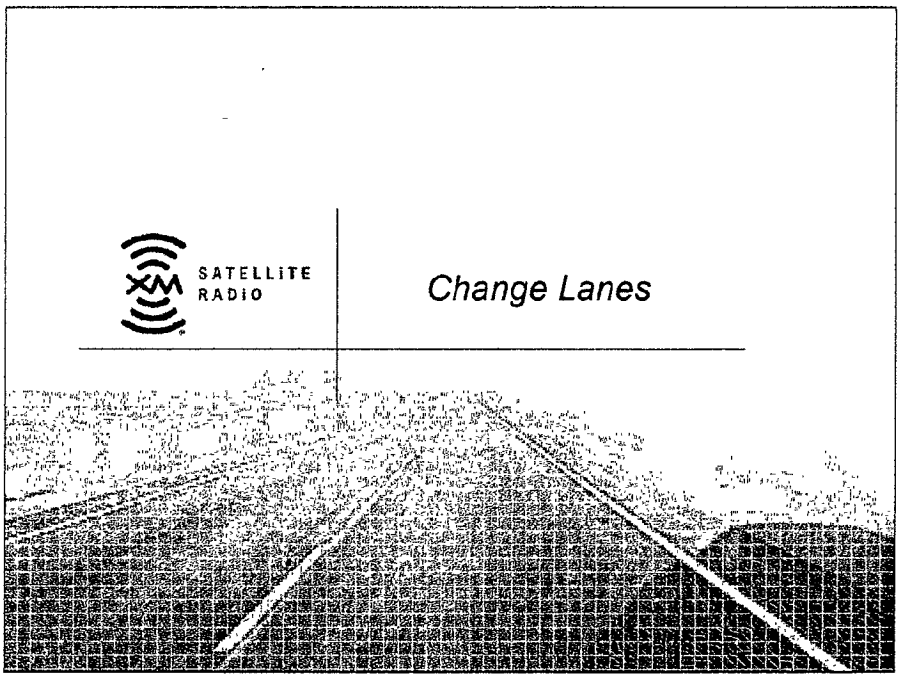

FINAL

SX Trial Ex. 18

SATELLITE RADIO

Agenda

- The Business Environment and Accompanying Trends
- XM's OEM Business
- Current and Future OEM Customers
- XM's OEM Marketing
- Key Insights
- Recommendations for Increasing Consumer Demand

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Executive Summary

- Goal of Change Lanes. Increase demand and conversion of XM-equipped vehicles through incorporating a fresh approach to the OEM marketing acquisition strategy

- Framework of Project: A gap analysis of XM's current OEM marketing tactics against industry trends and communication standards

- Conclusions:
  - Reinforcement of necessity of efforts to sustain and increase exposure at the dealership level
  - Greater emphasis needs to be placed on interactive mediums and XM OEM messaging
  - Additional internal funding as opposed to OEM partner reliance is required to generate demand for XM

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SATELLITE RADIO

The Business Environment and Accompanying Trends

Business Environment: Consumer Habits

- Expectations: Automobile as an entertainment center ("techmobile")
- Preferences: Increasing trend of portability over integration
  - i.e. cell phones vs car phones, Blackberry vs. PC
- Technocratic society: greater tendency to shop and research online leads to increased exposure to the myriad options available to consumers
- User-generated content: 35% of US Internet users have created and posted content online
  - Can be influenced but not controlled
  - Leaves a digital trail: highly measurable

Source PEW Research (June 2006)

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Competition:

- **How does this pose a threat to the XM factory-installed option?**
  - **Accessibility:**
    - Available through select brands as a substitute for XM (i e Nissan)
    - Penske, Toyota dealership disruptions
  - **Cost Disadvantage:**
    - More generous trial program (6 and 12 month offerings)
  - **Messaging:**
    - Increased exposure due to co-marketing campaigns (i.e contributed $3m to Mercury)
  - **Familiarity:**
    - Substantial brand equity resulting from Stern, NFL and from perceived momentum in OEM offerings

Source www.sirius.com (August 2006)

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XMCRB 00001148

Funding: '06 Mercury Print Ad

• Satellite Radio Mentions with Funding: Sirius committed $3m to Ford (advertising) for this promotion; OEMs requiring satellite radio companies to shoulder cost of generating demand

Source www.competitrack.com (June 2006)

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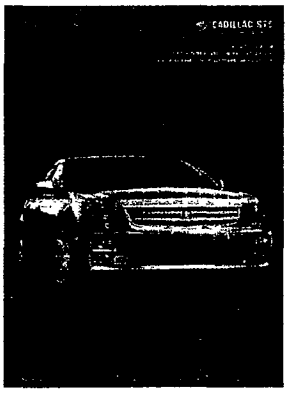
Absence of Funding: '06 Cadillac Print Ad

• Satellite Radio Mentions without Funding: tend to be limited and brief due to aging partnerships and slow growth in consumer demand for XM in cars



Source. www.competitrack.com (May 2006)

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Competition:

- **How does this pose a threat to the XM factory-installed option?**
  - **Accessibility:**
    - Available through 9 brands (incl BMW), 49 models within the next few years
    - Mostly luxury brands with youth brands gaining momentum
  - **Cost Disadvantage:**
    - Hardware comparable to that of satellite radio; economies of scale as more OEMs commit
    - One time payment: No monthly subscription or activation fees
  - **Messaging:**
    - The radio industry is backing HD Radio with a $200 million radio marketing campaign (The HD Digital Radio Alliance, a joint initiative of leading radio broadcasters)
  - **Familiarity:**
    - The option to either listen to consumers' favorite local stations or subchannels

Source Consumer Reports "HD Radio AM/FM goes digital" (March 2006)

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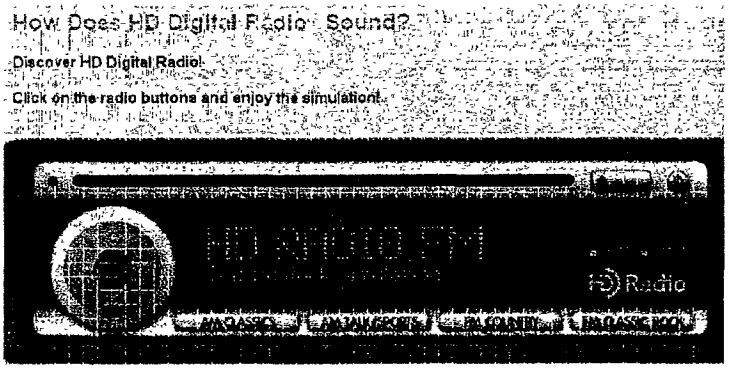
HD Radio Online Simulation

- Promoting HD Radio trial to drive consumer awareness and education through a simple, looped simulation that conveys HD's value proposition



Source www.ibiquity.com (July 2006)

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SATELLITE RADIO

Competition:

- **How does this pose a threat to the XM factory-installed option?**
  - **Accessibility:**
    - Global demand of MP3 players will grow to 286 million by 2010
    - 70% of 2007 automobiles will offer iPod integration, some via XM band
      - 65% of adult vehicle owners who own an MP3 player listen to it in their vehicle
    - 60 million vehicles will have auxiliary jacks by 2011
      - Ex Older demographic OEMs (Buick Lucerne, Cadillac DTS) offer auxiliary jacks standard for 2006 MY
  - **Cost Disadvantage:**
    - One time payment of roughly $200 for iPod integration
    - No monthly subscription (assuming static owner/player relationship)
  - **Familiarity:**
    - 140 million MP3 players are already in the hands of consumers, iPod: 77% market share (Q2 2006)
    - Simple plug and play operation
    - Pre-selected, user-specified catalog

Source In-Stat Market Research (June 2006) NPD Group (August 2006), apple.com, Harris Interactive (2006), TRG, Inc (2005)

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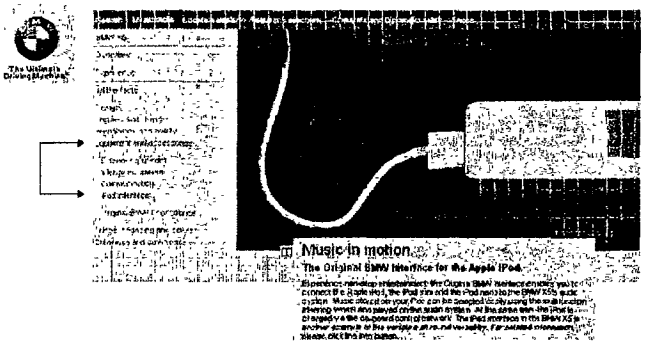
MP3 Integration on OEM Websites

- Favorable Positioning: Call-outs and stand-alone categories draw attention to feature



Source: www.bmwusa.com (June 2006)

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XMCRB 00001154

MP3 Integration: Dealer Testimonials

- "We run **80 percent of our vehicles** with the upgraded iPod integration feature and we usually don't have anyone who doesn't want it. They like the feature once they know it's available and **can't believe how inexpensive it is.**" (Dealer, Hollywood Scion)

- "**Connectivity is a closing tool** for people who are really into their songs and music. It opens up a whole new avenue." (Dealer, Flint Dodge)

- A Mini dealer says "about **half of his customers order** the auxiliary jacks or MP3-compatible adapters in their Minis." (Dealer, Dublin Mini)

Source Automotive News (August 2006)

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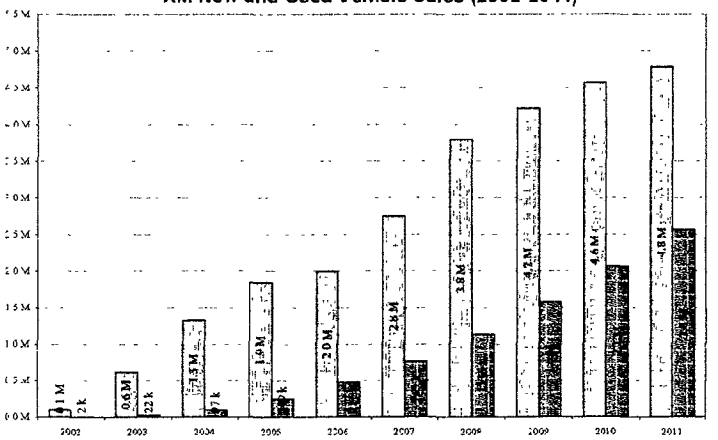
SATELLITE RADIO

