



**Testimony of Mr. Mel Karmazin
Chief Executive Officer
SIRIUS Satellite Radio
Before the House Judiciary Committee's
Antitrust Task Force
Regarding the "Competition and the Future of Digital Music"
February 28, 2008**

Mr. Chairman,

Good afternoon. Thank you, Chairman Conyers, Ranking Member Smith, and members of the Anti-Trust Task Force for the invitation to talk with you about our merger with XM Satellite Radio.

I'm Mel Karmazin, the CEO of Sirius Satellite Radio. Before I came to Sirius in 2004, I was president of Viacom, and before that, president of CBS. I've spent just about my entire working life in the broadcast industry.

I am speaking today on behalf of both companies. With me here today is Gary Parsons, the chairman of XM. Gary is a veteran of the communications business, a real leader in the world of satellite radio. Gary and I are both looking forward to working together to create an exciting new company.

Gary's leadership and talent are crucial to this merger. He built XM into the success it is today. I should point out that XM has the largest digital radio facility of its kind in the country, and is headquartered right here in Washington.

We firmly believe that this transaction is essential to preserving and enhancing choice for consumers. A combined company will be able to compete more effectively in the highly competitive and rapidly evolving audio entertainment marketplace. Our new enterprise will enhance the audio industry's future.

I appreciate this opportunity to explain why we believe so strongly that this merger will benefit American consumers.

This afternoon I would like to focus on the two most important aspects of this merger:

1. How this merger will lead to increased consumer choice and lower prices; and
2. How this merger enhances competition in an already highly competitive market.

Consumer Choice and Lower Prices

Since the creation of satellite radio in 1997, the consumer has been at the center of our business plan. Consumer wants and needs have brought the technology and the industry to where it is today and the consumer continues to be our number one priority. That simple but important fact will not change post-merger. The long-term success of satellite radio rests on growing our subscriber base. As a single company, we expect to provide current and future subscribers the best and most diverse audio content available.

A merged company will also give subscribers additional programming options and pave the way for even more programming. We expect that consumers will no longer have to subscribe to both services in order to receive the most popular programming. We want subscribers on both systems to be able to listen to both the NFL and Major League Baseball. Both the PGA and NCAA basketball. Both Oprah Winfrey and Martha Stewart.

Moreover, in the long-term the significantly expanded channel capacity of our merged company will give consumers access to a greater range of programming. XM and SIRIUS already broadcast a wide range of commercial-free music channels, exclusive and non-exclusive sports coverage, news, talk, and entertainment programming. In the long-term, our combined company expects to be able to expand diverse programs for underserved interests. For example, we hope to expand foreign language and religious programming.

The merger will also result in a combined focus on designing the best products and innovative services for our subscribers. By combining our research and development, we will be able to design and introduce radios and transmission infrastructure that will give satellite radio subscribers the best experience in audio entertainment. We will be able to speed the introduction of radios offering content from both of our services today – something that has been challenging as separate companies.

We anticipate that together, our radios will be smaller, lighter, simpler, and more technologically-advanced than what each company has on the market today. Over time, we will look to combine our satellite and terrestrial transmission infrastructure to deliver the broadest range of content and the highest level of service quality. Finally, we'll use our combined resources to improve upon our nascent non-audio services, like Backseat Video, real-time traffic and weather, and other infotainment-style data services. At the same time, we will accelerate the delivery of innovative services and products.

It is important to realize, however, that our individual radios will not become obsolete as a result of this combination. Any radios or other equipment that subscribers currently use will be fully supported by SIRIUS and XM. When more technologically advanced devices are ready, subscribers will make the decision to adopt them at a timing of their choice.

In summary, a merged Sirius and XM will be a boon to consumers. They will receive additional programming opportunities and choice at more competitive prices. They will have access to advanced equipment and services, but they will have the flexibility to adopt technology when they wish, secure in the knowledge that their current radio will continue to operate. And satellite audio will continue to be a viable consumer option in the modern audio entertainment marketplace — a marketplace that has undergone incredible growth and upheaval since the birth of satellite radio.

Enhanced Competition in the Audio Entertainment Industry

We operate in an intensely competitive environment and that competition will continue to intensify post-merger — and continue to provide an inherent check on programming as well as on pricing. Our long-term success rests on growing our subscriber base, and we simply will not attract new subscribers if we are not meeting consumer expectations on price and programming.

The dynamic growth in audio technology has given consumers an impressive array of choice — a significantly broader range of audio entertainment options from which to choose than was the case when we were first granted our licenses a decade ago in 1997. Back in 1997, an eon ago in the world of technology, audio entertainment was dominated by analog AM and FM radio. Digital broadcast radio did not yet exist. The Internet was still in its infancy; with multi-channel digital broadcast radio and broadband streaming Internet audio and radio still on the horizon.

