2006 XM Corporate Strategy/Planning Meeting

Content:
How Are We Doing? Where Do We Need to Go?

XM Satellite Radio Inc.
Proprietary & Confidential
September 27-28, 2006

FINAL

Public Version SX Trial Ex. 2

EXHIBIT
Parsons 7
4/25/07 SW

XMCRB 00023993

Content Agenda

- **Content Strategy:** What XM set out to do and why
- **Today:** How have we done and learnings/insights
- **Tomorrow:** Trends we're seeing in the overall/competitive marketplace and relevant major learnings/insights
- **Discussion:** Based on major questions, issues, what are decision points and options in formulating our strategic direction and growth-driving initiatives

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Content Agenda

- **Content Strategy:** What XM set out to do and why

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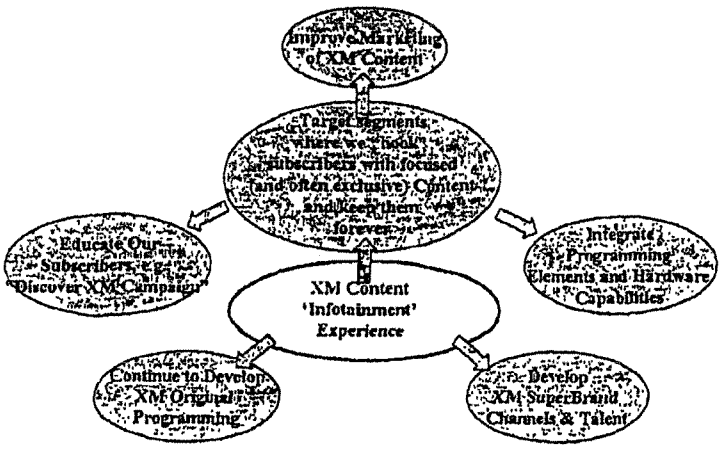
XM's Long-term Attraction to Consumer and Discriminator versus Competition:

- Breadth, Depth and Freshness of Content
- Presentation of Content and Ease of Use by the Consumer Enhances Attractiveness of the XM Brand
- Deliver the Total "Infotainment" Experience

The XM "Infotainment" Experience



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XM Content Strategy Overview

Establish XM as the "destination of choice" for Mobile and Fixed Music, News, Talk, Entertainment and Sports Content across America where Current, Fresh and Alive Content in Combination with Stored Material is the Long Term Differentiator in Attracting and Retaining the Listeners.

Key Programming Content Objectives

1. Content Attractive to Mainstream America
2. Content Targets Complementary Growth Segments
3. Reflect Current Culture
4. XM Superbrands
5. Balance Cost of Content and Make vs. Buy
6. Develop Content Attractive to Advertisers

Subscriber Targeting ⇔ **Differentiated Content Focus**

	Subscriber Target Demographics
1.	Mainstream America - Persons 25-54 with average age of 35
2	Mainstream America - Persons 18-24 and Persons 55+
3	Growth Segments

Content Strategy Goals

- Offer "something for everyone"
- Be appealing to potential and existing XM subscribers
  (difference between Acquisition and Retention content)
- Provide Content attractive both to Aftermarket and OEM subscribers
- Grow overall XM listenership steadily over time, keep customer satisfaction high and churn relating to Content low
- "Living Content" that changes with cultural tastes and delivers the "total infotainment experience"

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Content Agenda

- Today: How have we done and learnings/insights

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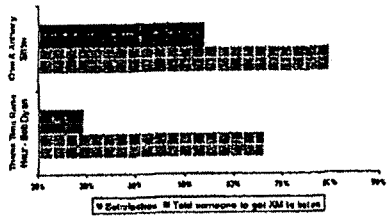
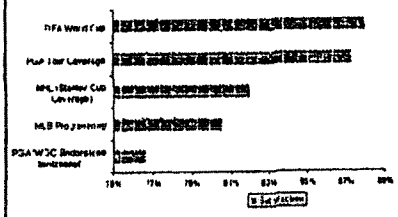
Subscribers are Satisfied with Acquisition Content and are Talking About It

