1

THE DREAM BEAM

In the spring of 2001, Rupert Murdoch thought he'd reached the culmination of a deal he'd been working on intensely for months—the acquisition of GM's Hughes Electronics and DirecTV—a key component to the grandest plan of his career: the creation of Sky Global Networks. To pull it off, his company and another formidable giant, Microsoft Corp., needed to become bedfellows while waiting for a pair of CEO brothers at GM to sort out their priorities.

Amidst the midtown bustle, down the gray avenues of Manhattan, stark in the morning sun, Rupert Murdoch approaches the News Corp. office tower at 1221 Avenue of the Americas. Through the revolving glass doors, up the elevators, and past the third-floor reception area, silver-haired Murdoch—removing his jacket—arrives at his desk slightly slumped and paws through some papers like an old lion who can no longer be startled by anything laid before him. It is March 16, 2001, and the 70-year-old media mogul has been waiting to hear the final word on one of the biggest deals of his career.

Rupert Murdoch looks up in an oddly shy way at his colleagues who enter the room. "They're back!!" Murdoch's voice rises to a gleeful roar, as he sits suddenly bolt upright and pounds the table grinning mischievously.

For weeks Murdoch has believed that his supposed partners were trying to double-cross him. Perhaps because of the competitive decades he's weathered, he is disarmingly good-natured about such machinations—as if it's all part of his own karmic rodeo. Would-be partner General Motors had been leading him down the garden path for weeks. And now his tricky friends have reinitiated contact.

The slow-moving auto giant controlled Hughes Electronics' DirecTV, the pay television giant, and owned 30 percent of its shares. DirecTV for some time had been the apple of Murdoch's eye. Murdoch and his right-hand man, CEO Peter Chernin, had waited on GM for months, together flying to Detroit for tête-à-têtes with company executives. DirecTV represented the missing piece in the grandest plan of Murdoch's career: the creation of Sky Global Networks, a worldwide digital television enterprise that would beam all manner of content—entertainment, news, information, and the ability to purchase a plethora of consumer goods and services—to every corner of the planet. Wall Street called the plan Murdoch's "Dream Beam." Merging his Sky Global enterprise with DirecTV, Murdoch was hoping to recreate his successes with his British Sky Broadcasting in the United Kingdom, which he viewed as an interactive laboratory for his entire empire. Since America Online and Time-Warner announced their plans to merge, his goals in this area were even more urgent.

DirecTV boasted 8.7 million subscribers—about two-thirds of the satellite market. By the end of the year, it expected nearly 10 million customers, up 20 percent from the previous year. That meant it was reaching more homes than anyone except AT&T and Time Warner, and was on target to soon pass the cable giants.

These days, the media world is being transformed in an unpredictable way and at a lightning-fast pace—a pace that means huge success could suddenly come in one part of the world, while in another your supposed business partners could be stabbing you in the back.

Despite the setbacks, Murdoch's risk-taking in several world markets his rivals dared not enter was showing signs of paying off. Ironically, the biggest dream of his career—the creation of Sky Global—lacked one thing: a U.S. component. DirecTV was key to building his coveted global satellite platform. He had no presence in the United States with satellite, though his British Sky Broadcasting—known as BSkyB—combined with Asian broadcaster Star and Sky Latin America, had most of the rest of the world covered.

A merger with Hughes would give Murdoch the important U.S. piece he needed. Murdoch could not acquire the company outright; that would present hefty tax penalties for the seller. To avoid this, in a merger scenario, Hughes would need to maintain control of 51 percent of the company—but the deal would be structured in a way that ensured Murdoch was in charge.

Murdoch is pensive. Thick lenses magnify deep-set eyes. His shirtsleeves are rolled up to the elbows, and he is almost willowy as he moves about his spacious office, having been on a fitness campaign inspired by his new young wife. At age 70, Murdoch cuts a delicate figure that might have walked out of a T.S. Eliot poem rather than the cutthroat turf that is the media world—a surprising specter for a man who over the years has been reviled worldwide for his alleged crassness and reputation for catering to the lowest common denominator in order to make a buck.

(Murdoch says criticism of his media ventures has largely come from competitors he beat in the ratings, who simply were not as good as he at predicting popular tastes. "We were a huge catalyst for change," he says.)

Rupert settles into a white couch, relaxed, with one leg extended, to contemplate the latest perils and adventures of his worldwide empire. He is refined and softspoken, and even his indignant roars are moderated with a subtle sense of irony, as if his empire's battles are all just part of the churn. Indeed, the media magnate dispassionately views his life as an interlocking series of wars.

Murdoch's latest bid is just one in a seemingly endless series of deals since the 1950s that had resulted in his increasing control over newspapers, magazines, television, book publishing, radio, cable, and pay-television properties worldwide. From a single Australian newspaper he'd taken over for his father at age 23, he'd built a media empire that now spans six continents.

He is the gatekeeper of gatekeepers—shaping, interpreting, and distributing information to almost every corner of the earth. While some cried cultural imperialism, others believed Murdoch's influence was for the best, resulting in the democratization of information. In recent years, Murdoch and his young sons—who, starting in remote outposts, had gradually joined his most trusted inner sanctum of executives—had learned the importance of tailoring their business to local mores and cultures in country markets worldwide.

Of all the media companies on the planet, News Corp. was the only one to truly span the globe. Unlike the others, the ever-expanding News Corp. was the brainchild of one man—Murdoch—and it remained in his hands. While rival AOL Time Warner had become the largest media company in history, with Sony, Bertelsmann, Disney, and News Corp. following, only News Corp. continued to be controlled by a single man and his family.

Through dozens of acquisitions over the years, scrutinizing another mogul's industry had always been a fascinating exercise for Murdoch. GM chairman Jack Smith and his number two man, vice chairman Harry Pearce, inhabited another world. Compared to the media business, the automotive industry moved at a snail's pace. While GM owned a hot high-tech company with huge potential, getting the board to respond was like throwing tiny pebbles at an armored tank. Murdoch and Chernin had grown impatient over the months, and finally in late January—largely through Murdoch's secret conversations with Smith and Pearce, and subsequent meetings with the company's CEO Rick Wagoner and his CFO—they thought they had a handshake deal.

