered and continues to suffer from conflicts of interests and divided loyalties that precluded them from exercising independent business judgment, and their course of conduct demonstrates a history of blind allegiance to the whims and instructions of Rupert Murdoch. At least nine out of

the sixteen existing directors are Murdoch family members (Rupert, James and Lachlan), current News Corp executives or advisors (Carey, DeVoe, Siskind, Klein) or stand on both sides of the Shine transaction (Eddington's employer, J.P. Morgan, represents Shine in the connection with the News Corp acquisition and Cowley has a direct financial relationship with Elisabeth as the head of the Murdoch family trust).

172. Likewise, because these Board members have demonstrated a lack of independence from Murdoch, the fact that the "Audit Committee" supposedly blessed the Transaction does not somehow cloak the flawed and unfair acquisition with the protection of the business judgment rule. Entire fairness still applies.

173. Third, demand is excused on the claims relating to the Board's systemic lack of oversight over the Company and its subsidiaries, including News International, because based on the particularized allegations set forth above, each of the Individual Defendants deliberately disregarded clear red flags and warning signs that, had they been heeded and addressed, would have prevented systemic wrongdoing within the Company and by its employees, including by Rupert Murdoch and his family. As such, a majority of the Board faces a substantial likelihood of liability on the underlying claims for breaching their fiduciary duties to the Company and its shareholders, and thus lack the ability to independently consider any pre-suit demand to pursue such claims. Pre-suit demand, therefore, is excused as a matter of law.

A. DEMAND IS EXCUSED BECAUSE THE ACQUISITION OF SHINE WAS AN INTERESTED TRANSACTION AND ENTIRE FAIRNESS APPLIES

174. Whenever a director is entrusted to make a decision about a corporate transaction in which that director has a financial interest, the entire fairness doctrine is

triggered. The doctrine carries a presumption that the transaction was accomplished to favor the interests of the director over the corporation, and the director carries the burden of demonstrating that the transaction was actually entirely fair to the corporation. Given that presumption and burden-shifting, the business judgment rule is rebutted, and demand is not required.

175. First, as shown above, it is clear that the price paid for Shine was entirely too high. For example, the deal's enterprise value/EBITDA multiple is 13.10x while the mean enterprise value/EBITDA multiple of Shine's peer companies is only 5.91x and the median multiple is only 5.56x. There are numerous other indicators that News Corp simply paid too much.

176. Second, as also shown above, the process was unfair. The process changed in mid-stream, as initial announcements stated it would be approved by the Board (with a recommendation from the Audit Committee), while later announcements place the onus of approval solely on the Committee. Further, there is not a majority of the Committee or the Board as a whole that can be deemed to be independent of Murdoch and his family. There are also issues as to whether anyone properly evaluated the Transaction, as none of the materials ostensibly relied upon in approving the Transaction have been made public.

177. The entire fairness doctrine applies here and there is not a majority of disinterested and independent directors on News Corp's board to appropriately consider a demand as all of News Corp's sixteen directors have disabling interests or conflicts. As such, demand should be excused.

B. DEMAND IS EXCUSED BECAUSE THE BOARD ABDICATED ITS FIDUCIARY DUTIES

178. Plaintiffs did not make a demand on the News Corp Board prior to instituting this action regarding the claims because the wrongful acts complained of herein evidence a pattern of conduct showing a wholesale abandonment of their fiduciary duties, including lack of due care and oversight. Those acts include:

- a. approving the Transaction involving a family member of the Chairman and controlling shareholder at an unfair price and with no determination as to the necessity of the transaction;
- b. allowing Murdoch to operate News Corp for the benefit of Murdoch, his family and his friends, by among other things: (i) condoning blatant nepotism in conducting the Company's business; (ii) approving actions designed to perpetuate Murdoch's control over News Corp; (iii) allowing Murdoch to pick and choose who is on and who is off the Board; (iv) permitting actions driven by Murdoch's personal or political agenda; and (v) accepting excessive compensation for Murdoch; and
- c. allowing for woefully inadequate controls over the Company's policies and practices with respect to such that it has become embroiled in numerous instances of illegal or improper behavior, including asking an employee to lie to federal investigators and permitting the widespread, blatantly illegal phone hacking of thousands of telephones in the United Kingdom including members of the royal family, politicians, actors and crime victims and their relatives, the result of which has been the shuttering of the largest Sunday tabloid in the world.

179. These acts, and the other improper acts set forth herein, which demonstrate a pattern of misconduct, were not, nor could they have been, the product of a valid or good faith exercise of business judgment.

180. As detailed above, the Board members were directly involved in the misconduct challenged in this action, by virtue of their respective positions on the Board's various committees, or they completely abdicated their responsibility to oversee

the Company's operations and let management run roughshod over the Company for their personal gain and causing the Company to engage in illegal practices and improper conduct that have harmed the Company and impaired the Company's shareholder value. Defendants' conduct lacked any legitimate business purpose and was not a product of a valid exercise of business judgment. As such, demand should be excused as futile.