Today's options paint a stark contrast to those in 1997. Of course, satellite radio still competes vigorously with free over-the-air AM-FM radio — a service that exists in virtually every home and car in the country. That competition is becoming fiercer, as radio moves to digital broadcasts in response to satellite's appeal. But we also face growing competition for our audience from emerging audio sources, including multi-channel digital broadcast radio, wireless broadband and mobile phone streaming.

But that's just the beginning; an even wider range of new services are becoming mainstream. Wireless carriers are exploring new data and voice services as they deploy 3G and 4G networks. Multi-channel HD radio is spurring renewed growth in the terrestrial radio marketplace, with additional free programming choice. Services such as WiMAX and Media Flow are emerging as high-bandwidth, long-range content, and data transmission technologies.

It has only been 10 years since satellite radio was licensed. Could we have predicted 10 years ago that the audio entertainment marketplace would look the way it does now? One reason for all the new technological advancements is that competition in the audio entertainment market is robust. We are seeing new entrants on a regular basis as the market continues to meet the needs of the consumer. The reality is that consumers can choose from a wide range of different services and technologies that offer audio entertainment.

XM and Sirius are relatively small players in that highly competitive and rapidly evolving audio entertainment marketplace. Welterweights in an arena of heavyweights. There are 237 million vehicles in the United States, each of which offers a built-in AM and FM radio. There are another 230 million PCs in use that can access programming online, and there are 223 million weekly AM and FM radio listeners in the United States, and millions of cell phones for music listening, to programmed entertainment, music news, talk and information. Contrast that to Sirius and XM. The companies currently have about 14 million subscribers. Satellite radio is a David operating in a land of Goliaths and is hardly a threat to controlling the audio entertainment market.

But competition is healthy, and it benefits the consumer. Today when we think to ourselves, "I want to hear some of the jazz greats like Louis Armstrong, John Coltrane or Miles Davis," we have a multitude of options at our fingertips. We can turn on our AM/FM radio and tune in to a jazz station; we can log on to the Internet and find the music online; or we can turn on our SIRIUS satellite radio and tune into Planet Jazz, Jazz Café or Spa 73.

Given the expansive market — within which satellite radio is only one of many alternatives — we are certain that an accelerating level of competition will exist post-merger. There is little doubt that satellite radio faces stiff competition from many of the technologies and entertainment platforms that I have already described. In fact, I would like to note for the committee that in the SEC filings of traditional radio companies, they readily acknowledge that they compete with satellite radio in a larger market for audio entertainment:

— From Clear Channel Communications 2005 Form 10-K; page 24: "Our broadcasting businesses face increasing competition from new broadcast technologies, such as broadband wireless and satellite television and radio, and new consumer products, such as portable digital audio players and personal

digital video recorders.”

– From COX Broadcasting / COX RADIO 2005 Form 10-K; page 8-9: “In addition, the radio broadcasting industry is subject to competition from new technologies and services that are being developed or introduced, such as the delivery of audio programming by cable television systems, by satellite digital audio radio service and by digital audio broadcasting. Digital audio broadcasting and satellite digital audio radio service provide for the delivery by terrestrial or satellite means of multiple new audio programming formats with compact disc quality sound to local and national audiences.”

The fact is that we are in the middle of a rapid evolution of the audio entertainment industry. Together, SIRIUS and XM can compete more effectively. We will have the capacity to expand our market by offering more compelling and more diverse content to a greater proportion of the population. Our goal is to have as many people in this country look to us as a source of content relevant to them. By combining our companies, we are absolutely convinced that we are creating a company with tremendous potential. We are confident that together we will be able to quickly and successfully integrate the two companies to deliver the greatest programming choices to our existing and new subscribers.

Our merger has resulted in one unexpected harmony. There are few – if any – issues where you’ll find the LOS ANGELES TIMES, the WALL STREET JOURNAL, USA TODAY, and the CHICAGO TRIBUNE in agreement. All four newspapers found that our merger is meritorious. The LA TIMES concluded that the audio entertainment market “is very competitive, particularly among the national players.” Mr. Chairman, Ranking Member Smith, and members of the Committee, thank you for this invitation to speak with you today about the very significant consumer benefits that this merger will produce. Sirius and XM together see great opportunities, and we believe that our growth will be faster and our service offerings will be more competitive on a combined basis.

This transaction is about choice. We look forward to the day this merger is approved and we can begin to provide consumers with best-of-breed programming as well as the acceleration of innovative services and products that they desire.

I look forward to answering any questions the Committee might have.