Moreover, there were understandings between the men that perhaps gave Murdoch a sense of solidarity. Vice chairman Pearce and Murdoch had some personal common ground. Both men recently had confronted their own mortality, faced with life-threatening diseases. Pearce, 58, had survived leukemia; Murdoch had "successfully" been treated for prostate cancer that summer, and liked to boast that he was now convinced of his own immortality, having not missed a day of work throughout the ordeal. For his part, Pearce was somewhat of a folk hero at GM, having been declared cured in September after a stem cell transplant from one of his brothers and two years in remission. Like Murdoch, his hair was white and wispy, and he was fit and proud of his physical strength. A partnership between the two men seemed right.

Just a few weeks earlier, News Corp. and GM had agreed on the outline of a deal that would merge Hughes with News Corp.'s satellite interests, while allowing GM to receive $8 billion cash in part payment for its stake in the company.

Like many other companies, News Corp. had to up the ante. Murdoch was at a precipice, having reached a turning point in the history of the media. He was like Shakespeare's Lear at the edge of a cliff; his old empire could easily slip away. But his plans were for growth, and his young sons, Lachlan and James, were playing a key role in helping him steer the enterprise into the new century.

Murdoch recognized both the implications of the changes taking place, and the potential role of technology in shaping the future of the media. Beyond narrower visions of first-generation applications of the Internet, and the struggle to find business models for making money, it was now not only possible to deploy technology to reach all corners of the earth, but also to have a two-way medium that allowed the audience to talk back, state what they wanted, and almost instantly receive it.

The printing press had revolutionized literacy all over the planet; communications technology and the Internet were likewise breaking down boundaries, making it possible to bypass intermediate steps in the distribution process: trucks, roads, planes, and rail cars were no longer needed. Wireless technology—satellite—meant that not even a land line or cable was needed to reach people in their homes. Those in the most hard-to-reach places on the planet could receive all the content the world had to offer via a small dish.

Rupert Murdoch's grand vision, Sky Global, at the moment was a holding company for all of his satellite and technology companies around the world. He had planned to take the company public by the end of 2000, but poor market conditions caused him to stall those plans. A merger with Hughes would obviate the need for an initial public offering in the United States. At the same time, the development of the new business he envisioned would be enormously expensive.

Shortly after he thought he'd made a handshake deal with GM to acquire DirecTV, and having heard what was going on behind the scenes, Murdoch figured that Pearce was not the problem holding up a deal.

It was a set of brothers whose machinations were now stalling Murdoch's plans. (The dynamics of brothers vying within a single corporation was not an unfamiliar theme to him. Since his cancer diagnosis and the promotions of his young sons in recent months, rampant speculation filled the press about a battle for supremacy between the scions. But such rumors were of little concern to Murdoch.)

The brothers Smith, however, were another story. Mike Smith, the chairman of Hughes, was GM chairman Jack Smith's sibling. Apparently, a war going on between the brothers was preventing Murdoch from nailing his $70 billion deal.

It was perhaps the first time in corporate history that two brothers had been CEOs at the same company at the same time. Years earlier, the Smith brothers had vowed to recuse themselves from any direct business with each other. (The issue of nepotism had to be dealt with by the Smiths as it had to be by Murdoch, who was accustomed to putting his offspring and inlaws at top spots at the company. Too, he'd leveraged the knowledge and diplomacy skills of his Chinese wife, Wendi Deng, whom he involved in forging new business relationships in China.)

Jack and Mike Smith had been close since childhood when they hauled ice cream together as part of the family business, Smithfield Famous Ice Cream, in Worcester, Massachusetts.

Jack, 62, was five years older than Mike, and had been president of General Motors since 1992. In the fall of 1997, brother Mike had been named chairman and CEO of GM's Hughes Electronics Corp., based just outside of Los Angeles. Hughes' former chief, Michael Armstrong, had left to become chairman of AT&T. Mike would report to Harry Pearce, and avoid direct contact with his brother, who insisted he had nothing to do with his little brother's appointment as Hughes' CEO. Pearce was also quite close to Jack, and inevitably acted as go-between.

Both brothers had started their careers humbly, in accounting at a GM car plant in Framingham, Massachusetts, not far from their home. Former GM chairman Roger B. Smith—who had no relation to these Smith brothers—personally went to Framingham to convince Jack to take a job working with GM's CFO. Eventually, Mike also got transferred to Detroit, and both brothers worked for the comptroller's office for some time.

Mike, however, preferred not to work for his brother, and got a transfer to a GM office in New York. Their paths did not collide again till the mid-80s, when GM was eyeing an acquisition of Hughes, and the brothers were on the same committee studying the options.

After the fact, according to executives present, GM executives were apologizing to Murdoch, not only for Mike Smith's courting other buyers, but for big shareholders who had allegedly forced them to backpedal on their supposed deal with Murdoch.

The word was that Hughes shareholders were chagrined that Murdoch would not pay a premium for the company. The plan had been to merge News Corp.'s closely held Sky Global Networks satellite business into Hughes, creating an independent, publicly traded company. Hughes shareholders would own about 65 percent of the merged entity, with News Corp. owning the rest. The resulting company would have a combined market value of as much as $70 billion. Shareholders, however, were balking, and so was Mike Smith—though presumably for reasons of his own. Rupert did not want him with the company. Smith would probably be out of a job if the News Corp. deal went through.

Jeffrey Bronchick, chief investment officer for Reed Conner & Birdwell Inc., which controlled 900,000 Hughes shares, said that, from an investor's point of view, he would not take the News Corp. bid lying down. "They're running right over the Hughes shareholders," he said. Indeed, Hughes shareholders complained that under the merger scenario, they wouldn't receive any premium, and News Corp. executives would end up running the combined company.

But also at issue might have been Mike's wounded ego, News Corp. executives speculated. Murdoch and his top advisors saw him as a "corporate guy", used to bureaucracy versus action, and Murdoch did not like "corporate guys." (Murdoch has made no secret of his distaste for Mr. Smith's leadership, at one point calling Hughes "undermanaged.")