C. DEMAND IS EXCUSED BECAUSE THE BOARD'S FAILURE TO EXERCISE ITS DUTY OF OVERSIGHT OVER NEWS CORP'S BUSINESS PRACTICES HAS EXPOSED NEWS CORP TO INCREASED RISKS AND HAS HARMED ITS FINANCIAL CONDITION AND PROSPECTS

181. The Board created an environment in which News Corp's management was given *carte blanche* to operate the business to further Murdoch personal and political agenda and to protect his friends and family from the consequences of the improper and/or illegal behavior. These acts have caused the Company to be required to effectively abandon one of its premier properties, face reputational harm, and even risk the loss of the opportunity to acquire BSkyB.

182. The Board was aware or should have been aware from at least 2005 that employees of News Corp's newspaper *News of the World*, including the editors-in-chief – close Murdoch friend and confidant Rebekah Brooks and Andy Coulson who became a leading advisor to Prime Minister David Cameron, another close Murdoch ally – permitted the newspaper to engage in widespread hacking into the cell phone messages of victims ranging from missing schoolgirls to grieving families, celebrities, royals and politicians in a quest for attention-grabbing headlines.

183. These events have resulted in the shuttering of the *News of The World*, at great expense to News Corp, and multiple criminal charges, including against Coulson himself.

184. In light of the Board's complete failure of oversight over senior management and their conduct, the Director Defendants are incapable of responding adequately to a demand, and demand on them is therefore excused.

D. DEMAND IS EXCUSED BECAUSE THE BOARD HAS SHOWN ITS LACK OF INDEPENDENCE FROM MURDOCH BY ALLOWING HIM TO OPERATE THE COMPANY IN HIS OWN INTERESTS AS OPPOSED TO THE INTERESTS OF THE COMPANY AND ITS SHAREHOLDERS

185. As described above, the Board has allowed Murdoch to operate News Corp as his own private fiefdom with little or no oversight to protect the Company and its shareholders, including:

- a. allowing Murdoch to place his family members in high executive positions at the Company and on the Board so as to permit Murdoch to turn publicly-held News Corp into little more than a family business;
- b. allowing Murdoch to engage in transactions, such as the Shine transaction, designed to benefit Murdoch's family and his dynastic ambitions and not the Company;
- c. allowing Murdoch to engage in transactions such as the sale of News Corp's interests in DirecTV so as to perpetuate Murdoch's control over the Company at great cost to the Company;
- d. allowing Murdoch to choose who will be added to and forced to leave the Board of the Company so as to enhance Murdoch's absolute control over the affairs of the Company;
- e. allowing Murdoch to make contributions with the funds of the Company designed to further Murdoch political agenda at great cost to the Company; and
- f. granting excessive compensation to Murdoch in light of the lackluster performance of the Company.

E. DEMAND IS EXCUSED BECAUSE THE BOARD MEMBERS ARE INTERESTED IN RETAINING THEIR LUCRATIVE COMPENSATION AND PRESTIGE AS BOARD MEMBERS AND BECAUSE OF THE CLOSE FAMILIAL AND/OR PERSONAL TIES TO MURDOCH

186. A majority of News Corp Board members suffer from conflicts of interest and divided loyalties that preclude them from exercising independent business judgment. Notably, seven Directors are either Murdoch family members or News Corp employees who are beholden to Murdoch for their livelihoods. In addition, Eddington is interested in the Transaction because J.P. Morgan, for which Eddington serves as Non-Executive Chairman of Australia and New Zealand, served as the financial advisor to Shine in the Transaction. Further, Cowley is the head of the Murdoch family trust and thus has financial and fiduciary responsibilities to Elisabeth, who has a share in the trust. Thus, at least nine of the sixteen members of the Board suffer from irreconcilable conflicts of interest with respect to any decision involving Murdoch or any member of his family.

187. In addition, eight Directors have served on the Board for over ten years and five of those have served over nineteen years. While experienced directors are typically important assets, long-tenured directors can also become insufficiently independent of management – an issue that can have serious consequences when a small number of them join forces to dominate board decision-making. Because they are interested, the Board members' actions with respect to the facts alleged herein are subject to entire fairness review, and the business judgment rule is not applicable.

188. As of the date of the filing of this complaint, the News Corp Board consisted of the following sixteen Directors: Defendants Rupert Murdoch, James R. Murdoch, Lachlan K. Murdoch, Chase Carey, David F. DeVoe, Joel Klein, Arthur M.

Siskind, Roderick I. Eddington, Andrew S.B. Knight, Thomas J. Perkins, Peter Barnes, José María Aznar, Natalie Bancroft, Kenneth E. Cowley, Viet Dinh, John L. Thornton. As described above, nine are clearly not independent as they are Murdoch family members and/or are employees of News Corp or have other conflicts that render them incapable of acting fairly and impartially with respect to issues involving members of the Murdoch family. Moreover, all of them have, over time, shown either unwillingness or inability to challenge Rupert Murdoch's control over the Company. In addition, all of the Directors receive significant financial compensation and benefits from their positions on the Board.

