Before the
UNITED STATES COPYRIGHT ROYALTY JUDGES
Washington, D.C.

In the Matter of: Determination of Rates and Terms for Preexisting Subscription Services and Satellite Digital Audio Radio Services	Docket No. 2011-1 CRB PSS/Satellite II

WRITTEN REBUTTAL STATEMENT OF SOUNDEXCHANGE, INC.

Volume 3: Exhibits, SX Ex. 201-RR – SX Ex. 235-RR

PUBLIC EXHIBITS ONLY

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Counsel for SoundExchange, Inc.

July 2, 2012

PUBLIC VERSION

RESTRICTED EXHIBIT - NOT AVAILABLE

The following restricted exhibits are not available in the public version:

SX Ex. 201-RR - SX Ex. 205-RR
SX Ex. 212-RR
SX Ex. 233-RR - SX Ex. 237-RR
SX Ex. 239-RR - SX Ex. 242-RR
SX Ex. 301-RR - SX Ex. 315-RR
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SX Ex. 347-RR
SX Ex. 355-RR - SX Ex. 362-RR

EDGAR Online

SIRIUS XM RADIO INC.

FORM 8-K
(Current report filing)

Filed 05/22/12 for the Period Ending 05/22/12

Address	1221 AVENUE OF THE AMERICAS 36TH FLOOR NEW YORK, NY 10020
Telephone	212-584-5100
CIK	0000908937
Symbol	SIRI
SIC Code	4832 - Radio Broadcasting Stations
Industry	Broadcasting & Cable TV
Sector	Services
Fiscal Year	12/31

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SX Ex. 211-RP

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 22, 2012

SIRIUS XM RADIO INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or other Jurisdiction of Incorporation)	**001-34295** (Commission File Number)	**52-1700207** (I.R.S. Employer Identification No.)

1221 Avenue of the Americas, 36 th Fl., New York, NY **10020**
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: **(212) 584-5100**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 7.01 Regulation FD Disclosure

On May 22, 2012, Mel Karmazin, our Chief Executive Officer, spoke to stockholders at our 2012 Annual Meeting of Stockholders. A copy of the slides used during his presentation to stockholders are attached hereto as Exhibit 99.1 and is incorporated by reference into this Item 7.01.

Pursuant to General Instruction B.2. to Form 8-K, the information set forth in this Item 7.01, including the exhibit attached hereto, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits.

The Exhibit Index attached hereto is incorporated herein.

EXHIBITS

Exhibit	Description of Exhibit
99.1	Presentation slides dated May 22, 2012 for 2012 Annual Meeting of Stockholders

Exhibit 99.1

Annual Stockholder Meeting

May 22, 2012

Exhibit 99.1

Annual Stockholder Meeting

May 22, 2012

Disclaimer on **Forward-Looking Statements**

The guidance contained herein is based upon a number of assumptions and estimates that, while considered reasonable by us when taken as a whole, is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, the guidance is based upon specific assumptions with respect to future business conditions, some or all of which will change. The guidance, like any forecast, is necessarily speculative in nature and it can be expected that the assumptions upon which the guidance is based will not prove to be valid or will vary from actual results. Actual results will vary from the guidance and the variations may be material. Consequently, the guidance should not be regarded as a representation by us or any other person that the subscribers, revenue, and/or adjusted EBITDA will actually be achieved. You are cautioned not to place undue reliance on this information.

This communication contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, but are not limited to, statements about future financial and operating results, our plans, objectives, expectations and intentions with respect to future operations, products and services; and other statements identified by words such as "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "believe," "intend," "plan," "projection," "outlook" or words of similar meaning. Such forward-looking statements are based upon the current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are difficult to predict and generally beyond our control. Actual results may differ materially from the results anticipated in these forward-looking statements.

Disclaimer on **Forward-Looking Statements**

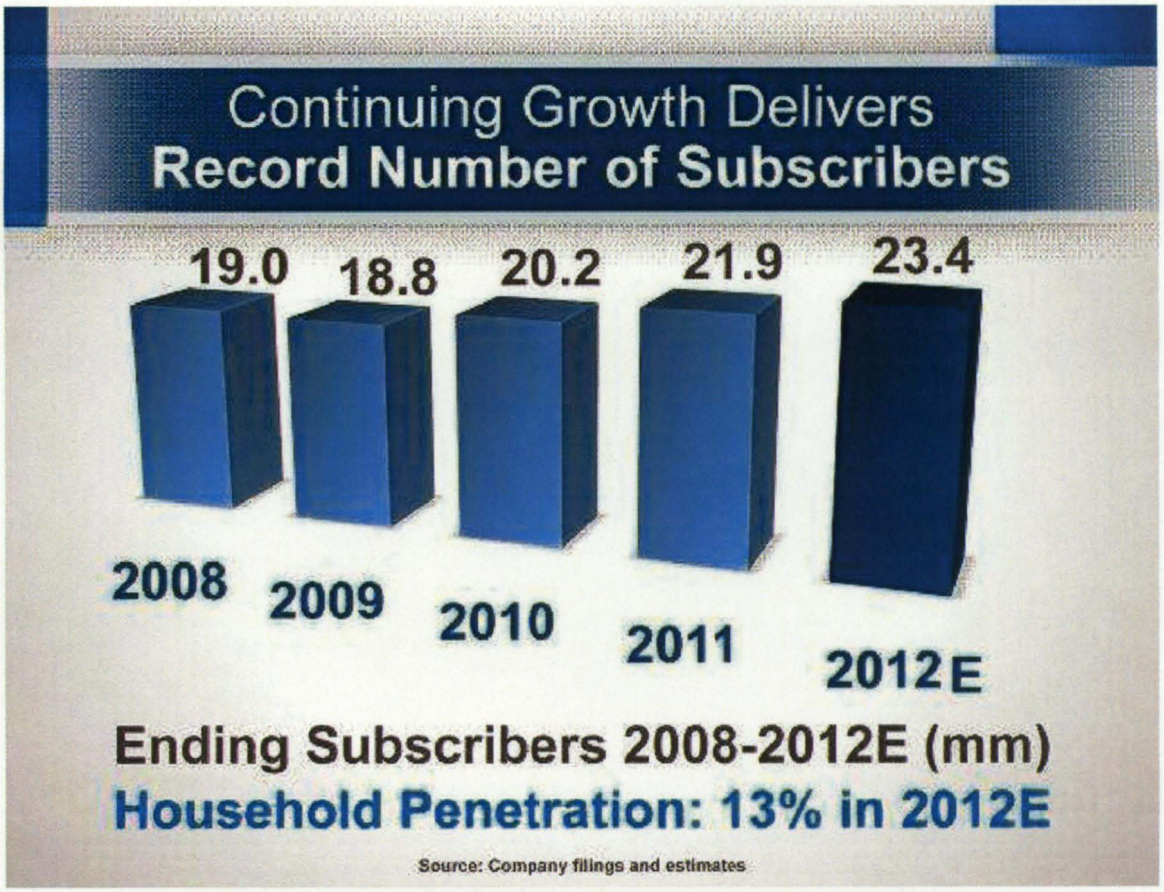
The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- we face substantial competition and that competition is likely to increase over time;
- our business depends in large part upon automakers;
- general economic conditions can affect our business;
- failure of our satellites would significantly damage our business;
- our ability to attract and retain subscribers at a profitable level in the future is uncertain;
- royalties for music rights may increase;
- failure to comply with FCC requirements could damage our business;
- the unfavorable outcome of pending or future litigation could have a material adverse effect;
- rapid technological and industry changes could adversely impact our services;
- failure of third parties to perform could adversely affect our business;
- changes in consumer protection laws and their enforcement could damage our business;
- interruption or failure of our information technology and communication systems could negatively impact our results and brand;
- if we fail to protect the security of personal information about our customers, we could be subject to costly government enforcement actions or private litigation and our reputation could suffer;
- we may from time to time modify our business plan, and these changes could adversely affect us and our financial condition;
- our substantial indebtedness could adversely affect our operations and could limit our ability to react or changes in the economy or our industry;
- our broadcast studios, terrestrial repeater networks, satellite uplink facilities or other ground facilities could be damaged by natural catastrophes or terrorist activities;
- electromagnetic interference from others could damage our business;
- our business may be impaired by third-party intellectual property rights;
- Liberty Media Corporation has significant influence over our business and affairs and its interest may differ from ours; and
- our net operating loss carryforwards could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code.

Additional factors that could cause our results to differ materially from those described in the forward-looking statements can be found in our reports filed with or furnished to the SEC and available at the SEC's internet site (http://www.sec.gov). The information set forth herein speaks only as of the date hereof, and we disclaim any intention or obligation to update any forward looking statements as a result of developments occurring after the date of this communication.

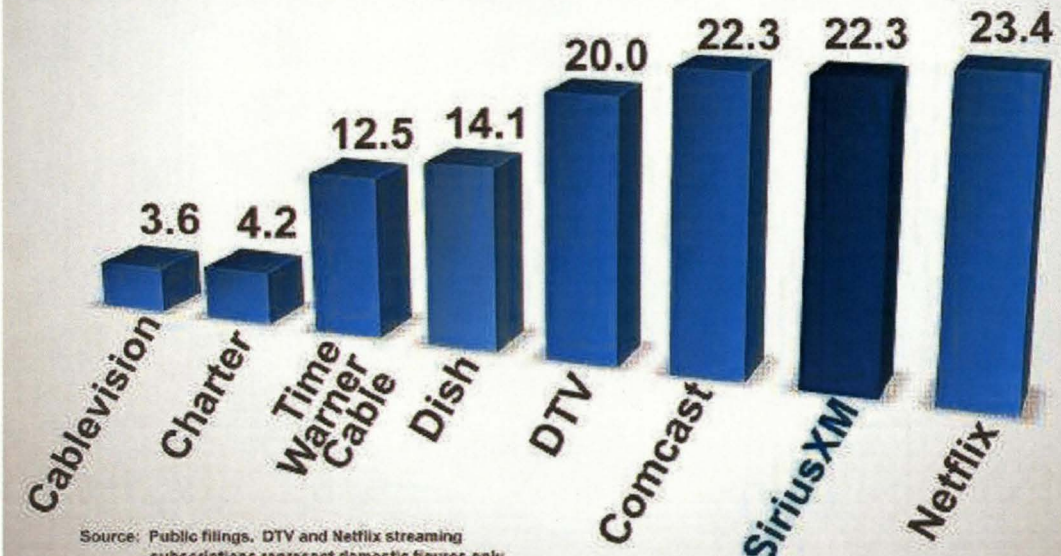
Management **Priorities**

- **Continue to innovate**
- **Grow subscribers**
- **Grow revenue**
- **Grow free cash flow**


Continuing Growth Delivers
Record Number of Subscribers
19.0
18.8
20.2
21.9
23.4
2008
2009
2010
2011
2012E
Ending Subscribers 2008-2012E (mm)
Household Penetration: 13% in 2012E
Source: Company filings and estimates

Among Largest U.S. Subscription **Media Businesses**

1Q12 Total Basic Paid Subscribers (mm)



Source: Public filings. DTV and Netflix streaming subscriptions represent domestic figures only.

SiriusXM™
SATELLITE RADIO

Recent Developments

NEW **Programming**

Listening is **Just the Beginning**

Concerts | Town Halls | Special Events

Bruce Springsteen
Paul McCartney
Tim McGraw
Foster the People

"One Night Only" at Studio 54
Opie & Anthony in Cleveland
Beach Boys
Greg Allman
Usher

Nirvana
Coldplay
Tom Petty
Ringo Starr
Coach K
Cardinal Dolan

Launch of 2.0

- Future commitments with OEMs for chip installation in 2012 and beyond
- New online channels enhance blended satellite and online experience
- New features provide more control and convenience
- Coming Soon: On Demand and Personalized Radio

NEW Features

- **Start Now:** Go back up to 5 hours
- **Tune Start:** Start from the beginning
- **Pause:** Pause, rewind and skip
- **Show Alerts:** Be alerted when favorite shows air

Lynx Radio

- **Blended satellite and internet in one radio**
- **More Control**
  - Pause, Rewind and Skip
  - Start shows and songs from the beginning
  - Find, set alerts for your favorite SiriusXM shows
  - Record up to 200 hours of your favorite shows or channels

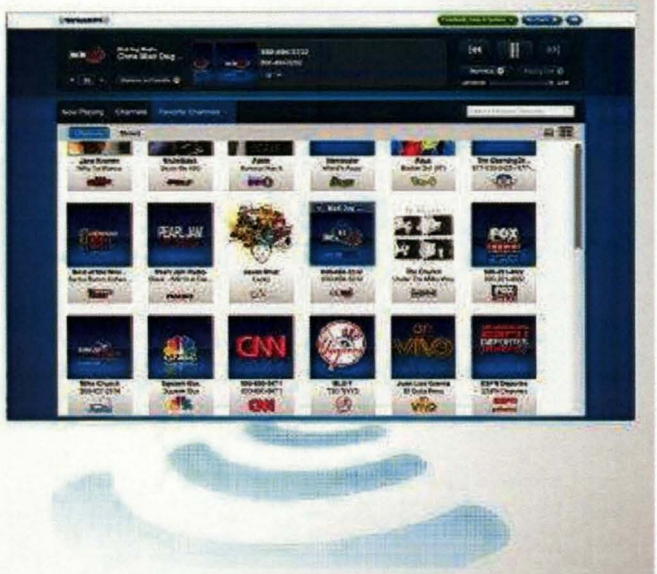
+XTRA CHANNELS
INCLUYE MÁS CANALES EN ESPAÑOL

NEW Mobile **Apps**

- **New apps for Apple and Android add more control, convenience and content**
  - Start shows and songs from the beginning
  - Pause, Rewind and Skip
  - Find and set alerts for favorite shows
- **New Android App adds support for tablets**

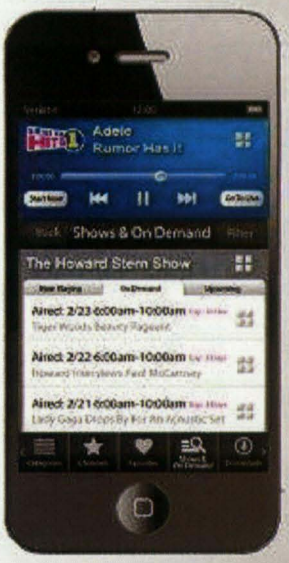
NEW Media **Player**

- **Redesigned User Interface**
- **More Control**
  - Start Now
  - TuneStart
  - Pause, Rewind and Skip
  - Show alerts
- **More Content**



Coming soon: **On Demand**

- **Access thousands of hours On Demand**
- **Access recently aired and exclusive shows at any time**
- **Will include a broad mix of SiriusXM content**
- **Featured and special on demand content**
- **Growing access to selections from SiriusXM's archives**



Key **Metrics** ($ in millions)

	1Q11	1Q12	% change
Churn rate	2.0%	1.9%	-10 bp
Subscribers	20.6 mm	22.3 mm	+8%
Revenue	$724	$805	+11%
Adj. EBITDA	$181	$208	+15%
Net Income	$78	$108	+38%
FCF	($17)	$15	–

Pre-Owned **Vehicle Market**

- **Certified Pre-Owned Program (CPO): Launched with nearly all major automakers**
- **Additional Used Car Efforts: 5,000 franchised dealers supporting our non-CPO used car initiative**
- **OEM revenue sharing creates strong arrangements**
- **Expecting approximately 1 million gross activations in 2012 from used cars**

1Q12 Revenue
Selected Companies

Source: Pandora based on Wall St. research estimates and company guidance

SiriusXM™

SATELLITE RADIO

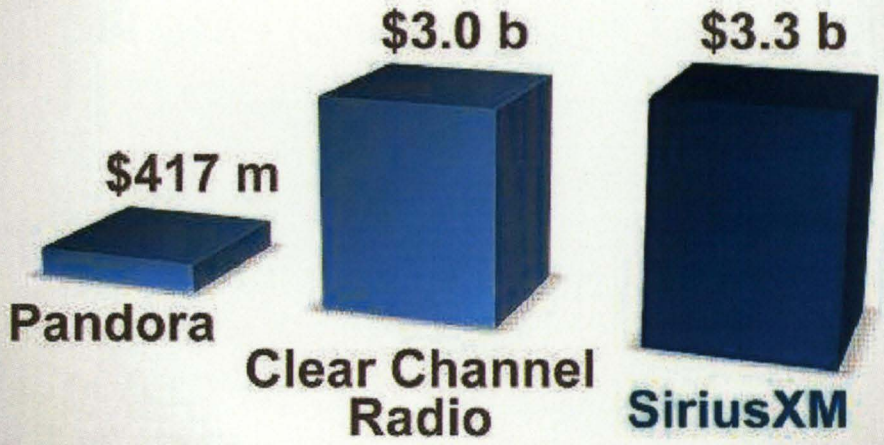
SiriusXM Market

Radio **Revenue**

	2001	2011
Terrestrial Radio: CCU, CBS, Citadel, ETM, CMLS, etc.	**$18 b (100%)**	**$15.1 b (78%)**
IP Radio: Last.fm, Slacker, Pandora, Rhapsody, MOG, etc.	**nil**	**~$1.2 b (6%)**
Satellite Radio: SiriusXM	**nil**	**$3.0 b (16%)**
TOTAL	**$18.0 b**	**~$19.3 b**

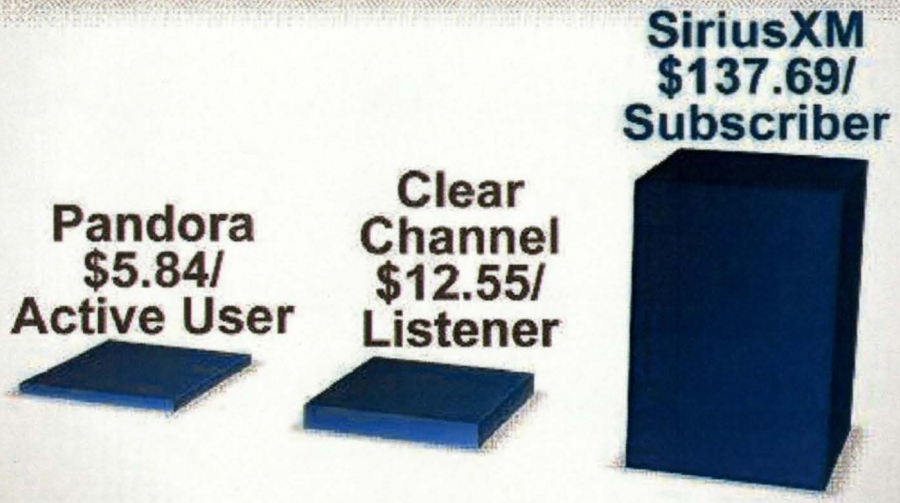
Source: Analyst estimates and industry reports

2012E Revenue Projections
Selected Companies



Source: Based on Wall St. research estimates and company guidance; Pandora fiscal year ending 1/2013

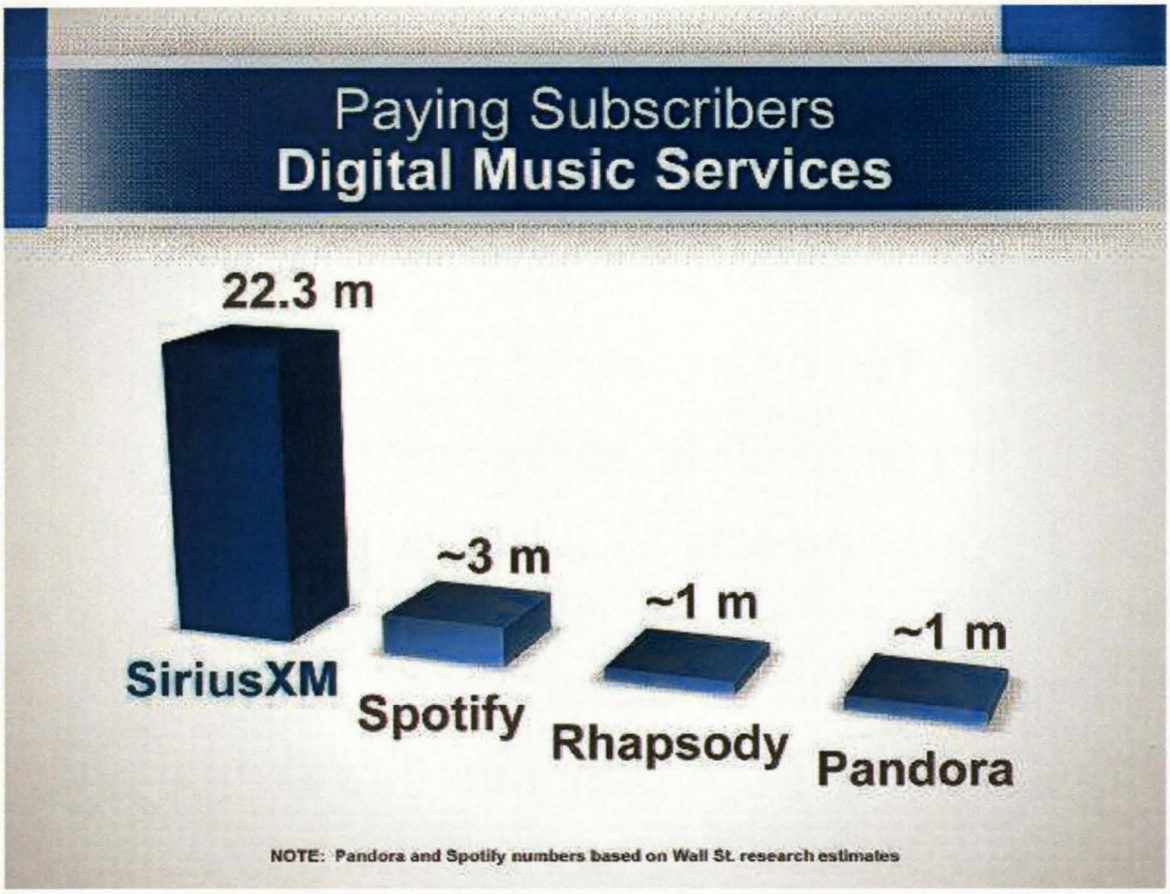
SiriusXM's Superior **Revenue Model**



Based on 2011 Revenue

Source: Based on company filings. Pandora fiscal year ending 1/2012

The Digital Music Ecosystem: **Complicated and Crowded**


Paying Subscribers
Digital Music Services
22.3 m
~3 m
~1 m
~1 m
SiriusXM
Spotify
Rhapsody
Pandora
NOTE: Pandora and Spotify numbers based on Wall St. research estimates

Competitive **Advantages**

- **Satellite delivery system with seamless continental U.S. coverage**
- **Over 135 channels of curated content**
- **Long term OEM agreements**
- **Approximately $7.8 billion of gross NOL's**
- **Subscription model**
- **Focused, pure-play satellite radio company**

SiriusXM™

SATELLITE RADIO

SiriusXM Businesses

SiriusXM's Superior Content is a **Significant Competitive Advantage**

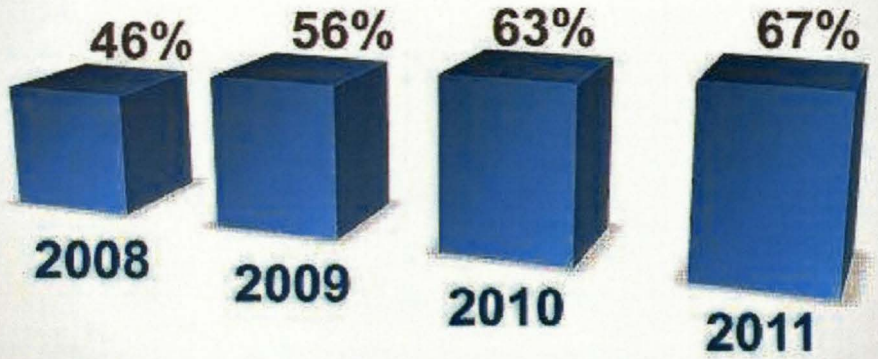
Commercial-Free **Music**

Live Coverage of **Every Major Sport**

The Best in **News, Talk and Entertainment**

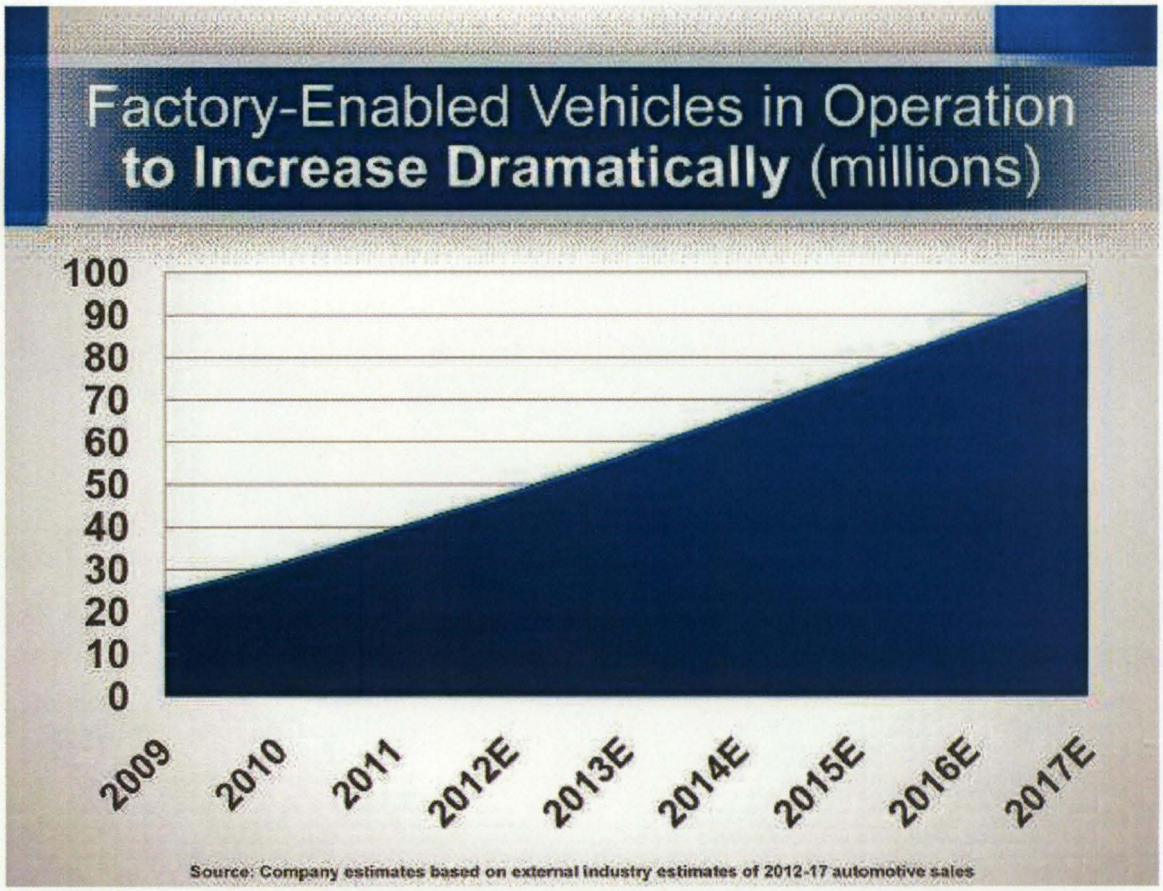
Penetration Gains at **Automakers**

OEM penetration as a percentage of U.S. auto sales

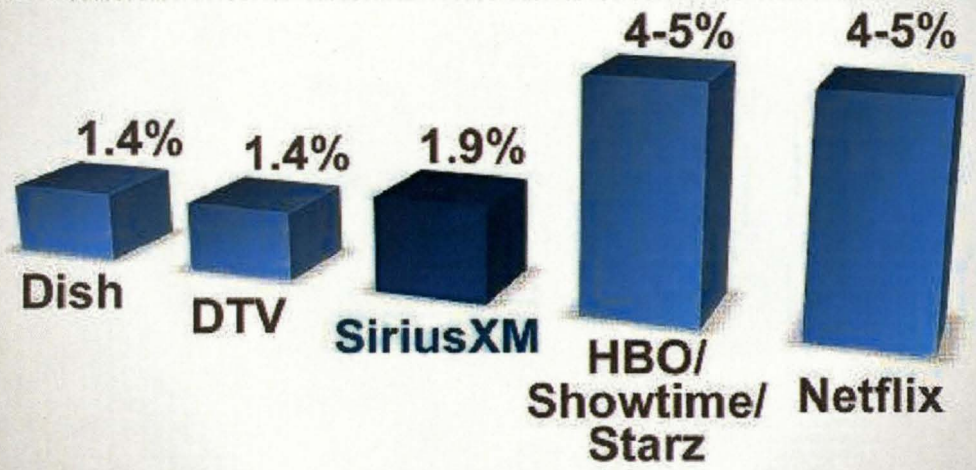


TOYOTA Ford Mercedes-Benz GM CHRYSLER

Source: Total US light vehicle sales per Global Insight and company estimates of SiriusXM enabled sales; Represents factory and port installs only.

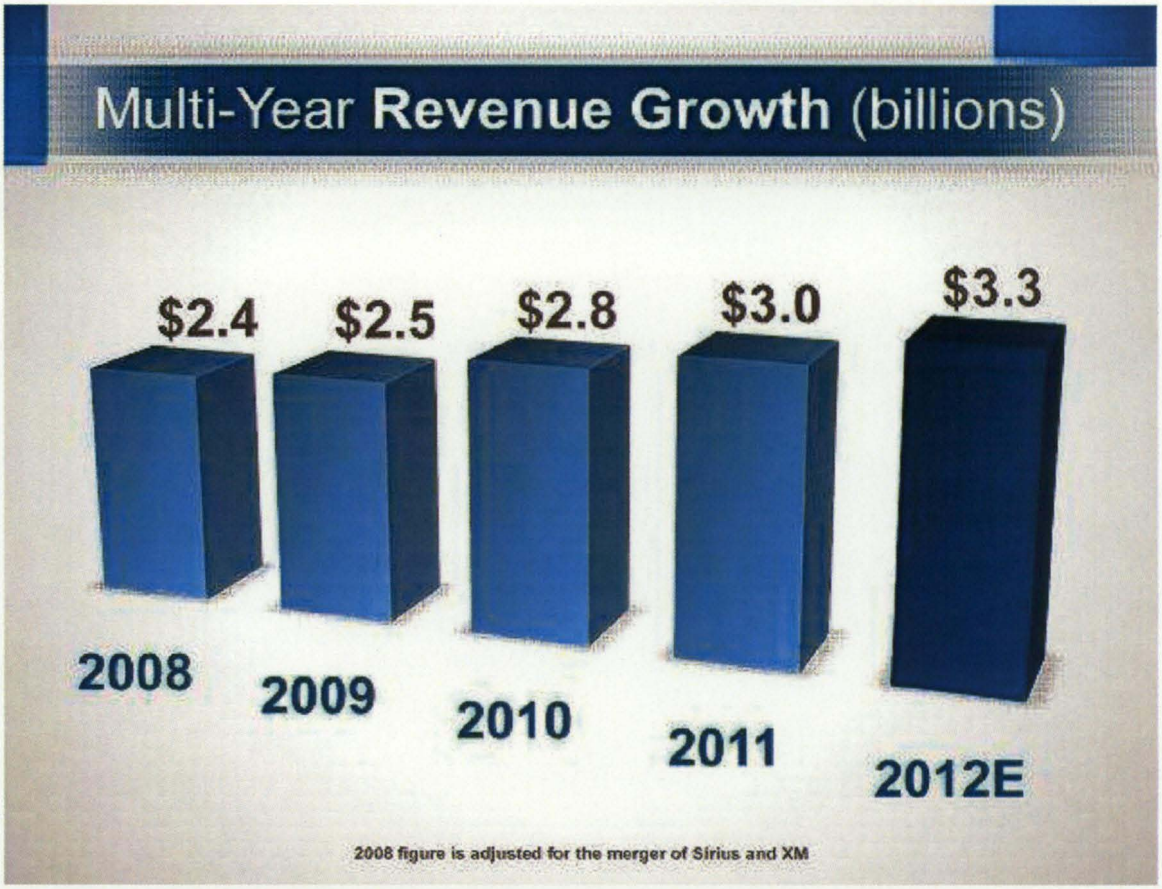

Factory-Enabled Vehicles in Operation
to Increase Dramatically (millions)
100
90
80
70
60
50
40
30
20
10
0
2009
2010
2011
2012E
2013E
2014E
2015E
2016E
2017E
Source: Company estimates based on external industry estimates of 2012-17 automotive sales

Focus on Subscriber Retention
Yields Results

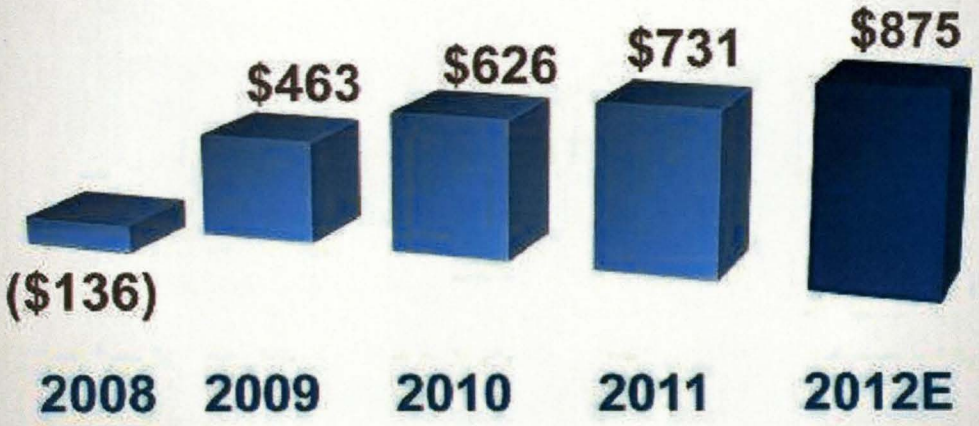


1Q12 Comparative Monthly Churn Rates

Source: Public filings and industry estimate


Multi-Year Revenue Growth (billions)
$2.4
$2.5
$2.8
$3.0
$3.3
2008
2009
2010
2011
2012E
2008 figure is adjusted for the merger of Sirius and XM

Significant Adj. **EBITDA Growth** (millions)



2008 figure is adjusted for the merger of Sirius and XM.

Strong **FCF Growth** (millions)

2008 figure is adjusted for the merger of Sirius and XM

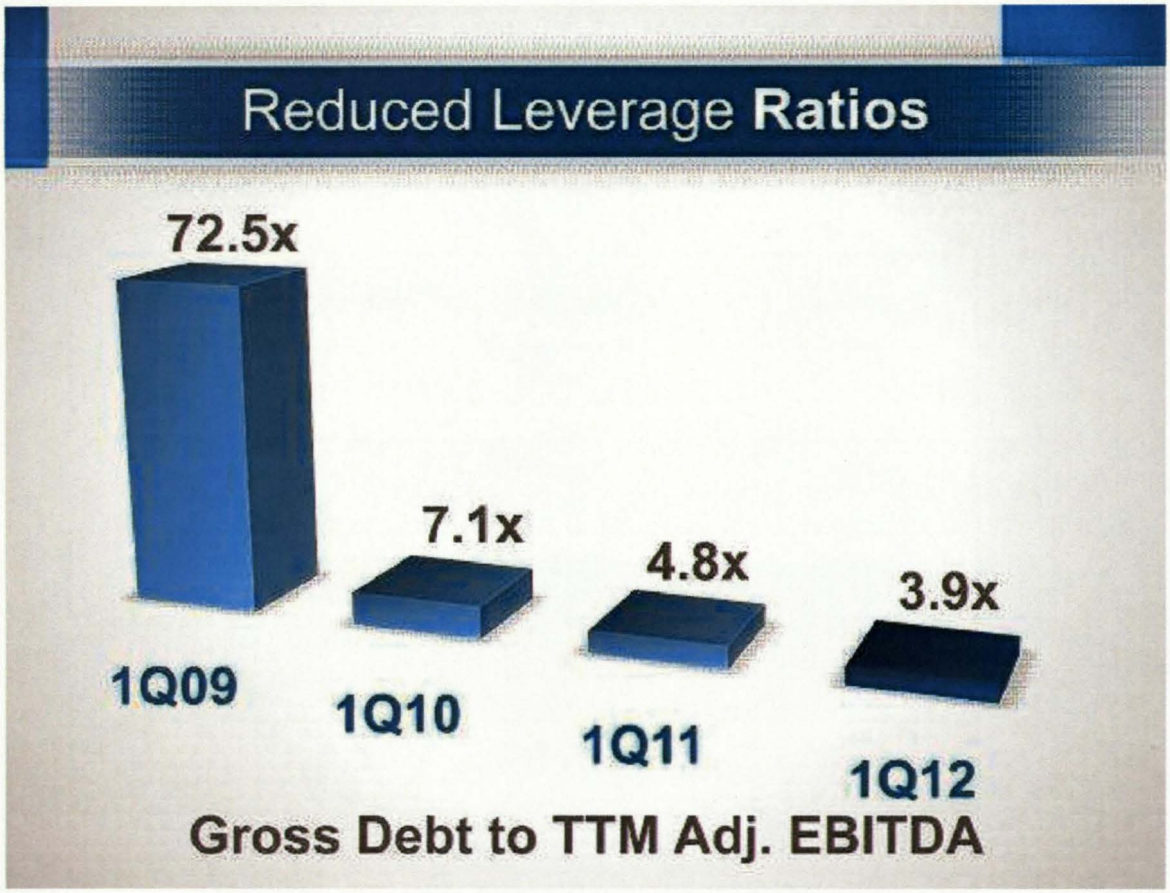
Growth **Statistics and Improvements Since Merger** ($ in millions)

	1Q09	1Q10	1Q11	1Q12
Subscribers	18.6 mm	18.9 mm	20.6 mm	22.3 mm
Revenue	$587	$664	$724	$805
Adj. EBITDA	$109	$158	$181	$208
FCF	($4)	($127)	($17)	$15

2012 **Outlook**

2012 guidance:

- **Revenue of approx. $3.3 billion**
- **Adj. EBITDA of approx. $875 million**
- **FCF of approx. $700 million**
- **1.5 million net subscriber additions**


Reduced Leverage Ratios
72.5x
7.1x
4.8x
3.9x
1Q09
1Q10
1Q11
1Q12
Gross Debt to TTM Adj. EBITDA

Investment Thesis: **Significantly Improved Borrowing Costs**

February 2009	15% secured (REPAID)
June 2009	11.25% secured (REPAID)
August 2009	9.75% secured
March 2010	8.75% unsecured
October 2010	7.625% unsecured

Trading @ 5.69% Yield

Note: Secured transactions in June and August 2009 also included OID.
February 2009 transaction also included fees and equity issuance.

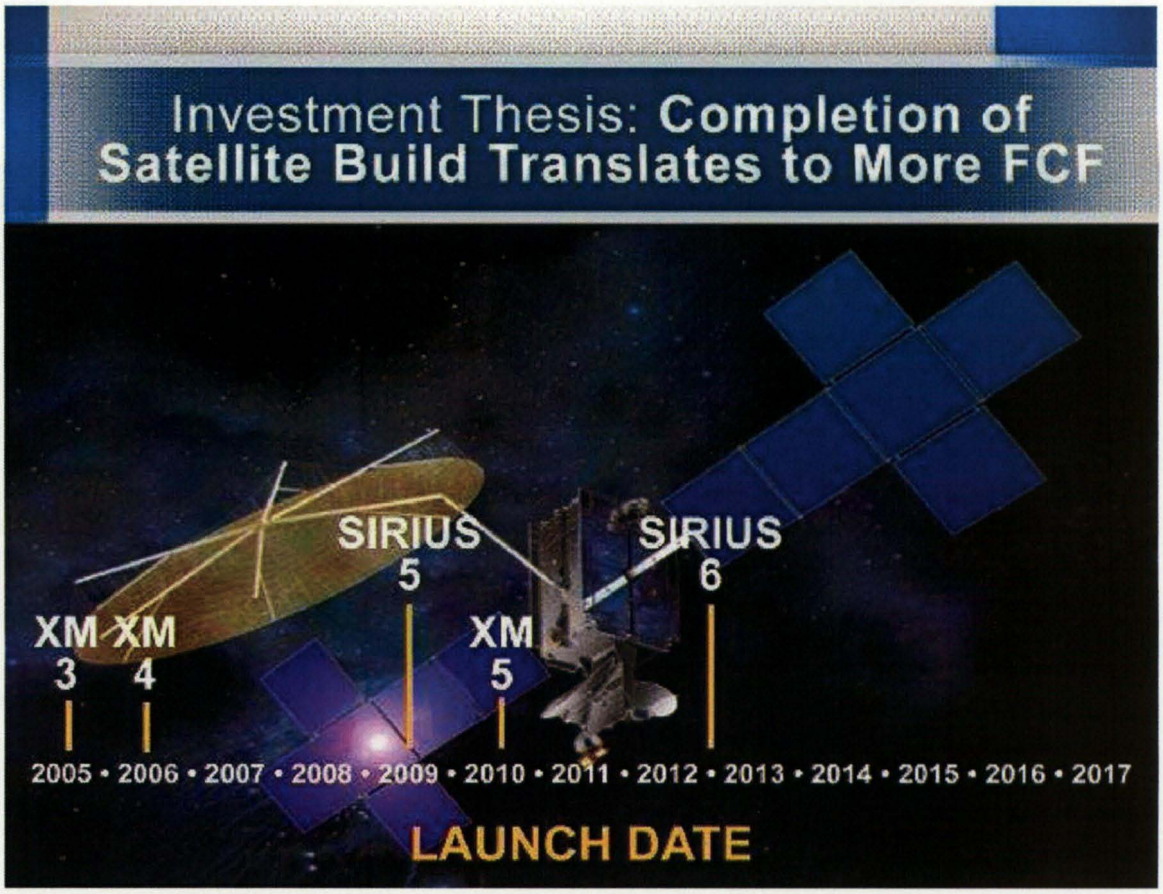
Investment Thesis: **Operational Leverage Drives EBITDA**

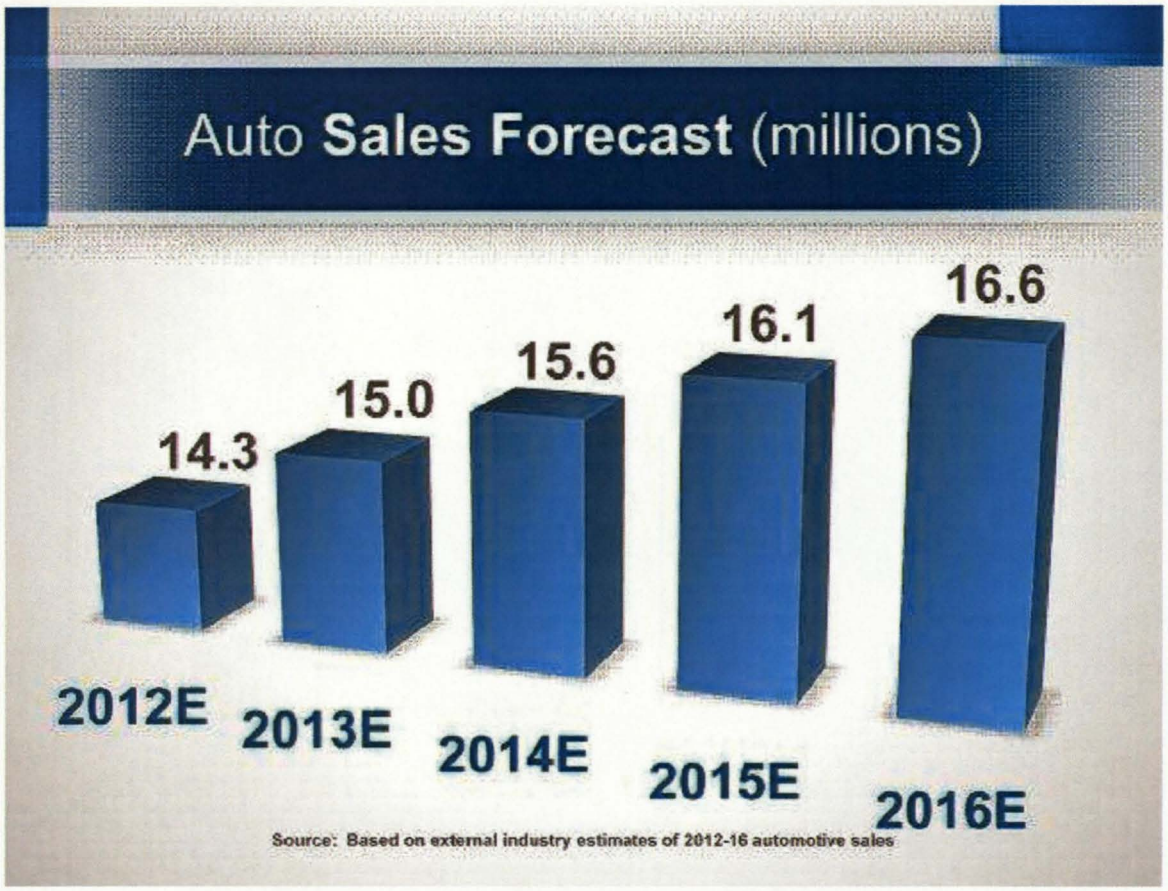
Contribution margin of approximately 70%

- **EBITDA margin improves dramatically as we scale subscribers and revenue**

Adjusted EBITDA Margins

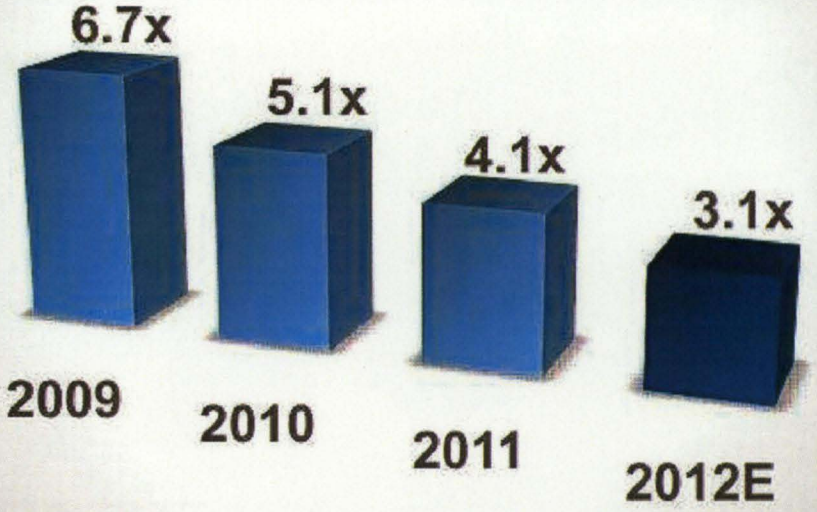
2008	2009	2010	2011	At Maturity
(6%)	18%	22%	24%	40%+


Investment Thesis: Completion of Satellite Build Translates to More FCF
SIRIUS 5
SIRIUS 6
XM 3
XM 4
XM 5
2005 • 2006 • 2007 • 2008 • 2009 • 2010 • 2011 • 2012 • 2013 • 2014 • 2015 • 2016 • 2017
LAUNCH DATE


Auto Sales Forecast (millions)
14.3
15.0
15.6
16.1
16.6
2012E
2013E
2014E
2015E
2016E
Source: Based on external industry estimates of 2012-16 automotive sales

Lower Annual **Leverage Ratios**

Approaching our 3.0x target leverage ratio



Gross Debt to Adj. EBITDA

Investment Thesis: **Free Cash Flow**

+ **Subscriber Growth**
+ **Revenue Growth**
+ **Lower Interest Expense**
+ **Lower Capital Expenditures**
+ **Cash Savings from NOL Use**

= **Free Cash Flow Growth**

Excess Cash Presents Opportunities ($ in millions)

	2010	2011	2012E
Beginning Cash	$383	$587	$774
Free Cash Flow	$210	$416	$700
Net Debt Repayments	nil	($240)	($382)
Ending Cash	$587	$774	$1,092

Note: Figures are simplified and approximate. Forward estimates exclude other financing activities, such as the proceeds from stock option exercises. Net debt repayments include premiums and assumes that the remaining 9.75% notes are called on September 1, 2012.

Acquisitions and **Returns of Capital**

- **Free Cash Flow creates opportunities to enhance the business or return capital to stockholders**
  - **Acquisitions**
  - **Dividends**
  - **Stock buybacks**

Reconciliation for **SiriusXM**

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY 2011
As Reported Total Revenue	723,630	744,397	762,550	783,738	804,722	242,245	607,235	922,069	1,693,592	2,472,638	2,816,992	3,014,524
Predecessor Financial Information	-	-	-	-	-	358,266	603,417	1,126,542	731,194	-	-	-
Purchase Price Accounting Adjustments	3,722	2,928	2,292	1,958	1,580	-	-	-	41,554	54,065	21,906	10,910
Adjusted Total Revenue	727,351	747,325	764,842	785,696	806,302	600,511	1,570,652	2,058,606	2,436,740	2,526,703	2,838,898	3,025,434
As Reported Total Operating Expenses	559,567	571,415	578,062	628,263	605,484	1,071,385	1,704,569	1,436,159	5,700,741	2,244,312	2,351,578	2,338,407
Predecessor Financial Information	-	-	-	-	-	1,113,801	1,335,515	1,847,979	961,683	-	-	-
Purchase Price Accounting Adjustments	67,972	68,623	68,878	71,785	74,024	-	-	-	(4,661,812)	240,891	261,832	277,258
Adjusted Total Operating Expenses	627,539	640,038	646,940	701,048	679,508	2,185,186	3,041,474	3,283,135	3,000,592	2,485,203	2,613,410	2,615,665
As Reported Income (Loss) from Operations	164,172	172,982	184,488	154,475	199,238	(829,140)	(1,067,734)	(513,090)	(5,936,749)	228,326	465,414	676,117
Predecessor Financial Information	-	-	-	-	-	(555,535)	(403,098)	(511,437)	(230,489)	-	-	-
Purchase Price Accounting Adjustments	(64,250)	(65,695)	(66,586)	(68,827)	(72,144)	-	-	-	4,703,366	(186,826)	(239,926)	(266,348)
Adjusted Income (Loss) from Operations	99,922	107,287	117,902	84,648	127,094	(1,384,675)	(1,470,832)	(1,024,527)	(563,852)	41,500	225,488	408,769
As Reported Depreciation and Amortization	68,400	67,052	65,483	67,015	65,117	98,555	105,749	109,789	203,792	306,450	273,091	267,880
Predecessor Financial Information	-	-	-	-	-	145,870	168,880	187,186	88,746	-	-	-
Adjusted Depreciation and Amortization	68,400	67,052	65,483	67,015	65,117	244,425	274,629	296,975	292,591	306,450	273,091	267,880
As Reported Share-based Payment Expense	12,856	10,735	13,983	15,614	14,951	169,078	437,918	78,909	87,405	73,981	60,437	53,168
Predecessor Financial Information	-	-	-	-	-	5,966	68,046	86,199	34,483	-	-	-
Purchase Price Accounting Adjustments	181	-	-	-	-	-	-	-	2,729	4,801	2,872	181
Adjusted Share-based Payment Expense	13,037	10,735	13,983	15,614	14,951	169,044	505,964	165,098	124,615	78,782	63,309	53,349

Reconciliation for **SiriusXM**

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY 2011
As Reported Restructuring, Impairments and Related Costs	-	-	-	-	-	-	10,917	-	10,434	32,897	63,800	-
Predecessor Financial Information	-	-	-	-	-	-	-	-	-	-	-	-
Purchase Price Accounting Adjustments	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted Restructuring, Impairments and Related Costs	-	-	-	-	-	-	10,917	-	10,434	32,897	63,800	-
As Reported Impairment Goodwill	-	-	-	-	-	-	-	-	4,766,190	-	-	-
Predecessor Financial Information	-	-	-	-	-	-	-	-	-	-	-	-
Purchase Price Accounting Adjustments	-	-	-	-	-	-	-	-	(4,766,190)	-	-	-
Adjusted Impairment of Goodwill	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted Total Operating Expenses	627,639	640,035	649,949	781,048	679,508	2,185,186	3,041,474	3,053,135	3,000,582	2,465,200	2,613,419	2,615,665
Less Adjusted:												
Depreciation and Amortization	68,400	67,062	65,403	67,015	66,117	244,425	274,629	299,976	292,501	309,450	273,691	267,580
Share-based Payment Expense	13,037	10,735	13,903	15,614	14,951	169,044	505,964	166,099	124,619	78,782	63,309	53,369
Restructuring, Impairments and Related Costs	-	-	-	-	-	-	10,917	-	10,434	32,897	63,800	-
Impairment of Goodwill	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted Cash Operating Expenses	546,202	562,241	567,554	618,419	598,440	1,771,717	2,249,964	2,626,060	2,573,038	2,044,164	2,212,619	2,294,416
Adjusted Income (Loss) from Operations	59,922	107,297	117,502	84,648	127,094	(1,384,675)	(1,470,822)	(1,024,927)	(963,592)	41,500	225,488	409,709
Add back Adjusted:												
Depreciation and Amortization	68,400	67,062	65,403	67,015	66,117	244,425	274,629	299,976	292,501	309,450	273,691	267,580
Share-based Payment Expense	13,037	10,735	13,903	15,614	14,951	169,044	505,964	166,099	124,619	78,782	63,309	53,369
Restructuring, Impairments and Related Costs	-	-	-	-	-	-	10,917	-	10,434	32,897	63,800	-
Impairment of Goodwill	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted EBITDA	161,359	185,094	197,288	167,277	208,162	(971,206)	(679,312)	(565,452)	(135,298)	462,639	626,388	731,018

Reconciliation for **SiriusXM**

ARPU is derived from total earned subscriber revenue, net advertising revenue and other subscription-related revenue, net of purchase price accounting adjustments, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. Other subscription-related revenue includes the U.S. Music Royalty Fee. Purchase price accounting adjustments include the recognition of deferred subscriber revenues not recognized in purchase price accounting associated with the Merger. ARPU is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited	
	For the Three Months Ended March 31,	
	2012	2011
Subscriber revenue (GAAP)	$700,242	$622,437
Net advertising revenue (GAAP)	18,670	16,558
Other subscription-related revenue (GAAP)	57,721	58,531
Purchase price accounting adjustments	67	1,909
	$776,700	$699,435
Daily weighted average number of subscribers	21,990,863	20,233,144
ARPU	$11.77	$11.52

Reconciliation for **SiriusXM**

	For the Years Ended December 31,		
	2011	2010	2009
Cash Flow information			
Net cash provided by operating activities	$543,630	$512,895	$433,830
Net cash used in investing activities	(127,888)	(302,414)	(248,511)
Net cash used in financing activities	(228,443)	(7,279)	(182,276)
Free Cash Flow			
Net cash provided by operating activities	$543,630	$512,895	$433,830
Additions to property and equipment	(137,429)	(311,868)	(248,511)
Restricted and other investment activity	9,541	9,454	0
Free cash flow	$415,742	$210,481	$185,319

SiriusXM™

SATELLITE RADIO

RESTRICTED EXHIBIT - NOT AVAILABLE

The following restricted exhibits are not available in the public version:

SX Ex. 201-RR - SX Ex. 205-RR
SX Ex. 212-RR
SX Ex. 233-RR - SX Ex. 237-RR
SX Ex. 239-RR - SX Ex. 242-RR
SX Ex. 301-RR - SX Ex. 315-RR
SX Ex. 316-RR - SX Ex. 342-RR
SX Ex. 347-RR
SX Ex. 355-RR - SX Ex. 362-RR

EDGAR Online

SIRIUS XM RADIO INC.

FORM 8-K
(Current report filing)

Filed 05/01/12 for the Period Ending 05/01/12

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Sector	Services
Fiscal Year	12/31

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SX Ex. 213-RP

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 1, 2012

SIRIUS XM RADIO INC.
(Exact Name of Registrant as Specified in Charter)

Delaware (State or other Jurisdiction of Incorporation)	**001-34295** (Commission File Number)	**52-1700207** (I.R.S. Employer Identification No.)
1221 Avenue of the Americas, 36th Fl., New York, NY (Address of Principal Executive Offices)		**10020** (Zip Code)

Registrant's telephone number, including area code: **(212) 584-5100**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition

On May 1, 2012, we reported our financial and operating results for the three months ended March 31, 2012. These results are discussed in the press release attached hereto as Exhibit 99.1, which is incorporated by reference in its entirety.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits.

The Exhibit Index attached hereto is incorporated herein.

EXHIBITS

Exhibit	Description of Exhibit
99.1	Press Release dated May 1, 2012

Exhibit 99.1

SiriusXM Reports First Quarter 2012 Results

- **Subscribers Grow by 405,000 to a Record 22.3 Million**
- **Record Quarterly Revenue of $805 Million, Up 11%**
- **First Quarter 2012 Net Income of $108 Million, Up 38%**
- **Adjusted EBITDA Reaches $208 Million, Up 15%**
- **Company Raises Subscriber Guidance**

NEW YORK – May 1, 2012 – Sirius XM Radio (NASDAQ: SIRI) today announced first quarter 2012 financial and operating results, including revenue of $805 million, up 11% over first quarter 2011 revenue of $724 million. Net income for the first quarters of 2012 and 2011 were $108 million and $78 million, respectively, or $0.02 and $0.01 per diluted share, respectively.

Adjusted EBITDA for the first quarter of 2012 was $208 million, up 15% from $181 million in the first quarter of 2011.

"SiriusXM is starting the year with tremendous operational momentum. We grew subscribers faster than any first quarter since our 2008 merger of Sirius and XM, and we improved our self-pay monthly churn rate to 1.9% despite implementing a price increase at the beginning of the year. Rising auto sales and our strong execution should enable us to exceed our prior 2012 subscriber growth guidance of 1.3 million, which today we are raising to 1.5 million," noted Mel Karmazin, Chief Executive Officer, SiriusXM.

"In 2012, we continue to expect record revenue, adjusted EBITDA, and free cash flow, and our subscriber base will also finish this year at another all-time record high," said Karmazin. "Our number one focus is on delivering the best possible content to our subscribers – we are rolling out more satellite channels via factory-installed 2.0 radios, and we are improving our online offering by delivering even more live sports coverage, updated apps with enhanced features, and later this year, on-demand content and personalized radio. There has never been a better time to be a SiriusXM subscriber, and we think our unparalleled audio product will produce strong operating and financial performance for our company in the years to come, which should result in great value to our stockholders."