Murdoch surrounded himself with executives who were as aggressive and risk-taking as he, but at the same time did not challenge his authority. Even his children had the habit of calling him "the boss."

In the midst of his wrangling with GM he'd celebrated his 70th birthday with a small party at his New York abode given with his wife Wendi Deng, a former employee of his Asian broadcasting company Star whom he'd married a little more than a year earlier.

All his children had shown up for the occasion to honor their father: 29-year-old Lachlan, who now resided in New York; 28-year-old James, who flew in from Hong Kong, his new residence since taking the top post at Star about a year earlier; 34-year-old Elisabeth, who was mulling a return to her father's empire after departing for an independent venture the previous spring; and 42-year-old Prudence, Rupert's daughter from his first marriage, whose husband Alasdair

MacLeod was one of his senior executives. Despite rumors of warring for supremacy in the family dynasty, the clan was surprisingly close.

Number one son Lachlan was a rising star at the company, having recently been promoted to deputy chief operating officer, the number three position at the global empire, under president Peter Chernin. Son James was just cutting his teeth, as CEO of Star, after a stint heading up new media ventures. Elisabeth, who also had been on the fast track to the top, working out of London for her father's British Sky Broadcasting, had resigned abruptly the previous spring, citing the birth of her third child and a desire to start her own company. Prudence had never worked for News Corp., but her husband was a key Murdoch executive in the United Kingdom. At family events, the most dramatic deals of the day were often discussed, at least in whispered asides between Murdoch and his sons. His birthday party was no exception, and the GM intrigue was too juicy to ignore.

At his office, Murdoch slumps back and sinks into the white couch in the center of the room (before a bank of television monitors beaming Fox News images seemingly in perpetuity) and shakes his head in dismay at the thought of Smith's machinations: "So Mike was calling on a few friends!" he exclaims. Even while telling Murdoch he had a deal, the Hughes chief was shopping around for more money from someone else.

But a better deal was not to be had, Murdoch said. "I believe they're not only with us, they're with us for a set amount of money on a set of terms and we have a 99 percent completed deal with Microsoft that's waiting for these lawyers to write it up," he said. Software giant Microsoft had agreed to invest billions in Sky Global to help Murdoch get Hughes. Indeed, the market was in the doldrums. GM's stock had taken a hit just in the past couple of weeks; in the previous week alone, Hughes share price fell 16 percent, closing at $19 by week's end on rumors that News Corp. was giving up on the merger. That, however, was not the case.

"A deal is a deal!" Murdoch exclaimed.

Murdoch had smelled a rat on Tuesday, February 20, just a few weeks after his "handshake" with GM was complete. During a meeting at the company boardroom in Los Angeles, Murdoch was tipped off and he believed that he was being manipulated.

Though he, News Corp. CFO Dave Devoe, and chief counsel Arthur Siskind thought they had worked out all the details of the merger with GM's management, Hughes chairman Mike Smith had asked for an additional "due diligence" meeting, bringing their bankers in to hear detailed presentations about the Sky Global businesses. News Corp. executives—who never brought bankers to such meetings and relied instead on their CFO—felt the meeting was redundant, but Murdoch agreed to fly in executives from all around the globe to satisfy Smith.

Both of Rupert's sons flew in for the meeting. Lachlan had come back from London, where he was doing business, and James from Hong Kong. Gemstar chief Henry Yuen was present, as were Sky Global chief Chase Carey, News Corp. president Peter Chernin, BSkyB head Tony Ball, and Abe Peled, head of NDS, News Corp.'s technology arm.

Young James, tall and confident from his recent successes guiding his father's empire in Asia, got on well with the older, more experienced executives. For years he'd been championing to his father the brilliance of Henry Yuen, the Shanghai-born mathematician who was in the process of turning the world of interactive television on its ear. (News Corp. now was a close business partner of Yuen's.) Chase Carey and Peter Chernin were mentoring both Lachlan and James. NDS chief Abe Peled, an Israeli citizen born in Romania, had long ago enabled Murdoch—with his company's encryption technology—to participate in the pay-TV market in the first place. Each of the executives present played a critical role in the formation of the new Sky Global entity, and all had polished their spiels on Sky Global, given many times before to Wall Street analysts and prospective investors. The presentations had been fine-tuned before "the boss" for months now. The meeting, however, seemed odd, according to News Corp. executives. The bankers asked no questions, and Smith himself was sullen and oddly critical.

All were stunned when, at about 2:00 in the afternoon, Mike Smith stood up in the middle of James Murdoch's presentation on Star and announced that he was leaving for another meeting. Smith then abruptly walked out.

Murdoch was amazed. "He just sat there sullenly all day and then walked out! He didn't even wait for Gemstar!" he marveled to his colleagues. Gemstar, in which News Corp. held a 34 percent stake, was seen as one of the most valuable assets in Murdoch's arsenal of ingredients for the creation of Sky Global. Gemstar chief Henry Yuen was in the process of developing a new interactive television portal for worldwide use by Sky Global, essentially the ultimate portal for the future of digital television.

Later that day, Murdoch made some calls. He was flabbergasted to find out that just the day before Mike Smith had made a secret trip to Denver to discuss a merger with his rival, Echostar chief Charlie Ergen, the fearless entrepreneur who years earlier had had a disastrous falling out with Murdoch in an attempt to start a U.S. satellite business with him.

Rupert Murdoch was livid.

Lachlan Murdoch was about to see his father in rare form. He stood beside him as the mogul prepared to make it clear that he would not play fool to any other king—be it the head of General Motors or any other.

Pere Rupert arranged for a conference call in which he planned to confront his sneaky friends at the automotive giant. GM CEO Rick Wagoner and his cohorts were ready. Murdoch informed them that he heard all about what was going on—and the fact that Mike Smith was still shopping the company around.

Wagoner had become CEO of GM the previous June, taking over the job from Jack Smith, who remained chairman. Both worked closely with vice chairman Harry Pearce, who was a big proponent of e-commerce and technology. Wagoner had earlier served as CFO and head of GM's worldwide purchasing, running the company's North American operation.