- *Subscribers are very satisfied with the O&A (80%) and Bob Dylan (66%).*
  - *54% of O&A listeners are promoting XM by telling people to get XM to listen; 29% for Bob Dylan*
- *O&A are performing particularly well*
  - *Ranked 13 in Arbitron Spring 2006 (12–)*
  - *Have commercial appeal with 25% having purchased something talked about on air*



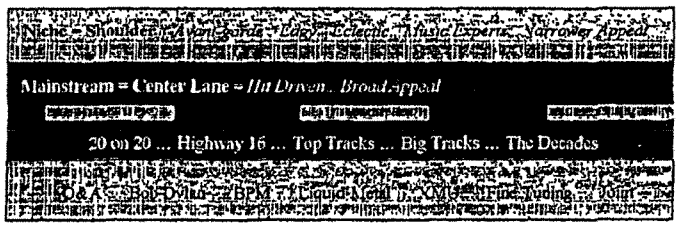
- *Subscribers are satisfied with XM's coverage of Live and Event-driven play-by-play Sports*
  - *All XM co-produced coverage of sporting events score in to the "highly satisfied" range of 80%+*
- *Live and Event-driven play-by-play are necessary complement to ESPN and Fox Sports*



Source: O&A and Dylan Show Surveys 2006
Various Sporting Event Related Surveys Conducted during spring 2006

Testing the XM SuperBrand Concept: "Center Lane" and "Shoulder" Programming

- *The XM Super Highway is proving out through research:*
  - *Center Lane: Mainstream or Mass Market consumers looking for familiarity*
  - *Shoulder: Segments where we "hook" subscribers with focused (and often exclusive) content and keep them engaged, satisfied and active ambassadors for XM*
  - *Active XM Cross Promotion of both lanes, leads to exploration and discovery of other XM content which leads to higher overall TSL*
  - *Niche programming will ultimately be XM's differentiator – needs Marketing focus*
  - *Acquisition vs.. Retention Content theory is still being tested*



Source: Kansey Super Brand Study 2006

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As XM Extends to New Media Platforms, Listenership Trends are Consistent with Our Core Satellite Service (refer to page 9)

XM's Current Content Value Propositions and Distribution

Portal for Aggregated Music, News, Talk, Sports, T&W, Data Services

Music and XM-owned Talk talent distribution; not a portal for third party News, Talk, Sports, T&W

XM-owned Music and Talk Talent Syndication

Satellite – XM Radio

Channel Production
- XM Music Channels

XM Original Production
- Artist Confidential
- O&A
- Bob Edwards
- Broadminded

Aggregation/Distribution
- News, Talk, Sports, Traffic & Weather Audio, Data Services

Internet – XMRO

Channel Production
- * + XM Music Channels

XM Original Production
- * + Artist Confidential
- O&A
- Bob Edwards

(*AOL / + Alltel)

Aggregation/Distribution
- Oprah & Friends

DirecTV

Channel Production
- XM Music Channels
- XM Citizen Business Channels

XM Original Production
- Artist Confidential
- O&A

Terrestrial Radio Syndication

XM Original Production
- Artist Confidential
- O&A
- Bob Edwards
- Bob Dylan (International)

Airlines
- XM Music Channels

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Content Agenda

- **Tomorrow:** Trends we're seeing and relevant major learnings/insights

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XM's non-Music Format Providers Have Big Plans for the Internet and Wireless Applications

- Satellite radio is merely one distribution spoke in major media companies' "360°" multi-platform and integration approach to distribution portfolios, especially News and Sports
  - Our media partners' robust multi-platform strategies include stratifying rights along 2 dimensions.
    - Media distribution platforms including their own and third party platforms
      - » CNN.com: "CNN Pipeline" and others
      - » BBC.com: "BBC The Mobile Edition" and others
      - » CNBC.com via MSN Money.com
      - » ESPN.com
    - Devices, including their own and third party devices
      - » "ESPN Mobile Phone" through Sprint (MVNO)
  - Portfolio of new services options available:

PHONES							
Text Alerts	Email Alerts	Weather Alerts	Audio Alerts	Audio to Phone	Video Series	Advertising	Video to Phone