Additional highlights from the first quarter include:

- **Subscriber growth accelerates.** Self-pay net subscriber additions improved by 148% to 299,348 and the subscriber base rose to an all-time high of 22.3 million subscribers. Strong auto sales helped lift total paid and unpaid trial inventory by more than 200,000 from year end to 5.7 million.
- **Churn improves.** Self-pay monthly churn was 1.9% in the first quarter of 2012, an improvement from 2.0% in the first quarter of 2011. New vehicle consumer conversion rate was 45% in the first quarter of 2012, in-line with the first quarter of 2011.
- **Free cash flow grows.** Free cash flow was $15 million in the first quarter of 2012, an improvement from the ($17) million recorded in the first quarter of 2011, and represented the first time SiriusXM has shown positive free cash flow in the first quarter of a year.

"We ended the first quarter with $747 million of cash, after the repurchase of approximately $57 million in aggregate principal amount of our debt during the first quarter. Our leverage at the end of the first quarter improved to 3.9 times our adjusted EBITDA on a gross basis and 2.9 times our adjusted EBITDA on a net basis," said David Frear, SiriusXM's Executive Vice President and Chief Financial Officer. "Our growing cash flow is reducing our leverage substantially, and this improving credit profile should benefit stockholders as we refinance or pay down more than $1 billion of high coupon debt over the next 15 months."

2012 GUIDANCE

"With auto sales in the first quarter exceeding expectations and better than expected churn, we now expect to grow our net new subscribers by 1.5 million in 2012," said Karmazin. The Company reiterates its existing 2012 revenue, adjusted EBITDA and free cash flow guidance:

- Revenue of approximately $3.3 billion,
- Adjusted EBITDA of approximately $875 million, and
- Free cash flow of approximately $700 million.

FIRST QUARTER 2012 RESULTS

SIRIUS XM RADIO INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)	For the Three Months Ended March 31, 2012	2011
Revenue:		
Subscriber revenue	$ 700,242	$ 622,437
Advertising revenue, net of agency fees	18,670	16,558
Equipment revenue	16,953	15,867
Other revenue	68,857	68,977
Total revenue	804,722	723,839
Operating expenses:		
Cost of services:		
Revenue share and royalties	132,111	106,929
Programming and content	70,095	72,959
Customer service and billing	66,187	65,836
Satellite and transmission	18,110	18,560
Cost of equipment	5,806	6,405
Subscriber acquisition costs	116,121	105,270
Sales and marketing	58,361	47,819
Engineering, design and development	12,690	11,135
General and administrative	59,886	56,354
Depreciation and amortization	66,117	68,400
Total operating expenses	605,484	559,667
Income from operations	199,238	164,172
Other income (expense):		
Interest expense, net of amounts capitalized	(76,971)	(78,218)
Loss on extinguishment of debt and credit facilities, net	(9,971)	(5,99[illegible])
Interest and investment loss	(1,142)	(1,88[illegible])
Other (loss) income	(578)	1,617
Total other expense	(88,662)	(84,479)
Income before income taxes	110,576	79,693
Income tax expense	(2,802)	(1,572)
Net income	$ 107,774	$ 78,121
Foreign currency translation adjustment, net of tax	(56)	67
Comprehensive income	$ 107,718	$ 78,188
Net income per common share:		
Basic	$ 0.03	$ 0.02
Diluted	$ 0.02	$ 0.01
Weighted average common shares outstanding:		
Basic	3,767,443	3,735,136
Diluted	6,537,728	6,481,384

SIRIUS XM RADIO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(thousands, except share and per share data)	March 31, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 746,576	$ 773,990
Accounts receivable, net	108,335	101,705
Receivables from distributors	96,037	84,817
Inventory, net	36,791	36,711
Prepaid expenses	177,515	125,967
Related party current assets	6,503	14,702
Deferred tax asset	144,798	132,727
Other current assets	20,539	6,335
Total current assets	1,337,094	1,276,954
Property and equipment, net	1,645,610	1,673,919
Long-term restricted investments	3,973	3,973
Deferred financing fees, net	38,848	42,046
Intangible assets, net	2,559,712	2,573,638
Goodwill	1,834,856	1,834,856
Related party long-term assets	54,229	54,953
Other long-term assets	27,402	35,657
Total assets	$ 7,501,724	$ 7,495,996
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 454,748	$ 543,193
Accrued interest	77,562	70,405
Current portion of deferred revenue	1,404,919	1,333,965
Current portion of deferred credit on executory contracts	281,270	284,108
Current maturities of long-term debt	1,540	1,623
Related party current liabilities	16,541	14,302
Total current liabilities	2,236,580	2,247,596
Deferred revenue	183,430	198,135
Deferred credit on executory contracts	147,012	218,199
Long-term debt	2,625,533	2,683,563
Long-term related party debt	329,576	328,788
Deferred tax liability	1,024,734	1,011,084
Related party long-term liabilities	21,048	21,741
Other long-term liabilities	84,232	82,745
Total liabilities	6,652,145	6,791,851
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value $0.001; 50,000,000 authorized at March 31, 2012 and December 31, 2011:		
Series A convertible preferred stock; no shares issued and outstanding at March 31, 2012 and December 31, 2011	—	—
Convertible perpetual preferred stock, series B-1 (liquidation preference of $0.001 at March 31, 2012 and December 31, 2011); 12,500,000 shares issued and outstanding at March 31, 2012 and December 31, 2011	13	13
Common stock, par value $0.001; 9,000,000,000 shares authorized at March 31, 2012 and December 31, 2011; 3,788,755,725 and 3,753,201,929 shares issued and outstanding at March 31, 2012 and December 31, 2011	3,789	3,753
Accumulated other comprehensive income, net of tax	15	71
Additional paid-in capital	10,522,080	10,484,400
Accumulated deficit	(9,676,318)	(9,784,092)
Total stockholders' equity	849,579	704,145

Total liabilities and stockholders' equity	$ 7,501,724	$ 7,495,996

SIRIUS XM RADIO INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands)	For the Three Months Ended March 31, 2012	2011
Cash flows from operating activities:		
Net income	$ 107,774	$ 78,121
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	66,117	68,400
Non-cash interest expense, net of amortization of premium	10,647	9,573
Provision for doubtful accounts	6,208	9,623
Amortization of deferred income related to equity method investment	(694)	(694)
Loss on extinguishment of debt and credit facilities, net	9,971	5,994
Loss on unconsolidated entity investments, net	422	2,350
Loss on disposal of assets	—	266
Share-based payment expense	14,951	12,856
Deferred income taxes	1,572	1,111
Other non-cash purchase price adjustments	(73,956)	(66,743)
Changes in operating assets and liabilities:		
Accounts receivable	(12,838)	11,291
Receivables from distributors	(11,220)	(8,982)
Inventory	(80)	(7,330)
Related party assets	8,347	(3,686)
Prepaid expenses and other current assets	(65,753)	(39,232)
Other long-term assets	8,256	7,617
Accounts payable and accrued expenses	(96,859)	(110,400)
Accrued interest	7,157	8,124
Deferred revenue	56,182	39,225
Related party liabilities	2,239	738
Other long-term liabilities	1,505	(113)
Net cash provided by operating activities	39,948	18,109
Cash flows from investing activities:		
Additions to property and equipment	(25,187)	(34,983)
Net cash used in investing activities	(25,187)	(34,983)
Cash flows from financing activities:		
Proceeds from exercise of stock options	22,765	1,072
Payment of premiums on redemption of debt	(6,602)	(4,094)
Repayment of long-term borrowings	(58,338)	(133,100)
Net cash used in financing activities	(42,175)	(136,122)
Net decrease in cash and cash equivalents	(27,414)	(152,996)
Cash and cash equivalents at beginning of period	773,990	586,691
Cash and cash equivalents at end of period	$ 746,576	$ 433,695

Subscriber Data and Operating Metrics

The following table contains subscriber data and key operating metrics for the three months ended March 31, 2012 and 2011, respectively:

	Unaudited	
	For the Three Months Ended March 31,	
	2012	2011
Beginning subscribers	21,892,824	20,190,964
Gross subscriber additions	2,161,693	2,052,367
Deactivated subscribers	(1,757,097)	(1,679,303)
Net additions	404,596	373,064
Ending subscribers	22,297,420	20,564,028
Self-pay	18,208,090	16,807,643
Paid promotional	4,089,330	3,756,385
Ending subscribers	22,297,420	20,564,028
Self-pay	299,348	120,844
Paid promotional	105,248	252,220
Net additions	404,596	373,064
Daily weighted average number of subscribers	21,990,863	20,233,144
Average self-pay monthly churn	1.9%	2.0%
New Vehicle Consumer Conversion rate	45%	45%
ARPU	$ 11.77	$ 11.52
SAC, per gross subscriber addition	$ 60	$ 57

Subscribers. The improvement was due to the 5% increase in gross subscriber additions, primarily resulting from higher new vehicle shipments and light vehicle sales, as well as an increase in conversions from unpaid promotional trials and returning subscriber activations inclusive of previously owned vehicles. This increase in gross additions was partially offset by the 5% increase in deactivations. The increase in deactivations was primarily due to an increase in paid promotional trial deactivations stemming from the increase in volume of paid trials, along with growth in our subscriber base, partially offset by a decline in the self-pay churn rate.

Average Self-pay Monthly Churn for the three months ended March 31, 2012 and 2011 was 1.9% and 2.0%, respectively. The decrease in the churn rate was driven by a reduction in the non-pay cancellation rate, as well as a favorable shift in the subscriber mix towards automotive vehicles, which churn at lower rates in comparison to aftermarket products.

New Vehicle Consumer Conversion Rate for the three months ended March 31, 2012 and 2011 was 45%.

ARPU increased primarily due to the increase in certain of our subscription rates beginning in January 2012, an increase in sales of premium services, including Premier packages, data services and streaming, partially offset by an increase in subscriber retention programs and in the number of subscribers on promotional plans and a decrease in the revenue from the U.S. Music Royalty Fee due to the December 2010 reduction in the rate from 15.3% to 10.8%.

SAC, Per Gross Subscriber Addition, increased in the three months ended March 31, 2012 primarily due to higher subsidies related to increased OEM installations occurring in advance of acquiring the subscriber, partially offset by improved OEM subsidy rates per vehicle compared to the three months ended March 31, 2011.

Glossary

Adjusted EBITDA - EBITDA is defined as net income before interest and investment loss; interest expense, net of amounts capitalized; income tax expense and depreciation and amortization. We adjust EBITDA to remove the impact of other income and expense, loss on extinguishment of debt as well as certain other charges discussed below. This measure is one of the primary Non-GAAP financial measures on which we (i) evaluate the performance of our businesses, (ii) base our internal budgets and (iii) compensate management. Adjusted EBITDA is a Non-GAAP financial performance measure that excludes (if applicable): (i) certain adjustments as a result of the purchase price accounting for the Merger, (ii) goodwill impairment, (iii) restructuring, impairments, and related costs, (iv) depreciation and amortization and (v) share-based payment expense. The purchase price accounting adjustments include: (i) the elimination of deferred revenue associated with the investment in XM Canada, (ii) recognition of deferred subscriber revenues not recognized in purchase price accounting, and (iii) elimination of the benefit of deferred credits on executory contracts, which are primarily attributable to third party arrangements with an OEM and certain programming providers. We believe adjusted EBITDA is a useful measure of the underlying trend of our operating performance, which provides useful information about our business apart from the costs associated with our physical plant, capital structure and purchase price accounting. We believe investors find this Non-GAAP financial measure useful when analyzing our results and comparing our operating performance to the performance of other communications, entertainment and media companies. We believe investors use current and projected adjusted EBITDA to estimate our current and prospective enterprise value and to make investment decisions. Because we fund and build-out our satellite radio system through the periodic raising and expenditure of large amounts of capital, our results of operations reflect significant charges for depreciation expense. The exclusion of depreciation and amortization expense is useful given significant variation in depreciation and amortization expense that can result from the potential variations in estimated useful lives, all of which can vary widely across different industries or among companies within the same industry. We believe the exclusion of restructuring, impairments and related costs is useful given the nature of these expenses. We also believe the exclusion of share-based payment expense is useful given the significant variation in expense that can result from changes in the fair value as determined using

the Black-Scholes-Merton model which varies based on assumptions used for the expected life, expected stock price volatility and risk-free interest rates.

Adjusted EBITDA has certain limitations in that it does not take into account the impact to our statement of comprehensive income of certain expenses, as discussed above. We endeavor to compensate for the limitations of the Non-GAAP measure presented by also providing the comparable GAAP measure with equal or greater prominence and descriptions of the reconciling items, including quantifying such items, to derive the Non-GAAP measure. Investors that wish to compare and evaluate our operating results after giving effect for these costs, should refer to net income as disclosed in our consolidated statements of comprehensive income. Since adjusted EBITDA is a Non-GAAP financial performance measure, our calculation of adjusted EBITDA may be susceptible to varying calculations; may not be comparable to other similarly titled measures of other companies; and should not be considered in isolation, as a substitute for, or superior to measures of financial performance prepared in accordance with GAAP. The reconciliation of net income to the adjusted EBITDA is calculated as follows (in thousands):

	Unaudited	
	For the Three Months Ended March 31,	
	2012	2011
Net income (GAAP):	$ 107,774	$ 78,121
Add back items excluded from Adjusted EBITDA:		
Purchase price accounting adjustments:		
Revenues	1,880	3,722
Operating expenses	(74,024)	(67,972)
Share-based payment expense, net of purchase price accounting adjustments	14,951	13,037
Depreciation and amortization (GAAP)	66,117	68,400
Interest expense, net of amounts capitalized (GAAP)	76,971	78,218
Loss on extinguishment of debt and credit facilities, net (GAAP)	9,971	5,994
Interest and investment loss (GAAP)	1,142	1,884
Other (income) loss (GAAP)	578	(1,617)
Income tax expense (GAAP)	2,802	1,572
Adjusted EBITDA	$ 208,162	$ 181,359

Adjusted Operating Expenses - We define this Non-GAAP financial measure as our actual operating expenses adjusted to exclude the impact of certain purchase price accounting adjustments and share-based payment expense. We use this Non-GAAP financial measure to manage our business, set operational goals and as a basis for determining performance-based compensation for our employees. The following tables reconcile our actual operating expenses to our adjusted operating expenses for the three months ended March 31, 2012 and 2011:

(thousands)	Unaudited For the Three Months Ended March 31, 2012			
	As Reported	Purchase Price Accounting Adjustments	Allocation of Share-based Payment Expense	Adjusted
Operating expenses				
Cost of services:				
Revenue share and royalties	132,111	34,846	—	166,957
Programming and content	70,095	11,702	(1,374)	80,423
Customer service and billing	66,187	—	(427)	65,760
Satellite and transmission	18,110	—	(785)	17,325
Cost of equipment	5,806	—	—	5,806
Subscriber acquisition costs	116,121	24,085	—	140,206
Sales and marketing	58,361	3,391	(2,360)	59,392
Engineering, design and development	12,690	—	(1,432)	11,258
General and administrative	59,886	—	(8,573)	51,313
Depreciation and amortization (a)	66,117	—	—	66,117
Share-based payment expense	—	—	14,951	14,951
Total operating expenses	$ 605,484	$ 74,024	$ —	$ 679,508

(a) Purchase price accounting adjustments included above exclude the incremental depreciation and amortization associated with the $785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the three months ended March 31, 2012 was $14,000.

(in thousands)	Unaudited For the Three Months Ended March 31, 2011			
	As Reported	**Purchase Price Accounting Adjustments**	**Allocation of Share-based Payment Expense**	**Adjusted**
Operating expenses				
Cost of services:				
Revenue share and royalties	106,929	29,933	—	136,862
Programming and content	72,959	12,824	(2,510)	83,273
Customer service and billing	65,836	18	(367)	65,487
Satellite and transmission	18,560	239	(567)	18,232
Cost of equipment	6,405	—	—	6,405
Subscriber acquisition costs	105,270	21,656	—	126,926
Sales and marketing	47,819	3,212	(1,875)	49,156
Engineering, design and development	11,135	31	(1,142)	10,024
General and administrative	56,354	59	(6,576)	49,837
Depreciation and amortization (a)	68,400	—	—	68,400
Share-based payment expense (b)	—	—	13,037	13,037
Total operating expenses	$ 559,667	$ 67,972	$ —	$ 627,639

(a) Purchase price accounting adjustments included above exclude the incremental depreciation and amortization associated with the $785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the three months ended March 31, 2011 was $15,000.

(b) Amounts related to share-based payment expense included in operating expenses were as follows:

Programming and content	$ 2,483	$ 27	$ —	$ 2,510
Customer service and billing	349	18	—	367
Satellite and transmission	548	19	—	56[illegible]
Sales and marketing	1,848	27	—	1,87[illegible]
Engineering, design and development	1,111	31	—	1,142
General and administrative	6,517	59	—	6,576
Total share-based payment expense	$ 12,856	$ 181	$ —	$ 13,037

ARPU - is derived from total earned subscriber revenue, net advertising revenue and other subscription-related revenue, net of purchase price accounting adjustments, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. Other subscription-related revenue includes the U.S. Music Royalty Fee. Purchase price accounting adjustments include the recognition of deferred subscriber revenues not recognized in purchase price accounting associated with the Merger. ARPU is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited	
	For the Three Months Ended March 31,	
	2012	2011
Subscriber revenue (GAAP)	$ 700,242	$ 622,437
Add: net advertising revenue (GAAP)	18,670	16,558
Add: other subscription-related revenue (GAAP)	57,721	58,531
Add: purchase price accounting adjustments	67	1,909
	$ 776,700	$ 699,435
Daily weighted average number of subscribers	21,990,863	20,233,144
ARPU	$ 11.77	$ 11.52

Free cash flow - is derived from cash flow provided by operating activities, capital expenditures and restricted and other investment activity. Free cash flow is calculated as follows (in thousands):

	Unaudited	
	For the Three Months Ended March 31,	
	2012	2011
Cash Flow information		
Net cash provided by operating activities	$ 39,948	$ 18,109
Net cash used in investing activities	(25,187)	(34,983)
Net cash used in financing activities	(42,175)	(136,122)
Free Cash Flow		
Net cash provided by operating activities	$ 39,948	$ 18,109
Additions to property and equipment	(25,187)	(34,983)
Free cash flow	$ 14,761	$ (16,874)

Subscriber acquisition cost, per gross subscriber addition - or SAC, per gross subscriber addition, is derived from subscriber acquisition costs and margins from the sale of radios and accessories, excluding share-based payment expense and purchase price accounting adjustments, divided by the number of gross subscriber additions for the period. Purchase price accounting adjustments associated with the Merger include the elimination of the benefit of amortization of deferred credits on executory contracts recognized at the Merger date attributable to an OEM. SAC, per gross subscriber addition, is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited	
	For the Three Months Ended March 31,	
	2012	2011
Subscriber acquisition costs (GAAP)	$ 116,121	$ 105,270
Less: margin from direct sales of radios and accessories (GAAP)	(11,147)	(9,462)
Add: purchase price accounting adjustments	24,085	21,656
	$ 129,059	$ 117,464
Gross subscriber additions	2,161,693	2,052,367
SAC, per gross subscriber addition	$ 60	$ 57

About Sirius XM Radio

Sirius XM Radio is America's satellite radio company. SiriusXM broadcasts more than 135 satellite radio channels of commercial-free music, and premier sports, news, talk, entertainment, traffic, weather, and data services to over 22 million subscribers. SiriusXM offers an array of content from many of the biggest names in entertainment, as well as from professional sports leagues, major colleges, and national news and talk providers.

SiriusXM programming is available on more than 800 devices, including pre-installed and after-market radios in cars, trucks, boats and aircraft, smartphones and mobile devices, and consumer electronics products for homes and offices. SiriusXM programming is also available at siriusxm.com, and on Apple, BlackBerry and Android -powered mobile devices.

SiriusXM has arrangements with every major automaker and its radio products are available for sale at shop.siriusxm.com as well as retail locations nationwide.

This communication contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, but are not limited to, statements about future financial and operating results, our plans, objectives, expectations and intentions with respect to future operations, products and services; and other statements identified by words such as "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "believe," "intend," "plan," "projection," "outlook" or words of similar meaning. Such forward-looking statements are based upon the current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are difficult to predict and generally beyond our control. Actual results may differ materially from the results anticipated in these forward-looking statements.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements: our competitive position versus other forms of audio entertainment; our dependence upon automakers; general economic conditions; failure of our satellites, which, in most cases, are not insured; our ability to attract and retain subscribers at a profitable level; royalties we pay for music rights; the unfavorable outcome of pending or future litigation; failure of third parties to perform; and our substantial indebtedness. Additional factors that could cause our results to differ materially from those described in the forward-looking statements can be found in our Annual Report on Form 10-K for the year ended December 31, 2011, which is filed with the Securities and Exchange Commission (the "SEC") and available at the SEC's Internet site (http://www.sec.gov). The information set forth herein speaks only as of the date hereof, and we disclaim any intention or obligation to update any forward looking statements as a result of developments occurring after the date of this communication.

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Credit Suisse Global Media and Communications Convergence Conference

Company Participants

- Analyst, Credit Suisse
- David J. Frear, Executive Vice President and Chief Financial Officer

MANAGEMENT DISCUSSION SECTION

Analyst, Credit Suisse

Okay, good morning, everyone. Thank you all for joining us. It's my pleasure to introduce David Frear, CFO of Sirius XM Satellite Radio. David, I think you're going to perhaps start out with a brief introduction, and then I have some questions for you. And then we'll have, no doubt, Q&A from the audience, as well. David, welcome.

David J. Frear, Executive Vice President and Chief Financial Officer

Okay. Thank you, Tom. Thanks for taking the time this morning. Hopefully, many of you have been following this story. You know that satellite radio has had a great run, that we have faced intense competition in the nine years since we launched the business.

IPod was launched at the same time we were. Broadband has blown through the substantial majority of TV households in the country, bringing the plethora of Internet radio options to the public. Smartphones have taken the world by storm in the last couple of years. There are now over 60 million, I think, in the U.S. alone. And those, of course, are just incredibly powerful mobile computing devices that allow people to get virtually any form of entertainment they want anyplace.

So all this should sound like terrible news for Sirius XM Radio, except that we, through all this competition, managed to grow from zero to over 20 million subscribers. We've managed to get to the point where this year we expect to generate $3 billion in revenue and over $700 million in EBITDA, that we have an incredibly strong outlook for free cash flow, that we think growth prospects for the next several years are quite good, as the pool of enabled vehicles on the road should grow from maybe 33 million today to over 70 million in a few years. And our satellite capital expenditures are dropping like a stone, that will shed about $200 million in capital expenditure requirements from 2010 to 2012, and won't really begin spending on satellites again until probably late 2016 or 2017.

So growing EBITDA, already strong free cash flow that was a couple hundred million last year, guidance is for something approaching $300 million this year, the CapEx dropping, the interest costs dropping, and no taxes to be paid for quite some period of time, that you're looking at a great blueprint for rapidly expanding free cash flow. We did talk in our year-end call about maintaining roughly 3 times leverage in the balance sheet, and when you put it all together in the models, what that inevitably gets to is substantial returns of capital to shareholders over the course of the next several years.

So with that, Tom, why don't I turn it over to you.

Analyst, Credit Suisse

SX Trial Ex. ____
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SX Ex. 214-RP

Great. Thank you, David. So it seems like there's clearly a tremendous amount of momentum in the business. I think you did about 1.4 million net adds this year, and I think your original guidance for 2010 started out at closer to 500,000. What sort of changed throughout the year? Where did this surge in subscribers come from?

David J. Frear, Executive Vice President and Chief Financial Officer

Everywhere. Everything got better than our expectations. Automotive sales were better than we thought. Self-pay churn was better than we thought. The conversion rate from the automotive trial to a self-based subscription was better than we thought. And returning activations, radios that had been on at some point in the past and came back on in the course of the year, that was stronger. Probably an important thing to think about when you look at that outperformance relative to guidance is what happened with self-pay subscribers last year because part of you could think, well. okay, Sirius is really tied to the automotive business, automotive sales go up, so you just got a lot of new trial subscriptions. And the fact is, is our self-pay subscriptions grew by over 1 million last year. The self-pay growth was probably the biggest part of the excess over guidance.

Analyst, Credit Suisse

Okay. And so how are those trends continuing into 2011? It seems like guidance is calling for sort of flat net adds year-over-year, and they were obviously at a very high level in 2010, but what sort of drove that guidance? Is there upside there, or is that conservativism?

David J. Frear, Executive Vice President and Chief Financial Officer

Well, we're still fairly cautious about the economic environment and the consumer. Things are definitely getting better, and the comparison was so dire when you look to the past, so you would expect some improvement. How much how fast is anybody's guess. There is a really wide range of estimates out there on what's going to happen with North American automotive sales, that you've got some people in the 12.7 million range for 2011. You've got some as high as 14 million. And with it only being a one-year look forward, that just strikes me as a range with a lot of volatility in it. Look, we're hopeful the 14 million would come true, and if it did, that would certainly give us an upside in our numbers.

But the underlying consumer health is still something that we worry about a little bit. And so I think that we've provided guidance on self-pay churn and conversion rates that is stable, that we expect to be able to maintain last year's performance in those. And so I think, with that, that sort of gets you to a number that's, from a net adds perspective, flattish. Now, net adds might be flat, but it's still 7% growth in subscribers.

Analyst, Credit Suisse

Okay. Maybe talk a little bit about the addressable market. What percentage of new cars have a Sirius XM radio?

David J. Frear, Executive Vice President and Chief Financial Officer

So OEM penetration is a little over 60% today, probably 62%. It's been rising pretty steadily really since launch, that it was just a few years ago that OEM penetration was only in the 20% range. And to me, the most interesting thing about watching those statistics is what's happened with the conversion rate as we've taken the penetration rate up.

So conversion rates, when the penetration rate was in the 20% range, conversion rates were over 50% there, 55% or so. So if you looked at conversion time penetration as an indicator of what consumer demand, underlying demand might be, you'd take a 20% number, multiply it by 55, and say, geez, 11% of the new car-buying public would like to have a

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satellite radio. Now that we're up at 62%, that number – the conversion rate looks more like 45%. And so you run the math on that, and you're coming out with the perspective that maybe 27% of people buying new cars have an interest in a self-pay subscription to satellite radio. So, again, you extrapolate that out across the total car population in the country, and it's a very encouraging indicator for future growth.

Now, one other step there is somebody's going to say, well, wait a minute. Not everybody owns a car out there, owns a new car, and you're only talking about new car buyers. One of the things that we've found particularly interesting in the last couple years is – well, two things. One is that the awareness of the product among used car buyers, the awareness that it's in the car is substantially higher than I would have thought it was, but we ran a survey last fall and we found that 75% of buyers of a car that had a satellite radio in it knew the satellite radio was in the car. And that's not something I would have expected at this point in our development, so it's an encouraging sign.

And the second thing is, is as we track the conversion rates on those, that for used car buyers who were able to get the name and address and get them into a trial, that the conversion rates on them, while they're not as good as the new car buyer conversion rates, they're also not that far behind them. So there's, I think, good early indications through the awareness, as well as the conversion rates, as to what the demand for the product will be among used car buyers.

Analyst, Credit Suisse

On the conversion rates, I believe conversion came out at about 46% in 2010. It was about an 80 basis points improvement. But maybe that slipped a little bit in the fourth quarter. Is that correct? And what sort of drove that?

David J. Frear, Executive Vice President and Chief Financial Officer

You know, mostly mix issues, right? And so as the – for the most part, what you're seeing is a pretty consistent trend of either sustaining or slightly improving conversion rates across models and manufacturers. And so what tends to be causing the conversion rate to move – the reported conversion rate – is mix, right? So if you end up with brands gaining share that have a lower conversion rate, then our reported conversion rate will come down, but it's not because fewer people are actually taking it brand by brand. It's just a mix issue.

Analyst, Credit Suisse

Okay, I guess switching gears to sort of the financial guidance from the subscriber side of things, you're guiding to $3 billion in revenue, as you said earlier. That's about 7% year-over-year growth, which is sort of an case-up from the 14% you saw in 2010. Again, is that just conservatism, or is there some kind of headwind there that maybe we need to think about?

David J. Frear, Executive Vice President and Chief Financial Officer

Well, not so much headwind, but maybe a little less tailwind, right? In 2009 – August of 2009, we introduced the U.S. music recovery fee, right? In the spring of 2009, we began increasing price for second radios, and we also began charging for free streaming, so that, as you rolled those out, the full-year effect really vested in 2010, so you had a big increase in revenues to go along with the ARPU increase in the year. So we're not expecting price actions of that magnitude this year, and so your revenue increase is going to look a lot more like your underlying subscriber increase.

Analyst, Credit Suisse

Okay. So I got the impression that potentially there was room for a price hike sometime in the next year or so. Is that possible? Or is there a potential upside to revenue from maybe some new product offerings that you have?

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David J. Frear, Executive Vice President and Chief Financial Officer

So price hikes are – they're always possible. As I think most people know, the FCC merger order put some constraints on us in terms of what we can do. Now the merger order is set to expire in late July, right around August 1st, and the FCC does have a notice of inquiry out and has asked for comments on whether or not they should extend the merger order. We filed a document with the FCC that said that we don't think that the merger order should be extended, that our voluntary commitments on pricing did not include a voluntary commitment that contemplated the prices going beyond three years. The FCC has acknowledged that that's the case, that we did not voluntarily commit to do that. And so, in essence, the commission would have to decide that it has the legislative authority to regulate satellite radio prices, which we don't believe they have.

There have been a bunch of comments that have been filed, most generally supportive of the FCC not seeking to regulate business. The only comment that I can think of offhand that was filed in support of extending the price increase was actually filed by a law firm that's seeking to sue us on antitrust matters, so they've got pending litigation, and they filed something in front of the commission to support their point in litigation.

I do expect the merger order to expire, according to its terms, in the summer. That would give us the opportunity, if we chose to, to increase prices, whether it's later this year or next year or the year after. We did reduce the music recovery fee in December, right, so it was something that didn't seem to get picked up by many people. But we had to make sure that we didn't over-recover the fee. There are rules in the merger order on what we can do in recovering royalty costs, and so we had to make an adjustment to the fee in December to make sure we didn't charge too much through. So that's affecting ARPU a little adversely this year.

Now, we are selling more data services, right? So the satellite platform is just a digital platform. It's 0s and 1s, and we can carve up the bits any way that we think is appropriate for the business. So far, we believe that allocating most of those bits to audio program is what's going to generate the greatest amount of revenue and I think we've seen good results in that. But all that being said, there are a lot of value-added services that you can draw on top of that for very little cost, so offering traffic services, offering sort of information services like sports scores or, honestly, weather mapping. There are a lot of ancillary services to offer through allocating some of those bits to digital, and that should help enhance revenues a little bit.

We have a push going on to continue to get more people to take the $2.99 streaming password. With the plethora of IP connected devices that are in the market now that will continue to come into the market in coming years, whether it's a smartphone, your television set, or your toaster, all of those things – if they can take a speaker connection or a way to listen to satellite radio – what we have always – we've been streaming online for, I think, almost seven years now, and the idea is really Sirius everywhere. We're relatively agnostic in terms of transmission platform. What we sell is Sirius XM branded programming for $12.95 a month, and for an additional fee, you have the convenience of being able to listen to it anywhere you want. And so selling traffic services, Internet services, more best of programming should help with ARPU.

Analyst, Credit Suisse

Talk a little bit more about your content. I think recently you re-upped with the NFL and Howard Stern. How important are these content agreements to the business? And perhaps you could describe any other important content agreements that are coming up for renewal.

David J. Frear, Executive Vice President and Chief Financial Officer

So [inaudible], you've got entertainment product content's incredibly important, right? And it's all about what you hear when you turn on the radio. It's not really about the gadget or the technology. So our music program is important, and

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our top programming is important, as well. But I know, for me, slowly but surely I've come to love the fact that I can listen to CNBC when I get in the car. I don't stop listening to it when I leave the house in the morning. And the same thing can be said with many channels on the service.

So we want to offer a broad-based platform of content that we believe, from a radio perspective, that our content is unparalleled. We don't think there's anyone in North America that offers as good a value proposition as we do for content. There's been a lot of talk about the Internet radio competition. There's a lot of buzz going on with what the auto companies are doing with Pandora, with the Toyota announcement with Pandora today. MOG is going to be included in, I think, the Mini line of BMW. And it's important to remember – and I'm sure you're going to have a question later on this, but it's important to remember when you're looking at that, is that those are, today, music services. That's great. They're great for what they are.

We are radio, and so as you think about what you've known to be radio through your lives, you'll roll your way through the AM and FM dial, and you're deciding whether you want to listen to traffic, weather, sports, talk, one form of music or another. And satellite radio is the same thing. It's just got a lot more of all of those than anybody else.

Analyst, Credit Suisse

Okay. Maybe talking about sort of expenses a little bit more broadly, you've taken a substantial amount of fixed costs out of the business since 2008. Can you walk us through some of those kind of cost reduction initiatives? And have you fully harvested the synergies from the XM merger at this point?

David J. Frear, Executive Vice President and Chief Financial Officer

So I'm going to spare you some of this. The last time I was asked this question, it was in the deposition. I gave a six-hour response to it that constituted over 300 pages of testimony. There isn't a single part of the business where there weren't synergies to be garnered from the merger. And it was actually getting the synergies wasn't very difficult, that we got a merger approved, we picked the managers, and then we said, hey, it's August. Go do your budget. Here's where you are today. Tell us where you're going to be at the end of the year. Then tell us where you're going to be in another 12 months, and that's our integration plan.

And every single contract was – as it came up, because a deal's a deal, so what comes up, it's a deal. But as every contract came up – it doesn't matter whether it was content or buying printing supplies or legal services or accountants – every single one got done as if it were new, and we banged our way through it. There is still some left to do. So it took a couple of years to get the subscriber management systems integrated, and that took place just in November, so now we have the opportunity to shed extra servers, storage arrays, maintenance agreements, software license agreements, rack and co-lo space for those things, developers who had to maintain two different sets of code. We still have, to your earlier question, content arrangements that are coming up in two, three years. NASCAR is in its final season, so in November, the current deal is over, and I'm very hopeful that we'll find the right balance of value with NASCAR to continue the programming when the season starts again next year in February.

The year after that – well, really middle of '13, the Fox News contracts come up for renewal. Same thing, Fox has obviously great programming. They do a fine job, and we're hopeful again of finding the right balance of value. The NHL and baseball aren't up until 2015, long way out in some ways, but certainly in our planning horizon, and we look forward to finding a good balance of value with those two leagues.

And another one worth noting is the GM agreement that has actually already been renegotiated. We renegotiated the GM agreement Christmas of '08. There were some changes in economics that started in January of '09, but really the restructuring of the economic relationship between GM and Sirius XM goes into effect October of 2013. And so, again, as things come up – there are other auto agreements that come up from time to time or new services that we start to launch that aren't covered by the existing agreements, which gives us the opportunity to open them back up and seek to optimize the economics.

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Analyst, Credit Suisse

Okay. So it seems like you're going to grow revenues in sort of a healthy way this year, and maybe there's still some expense synergies to be garnered, and you're guiding to a little over $700 million in EBITDA for this year. Do you think there's opportunity for upside there? How would you describe your confidence in hitting those targets?

David J. Frear, Executive Vice President and Chief Financial Officer

Well, you know, the guidance is the guidance. So we gave guidance for $715 million in EBITDA, and that's what we expect to do. We also have said that the 22% EBITDA margins that you saw in 2010 should grow to over 40% at maturity. We haven't said when maturity comes, but part of getting there is not only continuing to grow the revenues, perhaps continuing to improve the ARPU, but also continuing to go back through, and as all these different contracts come up, continuing to bang away on them in the next few years in the same way that we have in the last few years.

Analyst, Credit Suisse

Okay. Switching gears a little bit here to your satellite fleet, what does the entire Sirius and XM fleet look like today? How many satellites do you have in total, and maybe can you describe the Sirius satellite development roadmap going forward?

David J. Frear, Executive Vice President and Chief Financial Officer

So we have two platforms, the XM platform and the Sirius platform. And for the moment, radios built for one platform cannot hear the signals from the other platform. So the XM fleet has two operating satellites and a recently launched spare, and then also has the original two XM satellites that have a few years of life on them that effectively function as spares, as well. The Sirius constellation is currently – it started with three satellites that are, as opposed to geosynchronous, sitting on the equator, which any of you who follow satellites are familiar with, but the original three Sirius satellites actually operate in a figure eight orbit that's running north-south from basically the horn of South America up to the Hudson Bay. And we are replacing that constellation. We believe those satellites will function just fine through at least 2015. But we launched SIRIUS 5 as a geosynchronous satellite about a year-and-a-half ago, and we will launch SIRIUS 6 as another geosynchronous satellite in the fourth quarter of this year.

The XM-5 satellite that was launched a few months ago actually has the ability to serve as a backup for both constellations. So, long term, what you should expect to see is two XM satellites, two Sirius satellites, and one spare that can cover either side. With the launch of SIRIUS 6 in the fourth quarter of this year, we aren't expecting to spend any additional money building satellites until about 2017, when we will begin to plan for the replacement of XM-3. And right now, XM-3 probably needs to be replaced around 2020.

Analyst, Credit Suisse

Okay, and so where does CapEx decline to? What is sort of the right way to think about maintenance CapEx following this last satellite launch?

David J. Frear, Executive Vice President and Chief Financial Officer

So maintenance CapEx, you should think of around $60 million a year. And it should be in that range for 2012.

Bloomberg

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Analyst, Credit Suisse

Okay. I guess switching gears to new products, can you talk a little bit about SIRIUS XM 2.0 and just explain what this is and what are some of the new features that subscribers will be able to access?

David J. Frear, Executive Vice President and Chief Financial Officer

Well, in SIRIUS XM 2.0, we'll put up more programming, right, that we can – we'll add some channels. We think in adding these channels, we'll be able to address in markets that we have not done as good a job addressing in the past. So, for instance, the Hispanic marketplace is a tremendous opportunity in the U.S.. so we'll improve and increase our Hispanic programming. We'll also offer more features and functionality for both IP subscribers as well as satellite subscribers, the enhancements of pause, rewind, and record functionality, electronic programming guides, the opportunity to have TiVo-like functionality in the device where you can schedule what it is you'd like to record and listen to. And so we should have more to say on that as we come into the fourth quarter.

Analyst, Credit Suisse

Okay. Okay. I guess you touched on this topic earlier, but there's been some press recently about the threat from Pandora. How do you folks view that? It's obviously not an incremental positive out there, but do you consider it a serious threat, and if not Pandora, what – how do you think about the competitive landscape?

David J. Frear, Executive Vice President and Chief Financial Officer

So it's definitely a threat, right? We believe that we operate in an intensely competitive market, and we don't believe anything's changed about that in the nine years that we've been in business. Terrestrial radio is a dominant position in audio entertainment. There are 235 million people that listen to it every week. That's a lot of people, and it's a lot of brand loyalty. Now, we've managed to carve out sort of 35 million, 40 million people who are regularly listening to satellite radio, and we think we've done a good job at that. But Internet radio has been around since the mid-90s.

Now, you could argue that in the early days, that, geez, it really wasn't very well distributed, it was hard to get to, there were technological reasons why people couldn't get to it. Well, all those are gone now. So broadband has been very well penetrated in American households for a few years now. And smartphones are up to, as I said before, 60 million in the U.S. and growing rapidly. So there's plenty of opportunity for people to listen to Internet radio.

It's interesting to look at Pandora, which is the biggest brand in that sector, this is what they're choosing to do, so they've moved away from simply – from a couple things. One, they seem to be moving away from a subscription-based product, right, so when you read their documents, listen to their statements, that they believe that advertising is their future. Okay. So that puts them – we're a subscription-based product – so that puts them squarely in the realm of competing for the terrestrial radio ad dollar, right? So I get that. It makes a lot of sense.

They've moved away from just the music recommendation engine, and they are offering genre-type channels, and in fact the Toyota announcement that's been out on that in their Legends & Icons marketing effort is all about linking up cars to genre channels. Well, okay. So genre channels with ads, sounds kind of like terrestrial radio. And we've done pretty well competing against a free ad-based curated content music service, right, which is what terrestrial radio is. So it looks to me like Pandora's business plan is taking them closer to terrestrial radio, and if we're going to compete against that. I feel pretty good about it.

I wonder, though, as I look at a lot of the other services that are coming out, where this is really going. And it may be that it's going to just compete against radio. But more and more of these services, to me, are beginning to look like things that are going to compete with music sales, and so your personal music library, that a lot of what I see going on, seems to me it's where's it going to be stored. Instead of it being stored on the device in your pocket, is it going to be

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stored in the cloud? And I don't think you care. I think what you care about is when you turn it on, you can hear what you want hear. And as long as that functionality is provided to you, that you're going to be happy with it.

A lot of the new services that are being launched seem to be pushing that way. They seem to be business plans going towards music in the cloud. And, again, radio has competed against personal music collections for decades – 50, 60, 70 years. And we certainly have competed against personal music collections, in probably the most intensive change in personal music habits, with the launch of iPod. It launched in 2001, and so did we. So we worry about it all the time, serious issue, but I like our chances.

Analyst, Credit Suisse

Okay. I'll open it up for questions from the audience in just a second, but maybe, David, could you talk a little bit about leverage? And you're at about $2.5 billion in net debt right now. You're roughly four times levered. You stated your long-term target is about three times. EBITDA is growing. So is the right way to think about it you're basically going to grow into your leverage target?

David J. Frear, Executive Vice President and Chief Financial Officer

I think that's right. So we had $715 million in guidance. And I think if you look at most people's models for debt and where the cash would b, that you kind of get to that target of three times by either the end of this year or early next year. And so we'll definitely grow into it and grow into it pretty rapidly. And then, from then on, the question is, is well, what are you going to do? Now you're at your target. Are you going to use your cash flow to retire debt, or? And it's probably going to be the "or," that we'll keep the debt and we'll work on distributions to shareholders.

Analyst, Credit Suisse

Do you want to expand on that just a little bit? And are you thinking about that in terms of a dividend or a share repurchase, or any thought on that philosophy there?

David J. Frear, Executive Vice President and Chief Financial Officer

The board hasn't had that discussion. We'll certainly have it. I think that there's – at least in the near term, it's likely to be more efficient for shareholders if we do it through repurchases, but we haven't had the discussions.

Analyst, Credit Suisse

Okay, great. If anyone has a question, please go ahead. Yeah.

Q&A

<Q>: I know at the end of the day it doesn't mean anything, but do you guys think about reverse splits, that $5 rule or whatever it is with brokers, that sort of thing?

<A - **David J. Frear, Executive Vice President and Chief Financial Officer**>: I might be bound by my history. I've had this job for eight years, and people have been asking me about it for eight years, and I can't come up with a good reason to do it. I know it gets me a higher stock price. It doesn't really improve my liquidity. It doesn't really improve my access to the markets. I don't think it's going to broaden demand from institutional holders. And so when you think about the risk of – we have 900,000 stockholders, and if a bunch of retail shareholders decided they didn't like owning fewer shares, there's risk with them just trading off the stock for something that – you're right. It doesn't matter. So I

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can't come up with a good reason to do it, and so we probably won't.

<Q>: [Question Inaudible]?

<A - David J. Frear, Executive Vice President and Chief Financial Officer>: You know, I'm just not hearing that it's an impediment to interest in the stock, and so – there are lots of rules. There are the House rules that say institutions can't buy sub-$5 stocks, and yet every institution I ask says no, we waive that rule all the time. So at the margin, there's got to be an inefficiency, but in general, I just can't come up with enough of a positive to justify taking a risk.

<Q>: Anyone else? Yeah, go ahead.

<Q>: Does the $60 million in annual maintenance CapEx include a deferred number – is that the cash number, or that includes a deferred number for the licensed satellites?

<A - David J. Frear, Executive Vice President and Chief Financial Officer>: That's a cash number. Now, there are some continuing in-orbit incentives, and this is what you might be talking with, with satellites is that the satellite contracts frequently put – a big part of the profit margin from the manufacturer is based on whether or not the satellite performs according to specifications in orbit. So I think $60 million is a pretty good number overall. And in any given year, depending on the projects we initiate, we might be a little over or a little under once you include the satellite incentives, as well.

<Q>: Can you list the top five most popular channels?

<A - David J. Frear, Executive Vice President and Chief Financial Officer>: Well, let's see. I think it pretty much follows what you would expect to find, that the listening tastes of our subscribers are not materially different from the general public listening to the terrestrial radio. So Power is a very popular channel. Your Top 40 channel is a very popular channel, right? And so if you were to look at listening, I think it would largely break down along the same lines as terrestrial radio. Different question is to what drives subscription, right? And frequently, subscription is driven by how people think they might use the product as opposed to how they actually use it.

Analyst, Credit Suisse

Anyone else? Okay, great. David, thank you so much for joining us today. That was terrific.

David J. Frear, Executive Vice President and Chief Financial Officer

Thank you.

Analyst, Credit Suisse

Thanks a lot.

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UBS Global Media & Communications Conference

Company Participants

- John Janedis
- David J. Frear

MANAGEMENT DISCUSSION SECTION

John Janedis

Good morning. Welcome to 39th Annual UBS Media and Telecommunications Conference, the longest-running conference in Wall Street. To kick us off, please welcome David Frear, Executive Vice President and Chief Financial Officer of Sirius XM. David?

David J. Frear

Good morning, everybody. Thanks for taking the time to come in. I know many of you have seen this story before, but I'd like to do – hopefully, you won't find it as too much of a remedial exercise but I think it's important to put some perspective on where the company is and what we've come through. We see ourselves as being in an intensely competitive environment and it's been that way for a long period of time that as you can see form the slide, that Internet streaming is actually much older than satellite radio is.

And as we have gone through sort of a real incredible 10 years, especially the last 10 years since satellite radio began, iPods were introduced, HD radio came out, that MP3 connectivity came to vehicles, smartphones – nearly 100 million on the road in the United States today becomes an enabling technology for Internet radio. And it's just an incredibly competitive environment.

And the slide leaves off AM and FM radio, right? AM and FM, free service, in 235 million cars on the road today, so really an incredibly competitive environment. But we seem to have thrived in that environment. That in the 10 years since launching service, we've managed to carve out about 15% of the radio revenue market for ourselves and we think that's very, very good performance.

As we sit here just as an individual company, this year, we're sort of neck-and-neck with Clear Channel for being the largest radio company by revenues in America. I'm optimistic that next year that we will, in fact, be the largest radio company in terms of revenues in the country.

Part of what gets us there is we think we have a better revenue model, that most of the radio business plans that you see are advertising based. We have an advertising component to what we do but we are really driven by a subscription-based service and we've done a fantastic job of monetizing the listening that we get. And as you'll see, as I run through the presentation, that monetization just doesn't occur at the top line, it drops all the way down to free cash flow.

Just looking at subscription radio, we've found a way to attract subscribers in a scale that nobody else has matched. There's a lot of versions of subscription radio among the Internet services in particular. None of them seem to have found broad-base customer acceptance that they're mostly music listening services. And generally, what's really working for the guys in Internet radio is a premium model, the 21.3 million subscribers that we have amassed through radio listening provides us, we think, with an incredible competitive advantage going forward.

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SX Ex. 215-RP

The success we've had in amassing scale and in monetizing is driven 100% by the content. We've put up an incredible array of music, talk, news and sports. It's not a music listening service. It is radio as we've all known radio to be. And we've just done a better job by virtue of having these subscriptions, having our advertising that we've done a better job of putting up a compelling line-up that's available to everybody in the country who wants it.

Now, we've had that program and it hasn't changed a lot over the course of the last several years. But what's gotten us to where we are isn't necessarily going to be enough to keep us going forward. So we continue to invest in what we bring to subscribers from a programming perspective as well as a technology perspective.

So the programming side of things that we've recently introduced a suite of Latin channels to better address the large and growing Hispanic marketplace in the country. We continue to improve our online offering. We actually have been offering service online for about seven years now. And that previous slide where you saw the subscriptions compared to other offerings, if you were to look at just Internet radio subscriptions in the United States. I believe we're far and away the largest player in that market although it's a fairly small market from a revenue perspective.

We've expanded the functionality that we provide to our subscribers through the smartphones as well as tablets. That what we find overwhelmingly is that consumers don't necessarily want a separate online streaming service that they're going to pay a subscription for. They love the premium versions, lots of listeners but generally very difficult to monetize. What smartphones represent for our subscribers, an extension of functionality. They come to us for the programming. They overwhelmingly come to us for satellite radio subscriptions and then we find that many of those subscribers are interested in extending their listening environment beyond the car or beyond a radio they might have at home and they use it on IP-based devices in the office, at home, as well as when they're out on the street.

With the launch of 2.0, we'll continue to expand the programming features and functionalities that we offer to subscribers. The new channels that I showed you a few minutes ago are part of that, that expanding the online content is part of that, offering additional functionality including access to on-demand content will be part of the future for our subscribers as well.

Where we brought the company to over the course of the last 10 years is now one of the largest subscription media companies in the country; only Comcast and Netflix are managing more subscription relationships everyday than Sirius XM is. We've seen a lot of consistency in the behavior of our subscribers over time. They love the service. The churn is very low that at 1.9% per month, it rivals the satellite TV guys and significantly better than other premium content services that people are familiar with.

All of this adds up to a really consistent record of demonstrating growth. And through all sorts of economic environments that we've all lived through 2008 and '09 and yet through the extended recession, that we continued to grow our base, the decline in subscribers from 2008 to '09 is solely related to the inventory of trials related to new car sales. If you were to look at the self-pay subscribers underpinning these numbers, you would see that we grew self-pay pay subscribers from 2007 to 2008 to 2009, they continue to grow today.

Driving subscription growth is something that drives revenue growth in the six years since 2006 and running through the guidance we've provided. Next year, we will more than double sales as you can see from this chart, that $1.7 billion added to our annual revenues from 2006 to 2012. And honestly, a great job running cost-effective growth is actually delivered nearly that much in terms of EBITDA improvement, that the $1.7 billion of revenue growth has turned into $1.5 billion of EBITDA growth.

The merger of the two companies was certainly very helpful in terms of being able to squeeze out cost efficiencies. We continue to deliver on those efficiencies today. But I often get asked, "Where are you at synergies?" and while most of them are already in the numbers, there's still a few left to go. That the General Motors contract, which was renegotiated shortly after the merger, the original GM contract ended in the fourth quarter of 2013 but we renegotiated that contract back at Christmas of '08, new terms go into effect in October of 2014. While it's confidential, I can't talk about the terms of any of the automotive agreements, you should think about the change in terms as being something that's material to the continued EBITDA growth of the company.

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We still have additional programming synergies that we'll be able to explore with our programming partners over the course in the next few years. This year, we had a new contract with – Howard Stern was in place for the full year. Howard will be here for another four years. He's been a fantastic component of our business. We have new agreements with the NFL who's been another great partner, that the new NFL contract went into effect with the season in August. And most recently, we extended our agreement with NASCAR, which ended when the season ended just a couple of weeks ago and we're in a new multiyear agreement with NASCAR.

As you look to the future, we've got a couple other contracts from the premerger days with Fox News. We'll have an opportunity to talk to Fox about those contracts in mid-2013. And then the baseball and hockey agreements which are the last of the premerger agreements. They're still a few years to go but we'll have an opportunity to talk to both of the leagues in 2015 after their seasons are up about continuing relationship with both of those and with programming that our subscribers love.

We've taken this EBITDA growth and we have dropped it down to the free cash flow line as well. Now here, you can see that with declining capital expenditures, that $1.7 million (sic) [billion] of revenue growth from 2006 to 2012 has turned into $1.9 billion of free cash flow improvement. The free cash flow story is probably nearest and dearest to our hearts, we think it's what really drives shareholder value. That we've got a nice confluence of events going that we still have healthy growth in subscribers and revenue.

We're doing a good job at cost control. And as I'll show you in a moment that leverage is coming down, interest cost will be coming down. Capital expenditures are declining that we're near the end of the satellite replacement cycle for the company, that in January I believe it is – we're still trying to work out the final launch date with International Launch Services – but we'll launch the Sirius 6 satellite, that is the last of the replacement Constellation satellites. And we'll have a bit of a holiday on satellite capital expenditures until probably late 2016. The replacement cycle for the XM satellites will be roughly 2019, 2020. For the Sirius satellites, it will be in sort of the 2023 to 2024 timeframe from a launch perspective.

So what it gives you is about four years of very little in the way of satellite capital expenditures. And with the growing EBITDA, declining capital expenditures, improving interest cost, it really foreshadows great growth in free cash flow and additionally, no taxes. All right? So we probably won't absorb all of our NOLs until the very late part of the decade and so you can think of the next several years as having no taxes.

Now, as you think about future growth, we think it's important that you bear in mind what we've been able to do with the automakers. That we're the only company that we know of that has been successful in going out and integrating a consumer electronics product in the dashboard of every vehicle manufacturer in the country. That six years ago, we were penetrated 20% into new car sales, that has grown to about 65% at this point.

We don't anticipate significant increases in the penetration rate from here, we're happy with where it is. It may bounce around a little bit with the mix of sales among the automakers, that the U.S., European, Korean manufacturers tend to be higher penetrated in production than the Japanese manufacturers. So as you watch market share move around a little bit, you may see this fluctuate slightly, but it should stay right about where it is.

Now, I think it's a pretty good thing being in nearly two-thirds of automobile production. I don't have any great insight into what car sales are going to be next year. We follow 21 people who put out estimates of car sales. We can tell you that since June that 12 of those 21 have updated their estimates, they have all updated their estimates and revised downward their outlook for 2012 sales.

One initiated, the University of Michigan I believe it was, at 13.5 million for next year. One Wall Street firm has constantly reissued its 2012 forecast at a constant 13.9 million and seven people, mostly automakers, haven't updated since June, they're generally in the 14.3 million range. My betting is that when they do update, they'll probably update downward from what their current estimates are.

The overall average of everybody out there is right now around 13.6 million, 13.7 million. Where it's going to come out I really don't know, we'll see in the next month. I thought November sales were great, that being up over last year at – where was it? About 13.4%, 13.6%, I think, is great. But most notably, consumer sales were up 18% year-on-year,

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which is a number that we tend to look at that spikes or fall off in fleet volume doesn't have much of an impact satellite radio subscribers but growing consumer sales is a very good sign for us.

Depending on what you think the shape of the curve is for the automotive recovery, where you think U.S. auto sales will ultimately get to, you can run the math and get a pretty good sense as to where our enabled universe is headed. So, one of the ways to think about us might that we're still in a build-out phase. When we launched satellites while we might have been able to cover all of the 48 states with [ph] 3-9 (16:37) service availability that we really didn't cover any cars because none of the cars had radios in them.

So we had a launch service through the aftermarket at Best Buy, Radio Shack, Circuit City, get somebody to go out, buy a radio, install it. It sits on the dashboard. You got wires and things like that. It was great, a great product, a lot people really liked it. We did well on it but it's not very easy, is it? It's a lot easier when you buy that new car, you open the door, you turn on the radio or you turn on the car and you push a button and it's playing.

And so where we are today is there are about maybe just a little less than 40 million cars that have been manufactured with a factory-installed satellite radio. There's probably 3 million of those that are still sitting on lots, waiting to get sold, just normal inventory in automotive. So you've got 37 million on the road today.

Well, if you take that 65% of automotive sales and just kind of run the math for whatever you think automotive sales are going to settle out at – if you think you're going to be 14 million a year, 15 million a year, we'll have our 65%. You're going to run through the next within about three years or so that the enabled universe of cars with the satellite radio on them will exceed 70 million. By the time you get to the end of the decade, there will be 100 million cars on the road with a factory-installed satellite radio.

To me, that reminds me a little bit of cable back in the mid-80's. When they're still building out neighborhoods, they were still the analyst following, we're talking about homes past and what the penetration of homes past was. So as we head towards 100 million cars on the road that we think there's a great opportunity for long-term subscriber growth here.

As you think about the competitive environment, I want you to bear a couple of things in mind – that there are already 235 million cars on the road with an AM and FM radio. That's going to continue to be an intensely competitive environment. There are 95 million smartphones on the road today. In many of the cars on the road today, not all yet, but many of them have an aux-in jack in the car. It's pretty easy today to take your smartphone into the car, plug it in, and use your Internet radio service if that's what you want to do. As it turns out that we still seem to compete very well against both of those products, the AM and FM radio, as well as Internet-radio-enabled smartphones despite the fact that we only have 37 million cars on the road.

Now there is a firm IHSI supplier global that came out with an estimate of connected car, I can tell you connected car is coming, right? So we know it. We think it's great. We think there are a lot of service opportunities for us in connected car. Connected car will – according to IHSI and I think it's a pretty good estimate – that by 2018, somewhere around 28 million cars on the road will be connected. They'll have easy IP connectivity available on a built-in product. So when you're coming out towards the end of the decade, you'll have 235 billion AM and FM radios on the road. You'll have 100 million satellite radios on the road and there'll probably be solidly over 30 million cars on the road that are connected and are capable of receiving IP services.

I like our competitive positioning. I think we've done well competing against these technologies so far. I like the industrialization that's going on for us and the opportunity it gives us to continue to sell into the new vehicle market. And increasingly, we're going to find that used car sales are a great opportunity for growth for us. That when you look at car transactions in the country, there are 50 million cars sold roughly in the United States every year. Only 13 million, 14 million of those are new cars, the rest is used. So as these 37 million cars that we have today move out of first car ownership and into the used car market, we're going to have an opportunity to acquire additional subscribers in a way that isn't reflected in our numbers today.

All right. So along with all this growth comes improving leverage, all right? So you can see from this and over the last few years that we've gone from being something in excess of seven times levered, brought it down pretty quickly to

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less than half of that at the end of the third quarter based on the guidance that we've provided to the market that we will be about two times leveraged in terms of net debt to adjusted EBITDA by the end of next year.

And that opens up lots of opportunities for us. That would tell you that we have a lot of strategic flexibility that's generating a lot of cash flow. It's an opportunity to perhaps be more acquisitive if we can find something interesting out there, looks like a good value, adds to our value proposition in some way. It's an opportunity to return capital to shareholders and that certainly provides us with a great cushion for when things go wrong in a world we all know that that happens from time to time.

We've really driven down borrowing cost rapidly in the course of the last few years. But you can see it from the slide that on the depths of the recession, February '09, 15% secured debt with a huge equity component that – you're welcome, Mr. Malone and Mr. Maffei – that we've cut that in half the – our long bonds are now trading below 7%. And I think that there's an opportunity for us to continue to narrow the credit spread, implicit in those numbers as people see us realize the growth, realize the free cash flow and realize the reduced leverage.