His father, Lachlan noted, was angry but polite. He was not known for yelling and screaming, though many feared his wrath. His utterances at those times were more like roars. "We shook hands on this, Rick," Rupert rumbled. "Usually when I shake hands on a deal I mean it. It's a bond." Murdoch was regal, launching forth on a treatise about bonds that was worthy of any sovereign.

Wagoner and a few other corporate officers were stuttering a bit. Wagoner agreed that "our word is our bond," and protested that he didn't like to break their word, but this was a special circumstance . . . there's nothing they could do.

Murdoch pounded away. "We spent six months on this—a year and a half really. Six months full time . . ."

"I know," Wagoner said. "We hate to do this. We don't want to make an enemy of you, Rupert. But our hands our tied. It's coming from above. No one has the right to commit for the foremost senior director of the company."

Murdoch fell silent. It's coming from above? The foremost senior directors of the company were Jack Smith and Harry Pearce. Unbeknownst to these fellows, Rupert had been talking with Pearce himself for weeks. He wasn't going to divulge his little secret, however.

"Bullshit!" Murdoch said, his voice booming now. "The CFO was the proxy. I assumed a deal was a deal, and I still do!"

Months later, Jack Smith would discover that Murdoch was far from kidding. He would find out exactly how tenacious the News Corp. mogul could be when he saw the future in a business he coveted.

With DirecTV, Murdoch hoped to revolutionize the world of pay-TV in the United States just as he had in the United Kingdom with BSkyB. BSkyB was, in fact, leading the world in interactive television. Sky Digital, the cutting-edge division that was bringing BSkyB into the digital television world, was opening eyes around the globe.

Tony Ball, a silver-haired, quick-witted Londoner who'd enjoyed a meteoric rise within the News Corp. hierarchy, was at the heart of Murdoch's digital television revolution. He'd been at the helm of BSkyB only for about a year, and in early 2001 he'd overseen a mammoth accomplishment: the completion of the company's digital conversion. Its recent results were impressive: It had made $500 million in profits with 3.5 million analog subscribers, and was eyeing 5.5 million digital subscribers.

Ball had replaced former BSkyB chief Mark Booth, whose departure was said to be partially due to his difficult relationship with Elisabeth Murdoch, who'd been put in charge of BSkyB programming by her father. (Booth would leave to head up Murdoch's startup e-partners, a venture formed to invest in new media businesses. He remained one of Murdoch's trusted employees; so much so that Murdoch had outbid Microsoft when it tried to hire Booth away for a reported $25 million.)

Booth's successor at BSkyB, Ball, was going like gangbusters. As a young man, Ball started out as a television engineer, and worked at Thames Television, an independent television enterprise that competed with the BBC. Early in his career he was a local union leader. He worked at News Corp.'s Foxtel in 1996, Murdoch's pay-TV joint venture in Australia, and then moved to the United States, where he ran Fox Liberty Networks and worked on Fox's sports network, a joint venture with John Malone's Liberty Media. Under his watch, subscribers grew to 62 million from 38 million.

Murdoch had enormous confidence in Ball, and chose him to run BSkyB when the opportunity came. He'd slowly but surely become part of Murdoch's inner sanctum—the chosen elite augmenting the leadership of the Big Six who had earned a place on Murdoch's telephone speed dial. (Ball was said to be "number 3" on the boss's phone pad. Chernin and Chase Carey were ahead of him.)

BSkyB was clearly Murdoch's most valuable asset outside the United States, and at the center of his Sky Global strategy. From the company offices in an industrial park near London's Heathrow Airport, it had leap-frogged the U.K. and the U.S. cable industries, even in the eyes of Wall Street pundits who were bullish on the U.S. cable market. Early on, before anyone thought it was possible, the British pay-TV company was essentially offering an advanced interactive television service using cobbled-together technology—with enormous success. Interactivity was a problem that cable and satellite providers alike had been wrestling with. Satellite had been viewed largely as a one-way medium. But BSkyB used a telephone return path that allowed viewers to interact with the broadcast content. Worldwide, would-be interactive TV providers were learning from the BSkyB example.

With BSkyB, as with other assets, Murdoch had seized the moment, racing ahead of the slow cable operators in Britain.

Sure, it had taken a short-term hit to earnings, but Murdoch had always taken a long-term point of view; as a result, he hoped to win the lion's share of the digital market. He was becoming the dominant interactive TV player in the United Kingdom, and he planned to repeat that performance around the world.

The market was pointing to BSkyB as an example of what might be done—with online gaming, interactive shopping, and gambling. The pay TV company, for example, had a surprise success with interactive horse racing, with individual households spending large sums of money to participate. Critics might say that this type of application doesn't exactly promote cultural enrichment in the world, but Murdoch was no elitist. He provided what sold, what ordinary people had a passion for.

Such services were turning on their ear all expectations for the type of revenues that could be generated from interactive television services to the home.

In fact, Wall Street analysts were predicting that Murdoch's cutting-edge forays in digital television would have an impact on the pay-TV market and the growth of digital television worldwide.

Just as the Continent was way ahead of the United States in mobile phone use, it was out front in digital and pay-television. Murdoch and Ball were well aware of the figures and the untapped potential that remained in the United States. By 2001, more than 16 million European viewers subscribed to interactive TV—more than double the previous year. About a quarter of British and French households were subscribers, and 90 percent of customers regularly used interactive services.

In the United States, under 5 million households could interact with their televisions. That was less than 5 percent of the population. Where it was a commercial reality in Europe, it was just a niche market in America. What's more, Murdoch was betting that eventually, on a worldwide basis, television—already the device of choice for news and entertainment—would be more inviting than a personal computer for consumers purchasing all sorts of services and goods.

In that arena, analysts were predicting that while revenue from interactive commerce via the television set came to only $84 million in Europe the previous year, sales via interactive TV would increase to $655 million by the end of 2001 and soar to $2.1 billion the following year.

European retailers such as Woolworth's and Domino's Pizza were selling more product via interactive TV than via Internet sites. Vivendi, the owner of Canal+, Murdoch's biggest rival in Europe, merged with Seagram in part to eventually move its interactive television businesses to the United States.