189. Rupert Murdoch, as the father of Elisabeth Murdoch, the majority owner of Shine, clearly stood on both side of the Transaction. Given Murdoch's overwhelming personal and financial interests in the Transaction, the fact that he stands on both sides of the Transaction, and his position in the Company, Murdoch is unable to fairly and impartially consider a demand.

190. James Murdoch, as the brother of Elisabeth Murdoch, is not disinterested in connection with the Transaction. James Murdoch is a Murdoch scion and the brother of Lachlan Murdoch and Elisabeth Murdoch. He would also not go against the will of his father so there is no chance he would impartially consider a demand relating to the Transaction. Moreover, James would not objectively consider a demand and risk the substantial benefits he receives from News Corp and related entities. According to *The New York Times*, "James Murdoch joined the News Corporation in 1996, after the company bought his critically acclaimed yet money-losing record label, Rawkus

Records.” James Murdoch’s entry into News Corp not only provides further evidence of Rupert Murdoch’s predilection for nepotism but also serves as a harbinger for the present Transaction. Since joining News Corp, James Murdoch has served, *inter alia*, as an Executive Vice President, Chairman and CEO of News Corp’s subsidiary, STAR Group Limited, and has been a Director and the Chairman and Chief Executive, Europe and Asia since 2007. James Murdoch previously served as a Board member from 2000 to 2003. James Murdoch receives an executive salary and his total compensation according to the Company’s most recent Proxy Statement was more than \$10 million. In addition to his own interest in the Company, discussed above, he also receives annual cash bonuses and discretionary grants of time-based restricted stock units. In just the years 2008 - 2010, the grant date fair value of stock and option awards that he has been given totaled more than \$10 million. James Murdoch serves on the board of BSkyB with fellow News Corp Board members David F. DeVoe and Arthur Siskind, as well as News Corp executive Tom Mockridge. As discussed above, News Corp owns approximately 39% of BSkyB and is in the process of attempting to acquire the remainder of the company. James Murdoch has been a Director of NDS since 2009. NDS is a private company owned by the Permira Funds and News Corp. Daniel F. DeVoe also serves as a Director of NDS and Arthur Siskind previously served on that entity’s board.

191. James Murdoch has worked for his father, Rupert Murdoch, since 1996 and been given opportunities and advancements on account of his father. Analysts consider James as the likely “heir apparent” of News Corp. James’ sister Elisabeth gained nearly \$250 million from the Transaction. James Murdoch is both financially and

personally interested in the actions challenged herein and lacks independence from the other Board members, particularly Rupert Murdoch, and is therefore unable to legitimately consider a demand.

192. Lachlan Murdoch is the son of Rupert Murdoch and the brother of James Murdoch and Elisabeth Murdoch. Lachlan Murdoch has been a Board member since 1996 for which he has been paid over \$4.3 million. He also has options currently worth millions of dollars. He served as an advisor to the Company from 2005 to 2007 and was Deputy Chief Operating Officer from 2000 to 2005. At the time he quit the Company Lachlan was making nearly \$8 million in executive compensation, and received a severance payment of \$8 million. Although Lachlan Murdoch's more linear career path to News Corp executive may have obviated the need for the acquisition of an independent family-owned business, his position is no less interested than that of his brother James. Lachlan Murdoch worked for his father, Rupert Murdoch, from approximately 1995 to 2005 and was given opportunities and advancements on account of his father. Lachlan's sister Elisabeth gained nearly \$250 million from the Transaction. Lachlan Murdoch is both financially and personally interested in the actions challenged herein and lacks independence from the other Board members, particularly Rupert Murdoch, and is therefore unable to legitimately consider a demand.

193. Chase Carey has been the President, Chief Operating Officer and Deputy Chairman of the Board since July 2009. Carey receives an annual salary of approximately \$8.1 million and received a signing bonus in 2009 of \$10 million. Carey's total executive compensation in 2010 alone was more than \$26 million. In 2007 alone,

Carey received over \$960,000 as a director as a result of a change in pension value and non-disqualified compensation earnings. The compensation that Carey receives as a director and as an inside, corporate executive of News Corp is, upon information and belief, material to him. Carey previously served the Company in numerous roles beginning in 1988, including as Co-Chief Operating Officer from 1996 to 2002, as a consultant from 2002 to 2003 and as a Director from 1996 to 2007. Carey has served in executive and/or director positions with affiliates of News Corp for which he has been handsomely paid, including serving as: the Chairman of the Supervisory Board of Sky Deutschland AG, an affiliate of the Company; President and Chief Executive Officer of DirecTV from 2003 to 2009 and as a Director of DirecTV from 2003 to June 2010; and a Director of BSkyB from 2003 to 2008. In June 2009, when Carey resigned from DirecTV and returned to News Corp as Murdoch's second in command, that shake-up was seen as intended to preserve the family succession line at News Corp. In announcing the change in top level News Corp personnel, Murdoch described Carey as "one of my closest advisers and friends for years." Carey's long time friendship with Murdoch, his tenure with the Company and his exorbitant executive compensation prevent him from asserting independent judgment and he is, therefore, unable to objectively consider a demand.