XM's OEM Business

XM's OEM Business

XM New and Used Vehicle Sales (2002-2011)*



*2007-2011 forecasted

XM New Vehicle Sales | XM Used Vehicle Sales

Source XM OEM Finance Team (August 2006)

15

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Situational Analysis: Major Phases of OEM Rollout

Q3-Q4 2006

Phase 1	Phase 2	Phase 3	Phase 4
2002-04 MY	2005-06 MY	2007-08 MY	2009 MY and beyond
Climate: General Motors and Honda exclusive partners	***Climate:*** Dealers believe in XM due to personal usage, but consumers are not demanding XM	***Climate:*** Further expansion driven by OEM distribution deals	***Climate:*** Deal: XM is a given when buying a vehicle
First to market	Slow dealer-installed business growth with new OEMs (Toyota, Nissan);	XM OEM availability broadly penetrates mass market via Hyundai standardization	XM fulfills promise of distribution as conversion rate rises
Exponential growth in volume and model availability	NavTraffic gives second smaller wave of "free ride" integration;	Remarketed vehicle volume growing. 30% of XM vehicles sold in 2007 will be used	
	Conversion rate challenges		
Marketing Challenge: Maximum motivation time major marketing integration support by OEMs	***Marketing Challenge:*** OEMs responding to increased consumer demand for MP3 connectivity options; XM no longer seen as latest audio innovation	***Marketing Challenge:*** Generate consumer demand that matches XM availability; Must prove value to dealers, consumers, and OEMs (Critical juncture in OEM business development)	***Marketing Challenge:*** Generate consumer demand such that XM is a given when buying a vehicle

Source XM Radio Second Half Marketing plan (June 2006)

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XMCRB 00001158

SWOT Analysis

Strengths

- OEM exclusive partnerships (60% of market)
- Integration (effortless/safety)
- Growth in needs for in-car entertainment
- Supplementary services (NavTraffic)
- Content (commercial-free, exclusivity)

Weaknesses

- Messaging/positioning of XM as a new vehicle feature
- Consumer demand among vehicle shoppers
- Online presence (OEM, dealer, 3rd party)
- Media targeting vehicle buyers

Opportunities

- Standardized messaging and positioning for OEM Experience
- Strategic & Content partnerships
- Word-of-mouth & post-event interaction
- Use of online medium to reach vehicle buyers
- Remarketing

Threats

- MP3 players, auxiliary jacks, iPod integration
- Aftermarket cannibalization
- HD Radio
- Terrestrial Radio (new formats)
- Sirius' perceived momentum

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SATELLITE RADIO

Current and Future OEM Customers: XM's Access to the Mass Market

Current OEM Customer

- Inherited the demographics of our OEM partners through offerings in initial niche markets (Cadillac in 2002) to current mass market (Chevrolet, Honda)
- Colonizing the Dashboard: XM was among the first innovative audio features coveted by early adopters but unknown to the mass market
  - Satellite radio has progressed in the Product Life Cycle, higher overall awareness in the Early Majority stage will benefit OEM sales
- XM OEM: Relatively low intent and favorability compared to high conversion
  - Representative of the dependence on dealerships in the purchase process
- 2006-2007: Expansion through new OEM brands
  - Broadly penetrating mass market through Hyundai, Nissan, and Toyota
  - Greater access to untapped demographics (i.e. Youth, Hispanic)

Source XM Customer Satisfaction Report 1/31/06

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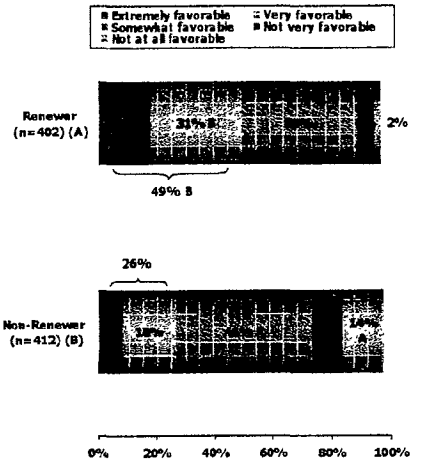
XMCRB 00001161

Conversion vs. Familiarity

- Renewers are more likely than Non-Renewers to have previously thought of XM extremely or very favorably.
  - Increasing awareness and favorability prior to vehicle consideration and purchase can have a positive impact on conversion.



12. You mentioned that you were aware of XM Satellite Radio prior to purchasing your new vehicle. Would you say that your perceptions of XM Satellite Radio were extremely favorable, very favorable, somewhat favorable, not very favorable, or not at all favorable?
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level

Base: All respondents that have heard of XM prior to vehicle purchase

Source: XM Barriers to Activation Study (GM) 2005

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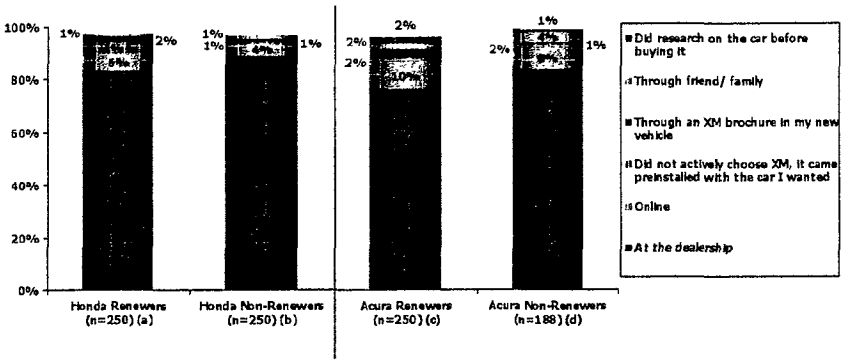
Current OEM Customer: Awareness of XM in Vehicle

- Most customers indicated that they first learned their new vehicle had XM at the dealership.