Murdoch's BSkyB was way out front, and Murdoch had plans to imitate its successes in similar television endeavors in Germany and Asia, via Pan-Asian satellite broadcaster Star, now headed up by his youngest son James. In the United States, DirecTV would be the answer to his ambitions.

Murdoch's approach with interactive TV was much more targeted than some of his competitors, like Microsoft. Rather than providing viewers with full access to the Internet, which he believed was annoying and overwhelming, particular Internet sites would be accessible that were closely tied to programming and advertisers. He recognized that most people used the Internet for e-mail and for access to a few select sites—despite all the hype. People had no desire to surf the Web via their televisions, he believed, though a narrower interactive service allowed BSkyB customers to interact with companies and information sites in a more select way.

What's more, interactive shopping via TV was amazingly powerful when linked directly to a television program. Viewers could watch a football game and place a bet; watch a cooking show, and buy the cookbook instantly. Indeed, companies selling their products via interactive television versus the Internet were reporting that their sales via interactive TV were twice as high as online sales.

Such interactive systems were enabled by delivering digitized video signals via satellite, cable, or simple rooftop antenna. A set-top box decoded the signals into hundreds of channels. To allow two-way communications, versus one-way broadcast of programming, interactive television systems included a remote control or keyboard with an infrared connection to send information back to the broadcaster via phone line or through the cable.

In Europe, television viewers were customizing weather reports, picking camera angles for sports events, ordering pay-per-view films, and sending e-mail.

Unlike the Web, companies selling products and services via interactive television had to construct individual web sites for each interactive television system on the market, seeing that each company customized its system. This was expensive; some broadcasters were charging as much as $1.5 million a year just to list a company's interactive service. Another million could be spent on building the site. The business models, though in early stages, still were proving to work far better than any model for making money on the Internet.

In addition, such services appeared to be hugely popular. Subscriptions to BSkyB soared when the company began offering interactive betting on horse races and sports events. Murdoch and Ball were seeing dollar signs like they'd never seen them before; BSkyB's digital subscribers were spending 10 percent more than they did for the previous analog service for pay-TV films or programs, or about $450 a year.

Initially, in Europe, the popularity of digital television was fueled by the desire for more variety in programming. Free television offerings were very limited, often government-controlled channels. But Canal+ offered 23 channels, and BSkyB more than 200.

For e-mail and the Internet, interactive TV also proved to be less expensive than the PC. The charges for Internet access via the phone were repulsive to consumers; in Europe, Internet users paid huge per-minute phone charges. The difference in the country markets was fascinating—43 percent of American homes connected to the Internet via their PC; in Europe, only about 25 percent of all households connected via the PC.

Ball was in agreement with Murdoch: The television remained the ultimate way to reach a mass audience. His spiel to Hughes executives was compelling. What's more, in excess of 1.5 million of its viewers were using BSkyB e-mail addresses.

In addition, BSkyB's subscriber base was rising faster than analysts expected. It had doubled from 2.5 million in 2000 to almost 5 million in 2001. Most impressive, its "churn" rate, the buzzword in the broadcast industry that meant the percentage of viewers who end up leaving the service, had dropped from 14 percent to less than 10 percent over the past year. BSkyB's stock had risen about 40 percent since a year earlier, and Murdoch was in rapid expansion mode. With Sky Global Networks, he had worldwide scale in mind. His initial plan had been to raise $40 billion in an IPO, the largest in media history.

Rival Vivendi, with Canal+, was also expanding rapidly. It owned 23 percent of BSkyB, but its merger with Seagram required that it sell that stake. The Seagram merger would allow the expansion of its digital television efforts, enabling viewers to download Seagram music and film properties, and distribute these throughout Europe.

Murdoch at times has seemed surprised at his own success. In Britain, he had broken into entrenched television as well as newspaper markets where he'd had no presence. "Ours is a company that has prospered by injecting competition into industries and countries that for a long time favored monopoly suppliers," he said. "Britain is a case in point. Ever since television first became available, the government has favored BBC, allowing it to use tax revenues to finance whatever programming the elite thought appropriate to put on air.

"When we launched Sky Television, we had to cut through a thicket of rules, regulations and customs that were designed to preserve the broadcast monopoly—or, by then, duopoly—that had existed for decades. Through perseverance, and at considerable expense, we have been able to do that," Murdoch said.

He fully expected that, if Hughes finally accepted his proposal, his plans would be completely scrutinized by market regulators on a worldwide basis, as was routine for such mergers.

Most of Hughes Electronics' business was centered on DirecTV. Based in Los Angeles, the satellite TV company was the third-largest pay-TV service in the country, after cable giants AT&T and AOL Time Warner. Technologically, it was way ahead of its cable counterparts; it went digital in 1994, while cable companies didn't start offering digital service until 1999.

Six-year-old Hughes was actually outshining its century-old parent GM. In February 2001, the automotive company had a market cap of $31 billion; Hughes was valued at $35 billion.

For almost a year now, GM CEO Rick Wagoner had been hinting to would-be buyers that DirecTV was on the block.

GM's board was looking for about $40 billion to $50 billion—about $31 to $38 per share of GMH, the Hughes tracking stock. But by the winter of 2001, the market was in turmoil and GMH had plummeted to $27 from a high of $47 the previous spring. GM directors were getting a little desperate; if they'd sold the company months earlier they would have made out like bandits.

The Hughes story, like Murdoch's own, was a legacy of sons. Murdoch had grown his $40 billion News Corp. empire from a single Australian newspaper he'd inherited from his father.

In 1923, Howard R. Hughes Jr. inherited Hughes Tool Co. of Houston from his father, whose fortune grew out of the oil industry—developing patented drill bits. Armed with his newfound fortune, young Howard moved to Hollywood and immersed himself in the nascent film industry. Over the next 15 years, he managed to produce legendary films such as *Hell's Angels* and *Scarface,* and began a career as a director in 1943.