194. DeVoe has been a Director of the Company and its Chief Financial Officer since 1990. DeVoe has served as Senior Executive Vice President of the Company since 1996. DeVoe has been a Director of BSkyB since 1994 and a Director of NDS since 1996. He served as a Director of DirecTV from 2003 to 2008. In addition to the fees he

has earned and will continue to earn as a director of News Corp and its affiliates, DeVoe's total summary executive compensation in 2010 alone was more than \$7 million. In addition, since 2006, DeVoe has been granted News Corp stock and options awards valued at more than \$8 million. The compensation that DeVoe receives as a director and as an inside, corporate executive of News Corp is, upon information and belief, material to him. DeVoe's son, David F. DeVoe, Jr., is a salaried employee of Fox Entertainment Group, Inc., a subsidiary of the Company, serving as its Deputy Chief Financial Officer and as an Executive Vice President. DeVoe's long tenure with the Company and as a Board member, his executive compensation, his relationship with the Murdochs and his son's employment with a News Corp subsidiary, prevent him from asserting independent judgment and he is, therefore, unable to objectively consider a demand.

195. Siskind has been a Director of the Company since 1991 and held senior executive positions at News Corp to 2005, including serving as the Company's Group General Counsel for nearly fifteen years and as Executive Vice President and then Senior Executive Vice President from 1991 to 2005. He is a close ally of Murdoch, serving as his Senior Advisor since 2005. He has served as a Director of BSKyB since 1991 (where he currently serves alongside James Murdoch) and as a Director of NDS from 1996 to 2009.

196. In 2005 alone, Siskind earned nearly \$7 million in executive compensation. As a Board member, he also is handsomely rewarded; in 2010 alone, Siskind received over \$3.7 million (which reflected a change in pension value and non-disqualified compensation earnings), and in 2009, his total compensation as a director

was over \$2.3 million. Further, Siskind has more than \$2.1 million in unused stock units. The current compensation that Siskind receives as a News Corp director, as Murdoch's senior advisor and as a director of BskyB, and his unused stock units, are, upon information and belief, material to him. Kenneth Siskind, son of Arthur Siskind, is a Managing Director of Allen & Company LLC, a United States based investment bank, which provided investment advisory services to the Company during the fiscal year ended June 30, 2009 related to the sale of certain of the Company's television stations. The fees paid to Allen & Company were approximately \$17.5 million, which is believed to represent a material amount of the fees attributed to Kenneth Siskin, and thus material to his income from Allen & Co.

197. Siskind teaches at Georgetown together with his co-Board members Dinh and Aznar. Siskind's twenty-year tenure as a Board member, his long relationship with the Murdoch family, the materiality to him of the compensation he receives for serving as a Board member, his prior executive compensation, and his son's financially beneficial business relationship with News Corp, prevent him from asserting independent judgment and he is, therefore, unable to objectively consider a demand.

198. Eddington is utterly conflicted because he serves as the Non-Executive Chairman of J.P. Morgan in Australia and New Zealand and J.P. Morgan acted as the financial advisor to Shine on the Transaction. Moreover, Eddington has been paid very handsomely by News Corp for serving as a Director of the Company since 1999. For 2009 and 2010 alone, Eddington received over \$400,000 in director compensation. While information about Eddington's annual compensation at J.P. Morgan is not publicly

available, the millions in compensation he has or will receive as a News Corp director is, upon information and belief, material to him.

199. In addition, Eddington has served as Non-Executive Chairman, Australia and New Zealand, of J.P. Morgan since 2006. Eddington's relationship with J.P. Morgan is significant because of J.P. Morgan's business dealings with News Corp and related entities. An affiliate of J.P. Morgan is the adviser to News Corp on its proposed acquisition of BSkyB. In February of this year, J.P. Morgan served as the sole book-runner for the \$2.5 billion debt offering by News America Inc., a company owned by News Corp, and J.P. Morgan is presently advising News Corp on the potential purchase of Formula One motor racing. In past years, J.P. Morgan has also obtained substantial revenue from News Corp: for example, by serving as the syndication agent for a \$2.5 billion credit agreement for a News Corp subsidiary in 2007, and by providing financing for a transaction in which minority shareholders were cashed out of a News Corp subsidiary in 2008.

200. Previously, Eddington served as a Director of News Limited, News Corp's principal subsidiary in Australia, from 1998 until 2000, and as Chairman of Ansett Holdings Limited and as a director of each of Ansett Australia Limited and Ansett Australia Holdings Limited from 1997 until 2000. Ansett Australia was an asset of News Corporation until 2000 (50%). Ansett Australia is a wholly owned subsidiary of Ansett Holdings Limited which was equally owned by Air New Zealand and News Corporation Ltd.

201. According to *The Guardian*, last year, minority shareholders planned to vote against Eddington's re-election to the Board in protest of Rupert Murdoch's donation of approximately \$2 million to Republican Party interests. At the Company's 2010 Annual Shareholders' Meeting, in response to numerous pointed questions directed to Eddington about why the Board rubber-stamped Murdoch's decision to have News Corp donate \$1 million to the RGA and another \$1 million to the scandal-ridden U.S. Chamber of Commerce, Eddington made clear that the Board does what Murdoch wants: "The Board takes advice from its executives on this, listened to the case, [and] acted accordingly. ... And on that basis, as the chairman [Murdoch] has said, the donations were made."