When you kind of add all this up, all right, and you have good solid consistent long-term subscriber growth. You have the same thing coming through the revenue. The management team has shown you an ability to manage cost well so it comes down to EBITDA. Interest expense will be coming down, capital expenditures are dropping significantly that, again, in the absence of the satellite spending for the next four years, you'll probably see them in the range of $70 million. No taxes to pay, one of the nice benefits of having NOLs, and what you get is a great free cash flow growth story for quite some time.

We liked the way we stack up from a competition perspective. We understand the world is a competitive market. We think it's a great thing, great for consumers. We think our satellite delivery system, despite connected car, despite 3G networks. is a great competitive advantage.

Listening to the radio on your smartphone is probably not one of the most innovative uses of your smartphone, all right. There's a lot of things we can do with a smartphone beyond listening to radio. While listening to radio is fun, that we think broadcast spectrum and broadcast technologies have a lot of meaning in a world where data plans are becoming the norm, and data plans, by their nature, by the cost structures of the industry, should be variable. The more you consume, the more you should pay. And from that perspective, broadcast becomes an incredibly efficient way to offload applications that are very heavy on network utilization.

Curated content is not going away, the idea that everybody wants to always find the one thing that they want to do, with no help from anybody else, doesn't make any sense. That none of us, live our lives that way. Our newspaper is curated content, it doesn't matter whether you get it online, or whether you get it in print. Yahoo, MSN, they are – AOL, are all homepages that are curated content. The Huffington Post is curated content. The broadcast networks are curated content, your cable system, you satellite television system, it's all curated content.

So we believe that it is a consumer convenience, and consumers value organizing content whether it's organizing music, organizing news, organizing talk, sports, whether you organize the programs during the day by what shows at what hour, or whether you simply tell them what channel it's on and what's on that channel at what time. It's all a way of adding value to subscribers and we just don't see that going away.

Our agreements with the automotive companies are all long-term agreements that we have new chipset technologies that the auto companies will be adopting over the course of the next couple of years. That great relationships there and long-term OEM agreements are a very strong asset of the company. The $8 billion of NOLs we have will clearly benefit shareholders. The subscription model we think is a great way of doing business, we saw how it protects the downside associated with revenue and operating performance in the midst of one of the world's worst recessions any of us have ever seen. And it will continue to pay benefits in the future.

And at the end of the day, we're doing one thing: we're all about satellite radio, all about what you hear when you turn on that radio. There are additional features, functionalities, services that we add to enrich that subscription experience. But in fact, the team is focused on delivering the very best that we can out of satellite radio, and that's what we think is going to drive returns for shareholders in the long term.

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So with that, let me flip through the mouse print, disclaimers. And everything you could possibly want is on the radio so it should all run out and get one right now. Thank you. Questions?

Q&A

<Q - John Janedis>: As you think about questions, let me ask you – is that a question? Okay. David, can you talk a little about your pricing strategy and implications on subscriber growth, churn, other metrics?

<A - David J. Frear>: Sure. So when you raise prices, you're going to suppress demand. Some people argue that that's not true. I'm happy to have the debate with them, but I actually really believe it's true, that if you raise prices, you suppress demand. That being said, what we are looking to do is maximize the revenues and free cash flow of the company.

So we have a price increase going into effect on January 1 that if – I often get asked "What's the effect of that going to be?" Well, I would expect that we're going to, with the price increase, have lower conversion than of new car sales into subscriptions than we would if we didn't increase the price. I would think that we're going to have higher self-pay churn with the price increase than we would if we didn't increase the price. But at the end of it, I think we're going to end up with more subscribers, more revenue and more free cash flow after doing the price increase than what we have today. So it's a good thing for the business.

It's tough to gauge. I get asked, "Well, how much churn is it going to generate?" It's almost impossible to know the answer to that question. That we've got thoughts on what it might do, that one of the things that we know for sure is that it's much easier to keep a subscriber that you have already converted than it is to convert a subscriber. So we'll work hard to retain every subscriber that we have today including through managing through a reaction to increased prices. We've begun notifying our customers now of the price increase. That the notifications go out based on renewal dates so the monthly subscribers have been notified. That the subscribers whose quarterly, semiannual, annual, two-year, three-year plans that rollover in January, that they've been notified.

We haven't seen so far a much of a response to the increase. We haven't seen a significant upswing in complaint calls or anything like that but it hasn't hit the credit cards yet, right. So some of the billing statements are out but 80% of the self-pay subscriber base is on credit card or debit card and we'll probably see the reaction come more after it hits the cards than in advance. But so far, early returns are good.

In terms of long-term pricing strategy, one of the things that we have to bear in mind is that because most of our subscribers pay us in advance and not just monthly in advance, they're paying us a year or more in advance, over half of the self-pay base is a year or longer in terms of advanced payments that when you change prices, it actually takes a while to work through the base. In fact, it takes about 18 months for price changes to work their way fully through the base of a company.

And so while we haven't made any decisions on it when every price increase takes 18 months to roll through, it's kind of hard. We've often been asked, "Would you do annual price increases?" Well, it's sort of hard to do annual price increases if it takes 18 months to roll through and think about it especially, for many of our subscribers, about 20% of them have a second, third, fourth radio. So and they don't necessarily renew at the same time. So if you have one radio that renews in December, you have another one that renews in June and then if we're increasing prices annually, we're constantly sending you letters, notifying you of price increases. So while we haven't addressed it in terms of any firm policy, that kind of cadence of communications with our subscribers will probably help inform our pricing decisions going forward.

This is the first base price increase that goes across the board since we launched service 10 years ago. There's been a lot of programming that's been added, a lot of features and functionality added to our subscribers. Generally, I think if you look across the media landscape, you'd find a significant level of price increases over the course of the last 10 years, so we do believe that this will go through, it'll do well with our subscribers and then we'll consider price increase strategies in the future.

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<Q - John Janedis>: Thank you. Any questions from the audience?

<Q>: I was just wondering as far as what's the status, when you expect to have 2.0 fully rolled out and what the status of Links is at this point. I wasn't sure if Best Buy or if it's actually out at retail at this...

<A - David J. Frear>: Sorry, the status of what?

<Q>: Of the Links, the new hardware product?

<A - David J. Frear>: 2.0 is a sort of a serial rollout, all right? There are multiple components to in and it's in part programming, it's in part features and functionality from on the IP product set, it's in part changes in chipset technology, features and functionality on the satellite radio part of the service.

So I think as you look at it, the 2.0 chips will go into their first car in the middle of next year with model year 2013 that'll bring it to the OEM market. We'll have a retail product out shortly that has the 2.0 functionality in it. The release of our – released it on the IP platform also should come shortly. But then what you should expect is that there'll be sort of an initial launch of it and then we'll continue to roll our more and more features with it.

So, for instance, the availability of on-demand content that the – how much is available to bring down will continue to expand over time. So some of the 2.0 is already out there, all right, the Hispanic channels are out there that the – we have a product at retail now that picks that up as we – it'll be a little while before that chipset gets rolled out into automotive production, but you should think of it as an evolutionary introduction into the markets.

<Q>: As you go through contract negotiations with the content providers, what's the risk that you don't come to an agreement on a certain content package? And what's the possibility that the content providers, say the NFL, could decide just to offer their content directly to consumers through the smartphones and the Internet?

<A - David J. Frear>: Well, the content arrangements we have now with all of the what we call the third-party programming providers, are not exclusive to wireless service today, so that they are free to go out and cut deals with the wireless carriers, they're free to go out and offer their programming online. That we're just in the satellite radio business, we understand that we compete against a lot of other stuff and that's okay.

One of the things that's changed a little bit is that when we were negotiating a lot of these contracts, six and seven years ago, and we were streaming our service online, we said to a lot of these programming providers, "Hey, let us incorporate the audio feeds that we're providing across the satellite system into our online offering as well, so that our subscribers can enjoy the same Sirius XM-branded programming package online that they get in vehicle."

Generally, several years ago, the reaction was, no way. That's tremendous value to us, we have our own plan, we're going to make huge sums of money doing this. That's what they learned over the course of the last several years, is that they can still pursue their own online initiatives, which continue to change as everybody continues to learn more about consumer behavior on the Internet. But that, incorporating it into the Sirius XM-branded programming lineup doesn't really compete with what they do at all. So in the new contract with the NFL, for instance, the play-by-play of all the games is available on our Internet service now.

Now, not everybody has the same view, all right. So we go out, we ask for that, so most of the – I'm not sure if it's all, but certainly most of the new services realize that we don't really compete with what they're doing online. We're not showing video, all right. So the new services allowed us to incorporate it in a few years ago, the sports leagues are beginning to roll in. And I think it's one of these things that as each year goes by, we'll be more and more successful at making it virtually indistinguishable to a consumer whether they're listening online or via satellite.

<Q>: Two related questions, is it technologically possible for you guys to feed Internet-enabled radio services through the satellite infrastructure. And then a follow up to that, if so, have you guys entertained or considered or at least evaluated what a commercial arrangement might look like for these Web radio services which are trying to get in the cars? And as you said, if there are only going to be at 30 million cars at the end of the decade, there might be some guys out there that want to accelerate that. And to the extent that Sirius can get some of those services onto their platform, that might be content that costs you nothing because they're able to monetize through their ads or however

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else they do it.

<A - David J. Frear>: Is it technologically possible? It is, though I don't know why you'd do it that way, right. So you can use satellites as a way of getting two points of presence on the Internet and although for the most part, while it's technically possible, it doesn't seem that there's any real reason to do it that the Internet is basically a bunch of servers and communications lines that – and the routes between them are largely logical routes as opposed to physical routes. They operate on something called Open Shortest Path First for the most part.

And there's incredible redundancy, right. So as you send the packet, if it runs into a busy router, it bounces and goes on a different path. So the further beauty of the Internet is its resiliency. All right it's kind of completely agnostic as to whether or not the best way to get from this room to the next room next door is through a router that might be two blocks away from here, or whether it bounces down to Miami back up to Washington and then ends up in the room next door.

So I think that one of things that we're doing is trying to make it largely transparent to our customers, as to whether they are getting the signal across the satellite system, a terrestrial repeater or whether it's coming in across the Internet. For the most part they don't really care, all right, they just want to listen to what they want to listen to and we want to give it to them.

So we've been streaming online for seven years, precisely because we believe in an IP-connected world definitely coming. And so why not offer your subscribers the opportunity to listen to the same thing when they're online that they can hear when they're in the vehicle. They don't really need to know, in fact in the vehicle that – does it really matter whether it's coming in across our satellite spectrum, our terrestrial radio spectrum or the spectrum that a 3G network is routing with an IP service? I mean, to the consumer they don't really care.

So, what we're looking to do is position ourselves from a rights perspective, as well as in terms of enabling technologies in the radios with the ability for the service to be received from any of the above. Sure.

<Q>: Sorry, just a follow-up [indiscernible] Pandora creep (41:11) through Sirius XM satellites and, if that was even possible, is there any sort of Web service arrangement that you might consider in the future? Do you know what I mean? The other half coming through Sirius effectively.

<A - David J. Frear>: Yes so – it wouldn't make – in my mind. I can't speak for Pandora, because I'm not them, right? If I were over there managing that company, I wouldn't spend any time figuring out how I could get off the Internet and get on to satellite. Pandora today, none of the Internet radio – it doesn't matter whether it's Pandora, Spotify, MOG, RDO, pick anyone – none of them make any investment in anything other than the servers that send their service out to content distribution networks.

They don't make radios. They don't make smartphones, they don't make computers. So the listening devices that those services use are not made nor is their architecture influenced in any way by those service providers. They've got other challenges in their business, it's probably best if they focus their efforts on those challenges and not on infrastructure that probably isn't really going to change demand for their service very much.

<Q>: David, two follow-up questions on that. Do you think there is any difference in the competitive environment for streaming 4G versus 3G? The first question. And the second related question, do you think it's important for you guys to own your own 4G pipe or let just somebody else – the connected car concept, let somebody else figure it out and you'll figure out what services to provide around that?

<A - David J. Frear>: So, first of all, right, we all know that 4G versus 3G are marketing terms, right? They don't necessarily mean than any change has taken place in underlying network technology. But as the network technologies improve, which is really what the question is about, there's no doubt that data networks in the wireless industry are going to get more and more capable, right? You're going to deliver faster speeds, but they're going to figure out things like streaming applications and what they do to network capacity.

Streaming applications are a nightmare for wireless network operators, but they're smart guys, eventually they'll figure out how they can manipulate them in a way and maybe its caching technologies. I mean storage is cheap. And so

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maybe if you drip down a lot of content, leave it stored on the device that'll help offload the network.

At the end of the day, you're still going to have usage driving the cost. And it may be we'll get to a point where the pricing plans to consumers that the amount they use is largely invisible to them and they'll be completely insensitive to the applications and how much data they're using. I suspect that many people in the country will continue to manage their wallets and if they can offload services that they will.

All that being said, our plan is to make our service available on all platforms. So to the extent that the IP platform improves, to the extent that streaming applications are engineered to work better across wireless networks, I think we'll benefit from that as well.

<Q>: Thank you.

<Q>: Thank you. I believe that Liberty has the opportunity to move to a greater than 50% stake in March. What's your expectation on whether they would do that? And how much would they actually have to own in order to be able to take advantage of some of the NOLs that your company has?

<A - David J. Frear>: Okay. So in terms of using the NOLs, the tax code provides they need to go to 80%, right, in order to tax consolidate. So that would be the answer to that. If Liberty wants to use the Sirius XM NOLs directly they'd have to take their position up to about 80%. In terms of what are their intentions with respect to going north of 50%, I really don't know, you'd have to ask Greg.

<Q>: Just two follow-up questions. Just curious, as far as Sirius 6 goes when that's in place and I assume maybe operational in the second quarter or something like that, what will you use that additional capacity for? Is that going to be part of the Sirius Constellation? I'm assuming so. And I was just trying to get a little idea of what you'll use the additional capacity for.

<A - David J. Frear>: Sorry. The question started with SMH or...

<Q>: No, no. I'm sorry, for Sirius 6, the new satellite. I'm just trying to get an idea what you'll use the additional capacity for.

<A - David J. Frear>: Yeah. Sirius 6, it's not an expansion of capacity. It's effectively getting ahead of the end of life for the existing constellation, right. So the Sirius 5 was the first replacement satellites that we launched that, I think about two years ago. And Sirius 6 will be the second of the replacement satellites for the Sirius Constellation. The original HIEO satellites now have an end-of-service life that is in roughly 2015 that in the satellite business, you tend to want to get your replacements up a few years in advance of when your current generation's going to die. You never know, bad things happen sometimes with rockets. And so if you were to have a launch failure, or if a satellite successfully launched in the function as intended, when it got to its on-orbit position, you still need time in the schedule to be able to get a replacement up, so you tend to go up a couple of years early.

<Q>: Hi, could you talk a little bit about conversion, range of conversion rates between different automakers, what's the low, what's the high? And long-term, I mean, you could – I have a hypothesis that it's going to decline over time. Do you agree with that? Do you think longer-term, you're going to see conversion falling and where do you think it stabilizes, if you do?

<A - David J. Frear>: I don't necessarily see it falling, but it certainly fell as we increased penetration, all right. So when you went from being in 20% of the cars or maybe converting 50% or so of the opportunities, and now that we're in 65% of the cars, you're converting 46%, so it comes down somewhat. But I don't see it coming down in the long-term. Now, if you were to go to standard, then yeah, I would think that it would probably come down, if we went into 100% of the cars, I think it would be less than it would be today.

The range, really varies, and it tends to move consistent with the price of the car, which is it tends to be consistent with the incomes, all right? And so very high-end cars are going to convert at better rates than low-end cars. So for instance, if we have some models that convert north of 70%, we have other models that convert below 30%. I think that on the low end of the conversion, that it's not all explained by income differential. That we find that with some of the lower

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converting cars, that there are actually executional issues with those auto makers, all right, or there's something about the car itself.

So there was a time when one of the auto makers, go unnamed, that put satellite radio into hearses okay. So the hearses didn't really convert all that well. The work trucks in West Texas, right. They tended not to convert so well. They tend to be pretty stripped down cabs, very few kind of features and niceties and so we found that some of those didn't convert so well.

Sometimes it has to do with cadences of customer communication. So one of the things that we've worked very hard on with the automotive companies is getting the IT systems integrated. I can't tell you how important it is to get a welcome kit to a subscriber when the car still has a new car smell in it. You get a big difference in conversion rate if you get the customer name and address and you start marketing to them within a couple of weeks of purchasing the car as opposed to a month or so later. We've just found and the great thing about having 21 million subscribers and all these transactions is that you get statistically significant samples of almost everything.

And so from a numbers perspective, there's been remarkable, statistical consistency. I joined the company, there are 120,000 subscribers. There's 21 million now. And we've just seen remarkable, statistical consistency across the years.

And so, for instance, in this area of conversion – if an OEM, I want to call it forgets, but if they forget to send us a sale record, it's going to convert lower when we finally get it. We just know it will. And so going through the protocols of establishing good supply chain hand-off between the auto company and Sirius XM has been a big deal. We've seen major automakers improve their conversion rates by 4 or 5 percentage points just by virtue of getting files daily instead of weekly.

Any other questions? We got a couple of minutes left. Sure.

<Q>: I was just curious, do you break down at all on your subscriber numbers? How many are, or do you have any way of knowing how many are used car owners versus new car owners?

<A - David J. Frear>: I have estimates that we use internally that we haven't gone public with them yet. In large part, because it's not as easy as you might think to figure out whether or not a car has changed hands, right. So a good example that if a radio goes from my name to my daughter's name that it may show up as a used car, right. So we're still working through the matching protocols to make sure that we know what a second owner is.

It's easy when it comes through a used car trial, right. And so when we get a sale reported to us from one of the dealers out there that says, "Hey, I just sold a used car," that's great. But at this point in time, the majority of our reactivations, the overwhelming majority, just come back as opposed to being associated with a used car trial program. They just come back.

That's something I think is good news for long-term subscriber growth. That when you look at the awareness among – unaided awareness among new car buyers, it's over 90%. Over 90% of the people buying a new car know there's a satellite radio in the car. I was very surprised when we ran a survey two years ago to find that they're pleased to find that unaided awareness among used car buyers was over 70%. And so, we're in the early stages now of rolling out information exchange programs throughout the auto dealerships. We have them with the OEMs. So anything centrally coordinated, we get that information.

New car sales, we get it. Certified pre-owned vehicles, we get that because those are centrally-coordinated programs. But the vast majority, probably 95% of used car sales either take place in privately-negotiated transactions or they take place by franchise and independent dealers outside of an OEM-sponsored program and then the dealers are on their own. They manage that information on their own. So we have a third-party provider that is working with us to sign these dealers up on information exchange programs.

What does the dealer get for it? Well, the dealer gets a 90-day subscription free for the consumer, you can market as part of the value associated with that car. What we get is the customer name and address information and that gives us the opportunity to market directly to those potential new subscribers.

Bloomberg

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David J. Frear

So, thank you for your time today. We really appreciate it.

John Janedis

Thank you, David.

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Investor Meeting

Company Participants

- Courtnee Chun Ulrich
- Gregory B. Maffei
- Christopher W. Shean
- Chris Albrecht
- Mel Karmazin
- William J. Lynch, Jr.
- Michael Rapino
- Unverified Participant
- John C. Malone
- William D. Myers

MANAGEMENT DISCUSSION SECTION

Courtnee Chun Ulrich

Hi. Good morning. Welcome to Liberty Media's Investor Meeting. I'm Courtnee Ulrich, VP of Investor Relations. As you all saw, we had some announcements this morning, and we'll talk about more – talk more about those shortly. We have a great day planned for you. We've got presentations from Liberty, from Sirius, from Starz, from Barnes & Noble and from Live Nation.

As you can see outside, we have the shopping experience again this year. Please make sure you check it out. These deals will be good through Sunday, so please go ahead and buy something. And one other logistical thing, when you walk in and you checked in, you should have gotten a ticket for your gift bag for this year. If you go up to the second floor balcony, you can pick that up. And please try and do that before 1 p.m. today.

So with that, I'd like to introduce Greg Maffei, Liberty's President and CEO.

Gregory B. Maffei

Thank you, Courtnee. Well thank you all for joining us today. And in continuing the music theme we've had is about Coming Together...Right Now. So we announced this morning that we were combining Liberty Starz and Liberty Capital, conversion ratio of 0.88 shares of LCAP for each LSTZ share. Some of you have – may seen that we're creating a new ticker, LMC, and there'll be LMCA and LMCB for Liberty Media Corporation. And we expect that deal to close in about 10 days.

In addition, we announced we raised $1.5 billion of debt, $1 billion under revolving credit facility, of which we actually only drew $5 million to make sure it worked and $500 million under a term loan. Chris Shean, our new CFO, is going to talk more about the terms of that debt. And we increased our repurchase authorization. We had a authorization at Starz; we had an authorization at Capital. Together, they were around $900 million. We went up to $1.25 billion between the two, the newly created LMCA and B.

Why we are doing it? And why now? First, we think it was an excellent time to raise capital. We liked the spreads that we could raise the money at, and we liked the fact we could raise money. Despite the fact that the European banks largely didn't show up for our credit-raising opportunity, we still were able to be quite successful and then raised the money that, we think, are very attractive at terms. Kudos to our new Treasurer, Neal Dermer. So we thought it was a

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good time to raise money.

That having been said, we have been seeking attractive investment opportunities, consistent with the Starz mission – Liberty Starz mission – since we spun and created Liberty Starz. And we really haven't been able to find those opportunities. We do, however, have a host of opportunities as Liberty Capital. And we've talked – will talk more about some of those today.

And by creating the right balance sheet for Liberty Starz, Starz being, in our judgment, under-levered at no leverage, now having theoretically up to about three times leverage, we only exacerbated that problem; created more cash that Liberty Starz could not invest, in our judgment, wisely.

So this combination made sense in terms of who could raise capital, how to best capitalize Starz and then who would be able to utilize that capital to the benefit of both sets of shareholders? We created greater flexibility for future restructurings or spins. Some people asked, gosh, where was the Starz spin? Where was the this? Where's the Sirius spin? Who knows what our future holds. Liberty has been an evolving animal since well before I got here, and we've continued to evolve while I'm here. And I suspect we will continue to evolve after I'm here. But that flexibility increases with this transaction.

The asset-backed security LMC we hope will trade better. We have increased liquidity perhaps because – merging the two pools of liquidity. And we will have simplified reporting and less costs by putting the two entities together.

Even before today, we've been busy. We completed the split-off from Capital and Starz from Interactive. We increased our stake in Live Nation Entertainment to almost 21%. We made a strategic investment in Barnes & Noble, and a convertible preferred has a 7.75% dividend; converts at $17 a share and to 16.6% of the company. I'll talk more about both those companies in a minute.

We made share repurchases at Capital. We made share repurchases at Starz. We sold our TV station in Green Bay, despite the fact that they were 8 and 0 and 9 and 0. And we eliminated that really great name, CapStarz. Mostly, it's worked. We've had great out performance against our peers in the market, both longer term and more recently. And this is looking at the new LCAP, which is really the new LMCA. We hadn't quite got the ticker when we did the slides.

What's the model that we've tried to pursue and will pursue going forward? First is building value at Starz. And you'll hear a lot more from Chris Albrecht today, but compelling original programming; you saw some highlights of that. A stronger brand. What is the identity of Starz, which has been relatively muffled, I think, is becoming crisper and will become crisper over the next several years.

We seek to improve relations with some of our traditional distributors, many of whom were not thrilled with some of our actions over the last few years but, I think, have been improving and opportunities abound. And lastly, we believe there are opportunities to add compatible, incremental digital distributions that are compatible with both our partners on the content side, our partners on the distribution side and compatible with our long-term aspirations and placement of our brand and our service.

We want to ride the growth path of SiriusXM. It's been a great growth path and, in our judgment, it still goes on. And you'll hear more from Mel about that. We want to capitalize on our strategic investments. Live Nation has a great future; Barnes & Noble's got a tiger by the tail. Both of those are opportunities for us, potentially, to do interesting things, including add more capital.

We want to rationalize some of our non-core assets. We have investments which are wonderful. I like getting the dividend on the CenturyLink stock. But the reality is, CenturyLink is not a strategic asset for Liberty. And if we had alternative use for the cash, which we will, I suspect, over time, we would redeploy.

We have still – and Chris will talk about this more – Chris Shean – we still have balance sheet strength; opportunities to leverage Starz more by drawing that revolving credit facility. Do other things so we could raise more capital, if we found the right opportunity. And, lastly, there still remains a discount in our stock. It's tightened, but there's still opportunities there and we'll capitalize on that.

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One of the key things that we do at Liberty is live in a world that is being massively disrupted by the digital changes. No business, perhaps, has been as disrupted as the Media business, with new ways to consume media from – and [ph] random acts (7:40), that's device independence, mobility, Internet, satellite, tablets. New distribution models have been created, some of which we've participated with and some of which scare us.

There're traditional distribution forms that are challenged. How do they leverage their audience? What rate do they decay at? There's new content out there, which is finding ways to be exploited, but also trying to rise above the clutter. The new payment models. Social's a big factor, and the market reaction; all those. What we spend a lot of time doing is trying to figure out all of those trends, what is it going to do to some of the companies we're invested in? And what is it going to do to some of the companies we might want to invest in? And trying to sort through that alternatives, those changes, those implications, is critical to building value at Liberty Media.

And if you look, in some cases, we've just said, the digital handwriting is going to condemn these businesses. And we've made some timely sales. We've got a – On Command, we sold the business for 90% cash and 10% stock. The stock ran a little on the merger. We hedged the 10%, and the hedge ended up being worth more than the combined total of the companies. So the acquirer and On Command were worth less than our hedge. So we felt very good about getting out of the way of the freight train of Internet access that was overrunning that. Now, maybe LodgeNet will rebuild the business, but we – it's a timely sale.

OpenTV was another example where, as the world was changing, we saw that digital distribution, that digital changes were not going to be great for this. And we had a timely sale on OpenTV. And there are others.

Sometimes, our bet has been the other way. The market or elements of the market or the seller has bet that digital is going to crush the business or – at various times. And that hasn't been the only case, but they were surely some who thought lack of a high-speed data connection was going to take DIRECTV down. We saw the value of exclusive content, of focus on video, of HD, of Latin America and stuck with it; made it swap out of our News Corp. stock for DIRECTV, which was very profitable.

SiriusXM. When we invested, there were lots of fears. But among them was – and there still is out there – this looming idea that Internet radio was going to run this business over. Not our belief. Our believe is, lots of opportunities still to go.

And Starz. What is going to happen to Starz in a digital distribution world? What opportunities are created? How does that play out? We think there's lots to be done, still, and lots of positive stuff to be done.

And, in some cases, that transition, even within industries which are being chewed up, has created new opportunities. Live Nation has been a beneficiary of the fact that artists really don't have a way to make much money through the traditional album, which was sort of an artificial concept, anyway. And touring has become a much larger piece of the pie. Concert promotion, ticketing, management, the e-commerce and sponsorship opportunities that are around – that are about that have become hugely valuable. And we'd like to think we're riding that trend with our investment in Live Nation and Barnes & Noble.

Digital distribution is going to change dramatically the bookseller business – is changing the bookseller business. But Barnes & Noble has been very smart, in our judgment, about competing in the tablet space and the eReader space through the strength of its service and interplay with its physical assets – its stores – in a great way. And we'd like to think we made the right bet in somebody who's going to be able to leverage the digital distribution changes.

So one of our goals is to work through each of our businesses. What can we do to protect it? What can we do to be on the right side of these changes, or if we can't get out of them? And when we deploy new capital, we think about what we can do going forward.

Starz has had great momentum, and Chris is going to talk about it more – Chris Albrecht. Growth in subscriber accounts; good growth in OIBDA. And if you look at the OIBDA trend at Starz, this asset, which is some – maybe it was challenged in the marketplaces. Trade is what's challenged. It's risen from the mid-100s to nearly $400 last year to, analyst expectations, mid-400s this years. It's had a great growth trend. That momentum has continued, particularly at

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the channels, very strong. And we believe the future's only better with compelling, original content: Boss, Torchwood: Miracle Day, Camelot, Spartacus. And new – our original programming, our own IP coming in Spartacus: Vengeance, Magic City, the next season of Boss. To further that, we obviously did a partnership with BBC Worldwide. We've talked about for a while trying to do project Turbo, which was really off-balance sheet financing to reduce our risk and increase our opportunities around original programming. We did that with BBC, and we announced our first series, Da Vinci's Demons.

We put in new distribution agreements with Moviecity and FOX Latin America. And we stabilized Starz Media from an asset which was bleeding to one which has a lot of strategic value and is profitable for Starz. Yet, somehow, while we continue to grow subscribers, we don't get the valuation that we believe is merited. Opportunity for us, to better tell the story, but another opportunity for us to say, okay. If you're not going to give it to us, we'll take the stock in ourselves.

Switching to Sirius. That has been a tremendous investment. Even though the stock is down a bunch from its high, in the old LCAPA basis, we have $52 of share value. Obviously, because of how we issue the shares of the new LMC, it'll be less per LMC share, but still an important part of the valuation of the new LMC. We've had incredible returns there, both on the equity side but also money we pocketed from being in the bonds and the bank debt. And their guidance, we think, is very positive for 2012. And Mel has been very good at making sure his guidance is an achievable target. And we still love it.

We think there's strong consumer acceptance and demand for the product. We think that the price increase is a great opportunity. There's potential for more. They're going to leverage their content and distribution costs. They have been, and they can do more. Margins will expand. There're a bunch of innovations around the new launch of Sirius 2.0 which are fascinating and, I think, has great consumer acceptance. They're continuing to reduce their financial leverage; expect to be about three times by year-end.

The opportunity to increase the car market to grow, outside of our control, but it's sort of an upside. The opportunity in telematics. They have a great little telematics business today, already, for planes and for boats. The opportunity to do more on the car set. All that's going to lead to rising cash flow with reduced expenditures around satellites, protected by a great tax shield and the opportunity to return capital. Lots of good things that we like; our kind of business.

Live Nation. It's doing a great job executing on its strategy. The things that were outlined when we made – when we first got there, we made our incremental investment, are coming to pass. Growing international, both in the venues and promotion, and the opportunity to improve ticketing efficiency through greater investments in technology – frankly, have been underinvested in. They're doing it right now. We think there's a great opportunity under Nathan Hubbard and what Michael Rapino's going to talk about.

Realizing on the merger savings and benefits, capitalizing on e-commerce traffic, it has one of the largest e-commerce sites around. Hasn't historically capitalized on that; is capitalizing on now, and more to come. Utilizing social, driving innovations, dynamic pricing and mobile, and a great concert line-up for 2012.

Barnes & Noble, great story. Profiting from the demise of Borders. Doing much to drive the bookstore side – college bookstore side and get value, obviously, we think has a great interplay between the physical stores. the eBook service, the eReader and the tablets, and has done a really masterful job. Where many have failed in the tablet side, they've had great success. It's early, but we like what we see.

I've talked about the terms already of our investment. And some of these details, which William Lynch will go into a lot more, gained 27% of the eBook and eReader market. Realize, that's a greater share of the marketplace than they have the physical book market. So one of the few guys who's been able to take their share in physical and make it greater – and a bricks-and-mortar guy – make it greater in the e-space.

Lots of good stuff on the new tablet and lots of good stuff on the new eReader upgrade and lots of applications out there. It's a complicated story in some ways. And it's one that we're working to simplify because, like Herman Cain, Liberty is all about simplicity. So we have a 9-9-9 plan. 9 tickers, 9 original series, $9.99 for an eBook, the '90s on 9 on SiriusXM. And, if you're still inclined, you can go get this NOOK book; 999 brilliantly thought-out ways to make

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money. It's our required reading at Liberty Media.

So with that, let me turn it over to our new CFO, Chris Shean. And if you were here for the Liberty Interactive presentation, you know he was challenged to give three slides. As a test, he was so good, we're going to let him give five slides this time.

Christopher W. Shean

That's great. Thanks, Greg. So, as we announced this morning, our Starz financing just got competed. What does this do for us? Well it gives us access to $1.5 billion of capital at what we believe to be very good terms; a five-year maturity, very reasonable rates, modest covenants. So we're quite pleased with that. Look forward to applying that capital. What does it do for our balance sheet? Well if you look at this on a pro forma basis with the two tracking stocks combined, we would have cash on the balance sheet of $2.7 billion, with an additional $1 billion or roughly $1 billion of capacity under the storage credit facility. As well as have access to excess public securities, above and beyond what's already pledged in our share barrowing arrangements, of $1.1 billion.

So this gives us up to $5 billion of capital in which to do things. And obviously, as Greg has mentioned, some of the things that we may do increase our positions in some of our already-strategic investments. We may look for new, opportunistic things to invest in, much like we just did with Barnes & Noble, and take advantage of these weak markets to repurchase our stock. So we're excited about the opportunities to deploy this capital.

This is a little different view of the balance sheet, very summarized, but it depicts these strong metrics that I was just going through. I will point out that in the current liabilities are the short against-the-boxes obligation as well as the debt related to our little leveraged bond fund, both of which will be satisfied eventually with long-term assets. So that isn't as dire as one might think. So pretty strong liquidity position.

And when we look at ourselves, this is just a view of the sum-of-the-parts snapshot of our assets and what we think they could be worth compared to our trading value. And you can see that, depending on your tax assumption, we seem to be missing quite a lot of value out there from a trading perspective. And I think you're likely to see us use this fire power that we have to take advantage of this disconnect in the market.

So that's all I had. I guess with this, I will turn it over to Chris Albrecht, who's going to go in to Starz in more depth.

Chris Albrecht

[Video Presentation]

Good morning. I have to say I'm still in shock. I walked in here this morning and found out I now – I no longer have my own ticker. I mean, okay, it was a tracker ticker, but it was still a ticker and it was my ticker. And it was such a great conversation starter. I guess it's not quite as important now since I recently got married. But I have a feeling my wife knew something because I sensed she was treating me with a little less respect as I was getting ready to come over here.

I also – I want to apologize because I have a head cold, although in my head, it feels like I'm channeling Brenda Vaccaro. John and I probably are the only people here that remember Brenda Vaccaro. But actually, in truth, I lost my voice last night at dinner, shouting down Rich Greenfield, and he was sitting next to me, okay. So we're going to talk to you about Starz, which is part of Liberty Media, as I just learned.

So since meeting with you last year, our business has grown; I'm going to talk to you about that. We scaled our subscriber base levels, which are going to allow us to do a lot of things, including grow our business. And we've solidified our standing as a full-fledged player in the original programming space, which [ph] eventual (23:32) originals. We've got access – long-term access, key phrase – to some of Hollywood's finest theatricals. And we're in a great place now to refine and expand our product offering to distributors.

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I do want to tell you that timing is important. And one of the things that we are working on, the year has its end and it's nice – fits nicely into a calendar but doesn't always fit nicely into the way that things happen.

So given some of the things of the past – and we'll talk about those in little bit – one of the things that we're going to – that we are focusing on right now – we need to focus on the next few months – is continuing to restore our relationships with some of our key distributors. And we're in the process of doing that. And I'm very confident that we're on the right track. They want to do it. We want to do it. And it will get done.

At the same time, we need to renew our efforts with those distributors to hopefully continue to provide them with new products and new packaging offerings; something that we've been very successful at and very aggressive at, and something that they seem to want. And, at the same time, we're going to review all of the potential new opportunities that are out there. Every time I pick up the paper, there seems to be new people looking to enter this space in some form or another.

As I said before, we talk to every legitimate distributor for our product. And we will be prudently aggressive as we go forward and examine and review all of these opportunities. So I think that will probably impact some of the trajectory that we have going into 2012, since nothing in dealing with any of these deals is as quick as, certainly, we might like it to be. I think we're on a very good track, and we're going to talk more about that as we go forward.

So just to kind of give you a little bit of a snapshot, Starz and Encore, flagship channels, have had consistent growth in both consignment and our fixed affiliates. And that's even in this tough economic climate. I mean, you see the years at the bottom of some of those – I'm looking down here; looking up there – see the years at the bottom of some of those stacks. That's a pretty good accomplishment.

And to put it into number sakes, just go a little more on that, the five-year growth spurt, we've been able to do that on the back of a differentiated content offering. As I said before, we have a lot of flexibility in how we distribute our services. And this gives our – just core distributors a lot of options, hopefully, to utilize these things in increasingly interesting packages of advantage; us, them and the customer. And, obviously, it also gives us an opportunity with that flexibility to work with new distributors.

We heard recently – I think we talked about – a little bit about this on our call the other day – that our distributors are realizing – some of them, clearly – that they need to put more emphasis on growing the premium category. Premium category has historically been a great category for the television business. It's pulled through lot of technologies. It's helped establish a lot of distributors. It's helped grow a lot of channels. And it has a premium feel. It has a premium quality to it. And it's important that all of the premium brands work together to make sure that this very important category gets focused on by these distributors because it is a win-win.

And we're going to talk about growth and grow, we well; grow, we must. And one of the ways that we're going to get to do that is on the back of our originals. Greg showed you some of the slides. I showed you a little bit of slides, but we're going to show you a couple of clips in a couple minutes. But originals are really the key to how we're going to differentiate ourselves. When I started doing original programming in the premium category, there were four broadcast networks doing it. Now there's 40 channels, at least – I don't know – I haven't counted them – doing original programming; all of them differentiated; all of them doing – not all of them, but a lot of them doing a really good job. And many of them spending real money on getting those shows on the air.

And for Starz, it's very important that in our category and just in television, in general, we differentiate ourselves because that is the way our brand becomes something that gets to the on the top of the mind of the distributors, subscribers and potential subscribers.

So originals has clearly become one of the best ways to do that. We're scaling up to 50 hours a week. It's a number that we plan to stay at. We have got a lot of theatrical movies, which we'll talk about in a second – 50 hours of high quality – I'll talk about – a little bit more about what our brand is in another slide – is where we think the number needs to be. We plan to get there by 2014. Obviously, in this fractured media environment, these are the things that say the most about who we are. And we're putting a lot of time and effort into that. And we'll talk about how we're going to get to fund those.

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What this also does is it gives us the opportunity to retain rights. Opportunistically, it gives us the opportunity to retain downstream rights, which works with some of our other Starz' companies, which allows us to expand our brand to potential distributors through DVDs, get into relationships with companies outside of the U.S. And there's a very good forward-looking way for us to find new ways to grow our business.

We get to monetize these rights when we retain them, and we have a portfolio of how we do these, through Anchor Bay, through Starz Worldwide Distribution and through Starz Digital. So these are obviously very important assets, and something that we are concentrating on and is at the forefront of – one of the major reasons why we think we have such a good growth story ahead.

To talk a little bit about the ethos of our original programming, here we've got basic cable channels out there spending $2.5 million, $3 million an hour. And you've got – you got other pay channels doing everything, doing very a specific thing. We need to work quickly, and we need to work specifically. And the direction that we're going is to create original programming that has a kind of theatrical experience and scope. Things that seen like they're going to fit in the middle of the big picture in movies: the big Disney movies; the big Marvel movies; a lot of the big movies that come from Sony.

Things that are going to feel different; that are going to feel different just as soon as they pop on your TV screen. That's going to take money – again, we'll talk about that. One of the things that I hope that they will be is entertaining in the world and on television. There's lots of things called entertainment. I'm not sure a lot of them are entertaining. And this is something that we plan to instill in our shows. Larger than life. There's so much reality television on. There's much 24-hour news. There's so many blogs that we can read about what's going on in the world. Larger than life is something that's kind of classic in storytelling. It's one of the things that brings people back to great stories. And I think it's one of the hallmarks of the American entertainment business from the beginning. It's just those great, iconic characters that you want to follow through and watch over and over again.

And, also, we think that the shows need to have broad appeal. Obviously, appeal in a pay television audience; it's great to have teenagers watching the show. They can talk to their friends, but they're not pay TV customers. They're usually figuring out a way to look at something for free on their computer.

The audience that we go for is probably 25 and above. The economy is in a very interesting place right now. There's obviously people, like a lot of us or probably all of us in the room who can afford the video stack. There's lots of people that are challenged in their ability to keep all of their programming in their home, on their budget. We think programming with broad appeal is good for our brand, fits with the theatricals that we're licensing on a long-term basis and will be ones that will make the Starz brand that much more valuable to the subscribers.

So with that, let's take a look at some of the [indiscernible] (33:02) because it's always fun to watch a couple of clips. First one up is Boss. Show premiered in September. Hopefully, some of you have seen it. It was one of those things where it's really not on the brand that I think we will eventually get to. But I kind of had a throw-back to what I learned in looking at TV shows. And I read this script and I just thought, this is a really great script. And I sat with this guy, and he really knew what he wanted to talk about. This is a show that's not about politics, but it's set in the world of politics. But it is not about policy.

Kelsey has such a take on it. Farad has had had such a take on where he wanted to go that I thought, you know what? Let's – and there were other networks chasing it – but it's time for Starz to show that we're a real player. Let's step up. Let's give a series order. Let's put this thing on the air. I knew it deserved critical acclaim. It has gotten a lot of critical acclaim. It's attracted terrific talent. Gus Van Sant, who I have the pleasure of working with two films on in a previous job I had, is a classic, independent-minded filmmaker. He's brought such a great look to this.

When we launched it, we had record interest from our affiliates to sample the first episode. We've had strong, overall performance; over 4 million views on the first episode. And there's still plenty of on-demand watching numbers that'll still come in. And, as probably many of you know, we're proud to have already renewed it for a second season. For those of you who have seen it, for those of you who haven't, here's a little clip of Boss.

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[Video Presentation]

I got to tell you that, in my opinion, I've had an opportunity to be associated with a lot of terrific shows. Kelsey Grammer is as good in this as anybody has ever been in anything that I've been associated with. And when people say, why'd you pick it up? Why'd you pick it up? You know what one of the simple reasons is? When I finally read the last episode, I thought, I want to know what happens next season. So I'm hoping that you'll get a chance to look at the show, and we're very proud of it.

Next one we want to talk to you about is our most successful worldwide franchise Spartacus. The second season premieres in January. As many of you know, Spartacus had a really unusual story. We premiered the first season. Now that our star, Andy Whitfield, was ill, hoping for his recovery, we did a prequel, try to keep it alive. As most of you probably know, Andy was not able to recover. And so we made a decision that is unprecedented, as far as I know, to replace the title character – not just the lead character – the title character – in a successful series.

And, fortunately for us – and I'm sure it'll be fortunate for him, we chose a guy in Liam McIntyre, who is terrific in the role. We retain all the intellectual property on Spartacus, which means we get to sell it all around the world. And whatever happens here in the U.S. after its run on of Starz. We've already ordered a third season. And one of the side benefits of being involved with a lot of these series is that you establish a relationship with talent. Steven DeKnight, Executive Producer of Spartacus, is a huge talent. We've made it exclusive two-year deal with him. And the show that he's now creating for us is going to be really difficult to execute. But if we get it right, it's going to be a terrific show. Let's take a look at Spartacus: Vengeance.

[Video Presentation]

You know, this show has expanded a lot from a production point of view. This season, you see horses. And just for fun, it's sometimes important to remind people that this show is shot completely inside a warehouse in New Zealand. And these guys do a fantastic job. They're getting better every year. I can't wait to see what they're going to do with Spartacus Season 3. And I love parts of this look for the overall Starz brand. And all the things that we're talking about have some of this. I don't mean the glory and the violence, but some of this – this is the way they make theatrical movies now. They're making movies inside sound stages.

When you're looking at Batman and you're looking at Superman and you're looking at these shows, yeah. They'll do some stuff, occasionally, outside. But they're making stuff inside. And, as we look to some of the big franchises, Da Vinci and things like that, Da Vinci, which will not be at all this – and it would be the historical story of Leonardo in historical story. But the magical realism, which is a term that we've coined for what the show will actually look like from a creative point of view, it's just so exciting what's going on in the production space.

And I do think our premium television, these higher budgets – you just can't see this kind of stuff on television anywhere else. And there's great storytelling. But we can elevate the production levels to this and really be able to provide the assets for – the great artists whose faces don't appear on stage, you really have a chance to get something great. Anyway, that's my $0.02.

Magic City, again, a fantastic script when I read it; written by Mitch Glazer. It's set in the '50s in a hotel in Miami Beach, much like the Fountain Blue. It's not Mad Men meet Sopranos. It could be Casino meets Godfather. That might be hoping for a lot. But I think in terms of what the show's about, that, for me, is more. Says right here in front of me, it's stylish, and it certainly is, as you'll see from this clip. Jeffrey Dean Morgan, Olga Kurylenko, Danny Huston are just three members of a fantastic cast.

We ordered eight episodes. We're not doing pilots, as I said; they're real expensive. We just sort of taking the lead, learning as we go. We think eight episodes – we actually had originally ordered 10, cut down. I think in a world of short gangplanks, eight episodes is about the right number for a first season. As well as with Spartacus, on Magic City, we retain all intellectual property rights. And we'll be leveraging those around the world. Here's a clip of Magic City.

[Video Presentation]

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The lobby of that hotel, all that under-water – that bar under water, all those things, all on a set we built in an old boat manufacturing plant in Miami. Largest set ever built in the State of Florida. We actually ran out of plywood and then, of course, had the worst season for rain in a long time in Florida. But it is a show I'm very excited that – to be involved in it. And I can't wait for you all to take a look at it.

Obviously, this stuff costs money. We always get asked on our calls, how you're going to fund this? Are you guys going to go over, or is there going to be big increases to get more money? What are you going to do with it? So let's talk about that, okay?

We've diversified the funding of our original programming in a few ways. One of the things that we haven't talked about before but I think it's important to mention now is, we have these long-term movie deals. But the reason that they're so long is because there's actually, the end of old deals is the beginning of new. And starting next year, we have decreased cost in our movie output deals; decreased because of the amount of money we're paying for the movies, and also decreased by the amount of output that the studios are providing us with. So that money is money that will be reinvested in original programming, shifted from the theatrical studio deals. What we've also done is go out, as Greg mentioned, to find a partner to share the funding to offload the risk. We chose BBC Worldwide for a lot of reasons. They're a terrific company. They're an A-List international distributor. They're a fantastic production company.

When Jane Tranter was at BBC, I got to work with her a lot. She's a sensational executive. We already did Torchwood with them. They're doing Da Vinci's Demons.

We're keeping, in our deal with them, English speaking, home video, Canada, which allows us to use Anchor Bay to continue to keep track and manage our brand in the place that obviously means the most to us right now, which is the U.S. And it also provides us with one partner to deal with who we've offloaded our rights to so that, there hopefully are other opportunities for these rights in the future, and to be able to deal with BBC Worldwide. They're also a terrific company, and I would certainly not be surprised to see other forms of alliances or partnerships come out of this relationship.

And then, we financed some things ourselves, like we do with Spartacus and like we do with Magic City and like we'll do with some shows because we want to retain those rights. Extend the brand leverage and utilize the platforms that we've built; Anchor Bay, Starz Worldwide, and also because it is the way that you start to establish your brand overseas. And we need to have an international strategy, and the first way that you do that is to have your own product that you're selling to end users around the world. And there's a great market for a premium television product. And so we want to make sure that we retain the rights to those.

And then, as in the case with Boss, the age-old, most traditional way, when it makes sense, is just get a license from a third party; in this case, Lionsgate. We don't have many rights. Very inexpensive way for us to buy the show. And for all of these ways, re-purposing preexisting money that was allocated for programming spend, along with the portfolio approach of fully funding, partnering or licensing; that is how we're going to manage this. And just to be very direct, 50 hours is where we're going. We're going to be able to do this without significantly increasing our overall programming spend.

If there are tremendous opportunities downstream where, all of a sudden, we see great top line growth, we'll, of course, look at how we allocate that – those funds. And we think original programming is one of the first places that we would look. But, for the time being, I certainly didn't come to make here to make original programming. I came here to try to make Starz as successful as well as can. And we have our eye very focused on that.

The bedrock of premium television, unless you're Showtime, is still theatrical movies. HBO has more studios than anybody; Showtime has none; Starz is right there, hammocked in what we think is a great place. It's a great place because of the two studios we have, and it's a great place for – because of how long we have the exclusive theatrical supply. We got the Disney movies to 2016; we got the Sony movies through 2017. That's a long time. And everybody keeps talking about, are we going to be able to continue these relationships? Well, first of all, Starz has had these relations for a long time. I've had these relationships for a long time. Greg and John have had these relationships for a long time.

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Pay TV checks are good checks. They clear the bank. They're really good. If you're a studio and you got other problems, the DVD world; you're still trying to figure out digital. It's really nice to know that, that window is taken care of. And we talk to these partners all the time. There's not a deal that gets made one year, and six years later you're back there talking to them again. There're adjustments that have to be made in these deals all the time because there are things that happen that both of us have to respond to.

So going forward, original theatrical product – first-run theatrical product – will be a part of Starz' lineup. Whether we're one studio or two studios, I don't know, but I'm real confident that the amount of first-run theatricals that Starz is going to need to be a real growth player in our space, which is expanding all the time, is something that is very, very, very achievable. I have no doubt of that. And on top of the long-term output deals, we're also one of the top five purchasers of library content from all the major and minor studios. all the independent studios, some personal friends. And what that allows us to do is create a lot of depth and diversity to all of our channels and services.

So let's talk about IP. Some of you may have heard of it. As we said here last year, I think almost for the first time, it was something that was the answer to a question. Our guiding principle is, Wholesale Pricing & Packaging consistency. This is not just about how much someone pays, which is obviously what we can control, is the wholesale price. What we also can control is what tier – what package we allow these distributors to put us in.

And let me – well, the rights that we have, the flexible rights that we have with our movies, put us in a great position to calibrate and to help promote opportunities with our traditional MVPD customers. And they're looking at ways to compete; they're looking at way to grow their business. And they're always coming back to us. And, like I said, these long-term, flexible rights that we have allow us to leverage our existing products and to create new products. And then, of course, there's OVD. So let me talk for a second about the Netflix decision because it was literally, as you can imagine, a large part of the conversation last night.

Starz made the absolute right choice for its medium and long-term success with the decision to not renew with Netflix. This was not a money issue; this was a pricing and packaging issue. But I can tell you that, had we made Netflix deal, here are some of the things that would happened immediately: The cost of movies would have gone up. We would have eroded quickly and in big chunks our core business, which we have shown grows and which we are certain will continue to grow.

And we would have made it almost impossible for anyone else to come into this space because one else would have been able to follow into that space with that model. And I firmly believe that there is a business that other people will follow into. I mean appropriate distributors come along, and we are talking to everybody. And there are people that – we have – we are in very active discussions. And we're going to align this up the right way, and I'm not saying we're going to close any deals. But all of these things are possible because of the decision that we made on Netflix.

Within two or three years, the Netflix deal would have been a drag on Starz' earnings. And I think it's just really important to state that we made that choice; it with a big-boy choice; it was a grown-up choice. And every day, I'm more certain – and I think Greg and John are as well – all of us at Starz – Bill Myers – that we made the right choice. I have tremendous respect for those guys; wish them well. They have their business model, and it just did not line up with ours.

One of the things that has become really clear to us – and I'm sure to you as you look forward – is the idea of having your own authenticated platform. And so guess this is in a form of a kind of announcement. In 2012, Starz will be launching its own authenticated platform, and that will have tremendous use in making our service more available to our subscribers in more places, reducing churn, certainly. hoping – hopefully, getting us in front of younger eyeballs and making our product as compelling as anything is in the premium space.

So lot of growth comes from – all growth comes from new distribution; distribution of our channels, distribution of our original programming. And the real robust growth is going to come from new distribution opportunity. So we have a little lift that – sort of the categories of those opportunities and how Starz lines up against them. But first, it's something we've talked about already; it's just affordable, flexible and bundling with our core distributors. Starz has a tremendous amount of products. Comcast has every one that we offer, and – this is not a secret – they would like more. We have

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these great rights. We've established ourselves as a company who's willing to be flexible. There is a lot more business to do, as we need to make this product more affordable; bundle in ways that are not just keeping the subscribers but going to be able to attract new ones. As I just said, there's TV everyone, authenticated play; extremely important to reduce churn; extremely important in our relationships with our distributors. Again, gives us a lot of flexibility in how we can take advantage of opportunities that are out there.

Out-of-footprint MVPD offerings. Lot of chat about it. We have the rights. We are willing to engage in the conversations. Someone will do it. And Starz is positioned to take advantage of that, should it be the right and appropriate situation, take into account our premium pricing, premium packaging; take into account our relationship with our core distributors. All the things that we need to do to protect our business while we're growing it.

HSD-only premium packages. This is an idea that we love. Like I said before, most of us in the room probably have the whole stack. Hopefully, we're not in danger of not being able to afford that stack. But if people are threatened economically and they want to keep their television from their MVPD provider, the first thing that pops up off the top is premium television. But maybe they decide to, you know what? To like cancel their whole package because what they really wanted was movies. And the only place they can go get movies is you know who.

If we were able to create packages where premium television is on top of high speed, we would be able to keep people in the category. We'd be able to bring new people in the category. There are millions – millions – not 2 or 3 million – millions of high-speed subscribers who do not get a video package from their high-speed provider. And if they're looking for video, they're going outside of their provider's company.

So, again, a lot of talk about it. We're all for it. I think this is a great opportunity for the industry. The operators always talk about how this is their highest-margin business. I think this is a great way to cement it in for them and build a new subscriber potential for us. And then, of course, there's the old OVD products. And as I've talked about before, every day, you read about someone new who's coming into the space in some way, whether it's Xbox or PlayStation or whether it's Amazon or whether it's Hulu or ones that have called me that I haven't seen press releases about.

And we are – we've already proved that we're willing to operate in that space. We have guidelines now that we think are defendable, are respectful and make sense for our short- and long-term – and our long-term gain. And those are the things that we're going to be guided for. So across where we think the new opportunities lie, Starz checks off in every category.

And then something that we don't talk a lot – not a big part of our business but important strategically – Starz is a TV content studio. As I said, it allows us to monetize our originals through Anchor Bay, Starz Worldwide, Digital. And not as high-margin business, but is something that helps us to leverage the platform, the infrastructure that we already have in Anchor Bay. We've also gone off and made deals to distribute third-party product, most notably, the Weinstein product through Anchor Bay, and the very successful launch of AMC's Walking Dead through Anchor Bay.

We're going to continue to look for more of those things because we have lot more capacity on that platform. And Bill Myers, who's here in the room, and Gene George and Bill Clark are actively out there looking for quality product. And they're doing a terrific job on both the Weinstein movies and on Walking Dead. I know AMC's very pleased with the job that they've done. And all this works to not just help those companies, but gives us a great portfolio when we're walking into Walmart or Best Buy or whoever. And the boxed sets of premium television – the season series – are holding up better than anything else in the DVD space.

So 2012, our focus. Next wave of originals; very excited about that. Improve our positioning with our core distributors. Explore new opportunities with existing and potential distributors and, of course, maintain that financial discipline, as you've come to expect, from Liberty and from Starz. And now I've learned it, too.

And with that, I will turn it over to Mel. Fantastic. Always wanted to do that. Thank you.

Courtnee Chun Ulrich

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Thanks, Chris. Next up is Mel Karmazin, CEO of SiriusXM.

Mel Karmazin

Hi, everybody. Good afternoon. John, Greg, thanks for giving me the opportunity to be here and to present to you – this goes. Okay. So a few of these dates, okay, because I think it's important to take a look at where we are today in the context of what has been going on. So streaming is getting talked about an awful lot, appropriately, but it's been around from the days when I was in terrestrial radio in 1994. So it's really not new; SiriusXM has built up its company to where it is today, competing with streaming.

We also – so we began our service in 2001. We got our first subscriber in 2001. Interestingly, iPods were created and started being sold in 2001. So – and the iPod is the quintessential product for personalization. Every song that you have on your iPod you have put there; either you bought it or you put it there some other way, but it's stuff that you wanted to hear. And again, since – in the last 10 years or so, we've built up our company, competing with the iPod. And the only thing that's also equally important was that in 2005, they started to install the connectivity with the car. So that you can very easily bring your iPod into the car, plug it in and you can get this great content that's coming through your speakers and navigating that way. And, again, that's been around for that long.

And the other dates that I wanted to highlight is this year, where there are going to be over 90 million smartphones in the United States. And what we look upon that as a terrific opportunity for us because, obviously, we believe most of our subscribers also have a smartphone. So it gives us an opportunity to bring our content to more and more people that way.

Talk a little bit about the industry that we're in. Spent a lot of time with the Department of Justice and the FCC, talking about how competitive the business is that we are in because if, in fact, the premise was that we were in the satellite radio business, then there's no way that the government would have said that two companies becoming one is a good thing.

So we're competing in the terrestrial radio business. If you look at it to where it was 10 years ago, the whole radio business was just terrestrial radio. There was no revenues being generated by satellite radio. We hadn't gotten our first subscriber, nor was there really any revenue coming from the streaming side.

Looking at 2010, you'll see that terrestrial radio is still the 600-pound gorilla. There's over 90% of all of the people in the United States are still listening to terrestrial radio in the course of a week; that they have $15 billion. Aggregate all of the streaming; there's hundreds of companies that are streaming, the largest probably being Pandora, and they're generating less than $1 billion. And in 2010, we generated $2.8 billion. And we have 15% of the total audio/radio pie.

That 15% is going to be growing in the years ahead. That 5% on IP is going to be growing in the years ahead. And the 80% is going to drop. And that's not a shot at them. That's just a function that there's just a lot more competition than there used to be and they're not able to demonstrate an ability to show great top line revenue growth.

These are the three largest companies that are in each of those spaces. Pandora started in 2000. Clear Channel, in 2012, will celebrate its 40th anniversary from the time they got their first listener from a radio station in San Antonio to where today they have 110 million people who are listening to the Clear Channel radio stations in the course of a week. We have come to where we are slightly bigger than they are – both numbers round to $3 billion, but we have a little bit more – and we're growing a whole lot faster. So, again, long terms these companies have been around. We've been around for 10 years, and it's really quite dramatic as to how we've increased our revenue to be the largest company today in the radio, worldwide.

The other thing is that those companies have chosen an advertising model, principally. Our business model is a subscription model. So if you look at Pandora, most of the revenue that Pandora is generating today is coming from advertising, which is the same thing as most of the revenue that Clear Channel is. So Pandora sounds an awful lot like Clear Channel from a business model point of view, though, obviously, the personalization and bandwidth and stuff makes it better.