A3a How did you first learn that your new vehicle has XM Satellite Radio?
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level

Base: All respondents

Source: XM Barriers to Activation Study (Honda and Acura) 2005

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Potential OEM Customers

- Rollout of new OEM partners and marketing tactics can facilitate targeting the segments in which XM has traditionally lagged:
  - **Youth** (16-30 years old):
    - Toyota estimates this demographic will represent 1-in-4 customers by 2010
    - Higher expectations of quality; use products to express creativity
    - Reach: increased sponsorship of sporting and music events, internet promotions and product placement
  - **Women**:
    - Account for 45% of new vehicle purchases and influence 85% of all vehicle purchases
    - More likely to share with and/or be influenced by their friends when it comes to an automobile: 40% versus 26% for males
    - Oprah launch will provide extensive exposure

Source. Mintel Report (2005), General Motors (2004)

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How Prospective Customers Conduct Research

- **33 percent** of all new car buyers seek advice from **friends or relatives** while researching vehicles

- **68 percent** of all new car buyers and **56 percent** of used car buyers said that the **Internet** was their primary source of information in the automotive purchase process
  - The vast majority of new buyers visit an **OEM's website** (76%) and a **third-party auto site** (65%)
    - Ex: 70% of Lexus' dealership customer traffic already visited lexus.com *(Lexus 2005)*
  - *The primary reason for using an independent auto site is to* **compare models** (66%)
  - OEMs are migrating from spending all of their ad budgets on traditional media to spending a significant portion on digital and interactive approaches

Source. Mintel/Greenfield Online (2005), Harris Interactive (2006), Keynote Systems (2005)

23

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Ford migrated from spending **98%** of its ad budget on traditional media in 1995 to **80%** in 2005 as it incorporated more of a digital approach (*Mintel report 2005*)

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SATELLITE RADIO

XM's OEM Marketing

Fundamental Difference: OEM vs. Retail

VEHICLE MARKET:
I want to buy a car!

Consumer's primary motivation is to buy a vehicle, either new or pre-owned XM is available integrated as either a standard feature or option. Automaker and XM provide new car buyer with 3-month trial to encourage conversion to long-term subscriber.

AFTERMARKET:
I want satellite radio!

Consumer goes to retail store or online with the primary goal of getting satellite radio. Another group buys on impulse while browsing having heard of service prior and is considering purchase.

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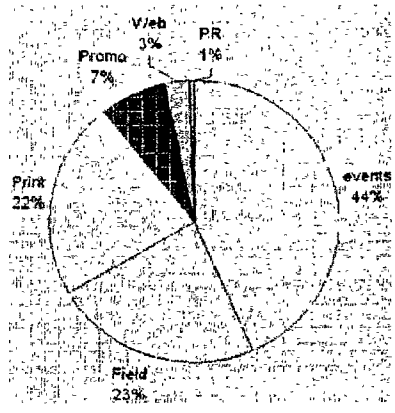
XM's OEM Marketing (2006 Budget Allocation)

- Automotive Sector as the Mass Market: XM OEM has been trying to incorporate a mass market awareness approach on a limited budget
  - Heavy emphasis on events shows attempt to reach the masses to increase awareness
- Efficient spending through lower purchase funnel activities to educate consumers at or near purchase
  - Field team and dealership materials inform majority of consumers about XM Radio for the first time in the purchase process



Source 2006 OEM Marketing budget

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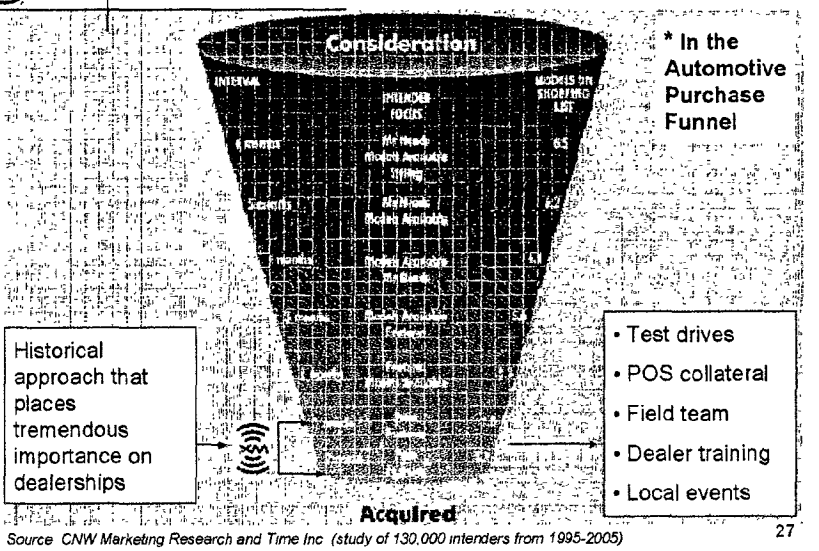
XMCRB 00001168