He also loved flying, and broke speed records with his H-1 aircraft, called the Silver Bullet. Driven by his love of the skies, he launched Hughes Aircraft Co. as a division of Hughes Tool in 1932, and it was quickly a success. He then took control of TWA in 1939, and during World War II branched into commercial aircraft. During the Cold War, the company was a major military and aviation supplier. Among other things, it developed the first geostationary satellites. Hughes died in 1976, but his defense powerhouse continued to grow.

In 1985, GM bought Hughes for $5.2 billion, hoping to apply its technology to cars. GM chairman Roger Smith said at the time that getting Hughes was like getting Cal Tech and MIT combined.

In the 1980s, Hughes inadvertently got lucky when the FCC opened part of the radio spectrum to those who wanted to use satellites for television broadcasting. The company already owned satellites used by cable operators to send programs to their systems. It applied for and won a piece of the spectrum in 1984—which enabled it to be a player in the pay-TV market with what would become DirecTV.

The man without whom satellite TV and digital services, accessible to consumers all over the country, would not have been possible is Eddy Hartenstein. In 1989 the engineer, along with eight employees, saw the opportunity in high-powered satellites and digital compression. DirecTV was formed with the notion of creating an orbiting system to broadcast scores of video channels to small satellite dishes on rooftops across the United States. He kept plugging away with his team despite repeated setbacks.

While Murdoch still lacked a U.S. presence in the pay-TV market, by 1994 DirecTV was ready for business, targeting customers who lived in out-of-reach rural areas not served by cable. But it was an expensive proposition: A set-top box, satellite dish, and installation cost customers $800. People were buying nonetheless.

By 1998 DirecTV was offering more than 200 channels to 4.5 million viewers, 70 percent living in areas where they also had access to cable TV.

With Hartenstein's persistence, Hughes had gone from missiles to MTV to become primarily a media company, after selling its defense business to Raytheon and satellite manufacturing to Boeing. And Hartenstein was promoted to the number two position at the company.

Murdoch now wanted Hartenstein as his number one man leading the combined company he hoped to create through a merger; Mike Smith, who fit in well at a company like GM, just did not have the "Murdoch stuff."

GM's vice chairman Pearce was often fond of saying that "ideas are cheap." It was execution that really showed the power of any organization. Murdoch had learned that lesson years earlier, when he launched his first attempt to create a U.S. satellite broadcasting operation with Hughes, and had first encountered Hartenstein. The early deal turned out to be ill-fated.

A decade prior to his play for DirecTV, Murdoch had sat in the same office on a conference call with three other giants—Bob Wright, president of GE's NBC; Cablevision's chairman Chuck Dolan; and Hughes' CEO—talking about how the four companies "were going to start this great service—before it ever got off the ground," Murdoch recalled. It was to be called Sky Cable, and hoped to provide satellite TV to viewers around the world.

The joint venture was announced in February 1990, with plans to launch the service by late 1993. Each of the companies already had a major investment in cable, broadcasting, satellite, and the movie business, but envisioned Sky Cable serving households that didn't already have cable TV, nor the space or funds for traditional satellite dishes. Nevertheless, it had the potential to cannibalize the basic cable and network businesses of NBC and Cablevision.

At the time, NBC president Robert Wright had said, "With this service, every conceivable audience can be served. The appetite for narrowly programmed channels is real. NBC will continue to be a mass marketing network, but we wanted to be able to explore other options as well."

The enterprise would use a new Hughes satellite that promised to be the most powerful space transmitter ever launched for communications purposes, allowing consumers to receive signals via a tiny napkin-sized dish placed on a windowsill or rooftop.

The plan was to sell the dishes for about $300 through consumer electronics stores, and viewers would be charged a monthly fee to receive up to 108 channels of programming, including most existing cable program networks and pay-per-view services.

Murdoch, at the time, estimated that the company would need three to four million subscribers to break even.

But by June 1991, after 16 months, the effort was dead. "We fell out of it because we fell short of money, and GE lost their nerve," said Murdoch. "They'll tell you it's the worst thing they've ever done."

Conflicting interests among the partners and financial problems at News Corp. all played a part. The partnership had fallen apart, Hartenstein told those who asked, because the partners all had different needs. NBC was focused on acquiring the Financial News Network, and News Corp. was in the midst of restructuring. The focus wasn't there, but Murdoch had not lost the vision. (Years later, he would regret having given up.)

In addition, the partners were squabbling over how to sell the service to consumers. Cablevision was said to be pushing for cable operators to be the local sales agent, but direct-broadcast satellite TV competed with the cable business.

The idea eventually turned into DirecTV. Hughes—with Hartenstein and his group—succeeded after much persistence. DirecTV has steadily forged partnerships with other companies to provide more interactive services to customers, and was visionary about the potential of linking online services and the Internet with entertainment through these alliances.

DirecTV had been courted by others, prior to Murdoch's offer.

Back in the spring of 1999, DirecTV had also been approached by AOL's CEO Steve Case. Case had contacted

Mike Smith to ask if he was interested in selling the company. The two met, though Smith was not interested in selling at the time. Nevertheless, AOL had very specific plans in the television arena. Hughes received a $1.5 billion investment from AOL three months later, and a pact to comarket AOL TV—an entity designed to provide DirecTV satellite customers with AOL's interactive content, Instant Messaging service, and e-mail services. AOL said it hoped to make this available to customers in late 2001.

Like Murdoch's BSkyB, DirecTV was looking for solutions to provide two-way communications to its customers. Satellite remained a one-way medium without partnerships that would provide technology for a more interactive platform.

A pact with Wink Communications forged in the fall of 2000 enabled DirecTV to offer 30 interactive channels as part of its service. Using an advanced set-top box, customers could access sports scores and weather information. An alliance with TiVo, the personal video recording and service provider, also enabled viewers to pause broadcasts midstream and record up to 35 hours of programming.

Hughes was also working with Microsoft to develop Ultimate TV; the plan was to let viewers record programs and surf the Internet via their TVs.

Hughes' film connection was also still alive. In the summer of 2000 Hughes, together with PanAmSat (it owned 81 percent of the company), IBM, Lucent, and Creative Artists Agency, formed a venture known as NeTune Communications. Among other things, it was developing a communications system that would allow film directors to digitally transmit daily footage on location via satellite to their production studios. Hughes had ambitions to once again become a presence in Hollywood.