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So what we've done is we've taken the number of their active user – this isn't the total number of people who have ever tried it. These are the number of people who used Pandora in the last month. And we related it to the revenue that they generated last year. Or, in this case, we're using consensus estimates for this year. And when you get to $5.80 per year is how they monetize their listeners, their users.

In the case of Clear Channel, I mention that they have 110 million people who listen every week. They generate $3 billion, and the average revenue per listener, per year is a little over $12. We're in the subscription business. We have these $2.8 billion of revenue. We have an ARPU that's around $11 or $12 a month, and we're generating $138. So when we talk to talent, when we talk to the music industry, when you have to pick between where you want to go – do you want to go the IP world, do you want to go to the terrestrial radio world, or do you want to go the satellite radio world, we have a tremendous advantage in our ability to pay for content, to be able to keep spending money and investing in content and creating the best radio that ever has existed.

So paying customers. I believe that if, in fact, you were to aggregate all of the companies in the world that are paying for radio, we would still have more subscribers than all of them together. And it's a position that we feel very strongly about. 98% of our revenues are subscription revenues. We have a second revenue stream in advertising that continues to grow. It's a good business. It's a very profitable business. But, again, we're not going to do anything to jeopardize our subscription business because it is so strong.

We had a terrific third quarter. We increased our penetration rate. Penetration rate is the percentage of the vehicles that are made for sale in the United States that contain factory-installed radio. We think we're at the sweet spot now. We don't want to be in 100% of all the cars made. We don't want to be in police cars. We don't want to be in fleets where they're not going to be converting to paying subscribers. We don't want to be in rental cars, unless they're coming to us to get the rental fee. And we have deals with Hertz and Avis. We don't want to be in hearses. So that the 65% – I think it was 67% in the last month was a high.

We have been constrained for the cost of the FCC order of ramping our application, which says that we could not raise our basic price for three years. So we're very pleased that we've managed to grow our revenue with that constraint by 7%. And, obviously, controlled operating expenses and generated a 17% growth rate in EBITDA and had margin expansion. We've announced that in January, we are going to be increasing our base rate. We are going from $12.95 to $13.49 – $14.49. And what we have done in this period of time is we have spent a good deal of time communicating to our subscribers – we've seen what happened when you don't do it the right way. And, again, we think that the reaction has been understandable.

We have not had a price increase for 10 years at Sirius, and we have expanded our content. And we believe that subscribers will react as positively as they can to a price increase, since it is really – amount to about $0.05 a day. But we really had a terrific third quarter.

What drives our business is our content. If you take a look at Los Angeles radio, which is the biggest radio revenue market, or New York radio, any one company can have up to eight radio stations. We have 135 channels in every single market in the country for people to be able to hear. About half of our content is music, and the other half of our content are the non-music content. We invest a great deal in our content. We have the best radio – on radio in New York City. There are no country music radio stations at all on terrestrial radio – we have five country music stations that are available.

So our content continues to drive it. Our business model allows us to continue to invest in it. We've managed to continue to keep, since the merger, all of the content. There was not one major or minor piece of content that we have lost since the merger, even though the economics have become the market when there's one satellite radio company as compared to the market when they were two satellite radio companies.

We are very pleased and very proud that we are expanding with SiriusXM 2.0. The basic idea of 2.0 and the way you should think about it, particularly in the cars, is that we're going to be using a combination of satellite and IP. And that combination of satellite and IP is going to give us tremendous advantages. There is one car company that has agreed that, starting in model year 2013, which means starting next year, that they are going to roll out 2.0 into the vehicle.

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And every single car company that we have met with has been interested in doing that.

And what 2.0 really means for the consumer is a whole lot more programming, a whole lot more choices than they've had before and a great deal more of functionality. So if you think about what the cable and satellite television people are doing with functionality and how that has helped their stickiness in building it, that we have that same opportunity in satellite radio.

Looking at the subscription business, we're pretty substantial. Again, 10 years of operation, and we have over 21 million subscribers and growing. And it's only Comcast and Netflix that have more subscribers than we are. And, again, our growth rate is continuing quite dramatically.

Churn. Anybody that follows the subscription business, single most important metric, in my opinion, is how well you're doing keeping your subscribers. It's a lot cheaper to be able to keep your subscriber than it is to have the sack connected with adding it. And our churn has been quite good. If you take other products where the consumers really love the product and these are quality products, in the pay TV numbers, the numbers that we have are that it's between 4% and 5%.

Netflix has experienced some difficulty lately. But if you take the churn at Netflix before they announced the changes that they were doing, it was about 4%. So our 1.9% compared to DIRECTV and DISH and other people, we think, is an indication of how strong people feel about our product.

I mentioned this penetration rate. It takes a long time to get into all of these vehicles. The car companies work three years in advance. So if you look at the penetration rate that we had over these years and factor in that we pay the car companies to put satellite radio in the car, our business model includes revenue share to them. It took a long time to go from 20%, okay, to where we are today. So there's an awful lot of talk about – there was a story in today's New York Times about [indiscernible] (1:12:14) doing a rollout with BMW. Before any of these companies get to where they have any meaningful penetration in the cars, it's going to be many years from now.

I believe that if you were to think about what's going to happen in the next five years or just talk about five years from now, there's still going to be – every car company is still going to put an AM radio in the car, all right, in spite what has gone on technologically. So there'll be the AM radio in the car; there'll be the FM radio in the car; there'll be the satellite radio in the car. And there'll be the ability to pick up the assortment of Internet companies that are there. Don't know where Google is going to be; don't know where Amazon's going to be; don't know where the Pandoras – I mean, there's a lot of companies out there.

And a lot of these car companies are putting in apps that they can switch. So that if, in fact, somebody is making a decision for company X and the new, pretty girl on the block is company Y, they'll have the ability to switch. But this penetration level is very important and very significant. So that means that today, we have over 40 million vehicles that are on the road today that have satellite radio. Obviously, some of the people haven't subscribed, right, in that conversion rate, and some have churned. So that presents a terrific opportunity. And that 40 million grows to 75 million in 2015.

How we decide to monetize that, to be determined. But the one thing we do know is that the used car market is a great opportunity. And the more vehicles that are produced today that will be sold in four or five years from now that will find their way into the used car market presents an opportunity for us to get new subscribers. And we have deals with every one of the certified, pre-owned companies, every one of the major franchise dealers, for us to offer a three-month trial. We buy your vehicle. It comes with a three-month trial. We market you, and then we try to convert you into self-pay subscriber.

The early indications on conversion in the used car market is very gratifying. So where our conversion, you should think about, is 45% to 46% would be our normal conversion rate in new cars, our normal conversion rate right now in the used cars are in the mid- to high-30s. So that looks and that models really good for us.

There's also the opportunity for us, if we wanted to – and I get asked this question all the time – is, we can light up these radios. So we have all of these radios where somebody's not subscribing. And we can light them up, and we could

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put a service on that's a commercial service available throughout the United States. Let's assume we wanted to, tomorrow, have 10 or 15 radio stations that would be free, supported by advertising, that would be on every – all of these cars everywhere in the United States. Remember, the other guys only can have up to eight radio stations.

So there's all kinds of business opportunities that – having that out there, and the sack is done because those radios are already in the car. So our number of subscribers grow – I don't think I can go back, but let me just tell you the point that I'd like to make is, if you took a look at what happened to our business in 2009, when this 2008 finical crisis happened, we lost 200,000 subscribers; that we did not get a big hit. The good news about that is the fact that there will be other recessions in this country. And we saw how well our company has performed during that recession period. And the slide on the screen now shows about what our revenue was in this very difficult time.

So we feel very good about it. Our revenue will accelerate next year because of the price increase and our subscriber growth as well. The full rollout of our price increase will not take place until – into 2012 and 2013, so that's a couple good years of that. So this is sort of like, if we would have come to you and showed you a business model that says, here's what we think is going to happen, you'll say that – yeah – no way.

Well, in fact, that is the model that we showed to Liberty Media when we talked to Greg and John about making their investment in us. This is dramatic. There was a never a question that once the merger took place that we were going to have a very, very profitable business. Unfortunately, there was the liquidity issue and the Lehman thing that stood in the way, but our business model is absolutely delivering. And that's going to continue to deliver beyond where it is today. But that's extraordinary.

And more importantly for me, the most important metric – and I see a lot of familiar faces in the room that I've known for many years, it's the same message, right. Bill Clinton got elected. It's, the economy's stupid. And I said, it's the free cash flow is stupid. And we've been – we went from $552 million of negative free cash flow to. next year, we're going to have $700 million of free cash flow. And that metric is extraordinary. That free cash flow is growing dramatically, and that's what I believe it's all about. So we – our balance sheet as well.

So one of the reasons that John Malone is such a big fan of big government is that big government really screwed us by having our merger take 17 months to complete because had the government approved our merger in, let's say, a year, how long does it take? You got two satellite radio companies. Do you want one or you don't? We think that, that decision could conceivably be made in a year. But because of the fact that it took so long, we wound up having to deal with the Lehman issue; had to deal with financing. We had to refinance the $530 million worth of debt.

Warren Buffet is lending money to Goldman Sachs at 10% plus warrant. Warren Buffet is lending money to GE at 10%. What would we be able to borrow money at? Well, that's what it cost. It cost us 15% and warrants in the company. In about three months after we got the money, we prepaid with Liberty, we paid off that debt. We have also managed to pay off a lot of other debt. Our bonds today are trading. Those bonds that we did most recently are now trading with a handle of 6%. Bankers have told us that if we wanted to go into the market today, we could borrow money in this area of 6%.

We have gotten six rating agency upgrades from S&P since the time we merged the company and we got this financing. We are two notches below investment grade. We have no desire as a company to run the company to be an investment-grade company. We may get there, just naturally, because of the amount of cash we're generating. But the fact is that our business is really looking good, and our balance sheet is another thing that's going to come into play and be an advantage to us.

We've said publicly that the leverage that we're comfortable with is somewhere around three times total debt to EBITDA. And that's a area that we will very clearly accomplish in 2012. Again, we believe that taking – having a certain amount of debt is a great advantage to our shareholders. And that is our current thinking, and that will probably be our thinking next year. We will have a board discussion as to what we should do because we're generating so much free cash flow and because of the fact that our business appears to be very predictable, that there's an opportunity for us to think about what we'd do with it.

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And what you do with the free cash flow is like you decide to pay down your debt, [ph] well, we've (1:20:59) at this three times. Or you could sit there and pay a dividend. You could sit there, you could make an acquisition. You could buy back your stock. And, again, if there ever was an acquisition that we believe was accretive, that was in our core competency and we would generate more free cash flow with it, we would absolutely consider that.

Those things are very, very hard to find. So the more likely scenario is that when we get to this three times is that we will certainly consider returning capital to shareholders in some way that makes a whole lot of sense, tax-wise, for them.

Our strength is that we have the satellite delivery system; that our network is perfect to 99.9%. We like our delivery better than over the 3G. I still get calls dropped. I'm not sure that my experience is so good. That will improve. But the fact that we have this interface in the car and the fact that we have this 99.9% penetration is an advantage. And in 2.0, when you combine that with certain aspects of IP, it really works. The 135 channels of content, we're constantly torn on what to put on them. There's so much good content that we could be doing. And we think that we have, again, the best content in radio.

Our OEM agreements are advantages. Prior to the merger, somebody might say, gee, that's a disadvantage because some of these were very costly. But, again, we rationalized – after the merger the same way as we rationalized our programming expense, we rationalize our OEM expense. And those two today are important assets. And many of our deals include revenue share. And we like that idea because the car companies are working with us on getting the extensions, getting the renewals and also dealing with the used car aspect.

We have a great asset, that these companies didn't start cheaply. Before we started making money, we've lost $8 billion. And now – so it sucked then. But, on the other hand, now that we're here, we now have this $8 billion to use to shelter a whole lot of the money that we're going to making in the future. And that's a great advantage. We talked about the subscription model. And the fact that we're a pure-play company that's focused, I think, is a real asset. I know that, that story is very easy to understand, and we like that story.

And the last slide I have – and I'll get out of the way – is this is what's going to happen. You're going to see subscriber growth from our company. You're going to see revenue growth from our company. You're going to see our interest expense dropping. You're going to see the benefits of the NOL. And I think you're then going to see this free cash flow.

I think that the free cash flow is, again, the most important message. I think it's the absolute amount of the free cash flow. It's the growth rate of the free cash flow, and it's what management does with the free cash flow that's important. And I think that our investors are going to be very, very pleased with it.

So we're feeling very good about the rest of the year. We announced what we thought – what our subscriber number would be by year end. And we said that would be 1.6 million, up from 1.4 million. We're on target for that number. The fourth quarter. for – subscriber additions are going to be the highest fourth quarter in the – since the merger took place.

So our business is very good, it's very strong and we're looking forward to a very strong 2012. And thank you very much for your time. And I will turn it over to – there we go. Leave that there?

Courtnee Chun Ulrich

Yes, you can leave it up there. Thanks, Mel. Next, we have William Lynch, Barnes & Noble's CEO.

William J. Lynch, Jr.

First of all, I'd like to thank Liberty, John, Greg, Mark, the rest of the group for having us here today. Obviously, I think we're one of the more, if not, the most recent addition in their portfolio. I'm going to focus less today on financials and more on strategy because I think we haven't gone out, necessarily, recently, and articulated our strategy. But I'll tell you a little bit about what we're focused on and our priorities today.

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So, really, our strategy is based on three key pillars. We went out on an investor day two years ago when I first took over and Len, myself, a few of the others were talking about what we wanted to do. And at that point, the investment thesis for Barnes & Noble was really this stable, legendary, specialty retail business paying a big dividend. But we saw this historic opportunity that was coming and emerging in digital content. And what we said was, this business that is great business, mature, stable cash flows, paying huge dividends; we're actually going to invest more and chase what we see as an opportunity with eBooks, digital newsstand and other forms of digital content and turn us into a growth company.

So I'll give you a little preview on how we've done. But it's really based on what's going on with eBooks and the newsstand market. [ph] Verona Schuller (1:26:36) just came out with a projection that says, eBooks in the U.S., alone will be $7 billion by 2015. They were $1 billion last year, to give you some sense. So you're talking about a CAGR for the next four years of over 100%.

We launched our eBook store in August of '09. There were a lot of questions about whether we could compete in this technology area. No one has grown share faster in this exploding and meteoric eBook market than Barnes & Noble. We currently have 27% share in eBooks, and that's primarily due to because of what we've done with NOOK.

Second plank in our strategy is to gain share of the physical book business. While that business will contract as eBooks and digital grow, it still is a very large business in the U.S. It's projected to be $14 billion in 2015. Our biggest competitor in the bookstore chain area, Borders, went out this year. I'll tell you a little more about that. But we've also seen other non-book retailers that sell lots of books, the mass merchants, Walmarts, et cetera of the world, pulling back. So we expect and are gaining significant share in this retail area.

And the last thing we said we were going to do is we were going to expand into other categories. We have some of the most valuable customers coming through our stores every single day; in fact, tens of millions a month. These are high-income customers. Many of them are readers. A lot of them are parents. So we looked at, what are the other types of merchandise we could sell them? So I'm going to tell you about our progress there, particularly in toys and games.

Let's start first with eBook area. So what have we done to monetize content? This eBook business for us has been explosive. It's been the fastest growing part of our business. I said it'll be $7 billion by 2015. If you look at what we've done and how this has grown, it's on a 200% year-on-year growth rate. No company has gained share faster in this area than Barnes & Noble.

The other area, which is just now emerging is digital newsstand. If you look, eBooks, clearly, has gotten a lot of press. But the next big area of content that you'll see accelerate in digital will be newsstand, primarily because it's been too expensive for these publishers to produce their workflows, quality digital publication. I don't know if some of you have seen the first Wired magazine, which was touted as the future of the magazine. That cost $225,000 for that issue to produce. Obviously, that's not scalable when you're a People Magazine and producing every week.

The publishers have gotten their workflows down and now it costs, on average, $15,000 per issue to put out a digital magazine. So what we're seeing is this explosion of content, but we are also seeing a proliferation of mobile tablets that are optimizing around digital newsstand, NOOK Color being the first that did it. So we've got the – NOOK has the number one share of digital newsstand to date. And we see this just growing with the explosion of more content and more devices out there.

Next is apps. Pardon me. I'm just getting over a cold. Next is apps. And with our apps business, we launched this in March of this year and, literally, overnight, it became a $10 million business for us on agency margins, which are 30% fixed margins. And this is one of our fastest growing business. You might recognize this first – this'll give you an illustration of how fast this area is growing. This first icon is Angry Birds. If you don't play it, your wives, husbands or children do. Angry Birds is founded by a gentleman named [ph] Peter Kay (1:30:21), who is a friend, the Mighty Eagle, and they will sell $550 million downloads of Angry Birds worldwide this year, making it a bigger brand than Coke and this was a brand that did not exist two years ago. So this is an explosive area for us.

And then lastly, this area of PubIt!. Let me explain what PubIt! is. Traditionally, for – thank you very much. Traditionally, if an author wanted to get their book published, they had to hire an agent and funnel through, find a

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publisher and then go through traditional distribution models. There are two companies that have disrupted this idea of independent authors and small publishers and it's us and Amazon.

We have two small publishing platforms. Ours is called PubIt! and it's allowed small authors with quality work to upload their digital content, click through a click-through agreement with us and post it for sale to the millions of installed base of Nokia users who are shopping for content online. This is the fastest-growing area of our business, digital business in both catalogue as well as in sales volume.

Just to give you some sense of that, last week, we added over 4,000 new titles to our digital repository alone in PubIt! and we developed relationships with over 225 independent authors to resell their digital copyright catalogue. So what you will see is this bifurcation that's happening in the world of books between the front list best sellers, you will have the John Grishams, you will have the Pattersons, those will be signed with big advances by the big publishing houses. And then you will have this proliferation of content that is direct to consumer through the two dominant platforms, and we have one of those platforms in PubIt!.

Okay. Moving on, so I mentioned our share. Again, we launched in August of '09 and based on industry statistics, we have 27% share of the eBook market. This is a meteoric market, going to $7 billion. We feel very good about our ability to maintain or grow that share and I'll tell you how we're going to do that shortly. This is a quote from Brian Murray, one of our key partners at HarperCollins, about our success. Then in digital newsstand, we currently got about 30%. We see that business going to $3 billion in the U.S. and we feel even better about our ability to gain share in the digital newsstand market, maintain and grow share. I'll tell you how we're not only doing that through mobile devices, but also in the stores.

So what does this mean? Between our share gains and the rapid growth of these digital markets, what we've developed here is a big and rapidly growing digital business. In 2010, this is our fiscal year I should note, so – in August of '09, I mentioned this was a PowerPoint slide for us. We had no business in digital content. And in that year, that fiscal year, we ended up with $123 million in revenues. Last fiscal year, which ended in May, we did $880 million. This year, we will – we're projecting to do $1.8 billion and this is in digital content, hardware sales and to a much lesser extent, accessories and warranties, ancillary revenue stream. So we feel great about this growth. And the way we've done it really is through products, to start.

We have developed, in my view and in others' view, the best and most innovative product in the eReader category, the last three. This is NOOK Simple Touch. You might have seen the review that Katie did, Walt's partner, yesterday in the Wall Street Journal. She did a review of this product versus the Kindle, new Kindle Touch, saying that she's still hooked on the NOOK and rating this as the number one pure-play eReader. Consumer Reports has this product as the number one eReader and you can see some other quotes here.

This is our entry level device. We just marked it down to $99. In a world that's very much about share gain, this is our match play to get in and control those lockers. And so this will be a lynchpin product in our overall portfolio.

The next product really was probably our most pioneering product. This has NOOK Color where we invented a new category of product. To date, eReaders looked a lot like Simple Touch. These black and white screens primarily associated with the Kindle who came out with the first real widely adopted. We said, well there is a lot more content out there, children's books, digital newsstand, comics, et cetera. So we launched NOOK Color and this has been our most popular product. We've sold millions and it's really facilitated our share gains in what I'll call the non-fiction categories, the kids' books, the digital newsstand.

And then the big news that we announced two weeks ago is NOOK Tablet. We sent a press release out yesterday. This is available in stores today. In that press release, we talked about this product exceeding our expectation. It really is, I believe, the best product in the 7-inch portable class. And what it's meant to do is take our leadership in digital reading, build on that.

We've added a comic store, we've added more graphic novels, cookbooks, but then we've also added the best in HD entertainment. We did a deal with Netflix and Reed, who is providing great support. No product has a deeper Netflix integration than NOOK Tablet. It's a very powerful product. It's designed for ultimate portability.

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It's got the world's most superior display. We invented this display, it's called the VividView, with our partner, LG, and there is a lot of technical things we did, but it is the hands-down best display for viewing and reading content and that includes the iPad, because it's got anti-glare in it and if you look at viewing angles, we've optimized the viewing angles.

People ask all the time, how are you going to compete with Apple and the iPad. We don't really, in the sense that when we're designing products, we're designing for a much different consumer. If you look at the customer we've been accumulating with NOOK, it's mostly women and it mirrors very closely what we have in our stores. So, these women are the ones who buy books and magazines in this country. 60% of that content is bought by women.

So, when we're designing these products, we talk about portability, we're designing them primarily – men, of course, but women too, that take can take them in purses and bring them around. So, this product is under a pound. It's designed for portability and battery life is another innovation here, where it's got the longest battery life of any tablet on the market.

So, I want to show you how we're going to support this product by playing you an ad. We have our largest marketing campaign ever against this breakthrough NOOK Tablet and we've enrolled one of our favorite friends at Barnes & Noble, big author, big celebrity Jane Lynch. She has extremely high Q scores with our primary female target. And so, I'll show you the ad now.

[Video Presentation]

So, Liberty graciously gave us some real estate outside and we've got demonstrations of our NOOK Tablet and I invite you all after to take a demo of that. We would love to get you to know the product a little better.

The second plank after product that has allowed us to be successful in the digital area is these bookstores. Consumers who want to touch and feel gadgets. If they're going to make an investment, they want to understand what's – what the options are in the marketplace and they'd like to try things before they make those investments.

No one has the reach we do to service those customers, with our 700 neighborhood locations. So, this will only become more important as you cross the chasm from early adopters, who are more fluent and comfortable with technology, into early majority and the mass market. That's where we are right now in eReading and this tablet market. We are just getting to the end of the early adopters and getting into the early majority.

So, we've really focused on this. We have the most highly trained, friendly, and well-versed booksellers and NOOK sellers in the U.S. So the other thing I would invite you to do is go into even a Best Buy, who in my view, probably does the best job of educating their sales force, go into them and buy an eReader. Go into a Walmart, Target, et cetera, these are all partners of ours and they do a nice job. But there is a totally different level of service you will get when you walk into Barnes & Noble. We know this is the big part of our competitive advantage and we focus a lot on it.

And, in fact, one of the things we have done is we've blown out the footprint we've dedicated to our in-store service and I'll show you in a just a moment something called the digital shop that we've rolled out into 40 of our top locations. The digital shop is meant to be the preeminent place for consumers to learn about eBooks, get their newsstand subscriptions, learn about new types of content that are coming down the pipe and learn about our NOOK products. So we've got it in 40 stores starting this holiday and we'll roll it out to hundreds more and I'd like to show it to you now.

So those stores aren't just about showcasing NOOK, they are also about getting people to subscribe to our ecosystem. We know that once we get someone to buy 11 books, they are going to be with us and their retention rate and I'll use the word churn, which I know is a familiar term, our churn is much lower. They also buy more content, but that's where we can get them to subscribe to magazine, lucrative newsstand subscriptions. A Wall Street Journal is $20 a month, in digital, we get a significant portion to that.

So, this is about the content as much as it is about devices and so we are exploiting this advantage we have more than anybody else, in fact, so much so that we've created an ad with Jane Lynch about it. Just one last data point, when we went out and pulled consumers at the end of last holiday in January and February and said, why did you buy NOOK over Kindle, which are the primary two leading brands in this market at this point, the number two reason they cited for

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buying NOOK is our in-store support. So we said let's commit to that, let's invest in the training, but let's also market that benefit. Here's a good example of how we're doing it.

[Video Presentation]

So the audio is a little weird here, but you see what we are doing. And we tested this with our customers and they loved it. They obviously love Jane, but it also brings to life how we're there for people. In addition to our own stores, more and more, our NOOKs are being sold on third parties as awareness of the product grows. The world's best retailers have come to us and we've struck deals. We'll be in over 12,000 doors with NOOK this holiday, including Best Buy, Walmart, Target and others. And again, that's becoming a bigger share of how many NOOKs we're selling.

So here is the strategic slide of what's going in the overall book market. What you see is the $22 billion U.S. consumer market, we've had about 17% of that, Amazon with an equivalent share. What's happening is with orders going out and the market consolidation, there is, if you will click through the next slide, there is $2 billion up for grab in this first holiday season.

We've said publicly and I've said in our last earnings call, we will pick up $300 to $400 million in annualized sales lift just from Borders going out. We feel very good about that number at this point. Our traffic is trending well up from what we thought previous to their liquidation. But importantly and meaningfully, there is a whole other $10 billion here that will consolidate as well.

What you are seeing is and speaking to a lot of the publisher CEOs, their mass market business is down, their drug is down. A lot of these stores, the Targets, Walmarts of the world, even drug, carry books. As category shrink, they all look at their business and they shrink the footprint or get divested of the category altogether. We are increasingly becoming the only place to buy a large selection of books, but to get books in general. And so we will definitely benefit from this consolidation that's occurring.

So, what does this mean strategically for us? We are vital to the publishers. The publishers understand this; we understand it. Again, to give you a data point on this, we carry about 95,000 ISBNs in our stores and ISBN is a SKU. And most of the profits from – these publishers reap from their backlist, from that long tail business here. Only 5% of what Barnes & Noble sells is best sellers. We are critical to the profitability and cash flow to these publishers. And so as these various other retailers divest of the category, we benefit and only become more important. Just to give you another sense of that, we carry around 95,000 ISBNs. The next biggest assortment is Walmart at 2,500. We are literally the only showroom for these books in the country, giving us a very important partnership for them and enormous leverage of scale.

Secondly, from the retail standpoint, we are an anchor tenant in a lot of these properties. With Borders going out, there is no bookstore to put in these projects. We are able to go in and negotiate very favorable leases. As we've said, two-thirds of our leases are up in the next 2.5 years with these landlords. And they want that high income consumer, they want that bookstore bringing in traffic. So, from a cost perspective, we expect big yields and savings to either negotiate a more favorable lease or move a project into a more favorable location.

So this is the current market share and size of the various businesses. Here, you've got the pBook market. In 2010, this was $21 billion, the eBook market, $1 billion. We had 17% of the physical book market, 25% of the eBook market. Here is what's going to happen and here is our view in 2015. You've got a $14 million pBook market with a 20%-plus share. We're already reaping these share gains now and then you've got this explosive eBook market in $7 billion in the U.S. and we feel very good about our ability to hold or even gain share in that market. So we will be selling more books in 2015 and we view this as a great opportunity.

Lastly, when you look at new categories we've entered, toys and games is a massive market. The trade book market in the US, $22 billion to $23 billion. Toys and games is $22 billion and so we went out to our customers and said what else could we sell you, and toys and games was the number two category they told us they wanted to buy from Barnes and Noble.

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But as you'll see in the next few slides, we are taking a very different tack. We are not trying to compete with Walmart and Target in this plush area of toys and this highly promotional Tickle Me Elmo, that sort of assortment. We've got a curated assortment and really are working on developing the world's best educational toy and game destination. So moms and parents can go into a Barnes & Noble, the way they've always had and feel good when they pick up a gift for their son, granddaughter, or a birthday that they are going to get something that is good and nurturing for the child.

This assortment and this new rollout of these sections, you can see for those of you in New York in Union Square, but we've rolled them out to over 500 locations for Barnes & Noble this holiday. So we just completed that. These are 1,000 square foot assortments. You'll see some photos we've got here. Let's skip through the games and puzzles.

You'll see some of the photos we've got here and we've partnered with these development brands who helped invest in some of these pictures, like Lego, like PLAYMOBIL, et cetera. So a very different environment than you're going to find this holiday at other toy stores and we think the consumer will respond. It's worth mentioning prior to the launch of this, our toys and games business was up 53% year-on-year. So we only expect this to increase.

So that's really what we're focused on. We see and really, I've never seen an opportunity the size of what this disruption in digital content creates. We think in the U.S. alone, it's $10 billion by 2015. We've been able to gain share extremely quickly. We feel good about our strategy and our assets to continue to gain share and then it's just riding the natural growth curve of that business and certainly, we're doing that with great products in our stores.

Secondly, in the physical book side, we think no one is better positioned to capture certainly in the physical, the physical book business that's going to come to us and we're already seeing that now. Our traffic has been as high as it was six years ago with Borders going out. So this holiday, we expect big traffic gains.

And then lastly, we started going big into other categories where we can use all that traffic coming into the stores, like toys and games, to sell more merchandise. These are typically higher ring transactions at favorable margins and we're just starting to get into that in a big way and this holiday will be informative for us. I should mention, you all have a bag that we've given you for Barnes & Noble. In that is a 50% discount for toys and games. Everyone knows a child. We hope you take advantage of that this holiday and I would encourage you to go take a look at the new NOOK tablet. I think it's one of the real breakthrough products for this holiday and thanks a lot for your time.

Courtnee Chun Ulrich

Thanks, William. Next, we have Michael Rapino, Live Nation President and CEO.

[Video Presentation]

Michael Rapino

Thank you. I knew Albrecht would be showing off these fancy new shows, so we had to something. And I have to thank Albrecht, because – and Greg Maffei, because my stock's up 7% in anticipation of what we're going to do with that $1.5 billion and how I'm going to get some of it. So, I thank you. So we're going to take you through Live Nation. We've had a fabulous year. It's been the second year of our coming out of the merger and getting through the first year jitters and getting the organization ready for our mission.

So I'll take you quickly through, what is Live Nation, how are we positioned and how are we going to grow? So Live Nation, one of the questions I get often over the last year is, where does the concert fit in the consumer spend? Are they going to less shows, are they spending more time on the computer? Is there any erosion in that kind of love for the show? All this data you can see up here will tell you that the show still holds a very high spot in the consumers' got-to-get-to that year. The average consumer goes to two shows a year.

We did some of the research in the last two months with our consumers' casual and heavy users, said to them, next year, are you going to go to the same amount of shows, are you going to go to more or less? 85% of them said they are

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going to the same or more shows. So, going to a show is a Kodak moment around the world. That consumer, no matter what kind of bracket you're in, you are saving enough to go take your son to the Taylor Swift show, or your daughter to the Taylor Swift show, I hope. Your AC/DC reunion with the college buddies. So it's a magic moment. It stands strong and it's only getting stronger around the world, as emerging markets are getting their taste of Lady Gaga.

How is this business – how does this business do? I like to remind people we're not in the music business and I say that only because we don't have any of the challenges that the record labels do. We're not trying to figure out the digital revolution with the CD. The concert business has had 20 years of strong growth. 2010 was the first year in 20 years where the consumer pulled back slightly. We predicted that in 2011, the business would rebound. But it is a healthy business. And as you can see from these numbers, great growth over the years, and we expect with the emerging market and the international markets, that this line will continue to grow.

People are always surprised at kind of the scale we have. When you look at how many people went to a Live Nation concert, it's more than the NBA, NHL combined. If you look at the amount of tickets that we sell at Ticketmaster, it's number one in the world in terms of any kind of metric you can do against sports.

So we consider Live Nation kind of a league in itself. It's the closest thing you have to the NBA of the concert business. It's kind of the credible global brand that connects with sponsors and is the number one content supplier.

In our business, we really do two things. On one side of the business, we are a content company. We need to go out there and acquire the show, work with artists and get those tours on the road. And on the other side of the equation we got to sell to the consumer. The unique part we have is we figured out four or five years ago that we didn't want to follow the record labels, was we could not outsource the front door. We couldn't just be the middleman. And one of the challenges the labels had is they didn't figure out how to become the iTunes. And I give you great credit, Barnes & Noble. That's the first time I have seen that presentation. You've stepped out in front to make sure you're not just selling iTunes. The labels didn't do that. That was their core challenge.

We knew from day one that we had to be on both sides of the equation. We had to be the best B2B business in the world acquiring and putting on shows, but we had to own those 200 million consumers that are coming through our door. We had to know their names. We had to have a relationship with them and we had to become a great B2C supplier.

So on both sides of the equation, this is what we do in our business every day. How do we do on the content side? We're number one in the world by far. On the concert promotion side, we're larger than every other promoter in the world combined and growing. And on Irving Azoff's side, again, there is no real public data on his competitors, but there would be no one close to his scale in terms of what he has consolidated on the management front. So number one in growing on content.

And on the eCommerce side, it's always a surprise when I say to people that Ticketmaster is one of the largest eCommerce sites in the world, number three, incredible stat. As Greg referred to, probably historically, Ticketmaster didn't kind of embrace that and didn't build up that consumer experience or harness that data. But we're hot on that trail right now and as you can see from ticket distribution, there's nobody close to us in terms of selling the tickets.

And in terms of how we've done over time, you can see both sides of the equation, 13,000 shows to 22,000 shows a year, 10,000 venues to 12,000 venues signed on the Ticketmaster side at about a 95% renewal rate. So both sides of the business have been growing historically and attracting more customers.

When you look at our business, how do you grow this business? When you are that big and scalable on both sides, how we're going to grow the bottom line of this business? There's three things we're going to do. We've started this year and had great progress and three things are going to grow our bottom line. We're just going to do more shows around the world. We get a whole bunch of untapped markets to capture. So number one is do more what we're already doing.

Number two is, we have an incredible advertising business, great opportunity there. We think it's one of our biggest. And number three is, sell more tickets. This has been a business that has been fairly unsophisticated, historically. You press the button at Ticketmaster, you read a print or a radio spot. We have a massive opportunity to engage these

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consumers. We have one of the most passionate fans in the world. There isn't another business where I don't have to spend $1 trying to figure out how to get consumers that like music. They love Lady Gaga, they can't wait to get that Lady Gaga t-shirt, get to that show and have a good seat. But we have 200 million passionate fans that we've got to have a better relationship with.

You go to ticketmaster.com right now, if you bought 12 tickets yesterday and you came back today, I treat you the same way as I treat the guy that comes once a year. Great opportunity to take that consumer, build loyalty programs. The number one way we sell more tickets is when the consumer tells three of his friends and bring them. The social experience. So if you can empower that person that's buying two tickets, give him an incentive to bring his friend, your business starts to grow in leaps and bounds. So, we've got a great opportunity with that consumer base.

As far as how we are going to grow the international, it's a huge business. The superstar in music is one of the greatest exports and imports out there. If you look at a Lady Gaga or we just finished U2. We did 100 dates with U2. 10 or 15 years ago, all those dates would have been basically in the UK, a little bit of in Germany, and the U.S. We just finished this tour, we went from Cape Town to Dubai to South America to Colombia. This business now is global. You can walk into any market, I don't have any of the challenges that the rest of the most businesses do. I don't have to build a factory. I have no regulations. I can walk in and just announce today that we've expanded into Portugal. I can walk into Portugal, hire two of the best local promoters, put my Live Nation flag in the ground and start giving them U2 and Lady Gaga shows, fill the sponsorship based around it, ticketing, and you can instantly start building markets.

There are, as you can see from this slide, we are large, but we've got a long way to go. It's a $12 billion business. We earn about $4 billion right now in revenue and you can see where the markets we want to get to. Most of these markets are emerging. Most of these markets, you've seen some of the Brazilian T4Fun data. These are 20%, 25% a year of growth businesses where that mass of 19-year-old to 29-year-old consumer now has disposable income, is on Facebook, so knows who Lady Gaga is, knows who the hottest stars of the day and is dying to see that show. So we have a great landscape ahead of us.

If you look at what we – when we travel the world and you talk about where this business is going, this is going to be a global business. Over the next ten years, the rest of the world, you look at Brazil, you look at India, you look at our Russian business, our Eastern Europe business and into China, these businesses are building venues ever day. Every city in the world right now has a new venue. Everyone we meet with, every government, every city official from Singapore to Dubai, all they want to talk to me about is, can you bring shows here? Can you bring Lady Gaga, can you bring U2? We've got the infrastructure, we're investing. We want to be a global destination.

So we have an incredible hot commodity called that content, that show. That show has now more buyers than it does shows. We had 100 live – we had 100 U2 shows and we had thousands of venues around the world that said, I want that show and I'm going to pay you to have it. So that's where we're going to continue to build our business.

You see what we've been doing over the last few years. This isn't a kind of a wish and a dream that one day, we'll figure out international. We are international. We've been building over the years, at Live Nation, over 50% of our business is international. We just added Portugal to that today and we'll continue to develop our international business. We have the scale, we have the credibility and we have the content that we can walk into any market and set up a Live Nation office overnight and start building the business.

Second way we talked about is sponsorship. Again, we really are the NBA of this business. We have over 700 corporate brands that work with us. We have a department of over 300 or 400, if you counted global, salespeople waking up every day, talking to CMOs and talking to local managing directors about, how could you use live entertainment to better your brand, whether it's an image platform, whether it's a signage opportunity or an access. But, huge opportunity. There is about a $2.5 billion global business that is spent at Corporate America on music sponsorship. That's over $30 billion, $40 billion when you add sports.

My slice of the pie is $2.5 billion. We're playing at about $162 million right now. So it's a huge opportunity to match our market share against that $2.5 billion. There are not a lot of others out there that are offering anywhere near our platform. We have the right skill set now and we think this business continues to grow and doubles over time.

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And, online advertising, again, it was never looked at, at Ticketmaster. We didn't have a staff doing it. We've kind of gone from zero to $40 million overnight. We have a really unique opportunity at Ticketmaster. On online advertising, which we all know is growing like crazy, most online advertising is all about the social experience. Most e-commerce sites don't get advertising.

As great as Amazon is, Coke's not dying to do an image campaign there. We have that unique spot, where we are the third largest e-commerce site, but we have all that image and sexiness of rock and roll on that page. So, we are getting RFPs weekly and we're in that place, if you're a hot commodity, if you're Coca Cola, you're Red Bull and you have an image campaign that you're selling, you want to be at ticketmaster.com or livenation.com, because we're reaching the customer in a unique way. So, again, we think this business is our biggest growth opportunity.

And our third is, how do you sell more tickets? What are we trying to solve here to sell? Two great facts that show you where the pies are, number one, 31% of fans said, they would have went to the show, but they didn't know about it. Again, not a great, sophisticated, historic way to talk about shows, just a radio spot and a print ad.

If we can drive some awareness, if we can now start talking to that guy that went to the Jimmy Buffett show every year, I don't need to do a print ad to talk to them. We're going to do Jimmy Buffett in New York again next summer. We have all their emails. We have their addresses. We can talk to them tomorrow. We can incentivize them tomorrow to bring two friends. So, if we can drive awareness by entering the digital era, we can drive awareness. If we drive 10% awareness, we sell more tickets and drop $100 million to the bottom line.

And on the secondary market, we really haven't played in it in a big way. We've sat on the sidelines. We have a company called TicketsNow, but we're going to show you how we're going to start attacking that segment, not straight on, but how we're going to get more of the gross from those high ticket prices.

And the first thing we did over the last few year is we reorganized. We brought in great executives and technology people from the Amazons and the Apples and the iTunes. We built a great skill set internally. We've started this year doing all the obvious. At Ticketmaster, we needed some new channels. We've got to make sure that we also are reaching people on a daily basis that were not kind of in the sphere of the music advertising. Groupon, we've talked about. It's been a great success to sell on a very targeted basis. So that show in Baltimore that's not working, we can mail those people directly and we've sold over 1.2 million tickets. We think that's somewhere in the 60% to 70% incremental and not a lot of cannibalization in that business to the new consumers.

And Walmart, we have rolled out kiosks and really successful there, Middle America selling the Def Leppard show, it's hitting that sweet spot that we don't always get to. Over on the social, we're really proud about this. We have spent a lot of time with Facebook, a lot of time with Twitter. We're by far the most advanced in this business.

We've rolled out our concert calendar, we've rolled out our Facebook integration. It's obviously a huge priority at Facebook. We've been in deep meetings with them, because if you're in the social business right now, you know that concerts are a sweet spot for you. And figuring out how to monetize that, Facebook looks at the concert business similar to the gaming business. If they can provide a platform that we can engage in and make money on, they've got another story about how their platform makes money.

You look at what we've done on the Facebook side, when you buy a ticket at Ticketmaster, you press RSVP. It goes to your Facebook page. Every time we do that, $5 in incremental sales, because your sphere of friends, they all want to go, too. We've just launched an integrated concert calendar and an integrated seat map. So now you can go to ticketmaster.com, you can see where all your friends are sitting at the show, where they're going to buy, you can sit beside them. So the more social, the more engaging we make the show using Twitter, Facebook, any of these social platforms, we know we're going to drive attendance.

And finally, we needed to catch up. We were behind, but we are there now. We've launched our app, over a million downloaded and we had to get our mobile sites ready for transaction. Both TM.com and LN.com now, up and running, sold over 1 million tickets over the last few months. So again, driving mobile for us is important.

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In Europe, we're a little bit more advanced where we're already doing the – get your barcode, come to the venue, scan it at the door, but any way we can make that purchase instant on the mobile that you share it with your friends, e-mail your friends, invite your friends. We've got a whole initiative around that and we'll continue to explore that. So these three channels this year have helped take us to new territories and we're going to keep going hard, driving awareness through there.

Second is what we call Pricemaster. Our goal is this, there is a secondary business that's $4 billion and StubHub has had a good share of it. What we really want to do, though, is, we don't want to really be in the StubHub business. We want to be in the business taking that $4 billion and putting it back on the right side of the column where the artist or the teams participate. We are in business with most sports teams through Ticketmaster, and most artists.

Content does not want a $700 ticket being sold at StubHub. They want the $700 ticket being sold on their side of the column. Our job is to figure out how to start pricing the shows better and participate in that $4 billion and artists today are overnight buying into this strategy. They go on site, they see what the tickets are being sold for, they see those $3,000 tickets, $2,000 tickets at other sites. They understand that.

So, we launched this with a great company called MarketShare. We have launched a software program that can be easily used now by any artist, manager, any sports team. It takes all of the data that's out there. So, if we're going to price a show, we've just done some tests on concerts. We did a show in Miami. Put a show in Miami, what are we going to price it historically, three price points. If it's in the computer, data – takes all of this data from the marketplace and says this is what you should price it at. Here is the 11 or 12 price categories that you should price it at. It continually changes hourly and daily, based on all the market data. While you are doing that, it's spitting out the difference between if you price at this way or this way, you are going to get this revenue.

We've tested it on concerts. Every time we've tested it so far, we got a 20% increase in sales and a 20% increase in revenue, 10% increase to our revenue bottom line to us. Huge tool. Our job is to find a way to build a simple application that we can get adoption by artists and teams, so they can get control of that ticket, understand that they can price their show better, and it's a simple philosophy. You can price the front more because it lets you price the back of the house less. So the way you fill that house is maximize that front row revenue, so you can charge $10 on the last row and get a full house and increase your total net and your sales.

We think this is a game changer. We're going to work real hard this year to get it adopted throughout our business. We'll use it at our amphitheaters this summer and it's our number one way we'll go with that $4 billion and start putting it on the right side of the content column.

So, how have we done since we've merged? We're very proud, we've had a very strong 2011. We think we now have the right team in place. We've upgraded our staff, built up some divisions, we've got the best team in the world thinking about our business.

We've got an incredible; I would say, simplistic vision now, if you wake up in any one of our visions, you're either thinking about how you're getting more shows and how you're expanding that or how you're selling more tickets and engaging the consumer. So, as you can see the numbers are headed in the right direction. We're very proud of what we've done for the first nine months. We've hit every metric that we wanted. We've grown both, obviously, the revenue, the AOI, free cash-flow and our margin. Across our three core businesses, same story. We are very proud that we've kind of turned around the concert division, headed in the right way, growing the AOI, ticketing, Artist Nation and also the margins on the core two businesses.

Everyone asks me every day, how are ticket sales today? We don't get as consumed as the analysts do on, how are ticket sales this week or this month? We're more interested in how is the trend looking for the year. We kind of run on a baseball season. Most consumers are – or most bands are thinking about next summer and how did you do?

So, if you look at our business, we tried our best here to give you precise data up to today. I know there was some concern on, oh, what's going to happen in this quarter? What's happening with Europe? What's happening with the NBA? I would say to you that we are very happy that year-over-year, Ticketmaster is somewhere in the 10% growth year-over-year on ticket sales and Live Nation is somewhere in the 6% overall ticket sales. And now how do we do it in

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October and November because there was concern on, okay, great, you made at through the summer but is it starting? We're not sensing any of that. We put 31 shows on sale Monday for Roger Waters, higher ticket price, stadiums to arenas, we're 88% sold out for the first day.

Consumers are going to concerts. You've got the right show at the right price; your business is going to be fine. As you can see in November, up 7%, 2%, 4%. We're going to finish this year as we've predicted. The business has stabilized. We had a strong start to the year. We expect with the lineup we have right now, we have no doubt that we have a very strong lineup for next year. We will not have any challenges on, do you have world tours? Do you have enough shows to fill the pipes? The shows are there. And we believe that now that the business has gotten a little smarter, every artist and team has figured out, they better spend a extra couple days figuring out the pricing strategy. We think that shows will be priced better, and we predict next year we'll continue to grow this business.

Overall, we think those three core opportunities, there's a whole bunch of money in that international business we're going to go get, use some of [indiscernible] (2:13:55) $1.5 billion. We're going to sell more tickets everywhere around the world because we now are going to spend more time engaging that consumer and building loyalty programs. And the more shows I have and the more consumers I have, our overall sponsorship business grows; my CPMs grow. Thank you.

Unverified Participant

[indiscernible] (2:14:24)

Michael Rapino

Your stock's up [ph] 70% (2:14:00) before you walk on. He owns it all. Your stock goes down after your speech or about...

Unverified Participant

Yeah. I was going to tell you, your stock's up 8.5%. Congrats.

Michael Rapino

All right. Perfect. Thank you.

Unverified Participant

But the real question I had, I think at least for every man in the audience is, could you break out the 24% of preferred concerts by gender? Is that 48 and 0? Is it...

Michael Rapino

Right. Right. I have say, the smartest thing I did is we had a Liberty board meeting two weeks ago. And Chris Albrecht was upset because I upstaged them when I bought Shakira to meet John and Greg. So I figured that would be the smartest sales strategy.

Unverified Participant

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Thank you.

Unverified Participant

Thank you, really, to all of the presenters. They were very good. Thank you.

Courtnee Chun Ulrich

All right. So we are open for Q&A. There is mics in the audience, and go ahead.

Q&A

<A - Gregory B. Maffei>: Rich. You're trying to get back at Albrecht for taking a shot – no.

<A>: So, simplicity, I guess, is probably the question everyone is thinking about.

<A - Gregory B. Maffei>: 9, 9 – no.

<Q>: So you have a whole group of investors in this room. Some own Liberty Capital, some own Liberty Starz, some own both. But I think if you look at the distinct groups for a second, the Liberty Starz investors certainly owned it because they saw a very inexpensive stock, maybe not rapid growth, but certainly an inexpensive stock with a lot of strategic opportunities. They own Liberty Capital because they saw a stock that they either liked Sirius or they saw a dramatic discount to NAV, and they saw that gap being closed through a number of transactions or rapid share repurchase.

Now you've muddled the pot, so to speak, for the moment. And while you've simplified into one company versus two trackers, the individual audiences in this room owned each of those companies for different reasons. Should we believe that there is steps two and three to come in the next 12 months or do you think that investors have to adjust to a new structure of Liberty?

<A - Gregory B. Maffei>: Well, I think a couple of things. First is, the investors, at least by appearance, seem to be appreciative of our move because both stocks are actually up in a down market. So even though one might question, rightly, did Starz investors focus on this and capital on that, I think people are willing to give us the benefit of the doubt for the – lot of the actions we took raising the capital, looking at the opportunities, eliminating some of the tracker discounts, are positive moves.

Steps to come. Look, we believe, obviously, we're long-term shareholders. Nobody's a longer-term shareholder than John, and we're in this for the long haul. And we believe these are the right steps. What will come over those steps, whether there are other spins, whether there are other things we buy, we can't predict. You saw a bunch of the portfolio companies that we are invested in today present, not only ones that are 100% owned, like Starz, but obviously I thought, personally, incredibly strong performances and discussions of great stories by Mel, by William, by Michael. And so, are those places where we'll put more capital? Are there other companies out there? We'll see.

We have no plans – no announcement to make about spinning Starz, spinning Siri. But I can't tell you those aren't potentials down the road as well. Want to add anything, John?

<A - John C. Malone>: No. I think Greg's – when he started, the flexibility that putting them together gives you in terms of allocation of capital, [ph] have caused (2:17:00) some great opportunities. And the ability to put leverage on businesses that – where the ROE is going to be enhanced by leverage, I think, says it all. We'll get as complicated as we need to get to highlight value, or as simple as reality allows us to become. I mean, it's nice to be simple here for at least this window of time.

<A - Gregory B. Maffei>: We just wish 9-9-9 were all the answers.

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<A - John C. Malone>: Yeah. We haven't got into the international questions, which may make life more complicated for Mr. Cain over here, but...

<A - Gregory B. Maffei>: Next question. Yeah. Matt.

<Q>: I thought the Barnes & Noble presentation was really intriguing. I was just curious, when you look at the digital newsstand sales, I know it's early, behaviorally, but if you look at the composition of the new subscribers, does that pretty much mirror a routine, new subscriber to The Wall Street Journal or whatever? Or is there really evidence that you're getting a different category of customer in there? I guess the other observation I'll make is all William has to do is get Barnes & Noble's market cap to $850 billion for it to be as good as your Sirius investment.

<A - Gregory B. Maffei>: Well, I'll let William answer, but I think it's an evolving trend. One of the things, as you roll out these different products, you're opening up Barnes & Noble to a broader class, including – I think that one of pushes has been, is – and I think William is fully on board, that low end NOOK – I don't know about you – my eight-year-old grabs that thing and says, oh, my gosh, it's fun to read, more fun to read on this device. And there is certainly an adoption of younger-end consumers, I think, is going to be enormous. My bet is next Christmas, when the pink one and the purple one and at $79, every kid in America's going to want one. But, William, why don't you give the real answers?

<A - William J. Lynch, Jr.>: Well, on the newsstand point, I mean, it's a key point for us, which is, we've always sold a lot of magazines. A lot of you are in New York, but if you go into your respective Barnes & Noble newsstand, it has always been a big part of what we've sold. In fact, not a lot of people know this, we're the number two seller of magazines in the country at retail, behind, I think it's – we're number two or three behind Walmart and Kroger.

But what we've been selling traditionally is The Economist, more specialty-type magazines. Now we're playing offense. Our number one magazine right now is People Magazine and Us Weekly. And so what we're able to do is get into businesses which we weren't in in a big way before with digital.

Another example of that is in romance – in the romance category in books. Most of the romance in books is sold on the spinner racks. If you've ever picked up a prescription at a drugstore, if you turn around while you're waiting for your prescription, you'll get assaulted with Fabio and the bodice and lace stuff. But that's a big category. and we are 26% of the romance market in digital, where we'd never been in physical.

So, yes, absolutely. We're seeing – yes, we sell a lot of the digital magazines we've sold in physical, but it's also allowing us to play a lot of offense in categories we didn't sell a lot in physical.

<Q>: You're seeing some evidence, then, that some people are taking People in the digital forum that they wouldn't have subscribed to in – as physical?

<A - William J. Lynch, Jr.>: With us, at least.

<Q>: Okay.

<A - William J. Lynch, Jr.>: I can't speak to the broader market. But what I'm saying is, we are playing in content types, genres and flavors in digital where we have an infinitely bigger share than we've had in physical over the years in our bookstores.

<A - Gregory B. Maffei>: In the back there on stage right and audience left. James.

<Q>: Thank you. Can you talk a little about, it seems like a big part of the rationale for combining the two trackers was making additional capital available at LCAPA. And the rationale for combining the two trackers rather than, say, borrowing at the Liberty level and attributing the borrowing from the cash at LCAP or having Starz loan money to LCAP? Thanks.

<A - Gregory B. Maffei>: Well, I think that would not have been fair to utilize the leverage capacity that was available at Starz and have it be loaned across through Liberty for the benefit of the Liberty Capital shareholders. The opportunities that we believe exist should benefit both sets of shareholders. And the reality is, is not to put [ph] too fine

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a point (2:22:00), there were more opportunities at Liberty Capital, and there was more capital to be raised at Liberty Starz. And it seemed like a good match. Gordon.

<Q>: So thank you. I thought I'd go a bit closer so you could actually see me to call me into the question. So I was wondering about, now that the focus is really on the capital deployment at the combined media, if you could rank your view of the most attractive places to put that capital, based on what you see today, between your stock, yeah...

<A - **Gregory B. Maffei**>: Well, we have a purchase order in for X number of shares of – no.

<Q>: Yeah.

<A - **Gregory B. Maffei**>: Look. I think all of these businesses are really very attractive. That's why we put money in them. I mean, we have, in the last several years, incrementally put money in these companies. So we think they're all attractive. What day we put what money in at what price, I think we'll wait and see how that goes and whether there are opportunities. And, frankly, some of these have timing issues in evolving.

William's business, Barnes & Noble, is – Len and William's business, is going through an amazing transition, and – but it's just at the beginning of that transition, so we get an opportunity to have a toehold and take a look. We'll see how that evolves and whether that makes sense for us to be deeper in it or whether there are other things that happen. I mean, we like all these stories. The exact timing of where we'll put the capital, I'll leave to the – when we announce it.

<A>: Well, and when you buy back the holding company stock, you're basically buying a composite position at a discount. So, in a sense, that's a hedge for the company to shrink its equity because we think the portfolio is collectively attractive and trades at a discount to net asset value.

<A - **Gregory B. Maffei**>: Good point.

<Q>: Okay. And then I also wanted to ask a question about the business at Starz, which is probably less relevant now that it's in the larger company. But can you give us some sense of, you do see programming costs not rising materially from here, but you are making some other investments in new Internet distribution. You are losing a [ph] Netflix B (2:24:23), much smaller than the $300 million or so that was rumored to potentially be on your plate, but are losing that. How should we think about the trends in profitability in Starz's expenses and revenues? How do you see that netting out...

<A - **Gregory B. Maffei**>: Well, I think you're touching on a good point, which is that Starz is having great run. And I think I'd pointed out, EBITDA bottomed out at $175 million or $150-ish million, has gone up steadily and will be up dramatically again this year. I think next year is a breather, in a lot of ways, on profitability, because, in part, you don't have Netflix, at least – or not for the bulk of the year. You don't have – no, we may come up with an incremental digital distribution deal, but we don't have one we've announced today. And you do have pressure from some traditional distributors who we're renewing with. And you do have a case where other factors which, like CPI and things that might be positive revenue kicks, aren't occurring. You are investing more in original programming, and you aren't really getting the benefit of some of the new contracts' price declines, which might be more advantageous and helpful later.

So those are all the headwinds you're going against, which is why I don't think you'll see the kind of growth in '12 over '11 that you've seen in '11 over '10, '10 over '09, '09 over '08, et cetera. So you're right.

That having being said, I think the longer-term trend, when some of those factors do come in, I think we are a believer that we'll get a digital distribution deal. We are a believer that some of our future contracts are going to be more attractive as our original program gets stronger. We are a believer and know that some of the digital – the existing content deals have clauses which kick in and get more favorable over time. So I feel if the shape looks like this to '11, this to '12, '13/'14 look a lot better, just as a general proposition. I don't know if you want to add anything to that, Chris or Bill. Bill Myers is the President and Chairman of Starz...

<A - **William D. Myers**>: Just look at equity returns. If you're sitting there as I am, as Greg is, as all you – many of you are as a stockholder in Starz, you were looking at essentially a balance sheet with no leverage, full tax load on the

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margin and probably two-thirds of the capital deployed with no return. What kind of a return on equity you think that's going to project to be long-term? And, perhaps, if you think about that, you'll understand why we put them together.

<A - Gregory B. Maffei>: Next question. Right here.

<Q>: As you look at the future of cable, over-the-top services and your portfolio, how are you thinking about QVC and perhaps Barnes & Noble, because it seems to me like they're on the cusp of being over-the-top-services in and of themselves and would benefit from many of these trends?

<A - Gregory B. Maffei>: Well, I think you're right on both. I mean, you've got – QVC is a content producer and a distributor of other people's content. It is – operate that in a traditional linear world, but we talked earlier today about how Internet continues to be a bigger part; mobile continues to be a bigger part; there's an enormous opportunity I think around tablets, shows very well; and we talked about streaming of QVC, increasingly. Barnes & Noble is doing exactly the same thing.

I think if you look at that tablet it has, if there's a distribution channel for them to be a seller, just the way that their physical stores were. And it opens them up to new kinds of distribution because it's not only the physical book or the physical magazine, but the potential to be selling applications, selling services, Netflix is one of the pre-loaded apps, I think, that is particularly compelling on the NOOK tablet. So I think there's a lot of great stories about how we do in effect become over-the-top driving those digital trends. Other questions.

<Q>: Sorry, asking a few too many questions. But when you look at...

<A - Gregory B. Maffei>: Just like we lost all our market share in trackers, you're taking a big share in questions. I like it.

<Q>: When you look at it – I guess it's premature, obviously, to compare Spartacus to any of the HBO series, but when you look at the normal multiplier on the ancillary revenues and the benefits of owning the content, what's the upside in that? Where would that index historically for a real hit series? And how much of a – I mean, obviously, you're just out of the starting blocks, effectively, but where do you think that would be right about now for Starz?

<A - Gregory B. Maffei>: Well, I'm going to let Chris add, but I'm going to tell you that Chris has a real problem that I am sympathetic to. Chris already did the two best original series that any premium channel's ever going to get because – just because of the way it works. No one will ever make as much money as they did on some of his – and I believe it was Band of Brothers and Sopranos were the two biggest ever?

<A - Christopher W. Shean>: Band of Brothers and Sex and the City.

<A - Gregory B. Maffei>: Sex and the City. Not Sopranos – excuse me. Band of Brothers and Sex and the City were the two biggest. And just because of the nature of the beast and DVD distribution and the like, I don't think you'll ever see that again. Never. You can defray a lot of costs, but you'll never see it again. And unfortunately, I [ph] will (2:29:41) feel that way sometimes a little bit about SiriusXM. We'll never see another one again, so I'm sympathetic. Chris, do you want anything?