INTERNET											
Internet - Audio	Internet - Video	Internet - Music	Photo Upload	Wiki Page	Social Networking	Email	Online Subscription	Internet Radio	Video (Downloaded)	Video (Live)	RSS Feeds

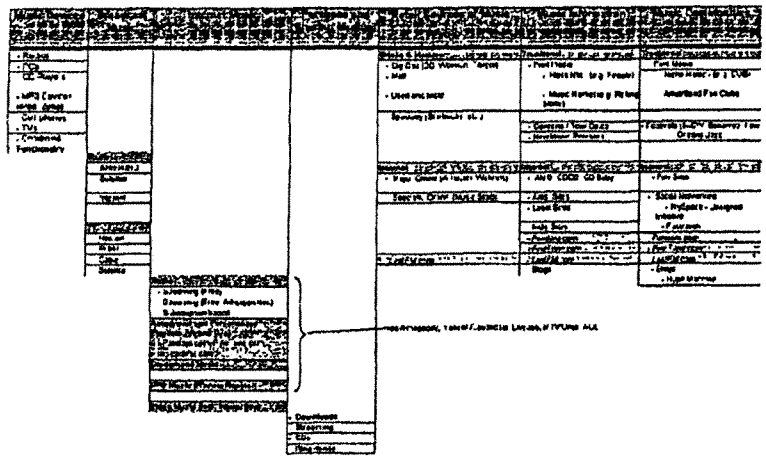
Third Party Platform Distribution				
Tunes - Video	iTunes Audio	News.com	YouTube	Audible

  - XM future non-Music rights payments could increase significantly as we renew contracts, depending on new device platforms we target: e.g. Internet, Cell phones, PDAs.

Increasing Consumer Options for Music Discovery and Consumption require XM to Establish Music Leadership "Credentials" to Maintain Our "Infotainment" Relevance

SATELLITE RADIO

Spectrum of Music Discovery and Consumption



XM's Music Competitors Also Have Big Plans for the Internet and Wireless Applications

- Established multi-media competitors have robust multi-platform Music strategies, including integration and distribution of music content and music information through:
  - Media distribution platforms- their own Internet sites and third party platforms
    - MTV through MTV.com's, MTV Radio (free), Urge (subscription Radio and downloads) and through i-Tunes (audio and video)
    - On-line terrestrial Radio simulcasts
    - CCL – on-demand music/Videos – mainstream and "Format Lab", plus "Stripped – Raw and Real" their answer to Artist Confidential
  - Devices their own and third party devices
    - CCL's Z100 through cell phones, with more planned
    - Apple iTunes/iPod, and new Microsoft Zune
    - VCast Download Service – Verizon, cell phones

•Add Sirius, HD Radio

Demo – Personalized Competitive Products to XM*

Non-Music Content, Information and Services

CNN BBC CNBC ESPN

Music Information and Content

allmusic gracenote

UNIVERSAL UNIVERSAL MUSIC GROUP

SonyMusic

sirius mercora PANDORA

URGE tune

MUSIC

lastfm

CLEARCHANNEL

FormatLab

* List of competitors is not exhaustive

•Add Sirius, HD Radio

Content Agenda

- **Discussion:** Based on major questions and issues, what are decision points and options in formulating our strategic direction and growth-driving initiatives

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The Following Points Should be Considered ... (1 of 2)

- The environment for delivering the Total "Infotainment" Experience has changed and continues to change quickly
- XM's revised Content Strategy must include distributing Content on new Internet/Wireless platforms complementary to our core satellite offering and targeted marketing to proven, established Music segments by focusing on Music differentiation through "The Music Authority" approach
- XM should focus on a horizontal Content aggregation strategy for the core Satellite service and narrower vertical strategy focusing on Music for new distribution platforms
  - Could require at least 2 Marketing Messages
  - Could require new Content Rights as we move forward
- Content Strategy must consider a new set of dimensions and decision points

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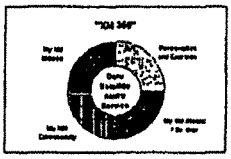
The Following Points Should be Considered ... (2 of 2)

- XM Can and Should Leverage more Music Content Differentiation
  - XM should target and market to proven Music segments
  - While commercial-free Music is currently our Key Content Differentiator, XM should extend Internet/Wireless presence and become "The Music Authority"



- XM can further differentiate through XM-owned Talk Personalities over the Satellite, through select syndication, podcasts, exclusive streamed shows, on-demand show archives and clips.