202. Eddington's long tenure as a Board member, his close relationship with Murdoch, and his various interrelated business relationships and the materiality to him of the compensation he and his company earn from News Corp prevent him from asserting independent judgment and he is, therefore, unable to objectively consider a demand.

203. Andrew S.B. Knight has been a Director of the Company since 1991. As noted above, over the course of his two decades on the Board, Knight has received well over a million dollars in fees. Knight presently also has more than \$680,000 in unused stock units. He has been the Chairman of J. Rothschild Capital Management Limited since 2008. Knight served as a Director of Rothschild Investment Trust Capital Partners plc from 1997 to 2008. According to publicly available sources, Knight has been paid nearly \$1 million in compensation from J. Rothschild Capital Management Limited. Thus, upon information and belief, the compensation Knight receives for serving as a

member of the Board is, upon information and belief, material to him. Further, Knight's association with the Rothschild entities is significant because it evidences further ties between Knight and Rupert Murdoch. According to media reports, Lord (Jacob) Rothschild and Rupert Murdoch each purchased equity stakes in Genie Oil and Gas Inc. with both serving on Genie Energy's Strategic Advisory Board. Jacob Rothschild is Chairman of the J. Rothschild group of companies and of Rothschild Investment Trust Capital Partners plc on whose Board Mr. Knight served. Knight's twenty-year tenure as a Board member, the materiality to him of the annual compensation he earns for serving as a Board member, his ongoing relationship with Murdoch, and his former employment with the Company prevent him from asserting independent judgment and he is, therefore, unable to objectively consider a demand.

204. Thomas J. Perkins has been a Director of the Company since 1996. In fact, Perkins is a personal friend of Rupert Murdoch. In fact, Murdoch provided an endorsement for Perkins' pulp novel *Sex and the Single Zillionaire*. Perkins' long tenure as a Board member and his personal relationship with Rupert Murdoch prevent him from asserting independent judgment and he is, therefore, unable to objectively consider a demand.

205. Peter Barnes has been a Director of the Company since 2004 and is a member of the Audit Committee. As noted above, Barnes has received well over \$1 million in fees and stock option awards as compensation for serving in those roles. He is also Chairman of Ansell Ltd., Metcash Ltd. and Samuel Smith & Sons Pty Ltd. Although the annual compensation he receives for serving as chairman of those companies is not

publicly available, upon information and belief, the annual compensation that Barnes receives for serving as a director of News Corp is material to him.

206. Further, as demonstrated by the numerous transactions that the Board simply let Murdoch push through without any oversight whatever (most notably the Dow Jones acquisition and the DirecTV sale), Barnes' tenure on the Audit Committee has demonstrated his inability or unwillingness to provide any meaningful oversight over the Transaction. That, coupled with the materiality to him of the compensation he receives for serving as a Board member, render him incapable of validly exercising business judgment in considering a demand.

207. Natalie Bancroft has been a Director of the Company since 2007. In 2009 and 2010 alone, she received a total of more than \$400,000 for serving in that role. She is a professional ballet dancer and trained as an opera singer. Bancroft was appointed as a Director as part of the agreement Murdoch orchestrated to buy Dow Jones. According to news sources, Bancroft was handpicked by Murdoch as a possible end run around the wishes of the Bancroft family. Reportedly, Rupert Murdoch did not interview the Bancroft family's nominees for the position; "he simply handed the job to Natalie." Although Bancroft's annual compensation (if any) in the performing arts is not publicly available, upon information and belief, the annual compensation that she receives for serving as a Board member is material to her. Further, given that she owes her position and its associated compensation to Rupert Murdoch, and with no business experience of her own, Bancroft is unlikely to challenge Rupert Murdoch's dominance of the News Corp Board and she is therefore unable to objectively consider a demand.

208. Kenneth E. Cowley has been a Director of the Company since 1979 – as long as Rupert Murdoch has been CEO – and serves as a member of the Nominating and Corporate Governance Committee. Cowley served as a senior executive of News Limited, a subsidiary of the Company, from 1964 to 1997, including as its Chairman and Chief Executive Officer from 1980 to 1997. Cowley has received millions of dollars for serving as a director. He is also Chairman of R. M. Williams Holdings Limited. Although the compensation that Cowley receives for serving in that role is not publicly available, upon information and belief, the compensation he receives for serving as a director of News Corp is material to him. Cowley’s over thirty-year tenure as a Board member is inconsistent with being an independent director. Further, the compensation he has received over the three decades for sitting on the Board was material to him. These factors, in addition to his ongoing relationship with Rupert Murdoch and his former employment with the Company, prevent him from asserting independent judgment and he is, therefore, unable to objectively consider a demand.