<A - Christopher W. Shean>: Yeah. Pay television, how you account for the revenue is unique when it comes to the television business because often there's a first window of revenue that doesn't exist in the pay TV business. I mean, for the purposes of private participants, we have an imputed license fee. But there isn't really any revenue that comes against that. So when you're doing the ultimate of what kind of revenue a show brings in, it's very hard to quantify accurately that revenue.

Having said that, Spartacus is on track to actually return all of the money that was invested in it, from dollar one, and have a profit on top of that. It's too early to tell you how many. But based on what we're seeing for Season One, it will be one of the unique kinds of shows. And based on that and based on our viewing of that, it's one of the reasons why we're targeting this theatrical type of programming because we believe that it will have the best opportunity to match up against those shows and become truly profitable in the definition sense of the world. So I think Spartacus will – I'm sure Spartacus will end up being one of those unique and good stories in the original programming series space.

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DVD's being down, obviously, the international marketplace becomes even that much more important. But, as I said before, the DVDs seems to be holding up pretty well in these boxed sets for the premium series.

<A - **William D. Myers**>: I would say, generally, don't define value creation too narrowly. If in fact Spartacus is a successful series and it causes us to renew an affiliation agreement with a major distributor at a premium, you capitalize that. If Ted Turner could get Sunday Night Football and launch TNT and create a network because of it, you have to look at value creation in that sense. And probably one of the biggest problems in the movie industry over the years is people make good movies and bad movies, and their market value goes up and down. And they don't, at the end of the day, create much of an asset.

On the other hand, if they can create a network that has momentum and subscription revenue that's projectable out into the future, you put a big multiple on that. So, to a very large degree, the success of Starz and creating original series has to be capitalized into a long-term present value of future cash flows that are driven because the consumer identifies with the brand, the distributor identifies with the consumer wanting the brand and you are able to sustain a long-term business. So I think you have to look at it in that context.

<A - **Gregory B. Maffei**>: It's pretty rare to find content assets that are truly enduring. But content can be a great leverage to create a channel, a distribution form that really has long-term value. That's been the Liberty experience, primarily. Maybe one last question. Over here.

<Q>: Thanks. As we think about Sirius and your ownership of Sirius, I think we all know from things you've done in the past, there might be some benefits to getting those shares out of Liberty directly into the hands of shareholders in a tax-efficient manner. What do you think of – I mean, from the counterpoint, are there benefits to Liberty, Liberty shareholders or Sirius from Sirius remaining within the Liberty family in the corporate structure?

<A - **Gregory B. Maffei**>: We outlined today how we have a lot of capital to put to work. I don't know whether we'll end up – how we'll end up deploying it. But I have to tell you, you look at it and say, how many businesses are as attractively positioned as Sirius? We don't find it easy to buy shares in a stock, a few shares, let alone have a control position or negative control position the way we do in Siri, to have a business like that which has the tailwind that it has. There are few businesses in America that I have as much as confidence in are going to dramatically increase their cash flow over the next three to five years. One can rightly say, what goes on past that? Is it the right valuation? But, boy, it's got a heck of a tailwind behind it right now. So one of the benefits is, find me another place where we can put our capital that's so attractive, and we can hold it for the long term.

Maybe one last question – we're short on – we have little time left.

<Q>: Yeah. My question's just on – we were talking about the transition of Barnes & Noble becoming more of a digital media company. It seems like it's going to pretty capital intensive, because on the one hand we have to get the devices into people's hands and the other is how we're going to monetize it once they're there. If you look at past devices, so we look at like the Simple Touch, it was going for $130; [ph] you were probably (2:34:45) making a reasonable margin, but now it's selling for $100. So it's unclear whether you're making any money off of that. But we don't get enough guidance in terms of the income per device.

So how do you think about the potential for a negative a gross margin and then income per device if you're only really monetizing eBooks and potentially other app areas? How do we think about the lifetime value of getting each NOOK into each consumer than what we made off of each incremental, and then, obviously, in the context of how much that's going to cost to do?

<A - **Gregory B. Maffei**>: Well, I think – I'll see how I mangle this, Wayne, let me see if I can give my view, which is, let's say the – Barnes & Noble has done an amazing thing, which is relatively rare. We talked – I mentioned earlier, to have a bricks-and-mortar player become so strong in a technology category. And I think they've done it for a bunch of reasons. One, they've been – had a history of people coming out of places in technology like William and Tom, who understand the physical hardware side and have done a great job and have built a better device than the competition at an attractive price.

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But where the real strength also comes is from the service itself, and coming from the service side and its ability to monetize and look at the lifetime value of a consumer. And that device – and I don't think I'm giving away secrets, they're not losing money on the bomb and they are – it's a profitable device. They will feel a lot of pressure, no doubt, from a Seattle-based competitor who is very aggressive in its pricing. But it doesn't come down to just that device. It comes down to their ability to monetize over the lifetime.

And it's quality and the service that they've built and the incremental ways in which they're stretching that service out to games, out to subscriptions, out potentially to other applications, out potentially to video, how that expands and their ability to increase the monetization and touch with that consumer, I think is one of the real opportunities. And I give them credit for having done it in a way where they're not losing their shirt. They've actually been very efficient and very quickly from almost nowhere – remember, Kindle was out way in front of them – from almost nowhere have built a position, which is very impressive.

Gregory B. Maffei

So I think with that we've ran over because we had some good presentations. I want to thank everyone for coming. I want to thank all of our presenters and, hopefully, we'll see you all next year.

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EDITED TRANSCRIPT

SIRI - Q1 2012 Sirius Satellite Radio Earnings Conference Call

EVENT DATE/TIME: MAY 01, 2012 / 12:00PM GMT

OVERVIEW:

SIRI reported 1Q12 total revenue of $805m and net income of $107.8m. Expects full-year 2012 revenue to be $3.3b.

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PRESENTATION

Operator

Welcome to SIRIUS XM Radio's first-quarter 2012 earnings conference call. Today's conference is being recorded. A question-and-answer session will be conducted following the presentation.

(Operator Instructions)

At this time, I would like to turn the conference over to Hooper Stevens, Senior Director, Investor Relations and Finance. Mr. Stevens, please go ahead.

Hooper Stevens - *SIRIUS XM Radio Inc. - Sr. Director, IR and Finance*

Thank you April, and good morning, everyone. Welcome to SIRIUS XM Radio's earnings conference call. Today, Mel Karmazin, our Chief Executive Officer, will be joined by David Frear, our Executive Vice President and Chief Financial Officer. At the conclusion of our prepared remarks, management will be glad to take your questions. Scott Greenstein, President and Chief Content Officer, will also be available for the Q&A portion of the call. Jim Meyer, our President of Operation and Sales, is dialed in and should be available for the Q&A as well.

First I would like to remind everyone that certain statements might be forward-looking statements defined in the Private Securities Litigation Reform Act of 1995. These and all forward-looking statements are based on management's current beliefs and expectations and necessarily depend upon assumptions, data, or methods that may be incorrect or imprecise. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially. For more information about those risks and uncertainties, please view SIRIUS XM's SEC filings. We advise listeners not to rely unduly upon forward-looking statements and disclaim any intent or obligation to update them. As we begin, I would like to advise our listeners that today's results will include discussions about both actual results and adjusted results. All discussions of adjusted operating results exclude the effects of stock-based compensation and certain purchase price accounting adjustments. I will now hand the call over to Mel Karmazin.

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Mel Karmazin - *SIRIUS XM Radio Inc. - CEO*

Thank you for joining us on the SIRIUS XM earnings call to discuss our first-quarter results and updated outlook for the future. Our first quarter results show the power of our high margin business model, that is producing exceptional subscriber and cash flow growth for our investors. SIRIUS XM's first-quarter results demonstrate the best of both worlds -- strong subscriber growth and reduced churn. We grew net subscribers by more than 400,000 in the first quarter, an 8% increase from last year's first quarter. Importantly, self-pay net additions of 299,000 grew dramatically by 148% compared to the same quarter last year. Both of these figures represent the strongest first quarter net add performance we have achieved since the combination of SIRIUS and XM in 2008.

Rising US auto sales contributed to our growth and we are also pleased with our lower churn rate and our stable conversion rate. The first quarter annualized [SAR] of 14.5 million was up from 13 million in the first quarter of 2011. Our churn rate improved in the first quarter year-over-year from 2.0% to 1.9%, and our conversion rate held at 45%. Given the approximately 12% base package price increase we implemented in January, this positive churn result and no dip in conversion certainly exceeded our expectations and is an excellent demonstration of the value consumers place on our service. The price increase was the first change in the base price of the SIRIUS service and only the second change in the base price of the XM service so it is prudent that we have conservative expectations around churn and we will continue this practice.

While it is early and we still have much work to do, we have now billed 35% of the self-pay subscriber base at the new higher rate and the reaction to the price increase has clearly exceeded our expectations. No one likes to raise prices especially when competing against free services like AM, FM, and IP radio. But we could not have hoped for a better outcome at this stage than what we have seen so far. These initial results are a clear endorsement of SIRIUS XM's strong value proposition to our customers in spite of the increased competition in the audio entertainment space. And it certainly helps that the economic trends have begun to provide a bit of a tail wind.

On the financial side, we also performed very well in the first quarter. Revenue grew by 11% to $805 million and adjusted EBITDA grew 15% to $208 million. Total cash operating expenses were up 9.6%, with most of that attributed to expenses associated with higher revenue and higher SAC to support improved auto sales and future growth. Our revenue and adjusted EBITDA figures were both record highs for SIRIUS XM, the first time revenue passed $800 million, in a single quarter, and the first time adjusted EBITDA reached $200 million in a single quarter.

The first-quarter adjusted EBITDA margin, at just over 25.8%, is at the highest level in the history of the Company for a single quarter. Free cash flow improved by $32 million, year-over-year, to positive $15 million, in the first quarter, the first time in the history of satellite radio that we delivered positive free cash flow in the first quarter of the year. Revenue-adjusted EBITDA and free cash flow are expected to accelerate throughout the year as the price increase rolls through the subscriber base and additional subscribers join the service. The consensus expectation for full year 2012 auto sales has climbed to about 14.3 million today from 13.7 million when we gave our initial guidance in February. This provides nice momentum for our growth this year and we are also benefiting from our efforts in the used car market. This year, we anticipate adding 1 million self-pay additions to SIRIUS XM from our rapidly growing used car market channel.

In February, we told investors that our subscriber guidance was conservative and but for the uncertainty around the price increase, the forecast would have been higher. While we still have a lot of work to do implementing this price increase and retaining subscribers as we compete against free terrestrial and free online competitors, this strong first quarter performance has made us comfortable in raising our full-year net addition guidance from 1.3 million to 1.5 million. This increased guidance will put our paid subscriber base at 23.4 million by year end, an all time record. And, yes, we continue to be conservative, but are more optimistic than we were three months ago. We are also on track to meet our full-year 2012 revenue guidance of $3.3 billion, adjusted EBITDA guidance of $875 million, and free cash flow guidance of $700 million.

The record free cash flow that we are anticipating this year is after substantial investments we are making in our Company. For example, we are now programming 33 more channels today compared to last year. Many are part of our 2.0 rollout. We are very excited about the new services we are launching later this year to broaden the distribution of our content online and offer more exclusive content. We are investing to make more content available online, particularly in sports programming. SIRIUS XM now offers subscribers live play-by-play, with no blackouts, from the NHL, NFL, MLB, NBA, NASCAR, Formula 1, select college sports, and the English premier league soccer.

Much of this content is hard to find or unavailable elsewhere online and certainly, no other audio company on the internet has a sports line-up remotely approaching our offering, all under one app. For example, SIRIUS XM subscribers can receive every Major League Baseball game on their

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smart phone or computer. The only other option to get baseball games on the internet is mlb.com. Period. No other IP destination. Even terrestrial radio does not have the internet rights for the games they broadcast locally. We think sports programming is a perfect example of content that subscribers find valuable and are willing to pay for. And the great thing about our business model is that we are able to add this great sports content at relatively low costs, especially compared to our peers in the video market.

Our on-demand service is anticipated to launch this summer across a vary of IP platforms, such as the web, smart phones, and other connected devices. Late this year, we plan to debut a SIRIUS XM version of personalized music online, allowing subscribers to tailor their favorite SIRIUS XM music channels to their taste. The combination of exclusive online access to sports, proprietary on-demand SIRIUS XM-branded content, and personalized music should drive adoption of our internet tier and all access plans to make our overall service all that more desirable to consumers. Our on-demand and personalized radio programming will have no commercials on our music offerings and will be at no extra charge to those subscribers who have added internet listening to their plans. Free and premium competitors online will have a tough time matching the commercial-free aspect of SIRIUS XM-branded music combined with the unique sports and talk content we offer. Let me remind you, the development of all of this plus the investment in 33 new channels are within the financial result you've seen in the fist quarter and the guidance we've given you this year.

We are also excited to see auto makers embrace 2.0 technology, which gives us the ability to add additional channels, new features, and software upgradeability for future enhancements. Our additional 2.0 channels include the suite of Hispanic channels and are now available at no extra charge to subscribers who have a 2.0 capable satellite radio and we have also added these channels to our online package. The 2.0 radios are available now at retail and we just announced our first OEM deployment of 2.0 on select Chrysler vehicles available this summer. More models from Chrysler and additional OEMs will be rolling out 2.0 in the future.

As we've said many times, business models matter. We not only have a lot of users but we have a fantastic model for monetizing this usage through subscription services. Our business model is superior to that of terrestrial radio and the internet radio companies we compete with. The subscription business is a great one. SIRIUS XM has more paying subscribers than all the other companies in the world combined. Also, at a time when more and more content is available, and consumers continue to be time-constrained, as there are still only 24 hours in a day, we believe curated content, SIRIUS XM aggregated curated audio content is more important than ever, and will be even more important in the future as even more content becomes available, especially on the internet.

The first quarter of 2009 was just the second full quarter of combined SIRIUS and XM operations following our merger. In the three years since then, you can easily see the kind of progress we have made in our business. Subscribers are up 20% from 18.6 million, to 22.3 million. The operating metrics have likewise improved over that same period. Self-pay churn of 2.2%, in the first quarter of 2009 has improved to the 1.9% we saw in this year's first quarter. Our conversion rate has been steady at 45%, despite our penetration rate climbing from 52% to 65% over that time period.

On the financial side, revenue is up 37%, from $587 million to $805 million; adjusted EBITDA is up 91%, from $109 million to $208 million, representing margin growth from 18%, to 25.8%, over that three-year period. But for the growth in SAC, associated with higher auto sales, margin growth would have been even much higher. We believe we have substantial room for additional long-term margin improvement and free cash flow growth by delivering our content to more subscribers while maintaining a tight discipline around costs.

We've used this higher earnings power to reduce our leverage and pay down debt. SIRIUS XM was 72.5 times levered debt-to-EBITDA in the first quarter of 2009 and that improved to 7.1 times at the first quarter of 2010, 4.8 times, first quarter of 2011, and just 3.9 times at the first quarter of 2012. Our cash position has doubled over that time period from $375 million to almost $750 million. The Company is remarkably well-positioned to deliver great performance for our investors. We are very bullish on our results for the remainder of the year. Though there are always bumps along the road, the economy, employment, and consumer confidence seem to be heading in the right direction.

Car sales are up with auto makers appearing to be effectively dealing with the resin issue that could threaten the supply chain. Increased competition is certainly out there especially in the internet universe. But today, we can't identify the effect of new competition on our business. SIRIUS XM has more paying subs today than ever before in our history and we are going to keep growing this year to end at another record level. We are focused on accelerating our revenue and adjusted-EBITDA growth and we will obtain new record levels in both of these measures. And our cash flow is now growing this year in to a substantial asset for investors with tremendous potential for long-term growth.

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Our capital expenditures will be decreasing as a result of this significant reduction in satellite expenditures after FM-6 is successfully launched with the benefit of our NOLs we will not be paying any significant amount of income taxes for quite a few years. Combining, all of this adds up to our ability to efficiently use the cash generated by our business for the benefit of our shareholders. Our strategy is working. Our execution is strong and we have a fantastic organization capable of meeting our goals. We have started this year with great results, and I believe it's an exciting time to be a shareholder of our Company. Based on everything we know today, we are confident that 2012 will be a great year for us and 2013 will be even better. With that, I will turn it over to David for some additional remarks.

David Frear - *SIRIUS XM Radio Inc. - CFO, EVP*

Thanks, Mel. This was a great quarter for SIRIUS XM on all fronts. While the macroeconomic picture is a little mixed, auto sales and credit card defaults are improving providing a good backdrop for SIRIUS XM. The first quarter was the best quarter for auto sales in four years. SAR came in at 14.5 million vehicles, rising 12% over 2011's first quarter and consumer purchases of SIRIUS XM-enabled vehicles were up an even more encouraging 16%. Auto analysts have been raising their outlooks for 2012, now averaging about 14.3 million cars. The production/penetration rate remained at 65% for the quarter. As a result, the rise in auto sales produced record levels of sales and installations of satellite radio-enabled vehicles in the quarter. Installations were up 19% from the prior year, record sales of SIRIUS XM-enabled vehicles has driven total trial inventory to record levels as well.

We entered the second quarter with over 5.7 million vehicles in trial. Ending subscribers were up 8% over the year-ago level at 22.3 million subs, the 105,000 unit increase in paid trial inventory in the quarter was complimented by a 148% increase in self-paid subscriber net additions to 299,000, from 121,000 in 2011. Self-pay subscribers exceed 18.2 million. The new car conversion rate was 45% in the quarter matching 2011's first quarter performance. Strong growth in new car conversion volumes was met with strong growth in subsequent owner additions to drive total self-pay gross additions up nearly 20% over the comparable period last year.

We now have more than 5000 dealers to report sales of previously owned vehicles with satellite radios. We continue to work hard to retain every subscriber and that work is clearly paying off. Self-pay churn declined to 1.9% from 2% in 2011, as the improving economy and reduced deactivations for nonpayment clearly helped us overcome some of the early effects of the price increase. As Mel mentioned, with the good start to the year for self-pay additions and the rising expectations for auto sales, we are increasing our guidance for net subscriber additions from 1.3 million, to 1.5 million.

Revenue growth was also strong at 11% bringing total revenue to $805 million for the quarter as our 8% subscriber growth was aided by 2% RPU growth. The price increase has been rolled out to 35% of our self-pay subs. RPU growth will improve throughout the year as we continue rolling out our new pricing, and as the effect of the music royalty fee rate reduction in December of 2010 subsides in the second half of the year. Ad sales were also up a solid 12.8% continuing our record of outperforming the radio industry. Other revenue was flat year-on-year as growth in Canadian royalties and US subscribers subject to the music royalty fee was offset by the reduction of the MRF rate in December 2010. Revenue share and royalties picked up a little this quarter along with the increase in the statutory royalty rate and the increasing mix of automotive volume.

Contribution margin for the quarter was 70.4%, consistent with the 70.6% recorded for the full year 2011. Subscriber acquisition costs were up 10.5% for the quarter, with a 19% increase in installations, SAC per gross add increased $3 over the prior year as the increase in installation has not yet been fully reflected in increases in gross additions. Total cash OpEx increased 9.6% over the prior year. However nearly 82% of the increase was associated with costs reflecting our growth, revenue share, royalties, and subscriber acquisition costs. On the other hand fixed operating expenses increased just 4.4% over the prior year.

Programming costs continued declining as did satellite and transmission costs, offsetting increases in engineering, design, and environment and general and administrative costs. Sales and marketing costs increased $10 million over the prior year due to increased conversion and retention cost associated with our increased subscriber base, and the increased trial pipeline, as well as higher automotive cooperative marketing spending. Adjusted EBITDA crossed the $200 million mark for the first time this quarter, finishing up nearly 15% at $208 million. The 25.8% adjusted EBITDA margin for the quarter was the highest in our history.

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Interest expense declined slightly in the quarter, and adjusted-EBITDA-to-interest improved to 2.7 times. Net income also increased 38%, to $107.8 million in the quarter. Free cash flow was $14.8 million, a nearly $32 million improvement over 2011's first quarter and marking the first time we have had positive free cash flow in the first quarter of the year. The first quarter is a seasonally slow quarter for free cash flow for us. A large annual payment to a programming partner, year-end bonus payments, fourth quarter marketing, and subscriber acquisition costs historically weighed down first quarter free cash flow relative to other parts of the year.

We finished the quarter with $747 million in cash, net debt to EBITDA improved to 2.9 times from 3.1 times at year end. Through today, we have repurchased $130 million face amount of our 9.75% and 13% notes. The 9.75% notes are callable in September and the 13% notes are due in the middle of next summer, that's 2013. We will continue to look for opportunities to either repurchase or refinance debt on favorable terms. The launch of the SIRIUS 6 satellite was delayed from its early March scheduled launch as a result of a slow but ultimately successful deployment of the solar array on the satellite that launched immediately prior to SIRIUS 6's scheduled launch.

The satellite manufacturer continues its review of the available data to determine if any modifications to our satellite are required. We have plenty of room for delay. Our existing in-orbit satellites can provide full service to all of our subscribers for several years. The SIRIUS 6 launch has been rescheduled for the second quarter of 2013 and may go earlier if a launch slot opens up. Our revenue, EBITDA, and free cash flow guidance remain unchanged at $3.3 billion, $875 million, and $700 million, respectively. Higher subscribers also means higher subscriber acquisition costs in the near term. The revenue and adjusted EBITDA benefits of our increased subscriber guidance will clearly benefit 2013 operating results. With that, operator, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John Tinker, Maxim.

John Tinker - *Maxim Group - Analyst*

Congratulations. Good quarter. Could you just elaborate a little more on the 1 million number you are using for the used car estimate and how that ties in to your 1.5 million guidance number for the full year for all net additions. Thanks.

David Frear - *SIRIUS XM Radio Inc. - CFO, EVP*

John, the 1 million used car additions you should think of as a gross additions figure and not a net additions figure. So it would be a component of your gross additions forecast for the year.

John Tinker - *Maxim Group - Analyst*

Right, but at this stage, I'm assuming the gross is pretty close to the net. How is that actually working out at the moment?

David Frear - *SIRIUS XM Radio Inc. - CFO, EVP*

We have been adding sort of second owner additions for a few years now. While the volumes are clearly ramping up and will continue to ramp up, you do have your normal self-pay churn that goes along with them. For the most part, we haven't found material long-term differences in churn rates on second owners. So we've got the churn roll off from stuff added a year ago, two years ago, as well as in the first quarter of this year will affect the rest of the year.

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Operator

Barton Crocket, Lazard Capital Markets.

Barton Crockett - *Lazard Capital Markets - Analyst*

Thanks for taking the question. I wanted to ask a little bit about the refinancing commentary. You project to refinance over the next several months and you talked about how that would reduce interest expense. What is your view, though, on potential uses of this capacity you are building up for share repurchase. How do you feel about that now as a use of cash, if you were to do it, what would be the timing that it would become a real plausible possibility?

Mel Karmazin - *SIRIUS XM Radio Inc. - CEO*

As we have said before, that our Board certainly should be in position as our business model continues to work and as these results that we generate continue to add more and more cash to our balance sheet. We believe that a good use of our cash certainly would be to return capital to our shareholders. We've said that before; nothing has changed. We have talked about the fact that acquisitions would be something that we would consider, for our free cash flow. But I can tell you that there is just nothing we are seeing out there that we feel anxious to want to acquire or consider acquiring.

So we will continue to be opportunistic as debt is offered to us, for us to reduce our more expensive debt. As we are sitting with the cash, we are not getting very much interest, obviously, on the cash. By retiring some of the debt as David talked about, makes really good sense for our investors to do. While we continue to buildup cash in a significant way, to consider returning capital to shareholders when the Board makes that decision.

Barton Crockett - *Lazard Capital Markets - Analyst*

Okay. I wanted to switch a little bit to all of the attention to this SEC license tussle with Liberty. I was wondering if you could just comment on that. Is there anything more going on than just paperwork filings between two companies over FCC licenses? Does the Liberty motion cause any potential problems for SIRIUS if they are successful or could it help Liberty in any way that you can identify?

Mel Karmazin - *SIRIUS XM Radio Inc. - CEO*

I'm not sure how much noise there really is about it. Liberty has filed a petition at the FCC that says that they are asking the FCC to declare de facto, that they have de facto control. Our Board reviewed that petition, our Board absolutely concluded that they do not have de facto control. The Board of Directors of our Company has control of the Company; there are 13 members of our Board and Liberty has 5 participants of that 13. Liberty's 40% is significant influence, but not controlled. As we said in our filings, 40% is not the new 50%.

We think that Liberty's reasoning on it is what they disclosed, they said they were filing it. They want to keep their options opened. We filed it not to be combative with Liberty, because we are not, but we believe that they do not have de facto control. And we felt that we had a responsibility to file those comments with the FCC. We believe that the FCC will conclude based on their precedent that a 40% shareholder, even one with influence, is not in de facto control and that's how they will rule, but we are waiting to hear from them.

Barton Crockett - *Lazard Capital Markets - Analyst*

Okay, great. I'll leave it there. Thank you very much.

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Operator

James Ratcliffe, Barclays.

James Ratcliffe - *Barclays Capital - Analyst*

Can you talk a little bit about what the programming cost structure of the customized channels that you're launching later this year is likely to look like and how that would affect effectively the incremental margins associated with the business?

Mel Karmazin - *SIRIUS XM Radio Inc. - CEO*

What we said about our programming expenses are, is that we are going to continue to invest in our programming channels. Most of the 2.0 channels that we have invested in, have been relatively low cost channels, but obviously there is an expense to them. You should assume that our programming costs will continue to decline, but for us making a decision to do something, oh wow, in the programming area. We don't see that on the horizon. So you should assume that our programming costs will continue to go down in absolute terms as well as a percentage of our revenue.

Again, we continue to not be only focused on our programming costs going down, but in providing the best service in a competitive environment to our subscribers. If, in fact, we thought that investing in more content is something that will get us more free cash flow and subscriber growth, we would do that. As of right now, what we are guiding you to, this year is that our programming costs for this year will continue to go down. Including our expanding our programming lineup, because we are making significant reductions in some of the other contracts that we had pre-merger as those contracts have rolled over.

James Ratcliffe - *Barclays Capital - Analyst*

Can you unpack a little bit the better churn number in the quarter. How much was that declining retail base and the declining seasonality of that churn versus any boost from the price increase.

David Frear - *SIRIUS XM Radio Inc. - CFO, EVP*

I think that the biggest factor in the churn is obviously the stickiness of the service. Improving economic conditions benefit us. Generally the consumer has gotten healthier. We keep an eye on credit card default rates and delinquencies, that while the sequential improvements from the fourth quarter and those are a little mixed, the year-over-year improvements are pretty significant. That has a big impact on us. One of the things working against us is the continued rollover of cars, right? So that the fleet of enabled vehicles is aging. We have more vehicle-related churn now than we used to have. That has been more than offset by reduced non-pay rates and credit cards as well as just the general improvement in the economy.

Operator

Jason Bazinet, Citi.

Jason Bazinet - *Citigroup - Analyst*

Thanks so much. I think you gave the paid and unpaid trial inventory figure of 5.7 million; do you mind giving us the paid trial component of that. My second question is on the churn, is there any reason to believe, is there any sort of -- other than the car sales dynamic you mentioned -- any reason to believe that the Q1 churn rate won't be the seasonal high for the year? Thanks so much.

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Mel Karmazin - *SIRIUS XM Radio Inc. - CEO*

Let me hit the churn question and then David will handle the other one. We have given some metrics and we basically believe that our churn rate will be somewhere between 1.8 and 2.0. We had thought that the 2.1 might be the result of the price increase; right now that's looking less and less likely. If you take a look at how we performed over a long period of time, the churn rate is somewhere in this 1.8 to 2.0 range just like the conversion rate will move around a little bit. For the most part we think of that as being somewhere around 45%.

David Frear - *SIRIUS XM Radio Inc. - CFO, EVP*

And the paid promotional trials at the end of the quarter were less than 4.1 million.

Jason Bazinet - *Citigroup - Analyst*

Thank you so much.

Operator

Ben Swinburne, Morgan Stanley

Ben Swinburne - *Morgan Stanley - Analyst*

Couple of questions, David, could you help us think through the move from SAR as we see the numbers roll through to gross adds. You gave the build rate, I think was 65%, the conversion rate. But there is other things going on in that number that we probably don't see, particularly channel mix within OEM that might lead to car sales with radios that don't show up in you gross adds number. I wonder if you could add any color there to help us think about that math. And then, related to that, which cost items are impacted by that? In other words, where are you going to book expense without gross adds in the current quarter? I think you mentioned SAC, but I think there are probably some others as well.

David Frear - *SIRIUS XM Radio Inc. - CFO, EVP*

It's for the most part it's in SAC. On the install side of things that generally that's all subsidies. There are some partners who, when we convert we have a bounty payment that's due that shows up in sales and marketing costs. You also have some pick up, I guess, in both customer service and billing and sales and marketing as it relates to the attempts to convert those unpaid trial subscriptions. For the most part, I think you should think of it as being in SAC.

In terms of the translation from SAR to gross adds, you're right, it gets a little fuzzy. There are a lot of moving parts to it that go to not only shifts and market share among OEMs and which ones are paid trial partners versus unpaid trial partners, but also as you think about the full year that the guidance we provide for net additions is – based upon an assumed mix and effective inventory of paid trial subscriptions as of December 31. So it's a particular point in time. And, depending on what you assume that fourth quarter pattern of sales is and what the mix is between paid trial partners and unpaid trial partners, you can end up with some variability in what you estimate for gross adds and therefore, net adds for the year.

Ben Swinburne - *Morgan Stanley - Analyst*

Is I safe the assume that there was a mix towards greater unpaid trial subs this quarter, like a Toyota or other partners where it wouldn't show up in the subs?

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David Frear - *SIRIUS XM Radio Inc. - CFO, EVP*

It's probably a little bit, but you had generally Ford and GM shedding share in favor of Chrysler, which is a push from a subscriber perspective. But the Japanese are picking up and that's especially going to be true in year-on-year comparison as you go through the rest of the year. We know that a year ago, there was a terrible set of circumstances in Japan and then the flooding in Thailand later, both of those events impacting our asian partners more than the US and European partners. Generally, I think as you look at the SAR increase year-on-year, that all other things being equal --. I don't know what's going to change in the automotive industry, but just relative to last year, you would think the pick up would generally be in unpaid trial partners.

Mel Karmazin - *SIRIUS XM Radio Inc. - CEO*

It's interesting, this morning, Hyundai announced they were adding a third shift to their factories because demand was increasing so greatly. We think the mix of asian partners impacted that in the first quarter.

Ben Swinburne - *Morgan Stanley - Analyst*

That's very helpful. Lastly, Mel, if I could come back and thanks for humoring us on the Liberty discussion. I get the question from a lot of SIRIUS shareholders when they read the Liberty commentary and the petition that the company argues they have already got de facto control because of their position and the way people vote their shares. It's a little bit of a circular argument. It seems to suggest they have already got control, so you might as well give it to them. One of the questions I get is, what are the practical implications of that for SIRIUS shareholders. I don't know if you have spent time on that. I'm sure everyone can sympathize as to why any company would not want the FCC to declare that they are now controlled by another company. But, in terms of the practical implications for SIRIUS shareholders, any comment there as to what you guys think that might be if the FCC rules not in favor of your argument?

Mel Karmazin - *SIRIUS XM Radio Inc. - CEO*

Again, I need to direct you to Liberty because what Liberty has not in that FCC application indicated anything that they want to do. They just are asking for it. When they get asked, why are you doing it? They have only said we want to keep all of our options open. I think it would be foolish to discuss what Liberty's decision would be and what the impact would be upon our Company. Obviously we are interested in doing what is right for all of our shareholders. When the time comes, if the time ever comes, that Liberty's interests are different than the 60% shareholders then obviously we will do whatever we can do to assure and protect the interest of our 60% shareholders. But we have no reason that our interests are not aligned. Liberty has the right to not tell us what their interest is. They have not told us exactly what their interest is. I can only urge you to ask them and we will listen in on those calls.

Operator

David Bank, RBC Capital Markets.

David Bank - *RBC Capital Markets - Analyst*

Thanks very much for squeezing me in. Mel, thanks for the detail on the online product that's rolling out to all access. It looks like both a great offensive as well as defensive product. Can you talk a little bit about how you view the ad-supported competition in that – does your research give you a sense of how many of your current subscriber base are listening to the premium, are there for the premium product versus the jukebox in the sky? Do you guys have research behind that or a sense of what that is?

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Mel Karmazin - *SIRIUS XM Radio Inc. - CEO*

Let me give you some overview. We have a great deal of research about our subscribers and what they like from us and what they may like from others, as well. In general, we don't believe that the IP business for audio content, the radio content business, where the royalty fees are so extraordinarily high, and you are at the mercy of advertising revenue, particularly as the advertising moves towards the smart phone, and the limited opportunities that you have to monetize that through different types of advertising. We are not big fans of it.

On the other hand we are very big fans of giving subscribers what they want, not just in the car. You should think of our 2.0 strategy as being to super serve our subscribers. They get a great product when they are in the car; we want them to get the same great product and even expanded versions of it when they are in a mobile environment or in their home, and that device that they are using is principally a smart phone. Why wouldn't we, where there is no constraint on our bandwidth, be able to expand our offering so that our existing subscribers got this great experience with the user interface in the car and total, no dropouts and able to get the channels no matter where you are in the continental United States.

That experience is phenomenal and we want to give them that same great experience on the internet where the technology has some vulnerability but the one thing that is an asset is the fact that we have more bandwidth and we can put more content out there. So, yes, sometimes that content drops out on the internet. But on the other hand, that's a problem more for our competitors than for us. That's our strategy. It's not that we think it's such a great business to be in the internet radio business, it's because we are doing it to supplement the experience that our subscribers get.

David Bank - *RBC Capital Markets - Analyst*

Thank you, guys.

Hooper Stevens - *SIRIUS XM Radio Inc. - Sr. Director, IR and Finance*

Thank you very much, and that concludes our call.

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CNBC EXCLUSIVE: CNBC TRANSCRIPT: SIRIUS XM RADIO CEO MEL KARMAZIN SPEAKS WITH CNBC'S JIM CRAMER TONIGHT ON "MAD MONEY W/JIM CRAMER"

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By: Steffanie Marchese

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When: Tonight, Thursday, March 8, 2012

Where: CNBC's **"Mad Money w/Jim Cramer"**

Following is the unofficial transcript of a CNBC EXCLUSIVE interview with Sirius XM Radio CEO Mel Karmazin tonight, Thursday, March 8th on CNBC's "Mad Money w/Jim Cramer" (6 & 11PM ET). All references must be sourced to CNBC.

Video: Cramer Tunes into Sirius XM CEO

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JIM CRAMER: Has Sirius XM, the one and only satellite radio company in America, finally got its groove back? This $2 and change stock has run up 35% in the last few months. Now it seems to have more catalysts than you can count. I was skeptical of Sirius when the federal government made them wait eons before approving the merger with XM, closed on July of 2008. As a result of the extended wait the combined company did have a near death experience in late 2008. For only being saved by an infusion of capital from Liberty Media, which purchased a 40% stake in the satellite radio company. More on that in a moment.

But a lot has changed in the last few years. Auto sales are now on fire. That's a huge market for Sirius. They've also moved into the used auto market, which is gigantic for them. In the most recent quarter the company added 540,000 new subscribers. The total count is now 21.9 million.

In fact Sirius XM has become so successful that many worry its savior, Liberty Media, could buy the whole company on the cheap, something that I regard as a high quality problem. That's why I'm thrilled to have Mel Karmazin, the fabulous CEO of Sirius XM radio, and before that unbelievably successful work at radio and TV, who is celebrating the 10th anniversary of Sirius XM in an amazing fashion, what is sure to be a legendary Bruce Springsteen concert at the Apollo Theatre in Harlem for Sirius XM subscribers only.

We just happened to see a ticket going for $10,000 on eBay, by the way, this afternoon. He's with us tonight to give us a sense of where his company's headed. Mr. Karmazin, welcome back to Mad Money. Mel, good to see you.

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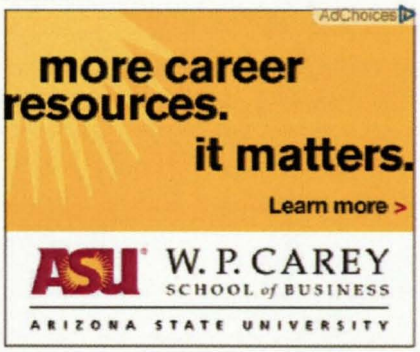

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MEL KARMAZIN: Good to see you, Jim.

JIM CRAMER: Good to see you. Have a seat.

MEL KARMAZIN: How are you? Thank you.

JIM CRAMER: First, I want to thank you. When my father got sick this summer-- he was at a hospital in Philadelphia. And they didn't have CNBC on TV, so we very quickly got him a Sirius XM radio, which had CNBC you guys are doing a whole lot more than just when you first started.

MEL KARMAZIN: Oh yeah. I mean things have been great. I mean I've been here now almost eight years and when I joined the company we had 600,000 subscribers and we had revenues of like $67 million. So it's been an extraordinary run.

JIM CRAMER: Now I like to measure your company as a cash flow company, because you taught me to do that when you were in radio. People don't understand, because they see it's a $2 stock. They think, "Well, it must be losing a lot of money." Can you explain to people how it's the cash flow that matters and how that has really ramped up since the merger.

MEL KARMAZIN: So I believe, and have for a long time, that free cash flow is the only metric that creates wealth for investors.

JIM CRAMER: Right.

MEL KARMAZIN: Free cash flow is what enables you to buy back your stock, make acquisitions, pay down debt. And I believe free cash flow is an important metric. Our free cash flow now, is growing-- it's extraordinary. Before the merger we had negative free cash flow of $500 million. Negative free cash flow. This year we will have $700 million of free cash flow. We haven't given guidance for next year. Analysts have us at a billion of free cash flow and continuing to grow. So it's a great start.

JIM CRAMER: You-- they are in tune? They are off the mark?

MEL KARMAZIN: Who am I to say what analysts say. But we have not acknowledged what is going to happen beyond 2012.

JIM CRAMER: But it wouldn't shock you to do that?

MEL KARMAZIN: No. I mean if we've gone from $400 last year to $700 this year, you know, and the year before that we were at a $100 and something, that growth rate looks like it's going to continue--

JIM CRAMER: Okay.

MEL KARMAZIN: --for some time.

JIM CRAMER: But Mel, if that's the case, you got one of the smartest guys in the world, 40% shareholder, Liberty. Why shouldn't they, now that the standstill's gone away, start buying and buy the rest of the company for, say, $250, which is what some of the analysts are saying, capping all the return that you can give shareholders?

MEL KARMAZIN: Well-- Liberty Media is free to do anything they want to.

JIM CRAMER: Yeah, they can do what they want and you can't tell them what to do.

MEL KARMAZIN: And I have no interest in telling them what to do. But what I am able to do is represent the best interests of the non-Liberty shareholders as well. So the way I look at my job now I'm responsible for all of our shareholders, including Liberty. If there ever was to be a transaction that Liberty would want to initiate, my responsibility would be to our shareholders to

make sure that they are treated very fairly.

JIM CRAMER: All right. Just a couple days ago Pandora reported a number. Everyone thought Pandora's spotified, these are all these free internet models, can destroy you. I look at Pandora and I think that they actually have rising costs and that you don't have, and that the competitive threat is overstated. But I need to hear it from you, because a lot of people tell me, "Jim, you're nuts believing in Sirius at this point?'

MEL KARMAZIN: So Jim, we have a lot of competition. Right? And I believe business models matter. Now I mean some people could sit there and disagree and say it's about eye balls or it's about something else. I believe it's about the business model. We competed with our terrestrial radio for the last 11 years. Grew from zero subscribers to 22 million subscribers. We now have competition from I.P. You know?

JIM CRAMER: Right.

MEL KARMAZIN: They're-- no barrier to entry. Anybody could be an I.P. audio content company. They have a questionable business model, because it's depending upon advertising. I have believed, for the last 10 years, from before I came to Sirius XM, that the internet has created so much inventory, so much inventory in the advertising world, that a business model that is principally advertising-driven, whether it be terrestrial radio or I.P. radio, it's advertising driven, is at risk. I don't particularly like that business model. Great company, Pandora. Great product. But not-- question about the business model.

JIM CRAMER: Right. Now speaking of your programming costs, there are a lot of deals that were put together when XM and Sirius were-- fighting tooth and nail. So you paid a lot more. Is it possible-- I don't think how much the Stern contract is. I know he is going to be on NBC soon. And I'm very excited about that. Very excited about that. But I'm trying to figure out whether you have a bunch of levers, including your costs, unlike Pandora's, could principally go down over the next four or five years as contracts roll over?

MEL KARMAZIN: If you take the entire premium entertainment category, so include television-- you know, cable television, satellite television, their costs are all going up. You see how there's these wars between the MSOs--

JIM CRAMER: Right. Right.

MEL KARMAZIN: --you know, and the content owners. What we have said is that our content costs are going down and as a percentage of revenue it's going to be less. There is no-- your company, Comcast, is faced with the idea that their programming costs are going up. Ours are--

JIM CRAMER: Going down.

MEL KARMAZIN: --going down. And they're going down because-- though we have all of this competition, there's only one satellite radio. So if CNBC wants to be on satellite radio, because it's one of the buckets-- they want to be on the internet, they want to be on cable. There's one conversation they can have and that's with us.

JIM CRAMER: Right.

MEL KARMAZIN: And that's different than when we were at war with each other.

JIM CRAMER: You guys were at war with each other. You know, I got my bill. I didn't even notice I guess it's a little bit higher. Am I, like everybody else, you've now had, what, a couple of-- you've had enough time to gauge whether there's been a fallout for that price increase?

MEL KARMAZIN: So-- Sirius started getting its first subscriber, as you pointed out, 10 years ago, having never had a price increase.

JIM CRAMER: Yeah. It's a bit of a bargain.

MEL KARMAZIN: When I first came to the company I thought we ought to raise prices because from the time it started got Howard Stern, got the NFL, other great content and never passed along those costs. We wanted to grow rapidly. Decided to hold off. Was looking at doing a price increase again. The merger came along. I said, "You know what? We don't need to do a price increase. We can get the savings that way." So now 11 years later, we've raised the price for the first time. I think we handled it really well. You know, we learned a lesson from another company that--

JIM CRAMER: Yeah, and I want to talk about it, because that company's--

MEL KARMAZIN: But--

JIM CRAMER: --valued much less than you, but it's a subscription model with similar number of clients. We're speaking about Netflix. Trying to understand 15 billion. I'm trying to get my arms around why you should be worth $15 billion and not $7 billion or $6 billion like Netflix. I don't understand, Mel.

MEL KARMAZIN: So on the price increase-- and I'll give you the answer on that one, is that our consumers have been really loyal and they really love our product. And the reaction has been very modest. Very modest. So, you know, we feel very good about, you know, the subscriber growth in light of the fact that we put in a price increase. On the valuation, I don't make the valuation.

JIM CRAMER: I know you don't, but it's hard for me to get my arms--

MEL KARMAZIN: Well--

JIM CRAMER: --around why you should be at $15.

MEL KARMAZIN: What is a company that is throwing off you know, 80% of its EBITDA is free cash flow. That free cash flow is growing at 75% last year. It's going to normalize. Keep growing. And the idea is that the competition that we are facing today, the competition we are facing today, terrestrial radio, is not investing in new content. They're not going to get bigger. On the I.P. side of the house, don't know who is going to win. I think that you know, today we are the number one radio revenue company. Number one radio in the world.

JIM CRAMER: Right. So therefore--

MEL KARMAZIN: In the world. And have growth characteristics. A growth company characteristics.

JIM CRAMER: Right. You do know that I want to understand it. Maybe -- boy, I'd love to make some news here, but you're-- got so much cash flow. You can only buy back so much debt because you have a lot of restrictions on co-options. Why not initiate a gigantic buy back and make all those people who have stuck with you and that stock for so long recognize that you believe, like they do, that the stock is way too cheap?

MEL KARMAZIN: So what we've said-- and this isn't the first time I'm acknowledging this, so I-- though I always love making news on--

JIM CRAMER: And I appreciate--

MEL KARMAZIN: --your show.

JIM CRAMER: --that. Oh, I appreciate that.

MEL KARMAZIN: Okay. But the fact is that when you have all of this free cash flow you could make-- you use the free cash flow for an acquisition. There is

nothing else.

JIM CRAMER: There's nothing.

MEL KARMAZIN: There is nothing, zero, out there that I want. Okay. So you're not going to make an acquisition. You could return the capital to shareholders. At the end of this year, at the end of this year, we'll have between a $1.2 billion and a $1.5 billion of cash on our balance sheet. I don't know what to do with it other than to use it as you're characterizing.

JIM CRAMER: Fair enough.

MEL KARMAZIN: Now it's a board decision.

JIM CRAMER: Right.

MEL KARMAZIN: It's a board decision. I would hope that the board would share my feelings that way, but that has to be the agenda.

JIM CRAMER: Okay. Absolutely.

MEL KARMAZIN: That absolutely has to be the agenda.

JIM CRAMER: I want to talk about Howard, because he's still amazing after all these years.

MEL KARMAZIN: He's the best.

JIM CRAMER: He's amazing as ever.

MEL KARMAZIN: He's the best.

JIM CRAMER: He's coming back and doing TV. You like that from your point of view? You don't mind sharing him with NBC?

MEL KARMAZIN: I think Howard is the-- absolutely the greatest radio performer of all--

JIM CRAMER: In history. Right.

MEL KARMAZIN: --time. In history of all time. We are very identified with Howard because he does these radio shows. The bigger Howard gets and the more exposure Howard gets, the better it is for me-- for us, our company.

JIM CRAMER: Right.

MEL KARMAZIN: Howard's not doing it for us. Believe me.

JIM CRAMER: No he's making good money, right? He's making hundreds of millions.

MEL KARMAZIN: Howard's doing it-- Howard-- and he's worth it. Whatever-- I mean he's not-- it's not that he's paid badly. He's worth the money that he's getting. And it's great for us that he is so successful. And I'm happy for Howard because I've known him for a long time.

JIM CRAMER: One last question, because I'm still a business guy about where you get your customers. The average car in this country is 11 years old. Are you beginning to see from used cars a major growth initiative or is it really going to have to come from new cars and that 14.5 million build could provide a lot of upside in 2012?

MEL KARMAZIN: So, so far this year on the new car side, right? Most people seek-- are seeing a number between 14 and 15--

JIM CRAMER: Yes.

MEL KARMAZIN: --mil. That's up huge. So--

JIM CRAMER: Yeah, from nine a couple years ago.

MEL KARMAZIN: That's going to drive our top line, together with the price increase, okay, that we're doing. And that's where the top line revenue growth is there.

JIM CRAMER: Okay.

MEL KARMAZIN: Used cars. There's 200 million used cars on the road today. We-- a lot of them have satellite radios in them because we started five years ago. We started ramping it up. We believe that used cars are going to be a big driver. We're working hard to find the information. So, as an example, I know how to deal with the certified pre-owned, I know how to deal with Auto Nation, Auto Nation dealers.

JIM CRAMER: Right.

MEL KARMAZIN: If you sell a car to me, I got to-- I want to find out how I can get that information so I can market to you and give you a three month trial. It is a big deal.

JIM CRAMER: Are you going to solve it--

MEL KARMAZIN: The numbers are small.

JIM CRAMER: --this year?

MEL KARMAZIN: Well, we're working and we're get--

JIM CRAMER: All right.

MEL KARMAZIN: --we're getting better every day.

JIM CRAMER:

16:40:26:00 Okay.

MEL KARMAZIN: Used cars are contributing toward the growth number that you said in the fourth quarter. Record year last year. Oh, by the way, you talked about Pandora, you talked about risk. In 2011, last year, with all this competition, we added the most number of subscribers since our merger.

JIM CRAMER: Well, I think you guys are--

MEL KARMAZIN: So--

JIM CRAMER: --you know, I it is a remarkable story. I did think that you were dead, Mel.

MEL KARMAZIN: I know.

JIM CRAMER: I did. And you--

MEL KARMAZIN: It's a great-- and by the way, you said that.

JIM CRAMER: Right.

MEL KARMAZIN: And in fairness to me, you know, it hurt.

JIM CRAMER: I know. I know. Look, and I appreciate you coming on the show because that was not-- you know, it was a hard hitting thing that I did. I know that.

MEL KARMAZIN: And you were--it could have been right. And a lot of companies-- a lot of companies-- Warren Buffet was lending money to Goldman Sachs and G.E. at 10% plus warrants. So when we spoke to 22 companies, okay, that were frozen, they wouldn't do it. And to his credit, you know, John Malone and Greg Maffei stepped up and, you know, made great investment for them and great investment for us.

JIM CRAMER: Well, congratulations on your 10th year. You deserve it. You're a winner. Mel, terrific. Thank you so much--

MEL KARMAZIN: Thanks a lot.

JIM CRAMER: --for coming on Mad Money.

MEL KARMAZIN: It's fun. As usual it's always fun.

JIM CRAMER: Mel Karmazin, CEO of Sirius XM Radio. Please-- Google him and see the successes and you'll know exactly was Sirius XM it going to be a huge success beyond where it is now. Stay with Cramer.

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EDITED TRANSCRIPT

SIRI - Sirius Satellite Radio at Morgan Stanley Technology, Media & Telecom Conference

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FEBRUARY 28, 2012 / 5:15PM, SIRI - Sirius Satellite Radio at Morgan Stanley Technology, Media & Telecom Conference

CORPORATE PARTICIPANTS

David Frear *Sirius XM Radio Inc. - EVP and CFO*

CONFERENCE CALL PARTICIPANTS

Ben Swinburne *Morgan Stanley - Analyst*

PRESENTATION

Ben Swinburne - *Morgan Stanley - Analyst*

Okay, [all] we are and yes we are. Good morning, everyone. Thanks for joining us. I'm Ben Swinburne, Morgan Stanley's Media Analyst and please note the important disclosures including my personal holding disclosures and Morgan Stanley disclosures, all appear at the handout available in the registration area and in the Morgan Stanley public website.

And I'm thrilled to have with me this morning David Frear, CFO of Sirius XM Radio. David has been CFO since 2003. Prior to that was CFO of Savvis, among other companies. David, thanks for being here.

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Thank you, Ben.

Ben Swinburne - *Morgan Stanley - Analyst*

Let's talk at a high level first about the opportunity in front of XM Sirius -- Sirius XM, excuse me. You guys recently gave guidance for 2012, but just getting back and looking more longer term, how do you talk about this addressable market for you guys and the opportunity?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Sure. It's really about enabling vehicles. So in a lot of ways, I think you can think about us as looking somewhat like the cable industry did in the early 1980s, right. They had plenty of content that was interesting stuff to watch, it was worth paying for and the question was were they in your neighborhood, right?

So the cable industry was building out homes. So equipping new cars with satellite radio is our equivalent of homes past. We've got about 40 million vehicles with a factory-installed satellite radio today. And by the end of the decade, that should exceed 100 million. So our job will be over the course of the next several years to see how many of those we can have revenue active in any given month.

Ben Swinburne - *Morgan Stanley - Analyst*

Great. You guys have put in your first price increase, at least that Sirius XM put one in a while ago. I know it's probably early days, but can you talk about the reaction you're seeing from customers, everyone has got the Netflix experience in their back of their minds from last year?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Sure. Yes, so I guess good news is that I think we approached the price differently than Netflix did that it was a very straightforward, very clean story for our subscribers, no alterations in the service or anything else, just a simple change of price. We communicated that out to them in advance that we -- as I think many of you know, we have over half of our subscribers are on annual or longer plans.

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So as their plans come up for renewal, as part of the renewal notice, we also notify them with a price increase. We probably notified half of the subscriber base at this point. And so far, it seems to be going well. I'd say it's consistent with the guidance we provided. And I would note that we did indicate that the 1.3 million net adds for the year was we thought a conservative future guidance.

Ben Swinburne - *Morgan Stanley - Analyst*

Yes. You've not talked a lot about this in how you guys manage sort of customer retention and manage churn and you have some churn guidance as well out there. How do you think about the price increase as it relates to the guidance on churn which is for a little bit of an increase?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

We have guided to an increase in churn. Logically, if you increase prices, you're going to suppress demand. There are a lot of other factors going on out there that you have changes in mix of subscribers, you've got a changing economics or your backdrop you've got the used call market opportunity growing. So it's very difficult to isolate the impact of any one driver.

You can guess at it, but you really don't know. So on balance that we would expect self-pay churn to be up because of the price increase. It was 1.9% last year, we provided 2.1% guidance for this year. I think that we are hopeful that we'll beat that guidance as the year goes on. But it's too early to tell at this point.

Ben Swinburne - *Morgan Stanley - Analyst*

Okay. I was going to follow up because you mentioned before you think the net adds guidance is conservative. We've also had a very good start to the year in vehicle sales. So sort of two potential levers, better SAAR, lower churn, I guess both. Any more context to that comment?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

So we say all the time that we don't really know what auto sales are going to be, right. There are plenty of people out there that have their estimates for auto sales and I'm encouraged by what I've seen coming out of January not only in terms of auto sales and what I've heard about February in terms of the rumors of what sales will be but also the actions that we're seeing taken by the analyst community that if you look at last year, we went all through the year with softening estimates in auto sales.

So generally, you were looking at the analysts who were covering it sequentially sort of degrading their outlook for auto sales for 2012 during 2011. And as we've come into the first part of 2012, the few analysts who have updated since the beginning of the year have generally been taking their estimates up a little bit. Now, it really hasn't changed the average, right? So the averages when we came into the year was about 13.7, it's still 13.7 among the analysts. But the few people that have come out in recent weeks have generally come in at the 14 level. And so with January coming in sort of around that level, I'm cautiously optimistic that we've got a little wind at our back in auto sales.

Ben Swinburne - *Morgan Stanley - Analyst*

Great. Another key metric that everyone follows and focuses on that you've guided to is conversion ratio. And I've asked you this question before in the past is as SAAR ramps off of the economic bottom we were in over the last few years, do you expect any change in conversion ratio and how do you guys manage that [and have much] free cash?

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David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Sure. The conversion rate has remained very consistent for a long period of time, right. So it's been about three years now. If you go back and look quarter-by-quarter that for the most part, you're going to see it bouncing around between 44% and 46% that you've got a couple of statistical outliers that pop up in the quarters but --

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Ben Swinburne - *Morgan Stanley - Analyst*

And this is converting trials to pay, [just everyone] that we're talking about.

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Exactly right. So there really isn't anything we see that's going to change that behavior. What moves it around for the most part now is mix. So whether it's mix between auto partners or mix within an individual partner based on their changing model mix and sales. But largely, mix factors are what we see coming through here.

In many ways, one way to think about this is it is a huge direct marketing organization. We get a very high-quality data on who owns our radio. So within days of the sale, we get customer name and address of new car sales, from the automakers. And it's a fresh lead, it's a highly accurate list that we get and it gives us the opportunity to put that new owner through a marketing campaign that is sequenced and we constantly tune it, change it from one partner to next and to try to optimize the conversion rate. It lends itself to a lot of statistical analysis, right. So we can look at kind of different mailings, how they perform the kind of yield that we get off of altering the cadences.

And then, as the used car opportunity comes around, we're looking to extend that same kind of marketing campaign management into the used car universe, that our objective is to work with the auto companies and work with the dealer groups to get that same sort of fresh sales data, fresh customer name and address within days of the sale, so that we can use our same well-proven direct marketing techniques to convert used car buyers.

Ben Swinburne - *Morgan Stanley - Analyst*

I want to ask you about the used car opportunities. The Sirius model is fairly straightforward. When you think about new vehicles, we will have the SAAR, we'll have two-thirds of [them, we'll have] radios and then you've got your conversion rate which has been steady. It's a pretty easy calculation, even I can do it. But on the used car front, it's a little trickier. Can you sort of size that market today for us and maybe the opportunity, where you are today, what deals you have in place and how that's going?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

It's definitely trickier to do because we don't really know when the cars are going to turn over, right. We find out after the facts and we don't necessarily find out on all of them. So I think the best way to think about it is the statistics for the auto industry are that first car ownership has now lengthened to between five years and six years.

And so if you were to look backwards five to six years, and say, okay, how many new cars we're getting satellite radios installed into them, well, then on average, they should be coming up for changing hands now. So five to six years ago, we were at 20% penetration rates of new car production.

If you roll that same kind of analysis forward, the last couple of years, we've been north of 60%. So you would think five, six years from now that we should have a 60% representation in used car sales. The one trick there is that remember that used cars are going to turn over multiple times. And so that you'll give you a certain amount of double counting.

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So you won't find us at our five-year ago rate used cars now, we shouldn't because there are cars turning over for a second time or a third time or a fourth time in the population. Same thing will be true in the future. But we are trying to sort through exactly what that mix impact looks at, what kind of consistency it shows to see if it isn't something that we can use from a guidance perspective. But the numbers are still moving a little bit.

Ben Swinburne - *Morgan Stanley - Analyst*

Do you guys have a sense for how many you have today in that used car market?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

We do. We haven't come out with the numbers yet only because we're trying to make sure that they actually represent what we think they do. So for instance, if you were to -- I can't imagine this would be the case. But if you were to deactivate one of your services, I know you have many, that -- and then, it was reactivated perhaps in your [voicemail] that that might appear in our database as a [second only], right.

Ben Swinburne - *Morgan Stanley - Analyst*

That's because you haven't changed your name is what you said.

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Right. So we are -- going back and looking at our householding algorithms and what kind of best practices to use to try and get a -- let's say a better read on that information and as we get more comfortable with the data, we'll certainly talk more about it.

Ben Swinburne - *Morgan Stanley - Analyst*

Okay. Let's talk a little bit about your retention efforts and ARPU. One of the things this year that we're looking at is, you've put in a price increase, you're trying to manage churn. One way to manage churn is to sort of give people breaks if they get upset about the price increase. So can you sort of frame how you're balancing rate and churn this year given that you're putting in this price increase and what those numbers might look like?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

We don't intend to lose a single subscriber, all right, not one. And so we will use all the tools at our disposal to keep subscribers. It's hard to get them.

Ben Swinburne - *Morgan Stanley - Analyst*

Whenever it is necessary.

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Yes. And you want to keep them engaged, right. You're more likely to keep them for the long term if they are engaged and the best form of engagement is listening. So what am I hopeful of? I'm hopeful that we're able to beat our subscriber guidance and we're able to beat it with less discounting and therefore a better-retained price increase.