- XM should refocus Sports differentiation efforts by treating all Sports / Teams / Conferences / Leagues as niche Content and target segments

- Future Bandwidth Considerations – XMH and reallocation

Content Rights and Consumer Messaging Become More Complicated as We Extend Horizontal and Vertical Distribution

XM's Go-forward Content Strategy Focus

[redacted]

Horizontal Aggregation for Satellite Platform

XM's closed satellite network is a unique portal to continue to aggregate and distribute from a rights perspective

Marketing Message 1

Vertical Creation/Ownership and Distribution for XM Internet / Wireless Platforms

XM-created and owned content provides maximum opportunity for distribution over other platforms from a rights perspective

Marketing Message 2

No Vertical Aggregation and Distribution for XM Internet / Wireless Platforms

Most major Third Party News, Talk, Sports and T&W content providers have their own Internet and wireless/digital distribution models/plans and will only provide other Internet/Wireless/Digital rights to XM at costs potentially significantly incremental to our current SDARS rights

XM's Go-forward Content Strategy Must Consider a New Set of Dimensions and Decision Points

	XM MUSIC				
	XM Music	XM Talk	TP Talk	XP Sport	TP Traffic & Weather
1 Content	- Audio - Information - Data				
2 Content Value	- Acquisition vs Retention Content - Credentials - Information Concierge - Relevant Complementary Value Proposition to Consumer				
3 Distribution Platform	Satellite	Internet / Wireless		Physical Media (CDs)	Other
4 Rights					
5 Cost-Benefit					
6 Subscriber Messaging	e.g., "Content is on the Satellite, but not on XM RO", "commercial-free"				

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XM Should Leverage Music Differentiation and Market to Established and New Segments..."100 Niches of a Million"

Example: 26% of XM's subscribers listen to at least one (1) Country Music channel during an average week or an audience of ~2.1M. The total US audience for Country Music can be estimated to be 60M. Country Music also generated $1.5B in Music sales in 2005. Country and other mainstream and niche Music genres provide significant opportunities for XM.

	XM Audiences		US Music Audiences			RIAA Consumer Profile 2005	
	Fit XM Subscribers (Primary Listening)		15+ Population = 225M			2005 Music Sales (all Formats CD, DVD, Downloads)	
	Unique Listed Users M	Unique Hours M	Unique Listed Users M	Unique Hours M		Consumers	$ Billions
	29%	7.3	66.9	39%		9%	51.9
	3%	0.3	7.9	3%		2%	0.1
	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
	11%	4.0	25.0	11%		6%	0.5
	32%	2.6	73.5	32%		1%	0.1
	4%	0.3	9.1	4%		5%	0.2
	23%	1.8	52.4	23%		37%	3.3
	1%	0.1	22.0	10%		0%	0.0
	7%	0.6	26.1	11%		16%	2.3
	3%	0.3	7.9	3%		3%	0.4
	4%	0.3	9.0	4%		12%	1.6
	1%	0.1	2.3	1%		0%	0.0
	144.8%	15.8	259.1	157.3%		101%	512.3
	144.8%	15.8	259.1	1.00%			
	18.6%	1.6	177.0	61%			
	8.2%	0.7	43.0	16%			
	1.9%	0.2	0.0	0%			
	0.4%	0.0	5.2	3%			
	173.9%	13.8	529.8	229.7%			

[illegible] Spring 2006

[illegible] Little and Uni M Relationship

[illegible] New Age Country and Other

Other Indicates Big Band Broadcast Stations Classical Contemporary Electronic R&B Soul Spanish Folk Gospel Golden Hits/Oldies Music Music Mood Humor Instrumental Language Learn Jazz Lounge Mix Modern Modern Talk Reggae Hard Rock Wild

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•Add Sirius, HD Radio

APPENDIX

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