209. Joel Klein joined the Board of Directors of the Company and serves as Executive Vice President, Office of the Chairman, effective January 2011 and as Chief Executive Officer of News Corp’s education division. His compensation as a Board member exceeds \$250,000 each year. In addition, for serving as a News Corp executive, Klein is paid a \$2 million base salary and received a \$1 million signing bonus. He gets a “car allowance” of \$1,200 per month, and is eligible to receive millions of dollars in bonus and other incentive compensation pursuant to the Company’s plans, as well as profit-sharing, pension, health, welfare and death benefits and substantial payments upon

termination of employment. This compensation, which provides the bulk of his income, is, upon information and belief, material to him. His current and very recent employment with News Corp, and the emollients his position provides, prevent him from asserting independent judgment and he is, therefore, unable to objectively consider a demand.

210. José María Aznar is a long time friend of Murdoch. Murdoch appointed Aznar as a Board member in 2006. According to a June 22, 2006, article on *www.marketingmagazine.co.uk*, by that time, Murdoch and Aznar had been friends for several years. In fact, Murdoch attended the wedding of Aznar's daughter in 2002. Aznar teaches at Georgetown University with his fellow Board members Dinh and Siskind. Since joining News Corp's Board in 2006, Aznar has received hundreds of thousands of dollars in compensation and stock awards.

211. In addition, although Aznar, Dinh and Thornton are nominally outside directors, they hardly constitute a majority in this instance. Their three-member minority assuming, *arguendo*, that they were to actually challenge the Transaction is not enough of a voice to prevent the Transaction. Moreover, Murdoch, with the Board's complicity has a history, pattern and practice of engaging in improper practices that fly in the face of proper corporate governance. Not one of these three individuals has established a reputation for challenging Murdoch's authority or control.

212. Further, upon information and belief, the annual compensation that Thornton, Aznar and Dinh receive for serving as Board members is material to each of them:

- a. In 2009, Thornton received \$119,110 in total compensation for serving as a Board member and in 2010, he received over \$242,000 in total

compensation for serving as a Board member. In each of those years, Thornton received approximately \$2 million as compensation for serving as a director of other companies (HSBC Holdings PLC, Ford Motor Company and China Unicom (Hong Kong) Limited). He also has in excess of \$680,000 in unused stock units.

- b. In 2009, Aznar received total compensation for serving as a Board member of \$220,000 and in 2010, he received total compensation of \$146,161. He also has more than \$585,000 in unused stock units. Aznar is a consultant to Endesa SA for which news reports state he receives €200,000 or approximately \$289,000. He also serves as a Distinguished Scholar at Georgetown University, is a member of the Global Advisory Board of J.E. Robert Companies, is a member of the International Advisory Board of the Atlantic Council of the United States, is a Strategic Limited Partner and member of the Board of Advisers to Doheny Global Group and is the President of the Foundation for Social Studies and Analysis (FAES). Although Aznar's compensation from Georgetown University, J.E. Robert Companies, the Atlantic Council, Doheny Global Group and the FAES is not publicly available, upon information and belief, the annual compensation he receives for serving as a Board member of News Corp is material to him.
- c. In 2009, Dinh received \$135,000 in total compensation for serving as a Director, and in 2010 he received \$258,000 in total compensation as a Director. His unused stock units exceed \$680,000. Dinh also serves as a director of MacAndrews & Forbes Worldwide Corporation for which he received annual compensation of \$135,000 in 2009 and \$137,000 in 2010. Dinh is also General Counsel and Corporate Secretary for Strayer Education Inc. and a Principal of Bancroft PLLC, a law firm in Washington D.C. Although Dinh's annual compensation for his role at Strayer Education Inc. and Bancroft PLLC is not publicly available, upon information and belief, the annual compensation that Dinh receives for serving as a member of the Board is material to him.

213. The Board's inability to take appropriate action to address Murdoch's and the other Board members' breaches of fiduciary duties is most aptly and recently borne out by the decision on behalf of the Company—a decision undoubtedly made by Murdoch and endorsed by the other Board members—to completely ignore and fail to respond, as required by 8 *Del. C.* §220, to a letter sent by plaintiff Central Laborers

pursuant to that statute, and received by the Company on February 8, 2011, requesting inspection of the Company's documents pertaining to the matters set forth herein.

214. Under these circumstances, the News Corp Board cannot be expected to bring the claims asserted herein, and the actions of the Board challenged herein are not protected from judicial scrutiny. Demand is therefore excused.

DERIVATIVE CAUSES OF ACTION

COUNT I

(Breach of Fiduciary Duty)

(Derivatively Against All Defendants Concerning the Shine Transaction)

215. Plaintiffs reallege the preceding paragraphs as set forth above and incorporate them herein by reference.

216. The Individual Defendants, as Directors of News Corp, are fiduciaries of the Company and its shareholders. As such, they owe the Company the highest duties of loyalty, care, candor and good faith and fair dealing.

217. The Individual Defendants breached their fiduciary duties by failing to fairly evaluate the Transaction and permitting the purchase of Shine at an excessive and inequitable price.

218. In contemplating, planning, and/or effecting the foregoing conduct, the Individual Defendants were not acting in good faith toward the Company and breached their fiduciary duties.