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So we also beat our revenue guidance and then we beat our EBITDA guidance and I wouldn't mind missing our EBITDA guidance because auto sales jumped through the roof and we had significantly higher growth than had [expended] in SAC, but all in all what we want to do is we want to beat everything on every front that we kind of are hopeful, but the guidance is what the guidance is at this point.

Ben Swinburne - *Morgan Stanley - Analyst*

Okay. How do you think about tiering a product? And one question I get a lot from people is how do you attack that used car market. Are there people who are more price sensitive, this is a premium service. How do you -- do you guys think about opening this out to a boarder audience by tiering more? I know you've done some in the past were some -- part of the deal requirements, etcetera. But more of an offensive approach, I guess.

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

We haven't seen big movements in demand based on low rate price, right. So the -- we do have the discount strategies in place. It's definitely helping us retain subscribers, but I don't think there is anything about it that would suggest, you know what, we're going to double subscribers if we cut the price by $4 and have a lower tier.

So that being said, you know that it has to have some effect. The good news about satellite radio is in our penetration in vehicle is things change in a very evolutionary manner. And so we'll have an opportunity to test our way into different capture strategies without running the risk of what you've been most concerned about with introducing a lower price tier which would be cannibalizing the base, right.

And so we'll have the opportunity to check that out. It's a funny thing. At $14.49, it's not really that expensive of a premium service. And if you go to Starbucks and get three or four cups of coffee a month, you're pretty much done with $14.49. And so I don't believe it's really an affordability issue. It's more of a value issue, right. We have to convince people that this is something worth not only buying the first time but continuing to pay for it. It is, as anybody who has used it, a radically better form of radio than anything else that you've got out there with a diversity of content and we have to do a good job of continuing to demonstrate value to subscribers.

Ben Swinburne - *Morgan Stanley - Analyst*

On that front, I want to ask you about competition and smartphone penetration. I saw some stats this morning on a survey about the majority of people with smartphones use them in the car through Bluetooth and other connections. Not only since we compete with free and you've done a pretty good job competing with terrestrial radio over the last decade. How do you think about what's happening on Internet radio? I've got Pandora. We have Pandora at the conference later in the week -- actually, today, excuse me. How do you think about those services in differentiating and competing, are they competitive, how do you look at all that?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

They are absolutely competitive, right. So our free competition isn't limited to terrestrial radio. It's also the -- all of the Internet radio services including Pandora. Look, music is widely available to consumers for free. Just it's a fact of life. So the music, while an important component of our service, isn't what really drives demand for the service.

It's the unique content that we bring and whether that unique content is the way that we curate the music and organize for people or whether it's the news talk, entertainment and sports that we bring to the device which is also, as you think about it, curated content. We organize our content, we provide it to people and we think that has value for them. When I look around this room, I see a lot of smartphones on the table. And my guess is that many of you have used Internet radio services yourself and many of you probably have also subscribed or do subscribe now and hope all of you, we'll do a check on the way out who does and doesn't subscribe. But subscribe to satellite radio.

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Our basic demo, right, it reflects our distribution channel. So our main distribution channel right now is new car sales. So the new car sales buyer tends to be higher income, higher educated and that demo tends to overconsume a lot of products, so they overindex smartphones. They overindex Internet radio listening and yet they continue to subscribe to us. So we expect competition to intensify in the future. We expect to continue to deliver the best value proposition in audio entertainment to people to drive subscription volume.

Ben Swinburne - *Morgan Stanley - Analyst*

How do you measure -- and I know, we've asked you this question before, but you mentioned that a lot of the non-music content that you're curating drives to products. How do you guys measure that? So how do you measure what's working, what's not and where do you spend money and where you don't?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Well, we don't measure it from a traditional ad, audience measurement metric because there are no commercials on our music service. And so average quarter-hour listening, things like that, are -- just really aren't relevant to us. There is no business decision we're going to make based on that. We do get ratings information to support ad sales on the non-music channels where we do sell advertising, but we do audience listening stuff to ensure that our catalog is fresh, that people are hearing the songs that they want to hear and we do want to keep the content interesting and compelling to customers.

Ben Swinburne - *Morgan Stanley - Analyst*

And you don't have any sense of what -- or would share with us the relative listening between music and non-music, or if you guys looked at that?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

It's not something we really look at.

Ben Swinburne - *Morgan Stanley - Analyst*

Okay, okay. Let's shift over to the products side of the equation. You've launched a 2.0. You're launching a 2.0. You've done an IP streaming product in the past. What should customers and investors expect on the product road map from you guys this year?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

So if you look at the 2.0 product that's in the marketplace, the Lynx, that it's actually a great demonstration product for what we'll bring to factoring [small] radios over the course of the next couple of years and we'll continue to enrich that product in the retail marketplace only because we can spin iterations of the product faster in the retail and it becomes a great demonstration of the capabilities it'll bring to car radios as well.

So the electronic programming guides, on-demand content, to the extent that you have a Wi-Fi connectivity, the couple hundred dollars of storage capability, the ability to background, record multiple channels for playback later, that scheduling shows -- favorite shows that you'd like to listen to the Hispanic content offering, that's been added into the overlaid portion of the spectrum. All things that are expanding these services, features and content to again continuing to drive that value proposition for the subscribers.

Ben Swinburne - *Morgan Stanley - Analyst*

Any of these rollouts going to materially impact either costs or you're actually facing some in top line this year?

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David Frear - *Sirius XM Radio Inc. - EVP and CFO*

It's all in our guidance, all factored into the guidance and we believe all of it drives increased margins and increased cash flow.

Ben Swinburne - *Morgan Stanley - Analyst*

Okay. On that front, revenue will be what it will be depending on a reaction of the price increase and SAAR conversion. But on the cost structure, you've been pretty consistent about incremental margins in your business over time. Can you just update on that outlook and also what we should expect for fixed cost growth in 2012?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Sure. So on the margin front, contribution margins, right, which is the revenue share of royalties, customer service and billing and cost of equipment has been above 70% for a number of years and for the same number of years, I've been telling that you should expect longer-term that it's more or like 70%. And I would continue to tell you that to focus on 70%.

Just logically as one music royalties step up each year, so this year they stepped up by 0.5 point in January. So that eats away that margin a little bit as the mix of the business shifts -- continues to shift to OEM, a little more revenue share coming in. So while we tend to improve margin absorption and customer service billing as the business grows that it's offset a little bit by what's going on in revenue share and royalties.

So I'd encourage you to think about 70% as the contribution margin. We'll put the SAC aside from it; fixed costs, we encourage people to think of sort of flattish, the -- over time that we do expect long-term programming cost to continue to decline that there are other costs that have some inflationary increases in them. So those will sort of offset some of the programming savings.

We do have a favorable impact coming up in the fourth quarter of 2013 from new terms on a significant agreement with an automaker that, that contract was renegotiated a few years ago, that the new terms go into effect in the fourth quarter of 2013. It affects a lot of different lines in the P&L, it'll affect revenue share and royalties, it'll affect subscriber acquisition cost, it'll affect marketing cost.

And I think the way that you can think about that, we haven't provided any guidance as to what the net effect is. But we have said many times that you should think of it as material to the change in EBITDA from 2013 to 2014 and it's a material positive change.

Ben Swinburne - *Morgan Stanley - Analyst*

That's right. And I think a year or two after that, you've got potential for baseball, that's a step-down hopefully?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Well, baseball and hockey, both come up after the play-offs in the World Series in 2015 so that they will affect for the most part 2016 our results. Both leagues have great content, great fan bases. We've got a few years before we will face the negotiation with them over a new contract. We're hopeful to keep great content for those fans available on satellite radio and we will see about the terms when we get there.

Ben Swinburne - *Morgan Stanley - Analyst*

Okay. I would love, David, if you could explain to us a little bit about how the royalty rates get set, without going into the [glorious] detail because you've got terms up I think, this year for a new five-year deal or five-year licensing term. You mentioned that the cost levels are going up a percent this year but last year the old agreement. How did these rates get set? And when I look at your business, it seems like the margins could get well

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into the 40s overall, EBITDA margins, barring what happens here. And I think the other side of the table, SoundExchange filed something asking for a 20% of revenue cut versus today's 8%. So how do we think about all those pieces there?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

So, you're right. SoundExchange did file for 20% the -- we filed for something in the 5% to 7% range. I think that of course, the General Counsel will always tell you not to discuss matters in litigation. So with that advice, I'm going to discuss matters in litigation. So they -- SoundExchange's case, you read the case, there is a public version of it available. To me, as an unbiased observer, it reads as if they are retrying the same case with these same facts that they tried a few years ago and then hoping for a result that is double to triple what those facts produced five years ago.

So we, on the other hand, have filed a case that brings in what I would characterize as material new evidence, right. The -- we have gone out and entered into marketplace agreements with independent labels for broader rights, right. So not only satellite radio but the rights cover satellite radio, they cover Internet radio, they cover cable satellite, some of them cover business establishment services.

They have waivers of something called the DMCA performance complement and other terms. And they are at rates that are generally below today's statutory rate. Why would an independent label do that? They would do it in the -- for the sake of deepening their relationship with the Company, that the music industry, in many respects, is about relationships that when you decide to put something into rotation and put it on the air, first of all, we want to make sure that it's absolutely great creative content that it's the kind of song that your listeners would like to hear and -- but relationships go into it as well. So if you've got an act that never comes through the studios, never does the subscriber of that. They just have some guys that would just play, play, play my stuff, but they never do anything to sort of reciprocate from a promotional thing to make it interesting for our subscribers.

So I mean we may play that song, but if we've got the good relationship with the next act who has an equally good creative work that comes through the studios, engages our subscribers, takes calls, does things like that, you have a better relationship, right. And so that as the program managers look at what they're going to put into rotation that, that good relationship will affect the choice they make. The direct licensing is nothing more than an extension of the same concept.

It just deepens our relationship with the labels and it doesn't take a whole lot more rotation to actually make it a better business plan for the labels to enter into a direct license relationship with us to deepen the relationship with the Company and to enjoy the benefits of increased royalties through increased spends.

Ben Swinburne - *Morgan Stanley - Analyst*

Just a couple of follow-ups. Clearly, they are economic animals, so their decision to go direct with Sirius rather than through SoundExchange would only I would assume take place if they see a bigger revenue stream out of it. [You see a deep relationship at least] to understand what you're talking about.

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Yes. And so what they're looking for in many labels, many artists are looking to have their music played. They want to be heard, right. And so if they believe that there is a better chance of their content being heard that, that's a good business reason for them to enter into a direct license.

Ben Swinburne - *Morgan Stanley - Analyst*

Is it a possibility that you end up with a direct relationship cost structure instead of whatever comes out of the board, Copyright Board? I don't know when the decision is actually, I think it's later this year but --?

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David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Well, I think that I don't think it's likely that 100% of the music industry is going to enter into a direct relationship with us. So I do believe that there will be either a settlement reached with SoundExchange. And we do -- we are actively interested in a fruitful negotiation with SoundExchange or that in the absence of a settlement with SoundExchange, the judges will reach a decision based on all the facts in front of them. And again, I like the case that we're going to present to the judges.

Ben Swinburne - *Morgan Stanley - Analyst*

Okay. Great. Let's talk a little bit about capital allocation. I wanted to ask you about your leverage targets. I think you are honing in on them. And what investors should think about in terms of return of capital this year and sort of longer term?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

So as we've said before, haven't had the first discussion with our board yet about returning the capital to shareholders, that's a subject that we'll probably engage with them in later in the year. Now, the Company is certainly generating a significant amount of free cash flow. The growth in that free cash flow is -- has been very strong that we are delevering, and delevering quickly. So we'll take it up as a matter with the board later in the year.

Ben Swinburne - *Morgan Stanley - Analyst*

Are there opportunities on the balance sheet? You've done a lot of things already but more opportunities to go after some of the older debt that was done during the more difficult times in our past that you can help free up more capital, lower your cost of debt?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

The 9.75% are callable in September at I think [1.04% and 7.8s]. And so we are likely to call those not a decision we've taken up yet. But a guess based on the circumstances right now that we'll probably call those in late summer. Other debt, we unfortunately don't have great call provisions on it. So there is a lot of [T plus 50 makeholds] out there but with interest rates where they are people, T plus 50 makeholds are very expensive right now. So we may opportunistically buy back debt in the marketplace.

Ben Swinburne - *Morgan Stanley - Analyst*

Okay. And could you see the Company delevering sub-three times long-term or do you expect to see this business handle higher leverage?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

I think the business is capable of handling a higher leverage. We're still sort of early days in getting there, but it certainly is capable of doing it. But I think three times is a good target for now. We'll sort out how the landscape changes for competition, for demand, for the service, everything else, as we go forward and ensure that we have a prudent amount of leverage.

Ben Swinburne - *Morgan Stanley - Analyst*

Okay. I've got one more and then I'll open up to the audience and ask if you can wait for the microphone before you ask your question. Regarding Liberty's 40% preferred, David, is there anything that you see in the near term that either removes Liberty as a preferred investor or rationalizes

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the structure in some way and there is a March expiration of a standstill [I'm going to] like to ask you about as well, whether that's something that's important or not to the Company?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Well, there is nothing I know of about rationalizing Liberty's position that I read a lot of things in people's research about what Liberty might do. But I really don't have any insight into their position.

Ben Swinburne - *Morgan Stanley - Analyst*

And the standstill expiration, is that something that's relevant?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Yes, not really. I believe that they were free to go above 49% actually a year ago. And so again, that is just a shareholder decision.

Ben Swinburne - *Morgan Stanley - Analyst*

Basically, I think if they were to go over 50% prior to the expiration of the standstill, they would have to tender for the rest, so that goes away basically?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Yes.

Ben Swinburne - *Morgan Stanley - Analyst*

Yes. But they're at 40% today, so lots of room to grow.

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Let's see if we have any questions in the audience.

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

So clearly answered all your questions so far.

Ben Swinburne - *Morgan Stanley - Analyst*

Yes, right upfront here if you could just wait for a second.

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QUESTIONS AND ANSWERS

Unidentified Audience Member

All right, thanks. (inaudible) question but the books [isn't go] to the cause, what do you think is the lifetime of those books is? Is it kind of five years, is it 25 years, are these things not going to need to be reconfigured at all?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

They're designed to last as long as the card does, right. So the -- we've provided a -- in essence a reference platform for technology purposes to the tier one manufacturers that have built radio modules for the OEMs. And so those reference platforms are then built to automaker designs standards by their tier one manufacturers. So just like the radios, the AM and FM radios that we've all seen go into cars last the life of a car. The expectation is that satellite radio will last as well.

Ben Swinburne - *Morgan Stanley - Analyst*

That's a good question. [Got two over there, guys].

Unidentified Audience Member

With respect to the competition, can you elaborate a little more on where you see Sirius being most vulnerable to Pandora?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Well, so where is Sirius most vulnerable to Pandora? I use Pandora as the sort of most prominent brand of a whole bunch of people in the Internet radio space, right. And so, I do think that we are at risk of competition from everybody that's in Internet radio. And as we've seen with Spotify's move to the US, the only thing that really stands in the way of increasing competition is just reaching an agreement with the labels on being able to get your service into this country. There are absolutely no barriers to entry in Internet radio. There is no major infrastructure investment that you need to make that the somebody else built the Internet, somebody else is building the listening device that most of the listening to Internet radio today occurs on smartphones.

And so there are absolutely no barriers to entry. That being said that there are over 100 million smartphones in the United States today and there are an awful lot of cars on the road today that have Bluetooth, that have the aux-in jacks, right, that -- I read this morning that there is an awful lot of them, some that I own that have USB ports. And so there are a lot of ways to get content off of your smartphone playing through your car radio today. So, with 100 million of them on the road already and this is before you get to a connected car where they put a modem in the car that if there is going to be a disruptive technology impact to our business, I think we would have seen it already.

So -- but it's like a lot of the things, I think it's more likely to be evolutionary, right. And I think that the Internet radio business plans for the most parts are actually competing -- while they're competing for a listening with us, they're competing for revenue with terrestrial radio because they are generally ad-based services. And over time, more free competition is going to make it tougher for us, but as Ben said earlier, we've done a good job over the last ten years competing against free. I think we'll do a good job in the next ten years.

Ben Swinburne - *Morgan Stanley - Analyst*

One follow-up right behind you.

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Unidentified Audience Member

Just sticking with the theme of competition, as you acknowledged, your competition is going to intensify. Do you think that will lead to any consolidation? And you're putting your balance sheet's, the capacity issues to one side. Are there any businesses out there that, if they are available that would be of interest to you, [Solaris]?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

So, I don't see the current competition driving consolidation, for instance, between satellite radio and terrestrial radio, or satellite radio and Internet radio. I don't know if it will drive consolidation between terrestrial radio and Internet radio. They have a common revenue model. And so there, you can see a thing there. But for us, we've looked at the Internet radio companies that are out there, both sort of public and private entities, they just don't look like compelling value opportunities to us that we have a very good business model and while acquisitions is a great way to grow business, if you're smart about the ones you do, you need to be smart about them. We haven't yet seen anything that looks compelling to us, that really adds to the performance. We're growing fast, both the top line and very fast at EBITDA and free cash flow. And we are not interested in spending money diffusing our attention in it, degrading those performance metrics at all. So if we can find the right thing for the right price, that helps us to grow faster, then we will do that.

Ben Swinburne - *Morgan Stanley - Analyst*

Probably have time for one more, that's all.

Unidentified Audience Member

How big is news for you guys, like what percentage of listening is news? And when you think through CNN or CNBC and the opportunity for them to just go direct to the consumer over the Internet via some kind of connection through your smartphone or whatever, how would you think about that if you were them and the opportunity of getting sort of affiliate fee from you or whatever you want to call it?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

So, we don't really track the listening between sort of music and non-music sources. We just don't -- we don't track it. Is news important? Absolutely, right. So I mean -- and can we get news? Yes, I got CNBC on my phone right here. I think I look at it all the time. So --

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Unidentified Audience Member

(inaudible - microphone inaccessible).

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

No, you can get that otherwise, right. And so I don't win business with curated content and the thing is that curated content has been around for centuries and I don't see it going away, it's convenience to people. No one needed newspapers. You could assemble the AP and the UPI feeds on your own if you wanted to, but you don't need a homepage with Yahoo! or AOL or anybody else, you can go search the Internet, you can get all your own news.

But the fact is that people lead busy lives and companies that organize information for them bring value to their lives. So we have a distribution platform that we think is unique and we are able to assemble and our job is to go through and assemble the content that we think is going to be most persuasive, most compelling to people and putting it there in an easy-to-get fashion is actually of significant value to consumers.

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Unidentified Audience Member

(inaudible - microphone inaccessible).

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

So the question was that if that's true, does it mean that it doesn't make sense for us to lock up exclusivity over the Internet and I think that's right. So to the extent that we can get exclusivity across multiple technology platforms, that's a good thing. You'd rather have a right than not have a right. But I don't think that it's worth us paying significant amounts for that additional exclusivity that we don't really compete. If CNBC wants to provide a live video feed over the Internet, right, they have that business plan, they're going to do it.

What we found, for instance, with the NFL, was that if we talked to the NFLs seven years ago, about getting the live feed of the games over the Internet, absolutely not, it was going to get in the way of their Internet business plan. But they came to understand that when we're selling Sirius XM-branded content, that people are coming to us for an overall experience that doesn't really compete with their online offerings. And so now, you can get this season through our recent contract, you can get the NFL games on the Sirius XM-branded Internet Radio service just like you can get it on the satellite radio service. And we're finding more and more content owners understand that the Sirius XM-branded content package doesn't really compete with their online efforts.

Ben Swinburne - *Morgan Stanley - Analyst*

Great. We need to take this outside. David, thank you so much.

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Thank you.

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EDITED TRANSCRIPT

SIRI - Q4 2011 SIRIUS SATELLITE RADIO EARNINGS CONFERENCE CALL

EVENT DATE/TIME: FEBRUARY 09, 2012 / 1:00PM GMT

OVERVIEW:

SIRI reported 2011 revenue of over $3b. Expects 2012 revenues to be approx. $3.3b.

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PRESENTATION

Operator

Good day, everyone. Welcome to the Sirius XM Radio's full-year and fourth-quarter 2011 earnings conference call. Today's conference is being recorded. A question and answer session will be conducted following the presentation. (Operator Instructions)

And now, your host for today's call, Mr. Hooper Stevens, Senior Director of Investor Relations and Finance. Mr. Stevens, please go ahead, sir.

Hooper Stevens - *SIRIUS XM Radio Inc. - Senior Director IR and Finance*

Thank you, Rufus, and good morning everyone. Welcome to Sirius XM Radio's earnings conference call. Today, Mel Karmazin, our Chief Executive Officer, will be joined by David Frear, our Executive Vice President and Chief Financial Officer. At the conclusion of our prepared remarks, management will be glad to take your questions. Jim Meyer, President, Operations and Sales, and Scott Greenstein, President and Chief Content Officer will also be available for the Q&A portion of the call.

First, I would like to remind everyone that certain statements made during the call might be forward-looking statements as the term is defined in the Private Securities Litigation Reform Act of 1995. These and all forward-looking statements are based on management's current beliefs and expectations. And necessarily depend upon assumptions, data, or methods that may be incorrect or imprecise. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially. For more information about these risks and uncertainties please view Sirius XM's SEC filings. We advise listeners not to rely unduly on forward-looking statements and disclaim any intent or obligation to update them.

As we begin, I would like to advise our listeners that today's results will include discussions about both actual results and adjusted results. All discussions of adjusted operating results exclude the effects of stock-based compensation and certain purchase price accounting adjustments.

I will now hand the call over to Mel Karmazin.

Mel Karmazin - *SIRIUS XM Radio Inc. - CEO*

Thank you, all, once again for joining us on Sirius XM's earnings call to discuss our fourth-quarter and full-year 2011 results. And more importantly, our expectations for the future. We are very pleased to report our 2011 results met or exceeded the guidance we gave you at the beginning of the

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year. And I'm even more excited about our prospects for accelerating revenue and adjusted EBITDA growth in 2012. We expect to deliver a very good year across-the-board in 2012.

In 2011, we delivered the best year of subscriber growth since the merger of Sirius and XM by adding 1.7 million net new subscribers. Revenue reached a record of over $3 billion. Adjusted EBITDA climbed 17% to a record $731 million, beating our guidance of $715 million. Free cash flow essentially doubled to a record $416 million beating our forecast of $400 million. These statistics paint a picture of remarkable growth and record achievements in 2011. And had we not been constrained on the revenue side by our agreement with the FCC and other litigation, our numbers would have been even stronger. Those handcuffs are now off for 2012 and beyond.

For 2012, we are very optimistic about our ability to grow subscribers. And at this time, we expect 1.3 million net additions this year. Which should put our subscriber base at another all-time record high of 23.2 million by the end of the year. The consensus for auto sales in 2012 is approximately 13.7 million which represents the highest number since 2007 which was before the merger of Sirius and XM. The fact that US light vehicle sales should be up by 8% provides a solid foundation for subscriber growth this year. In addition to new car sales, we expect this year we will see a bigger contribution from the reactivation of radios in these cars.

Our net subscriber addition guidance is tempered by our sense of conservatism around the price increase we implemented January 1, 2012. Since the time of the Sirius and XM merger, we have been conservative in all of our subscriber growth forecasts. I believe this is the prudent cost and we will continue that practice. We will update our guidance, if appropriate, as the year progresses. On January 1, the price restrictions came off and we raised the base price of our service by just under 12% to $14.49 per month. This was the first increase in the core price in the history of Sirius service, and only the second time ever on the XM platform.

I'm pleased to report that initial indications about consumer reaction to the price increase are meeting our expectations. While no one likes to pay higher prices, and we certainly don't like to charge more as we're competing against free services like AM/FM radio and IP radio, we are not seeing any major problems yet from the increase. It is still early so we need to be conservative in our outlook.

We will also continue to provide the best customer service possible, so when there are complaints, we are able to minimize churn. Because of the price increase and our conservative outlook, we expect churn to be up modestly this year, probably in the 2.1% range. Without the price increase, we would be providing self-pay churn guidance consistent with past years of 1.9%. And we continue to expect a conversion rate in the 44% to 46% range depending upon mix. The price increase will benefit our revenue performance in 2012 and 2013 as it rolls out and flows through the subscriber base.

We are projecting that revenue will grow by almost 10% to a record $3.3 billion this year. And we expect further revenue growth in 2013 from more subscribers and a full year's effect on our price increase. In addition to our subscriber revenue focus, we expect advertising revenue will outperform the percentage increase in total revenue, as we attract more blue chip advertisers. Advertising represents a very small but profitable segment of our revenue.

Because our revenue growth will exceed expense growth, our adjusted EBITDA should grow by 20% this year to approximately $875 million, also a new record high. And the best operating margin in our history. We still believe that we have plenty of room for margin growth over the next several years. And that a 40% long-term adjusted EBITDA target is a reasonable goal. Keep in mind that we have a significant improvement in a material OEM contract in late 2013 that will benefit EBITDA and margins in 2013 and 2014. The last but not the least piece of our guidance is for free cash flow to grow by nearly 70% to a record $700 million this year. All of our 2012 financial metrics are anticipated to be very strong, even if we only deliver the net adds we are currently forecasting. Used car sales continue to gain momentum for us.

To augment our programs for buyers of certified pre-owned vehicles, we are also rolling out trials to all buyers of satellite radio equipped cars at increasing numbers of franchise dealerships. In 2011, we announced programs to enroll Chevy, Buick, GMC, Cadillac and Nissan dealers nationwide in a new program where we are providing all purchasers of used vehicles of any brand, not just certified pre-owned, with a complementary three-month trial of Sirius XM. This year, we announced we are expanding this program to Chrysler dealers, as well as launching a similar program at the country's largest independent auto retailer, AutoNation.

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Currently, across the different brands, we have enrolled over 4,000 dealers nationwide in our non-certified pre-owned used car program. More OEM brands, franchise dealers will be announced later this year. It's a fantastic benefit to the used car sales process. And it's also a great way for consumers to trial satellite radio in newly-acquired used cars. We expect that the previously owned market will be a major growth opportunity in the coming years.

In 2012, we will introduce a variety of new services to broaden the availability of our suite of premium content. One major way we will do this is through an on-demand service across our IP platforms, such as the Web, smartphones, and other connected devices. This on-demand platform will enable subscribers to access a continuously updated library of some of our best content and listen on their own schedules, not just those of our programmers. We think this service will drive demand for our Internet add-on option, an all access tier, which will improve ARPU and only make our service more and have it be a must-have ownership for consumers.

None of our IT-based competitors will have anything remotely approaching the depth and breadth of our non-music online offerings. Later this year, we will also debut personalized radio on the same IP platforms. This will let people tailor music to their own preferences. We believe on-demand and personalization will add to increased customer satisfaction and improved churn and conversion. We look forward to offering this to subscribers this year.

Both of these new services, on-demand and personalization, will be available at no additional charge to subscribers who upgrade to our Internet add-on, making this option all the more desirable. Similarly, our additional 2.0 channels, including the suite of Hispanic channels, will be available at no extra charge to subscribers who have a 2.0-capable satellite radio. Adding this functionality on the Internet and increasing our content line up on the satellites are two very visible ways we are adding value to our service and keeping this service attractive to consumers in the face of more competition.

We are also investing in subscriber exclusive events such as our very special upcoming March 9 concert with Bruce Springsteen and the E Street Band at the Apollo Theatre here in New York. This concert celebrates satellite radio's tenth anniversary. The only way to see this concert will be via a lottery exclusively for our subscribers. And the only way to hear the concert will be on Sirius XM's exclusive Bruce Springsteen's E Street radio channel. This kind of event is not only a great source of exclusive content for us but it also helps us generate a tremendous amount of media attention and buzz about the consumer benefits of being a Sirius XM subscriber.

Remember, although we are the only satellite radio company, we do face numerous competitors. And this competition is increasing in the IP world as there is no real barrier to entry. In 2011, Sirius XM was factory installed in about two-thirds of all cars sold in America, while AM and FM radio was ubiquitous. Today, we are not seeing IP as a game changer. IP easy to use connectivity in cars is still very modest, but will become more commonplace over the coming years. Terrestrial radio is still our biggest competitor by far, and we know very well how to compete with it.

What also gives us comfort as we face these challenges is that we continue to have a prime place in the car's dashboard. And that we have the economic model to support this position and deliver valuable, often exclusive content, that consumers love. Unique proprietary distribution of our satellite service through OEMs remains important. And our relationships with all of our OEMs are very strong. They are embracing 2.0 technology and those rollouts will begin this year and rollout to more OEMs over the coming years. OEMs love the entertainment we offer their car buyers and our relationships are stronger than ever. Demonstrating this is the penetration into OEM models and trims continue in 2011. Sirius XM Satellite Radio are now factory installed in 67% of all new vehicles, up from 62% in 2010.

Our subscription-based business model is superior to that of terrestrial radio and IP radio, but this model clearly benefits our investors. For the full year of 2011, Sirius XM generated approximately $139 of revenue per year per subscriber. The largest terrestrial radio company received only approximately 10% of what we did, or about $13 of revenue for each of its listeners per year. The difference is even more extreme when you compare the largest IT competitor's revenue with the number of regular users that they have and you see that they will generate less than $6 of revenue per year for each active user. This demonstrates the difficulty of generating advertising revenue from mobile users on their smartphones.

Business models matter for investors and Sirius XM has a great one. Another interesting statistic to look at is revenue per employee. At Sirius XM, we generate approximately $2 million per employee per year, as compared to IP radio which is less than half that. Interestingly, terrestrial radio

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generates about $300,000 per employee compared to our $2 million. Our business model will be even more important to investors as revenue growth accelerates.

Because of our powerful scalable business model, we have the ability to offer premium content and also commercial-free music as an option that is simply not available to advertising-based companies that wish to make a profit. We have always said that great content is critical, and never is that more true than today. We are also notable for being the only company in the premium content business where programming costs are actually dropping. In 2008, we spent $447 million on programming costs or 18.3% of our adjusted revenue. In three years, we have reduced our programming costs by 27% to $324 million or just 10.7% of adjusted revenue. In 2012, we will spend less on programming than we did in 2011, both in absolute dollars and as a percentage of revenue. Compare that to other video premium content providers and you will find that their content costs are going up, often even faster than their revenues.

We are accomplishing this cost reduction while the quality and the quantity of our programming is increasing. While we are proud of our cost savings in this area, among others in our Company, you should know that we have the means and ability to increase investments in content should the right content become available. We will never stop evolving and enhancing the content we offer our subscribers.

In closing, I want to remind investors that the Company is laser-like focused on growing subscribers and growing free cash flow. Free cash flow is a financial metric that I believe can create value for shareholders. David will talk more about the financials and balance sheet, but let me just say that I am very pleased about our prospects for growing free cash flow rapidly over the next few years. Not only do we expect continued expansion in our revenue and adjusted EBITDA, but we also expect to deliver most of this adjusted EBITDA as free cash flow. Some companies generate lots of EBITDA but a much smaller amount of free cash flow.

But in our case, our EBITDA to free cash flow conversion will continue to benefit from four positive factors. First, subscribers prepay for our service which generates cash as new subscribers come onboard and current subscribers renew. Second, our interest expense should fall as we've refinanced and deleveraged. Already, our debt trades at levels that imply a far lower borrowing cost for future issuance than what we are currently paying. Next, capital expenditures will fall significantly as we finish the deployment of our second generation of satellites in the first half of this year. We don't expect to start spending significantly on new satellites for another five years. And finally, our net operating loss carryforwards total some $7.8 billion should allow us to pay minimal cash taxes for many years to come.

Our ending cash balance in 2012 should be about $1.5 billion, or about $1.2 billion if you assume we call the 9.75% notes this September. And our gross leverage will have fallen to under 3.2 times. There is an opportunity for the Board of Directors to consider a return of capital to shareholders beginning later this year. The Board has not taken up this topic so obviously no decision has been made as yet. Despite all the competition, our Company has more paying subs today than ever before in its history. We have plans to grow this record level of subscribers, accelerate our revenue growth, and dramatically grow our free cash flow in 2012 and beyond.

If we keep offering great content and making it easy for consumers to access, I have no doubt that Sirius and XM will continue to prosper in the coming years. We are starting this year very strong. New car sales in January were up 11%. We will end 2012 with a record number of subscribers, record revenue, record adjusted EBITDA, highest margin ever and record free cash flow. The Company is well-positioned to deliver subscriber growth and free cash flow for many years to come.

With that, I'll turn it over to David for some additional remarks.

David Frear - *SIRIUS XM Radio Inc. - CFO, EVP*

Thanks, Mel. Sirius XM delivered a spectacular year in 2011. We set all-time records for gross additions and auto penetration. And self-pay monthly churn remained at 1.9%, resulting in the best year for net additions since the merger. A strong finish to the year in auto sales also produced our best fourth quarter since the merger. More than 540,000 fourth quarter net additions drove the year to over 1.7 million net adds, solidly beating subscriber guidance and bringing total subscribers to 21.9 million.

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Solid subscriber growth and focused efforts to deliver profitable growth also allowed us to outperform our financial guidance, beating revenue, adjusted EBITDA and free cash flow guidance. Over $3 billion in revenue, $731 million in adjusted EBITDA, and $416 million in free cash flow. The 8% growth in our subscribers was aided by a record-setting pace in gross additions. Our 8.7 million gross adds were the highest in the history of satellite radio. The auto market continued its steady recovery with SAR at 12.7 million, up 10% from 2010. Consumer purchases of cars were up an even more encouraging 12% from 2010. Sirius XM radios were incorporated into nearly 67% of cars sold in 2011, up from 62% in the prior year. The increase in penetration resulted from higher incorporation rates among some OEMs and a shift in sales mix to higher penetrated OEMs during the year.

While automotive industry volumes remain well below the 16 million-plus car pace of several years ago, improvements in the production penetration rate has resulted in steady growth for Sirius XM. And should insure continuing growth in the future as the auto industry and the economy continue to recover. Gross additions were also aided by continuing success in the previously-owned car channel. In addition to the certified pre-owned programs launch with nearly all OEMs, we have signed up more than 4,000 dealers who provide customer name and address in exchange for free 90-day trials to their pre-owned vehicle customers. Our experience in the new car channel has showed us that providing trials and obtaining timely and accurate customer data significantly improves subscriber additions.

Since the merger in mid 2008 the new car trial conversion rate has generally ranged between 44% and 46%. In 2011, we remained in this range but were down slightly from 2010 at 44.6%. Sales mix and delays in getting trial conversion communications to some new car buyers contributed to the decline.

During 2011, we made significant investments in our customer care operations, introducing and improving upon our self-care website, and investing in call center and subscriber management technologies to improve the quality of customer care and the level of customer satisfaction. We also continued to invest in our programming, renewing agreements with longstanding partners like the NFL, NASCAR, Martha Stewart and Oprah. Launching new programming to better serve our Hispanic audience. And bringing live events to our subscribers from Coldplay, Tim McGraw, and Paul McCartney, among others.

Continuing to focus on delivering great programming and service to our customers allowed us to continue to deliver self-pay churn of 1.9% per month. Sell-pay subscribers grew 7.3% to a record 17.9 million at year-end. Net self-pay additions of 1.2 million expanded 24% over 2010. Total paid and unpaid trials at year end expanded 26% from 4.3 million in 2010 to over 5.4 million at the end of December, a very solid new business pipeline as we enter 2012.

Total revenues exceeded $3 billion and grew 7% over 2010, including 8% growth in subscriber revenues and 14% growth in ad revenues. Other revenue increased 3% for the year and declined 10% for the quarter, reflecting the adjustment of the music royalty fee in December 2010. ARPU declined $0.15 from the prior year due to the reduction of the US music royalty fee in December 2010, the growth in paid automotive trials and the use of save offers as a subscriber retention tool. The total cash operating expenses grew only 3.7% in the year, resulting in an increase in adjusted EBITDA margin to 24.2% for 2011. Costs that vary with growth and subscribers or revenue accounted for all of the increase in cash operating expenses. Fixed costs actually fell in the year by $16.7 million. Over the last three years, our EBITDA margin has grown by nearly one-third from 18.3% to 24.2%.

Contribution margin is down slightly from the prior year from 71.2% to 70.6% as music royalty rates increase, and the automotive share of our business on which we pay revenue share continues to rise. Subscriber acquisition costs increased 6% in the year, only half of the 12% increase in gross additions, as SAC per growth add declined from $59 to $55. Led by reductions in spending in our programming, satellite and transmission and G&A areas, total fixed expenses declined by $16.7 million from 2010. Fixed operating costs are now $366 million or nearly 30% lower than their pre-merger levels.

Despite this, we continue to invest in our product platform, bringing Sirius XM 2.0 to market through the Lynx introduction just prior to the Consumer Electronics Show. The Lynx allow subscribers to access content through either the satellites or a Wi-Fi connection, store up to 200 hours of programming, simultaneously record content from multiple channels, through Tune Start, start every song from the beginning and see what's coming next on that first electronic programming guide. The Lynx will also be capable of accessing on-demand content when that service is launched. Lynx provides a window to the kind of services we expect to bring to factory-installed radios and new car production in coming years.

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Adjusted EBITDA grew 17% in the year to $731 million from $626 million in 2010. The 24.2% EBITDA margin is on pace to achieve the 40% EBITDA margins we believe Sirius XM can achieve in the future. Great performance in the P&L helped deliver a near double and free cash flow to $416 million from $211 million in 2010. Over $100 million in EBITDA growth, combined with $174 million in reduced capital expenditures, fueled an expansion of free cash flow that will accelerate in 2012. Our cash balances grew to $774 million at year-end. Gross debt to EBITDA stands at 4.1 times, while net debt to EBITDA is at 3.1. Upgrades in the fourth quarter from both Moody's and S&P reflect our improving credit fundamentals. The debt market has also recognized our rapidly improving prospects. Sirius XM's benchmark unsecured debt is trading below 6%, a dramatic improvement from the cost of 15% secured debt with equity, we incurred just three years ago.

As Mel mentioned, our outlook for 2012 is for continued growth and rapidly improving profitability, liquidity and leverage. The consensus forecast for auto sales in 2012 is about 13.7 million cars and light trucks, up a little less than the 8% from 2011's 12.7 million vehicle pace. In January, we began implementing the first basic price increase for Sirius subscribers since the service was launched in 2001, and the first increase for XM subscribers in nearly seven years. Sirius XM programming is unparalleled value for consumers and audio entertainment. Our call center agents are equipped with a variety of tools to save every customer who is at risk of canceling. While we are encouraged by the early response to the price increase, we are anticipating a modest increase in self-pay churn in 2012 to approximately 2.1%.

We also expect the new car conversion rate to remain in the 44% to 46% range we have seen over the course of the last three years. Sirius XM expects to add 1.3 million net subscribers in 2012, or about 6% growth. Revenues will expand by nearly 10% to approximately $3.3 billion. Over half of our customers are on one-year or longer plans. The full effect of the price increase will take about 18 months to be reflected in our operating results. As a result of the effects of the price increase and continued reductions in programming cost, adjusted EBITDA will expand at nearly twice the rate of our revenue growth, growing to $875 million. This represents an increase to our previous adjusted EBITDA guidance for 2012.

Sirius 6, the last of our next generation satellites, should launch in the next several weeks. As adjusted EBITDA grows and working capital flows improve with the price increase, free cash flow will expand over 70% to $700 million for 2012. Based on this guidance, the Company's liquidity profile will improve dramatically. Cash will expand to nearly $1.5 billion and net debt to EBITDA will fall to about 1.8 times. During the course of the year, we will begin to evaluate returning capital to shareholders through dividends or stock buybacks. We expect to discuss our plans with you later in the year.

Sirius XM has shown a consistent ability to deliver solid operating performance under less than ideal conditions. The last three years has been tough on consumers and the worst stretch for the auto industry since 1981 to 1983. Despite that, we have significantly grown subscribers, revenue, EBITDA, and free cash flow, and significantly reduced our leverage. With continuing growth at auto sales, the growing opportunity to recapture subscriptions in the previously-owned car market, our strong operating leverage, the opportunity to renegotiate the remaining pre-merger contracts, lower interest expense, low capital expenditures and no taxes, Sirius XM is poised to show strong long-term growth and free cash flow.

Operator, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Benjamin Swinburne with Morgan Stanley.

Benjamin Swinburne - *Morgan Stanley - Analyst*

One for David and one for Mel. David, can you go back and talk about how sales mix impacted '11 and how it might impact '12? I think you said that it was a negative around conversion rate, maybe a positive on the build, the two-thirds build rate. I want to clarify that I got that right. And then any insights into how you're thinking about how that might impact '12. And then Mel, your comments were really interesting about the IP competition. You talked about greater penetration in car from IP services. But you also talked about the difficulty for them to sell advertising spots to advertisers. And obviously, you've spent a lot of time selling advertising over your career, going all the way back to Infinity and CBS. Can you

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just spend a minute on why you think it's going to be difficult, particularly on the mobile front, which a lot of people seem to be excited about. It sounds like you're a little more cautious on the opportunity for them to generate meaningful revenue there.

David Frear - *SIRIUS XM Radio Inc. - CFO, EVP*

Okay, on the mix issues, on penetration rate, the shift towards North American automotive manufactures, primarily the Japanese, but generally Asian manufactures, had lower sales mix this year overall in the industry. And so that tends to bias the penetration rates up a little bit. The North American manufacturers are overpenetrated relative to the Japanese in particular. On conversion rate, the mix moves around a little bit that. Without getting into too much of the details, that when you're all done sorting through the mix of the conversion opportunities that came up in the year, which is a little bit different than the sales mix, that it biased a little bit towards lower converting manufacturers. And there was also a bias within model mix towards lower converting models in the sales mix.

Mel Karmazin - *SIRIUS XM Radio Inc. - CEO*

On the question about advertising, if you think about where the biggest piece of the pie goes in advertising, it's television, right? Television has the benefit of sight, the visual, the sound, high-definition, big screen. And now you take a look at what happens in the mobile environment. And in the mobile environment, you're not really able to do as robust video, particularly if you're thinking about it in the car. So you're limited in what type of advertising you're really going to be able to put on that mobile device. And if the mobile device is audio commercials, that sounds an awful lot like FM radio to me. And I also believe on the advertising side -- and I felt this way for a number of years -- and that is that there is just too much supply that's out there. There's no barrier to entry for people to be on the Internet. And there are more companies that are taking advertising dollars. So therefore, the idea of having so much supply puts the power in the hands of the buyer of the advertising. Other than when you get big events like the Super Bowl or big ticket items there's just a robust amount of advertising inventory available. So I think it's challenging. Obviously advertising's going to be around for a long time but there's going to be an awful lot of companies dividing up that advertising dollar.

Benjamin Swinburne - *Morgan Stanley - Analyst*

So hard to drive CPM, it sounds like you're saying, over time?

Mel Karmazin - *SIRIUS XM Radio Inc. - CEO*

Unless you're something other than a commodity. And if, in fact, you have music principally, and a lot of other people have music, and you're out there trying to sell your music is better. I think it's a challenging business.

Benjamin Swinburne - *Morgan Stanley - Analyst*

Thank you.

Operator

Barton Crockett with Lazard Capital Markets.

Barton Crockett - *Lazard Capital Markets - Analyst*

I wanted to drill a little bit into the subscriber outlook, seeing 1.3 million net additions versus 1.7 million. I was wondering if it's possible for you to parse in a little bit more detail what drives the production in net additions. Is it purely just a higher churn assumption, churn rate assumption, or is there something else going in there? That's question number one. And then question number two related to the churn, I was just curious, when

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you say you expect 2.1% in 2012, is that based on seeing a 2.1% churn from people that have been hit with the price hike in January? Or is that just your best guess on what's really not fully data that can give you a churn rate yet?

Mel Karmazin - *SIRIUS XM Radio Inc. - CEO*

This is Mel. Let me start and then Jim and David can add-on anything they want to comment about it. First of all, I am saying that we are being conservative. There is no information that we have about our business. Our most recent quarter, our fourth quarter, showed the best fourth quarter in our history since the merger as far as net adds are concerned. So there's nothing that we are seeing impacting us. We're not seeing any new competition that's impacting us. We're not seeing any dissatisfaction of our service. What we're doing is we are putting in a price increase. We made that decision to do. And we really don't know exactly what the impact is going to be on subscribers, mainly because we have very limited experience at the Company in putting in a price increase. We compete with free. So in an ideal world, we would have lower cost per service. But that doesn't generate us as much revenue and EBITDA and free cash flow as we're looking for. So we're starting out conservative. We're not seeing anything impacting our January churn that is alarming to us at all. I think it's prudent to be conservative and that's the basis of the 1.3 million.

David Frear - *SIRIUS XM Radio Inc. - CFO, EVP*

Barton, we're just a month into it now. And when you think about the fact that 80% of our self-pay subscriber base is on credit card or debit card, you've got to wait for them, even though we notified everybody of the price increase, you've got to wait for them to see it come through on their bills, and then see how they react. So honestly, four weeks into the year, it's very early and this is our best estimate of what we think it will look like for the year.

In terms of drilling into the sub outlook a little bit, one of the things that you have to bear in mind on net additions is that the inventory of paid trial subscriptions at the end of the year, the change in that from year to year, affects what the total net additions are going to look like. So in 2011, we have supply disruptions in Asia. What we have is a shift in mix towards US and European manufacturers who tend to be paid trial partners. And I think the industry view is that there will be a shift in mix back towards Asian manufacturers in the course of 2012. Which will be a shift back towards unpaid trial partners. So part of what you're seeing in the sub outlook is just shifting mix in paid versus unpaid trial subscriptions. As well as the fact that we're instituting a price increase. Look, if you look at last year as being a year without a price increase, and this year being a year with a price increase, and you said do you think you'll have more or less overall demand for the service at the higher price or the lower price, you're probably going to say that the price increase ought to suppress demand a little bit. So we're reflecting that in our numbers.

Barton Crockett - *Lazard Capital Markets - Analyst*

Okay, great. I'll leave it there. Thank you very much.

Operator

Bryan Kraft with Evercore Partners.

Bryan Kraft - *Evercore Partners - Analyst*

I just had two questions. One, just wanted to see if you could talk about how you're handling the music growth you see this year from a pricing perspective to the consumer. And then, secondly, the conversion rate, I assume you're talking the official conversion rate which you would apply to the paid promotional subs. Can you talk about what you're seeing in terms of conversion on the free trial side, what the trend has been there and where you see that going this year, as well. Thank you.

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David Frear - *SIRIUS XM Radio Inc. - CFO, EVP*

Brian, the conversion rate we've been talking about applies to all of the new car trials. So paid and unpaid. The 44% to 46% range covers all new car trials and our results for last year again covers all of them. On the music recovery fee, there's a little bit of art in coming up with that every year because we, in essence, have to project different mixes of subscribers on different plans and all the rest. But I think that the way you should look at it is that we came out from under the restrictions of the FCC merger order in the late part of the summer of 2011. Through last year, that what we were charging for the music royalty fee was in compliance with the terms of the merger order. Which involved delaying the recovery of that stuff for a couple of years and then we had to catch up on it.

So coming into the gate this year with a price change, that we've rejiggered the rate, the effect is about the same. If you look at a primary subscription, that I think in December we were charging $1.40 on a $12.95 subscription. And in January we were charging $1.42 on a $14.49 subscription. And just like it will take 18 months for the price increase to work its way through, the reduction in the music recovery fee that we did in December 2010 also takes about 18 months to work its way through the numbers. If you look at that component of ARPU over the course of last year, you generally see negative quarter-on-quarter comparisons. And that would continue to be true in the first part of this year and then it should level out.

Bryan Kraft - *Evercore Partners - Analyst*

Okay, thank you very much. That's helpful.

Operator

James Ratcliffe with Barclays.

James Ratcliffe - *Barclays Capital - Analyst*

Two quick ones, if I could. Just generally, could you talk about the impact that Sirius 2.0 on-demand, personalized radio and the like has on the royalty payment stream? And if that's going to change in any way the structure of those payments. And, secondly, could you talk about the activity you saw toward the end of the year. Didn't see as much of a bump up in prepaid revenue as I expected. Do you see a lot of customers aware of the price increase and contracting before it? Or do you think it's most generally seeing it as it comes through in their bills? Thanks.

David Frear - *SIRIUS XM Radio Inc. - CFO, EVP*

On the last question, I don't think there's really anything out of trend with prepaid revenue. I don't think we had a significant pull forward in the price increase. The ARPU is down a little bit, which is going to bring prepaid revenue down. The average month's prepaid remains fairly consistent. That hasn't changed a whole lot so it should move with ARPU. And on the 2.0 products are fully DMCA compliant and so we really don't anticipate any change in the royalty payment structure associated with the product.

James Ratcliffe - *Barclays Capital - Analyst*

Great. Thanks.

Operator

Amy Young with Macquarie.

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Amy Young - *Macquarie Research Equities - Analyst*

Can you talk a little bit about your increased EBITDA guidance? Is this largely a result of cost or expectations for advertising growth?

David Frear - *SIRIUS XM Radio Inc. - CFO, EVP*

I think the biggest impact on it is subscriber growth and the price increase. We've got $300 million worth of revenue growth and generally 70% contribution margins. So that, with some increase in SAC associated with the growing auto industry that you get to, they're still pretty healthy incremental EBITDA margins year to year.

Amy Young - *Macquarie Research Equities - Analyst*

Okay, thanks.

Mel Karmazin - *SIRIUS XM Radio Inc. - CEO*

Okay, thanks, everybody.

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PRELIMINARY TRANSCRIPT

SIRI - SIRIUS SATELLITE RADIO AT CITI ENTERTAINMENT, MEDIA AND TELECOMMUNICATIONS CONFERENCE

EVENT DATE/TIME: JANUARY 04, 2012 / 9:15PM GMT

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SX Ex. 225-RP

JANUARY 04, 2012 / 9:15PM, SIRI - Sirius Satellite Radio at Citi Entertainment, Media and Telecommunications Conference

CORPORATE PARTICIPANTS

Mel Karmazin *Sirius XM Radio Inc. - CEO*

CONFERENCE CALL PARTICIPANTS

Operator

PRESENTATION

Unidentified Participant

If you all would mind taking your seats, we can go ahead and get started with our next keynote speaker. We're very fortunate to have , Mr. Mel Karmazin, CEO of Sirius XM with us today.

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

Thank you.

Unidentified Participant

Thank you very much for joining. So, I guess, before we dive into questions, [I have to ask] is there any sort of opening remarks you want to make as we sort of wrap up 2011 and you think about the future.

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

Well, I guess, the first thing is to say, Happy New Year to everybody. Have a healthy and happy one. We had a Happy New Year year-end, because this morning, we learned that we -- well, let me start with what we gave as guidance. So, we had originally said that we would add less than the 1.6 million subscribers that we gave in our most recent guidance. We had raised our guidance couple of times, but we had told on our last earnings call that we would add 1.6 million subscribers this year.

And as of the end of the third quarter, in order for us to do that, we've had to add 440,000 subscribers to get to that 1.6 million. As of this morning, we are now -- we added approximately 550,000 subscribers and we have approximately 1.7 million net adds this year. That 1.7 million of net adds fell higher than anyone's expectations, also was the highest since the Company completed its merger as far as net adds is concerned. And our fourth quarter was the best fourth quarter insofar as net adds since the merger as well.

So, yes, we're feeling very good. Obviously, the competition that exists in this whole audio entertainment space has never been greater, yet our performance, as recently as this last quarter, has been just phenomenal. And I think that's what I got to say.

Unidentified Participant

That's impressive. What -- if you just peel back the onion a little bit on that huge net add number for the quarter, what would you say were the key drivers? Is it a more healthy auto market? Are you gaining more traction in the used car channel? What were some of the key drivers?

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Mel Karmazin - *Sirius XM Radio Inc. - CEO*

I think, clearly, the two drivers are the improvement in the OEM business. You certainly saw it with some of the announcements today on [December slot]. So, we certainly saw an improvement in car sales. Our penetration continues to do well. And, secondly, though the base is small, we are absolutely seeing a significant increase in our used car business as well as used car business as well.

Unidentified Participant

Okay.

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

Okay.

Unidentified Participant

So stepping away maybe from those great fourth-quarter net adds, if you sort of look out over the next one, two, three years, what are the key priorities for your firm?

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

So, I think I've said in the past that the metrics that remain important for the Company are to continue to be a growth Company, to continue to grow our subscribers. We'll talk a little bit about that growth in subscribers at our earnings call, when we report our fourth quarter and we give you some more information. But, certainly, continuing to grow our subscribers is very important and also free cash flow. So, the two metrics that our organization has been drilled into and everyone is focused on is the idea of growing the subscribers and growing our free cash flow.

The guidance that we had provided was that, in 2011, we have about $400 million of free cash flow and we said that that was going to increase by about 75% and that sort of gets you to a number of around $700 million of free cash flow. And, again, we feel very good about that and we feel that's what's going to happen in 2012 and 2013 and 2014, because of things that we believe we know today though, obviously, things are always subject to change is that they are fundamentals of the business that continue to improve along those lines. We have contracts that have not yet come up since the merger that start to roll out in those outer years.

So, unlike a lot of other mergers, where you capture all of the synergies in the first year or two, in our case, we had six and seven-year contracts, where we're still first getting to the first opportunity to where we have to show that improvement. The good news for us is that the OEMs take a very long time to roll things out. We're talking today to our OEM partners about new features and functionality and things in the cars for two years and three years from now. So, we can pretty well see what the car companies' plans are for 2012 and 2013 and 2014 today and we're feeling very good about that. We feel good about our penetration rate into the cars, we feel good that we're tied up with every single car company that makes cars for sale in North America.

Our self-pay churn is fairly good. Our conversion rate is where we've said it would be and we don't really see anything on the horizon that's going to get us unfocused on our core business. We're not out looking at acquisitions. We're not looking to expand in a whole lot of other places. So, I think, it may be boring, I hope the growth rate isn't boring, but clearly, I think, we're going to be pretty much what you see is what you get in the next few years.

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Unidentified Participant

But you had a very successful career prior to this in the terrestrial radio business. If you look at the landscape with your hardware and two-thirds of all cars, you've got a handful of web-based start-ups and a lot of advertisement still generated in terrestrial radio. How do you see the market evolving? Were these existing sort of parallel segments of the market that will just slowly evolve or they're cross marketing, cross-promotional opportunities, will Sirius become bigger in the Internet over time and the satellite infrastructure that you have will become less [germane]? How do you see the business evolving?

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

Yes, I think, the thing about us is that, we have grown our Company in 10 years. So if you think back 10 years ago, the terrestrial radio business was about a $17 billion or $18 billion business. And there was no revenue going to the satellite radio companies 10 years ago and there was no revenue going to the IT companies. So, you now come 10 years later and you see that the terrestrial radio business is still a, let's call it, a $14 billion industry and they still have 90% of the people who are listening to terrestrial radio in the course of a week.

So, that's pretty much the market that we target on. That's where the money is, that's where the fish are and that's certainly where the opportunity for us to continue to grow is. So we've grown our Company in 10 years to where our revenue is $3 billion a year. Clear Channel is celebrating its 40th year in 2012 from the time they acquired their first radio station and it took them 40 years to get to about $3 billion of revenue. And then you have the [IP] side of the house and there is a whole bunch of companies out there that are providing audio content through the Internet.

And one of the things about the Internet is that, there's no barrier to entry. So the fact is that if you want to start an IP audio company, you are able to do it. Today, I guess the company that is most talked about though, talk is a bad word, but is Pandora. And Pandora is a really good company. They've been around for as long as we have. They've been around for about 10 years. They have about 40 million regular users, maybe more now. And they have about $300 million of revenue.

So, business models matter. We like our business model of subscription better than the advertising-driven model. We believe that whether or not the consumer is going to get audio content on any device, if they're going to be hearing advertising related to it, it's sort of the same. And we think that we are very unique insofar as our business model. Having said that, we clearly want to super serve our subscribers.

So, couple of years ago, we started talking about SiriusXM 2.0 and as promised, we delivered a product just before the end of the year, a product called Lynx, that is a hybrid satellite radio and Internet product. There is a lot of advantages that one to many have and then there are those people who feel that there is some attraction to personalization and using the Internet more.

I can assure you that if our subscribers would like to have personalization, we're going to give it to them. So, you should assume that the idea is that if personalization is something that Pandora and Spotify and iHeartRadio and Slacker and all these companies are doing, Sirius Satellite Radio will expand and will make that personalization available, probably, this year to them. I don't think it's a big deal.

Again, we're not going into it as a business, we just again like our business model, but we're going into it and saying, you know what, if our subscribers like that feature and they want to be able to customize their tailor-made content for them, we're going to give them the ability to do that.

So, our innovation center is, obviously, working with the teams outside people on different algorithms and different ways that we can be different than others, but again, I think, our main business is going to be as you see it today. And I think we're going to continue to compete with terrestrial radio, which we have done effectively for the last 10 years. And I believe that our model is a better model than a model that's just going using IP delivery to a smartphone. But having said that, our new app on the iPad looks great, which we just introduced it and we're going to roll out apps into all the other smartphones as well.

We got you in the car with the satellite radio. We have you in the home with a whole number of ways of getting our content, including through, yes, your television set and including through IP. And in a mobile area, if you want to use your smartphone as your media player, we're going to allow you to get our content and additional content from that device as well.

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Unidentified Participant

Okay. If you looked at the utility that your consumers today derive from your service, have you ever, sort of, analyzed what is the source of the utility? Is it the unique content that you have? Is it that consumers don't have to pick and choose, they can just sort of find a channel that sort of meets their needs as that it doesn't have ads on it, unlike a lot of, I think, all terrestrial radio? What are the different segments out there that sort of cause people to say this service is actually worth parting with some of my hard-earned money in this recession that allows you to generate some sort of subscriber numbers?

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

So, I think one of the things that the Company was very smart about, and this is before I got here, so I'm not taking any credit for this at all, is that it thought that the way to deal with getting this product out to the most number of consumers as quickly as possible was through a business model that maybe OEM partners with us. And we provided incentives for the car companies to put satellite radio into a whole lot of cars.

The car companies would have been very happy to just put satellite radio in for any customers who wanted to ask for it. But we wanted more than that and we wanted to get out into all of the cars that we believe were appropriate for us. So, that business decision for us to compensate the automobile companies to put satellite radio out there has enabled us to get today to that penetration rate of about 67% in all cars.

We could have taken an approach and said, you know what, we'll go to General Motors and we'll offer the product to them and General Motors would say, okay, we'll put out a press release that says, we're going to put satellite radio into Cadillac vehicles and they would put it into half of the Cadillacs or 25% of the Cadillacs. And if you bought a Cadillac and you wanted satellite radio, you could have bought one of those vehicles.

