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Murdoch's Losses on Supermarket Coupons Near 'Avatar' Earnings

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March 4 (Bloomberg) -- Rupert Murdoch, who may have spent the equivalent of the projected earnings of News Corp.'s hit movie "Avatar" to settle lawsuits against his supermarket-coupon unit, risks losing millions more at a trial over alleged anticompetitive behavior by the same business.

News Corp. agreed last month to pay \$500 million to Valassis Communications Inc. to settle claims that its tactics caused \$1.5 billion in damages. The settlement kept the spotlight of a trial off allegations that News Corp. employees threatened smaller rivals, destroyed signs in supermarkets and broke into computers to steal trade secrets.

Some of the same claims are to be made at an April 12 trial involving Insignia Systems Inc. The Minneapolis-based marketer of in-store promotions seeks unspecified damages from New York-based News Corp.'s News America Marketing, which contributed to its division's \$414 million operating loss in the quarter ended Dec. 31 due to the payout to Valassis.

"News America over the years has beat up on smaller rivals," said Insignia Chief Executive Officer Scott Drill in an interview. "Now justice is prevailing."

News Corp., of which Murdoch is chairman and CEO, and Livonia, Michigan-based Valassis compete in newspaper coupons for consumer items including cereal, soap and cookies. Such coupons are distributed to as many as 70 million households weekly, according to Valassis's data in a 2006 lawsuit. In stores, News Corp. competes with Insignia to run promotions for food companies such as Sara Lee Corp., putting signs on shelves, ads in shopping carts and coupons at checkout.

\$353 Million Business

Murdoch relies on the coupon business, which last year had \$353 million in operating income, to help fund new ventures such as Fox Business News and Sky Italia, said Barclays Capital credit analyst Hale Holden.

"Avatar," history's highest-grossing movie, may bring about \$322 million of operating income to News Corp.'s Twentieth Century Fox studio in coming quarters, estimated Soleil Securities analyst Alan Gould. Anthony DiClemente of Barclays Capital estimated \$676 million and Jeffrey Logsdon with BMO Capital Markets pegged its earnings at more than \$700 million.

Murdoch wasn't available to comment, said News Corp. spokeswoman Teri Everett.

"News America Marketing has been a highly profitable business for us for decades," Everett said in an e-mail. "We fully support its management."

Of 22 equity analysts rating News Corp.'s stock, there are 10 "buys" and 11 "holds;" one analyst has a "sell," according to Bloomberg data.

The \$500 million payment to Valassis included \$300 million owed from a 2009 trial verdict against the same News Corp. unit.

News Corp. said Jan. 30 it settled because "significant risks were developing in presenting this case to a jury."

Media Recession

The payment was recorded in the quarter ended Dec. 31 as News Corp. rebounded from the media recession and had \$7.3 billion in cash. Earnings were 10 cents a share, compared with a \$2.45-a-share loss a year earlier, the company said on Feb. 2.

In its lawsuit, Valassis alleged News Corp. used its "market dominance" in stores to try to corner the newspaper coupon business.

Sara Lee chose to distribute newspaper coupons through Valassis. News Corp. retaliated, forcing it to pay more for in-store promotions, according to depositions of former Sara Lee executive Debra Lucidi taken for the 2009 Valassis trial.

Mike Cummins, a spokesman for Downers Grove, Illinois-based Sara Lee, declined to comment.

'Stranglehold' on Market

According to Valassis's complaint in the now-settled case, News Corp. gained a "stranglehold" over at least 80 percent of the in-store advertising market, restricting competition in more than 16,200 supermarkets and 17,100 drug stores.

To lure Eckerd Corp. from a rival, News Corp. allegedly offered the drugstore chain \$4.5 million in guaranteed income over three years -- far exceeding News Corp.'s income from the deal -- if it joined its "Price Pop" program, according to taped depositions of Robert Emmel played at the Valassis trial. The Price Pop program placed price-tagged images of products on supermarket shelves, according to court filings.

Emmel worked for News Corp. from 1999 through 2006 as account director for retailers before being fired for "gross insubordination," according to court papers. News Corp. sued him for "unauthorized retention" of confidential company information, which he turned over to government entities, court papers show.

'Operation Retailer Freedom'

A 2003 program called "Operation Retailer Freedom" involved winning over every retailer doing business with rival Floorgraphics Inc., said Emmel, who has aided News Corp. competitors with his testimony. Philip Hilder, a lawyer for Emmel, declined to comment.

Floorgraphics, which makes promotional laminated decals that are placed on supermarket aisle floors, accused News America of breaking into its computers. News Corp. settled that case, too, partly by acquiring Floorgraphics shortly after the trial began. The deal cost News Corp. \$29.5 million, according to a breach of contract lawsuit it filed later against Floorgraphics.

At last year's Floorgraphics trial, George Rebh, a former owner of the firm who was set to testify at the Valassis trial this year, told of a July 1999 lunch with News Corp. executive Paul Carlucci at a now defunct Chinese restaurant in Manhattan. After Carlucci made a takeover offer for Floorgraphics that was rejected, he threatened to destroy the company if it got in his way, Rebh said in his trial testimony.

"I work for a man who wants it all, and doesn't understand anybody telling him he can't have it all," Carlucci said, according to Rebh.

Threats at Lunch

Carlucci is chairman of Murdoch's News America Marketing unit, or NAM, and publisher of the New York Post, a News Corp. unit that competes for readers with the New York Daily News. He declined to comment. News Corp. lawyers have said there were no threats at the lunch.

Insignia, which competes with NAM in supermarkets and drugstores, sued News Corp. for antitrust violations and deceptive advertising in September 2004 in federal court in Minneapolis. News Corp. injured its business by making retailers doubt its effectiveness, Insignia claimed. Todd Wind, one of News America's lead trial lawyers in the case, didn't return a call seeking comment.

Pamela Wesson, a former Sara Lee executive, stopped recommending Insignia Pop Signs to Sara Lee's brand team after a News Corp. sales representative told her NAM had the right to remove competitors' signs from many of the stores, according to a declaration taken for the Insignia trial.

Insignia asked that any damages awarded be trebled as antitrust law allows. News Corp., which has disputed Wesson's statements, asked the judge on Feb. 19 to defer the April 12 trial date.

The case is Insignia Systems Inc. v. News America Marketing In-Store Inc., 04-cv-04213, U.S. District Court for the District of Minnesota (Minneapolis).

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