Current Timing of Marketing Tactics*



* In the Automotive Purchase Funnel

Historical approach that places tremendous importance on dealerships

- Test drives
- POS collateral
- Field team
- Dealer training
- Local events

Source CNW Marketing Research and Time Inc (study of 130,000 intenders from 1995-2005)

27

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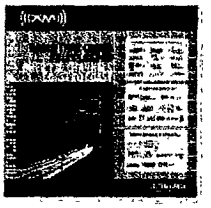
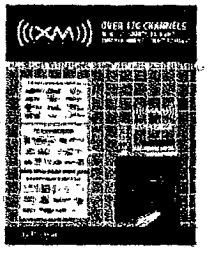
OEM Dealer Kit (Marketing Materials)

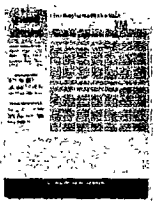
Tent Card



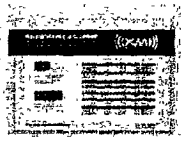
Counter Card Brochure Holder



Activation One-Pager



Contents Sheet



Consumer Brochure

28

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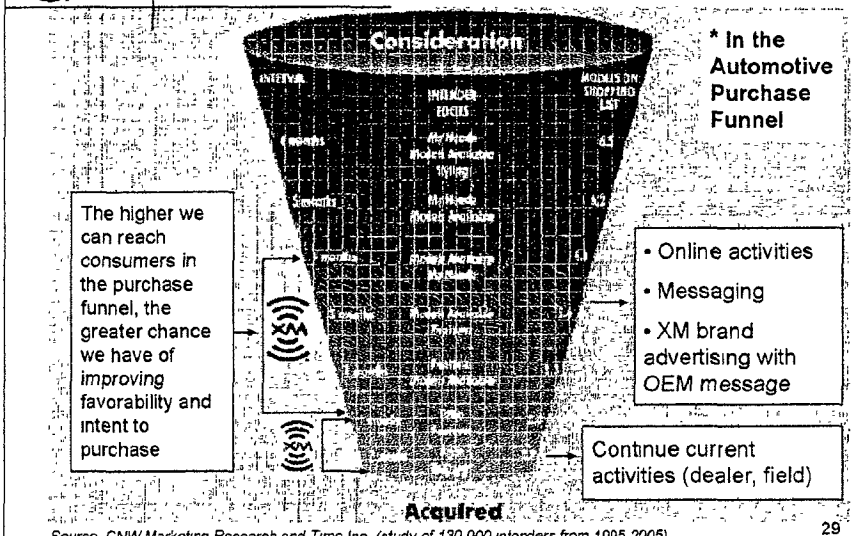
Ideal Timing of Marketing Tactics*: Balance of Activities



* In the Automotive Purchase Funnel

The higher we can reach consumers in the purchase funnel, the greater chance we have of improving favorability and intent to purchase

- Online activities
- Messaging
- XM brand advertising with OEM message

Continue current activities (dealer, field)

Source CNW Marketing Research and Time Inc (study of 130,000 intenders from 1995-2005)

29

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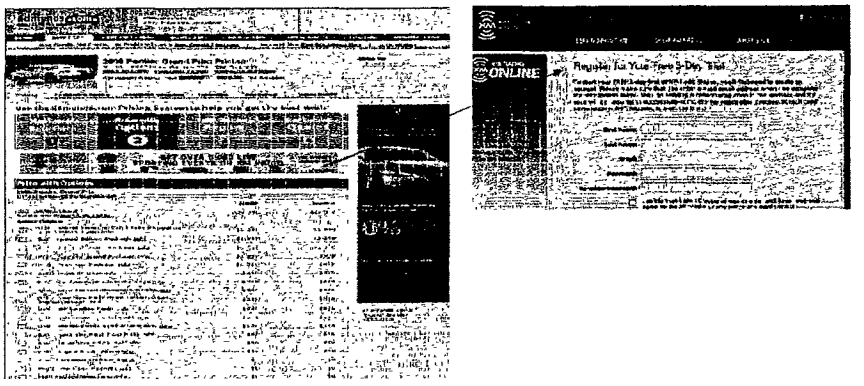
Establishing Relationships in the Upper Funnel

- Initiate Relationship through XMRO: Utilize email channel to educate and grow interest in the XM OEM offering



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Key Insights

1. Separate and Distinct Marketplaces: OEM vs. Retail
   - Automotive shoppers: car (brand, its primary features) is consumer's primary focus
   - Aftermarket shoppers: satellite radio (brand, hardware) is consumer's primary focus
2. Validation of Lower Funnel Marketing Activities: Field team and dealership efforts vital to OEM group's success
   - Continuation and support to reinforce and balance upstream activities
3. Online Space: The most vital communication medium in today's business and social environment
   - Critical to reaching consumers higher up in the purchase funnel
   - Incorporates unmatched reach and relationship-fostering capabilities
4. Unrealistic to Rely on OEM Partners to Create and Strengthen Demand for XM: Requires funding to enhance self-initiated marketing efforts
   - XM OEM *cannot expect* OEM *partners* to do the heavy lifting in regards to marketing
   - XM as a company needs to place a greater emphasis on marketing the OEM sector