219. As a result of these actions of the Individual Defendants, the Company has been and will be damaged.

220. Plaintiffs have no adequate remedy at law.

COUNT II
(Breach of Fiduciary Duty)
(Derivatively Against Defendant Rupert Murdoch Concerning the Shine Transaction)

221. Plaintiffs reallege the preceding paragraphs as set forth above and incorporate them herein by reference.

222. Defendant Murdoch, as a controlling shareholder, is a fiduciary of the Company and its shareholders. As such Murdoch owes them the highest duties of loyalty, care, candor and good faith and fair dealing.

223. Defendant Murdoch breached his fiduciary duties by using his control over News Corp and the Individual Defendants to cause the Company to allow the Transaction and permit the purchase of Shine at an excessive price, despite knowing that such acquisition would ultimately be detrimental to the Company.

224. In contemplating, planning, and/or effecting the foregoing conduct and in pursuing and structuring the Transaction, Murdoch did not act in good faith and breached his fiduciary duties to the Company.

225. As a result of the actions of Murdoch, the Company has been and will be damaged.

226. Plaintiffs have no adequate remedy at law.

COUNT III
(Breach of Fiduciary Duty)
(Derivatively Against All Defendants Concerning Their Bad Faith Failure To Ensure News Corp's Operations Are Run In a Lawful Manner)

227. Plaintiffs reallege the preceding paragraphs as set forth above and incorporate them herein by reference.

228. The Individual Defendants, as Directors of News Corp, are fiduciaries of the Company and its shareholders. As such, they owe the Company the highest duties of loyalty, care, candor and good faith and fair dealing, including the duty to implement in good faith a reasonable system of controls to ensure that News Corp is operated in conformity with applicable laws and, once that system is in place, to respond in good faith to reports or indications that News Corp or its employees are engaging in unlawful or other improper behavior. This cause of action is asserted based upon the Individual Defendants' acts in violation of News Corp's internal policies, including its Standards of Business Conduct, the Code of Ethics for the Chief Executive Officer and Senior Financial Officers, and Statement of Corporate Governance, in permitting News Corp senior officers as well as middle managers to violate various state, federal and foreign laws and other laws applicable to News Corp's business.

229. Nearly a decade ago, News Corp began engaging in improper and illegal conduct involving wiretapping and phone-hacking. Evidence of this scandalous behavior became publicly known in 2005. News reports stated that News Corp had engaged in wide spread use of private investigators to illegally hack into the cell phone messages of private citizens, including murder victims and relatives of the July 7, 2005 London terrorist attacks, along with public officials and celebrities in Britain. In July 2009, James Murdoch approved a \$1.1 million payment to settle phone-tapping allegations against one of News Corp's newspapers, but he along with the rest of the Board took no other action concerning these illegal activities.

230. The Individual Defendants breached their fiduciary duties by failing to take any meaningful action to investigate, and/or stop the improper and illegal conduct at News Corp involving wiretapping and phone-hacking.

231. Based on the foregoing conduct, the Individual Defendants were not acting in good faith toward the Company and breached their fiduciary duties.

232. As a result of these actions of the Individual Defendants, the Company has been and will be damaged.

233. Plaintiffs have no adequate remedy at law.

CLASS ACTION ALLEGATIONS

234. Plaintiffs bring this action pursuant to Rule 23 of the Rules of the Court of Chancery, individually and on behalf of all other holders of News Corp's common stock (except defendants herein and any persons, firm, trust, corporation or other entity related to or affiliated with them and their successors in interest) who are or will be threatened with injury arising from Defendants' wrongful actions, as more fully described herein (the "Class").

235. This action is properly maintainable as a class action.

236. The Class is so numerous that joinder of all members is impracticable. The Company has thousands of shareholders who are scattered throughout the United States and the world. As of January 26, 2011, there were 1,826,457,096 shares of News Corp Class A Common Stock outstanding.

237. There are questions of law and fact common to the Class including, *inter alia*, whether:

- a. The Individual Defendants will breach their fiduciary duties by agreeing to expand the News Corp Board of directors;
- b. The Individual Defendants will breach their fiduciary duties by agreeing to appoint Elisabeth Murdoch to the News Corp Board of directors;
- c. The Individual Defendants breached their fiduciary duties by failing to fully disclose all material information relating to the Transaction, the expansion of the Board, and the appointment of Elisabeth Murdoch to the Board;
- d. The Individual Defendants breached their fiduciary duties by favoring the interests of Murdoch over those of shareholders and the Company;
- e. Plaintiffs and the other members of the Class are being and will continue to be injured by the wrongful conduct alleged herein and, if so, what is the proper remedy and/or measure of damages; and
- f. Plaintiffs and the other members of the Class will be damaged irreparably by Defendants' conduct.

238. Plaintiffs are committed to prosecuting the action and have retained competent counsel experienced in litigation of this nature. Plaintiffs' claims are typical of the claims of the other members of the Class, and Plaintiffs have the same interests as the other members of the Class. Plaintiffs are adequate representatives of the Class.

239. The prosecution of separate actions by individual members of the Class would create the risk of inconsistent or varying adjudications with respect to individual members of the Class, which would establish incompatible standards of conduct for Defendants, or adjudications with respect to individual members of the Class, which would as a practical matter be disjunctive of the interests of the other members not parties to the adjudications or substantially impair or impede their ability to protect their interests.