Well, our business model [provided for] something different. We said that, we want to be in every Cadillac, okay. And we want you to push it out there and that model has worked real well. So, once we now have the user interface that is as easy to get satellite radio easier in some cases than it is to get your AM or FM, we think, that's a driver of one of the things.

So, now it all gets down to, if you got a user interface, you have a way of getting to the consumer, you've got to have content. Content is king, the play is the thing, going back to Shakespeare days. And we have made a point of getting the best radio on radio and that's why these [135] channels, here in San Francisco, the most number of radio stations that one company can own is eight radio stations. And, most of them are trying to come up with the format that's going to be the most popular. So, you have multiple formats competing with each other and a lot of unserved markets.

One of the things that we did is that, okay, we're going to be similar to the HBO model of saying, you know what, if you want movies, we'll give you movies, but if you want boxing, we'll give you boxing and if you want comedy like The Sopranos or Sex and The City, we'll give you that. And we've approached our spectrum and said, how do we want to divide up that spectrum to give everybody 8 channels or 10 channels that they're going to like.

Now, their 8 channels or 10 channels may be different than somebody else's, but we're going to have that full spectrum and whether or not it be our news, our Howard Stern and Opie & Anthony and whether or not it be our CNBC and various play-by-play events, we thought that we would give you whatever you want. And we're indifferent to which channels you choose.

I mean, if you like our music channels, we're happy to have you do that. If you prefer not to listen to music and want to hear news and talk, that's great as well.

Unidentified Participant

Okay. You mentioned a little bit earlier that the hardware is now in 67% of all cars. I think, underneath the hood on that, there is some shift going on between the paid trial and unpaid trial. I think GM is one of the example that's going from paid to unpaid. Can you talk a little bit about what

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happened behind the scenes with that GM negotiation that made them want to migrate? What are some of the financial implications of that change? And do you think we'll see other OEMs go down that same path?

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

So, I don't know how much we have about previously disclosed at the time of the merger on that. So, I need to be a little bit vague, because I don't want to go over anything that betrays our contracts with General Motors.

But the first contract that we started to negotiate right after the merger was a contract with General Motors. And we entered into a new agreement with General Motors after the merger that provided for an immediate adjustment in the agreement and then it provided for a Phase 2 in that adjustment, which would further enhance the economics for the Company. I mean, it gets closer to a marketplace deal as compared to where the General Motors deal was originally.

Prior to the merger, it was relatively – it was commonly known that XM made no money on the General Motors contract. All of the benefits of satellite radio in with General Motors went to General Motors. And by the way, from a General Motors' perspective, that was appropriate, because General Motors said, hey, if we're going to launch satellite radio and we're going to put it into our cars and we are going to make a business for you, we want to be handsomely paid for it. And General Motors, in the first eight years of that contract, will have made an awful lot of money with XM having, up until the merger, not made any money on it. The new contract provided for an adjustment in that and the new agreement, which kicks in at the end of 2013 and the biggest impact in the 2014 provides for an even greater modification of the economics that are more appropriate for us and also still very good and very profitable for our partner.

So the idea was there was a negotiation and we're pleased that General Motors continues to be an important partner, but the deal was different. And the deal will provide us with a [favorable] return for what we bring to the table and appropriate value for what they're getting. And whether or not it's a three-month trial or a year, paid, prepaid, each deal is different. And that's why, when you look at the numbers, you've got to be really careful when you look at things, because every single deal is different and every single car converts differently. And we have seen three-months non-paid trials convert better than six-months paid trial.

So there is no one exact right answer for us. We haven't found the one that says, okay, this is what we want to roll out for all of our OEMs. This is the cookie cutter. What we are doing is working with our partner on profitable deals for us that incentivize them to put the radio out there and promote it and work with us on used cars, so that we are working with the owner of the vehicle even if it is not the original owner.

So the OEM deals are improving just like the content deals are improving and that's why when we said that our margin, when we are more mature, we'll be over 40%. That's sort of how we get there. And our margin has steadily been increasing each year since the merger.

Unidentified Participant

Some of that commentary, I think, you've given about margins in the long-term has sort of crept up over time, right? There was a time not that long ago, when you used to say, [35%], I believe, right?

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

Yeah. We do a whole bunch of long-term scenarios, right. You sit there and say, okay, what if? And the way we look at the business now and we are smarter, we are only 10 years old. I mean, I think if you were to talk to Ralph Roberts and Brian Roberts, when Comcast was 10 years old, they wouldn't have as much knowledge of where this business is going to grow as to where it is today. And what we're actually seeing is our ability to have better margins than we had originally anticipated.

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Unidentified Participant

I think there were some data points you alluded to earlier on the OEM side, where the auto number was actully ahead of the Street's expections in terms of auto sales in the fourth quarter. I think it was -- was it Ford and [Ralph came off today]?

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

Well, General Motors and Ford -- well, I think, Chrysler reported some numbers today. I know the SAAR number is, I mean, -- because I'm here, I don't know, but it's [2 million] today. So we should have a sense as to where the actual numbers came out. But business -- everybody had a good December, it was a good fourth quarter. The last SAAR number for the year that we had seen was somewhere short of 13 million this year.

Unidentified Participant

Okay.

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

12.7 million to 13 million was where the SAAR was to be this year. Ford and General Motors today said that their SAAR next year being somewhere in the 13.5 million to 14 million. If they're right, that's great news for our Company and you could see where we've operated right after the merger when SAAR get down to 9 million, we were used to doing business at 16 million and 17 million cars a year. So, initially, a lot of the model when we did, we said, well, okay, the last 10 years are going to be 16 million to 17 million, what information do we have that in the next five aren't going to be 16 million or 17 million? Well, 2009 came and we saw how you can't do that type of modeling, but we managed to have a really good year from a revenue, EBITDA, subscriber growth, free cash flow growth. In 2011, where the SAAR number below 13 million and if in fact that number gets above that, that's good news for us.

Unidentified Participant

So outside of the new car market, there's the used car market you talked about it being a big strategic priority, I think, for Sirius over time, what -- well, I think investors, as we get a lot of the questions, they sort of understand the abstract opportunity is car market, they understand certified pre-owned were sort of easier to go after that channel. But the other sort of 95% of the used car market, what -- is there any sort of meat on the bones you can put on your thinking potential ways to go after that more difficult channels in the used car market?

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

And you hit the nail on the head. I mean, that's exactly right. I mean, so, the first thing that we did is that we went to our partners at the car companies and said, hey, what can we do on certified pre-owned and we've done a really good job there. So you go in and you buy a certified pre-owned, it's virtually every case it's going to come with a three-month trial subscription for satellite radio just like your new car would. And we're going to market to you, and we're going to convert you and we're going to with no SAC, okay. We're going to get that customer to be a subscriber at some level. And then we went to the franchise dealers and we said to the same car companies, hey, can't we work with you and some of your franchised dealers and we now have programs there.

This week we announced that we did a deal with AutoNation. AutoNation a large car company, a large car retailer, and the deal is that on every used car that has a satellite radio in it, no matter what the brand is that it's going to come with a free three-month trial. We have various initiatives, some that work, some that didn't and we're going to continue to try new ideas. I'll give you one (technical difficulty). There is a auto -- a place that you might go to change your oil. Right. I don't want to mention the brand. You go in and -- you just go in for an oil check.

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I did assess with them to where they would see a vehicle come in, they would see that it has a satellite radio in it. They would have access to be able to find out if that radio is activated or not activated. If that radio is not activated, we would incentivize them to offer that customer a free three-months trial program. Good idea, right. Small numbers. It didn't work. Wasn't worthy idea, but we've moved beyond that. So, we are constantly trying to figure out how we can find out if you've sold your car to me, how do I learn of that so that I can offer something to you. Well, one of the ways that you do it is insurance companies, right? So, who knows when a car is sold. Well, you can go to the state, of course you do your registration, right, you do that. And unfortunately, today, the states are still concerned about privacy issues and therefore don't want to give us this information. Who knows what the budget crisis has been due to them so where maybe some of these States, well, maybe change their viewpoint and they will let us get some of that information.

So, we're talking to insurance companies about how we can do it. We're talking about, now that the numbers are starting to roll in with maybe we just should ought to do some more advertising and marketing. And we go to market to the consumer and say that, hey, by the way you are buying the car where all over some of these sites that you go to or look up about what a car is, car histories and things like that about doing tie-ins with them.

So, it's a big opportunity if we do it right. We're going to add a lot of subscribers and we figure out a way to crack this other things that's going to be huge. And I hope that [that we do].

Unidentified Participant

Just for the -- for those that don't know, could you mind just share in a few numbers in terms of roughly how many cars are out there on the road that are not customers and what are some of the early data points you have on the conversion rates relative to the OEM market?

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

Yes. So, I mean, I think what's relevant is that there's about over 200 million cars on the road today. And as I mentioned there's about 13 million new cars that are going to be sold. So, there's more used cars sold every year than there are new cars. So, that's a big deal. There's also the fact that we have satellite radio in a whole bunch of cars where people have chosen not to subscribe. They churn, they haven't converted. And today, there's probably about 40 million of those cars out there today and the opportunity exists for us when those vehicles are sold to get a subscriber. That number ramps up to 75 million or 80 million in the next five years.

Well, we think that when you get it into those kind of numbers, we're starting to have meetings about what should we do when we have, let's call it a 100 million radios out there, and let's say, 50 million of those radios are not satellite radio subscribers. Well, do we light up 10 channels? I mentioned that the most you can have in San Francisco is eight radio stations. Well, what if we were to put 10 channels on that would be commercial advertising. Whatever way we did it, and make that available as a way of [adding] monetization.

So far, there hasn't been a good idea yet for us to do it. But the opportunity is there for us to do a whole lot of that kind of thing, as time goes on and satellite radios in more and more vehicles and the SAC is already paid for.

Unidentified Participant

I think you recently instituted a price hike $12.95 to $14.49 at the beginning of the year. Given the robust net adds that you just cited, it sounds like, so far anyway the evidence is that it hasn't caused massive disruption or massive increases in terms --

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Mel Karmazin - *Sirius XM Radio Inc. - CEO*

Yes, I mean, I was on a call earlier today, because we certainly have put through that price increase as of the end of the year. So it went into effect in 2012. Hated the idea to raise our price, it's -- when you compete with free and all of our competition is free, whether it be terrestrial radio or IP radio, the idea of going from $12.95 to $14.49 though it's a small amount of money, it's a very difficult time and we're very sensitive.

We certainly learned a lot from what some other companies have done as far as handling the price increase. So we wanted to make sure that we learned from that. And the early indications and it's very early, right. The bills haven't gone out yet, all we've done is, put it into effect is that, it's reasonably well-received. We at Sirius, we never had a price increase since we started service 10 years ago. And everybody knows what's happened to the cable bills and everyone knows what's happened to the satellite television bills. And we don't want to be in one of those situations where we're constantly raising the price.

On the other hand, we've got a whole lot more content since the time we started our service without putting through a price increase. And we thought that it was appropriate. I can also tell you that we modeled the revenue benefit and ARPU benefit of the price increase even with higher churn and you can't really model high enough churn to make it not worth doing. I mean, so, it clearly is the right thing to do. I was a moderate in the organization. There was a faction, who believed that we should do it more higher, because of the fact that we've not done it before. I just was a little concerned about the timing and thought that our model could work with this modest increase. And we're going to monitor it very carefully and we're going to have our customer care people be all over it from save point of view and work on making sure we keep as many of the subscribers by offering them smaller packages or whatever else they might want if the price is too high for them.

Unidentified Participant

Okay. We have time for questions from the audience if there's any folks who want to Mr. Karmazin a question, we're more than happy to take a couple here.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Yes, you talked about offering the consumers personalization. Can you talk about how you would do that technologically? Would it be, they could get it on their phone or it's something you can do through the radio on the broadcast, somehow narrowcasting?

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

Right. So the idea of personalization is not something that you're going to do from the satellite, right. But if you think of a hybrid, and you think about this Lynx Radio that we have as an example, which is a combination of satellite radio and also IP device that you can offer it through the smartphone and through your tablets and all of that.

So, there probably be 100 million people who have smartphones in the United States this year. And if somebody wants it, and they are looking away from us for personalization then they're using their smartphone for that and they -- our subscribers have smartphones, I mean, the research that we've done is that we over index the people with smartphones. Well, okay, so if you have a smartphone and you want to use your smartphone for personalization, we're going to let you have Sirius XM personalization.

Unidentified Audience Member

Okay. Thanks.

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Unidentified Audience Member

My question for you is about, sometimes you have a lot of the cars out there have unique access to only Sirius' satellites or XM satellites that are out there. But you have some unique product for different broadcasting systems out there, is there any chance of making so people can get both the signals, taking some of the unique product and putting on some other channels on the other satellite, so people with the older cars can get product that they haven't had access to?

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

Yes, so one of the things that we're certainly making sure of, is that anyone who has bought a -- let's talk about General Motors who has been the partner of that -- had satellite radio the longest. So if they're manufacturing a car, and that car is going to be on the road for 12 years, 15 years, we're going to want to make sure that you are going to, in that car be able to get satellite radio for at least the life of that vehicle.

So therefore, when the XM system was designed, it was only designed to be able to be picked up by those partners that were partners with XM and the same thing was true of Sirius. So going forward, all right, going forward we can sit there and have a -- and design our radios that they will be able to look at the Sirius satellite or the XM satellite, look at both satellite whichever way we wanted to.

And some longtime from now, I think 12 or 14 years because if this year, all of the vehicles that are made by XM partners are only going to look at the XM satellite and all of the ones who are at Sirius Partners, Ford, Chrysler are going to look at the Sirius thing. Those cars have to be made that look for those satellites and we can't use either of those satellites for the length of that car. But somewhere in the 2020, there is going to be a lot of spectrum that we're going to own.

That's going to be available to us to do something with whether or not we use that spectrum for more channels or premium channels or who knows what or whether or not we use it for different business model, right is the option that we're going to have. But we don't have the ability to discontinue service today on one of those services and use that spectrum today.

And it's not going to be for a good amount of time. So what we've tried to do is make whatever content that we have on Sirius, so if you like how it's turned and you have an XM Radio, we're enabling you by having our premium tier where you can get Howard on your XM Radio. But there is separate system and they're going to have to be separate systems for a long time to come.

Unidentified Audience Member

One of the marketing opportunities you may have, you haven't talked about it, is the [Rent A Car] business. And I since when I [Rent A Car] sometimes it's in there, sometimes it's not, but the whole process is really (inaudible) and I just wonder how much to think about that and it's a great opportunity to get people to try your product.

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

Yes, so [Larry], it was one of the early things that we did. One of the things that it was done originally was to be a promotional vehicle. You rent the car, imagine if you rent the car and it had a satellite radio in it, and then you sort of liked the product, then you -- when you bought a car you'd want satellite radio. So we started that doing it proportionally.

Today we continue to work with every one of the rental cars, it's a profit-maker for us. So we are currently getting paid by the used cars for having satellite radio in them. We think it makes the driving experience better for the customers to have it and it gives us an opportunity to deal with it. It gets tricky, because we can't control, which cars find their way into the used car.

Are they the ones that we chosen not to put satellite radio in them, because they don't convert well. So therefore, it's

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part of the 30% of the cars that we didn't want to put the radio in.

On the other hand, if in fact, it's part of the 70%, we want to be able to make sure that we can activate that radio that the rental company tells us. Now, we can leave that radio activated all of the time and we're willing to do that if the car company is -- the rental company is going to pay us for that. If on the other hand, they want to do it on a per diem basis, so, okay, when Larry goes and he rents it and he want satellite radio and he is willing to pay $5 a day, okay, we'll activate in then. So, it's -- again, I'm not apologizing. I mean, we're a young, new Company. And we have a lot of things that we need to work through and we've been distracted with things that we shouldn't have been distracted with in the last few years. And I think, now going forward, we can we refine the way we're working. I could tell you that we were doing deals that were bad deals done for promotion.

Airlines, said, gee, if you put your radio in or playing we'll let people listen to your product. And we said great, how much will you pay? No, no, we are not going to -- you pay us. That worked for a little while, and so we said that's a dumb business model. I mean, we're the content owner. Why should we be paying to put these devices in the planes and sit there and have people, maybe, convert one day or buy .

So, we're focused on free cash flow. We're focused on growing subscribers. That's our mantra. And if any of these other ways, opportunities are there that could enhance that, we're going to do it.

Unidentified Participant

One more question at the back.

Unidentified Audience Member

Hi, have you been able to sample a small set of customers that might have a car that has IP-enabled interface as well as the Sirius XM Radio and sort of test conversion rates in that versus some sort of experimental sets?

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

Okay. So, the first time that we did that was when BMW was very active and they put in an iPod jack in the car because everybody, including me, was concerned at that time about what's now going to happen, because personalization, I mean, the ultimate personalization is an iPod. I mean you pick every single song that's there. And now, you're going to be able to bring that iPod into your car and be able to listen to it. And we did a great deal of work on that and you could see where it is today to where, I mean, maybe we would be that much bigger if in fact that device wasn't in the car. But it hasn't really hurt our growth.

Now, fast forward to the IP area, where the numbers are very skinny. I mean, the press releases are out there, but the actual number of vehicles on the road today, okay, are not that significant and the number of people who had three-month trials or six months are very low. So, we're all over that subject, okay. And the early numbers, and I don't want to mislead you, because the early numbers are small, okay, are certainly encouraging. We're not seeing our conversion rate impacted negatively when we look at those vehicles that were early adapted in putting in IT into it, not suggesting that the people aren't using it, but they're not canceling their subscription to our Company as a result of that.

Unidentified Participant

Okay. (inaudible) Mr. Karmazin, thanks very much for you time.

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

Thank you.

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SIRIUS XM Radio Inc. (NasdaqGS:SIRI)

Earnings Call Transcript

Tuesday, November 01, 2011 8:00 AM ET

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Presentation

Operator
Please stand by. Good morning, and welcome to SiriusXM Radio's Third Quarter 2011 Earnings Conference Call. Today's conference is being recorded. [Operator Instructions] At this time, I would like to turn the call over to Hooper Stevens, Senior Director, Investor Relations and Finance. Mr. Stevens, please go ahead.

Hooper Stevens
Thank you, Casey, and good morning, everyone. Welcome to SiriusXM Radio's earnings conference call. Today, Mel Karmazin, our Chief Executive Officer, will be joined by David Frear, our Executive Vice President and Chief Financial Officer. At the conclusion of our prepared remarks, management will be glad to take your questions. Jim Meyer, President, Operations and Sales; and Scott Greenstein, President and Chief Content Officer, will also be available for the Q&A portion of the call.

First, I would like to remind everyone that certain statements made during the call might be forward-looking statements as the term is defined in the Private Securities Litigation Reform Act of 1995. These and all forward-looking statements are based on management's current beliefs and expectations and necessarily depend upon assumptions, data or methods that may be incorrect or imprecise. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially.

For more information about those risks and uncertainties, please view SiriusXM's SEC filings. We advise listeners not to rely unduly on forward-looking statements and disclaim any intent or obligation to update them.

As we begin, I would like to advise our listeners that today's results will include discussions about both actual results and adjusted results. All discussions of adjusted operating results exclude the effects of stock-based compensation and certain purchase price accounting adjustments.

With that, I will now hand the call over to Mel Karmazin.

Mel Karmazin
Chief Executive Officer and Director
Thank you all for joining us this morning. SiriusXM continues to execute well in a challenging macroeconomic climate. We were able to drive our company's operating results to a new record level of subscribers, as well as a record quarterly revenue and record adjusted EBITDA. To put it simply, subscribers remain excited about the value and depth of our entertainment offering, and we have a great business model for our investors to be excited about as well.

Reviewing our current results, you will see that we added 334,000 net subscribers in the third quarter, taking us to a new high of 21.35 million subscribers. We are growing in what we all know is a very weak economy and in a market that have seen plenty of new competition. And we're pleased that growth is accelerating this year. We've added 1.16 million new net subscribers so far this year compared to 1.09 million in the first 9 months of 2010, a 6% increase over last year. And our second quarter -- on our second quarter earnings call, we raised our subscriber guidance for the year to 1.6 million net adds, which we expect to meet. This means, we anticipate adding about 440,000 net subscribers in the fourth quarter, up about 34% from subscriber growth in the fourth quarter of 2010.

Self-pay subscriber performance in the third quarter was excellent. We grew our self-pay subscriber base by 364,000 subs to an all-time new third quarter record. These third quarter self-pay net adds were up 41% from third quarter of last year, and represented the best single quarter since we completed the merger of SiriusXM in the summer of 2008.

When you look at the total number of customers we have, this too is also at an all-time high. While many subscription media companies are losing customers, we have increased our number of customers by 10% over last year to over 15 million, also a record number. More individuals and households are subscribing to satellite radio, and this bodes very well for our future and long-term prospects.

Gross additions were up 10% for the third quarter, driven by a third quarter SAR that was up 7% to 12.4 million on an annual basis, along with SiriusXM's higher penetration rate. This is the fourth consecutive quarter we exceeded 2 million gross additions.

Self-pay monthly churn rate was 1.9% in the third quarter, in line with both the second quarter and with last year's third quarter. Our new car conversion rate was 44.4%, which is a solid number, but at the lower end of our range. While the mix and increased penetration from OEM sales continue to affect this number, we are also working with our OEMs to improve the data feeds we receive from them, which will help conversion. We are not seeing any change in conversion that concerns us about how customers feel about our product. Conversion of the same vehicle models are basically the same. What changes every quarter is the mix of OEMs and the mix within OEMs, as all models convert at different levels.

Although we're proud of our subscriber growth, our financial performance was even better. Revenue of $763 million was up 6%, and represents a new record for a single quarter. Keep in mind that our pricing remains constrained at present. And as you know, we actually lowered the Music Royalty fee last December, which held back ARPU a bit. Despite the restraints on our pricing, we remain on track to grow our revenue by about 6% and hit our full year revenue guidance of approximately $3 billion. Importantly, the revenue constraint disappears in just 2 months.

Cash operating costs were up by less than 3% versus the same quarter last year, a rate that was well under our revenue growth number. Our fixed costs were up about 1%, while our variable expenses, which rise closely with revenue, were up 5%. We have achieved a reduction of about 20% in our programming and content expense since the merger of Sirius and XM. And in the first 9 months of this year, we cut expenses in this area by 8%. This is just one example of the focus on costs that is driving our performance. Quite simply, we're creating more value in our programming with a lower investment.

The tight expense control and our revenue growth produced adjusted EBITDA of $197 million, up 16% year-over-year for the quarter. The adjusted EBITDA margin of 26% was also a new record high. In 2012, we expect adjusted EBITDA will climb to approximately $860 million. Our adjusted EBITDA guidance next year implies a full year 26% margin, up from an estimated 24% for the full year of 2011. We continue to believe that we will be able to achieve long-term margins in excess of 40% by scaling subscribers and revenue, and holding the line on expenses.

We just turned EBITDA positive 3 years ago, and we are very pleased where we have been able to move our margin at this stage of our development. Growing EBITDA is really a precursor to driving free cash flow, which we believe is the primary driver of SiriusXM's value. We are focused on growing our free cash flow substantially in the future. Free cash flow will enable us to invest in our business, which will increase growth, reward shareholders via dividends or share repurchases and make accretive acquisitions to improve the value of our company.

Free cash flow in the third quarter grew 22% to $75.4 million, helped by lower capital expenditures than in the same quarter last year. In the first 9 months of 2011, we've already produced more free cash flow than in all of 2010, $224 million compared to $210 million. In 2011, our free cash flow guidance is approaching $400 million. And remember, we normally have seasonally higher cash flows in the fourth quarter. Our $400 million free cash flow guidance represents a staggering 90% increase over 2010.

Just a few short years ago, in 2008, the combined negative free cash flow of SiriusXM exceeded $550 million. To put it mildly, we've come a long way, and it gets better. Our 2011 guidance calls for our free cash flow to increase 75% next year versus 2011 to approximately $700 million, driven by improved operating results and lower capital expenditures.

Let's put this in perspective. In 2012, we plan to grow our cash generation to nearly $2 million every day, that's including weekends and holidays. Truly an astounding statistic, which will obviously represent the best free cash flow in the history of the company.

We continue to find success in the used-car channel, where we now have programs to reach consumers buying a variety of the used cars. Since we expensed our SAC up front when a car is first produced or sold, adding gross additions in the used-car channel is an extremely cost effective way for us to grow our subscriber base. We've rolled out trials to buyers of virtually all satellite radio-equipped certified preowned vehicles across most auto brands. These sales represent a small portion of used cars sold every year, but it was a great place to start. And the conversion rate from these certified preowned trials is solid, below the level of our new car conversion rate but still very, very acceptable.

We expanded on our certified preowned program this June when we announced that we enrolled over 1,000 Chevy, Buick, GMC and Cadillac dealers nationwide in a new program that provides all purchases of used vehicles, not just certified preowned, with a complimentary 3-month trial of SiriusXM. Today, nearly 2,000 General Motors dealers are now enrolled in this program, and we are gathering data on the early conversion in this channel. We followed up with the launch of a similar program with Nissan and Infiniti dealers, which we announced a few weeks ago. Stay tuned for future announcements over the coming months as we expand this program to other OEMs.

We add value to the used car sales process, and it's also a great rate for people to experience satellite radio in newly acquired used cars. We continue to be very confident that the previously-owned market will be a significant growth opportunity for SiriusXM in the coming years.

Consumers appreciate satellite radio, first and foremost, because of our tremendous and unmatched content covering every single genre of music, as well as talk and entertainment that can't be heard anywhere else, and a sports lineup that can't be matched anywhere else on radio or the Internet. We continue to invest in creating and making available more premium content to our customers.

In conjunction with the retail rollout of SiriusXM 2.0 this quarter, we launched more than 20 channels including a suite of Latino channels. We're taking a great product and we're making it better. Later in this quarter, we will also roll out the next component of 2.0, a new plug-and-play radio called Lynx. The Lynx will be a first for SiriusXM. Android-based, with a high resolution color touchscreen, it can operate as a satellite radio in the car, capable of accessing the new expanded 2.0 content lineup, and it also can access SiriusXM's Internet radio via WiFi and stream audio content through stereo systems via Bluetooth. In addition, Lynx will enable time shifting of content and storage of up to 200 hours of content, and we expect to add more functionality through software upgrades in the future.

Our great content is a significant factor in driving increased distribution of SiriusXM. In the third quarter, we were included in approximately 2/3 of all the new cars sold in America, up from about 62%, last year's third quarter. We continue to work with the major automakers to rollout 2.0 technology as quickly as possible, and we are seeing strong demand from them for this additional service. An all-time high penetration rate and the anticipated OEM rollout of SiriusXM 2.0 demonstrate automakers commitment to offer satellite radio to their car buyers.

Our OEMs continue to believe that we make the driving experience more desirable, and they prominently feature us in their advertising. Most recently, GMC began an extensive TV campaign featuring the NFL on SiriusXM, and offering a one-year prepaid service. Mercedes is also featuring SiriusXM in one of their TV spots currently on the air.

Auto sales are picking up, and despite the negative economic headlines, forecasters still expect auto sales to grow by about 1 million units next year. In fact, most forecasters believe auto sales will continue to grow for several years as Americans begin to more quickly replace the country's aging fleet of vehicles. SiriusXM is currently installed in approximately 2/3 of these new cars. As these aging vehicles are replaced, our growing penetration rate mean that we will have the opportunity to both introduce the benefit of satellite radio to more and more potential subscribers and gain more and more subscribers from the used-car market in addition to the new car market.

Again, we believe we have many, many years of subscriber growth ahead of us. Delivering great customer service is a major focus for SiriusXM, and we will continue to work to improve our satisfaction metrics in a cost effective way going forward through better uses of technology and improved agent training.

Growing subscribers is our primary means of growing revenue. But changes to our pricing and more effective bundling of higher-tiered packages will also boost revenue over the next few years. Since the 3-year FCC handcuff on our pricing expired this summer, we carefully condition considered what price level is most appropriate for our service. Never before in the company's first decade of operations had Sirius changed its core price of $12.95 per month, despite adding a tremendous amount of premium content that didn't exist when the company launched service.

So in September, after thoughtful deliberation, we announced our intention to increase the price of our SiriusXM's Select packages beginning January 1, 2012, from $12.95 to $14.49 per month, approximately $0.05 per day additional and 11.9% increase. This will help us accelerate our revenue growth next year. And you could see the early effects in our guidance for 2012, revenue growth of approximately 10% to $3.3 billion. The price increase next year will also continue to benefit revenue in 2013. We will also be driving higher ARPU through the sale of our premium tier All Access plan and our Internet Listening add-on.

Revenue growth is fantastic for investors, but it's best when combined with high incremental margin and tight expense controls. Our low incremental cost and focus on our fixed expenses will result in expanding EBITDA margins. And with our low requirement for capital expenditures and multibillion dollar tax shield, we plan to dramatically increase free cash flow over the coming years. Remember that over the next few years, we will have the opportunity to refinance some of our expensive legacy debt at lower rates. We would have many years without the need for substantial satellite capital expenditures and with roughly $8 billion of NOLs, we have a substantial tax holiday. All of these things will help us grow free cash flow for many years to come. We intend to be good stewards of this cash flow.

With over $600 million of cash and equivalents on hand as of the third quarter, our net leverage has declined to just 3.4x, well underway to our state of leverage target of about 3x. Combining this with our free cash flow guidance this year and next implies we will have nearly $1.5 billion of liquidity at our disposal by the end of 2012. We will have the flexibility to use this liquidity to grow our business, ensure a low cost of debt, make acquisitions and return capital to shareholders.

The market and rating agencies have clearly understood our balance sheet, and credit worthiness have strengthened considerably. Just last week, Standard & Poor's upgraded our corporate credit rating to BB from BB-, which puts us just 2 notches away from investment-grade status. Since early 2009, our credit ratings have been upgraded 6 notches by S&P. We are extremely pleased with the market view of our credit quality and access to credit, so we don't believe we need to attain an investment-grade rating. Given the predictable nature of our business, we would prefer to take advantage of a prudent level of leverage, which should mean higher returns for our equity holders over time.

Without a doubt, there is more competition from all corners of analog and Internet radio, but SiriusXM is not slowing down, and we intend to accelerate our growth next year. Our company is performing extremely well. We have a unique product that consumers demand, and we have a business model that continues to demonstrate positive economic leverage. The best is yet to come.

Thank you for participating in today's call. And I'll now turn the call over to David Frear for additional remarks.

David J. Frear
Chief Financial Officer and Executive Vice President
Thanks, Mel. If we look at it from a macro perspective, the third quarter was pretty tough. Unemployment didn't budge. Household incomes were down, consumer confidence sank, car sales continue to fall off the pace set early in the year. There was virtually no good news in the housing market, political gridlock in Washington and growing concerns about Southern Europe triggered selloffs in the bond and equity markets. And with all that as a backdrop, SiriusXM posted a record quarter.

In fact, we just completed our fourth consecutive quarter of growth additions in excess of 2 million. The incorporation of satellite radio into nearly 2/3 of North American auto production helped overcome lower-than-expected auto sales, allowing us to deliver record levels of total subscribers at over 21.3 million and self-pay subscribers now more than 17.5 million.

With a falloff in car sales in the third quarter, the inventory of both paid and unpaid trials fell slightly, less than 100,000, and we continue to have over 5.1 million trials awaiting conversion. For the 3 and 9 months, growth in self-pay subscriptions was clearly the driving force in our subscriber growth. With subscribers up 7.5%, revenues grew 6.3% to $763 million for the quarter. The reduction in ARPU over the prior year is entirely related to a reduction of the Music Recovery fee on primary subscriptions that was implemented last December, down to $1.40 from $1.98.

Contribution margins were stronger than expected at 71.4%, up from the prior year. We continue to encourage investors to plan for 78% margins in the near term as royalty costs are due to go up by 0.5% in January, and the portion of our subscribers that generate OEM revenue share payments continues to grow. The SAC per gross add continues its steady downward trend. At $55, it improved 6.8% over the prior year, largely offsetting the 9.5% growth in gross additions, contributing about half of the pickup in our EBITDA margin in the quarter.

We continue to manage fixed expenses, that's sales and marketing, satellite and transmission, research and development and G&A and programming, to be relatively flat despite significant growth in subscribers and revenues. Programming costs continues to decline as premerger contracts come up for their post-merger renewals in the 9 months ended September 2008. Just after the close of the merger, fixed expenses ran $936 million for the combined company. In 2009, we cut them to $658 million. We held them at that level in 2010 and reduced them further in 2011 to $649 million. That's an aggregate reduction of 31% while revenues have increased 25% over the same period.

High revenue growth and good cost controls result in expanding the EBITDA and the EBITDA margins. The $197.3 million of the EBITDA generated in the quarter was a record for the company, and is up 16% from the prior year. Our record 25.8% EBITDA margin for the quarter is up from 23.5% a year ago, 16.9% in 2009 and minus 6% in 2008, a fantastic record of growth. We look forward to expanding EBITDA margins even further in 2012.

Free cash flow for the quarter came in at $75 million, bringing the 9 months to $224 million, exceeding the free cash flow generated in all of 2010. Cash exceeded $600 million at the end of the quarter, and with the fourth quarter coming, traditionally, very strong for free cash flow, year-end cash will rise to roughly $750 million.

In October, we repaid the remaining $23 million of the 3 1/4% converts. Gross debt to EBITDA stood at 4.3x at the end of the quarter, while net debt to EBITDA was at 3.4x. EBITDA to interest coverage was 2.6x for the quarter. With rising free cash flow, it's clear that leverage can come down very quickly.

The improvement in our credit outlook was recognized by S&P last week and upgraded to BB with a stable outlook, as well as by the bond market where our 7 5/8% notes due 2018 traded yield at about 6%.

While the macro picture for Q3 was difficult, there are some bright spots in the gloom. September SAR show the best months since the first quarter tragedy in Japan, and October looks like it will continue. Consumer purchases of cars was up 7% year-on-year, but was up 11% in the month of September. September economic data was also more encouraging. While it's too early to declare victory, we're optimistic that we will see growth in 2012 above the 12.7 million car sales pace anticipated for 2011.

Our guidance in September anticipated the improvement in car sales. We initiated 2012 guidance in the midst of truly awful macroeconomic factors and an increasingly competitive landscape to demonstrate the confidence we have in delivering consistent profitable growth to investors. Our price increase will go into effect January 1, driving revenues

in 2012 to $3.3 billion. Continued cost effective growth will drive the EBITDA up 20%, double the 10% revenue growth rate to $860 million, and continuing the improvement of our EBITDA margin. And free cash flow will expand 75% to $700 million, as our satellite replacement program comes to an end with the launch of Sirius 6. SiriusXM is well positioned for long-term growth subscribers, revenue EBITDA and free cash flow.

So operator, let's open it up for questions.

Question and Answer

Operator
[Operator Instructions] We'll take our first question from Barton Crockett with Lazard Capital Markets.

Barton E. Crockett
Lazard Capital Markets LLC, Research Division
I wanted to get a little bit better sense about your fourth quarter subscriber outlook, which is very healthy. And the one thing that was surprising this quarter was for us at least, it was a decline in promotional subscribers. And as we look to the fourth quarter, can you give us a little bit of color about what you see there whether there continues to be a decline or whether this was kind of a one quarter aberration. And then following up on that, as you look out to next year, I know you aren't guiding for subscriber growth here, you're just talking about revenues, but can you at least, in loose terms, give us some sense of how you see that subscriber growth trajectory that underlies your revenue guidance for next year?

Mel Karmazin
Chief Executive Officer and Director
I'll let that David answer the question. But first let me answer that we gave subscriber guidance for the year. And in the last quarter, we, a matter of fact, raised our subscriber guidance to 1.6 million net adds. And that's exactly the number that we are still forecasting for today for this year, and that results in what the fourth quarter would be. And David, can answer your specific other points?

David J. Frear
Chief Financial Officer and Executive Vice President
So Barton, on the decline in promotional subs, it's very in the short-term to 2 things: one is the level of automotive sales; and two is in the mix between paid and unpaid trial partners, but we tend to track the total trials in conversion, in the conversion funnel as opposed to just one or the other. And car was soft over the summer. The -- with the constraints on production for -- principally, for Toyota and Nissan and Honda, coming out of the problems in Japan in the first quarter that auto sales as everybody saw it sort of compressed over the summer. With that, we held the conversion trials relatively flat. It's as the sales -- auto sales picked back up, the total trials and the conversion funnel will pick up as well.

Barton E. Crockett
Lazard Capital Markets LLC, Research Division
Okay. But in terms of for next year with your revenue guidance, any color on subscriber outlook there in terms of -- I know you're not going to guide specifically, but even just loose color do you expect a better sub growth year or similar?

Mel Karmazin
Chief Executive Officer and Director
So, I think, I mentioned in my opening comments that all of the forecast that are out there for 2012 SAR are anticipating an increase of about 1 million additional cars sold. So we historically give our subscriber guidance on our fourth quarter earnings, and this year will be no different unless we decide to do a little bit earlier, but it will certainly be done by that time. And we're very encouraged. And for our planning purposes, we see SAR increasing. And if SAR increases, that's great news for SiriusXM.

Operator
We'll move on to Benjamin Swinburne with Morgan Stanley.

Benjamin Swinburne
Morgan Stanley, Research Division
I have 2 questions for either Mel or David or both if you're willing to answer them. I wanted to ask about the price increase for next year, Mel. I know no one knows what the churn impacts may be at this point, because you really hasn't bought anything through like this before. I guess the MRF is the best data point we have, but maybe you could spend a minute on any reaction you've had from either OEM partners or from customers on the announcement that

might give us some sense for what you expect next year on the churn front as a result of the price increase. And then second, for either of you or both, strong free cash flow. Again, this quarter, the outlook for free cash flow was very strong, so leverage keeps coming down. You talked about returning capital to shareholders. I think the assumption in the market is that share repurchase is at least on your -- on the table. How are you thinking about the liberty relationship and buying back stock in a situation that will drive their ownership up? I think Mel, you commented on that briefly at a couple of conferences earlier in the quarter, but any update or thoughts there would also be helpful.

Mel Karmazin
Chief Executive Officer and Director
Okay, so we'll give you a double shot. I'll give you my comments and then David can give you his. On the price increase, obviously, we compete with freight. All of the competition that's out there, whether or not it'd be in terrestrial analog radio or Internet radio tends to be a free service. So the fact is that we're very cautious when we are raising our price. We believe that we are being prudent. Again, we think that $1.50 a month or, as I said earlier, $0.05 a day is something that would not really materially change any DX for us. You really don't know. We're going to work very closely with our "save desk" and make sure that we're monitoring carefully. So far, based on the noise that's in the market, or I should say the lack of noise that's in the market, we monitor social networking and basically go through the feedback that we've gotten from our subscribers. And we've seen them say, they understand. I mean, the price increase is not in any way, shape or form egregious. It's not something that we're doing regularly, and we don't think that it should impact our growth next year. As a matter of fact, we think that the financial metrics will be very attractive for us as we start rolling them out to subscribers. So we thought about raising the prices more. Again, was concerned about the competition of freight and decided on this number, and we feel still very good about it after announcing it in September. It's now 2 months, and there really hasn't been much of a reaction to it. On anything about returning capital to shareholders, it's something that our board will discuss. We think that it will be a 2012 discussion. We introduced the subject already as we talked about these financial metrics accelerating. And I don't think that there is anymore specifics that I want to talk about what our plans are until our board finalizes and decides what we want to do with that -- in that regard.

David J. Frear
Chief Financial Officer and Executive Vice President
Just, Ben, on he We looked at the Music Recovery fee, we implemented that. We looked several years ago to when XM changed their prices and how their subscribers reacted to that back in, I believe, 2006. We looked at the change in the second sub pricing that we did post merger and sort of took it all into account that, one of the things to bear in mind with the price increase that the -- sort of that cost to consumers, which probably look through the change we made in the Music Recovery fee last December, if you go to what were prices a year ago now to what they will be in January, the effective increase is about $1 overall, it's just that we've got it into 2 steps, $0.58 down on the MRF and then about $0.50 up 12 months later on the primary. So -- and maybe that sort of being around the $1 is helping sort of mute the reaction that we're seeing so far, because we certainly haven't seen much.

Operator
We will take our next question from David Bank with RBC Capital Markets.

David Bank
RBC Capital Markets, LLC, Research Division
Two questions, the first one is I was wondering if you could give us color on the reactivation side. If not, maybe sub adds coming from reactivations but you kind of trends in reactivation as a percent of net adds in this quarter versus prior quarters. And second question is, Mel had mentioned one of the potential uses for free cash flow being acquisitions. And I was just wondering if you can give a little more color in terms of what would be the ideal kind of acquisition for you guys when you have financial flexibility towards 2012.

Mel Karmazin
Chief Executive Officer and Director
Okay. So let me give you the second, and then David will comment on your first one. In order for us to make an acquisition, it has to have a very -- passed a very high threshold. So first of all, it would have to be in our core competency. It would have to be a business that is growing. It would have to be a business that is going to be accretive to us on a free cash flow basis. So if -- you sort of look at those things and you say, "What won't it be?" It's pretty obvious, right? I mean, it's not going to be any of these other radio competitors, as an example, because of the fact that's not -- they're not going to be growing rapidly or they're not going to be free cash flow positive. So it's very difficult for a potential acquisition to be there. We look at lots of things, all of the bankers visit us regularly to show us everything that's on the market or conceivably to be on the market. We'd like to make an acquisition if in fact it meets those criteria. And when we find one, we'll let you know.

David J. Frear

Chief Financial Officer and Executive Vice President
So on -- David, on to the reactivation front, that -- you should think of it -- I think that in the short term, it's just sort of a fairly steady and consistent effect in the underlying numbers that reactivation is actually an incredibly broad category of things. I think when most people talk about it that they tend to think of it as subsequent owners of a radio, primarily a vehicle, and developing confidence in those statistics is going to take a little time. We know for sure whenever a radio turns off and turns back on, what is a little more difficult to tease out is the information is who owns the business than the existing subscriber who's reactivating a few days after a trial ends or after maybe they get disconnected for non-pay, or is it a subsequent owner of a vehicle that we frequently find with the timing of information sent to us by some of the automotive partners is that you can often have a radio that's still on for a car that's been sold. The new car buyer -- the used car buyer gets it. And they're actually calling us to "activate" their radio before we've been informed that the car has actually changed hands. So again, I think the short story is that over time, that as we can get confidence in the measurement and the numbers, we'll probably talk more to you about subsequent owners. But reactivations, at this point, is just sort of a pretty steady consistent contributor to all the underlying metrics you're looking at.

Operator
We will take our next and final question from David Joyce with Miller Tabak and Company.

David Carl Joyce
Miller Tabak + Co., LLC, Research Division
I was just wondering if you could update us on what might be happening on the retail channel with your new Lynx -- or with the Lynx products. And then if you had any color on the conversion rates on the used car channels.

James E. Meyer
President of Sales and Operations
Sure, this is Jim, Bob. We expect to have our product available -- the Lynx product available before the end of the year. That'll have a significant impact on the holiday season, although we're pretty optimistic about the acceptance of the product in the market. Overall, we're in the shape we usually are at this time of the year. We have several promotions planned with our key retail partners for both Black Friday and the Christmas holiday, as well as what we think is a strong lineup of promotions at our online store at siriusxm.com. And I'm pretty optimistic that the Christmas season will be good. Regarding used car conversion, as Mel mentioned, we're pleased with the conversion so far that we've seen on certified preowned vehicles. It's not as high as new cars. It's in fact, it tracks in the mid to high 30s right now. I think it's too early to say whether the long-term trend of conversion is going to be in used cars because like many -- if you remember, a new car conversion, it takes a while to figure the cadence, the proper cadence and the proper offer strategy and a proper follow-up to optimize that number. And used cars, that we're still relatively new at it. I don't believe at all it'll ever be as good as new cars, but I do believe that it will be very, very strong and a good contributor for our growth for many years.

Mel Karmazin
Chief Executive Officer and Director
All right, everyone, thanks for dialing in.

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FINAL TRANSCRIPT

Thomson StreetEvents℠

SIRI - Sirius XM Radio Inc at Bank of America Merrill Lynch Media, Communications & Entertainment Conference

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Sirius XM Radio - CEO

PRESENTATION

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

(Audio in progress) -- to have Mel Karmazin of Sirius XM. Sirius' stock is up more than 60% since our last fireside chat a year ago, versus the market, which is up only 6.0% and I'd like to welcome now, who is always a pleasure and funny.

Mel Karmazin - *Sirius XM Radio - CEO*

Thank you, Jessica.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

And entertaining.

Mel Karmazin - *Sirius XM Radio - CEO*

Pleasure to be here.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

Yes.

Mel Karmazin - *Sirius XM Radio - CEO*

Always great.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

So, on your second quarter conference call, you increased 2011 subscriber ads as guidance to $1.6 million, or a 13% year-over-year increase, but since then, the markets have become super volatile, consumer seems weaker and weaker. Can you give us an update on current trends?

Mel Karmazin - *Sirius XM Radio - CEO*

Okay. Thanks, Jessica. So, basically, because this year we got an opportunity to talk with this group, we really wanted to bring out some new information, so one of the opportunities that I have is to update you on what we're seeing. So, we're definitely seeing the economy being very sloppy, but in spite of that, we certainly are also seeing our business being very strong.

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So, today, we're in a position to be able to reiterate our guidance for 2011 and you'll recall that what we said was that our revenue was going to be about $3.0 billion, that our adjusted EBITDA would be about $715 million and that our free cash flow, which, again, we think is the key metric for valuing any investment, was going to go from $350 million, which we forecast, to $400 million.

In addition to feeling very good about those numbers, we'd like to also provide you with some insight as to how we see 2012 and we thought that we would not wait until our next earnings call to do it, but to be able to do it today. So, for 2012, we see our revenue not just growing, but that revenue growth will accelerate and we will have -- we're looking at today having double-digit, 10% revenue growth to about $3.3 billion next year.

Our EBITDA should grow by 20% and if you take the $715 million, which we're forecasting, and take that up by 20%, that would get you to a number of approximately $860 million. Again, very importantly, this free cash flow number of $400 million, we are today looking at that number going up 75% and growing to $700 million.

So, not only is our growth continuing, we're looking at 2012 as that growth accelerating and what's going to contribute toward that growth is that we are planning on a price increase in our subscription services, effective the beginning of January. And as an example, our Sirius Select package, which today is $12.95, will go to $13.49 for subscribers that whose term comes up starting in January. So, as you know, an awful lot of our subscribers pay significantly in advance and we're not changing any of the prices they pay until those deals come up.

Our price increase will be approximately 11% on that package, which is our biggest package. In real dollars, if you think about the offering that we have, it's currently $12.95, is $0.43 a day. $0.43 a day gets you the best radio on radio.

Sirius has not had a price increase since we started service in 2002. We've added amazing content, whether it be Howard Stern, the NFL, NASCAR, Martha Stewart since then, without a price increase, and now what we're asking subscribers to do is to pay an additional $0.05 a day, which is, in essence, $0.48, and that will contribute towards our revenue.

So long answer, Jessica, to your question, but thank you for asking that.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

That's an amazing echo, but I'm happy to hear it. So let's dig down into some of the drivers, but maybe more general questions for us and then we'll go through each part of the business. Our auto analyst is reporting an annualized SAAR rate of 12.1 million for August 2011. Well, as he said, domestic economic data becomes just more worrisome in recent months.

So what are your automotive partners saying about their expectations for projected SAAR? And it sounds like you feel really good about that next year, but given the economy are you reassessing at all that $1.6 million revenue guidance?

Mel Karmazin - *Sirius XM Radio - CEO*

So, at this point, our partners are looking at 2012 SAAR to be somewhere between 12.5 and 13 million subscribers. We feel very good about the 1.6 million this year. The SAAR number for this year, in spite of what's going on, will be higher than it was in 2010. So there's about a 6.0% or 7.0% increase, even with these numbers, in SAAR, so we feel very good about the 1.6 million number that we said we're going to grow by.

I think what's real interesting is the fact that there's been a lot of talk about all of the competition that we face and that 1.6 million this year is higher than the 1.4 million of the year before. So we'd love to see SAAR get back to 16.5 million, which is where it had historically been. An awful lot of analysts are forecasting that the SAAR number will get back to the 15 million or 16 million.

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Uh-oh. Did I say something wrong?

Unidentified Company Representative

(Inaudible - microphone inaccessible)

Mel Karmazin - *Sirius XM Radio - CEO*

What did I say?

Unidentified Company Representative

(Inaudible - multiple speakers)

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

$14.29.

Mel Karmazin - *Sirius XM Radio - CEO*

What did I say?

Unidentified Company Representative

(Inaudible - microphone inaccessible)

Mel Karmazin - *Sirius XM Radio - CEO*

$13.49. I thought -- I'm sorry, $14.49. I'm sorry. Forgive me. That the idea is that at $12.95 going to $14.49 was the price point, I misspoke. So, again, the SAAR number for 2012 again will increase probably between 13.5 and 14 million next year.

There's an awful lot of marketing efforts planned by the car companies beginning in October of this year to be promoting the new car introductions and to be driving it and our partners, we're not in the business of making the cars, but what they are telling us is that they feel pretty good about being able to achieve these levels and all we can do is take SAAR input from them.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

Drawing on penetration that's now 65% of all U.S. vehicles manufactured in the U.S., how much further can you drive this and what some of the ways that either that you expect to achieve higher penetration?

Mel Karmazin - *Sirius XM Radio - CEO*

So one of the things we balance all of the time is are we putting satellite radio in the correct vehicles so that we are going to likely, after the promotional period and the trial is over, be able to keep them as paying subscribers? So, clearly, I think in the second quarter our penetration rate was almost 67%.

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If were running the Company just for penetration rate and that metric was what people really were most concerned about, we would probably only get into the top tier line, because we have penetration of 70% and 80% conversion rates and penetration rates. On that subject, we have 70% conversion rates on some of our vehicles.

So, I think the idea of going into police vehicles, right, so if you think about the cars that are made of sale in the United States and if, in fact, there's going to be 12.5 million or 13 million, some of these vehicles are going to be police vehicles. Well, we don't see any advantage of putting satellite radio into those vehicles and increasing our penetration rate that way.

So, I think that if anyone is modeling or anybody is thinking about where that penetration rate should be, I think about 65% is an optimum, though we're constantly tweaking it, constantly experimenting with different lines. But the model works really well if you take the SAAR number as what it is and then you take 65% of it and then you get into the conversion rate on top of it, so I think that that's sort of a sweet spot for us.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

And your conversion rate has been -- or you've gotten back to 45%, but you mentioned its 70% to 80% in cars.

Mel Karmazin - *Sirius XM Radio - CEO*

Yes, but I mean, there are some vehicles -- when you take a look at that number, there's an average of it. Some vehicles can absolutely convert at higher levels and some through lower levels, so mix is really important. The more expensive the vehicle to wear the price is not so sensitive to somebody, it converts better.

We think our conversion rate of somewhere between this 44% and 47%, which is where it's been, is a factor of two things. It's a factor of mix, because of what I said to you, some vehicles convert differently than others. A lot of our Asian partners have been newly adopting satellite radio, as compared to General Motors, which was a very early adopter. We have a lot of years of experience in working with our partners at General Motors on converting.

We've had less years of working with some of the Asian partners, so their conversion rates are suddenly -- or are somewhat lower, but there's nothing systemic with it. There's no reason that we can't show improvement. And then the other thing is penetration. Because as we have decided and desire to be in more vehicles and we increase the penetration, that too has an impact on the conversions because we're penetrating today more vehicles that are less expensive and those conversions are not quite as high as the other ones.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

In April you began a nationwide initiative to enroll a thousand Chevy dealers, GMC and Cadillac dealers where you're offering a complimentary three-month trial of Sirius XM to used car buyers. Clearly the pool of Sirius XM-equipped cars will continue to grow. How significant of an opportunity is this?

Mel Karmazin - *Sirius XM Radio - CEO*

Yes. I can't underestimate the importance that the used cars and second owner and third owner are going to represent for us. So, as we have begun to get to the point where customers have gotten satellite radio in their vehicles and now they are selling those vehicles and hopefully they are going to continue to be a subscriber when they buy a new one. Now the key for us to get those vehicles that are now on the used car lots to get those people who are buying vehicle to subscribe.

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We also have the radio already in that dashboard, so our stock is there. So, if, in fact, we can come up with an efficient way to do it, the numbers could be extraordinary.

There are going to be -- in 2015, there'll be about 75 million vehicles on the road that will be equipped with satellite radio in the dashboard. Obviously a good number of those are not subscribers. So if, when they find their way into the used car lot, we're able to get a subscription by doing the same things with the used car dealers that we do with the OEMs, which is let's give them a trial, you'll buy a certified pre-owned or you'll buy a used car, it'll come with a trial. We'll get your name, address, email. We'll then market it to you while you're in this three-month trial and convert a good percentage of those people.

The early numbers that we're seeing on conversion on used cars, are not as good as the conversion is on the new cars, but it is surprisingly good as well and we're excited about it. I mean, we've not yet given and broken out on our metrics the number of used cars, but it is growing very rapidly. Its represents today a relatively small number, but every single year -- if we are penetrating in 60%-plus of the vehicles, at some point some years out, 60-65% of all of the vehicles that are in the used car dealers' lots are going to be equipped with satellite radio.

So not only will we be putting satellite radios into the new vehicles that are buying. Then there's this market where a large number of them will be in a used car and that hasn't been available to us. And we look upon the used car market as being what the equivalent was of the retail market. When satellite radio first started, there was really two ways of getting it. The number one way was you went to Best Buy and you bought a radio and you put it in your car and then, as time went on, you bought a new car and the car came with it.

Well, now, what we're seeing is that, when you get a new car, it's going to come with satellite radio and then you're going to sell that car and somebody else is going to buy that car and we're going to get a subscription from them. So, long-term, we think it's a really big deal and we're seeing it in our numbers today.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

Maybe switching gears a little bit, but on operating costs, do you think they've been fairly contained? At the same time, the programming officer said that it could only be richer. So, is the slow growth question sustainable?

Mel Karmazin - *Sirius XM Radio - CEO*

Yes. I think that what we've said is that the merger has enabled us to take a great deal of costs out of the Company, right. So that, if you think about how satellite radio was prior to the merger and you now think about what has happened as a result of the merger, we have saved a tremendous amount on costs.

Specifically, in the programming area, that has been a very important part of where our focus was in driving down costs, while we are not in any way, shape, or form taking away from our innovation in the programming side. What we've said is that like programming costs, if you take our lineup of content today, that cost of doing that content will go down and if you take it as a percentage of revenue, it will even go down greater.

So our peers in the cable and satellite television area are seeing a phenomenon that's very different than ours. Their programming costs are in fact going up. It's going up as a higher percentage of their revenue. Ours, the programming costs are going down and that it's going to be a lower percentage of our revenue. And deals are continuing to come up.

So it's not like we got everything, because when we did the merger there were many five-year deals in place. So, as an example, our agreement with NASCAR comes up at the end of this year and we're engaged in a discussion, because we think NASCAR content is very desirable and we're engaged in a discussion with NASCAR about a new agreement.

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In a few years, the major league baseball contract will come up for the first time. Again, we think major league baseball is great content and we would look forward to doing a marketplace deal when that deal is up and that marketplace is very different than the marketplace was when the original deal was done.

So, I mean, our model, Jessica, is real clear. Just even with the 2012 guidance that we gave, our revenue's going to go up 10%. Our EBITDA is going to go up 20%. That means our margin is going to grow even faster and our free cash flow is going to grow and that's going to continue with the help of these programming cost savings.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

On the EBITDA margin, as they were approximately 25%, which is up 300 basis points year-over-year and in the past you've stated that you believe that you could take margins up to the 40% range. What timeframe do you think that's achievable?

Mel Karmazin - *Sirius XM Radio - CEO*

So we haven't given guidance beyond next year, but certainly we have modeled it as to what our future looks like and again, it's very early for us to be talking about 2012 and we are talking about 2012 at a time when everyone is concerned about the economy. So the one thing that we will not do is get ahead of ourselves.

You know investors just are so unforgiving on missing a number, so that we are being guardedly cautious in talking about it, but, in this conservative viewpoint that we have today, our margin is improving again next year because revenue is rolling more than expenses and therefore, we'll continue to see margin improvement. But, clearly, within the timeframe of our modeling and our providing long-term plans for internal operation and our board, we see these operating margins getting to 40% and that's not shocking.

I mean, if you believe that revenues are going to continue to grow because of the business model we have and yet we're able to control our expenses, we get this rate margin improvement.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

Okay, you've just announced a 75% expected increase in free cash flow for next year. You ended the second quarter with net debt to EBITDA at around -- or net leverage at around 3.7 times and by year-end you should be able to say roughly 3.0 times. Are you comfortable with 3.0 times leverage? Is that your target leverage and at what point do you show returning capital to shareholders?

Mel Karmazin - *Sirius XM Radio - CEO*

So, yes, at this point -- I've always believed, in my past lives as well, that leverage is a good thing for our shareholders and that you certainly want to be prudent and we're still very comfortable with the fundamentals of our business. And sort of the -- I mean, not being in the advertising business primarily, being in a subscription business primarily, about the relative predictability of our free cash flow and EBITDA. And we know that for the next five years we won't be spending very much money on satellites, because that's cycle would have been done.

So, we feel 3.0 times is a good level. We've had discussions with our board. We've had discussions with our board about the fact that using these numbers that are out there - we have a little bit over $500 million of cash on our balance sheet - assumes we take this free cash flow that we're going to have for next year. And you can see here where we'll have -- by the end of the year we'll have over $1.0 billion of cash on our balance sheet.

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That, if we can find some better use for the free cash flow than to return capital, I think that would be our priority, but if not, I think that we should be in a position of our board seriously considering how do we return capital to our shareholders. But again, our primary interest in growing the business, because we are a growth company. We have a lot of years of growth ahead of us, so it's not like the only way we can grow our business is to shrink our share count.

We can grow our business in many, many ways, but we don't see any real advantage of us being an investment-grade company. I mean, we know we can easily -- if you run out the numbers, you could see how we could be debt free; if in fact that was our interest. I don't see any reason for this company to be an investment grade company. I don't know what the advantages are for us.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

So there seems to be ample capital for investment in your existing business, possibly returning capital to shareholders, but if you were to do acquisitions to grow further or grow faster, can you talk about what types of acquisitions that would interest you?

Mel Karmazin - *Sirius XM Radio - CEO*

Sure, I'd love to do an acquisition, right. I mean, the idea is that if there was an acquisition out there that was in our core competency, it was strategically logical, it was something that would generate accretively free cash flow, we would like to do that. So, I'm better at telling you what it wouldn't be than I am in telling you what it would be.