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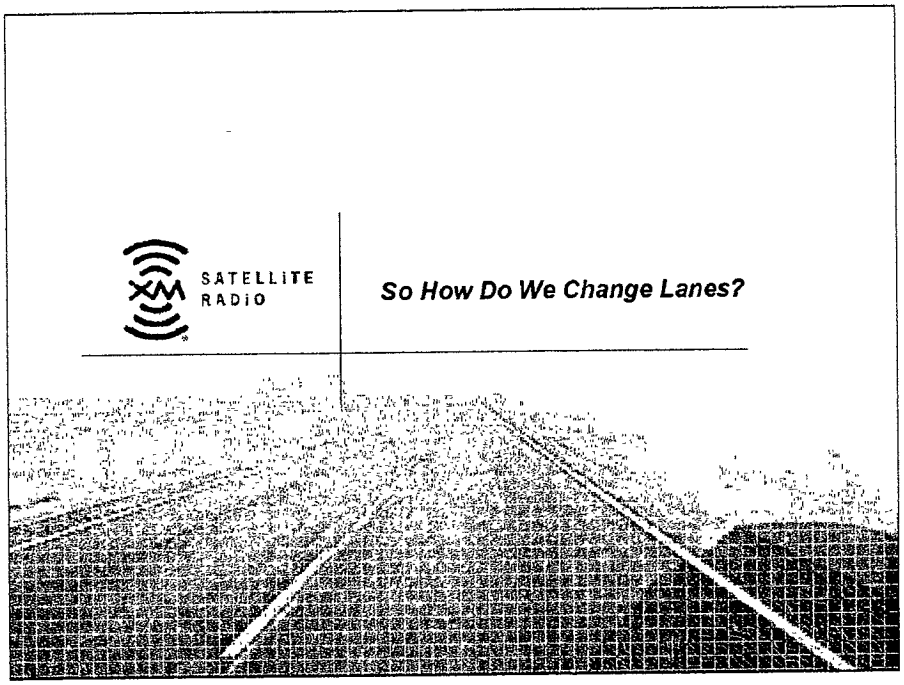
SATELLITE
RADIO
So How Do We Change Lanes?

SATELLITE RADIO

Recommendations

Recommendation 1: **Messaging**

- **Phase I**: Revise OEM message and keep it relevant
  - Need to address highly competitive and crowded in-vehicle space by communicating XM's value proposition
    - Low cost, affordable subscription rates, fully integrated, commercial-free
    - Calculated responses to MP3 threat (discovery, passivity, complementary) and HD Radio threat (commercial-free, content, signal)
  - Action item: Solicit support from advertising agency to develop, implement, and enforce XM OEM's new and relevant messaging
- **Phase II**: Standardize OEM message across all mediums
  - Provide OEMs with style guide (i.e. brand bible) to ensure consistent look and feel
    - Eliminates confusion resulting from inaccurate and outdated information
    - Provides reinforcement for consumer to consistently learn the same thing
  - Action item: Consult with relevant agencies to create brand standards and distribute to OEMs. Assign (internal or external) team member to police the ongoing process

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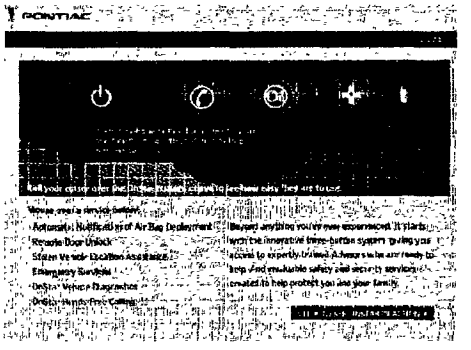
Messaging: Prototype

- OnStar: Example of consistent, standardized integration throughout GM divisions' websites



Source. www pontiac com (July 2006)

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XMCRB 00001176

SATELLITE RADIO

Recommendations

Recommendation 2: **Target Prospects Online**

- **Phase I**: Rapp Collins' Direct Response Plan (traditional)
  - Test in Q4 with '07 rollout potential to determine most viable tactics (mix of mediums) for demand generation
  - Need for longer trial: drive qualified prospects to a lengthened free trial of 30 days
    - *Targeted message for OEM-directed trials*
  - Action item. $300k for immediate development and execution
- **Phase II**: BoldMouth's Word of Mouth (WOM) campaign (non-traditional)
  - Marketing efforts that drive conversations and connections for XM OEM and the XM brand collectively
  - Generating word-of-mouth via content distribution strategies through syndication of consumer generated media and blogger outreach programs
  - Action item. $75k for Q4 implementation and on-going maintenance and reporting
- **Phase III**: Employ dedicated interactive specialist on OEM marketing staff
  - Team member to manage XM's OEM web development program