240. Defendants have acted, or refused to act, on grounds generally applicable to, and causing injury to, the Class and, therefore, preliminary and final injunctive relief on behalf of the Class, as a whole, is appropriate.

CLASS ACTION CAUSES OF ACTION

COUNT IV (Breach of Fiduciary Duty) (Directly Against All Defendants)

241. Plaintiffs reallege each and every allegation above as if set forth in full herein.

242. Defendants other than Murdoch, as directors of News Corp, are fiduciaries of the Company's shareholders. As such, they owe News Corp shareholders the highest duties of loyalty, care, candor, good faith and fair dealing.

243. Defendant Murdoch is also a fiduciary of the Company's shareholders in his capacity as a Director and as a controlling shareholder of News Corp. As such, Murdoch owes News Corp shareholders the highest duties of loyalty, care, candor, good faith and fair dealing.

244. For years, Murdoch has desired that his daughter return to the family business to sit alongside her brothers James and Lachlan on the News Corp Board. In fact, in February 2009, Murdoch offered Elisabeth Murdoch a seat on the News Corp Board which she declined due to then-existing conflicts of interest with Shine. Murdoch continued to groom Elisabeth Murdoch for a future appointment to the Board by positioning her as a non-voting observer on the Board which enabled her to attend the Company's Board meetings. Now, through his calculated acquisition of Shine, Murdoch

has obviated the conflict of interest that once withheld Elisabeth Murdoch from ascending to the Company's Board, paving the way for her Board appointment as part of the Shine acquisition.

245. Murdoch wasted no time in publicly announcing to News Corp's shareholders that Elisabeth Murdoch would be joining the Company's Board. In its Form 8-K filed with the SEC on February 21, 2011, News Corp announced that an agreement had been reached to acquire Shine and that Murdoch "expect[s] Liz Murdoch to join the board of News Corporation." This public statement, which was issued by News Corp, takes a definitive tone and leaves no doubt that Elisabeth Murdoch's ascension to the News Corp Board is a *fait accompli*. In fact, the Company proffered no business purpose for the expansion of its already large Board, nor did it indicate that any other potential candidate would be considered for the newly created Board seat. With the Transaction now complete, Elisabeth Murdoch's appointment to the News Corp Board is imminent. Defendants, who are all beholden to Murdoch, ceremoniously acquiesced to Murdoch's plan to instill yet another Murdoch family member and devoted supporter on the News Corp Board. They have done so in breach of their fiduciary duties.

246. Not only will having Elisabeth Murdoch on the Board constitute bald nepotism designed to tighten the control that Rupert Murdoch and his family exercise over the Company but, by needlessly placing another Murdoch family member on the Board, Murdoch and the other Defendants will cause a diminution in the public shareholders' voting rights. Elisabeth Murdoch's appointment to the Board will inevitably lock up another vote to further her father's agenda. Her appointment will

cause the non-Murdoch-family Board members who were elected by the Company's shareholders to wield even less voting power than they did before. By diluting the voting power of non-Murdoch-family Board members, shareholders' representation on and influence over the Board will be further marginalized.

247. By following through on the threat to expand the News Corp Board solely to create a Board seat for Elisabeth Murdoch, Murdoch and the other Board members will create immediate and direct harm to News Corp's shareholders. As of today, although a majority of the current Board is beholden to Murdoch, shareholders enjoy some ability to hold Defendants accountable and to restrain Murdoch through the ballot box. With each addition to the Board of a person whose loyalty to the Murdoch family cannot be questioned or whose willingness to put Murdoch's interests ahead of the public shareholders' interests is a certainty, the public shareholders' personal voting rights are directly harmed. As such, the imminent expansion of the News Corp Board to appoint Elisabeth Murdoch constitutes a direct attack on the shareholder franchise.

248. In sum, these acts will cause a direct harm to News Corp shareholders by diluting their ability to influence the Company through the exercise of the shareholder franchise because a greater percentage of the Board will be completely beholden to Rupert Murdoch's wishes. In contemplating, planning, and/or effecting the foregoing conduct, Murdoch and the other Defendants were not acting in good faith toward News Corp shareholders, and breached or will breach their fiduciary duties owed to them.

249. As a result of these actions, News Corp shareholders have been and will be damaged.

250. Plaintiffs have no adequate remedy at law.

WHEREFORE, Plaintiffs pray for judgment as follows:

- a. for an order declaring that the Defendants breached their fiduciary duties to the Company;
- b. for an order awarding damages, together with pre- and post-judgment interest to the Company;
- c. finding that Individual Defendants will breach their fiduciary duties to the Class by agreeing to expand the News Corp. Board of Directors and appoint Elisabeth Murdoch to the created vacancy;
- d. for Plaintiffs' costs and expenses incurred in this action, including, but not limited to, experts' and attorneys' fees; and
- e. for such other and further relief as may be just and proper.

DATED: July 8, 2011

GRANT & EISENHOFER P.A.

/s/ Geoffrey C. Jarvis

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