Aside from the DirecTV business, a division known as Hughes Network Systems since 1996 had developed satellite technology for the Internet using a high-speed online service called DirecPC, which let customers download data from a small satellite dish at speeds similar to those of a cable modem. It was originally offered at $40 a month plus $650 for the equipment, and the satellite communication was still only one-way. A phone line was needed for sending data to the Internet. By December 2000, however, two-way satellite service was enabled, and the same dish could also deliver DirecTV broadcasts. Dubbed “satellite broadband,” the service was not expected to overtake cable as the delivery mechanism for movies and data services.

For super-high-speed broadcasting, Hughes was eyeing the 2003 debut of a service known as Spaceway, using new “spot-beam” transmission that was ten times faster than a cable modem.

Behind the scenes, after the phone call from Murdoch in late February, Jack Smith, his brother, and vice chairman Pearce had many serious discussions. Mike had a matter of weeks to come up with a better deal, or GM was going to go ahead and sell its stake to Murdoch. By a better deal, he meant more cash for GM. GM would have come away from the News Corp. deal with about $8 billion in cash. Meanwhile, the press was reporting that the deal was dead.

“General Motors is motivated, as all big companies are, by the credit ratings they get. GMAC, Ford Credit, all these things depend on their credit ratings. They’re borrowing hundreds of millions all the time. Daily. If their ratings go, it costs them a lot of money,” said Murdoch, musing over the fact that it would be difficult for GM to walk away from that much cash at a time when the economy seemed to be heading south. With the cash the News Corp. deal would bring, GM will be “a lot stronger company,” he said.

For weeks now, during their habitual Monday morning Office of the Chairman meeting, Murdoch and his top five executives had pondered the realities and the possible routes GM might consider. All of the company's most important strategies began and ended with the Big Six.

Son Lachlan, deputy COO; CFO Devoe; president Chernin; legal eagle Arthur Siskind; and Sky Global CEO Chase Carey, along with "the boss," all had high hopes that GM would soon come back, grateful for a deal.

"Wall Street has been putting pressure on GM for three years at least to spin this company off and to monetize its value. If they'd done it last year, they would have had a little bit more money than this year but because this has been allowed to drag on and on they don't get as much money and it's very very much more difficult operating in a low market," Murdoch said.

While Mike Smith could try a leveraged spin-off of the company, that did not seem practical. GM owned about 424 million of Hughes' 1.3 billion shares; the rest were owned by the public. It was possible Hughes could borrow the cash to buy out GM, and sell its 84 percent stake in satellite carrier PanAmSat for as much as $6 billion, but borrowing could be difficult in the current market, with banks losing lots of money on leveraged transactions. What's more, a spin-off would limit growth by using up cash to pay off interest.

While the Hughes deal was up for grabs, Murdoch and Chernin were making sure their other most important allegiances were intact. They made the rounds in Washington D.C. in early February, courting George W. Bush's new chairman at the FCC, Michael Powell.

The two also hobnobbed with House Energy and Commerce Committee ranking Democrat John Dingell of Michigan (home to GM) and Committee chairman Billy Tauzin, Republican from Louisiana. Telecommunications Subcommittee Chairman Fred Upton, Republican from Michigan, also discussed the industry with the News Corp. honchos.

The rules of the game were in the process of being changed on many fronts beyond technology, too.

Indeed, in the previous decade, Murdoch had transformed News Corp. from a print publishing operation with a presence primarily in Britain and Australia, with only 20 percent of its operations in the U.S., to a global enterprise 70 percent based in the U.S., with 50 percent of revenues coming from digital or electronic sources.

Opportunity never ceased to knock. With the advent of George W. Bush's new administration and the changing of the guard at the FCC, Murdoch was elated at the prospect of an environment similar to the one he had enjoyed in the mid-80s, when he became an American citizen and three of his children, Elisabeth, Lachlan, and James—at the time 17, 14, and 12, respectively—sat in the courtroom to witness the ceremony.

While the likes of Chicago journalist Mike Royko and others blasted the move, Murdoch was welcomed with open arms by the Reagan administration. At the time, Murdoch and FCC chairman Mark Fowler had been virtual soul mates, proponents of the free market and determined to do away with regulation at all cost. (Murdoch had described him as "one of the great pioneers of the communications revolution.") Fowler had welcomed Murdoch's plan to create a new television network, Fox, ownership of which required that Murdoch change his citizenship.

Fowler was said to keep a Mao cap adorned with a red star in his office, which he placed on the head of his commissioners anytime they came up with an idea he felt was "collectivist." Indeed, public interest groups dubbed him the "mad monk of deregulation." Fowler's easing up on ownership rules at the time, indeed, had enabled Murdoch's purchase of Metromedia, which was his stepping stone to the creation of Fox.

Murdoch and Chernin were now having a déjà vu of sorts. Bush's Powell was all for changing the rules and allowing greater freedoms to pioneers in new markets. Antitrust departments at the FTC, DOJ, and FCC were being put back to sleep by Bush, as they had been in the Reagan days. (George W.'s own father had been more enforcement-minded than his son, reversing some of Reagan's antiregulatory efforts during his own presidency.)

But Murdoch was heartened. The signs were clear.

Back in Fowler's day, no one could have envisioned that the media and communications industry a decade later would be almost unrecognizable in terms of the technologies and competitive dynamics at work.

Was this a brave new world, a world where only the might of a giant could succeed?

For his part, Murdoch viewed himself as a catalyst for competition, whereas regulators were inadvertently maintaining existing monopolies, he believed. He hoped to be remembered for "creating competition and choice in the media.

"But the battle is on-going: regulators yield power every bit as reluctantly as private monopolies," Murdoch said. "So we have to do more than accept passively the rules as given: We have to work to change those rules when they interfere with our ability to provide consumers with choice, and our ability to compete with established and often government-sponsored media companies."

Checking himself, Murdoch noted, "But, at the same time, we cannot be cultural imperialists, imposing Western notions of decency and openness on countries that have different histories, different values, and different cultures."