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XMCRB 00001177

SATELLITE RADIO

Third-Party Exposure (August 2006)

edmunds.com

PRICING | RATINGS | FEATURES | SPECS | PRINT SUMMARY | ADD/REMOVE VEHICLES

COMPARISON

Use the tabs above to navigation

	2007 GMC Yukon Denali 4dr SUV AWD (6.2L 8cyl 6A)	2007 Cadillac Escalade 4dr SUV AWD (6.2L 8cyl 6A)	2006 Infiniti QX56 4dr 5.2L 4WD (5.6L 8cyl 5A)	2006 Lexus LX 470 4dr SUV 4WD (4.7L 8cyl 4A)	2006 Lincoln Navigator Luxury 4dr SUV 4WD (5.4L 8cyl 4A)
Audio System	Yukon	Escalade	QX56	LX 470	Navigator
Premium Brand Audio System	Not Available	Not Available	Bose	Mark Levinson	Not Available
Premium Brand Speakers	Bose	Bose	Bose	Mark Levinson	Not Available
AM/FM	AM/FM	AM/FM	AM/FM	AM/FM	AM/FM
Satellite Radio	Standard	Standard	Optional	Optional	Not Available
Cassette	Not Available	Not Available	Not Available	Standard	Optional
CD In-Dash	6 CD player	single CD/DVD	6 CD player	Not Available	6 CD player
Remote CD Changer (# CDs)	Not Available	Not Available	Not Available	6	Not Available
CD MP3 Playback	Standard	Standard	Standard	Not Available	Standard
Remote CD Changer Location	Not Available	Trunk	Not Available	In center console	Not Available
Total Number of Speakers	9	11	9	12	9
Watts	Not Available	Being Researched	255	240	Being Researched
Antenna Type	Element	Element	Element	Mirror and diversity	Element
Rear Audio	Standard	Standard	Standard	Standard	Standard
Rear Headsets	Optional	Optional	Optional	Optional	Standard
Audio System Details	View Details	View Details	View Details	View Details	View Details

Source www.edmunds.com (August 2006)

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XMCRB 00001178

Recommendations

Recommendation 3: **Event Prospecting**

- **Phase I**: Increase ROI on events through prospecting
  - Event is the catalyst to begin dialogue and relationship with consumers
  - Commit to generating prospects at the multitude of events in which XM OEM is present
    - Provide compelling demonstrations and giveaways
    - Leverage relationships with OEMs to communicate call-to-action
  - Focus on driving consumers to xmradio.com and XMRO for further education
    - Consult with post-event marketing specialists
      - » i.e. Wishoo: photography and green-screen provider
  - Action item: Consult with current event marketing partners (i.e. Coyne) and incorporate enhanced prospecting measures into portfolio

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Recommendations

Recommendation 4: **XM Commitment**

- **Phase I**: Seek assistance from XM corporate for shouldering the cost of demand generation for XM in vehicles
  - Paradigm shift from solely retail-centric advertisements to ones that include OEM-specific messages
    - Advertisement tagging to include OEM partners
  - Recognize growth in OEM business and importance of online marketing channel through increasing resources to create OEM customer demand

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Summary

- Change Lanes provides new vision and direction for efficient and sustainable growth in a highly competitive marketplace
- Shift in resources to focus on upper funnel marketing tactics to drive awareness during the automotive purchase process are imperative as they reinforce our lower funnel activities
- Additional resources will be needed to support the impending growth of our OEM business

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XMCRB 00001181

SATELLITE RADIO

Questions?

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Exhibits

MP3 Integration Projections*

Emerging Car Audio Interfaces – OEM and Aftermarket Cumulative Sales				
USA: Autos in-use with:		2005	2008	2011
iPod Integration	#M	0.5	8.2	28
Aux Input	#M	3	18	60
Bluetooth A2DP	#M	--	0.8	8.5
Worldwide: Autos in-use with:				
iPod Integration	#M	0.9	19	73
vAux Input	#M	6	40	150
Bluetooth A2DP	#M	--	2	25
Fact: By year-end 2005, cumulative Apple iPod sales will top 34M units, which could reach 60M or more at the end of 2006				

"The rapid ramp up of available solutions from automotive OEMs is a **stark contrast to the normal five-year product development cycle** in the automotive industry." (Phil Magney, Telematics Research Group 2005)

* Projections do not include Apple's recent agreement with GM, Ford, and Mazda (July 2006)

Source. Telematics Research Group Incorporated (December 2005)

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XM's OEM Business

Calendar Year XM Production

(2006 = Actuals through May06)

OEM	CY02	CY03	CY04	CY05	CY06	CY07	CY08	CY09	CY10	CY11
GM	189,100	729,597	1,159,045	1,402,541	1,400,248	1,406,895	1,463,737	1,501,363	1,542,706	1,556,498
Honda	0	102,384	303,879	522,891	608,138	716,657	783,874	808 144	831,133	848,616
Nissan	0	0	15,623	36,928	41,840	280,631	545,290	666,369	753,440	780,632
Toyota	0	0	3,274	8 553	39,707	157,375	481,107	686,923	833,362	941,949
Hyundai (brand)	0	0	0	0	54,321	519,207	553,312	561 322	569,930	589,602
Porsche	0	0	987	2 036	1,450	6,187	16,558	26,590	34,505	35,362
Suzuki	0	0	0	51	1,398	4,671	7,906	9,796	10,629	10,788
Subaru	0	0	0	108	8,094	17,252	26,745	31,538	33,087	33,665
Harley	0	0	0	0	5,413	9,621	11,403	12,403	13,403	14,403
VW-Audi	0	0	19,731	37,819	30,275	0	0	0	0	0
Total	**189,100**	**831,981**	**1,502,539**	**2,010,927**	**2,190,884**	**3,117,896**	**3,889,932**	**4,304,449**	**4,622,195**	**4,811,516**