As a global media company, he had to consider the vastly different mores of the countries in which he operated. "In America, for example, the laws include a constitutional guarantee of the right to print and show almost anything we think consumers want to read or view," he said. "But in Britain, the government has the power to restrict what may be shown on television before 9 P.M., and to suggest just how far newspapers may go in reporting purely private matters."

Said Murdoch, "It is in balancing these three interests—those of our shareholders, our customers and our host governments—that our most important master comes into play: our consciences.

"We have special powers: We can help to set the agenda of political discussion. We can uncover government misdeeds and bring them to light. We can decide what television fare to offer children on a rainy Saturday morning. We can affect the culture by glorifying or demonizing certain behavior, such as the use of drugs." Indeed, he'd gotten in a fight with son Lachlan about his disapproval of a film his studio had produced, *The Fight Club*. Lachlan had enjoyed the film, but respected that his father just did not "get" that "in your face" culture.

But Murdoch is a man of shifting tastes and loyalties; he is an iconoclast who traffics in icons.

With the shape-shifting talents of a Proteus, Murdoch was also poised to adjust his allegiances in the face of Mike Smith's attempted coup with DirecTV. He was not going to sit by idly while the man did his shopping.

Said Lachlan Murdoch, "When we heard they were talking to Charlie we said well we're not going to sit here and get screwed, we'll talk to Charlie as well."

Rupert, in fact, considered Echostar's Charlie Ergen an old friend, despite the fact that the two men had a disastrous time with a failed merger years earlier. He admired the man whose high-risk, gambling spirit was much like his own. No matter the problems of the past, the man unquestionably had the "Murdoch stuff."

Charlie Ergen had put himself through college playing darts; like Murdoch, he had the fearlessness of a gambler. For years, he sold tiny satellite dishes out of the back of his car, targeting backwater America, entertainment-hungry citizens living in remote, rural areas of the country. Now he was a billionaire.

With Ergen having 90 percent voting control within Echostar, any attempted merger with News Corp.'s Sky Global would be impossible without his backing. Echostar now had more than 5 million subscribers and a market value of $12.4 billion.

It was unlikely that this independent spirit would ever be open to being controlled by another fiercely independent mogul: Rupert Murdoch.

In fact, he'd been through that exercise once, and had failed miserably. In 1997, Murdoch had announced plans for another attempt to combine a U.S. satellite system—American Sky Broadcasting—with tiny Echostar. The new service would simply be called Sky, and had ambitions to cover 75 percent of the country by the end of 1998. It would transmit local stations as well as cable networks, and hoped to beam up to 500 channels over an 18-inch dish.

With such a system, Murdoch could rebroadcast Fox News, and other Fox programming, clear across the country, without relying on partnerships with cable operators. Murdoch had his eye on all of North America—and two-thirds of the world's television screens.

But cable competitors went ballistic and lobbied Congress to block Murdoch's plan. "The cable people made a lot of threats to us," Murdoch said.

Lobbyists argued too much control of the U.S. media would be in a single mogul's hands. He already owned 22 television stations nationwide. One critic even accused Murdoch of practicing "egonomics." He was willing to sustain big losses in return for what he predicted would be a huge payoff in the future.

There were other problems. Charlie Ergen was having trouble conforming to the desires of News Corp. executives over him. "He wanted 100 percent of votes," Murdoch said. "And there were a lot of people who invested a year of their lives and were very passionate about ASkyB. In the end we broke it up." And Ergen sued Murdoch for breach of contract, to the tune of $5 billion.

Nonetheless, Murdoch considered his relationship with Ergen still strong, despite press reports that there was much bad blood between the two men because of their earlier failed deal.

Now, in 2001, Murdoch believed that if Echostar was to be a possible alternative solution for a U.S. stake in the satellite market, it would have to be in the form of an equity swap between the two companies—and Ergen would have to maintain control of U.S. operations.

He described his relationship with Ergen as "very good." Said Murdoch, "People said it's bad, it's *always* been very good with Charlie personally as far as he and I go, and as far as most of his company goes."

As for the past problems, Murdoch said, "It was basically just Charlie's sheer determination to be a loner, to do it on his own, do it cheap, and you've got to admire him. So far, he's pulled it off.

"I like him, I respect him, and he remains some sort of alternative," Murdoch said. If such a deal occurred, Murdoch said, Ergen would "still want to run the show in this country."

Despite press reports at the time, Murdoch added, "We never ended up talking in great detail about it, you know, how it would really work out."

Indeed, Murdoch more than anyone knew that it was folly to believe everything you read. The press had seized upon the idea that Echostar had approached Hughes with a merger offer, and that Murdoch had been courting Echostar. In fact, it had been an apparently desperate Mike Smith who had started the free-for-all with his February 19 sojourn to Denver. Now most everyone was waiting for GM to make up its mind about the only real and viable offer on the table: Murdoch's.

While Hughes' talks with Echostar concerned him, Murdoch highly doubted whether federal regulators—another big consideration—would approve such a combination anyway.

"It's a ridiculous idea to say that you're going to put these two together in order to be competitive because they're both growing pretty fast. Much faster than anybody in cable. Even if it may be a possible battle to win in Washington today it would be a long one. GM would have had this hanging over their head for years," he said.

Still more damage control was needed. Next, Murdoch was told that Mike Smith's shopping expeditions included a trip to Seattle to court software giant Microsoft. News Corp. CEO Peter Chernin immediately got on the phone with Microsoft president Steve Ballmer;

Murdoch had won Gates's approval for a $5 billion investment in Sky Global, and the Hughes merger was part of the deal. While Murdoch had his eye on the DirecTV prize, Gates coveted a place on the "World Box," the secret plan Murdoch had for a set-top box that would be customized for markets all over the world. The Microsoft pact was "99 percent" final, and had been set up in two parts—in case Hughes bailed out.

Chernin told Ballmer, "We're very close to being done with this Hughes deal. But Mike Smith is trying to get a better deal. We want you to know that we are still committed to doing this deal with Microsoft, and we want DirecTV."

The intention was to give Ballmer complete confidence that News Corp. was still in the game as originally envisioned, so that Ballmer could definitively say one thing to Mike Smith: "No."