43

Source XM OEM Finance Team (August 2006)

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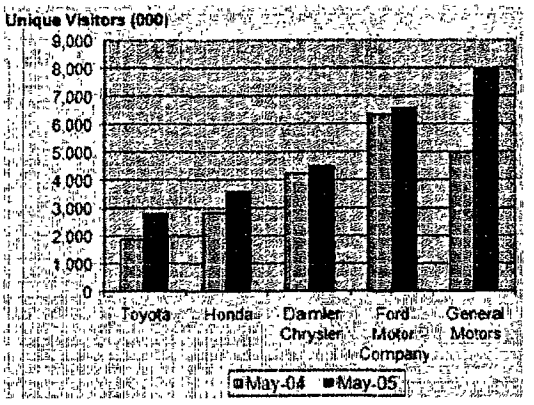
OEM Monthly Website Visitation

- Growth and high usage of OEM partner websites



Source: comScore Media Metrix (June 2005)

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Weekly Website Visits (week ending 4/30/06)

Top 10 Online Automotive Destinations

Brand or Channel	Unique Audience (000)	Active Reach (%)	Time Per Person (hh:mm:ss)
eBay Motors	5,251	4.09	0:26:31
MSN Autos	3,745	2.92	0:04:46
AOL Auto	2,225	1.73	0:08:45
Kelly Blue Book	1,553	1.21	0:08:19
Primedia Automotive Network	1,421	1.11	0:02:55
Honda	1,330	1.04	0:10:06
AAA	1,287	1	0:07:04
Edmunds.com	1,191	0.93	0:10:43
Toyota	1,125	0.88	0:05:28
AutoTrader.com	1,095	0.85	0:24:52

Source: Nielsen//NetRatings

45

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Previous Awareness of XM

- Previous awareness of XM among Non-Renewers has increased significantly since last year.
- Prior awareness and interest in XM among Renewers has remained stable since last year.
- 43% of Non-Renewers "heard of XM" but thought it was not for you" in 2005, significant increase to 2004 (34% of Non-Renewers "heard of XM but thought it was not for you."

	XM Subscription 2004		XM Subscription 2005	
	Renewers 2004 (n=500) (A)	Non-Renewers 2004 (n=500) (B)	Renewers 2005 (n=500) (C)	Non-Renewers 2005 (n=500) (D)
Had not heard of XM prior to purchasing your vehicle	23%	31% AD	20%	18%
Heard of XM, but thought it wasn't for you	18%	34% A	17%	43% CB
Heard of XM and were curious about it	26%	24%	26%	22%
Heard of XM and were interested in getting XM	18% B	6%	18% D	8%
Already subscribed to XM at home or in another vehicle	14% B	3%	18% D	7% B
Don't know	1%	2%	1%	2%

A1 Prior to purchasing your new vehicle, which of the following best describes your perceptions of XM Satellite Radio? Would you say you
Letters indicate the value is significantly higher than the value in the corresponding column at the 95% confidence level

Base: All respondents

Source: XM Barriers to Activation Study (GM) 2005

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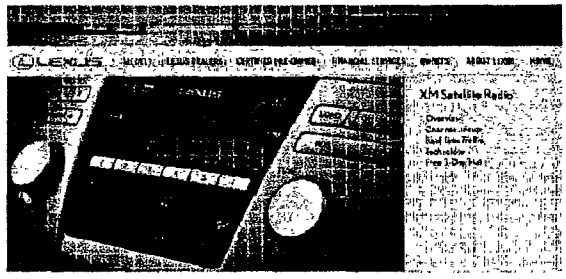
XM's OEM Web Presence: Best Practices



When the user clicks on XM radio, he or she is directed to lexus.com/xmradio which is a clean, easy-to-navigate portal that assumes the Lexus skin (i.e. look and feel)

Source lexus com (August 2006)

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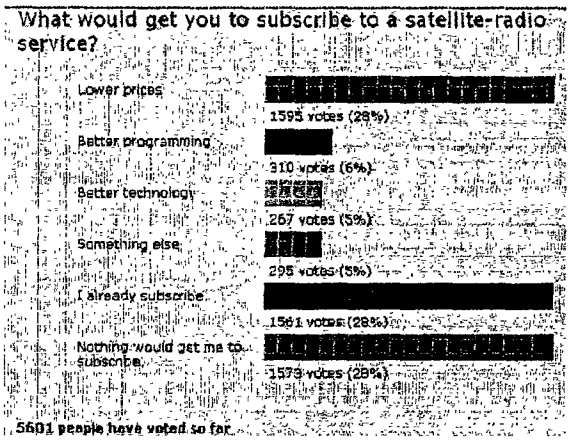
Online Survey

THE WALL STREET JOURNAL. ONLINE



Source: http://discuss.wsj.com/phpvt/displaymessage.asp?webtag=ws,voices&tid=3973&votes=5&submit=Vote, (August 2006)

48

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