We're looking at opportunities all the time. You know? I mean, it's amazing the difference that three years makes, but a week doesn't go by that some banker is not up in our office talking to us about, "Gee, have you thought of buying X." And we are very disciplined. The money is not burning a hole in our pockets. We have no great desire to make an acquisition. We know we have a great business model is working. We don't want to screw it up and we're not going to make a bad acquisition.

If you think about what has hurt companies, making bad acquisitions sometimes has hurt companies. We have no interest in doing that, but again, first use of the free cash flow is that if we found something that was in our core competency, strategic and accretive, we'd love to do that and if not, returning -- shrinking our share base.

This Company got started by not being able to get bank financing when it was in the beginning stages. So every single time that it needed to launch a satellite, or every time it needed to sign a content deal, what they would do is it couldn't get the banks to lend the money, so they would go out into the shareholders and have the shareholders raise the money. So the ability today of us shrinking the number of shares outstanding would be a very good thing for us to do.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

Dr. Malone recently expressed some frustration regarding the stock's valuation and short of better performance, do you think about the possibility of taking Sirius private? Given the financial risks inherent in losing NRLs posed by a Liberty takeover, what are the strategic positives and negatives of becoming a majority-owned member of the Liberty portfolio?

Mel Karmazin - *Sirius XM Radio - CEO*

Right. Wait, Dr. Malone was unhappy with the stock performance?

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Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

I think he said he expressed frustration.

Mel Karmazin - *Sirius XM Radio - CEO*

I can't imagine -- so, I think that Liberty --.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

I mean it's been a great stock. I said that in the beginning, but (inaudible - multiple speakers) --.

Mel Karmazin - *Sirius XM Radio - CEO*

Yes, no. No, I'm not selling, I mean, no. I mean, my conversations with the doctor has been that he's -- they've made about $5.0 billion since they made their investment, which was, as he claimed, one of his best deals that he has ever made. And I have -- but I will call him after this meeting and find out exactly --.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

Well, since he's not here to (inaudible - multiple speakers) little trial going on somewhere.

Mel Karmazin - *Sirius XM Radio - CEO*

Yes, exactly, so --.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

But so let's take out the beginning of that then. Maybe I prefaced it incorrectly, but in any case, let's talk about the -- can you talk about the positives and negatives as possibly becoming part of Liberty?

Mel Karmazin - *Sirius XM Radio - CEO*

So Liberty has been a great partner. The investment they made has been a very good one for them and it certainly enabled us to clear up what was a balance sheet issue, not a Company issue, at a time when the market was not lending us money.

You'll recall at the time that Liberty came in was when Warren Buffett was lending Goldman Sachs money at 10% and lending GE money at 10% plus warrants. So how does a company like Sirius XM that had no free cash flow then get money? So what Liberty did for us was terrific and it turned out to be really good for them.

There really hasn't been any strategic advantage of Liberty providing us. John is on the board, along with Greg Maffei and Dave Flowers are on the board, so strategically they've been very helpful as board members. They're very smart people, but I think all I can do is reiterate the things that Liberty has said publically to us and one is they love the Company. That's why they became involved and at some point they could decide that they want to own more.

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The other thing that Liberty could decide is to do nothing. It's been a good investment and they can stay exactly where they are. Another option is -- and if you look at what they did with DirecTV at one point is that they said "Well, gee, this has no strategic reason that we need to own it. Why don't we think about splitting it off to the shareholders?"

So I think that they have all of those options available and when he's finished with that trial today, you can call him and find out from him what he wants to do, but he hasn't told me anything about what they want to do.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

Okay. Churn dipped below 2.0% and appears to be heading lower. What is it about your self-pay customer base that makes you optimistic about the stability of the churn number? Do you think/perceive being able to drive it below 1.5% and maybe a comment on what your expectations are going into a price increase?

Mel Karmazin - *Sirius XM Radio - CEO*

Yes. So, I mean, one of the things that really has enabled us to have the churn, which we think is in this very, very acceptable area - an acceptable area 1.7% to 2.0% is where we sort of are hanging out - is that people love our content. People love our service. We have a great product and again, the price increase is something that we are doing because we've added so much content since the last time that it's the appropriate thing to do. But -- and again, we think that our subscribers feel that they're getting great value.

So I don't think that you should think about our churn. I just don't model it getting below 1.7%, so I think that that is sort of where we think it is the range and getting to about 2.0%. We have a tremendous amount of competition. People are talking about all of this Internet competition and if you think about it and you think about the companies that have come along over the last over the last number of years and are here today, the fact that we are still adding net ads more than we have been of recent year is to me indicative of our product.

So we continue to offer new content. We continue to try to improve our customer service to make them want to continue to be with us, not being in any way abusive on the pricing increases. You know there were people who came to us and said, "Gee, why don't you be more aggressive in your price increase than you are currently doing at $14.49?" And our thinking, again, is that we compete with free.

I mean, if you think about the way people get audio entertainment, whether it be in terrestrial radio, whether it be in Internet radio, for the most part it's free and yet today, in spite of having all this content available for free, over 21 million people decided that they want to continue to have satellite radio. So we are monitoring it. We're always concerned.

Anytime anybody's in a subscription business -- I haven't been in subscription business most of my career. I had a little bit of subscription business at Showtime when I was involved with that. Most of the time it's been advertising. But now that I'm involved in the subscription business, the one thing that's the most important thing that we look at -- and we get a report on it daily on the number of DX.

We get a report every single day on the number of people who are de-acting and why they are de-acting and a lot of the de-acts that we're getting are unrelated to us. It's their credit card, the economy that they're experiencing with. And we believe that the research that we do, customers love our service. There's no waning of that in spite of increased competition. We're still out there as somebody that's offering this great content, so, but churn is a big deal.

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Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

I'm going to ask one more question before we open it up to Q&A. Stocks declined to the mid-50s and you recently said that the decline is being driven by the OEMs. Can you just drill down into the cost reductions that are driving these efficiencies?

Mel Karmazin - *Sirius XM Radio - CEO*

Yes. I mean, as we get to more advanced chip sets and as we are able to take costs out and as we are able to merge the two companies together and to have the benefits of all that, we think that we've gone -- I think that when I first came to the Company, I joined the Company in November of 2004 and our SAC was about $200. It was where the SAC was, but we've made dramatic improvements.

We have worked very hard on taking costs out and we don't see the $56 going down very significantly going forward, but that business model enables us, at this kind of SAC, to be able to get to margins like we talked about the opportunity of us getting to, long-term, about 40%.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

Let's open it up if there any questions from the audience.

QUESTIONS AND ANSWERS

Unidentified Audience Member

When you look at the mix of vehicles that are converting at high rates, what's your penetration on those vehicles? I mean, you mentioned that Japanese vehicles you'd like to get better, but do think your targeted market in those vehicles --?

Mel Karmazin - *Sirius XM Radio - CEO*

So you should assume that when we believe vehicles will convert very high, we are looking to be standard, right, so that if in fact we were to take a look at some of the luxury brands that are out there, we're in every single one of them. So there are vehicles that are 100% includes -- penetrated.

Then there others where the trim line is higher, so, in other words, you get to a lower price but you're in those with the radio where they have the extensive package and if you want it fully loaded, we see our conversion rate better there. So we try to penetrate more into the highest converting. We then take a look at some of the lower converting vehicles and think that maybe we should adjust our penetration maybe to be on the high end.

There are some vehicles where they have an Am/FM radio and that's it. I mean, we don't -- there are vehicles where they still have the cranks to turn down the windows and we're not experiencing that the satellite radio customer is apt to be buying that car, so therefore we shouldn't be penetrating them as highly as we are some of the luxury brands.

Unidentified Audience Member

Are you in every vehicle you want to be in, in high end?

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Mel Karmazin - *Sirius XM Radio - CEO*

Yes. I will tell you that our automobile partners want to sell cars. They know that they could sell a car because of the fact that we make the driving experience better. And many of them have financial benefits, revenue share, as to why they would, but we are in -- we have deals in every single car company. We are, if not today, where we want to be, working with those OEMs to be in those vehicles, penetrated at the right level and our relationship with the OEMs has been extraordinary.

Unidentified Audience Member

I know you've expressed the idea before that if Liberty took over they should pay some control premium. Is buying your stock back in conflict with that idea?

Mel Karmazin - *Sirius XM Radio - CEO*

No. I think the idea is that one of the sensitivities that we would have to deal with, Denny, and we haven't gotten that far. Again, our board, the decision to buy our stock back, or to a dividend, or not do anything would be made at the board level. But we have no plans to ever think about shrinking our bloat so that Liberty would be able to get, have more control than they do today and 40% is where Liberty is today.

So the idea wouldn't be that we would buy back shares and then therefore Liberty would then get accretive and therefore have a higher percentage of the Company. That's not something that we think is in our shareholders' best interest and that's something that we would balance if the decision was made to do that.

Unidentified Audience Member

You haven't really discussed sat radio 2.0 today. It seems like most of those benefits would accrue to the new car buyers, but is there any program to address the existing units that are out there?

Mel Karmazin - *Sirius XM Radio - CEO*

So, thank you for asking the question about 2.0, because this format was more being responsive to the question, so yes. We're very excited about 2.0. We will have two radios out retail in the fourth quarter; it's the holiday season. That we will also be using IT to extend our offering and to add functionality, which we have talked about.

We have a suite -- one of the easy things to explain is what we're doing in the Spanish language. So, if you take the Los Angeles market, which is one of the biggest radio markets for Hispanics, and you take a look at the landscape of radio stations in Los Angeles, well, today we offer three radio stations. So, going forward, if you paid $14.49 and we didn't use 2.0, you'd be getting thee Spanish language radio stations.

Going forward, starting this year, the end of this year, we're going to have more radio stations than exist in Los Angeles and therefore and special radio stations. So all the music stations that we're going to have in Hispanic aren't going to have commercials and we're going to offer content that's coming from Mexico that will be an enhancement, so we think that offering more content is one thing.

Having pause and rewind functionality, being able to start over -- one of the easy things to think about is you get into your car, you put on a station, you hear a song that you don't like and you push the button and you go to one of your other Sirius XM stations that you like, but that song would be in the middle and you'd miss the beginning.

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Well, starting over and being able to hear it from the beginning, having on demand, which is where we will evolve into. So Martha Stewart has done a show on making cupcakes and you're interested in that show. You're not necessarily only interested in what's on today. You'd be able to order up and just get the cupcake show. You'll be able to get content like Howard Stern content.

So, we think, just like the cable and satellite TV companies have improved their churn, improved their ARPU by adding more functionality, by adding more sticky things, by getting, giving them more channels, that's our vision. It's the same thing that was done in video. There's no reason that we can't do that on the audio entertainment side.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

Great. I think that we're out of time. Thank you so much for breaking news at this conference and really appreciate it.

Mel Karmazin - *Sirius XM Radio - CEO*

Thank you.

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Q4 2010 Earnings Call

Company Participants

- William Prip, Director, Investor Relations
- Mel Karmazin, Chief Executive Officer
- David J. Frear, Executive Vice President, Chief Financial and Accounting Officer
- James E. Meyer

Other Participants

- Barton Crockett
- Vijay Jayant
- Michael Pace
- David Gober
- Vijay Singh
- Martin Pykkonnen

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and welcome to the Sirius XM Radio's Full-year and Fourth Quarter 2010 Earnings Conference Call. Today's conference is being recorded. A question-and-answer session will be conducted following the presentation. [Operator Instructions]

At this time, I would like to turn the call over to William Prip, Senior Vice President, Treasurer and Investor Relations. Mr. Prip, please go ahead.

William Prip, Director, Investor Relations

Thank you, Nicky, and good morning, everyone. Welcome to Sirius XM Radio's earnings conference call. Today, Mel Karmazin, our CEO will be joined by David Frear, our EVP and CFO. They will review Sirius XM's full year 2010 financial results. At the conclusion of our prepared remarks, management will be glad to take your questions. Jim Meyer, President Operations, Sales and Scott Greenstein, President, Chief Content Officer will also be available for the Q&A portion of the call.

First, I would like to remind everyone that certain statements made during the call might be forward-looking statements as the term is defined in the Private Securities Litigation Reform Act of 1995. These and all forward-looking statements are based on management's current beliefs and expectations and necessarily depend upon assumptions, data or methods that may be incorrect or imprecise. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially. For more information about those risks and uncertainties, please view Sirius XM's SEC filings. We advise listeners to not rely unduly on forward-looking statements and disclaim any intent or obligation to update them.

As we begin, I would like to advise our listeners that today's results will include discussions about both actual results and adjusted results. All discussions of adjusted operating results exclude the effects of stock-based compensation and certain purchase price and timing adjustments.

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I will now hand the call over to Mel Karmazin.

Mel Karmazin, Chief Executive Officer

Thanks, Will, and good morning, everyone. 2010 was a remarkable year for satellite radio. If there were any doubts about the viability of SiriusXM, our 2010 results put those doubts to rest. Today, we have a respected brand that is coveted as a must-have product for discerning American consumers.

In addition, the business community at large cannot ignore the strong economic drivers inherent in our unique business model. Technology changes have transformed the media landscape over the past 10 years creating winners and losers along the way. I'm proud to say that we are clearly in the first camp. We are no longer a long-shot concept and company. I believe we are increasingly viewed as a sure thing.

Let me quickly review the company's important financial results in 2010. Revenue grew by over 14% to $2.82 billion, a record for the company. At the same time, we managed our expenses aggressively allowing only a 7% increase in cash operating expenses. Most of the expense increases were revenue-related or related to our growth in subscribers. Consequently, adjusted EBITDA grew by over 35% to $626 million, which was another record for the company.

After only two years of positive adjusted EBITDA, our margin was 22%. We anticipate significant margin expansion in the years ahead with an operating margin over 40% at maturity. As those investors who have known me for a long time appreciate, the most important measure of a business's success to me is free cash flow. It's free cash flow that enables you to pay down debt, make acquisitions or return capital to shareholders. In that regard, we generated $210 million of free cash flow in 2010. That's despite launching a satellite last year and paying for a great deal of the construction of another satellite that will launch later this year. Free cash flow was also a record amount for the company.

That's two consecutive years of strong free cash flow generation; $185 million in 2009 and the $210 million in 2010. What a difference from the over a half billion of negative free cash flow in 2008. And free cash flow over the next several years should ramp dramatically given that we will not be spending any cash on satellite capital expenditures following this year's launch of SIRIUS 6 nor will we be a meaningful income tax payer.

Importantly, our operational metrics in 2010 were as gratifying as our financial results. Subscriber net additions were 1.4 million strong in 2010 representing a year-over-year growth rate of nearly 8%. That's pretty impressive growth for a business that had already scaled to be one of the largest subscriber businesses in this country by the end of 2009. We ended the year with 20.2 million subs, which was another record for SiriusXM.

In addition to the strong gross adds, principally a result of improved auto sales, I'm proud to say that this growth in our subscriber base was also the result of improvement in our subscriber metrics verse 2009 levels. The rate at which we converted consumers on trials to self-pay subscribers grew from 45.4% to 46.2%, while we also reduced our self-pay churn from 2.0% to 1.9%.

The fact that we grew our self-pay base by nearly 1 million subscribers is an astonishing achievement. Six times as many new customers chose to pay for our service in 2010 than in 2009. This clearly demonstrates that consumers love SiriusXM, given their willingness to pay for our service when they have plenty of free audio entertainment alternatives available to them.

Content is what matters. It was great news for our subscribers and our shareholders that we were able to extend Howard Stern's contract and also the NFL until 2015. We will continue to deliver to subscribers the best content in radio. We also anticipate that our programming costs will continue to decline in absolute dollars and also as a percentage of revenue. Also very importantly, Howard and the NFL are available on smartphones with the SiriusXM App and that will also please subscribers. As smartphones continue to emerge, SiriusXM will be a content leader there as well.

From whatever perspective you look at SiriusXM today, as a consumer, a lender or as a shareholder, the company is respected and offers a unique value proposition. To the consumer, we offer a tremendous array of diverse audio content at a modest cost. What else is available to the American consumer that provides a comparable level of daily satisfaction

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at a cost of less than $0.50 a day?

To our lenders, our performance over the past quarters has provided a steadily improving credit profile that has rewarded them with a very good return on the risks they've taken when deciding to lend to us. Our debt investors today view us as a significantly better credit risk than they did in the recent past, and we expect that our continued growth will provide us even better borrowing rates in the future.

From our shareholders' perspective, we enjoy a premium valuation verse most of our competitors in the media space. Clearly, the equity market now better appreciates the strength of our business model, particularly the expected free cash flow generation characteristics of the company in the coming years. Luckily for our shareholders, I believe we have the assets, financial flexibility and the business savvy to satisfy the growth expectations inherent in our valuation today. I expect that we will continue to dominate paid audio entertainment in the years ahead.

So let's talk about the future, both near term and longer. As is usual for us, we are cautious starting the year, but I'm happy to announce today that we are providing guidance for 2011 that keeps us on a growth trajectory that is similar to the growth that we experienced last year. We expect to generate approximately $3 billion in revenue and $715 million in adjusted EBITDA.

We also expect free cash flow to approach $300 million this year. Operationally, we are forecasting to add another 1.4 million net subscribers by the end of the year and to experience full year conversion and self-pay churn rates similar to the strong levels we enjoyed in 2010.

Our entire organization is working tirelessly to introduce SiriusXM 2.0 into the marketplace through the retail segment in 2011. I'm really excited about the evolution in our service. As I mentioned earlier, SiriusXM 2.0 promises increased content and functionality to our subscribers. We're expecting to expand our audio content lineup by a significant number of channels. That should make our already-robust content offering even better. You should expect us to offer additional data service over time as well.

We're also planning some exciting improvements in functionality. An electronic program guide will be available that lets you know what's on all of our channels. Our subscribers will be able to buy music from their radio. We'll also include pause, resume and replay as well as record and playback capabilities. We believe these improvements will enhance the customer experience and make our service that much more differentiated and superior to the alternatives out there and, therefore, that much more indispensable to our subscribers.

We'll also look to enhance the value of being a SiriusXM subscriber in other ways. We received very positive feedback about the Paul McCartney concert we presented last December that celebrated SiriusXM achieving over 20 million subscribers. You should expect that we will be doing more of these events in 2011 as well.

Our priorities for 2011 are to end the year reporting record revenue, record subs, record EBITDA and, most importantly, free cash flow.

The theme running through everything I just mentioned is simple. We know we have a great service that people want. We want to consumers to crave SiriusXM even more and establish an enduring loyalty to our brand. To accomplish this, we plan to continually invest in new services, functionality and especially programming that continually enhances the value proposition and encourages consumers to not hesitate at each opportunity to become a self-pay subscriber. We want to become a no-brainer when American consumers are deciding how to allocate their precious household budgets.

I believe this commitment to serving the wants and needs of our subscribers and having the financial wherewithal to meet that commitment will translate into sustaining growth and strong and consistent improving financial results, which we hope will further translate to incremental shareholder and value creation.

From my perspective, the long-term investment thesis is actually pretty straightforward. We intend to offer service to consumers that they will want for a long time. The opportunity for acquiring new customers is growing, both through additional improvements in the auto sector as well as the used car opportunity we've spoken about. The combination of these two factors should allow us to generate steady top-line growth over the next several years.

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Then slap that expectation against the strong operational leverage characteristics of this business, and we should be a significant free cash flow generator over the next several years. Growing EBITDA, no satellite CapEx, reduced interest payments and no meaningful income taxes will contribute to our dramatic free cash flow growth.

So the obvious question that arises from this is what will we do with the cash that we accumulate over time? There are only three things a company can do with a significant amount of excess cash; pay down debt, buy assets to grow the business or return capital to the shareholders. Our Board of Directors will consider all the alternatives and make the decision that is in the best interest of our shareholders. Long term, we expect to maintain some debt leverage at SiriusXM. As a subscription- based business, we can probably tolerate a significant amount of leverage, but just assume we keep leverage at a modest level like three times adjusted EBITDA.

In that case, we clearly would not be diverting much of the future cash generation toward reducing debt. In fact, we might more likely increase gross indebtedness over time as we continue to grow the business.

So will we buy assets with our excess cash? Perhaps, but we haven't seen anything yet that's worthy of any meaningful investment or acquisition. Then will we return capital to shareholders? Although I certainly can't quantify the amount or the timing for this, I think it is reasonable to expect that the company will return capital to shareholders over time.

Obviously, this perspective can change if we modified the financial policy around leverage I just mentioned or if we find some new technology or a company to buy that we believe provides a long-term strategic advantage for our shareholders. So stay tuned on this front as we expect to be near our target leverage ratio in the not-too-distant future.

Without everyone at the company focused exclusively on profitable growth, we will not be able to deliver the free cash flow growth that we and our shareholders want and expect. In that regard, I am confident that we have the focus at the board level, among the leadership and deep within the organization. Our employees are encouraged to think continually about growing the top line, managing cost and delivering economic profits.

We do this by continually improving programming, investing in technology, whether customer-facing or deployed internally, to make us more efficient and enhancing the customer experience in all ways including the customer care process. We're focused in this way because we understand and appreciate the power of competition. We live with intense competition since the first day we began broadcasting, and every paying customer we've acquired over the years came aboard because we've offered something different and better then the alternatives out there. But like most areas of modern life, alternatives to the consumers are ever-increasing, and we're up for the challenge.

The media business has always been highly competitive, and things will continue to evolve in the years to come. There will be winners and losers as the media landscape changes over time, and I am confident that SiriusXM will again be in the winner's circle.

For any company to succeed in a changing environment, it needs to stay relevant and I think strategically, not only about what consumers want today, but what they will want in the future. Change is always accompanied by opportunities and challenges. We're ready to keep grabbing those opportunities as they arise. I believe the best days for SiriusXM are yet to come. We fully expect to hit it out of the park in 2011.

With that, I'll hand the call over to David to discuss additional details about our 2010 financial and operating results.

David J. Frear, Executive Vice President, Chief Financial and Accounting Officer

Thanks, Mel. SiriusXM turned in a much better year than expected in the face of the slow improvement in the economy. While North American auto sales were up 10% from 2009 at 11.6 million units, they were still down 12% from 2008 and 28% from 2007's 16.1 billion vehicle pace. While the economy has improved, unemployment remains high, job creation is low, housing values haven't improved much and consumer credit remains scarce.

Bloomberg

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Nevertheless, in a clear demonstration of the strength of our subscriber-based business model, SiriusXM delivered record results solidly beating guidance we raised three times in the course of the year, finishing at 20.2 million subs, over $2.8 billion in revenue, $626 million in EBITDA and $210 million in free cash flow. In delivering over 1.4 million net adds in 2010, our self-pay subscriber base grew by approximately 1 million to 16.7 million subscribers, and the funnel of paid and unpaid trials ready for conversion grew by 700,000, finishing the year at 4.3 million.

While gross additions expanded by 25% over 2009, total deactivation declined. Self-pay churn improved by 11 basis points, finishing the year at 1.92%, and the conversion rate of auto trials improved to 46.2%. With the slow-but-steady economic recovery and improving marketing practices, we are seeing improvements in conversion rates across virtually all auto manufacturers. The effect of these improvements on our overall conversion rate is somewhat muted by shifts in market share among the auto manufacturers as lower converting brands pick up in North American auto sales.

Revenues were up 14% at $2.8 billion. ARPU of $11.73 per month was up 7% for the year. The last three quarters for ARPU were roughly flat at $11.80. In December, we adjusted the U.S. music recovery fee down to $1.40 from $1.98 for primary subscriptions, while leaving the multi-subscriber U.S. music recovery fee unchanged at $0.97. Under the terms of the FCC merger order, we are allowed to pass on to our subscribers any increases in royalty costs incurred since March 2007. The adjustment in December was implemented to ensure that we do not recover more than what is allowed under the merger order.

Ad sales were up 25% over 2009 as we continued to outperformed both the radio market and the national ad market. Since 2008, EBITDA has improved by $760 million. Revenues are up $400 million over that two-year period and cash operating expenses are down by $360 million. The principal drivers of the expense reductions are sales and marketing costs down $120 million, programming and content down nearly $100 million and SAC is down $80 million on a 20% improvement in SAC per gross add.

We continued to grow revenue faster than expenses. Our EBITDA margin expanded to 22.1% for the year and to 38.1% on a pre-SAC basis. Contribution margin rose to 71.2% for the year. The 1-point, 2-point increase in contribution margin offset a similar rise in SAC as a percentage of revenue, which was driven by the 25% increase in gross additions in the year. Fixed cost improvements drove the nearly 4-point improvement in EBITDA margin.

This incredible performance in the income statement has dropped straight through to free cash flow, which has also improved by about $760 million since 2008. Our free cash flow for 2010 improved to $210 million significantly above our $150 million guidance, despite an increase of 63 million in capital expenditures.

We successfully placed XM-5 in orbit in the fourth quarter of 2010. XM-5 will serve as an in-orbit spare for both the Sirius and XM fleet protecting our customers and our revenues from a degradation of service in the event of a satellite anomaly. In the fourth quarter of 2011, we will complete our satellite replacement cycle with the launch of SIRIUS 6.

We expect our satellite capital expenditures to decline by approximately $90 million in 2011 and by another $100 million in 2012. We do not expect begin construction of another satellite before late 2016 or 2017. As a result of the successful launch of XM-5, we no longer believe SIRIUS 4, which we've kept as a ground spare, will be used in our satellite operations. As a result, we have a recorded a $56 million charge to restructuring impairments and related costs in the quarter to write off the remaining book value of this satellite.

In October, we issued $700 million of 7.625% unsecured notes due 2018, the proceeds of which were used to retire the 11.25% senior secured notes due 2013. We recorded a charge of $85 million in the fourth quarter in connection with the retirement of the 11.25%.

This issue followed our successful $800 million placement of 8.75% unsecured notes due 2015 in March of 2010, the proceeds of which were used to retire secured debt due in 2012 and our 9.625% notes due in 2013. Over the course of 2010, we issued $1.5 billion of unsecured debt at very attractive single-digit coupons, retired secured debt and pushed out maturities by three to five years.

The improvements in EBITDA and free cash flow have also resulted in dramatically improved leverage in the balance sheet. Our net debt to adjusted EBITDA has improved from 5.8 times at the end of 2009 to 4.2 times at the end of 2010.

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This improvement in leverage allowed us to merge the Sirius and XM entities in January 2011, simplifying our capital structure and eliminating unnecessary administrative costs.

Since December, we have also bought back $131 million of debt including the remaining $37 million of the 11.25% notes and $94 million of the 3.25% converts due in October 2011. We now have only $104 million of scheduled debt maturities between now and the middle of 2013.

As a final note, our two Canadian affiliates have reached an agreement to merge subject to shareholder and regulatory approval as well as certain other conditions. Canadian Satellite Radio, a public company traded on the Toronto Stock Exchange under the symbol XSR, will issue approximately 58% of its equity to the shareholders of Sirius Canada in the merger. CSR's shareholder meeting is on Thursday of this week, February 17th. The CRTC, the Canadian equivalent of the FCC, has announced that it will hold a hearing on the merger on March 7th. The Competition Bureau, which is Canada's equivalent of the Department of Justice, is also reviewing the transaction.

SiriusXM will own about 37% of the economic interest following the merger. This represents approximately 45.5 million XSR shares. As part of the merger, CSR will repay all amounts outstanding under the XM credit facility, and Sirius Canada is expected to make a cash distribution to its equity holders. We expect the transaction to close in the second quarter.

With that operator, I'd like to open it up for questions.

Q&A

Operator

Thank you. And at this time we'd like to open the call up for questions. [Operator Instructions]. And your first question comes from Barton Crockett with Lazard Capital Markets. Please go ahead.

<Q - Barton Crockett>: Okay, great. Thank you for taking the question. I wanted to ask about the focus on returning capital to shareholders and get a little bit more, kind of, elaboration on a couple of points. One is is it safe to assume that your preference is going to be for share repurchase over dividend?

And then secondly, in order to buy back shares, could you talk about how the Liberty shareholdings play into your evaluation? In other words, are you constrained in your ability to repurchase near term by the desire not to trip a change in control for the NOLs given their 40% ownership? Is there a need to have some type of agreement with them to proceed? Do you see their shareholdings potentially the source of shares that you had repurchased or is your preference more to buy back from the publicly traded stock?

<A - David J. Frear, Executive Vice President, Chief Financial and Accounting Officer>: On the, NOL front, Barton, that 382 is a tax code. We'll constrain or influence what we do for probably the next year or little bit more. Under that section of the code, that you're always looking at a three-year window for a change in control and we clearly wouldn't want to trip the change in control because that would limit or affect the way in which we utilize our NOLs.

But once we get to the second quarter of 2012, we're beyond the three years since Liberty made their investment and we start over again with respect to the 382 calculation. So I think that as it relates to tax issues that you should think about this unconstrained starting in the second quarter of 2012.

<A - Mel Karmazin, Chief Executive Officer>: Yeah, so I think the date for Liberty is March of 2012 when that gets triggered. And regarding what exactly we're going to do, obviously, that will be a board decision. We have already had a discussion at the board level about what we should do with our free cash flow. No determination has been made.

Historically, I've always believed that a share buyback is a more tax-efficient way of returning capital to shareholders as compared to a dividend. But clearly, that's not anything that has been determined. We certainly have not heard anything specific from Liberty about their interest in having less ownership in the company. So certainly, from where I'm sitting today, we're not thinking about using the free cash flow to buy in Liberty shares as much as we might be

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thinking about using it for our public float.

<Q - Barton Crockett>: Okay, that's great. And then switching gears a little bit, given that we're right year on the cusp of Pandora's IPO filing, I was wondering if you could talk a little bit about your ability to include a Pandora-style feature in satellite radio. There's been some discussions from various sources about patents. Is this a feature that – the ability to select personalized music stream online. Is that something that you could include within satellite radio? Is it something that you think makes sense, is technologically feasible to do?

<A - Mel Karmazin, Chief Executive Officer>: Yeah, interesting. Certainly, without speaking to specifically to Pandora, there's an awful lot of IP audio content that's out there, and virtually all of them have a music recommendation engine or algorithms that enable you to, sort of, target a little bit more your channels. Most of those companies, today, when you pick a channel that you want are limited by the number of plays that you can have from a single artist because of the Digital Royalty Act.

So we think that our channels, curated channels, are something that's very desirable to the consumer. If you take a look at our time spent listening, which we do, and we compare it to the time spent listening of a lot of the IP channels, we see a greater satisfaction from our content. But having said that, certainly there is nothing that would preclude us from doing what you said in an IP part of the distribution that we do to consumers.

So clearly if, in fact, it was something we believe that our subscribers would want, we would absolutely do that. We think that there is an awful lot of people who like the Slacker, Pandora, Last.fm, iheart services because it's free. I mean, nothing is really free because the way they make their money is they make you listen to commercials, and lot of that IP content, as they get and try to get more and more revenue, are going to be running more and more commercials. And, again, we like our business model which is principally subscription-driven as compared to the model of where you're offering a service for free and running commercials. That sounds an awful lot like terrestrial radio.

<Q - Barton Crockett>: Okay, that's great. I'll leave it there. Thank you.

Operator

And our next question will come from Vijay Jayant with Citadel Securities. Please go ahead.

<Q - Vijay Jayant>: Hi, thanks. Looking at your guidance, Mel, it suggests that really no ARPU growth in 2011, based on your revenue expectations there, at least for the moment. Can you sort of talk about, long term, you never really have had any rate increases on the platform and you've added a lot more content over the years. And the price gap potentially, sort of, goes away, hopefully this year. Can you talk about long-term pricing in general, please?

<A - Mel Karmazin, Chief Executive Officer>: Yeah, certainly we believe that our original price point of $12.95 when we started was attractive. We priced it that way because we wanted to grow our subscribers as rapidly as we could. We believe that we would get more subscribers at $12.95 than we would at $16.95 or at a higher price, so that was the determination then. Since the price was put in in 2002, we added a great deal of content; Howard Stern was added, the NFL was added. We added NASCAR. So we believe that we offer great value to our subscribers.

We're constantly looking at ways of continuing our growth and not pricing ourselves at a point that would really hamper our growth. But, I think, like all businesses, you should assume that the company is going to increase prices in the future. You just need to do that to remain profitable and to continue to invest in content. We have not certainly announced anything at this point in the way of increased prices, but the reality of it is that it's something that you should expect will happen in the future.

<Q - Vijay Jayant>: Great. Thank you.

Operator

And our next question will come from Mike Pace with JPMorgan. Please go ahead.

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<Q - Michael Pace>: Hi, thank you; just a follow-up from Barton's first question on the capital structure. Just to be clear, was that three times leverage target or goal, do you think about that on a gross or net basis? And then if we fast forward to when returning capital to shareholders, might be appropriate when we look at the balance sheet thing. You still have a maturity profile where there's a fair amount of debt that comes due in 2013 through '15. Two questions on that. Would you feel the need to clear a longer runway before returning capital to shareholders? And then what would be kind of a goal if you had a blank piece of paper for the debt capital structure in terms of a more traditional secured, unsecured debt capital structure to minimize interest cost? Thank you.

<A - Mel Karmazin, Chief Executive Officer>: So let me start and David could pipe in as well. What you have to factor in is the extraordinary amount of free cash flow that the company's operations are generating. So in taking a look at what our longer-term debt profile is, you really do need to factor in what we will be going into those years with in cash on those balance sheets. And I believe that where we are today, certainly, we don't see any impediment to the debt maturities not being able to easily being handled by our cash that we would have on hand.

When I take a look at it, it's not a perfect science and the three isn't a number that's written in concrete. But I tend to take a look at it from a net-debt point of view. And again, I don't want to front run anything that the board is going to do because this decision is obviously a board decision. But I think we all agree that having a leverage in our type of business of somewhere around three is appropriate. We get there rather quickly. We believe in our business model. We believe in the free cash flow generation that's going to enable us to very comfortably deal with the debt that's on the balance sheet and, regarding debt in general, we believe that having a certain amount of leverage is appropriate.

We think shareholders benefit from having a certain amount of leverage; think that that unsecured debt is better for us, particularly with where we are in our strength today and think that a capital structure that would have certain amount of debt unsecured and enabling us to use all the cash that we have in excess of the leverage we think is appropriate, we would use to buy back our stock or some other way of returning capital to shareholders.

<A - David J. Frear, Executive Vice President, Chief Financial and Accounting Officer>: That, you know I think I just want to reemphasize the point that Mel made in there that we believe that we will very comfortably cover our 2013 to '15 maturities out of the cash flow of the business. We think that'll give us an opportunity to potentially do new financings out in that timeframe to keep the debt, let's say, at, sort of, the $3 billion level that it's at now that we'll be able to enter into new financing arrangements that significantly improve pricing from what's on the balance sheet today.

With respect to secured versus unsecured is you look at the difference in execution in the marketplace and what you can get in rates, right now, there's not enough of a benefit in the rate reduction to merit giving up the security. Clearly, if that changes and the gap widens between secured and unsecured, that's certainly a tool we can use.

<Q - Michael Pace>: Great. Thank you.

Operator

Thank you. And our next question will come from David Gober with Morgan Stanley. Please go ahead.

<Q - David Gober>: Good morning, guys. Thanks for taking my questions; one on the top line and one on the cost structure. In terms of the subscriber guidance, it seemed a little bit conservative, and I know you guys have been conservative in the past. I mean, particularly last year the initial guidance I think was 500,000 sub adds. So clearly there could be upside. But just curious in terms of the inputs there, what you guys are assuming in terms of SAR and how do we think about – I know you guys have mentioned that auto trends should be better and conversion rates and churn should be relatively stable. But I would think that at the end of the day that should result in a higher net add number rather than a flat one. I'm just curious if there's anything I'm missing there in terms of the math?

<A - Mel Karmazin, Chief Executive Officer>: Yeah, you're not missing anything at all. I think it just is really us going in and not really knowing enough about how many cars are going to be sold. We track all of the organizations

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that provide guidance on SAR including our partners who all do it. And today, they seem to be inching up. Every single day, I get a revised SAR number.

Steve Rattner was on CNBC this morning talking about how he believes that the number will be over 13 in this year and 14 in 2014. Now he is the car czar, ex-car czar, so he might know something about it. But we certainly are thinking of a SAR number that is around the mean number today, which is about 12.5 million and that's where the numbers seem to fall.

You should assume that if, in fact, the car sales are greater than that, then our subscriber numbers will grow; that there's nothing we're signaling at all. All we're doing is saying it's early in the year. We don't know exactly what's going to happen on the car level. We still think that the number is around 15 million, which is the replacement number of cars that should be sold to just replace the cars on the road.

So we believe that there is upside, not just in 2011, but in subsequent years in so far as car sales go. And our penetration level has been eking up a little bit actually. So we're in the low 60%, and we don't see that changing. So higher car sales, higher penetration, good conversion would get us to a different subscriber number, but we don't have the confidence today to give you that number.

<Q - David Gober>: Great. And I guess just on the cost side, a couple of little ones. G&A looked like it ticked up a little bit in the fourth quarter. I was curious if there's anything, one-time, or anything kind of interesting going on there. And in terms of customer care costs, I think, Mel, you'd mentioned investing and making sure that the consumer experience was good as possible. But it seemed like there was a little bit of tick up there in the fourth quarter as well? Just curious if there's anything that was going on there?

<A - Mel Karmazin, Chief Executive Officer>: So let me just deal with the customer care point, and David will do the rest. We have been investing significantly in trying to improve that customer care experience. We think that it's real important. Churn is a big priority for our company and a big focus point. We spent a good amount of money last year on IT that enables us to improve that customer care experience. We've introduced a new unified Web site that has a soft launch going on right now that has a lot more customer care features as part of it to be enable us to not just long-term improved cost, but more importantly, improve the customer care experience.

And let me just turn it over to David to answer the...

<A - David J. Frear, Executive Vice President, Chief Financial and Accounting Officer>: Okay. So just to finish up on customer care, in the quarter we have two things; one unusual and one kind of recurring that came up. Christmas is always a little bit of extra staffing in customer care. We still do a good amount of volume around Christmas time. We also have a lot of renewals that come through the holiday season, and so there's a seasonal ramp-up in staffing and training in the fourth quarter.

We also, in early November, put both platforms of subscribers onto the same system. so integration of our subscriber management system. And so in the quarter, we had a reasonably significant amount of training that went on to ensure that agents were familiar with the platform in. Any time you integrate a big subscriber system like that, you're also going to have edge cases where you're going to drive more calls from customers into the call center.

On the G&A front, you should really think of it as litigation spending, that we've got – as we've disclosed before, we've got some suits out there that we are actively pursuing and we're hopeful of resolving those in course of this year and seeing G&A come back down.

<Q - David Gober>: Great. Thank you very much, guys.

Operator

Thank you. And our next question will come from Vijay Singh with Janco Partners, please go-ahead.

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<Q - Vijay Singh>: Yeah, I just have a question on the XM 2.0. I just wanted to see what, with the increased bandwidth, what kind of demographics you'll be targeting and what kind of new programming would be coming on or just to get a direction as to if there is an experimental opportunity for the company?

<A - Mel Karmazin, Chief Executive Officer>: Yeah, I think that we will certainly have the additional bandwidth. which will enable us to do additional programming. It's not like we are suddenly saying that now we're going to go to a much younger demographic than we have historically programmed to mainly because, again, we're principally in the subscription business, and we're focused on generating revenues and going after our best subscribers.

So we think that there are additional channels that we will be adding. They will be complementary along the lines there will probably be some more on the edges because of the fact that we do have the ability to add some new genres of music and programming. But it's not a wholesale shift that's going to set in.

One of the things that you should assume, though, not on an age issue but from a demographic point of view, we certainly will be targeting Hispanics more than we have done to date. And we haven't finalized it yet, but we will have a suite of channels that will, we believe, appeal to what is the fastest growing part of the U.S. population, which is Hispanics, and it's an area that we have been underperforming in. So we think that that represents a greater opportunity.

<Q - Vijay Singh>: Great. Thank you.

Operator

And we will take our next and final question from Martin Pykkonnen from Wedge Partners. Please go ahead.

<Q - Martin Pykkonnen>: Yeah, thanks. Good morning. I wanted to ask on the conversion rates, as you look at your, kind of, financial capacity, obviously much improved over the last couple of years. Are there areas you might look at to invest in to drive that conversion rate higher over the next year to two? Obviously, you can't control the SAR, but curious if you think that has upside. And is the higher conversion rate built into your at-maturity operating margin being over 40% meaningfully higher than the current mid-to-high 40s conversion rate? Thanks.

<A - David J. Frear, Executive Vice President, Chief Financial and Accounting Officer>: Let me start out, and then Jim can add to it. I think generally we feel as managers like we can do a better job in conversion, but we feel like we can do a better job on everything we do every day. And so we'd like to improve it. We spend a lot of time with our automotive partners making sure that we're getting the customer name and address data coming across to us quickly and accurately, that striking while you still have that new car smell in the car. And the car is something that we know makes a difference in conversion rate; being smarter in, the kinds of messages and the cadence of the messaging that produces higher conversion rates.

We do a lot of tests, a lot of different programs and in trying to measure statistically what creates a difference in the rate. And then the last piece is is that we have an opportunity in reactivating radios as well, which isn't necessarily part of the conversion rate we report but an important part of the business where we're spending a lot of effort in finding out where the best information is on who those new used-car buyers are and what we can do to reactivate more radios that are out there in the [inaudible] down the road.

<Q - Martin Pykkonnen>: Okay.

<A - James E. Meyer>: Yeah, I think just to amplify what David said, we've been at this a long time, and yet we still continue to learn new things every month. But I think over the course of the plan, our assumption is that conversion remains in the mid to high 40s, and we don't see any magic bullet that magically takes it into the mid-50s. That's not to say it's not out there, and that's not to say we're not committed to continue to work on it and we will continue to work on it.

<A - Mel Karmazin, Chief Executive Officer>: Yeah, we don't have any plan of significantly increasing our expenditures in order for us to get the conversion rate up. We believe that by just best practices and doing things longer and smarter, the conversion rate will go up. But it won't require any additional material expenditures.

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<Q - Martin Pykkonnen>: Okay. In other words, you say that is your guidance or kind of long-term operating margins over 40% at maturity is not predicated on any conversion rate up meaningfully from where it is today?

<A - Mel Karmazin, Chief Executive Officer>: That's correct.

<Q - Martin Pykkonnen>: Okay, thanks.

William Prip, Director, Investor Relations

Okay. Thank you, everyone, for joining us. Have a good day.

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SIRIUS XM Radio Inc. (NasdaqGS:SIRI)

Earnings Call Transcript

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Call Participants

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SX Ex. 229-RP

Presentation

Operator
Good day, everyone, and welcome to SIRIUS XM Radio's Fourth Quarter 2009 Earnings Conference Call. [Operator Instructions] At this time, I would like to turn the conference over to William Prip, Senior Vice President, Treasurer and Investor Relations. Mr. Prip, please go ahead.

William Prip
Thank you, Lisa. Good morning, everyone, and welcome to SIRIUS XM Radio's Earnings Conference Call. Today, Mel Karmazin, our CEO, will be joined by David Frear, our EVP and CFO. They will discuss SIRIUS XM's fourth quarter and full year 2009 financial result. At the conclusion of the prepared remarks, management will be glad to take your questions. Jim Meyer, President, Operation and Sales; and Scott Greenstein, President and Chief Content Officer, will also be available for the Q&A portion of the call.

First, I would like to remind everyone that certain statements made during the call might be forward-looking statements as the term is defined in the Private Securities Litigation Reform Act of 1995. These and all forward-looking statements are based on management's current beliefs and expectations and necessarily depend upon assumptions, data and methods that may be incorrect or imprecise. Such forward-looking statements are subject to risks and uncertainties and could cause actual results to differ materially. For more information about those risks and uncertainties, please see SIRIUS XM's SEC filings.

We caution listeners not to rely unduly on forward-looking statements and disclaim any intent or obligations to update them. As we begin, I would like to caution our listeners that today's results may include discussions of both actual results and pro forma results. Listeners are cautioned to take special care to ensure accuracy in looking at today's report. I will now hand the call over to Mel Karmazin.

Mel Karmazin
Chief Executive Officer and Director
Thanks, Will, and welcome, everyone, to our earnings call. What a year 2009 was. We began the year with a tremendous sense of uncertainty. The economy appeared to be in shambles, with the labor market experiencing severe contraction and the auto industry and financial markets faring even worse. But by the end of the year, the economy was beginning to show signs of recovery.

At SIRIUS XM, we, too, began the year with a great sense of uncertainty, stemming from the fact that we were facing near-term maturities with neither the cash on hand to satisfy those maturities nor a functioning capital market to provide us the opportunity to extend them. We also felt a sense of frustration because we knew that the company would thrive and not just survive if given a liquidity lifeline. We were anxious to validate our superior business model as a result of the recently consummated merger. Fortunately, Liberty Media saw our situation in the same way as we did, and provided us the liquidity we needed to meet our financial obligations in February. This allowed management to focus on the company's operations and the results were worthy of our hopes and expectations.

As we announced in our press release this morning, we had a banner year. Operational and financial metrics have improved year-over-year or over the course of the year, and collectively, they demonstrate the strength of our differentiated business model. The paid subscriber business model works well in radio, and SIRIUS XM's business model in particular is strong and resilient. David will provide more details and insights on our financial and operational metrics, but I also want to address a few of them.

First, the company's revenue grew 4% in 2009, which was a year, which many people might have expected our revenue to decline given the hostile macro economic environment we experienced overlaid with the unique challenge facing the auto industry. But as a matter of fact, we had record revenue.

Second, we grew pro forma adjusted income from operations, adjusted EBITDA, by nearly $600 million in 2009, a $460 million to $463 million from negative $136 million in 2008. This represents the first year that the company has generated positive pro forma adjusted income from operations.

In March 2009, our original guidance for 2009 was just over $300 million in adjusted EBITDA, producing $300 million in adjusted EBITDA in '09 compared to a negative $136 million in 2008 would have been great performance, delivering $463 million compared to the loss of $136 million was extraordinary performance. One more time, negative $136 million to positive $460 million in adjusted EBITDA in just one year.

Third, we grew free cash flow by over $700 million in 2009 to $185 million from negative $550 million in 2008. This, too, represents a first for the company. The first full year of positive free cash flow. And as we have previously stated, free cash flow is a key metric for creating value for shareholders. I also want to discuss a few operational metrics that highlight the strength of our business.

We experienced better subscriber performance in the second half of the year, clawing back 359,000 subscribers in Q3 and Q4 of the 590,000 subscribers we lost in the first half of the year. While this improvement in our overall subscriber base over the course of 2009 was obviously welcome, I was extremely gratified that our self-pay subscriber base turned around even more quickly and ultimately resulted in us ending the year with more self-pay subscribers than we had at the beginning, 154,000 more to be precise.

In fact, our overall subscriber decline last year was driven solely by the loss of 385,000 promotional subscribers, which was clearly a consequence of the dramatic decline in auto sales in 2009. It is obviously reassuring to us that the self-pay subscriber base grew last year despite the recession and its impact on consumer spending. Now with auto sales showing signs of recovery, we are well-positioned to hopefully grow our promotional base in 2010 and beyond. We also note that our unpaid trials, which are not counted in our subscriber base, have also begun to grow and represent a significant source of future self-pay subscribers.

And finally, I just want to touch on churn. Churn picked up a bit in 2009 versus 2008, and it's difficult to be certain as to the course of that increase. Our subscribers, like all consumers last year, were pressured by a severe recession. At the same time, the company had taken pricing actions on certain of our services last year that likely caused some of our subscribers to cancel their subscriptions. What we had suspected throughout last year that the economy, more than our pricing actions, increased our churn. And now, given the lack of discernible impact on churn of the company's passing through the Music Royalty Fee, we are even more confident that the economy was the negative pressure on churn last year. As such, we are hopeful that churn will improve as the economy returns to health.

These results are outstanding when put in the context of the environment that we operated in last year, the auto industry's decline, coupled with consumers curtailing, many areas of discretionary spending could have been disastrous for SIRIUS XM, but our business model allowed us to be successful.

Specifically, two aspects of our business model allowed us to thrive last year and will continue to fuel our future growth.

First, we offered consumers a service that they appreciate and for which they are willing to pay despite the innumerable free entertainment alternatives we've always competed against. Simply put, we offer our subscribers a great product at a great price.

The second aspect of our business model that is allowing us to be successful and grow at the pace we demonstrated for the past two years is the operational leverage that is inherent in our business. As I've noted before, when businesses like ours reaches sufficient scale to cover our fixed cost and subscriber acquisition cost, which is a cost we're happy to pay because it represents future subscribers, it becomes a powerful cash flow generator because of the high contribution margin we enjoy.

Clearly, the operational leverage of this business was enhanced by the merger in mid-year 2008. The merger provided significant cost synergies in our fixed cost base, which consequently allowed us to reach scale more quickly than otherwise. Our fixed cost base dropped nearly $350 million since 2007. This fact has allowed the combined company to increase pro forma adjusted income from operations in 2009 by nearly $600 million in over one year, and by over $1 billion over two years.

So I mentioned earlier about our differentiated business model. As you know, we principally generate our revenue from subscribers. Approximately 98% of our 2009 revenue of over $2.5 billion came from our subscribers. Having multiple revenue streams is superior to the model that principally relies on advertising.

SIRIUS XM ended the year with over 18.7 million subscribers. That translated, according to Arbitron, to approximately 35 million listeners. We were able to generate over $70 in revenue annually from each listener to satellite radio.

If you consider the major Terrestrial Radio companies and compare their total revenue with their total weekly listeners, they are only generating between $10 and $20 per listener per year. SIRIUS XM's business model enables us to monetize our listeners over 3.5 times that of Terrestrial Radio. Also, if you look at the largest Internet radio company that has over 40 million users and generates about $50 million of revenue, which is about $1.20 per user per year, our superior model is even more dramatic, $70 for satellite radio, $10 to $20 per listener for Terrestrial Radio and $1.20 per year per listener to Internet radio. In addition, our unique contracts with OEMs also are a significant contributor to our business model and is a major driver of our future growth.

So what does this mean for our future? Well, with respect to 2010, we are anticipating a very strong year. We expect to generate over $2.7 billion in total revenue for 2010. We also expect our pro forma adjusted income from operations to reach approximately $550 million this year, which is consistent with the 20% increase we guided on our last call despite the fact that we significantly overachieved our 2009 guidance.

Finally, we expect to grow subscribers in 2010 and add over 500,000 net subscribers this year, which will exceed the company's previous high of 19 million at the end of 2008. Now, with respect to our long-term performance, SIRIUS XM will undoubtedly continue to be a strong cash flow generator over the coming years. We will continue to be installed in a majority of new cars sold in the United States, an important fact given that new cars have become the source of the vast majority of our new subscribers. And we are also extremely excited about our potential to grow subscribers through the used car market. Eventually, there will be many more used cars with factory or dealer-installed radios on the road than new cars. So the universe of potential subscribers who can easily sample our service will continue to grow. And we're devoting a great deal of energy to create and refine processes to take advantage of this future fact. We have recently announced the management team to focus on capitalizing from the very large, certified pre-owned and used car market.

Importantly, we also expect to grow RPU over the coming years by offering additional services and pricing plans that make our services even more valuable to subscribers. And as we make our service offering better, we will not only increase RPU, but we will also enhance the stickiness of our service to customers, which would have the additional benefit of positive impact on churn. We are very pleased that in a very short time since the merger, we now have over 1 million subscribers buying our "Best of" packages.

Now let me turn to our balance sheet. As we continue to focus on growing cash flow, we will be more aggressive in attacking our balance sheet by repaying debt as it comes due, and in some cases, selectively refinancing in opportunistic transactions. And because we have no debt maturing this year and manageable amounts maturing in the following two years, we will be building a strong cash balance that will allow us to address our debt that matures in 2013. By reducing indebtedness while accretive to equity, it not only is adding our strong cash flow generation, but it will greatly increase shareholder value. Reducing overall leverage gives us greater flexibility generally, which consequently provides us with greater operational flexibility.

As the company improves its balance sheet, we will more be able to invest in strategic and commercial initiatives, as well as improve our internal business processes. And without financial flexibility, it is often impossible for companies to seize opportunities as they come along. The bottom line, we are positioning SIRIUS XM to have the agility and flexibility we need to grow the top line.

So as I pass this call on to David, I just want to address one final issue. Obviously, with our stock price trading above the dollar mark for the past six days, it is possible we will requalify under the NASDAQ continued listing criteria with 10 consecutive days over $1. If that were to happen, we would obviously not pursue a reverse stock split. Moreover, even if we would have slipped below $1 again and we receive a delisting notice from the exchange on March 15, we would appeal that notice and seek a six-month extension as permitted under the NASDAQ rules, and we are optimistic that we will prevail. We hope and expect we will meet the continued listing criteria either in the next few days or over the next several weeks to months. There is absolutely no concern about SIRIUS XM continuing to be listed and traded on NASDAQ. And if successful in meeting NASDAQ's dollar bid requirement, we have no plans to execute a reverse split. We're very excited about our future. 2009 was a good year, and we look forward to 2010 being great years.

Now I'll turn the call over to David.

David J. Frear
Chief Financial Officer and Executive Vice President
Thanks, Mel. Our performance in the fourth quarter and full year continues to demonstrate the strength of the Satellite Radio business model and the bright future for our company. Through the worst economic environment in a generation, our results are phenomenal.

Subscription performance in the quarter was encouraging in virtually all fronts. Gross additions in the quarter were at their highest level since Q2 2008, as the automotive sales continued their recovery and our penetration rate reached 55% for the full year and 60% in the fourth quarter. Auto sales were 10.4 million for the year and SAR ran at the 10.8 million unit pace for the fourth quarter. Conversion rate was up two percentage points in Q4 '08 at 46.4%. Self-pay churn was under 2% for the second consecutive quarter despite the introduction of the U.S. Music Recovery fee in August.

Net additions of 257,000 represented our best quarter since Q3 '08, and virtually all of these net additions were self-pay subscribers. We are well-positioned for a continuing recovery in the automotive sector. With self-pay subs at 15.7 million in total trials, paid, non-paid in the funnel of 3.6 million as of the end of the year.

January auto sales remained level with Q4's 10.8 million seasonally-adjusted rate, and we are cautiously optimistic that pace could be maintained. We expect our subscriber base will grow by over 500,000 subscribers in 2010, with most of that increasing occurring in our self-pay base, meaning that we expect to exceed our previous high of 19 million total subs by year end.

Note that most of the financial results I will discuss today will be based on pro forma combined company figures without purchase price accounting adjustments, which we believe represents the best way to observe the core trends underlying the business. Revenues for the quarter were $684 million, up 6% as subscription and other revenues increased with higher RPU in the implementation of the Music Recovery fee. RPU improved $0.27 or 2.5% to $10.92 driven by higher sales of "Best of" packages and the rate increases on multi-radio subscriptions and Internet streaming.

Advertising revenues were flat with 2008, representing the strongest quarter of the year. As with auto sales, we are cautiously optimistic about the general advertising environment. Early bookings in 2010 are positive to year-ago levels.

Our track record of great cost control continued in the fourth quarter is virtually every element of our cost improved. Customer service and billing costs for sub improved 10% to $1.06 per month on a margin basis from 10% of revenue to 9%.

Revenue share and royalties improved slightly on a margin basis year-over-year to 18% of revenue, with the Music Recovery fee revenue and improved OEM revenue share terms offsetting a higher performance royalty rate and a higher percentage of OEM customers versus retail compared to last year. As a result, contribution margin improved 3.7 percentage points to 71.4%. Factor gross add dropped 9% to $64. In fact, as a percentage of revenue, also dropped to 19% from 21%.

The increase in satellite and transmission cost in the quarter is related to non-cash charges associated with lease accounting and launch insurance allocations. Sales and marketing costs were flat with last year as cost efficiencies were used to fund our icon's media campaign in the fourth quarter.

Programming, customer service, G&A and engineering all experienced double-digit percentage declines over the year-ago period. In total, our fixed operating expenses fell six percentage points to 36% of revenue. Add it all up and adjusted income from operations more than tripled to $115 million, representing a 17% margin on sales compared to last year's 5% margin.

We have now had five consecutive quarters of positive adjusted operating income from operations, and in all four quarters of 2009, it exceeded $100 million. For 2009, SIRIUS XM earned over $463 million of adjusted income from operations, an improvement of just under $600 million over 2008, and an improvement of more than $1 billion since 2007 when the recession started. One year ago, we gave you guidance of adjusted income from operations would be more than $300 million. We have delivered 54% more than that guidance.

Similarly, we saw dramatic gains in our free cash flow. Free cash flow in the fourth quarter was up nearly six times to $150 million. And full year free cash flow improved to positive $185 million from negative $552 million in 2008, a swing of $737 million in a single year. With $383 million in cash, continuing positive free cash flow and minimal debt maturities in 2010, we will opportunistically look to improve our balance sheet.

We expect revenue to exceed $2.7 billion in 2010, which would represent at least 7% growth consistent with our prior guidance of mid to high single-digit revenue growth. With the continuing shift in our subscriber base towards factory-installed radios and the increase in statutory royalty rates, we expect revenue share and royalties to grow at a faster rate than revenue in 2010. Similarly, with low auto inventories at year end and a recovering automotive sector, subscriber acquisition cost will grow faster than revenues in 2010 as we invest in growth that will reap revenue and cash flow benefits in 2011.

We will continue seeking efficiencies throughout the company. Many, though certainly not all of the merger cost synergies have been realized, year-on-year cost comparisons in 2010 will not show the dramatic across-the-board improvements you have consistently seen us demonstrate over the last 18 months. Our 2009 adjusted income from operations of $463 million was significantly higher than we had anticipated in our prior guidance, but we are maintaining our guidance of a roughly 20% improvement in adjusted operating income, effectively raising our 2010 adjusted EBITDA guidance to $550 million.

Despite an increase in satellite capital expenditures in 2010, we continue to expect positive free cash flow generation this year. With satellite CapEx declining by $100 million in each of the next two years, 2011 and 2012 that is, as we complete the replacement of the satellite fleet, we expect increasing amounts of our cash flow from operations to be available to fund debt maturities or other strategic or financial priorities.

While we continue to delever in the near term, our growing cash flow presents many interesting opportunities for the company. With those comments, now I'd like to open up the line for questions.

Question and Answer

Operator
[Operator Instructions] Our first question comes from David Bank with RBC Capital.

David Bank
Can you talk a little bit about what drove the reduction in revenue share on the automotive side, where the nature of some agreements changed or what happened there? Can you also tell us what percentage of your subscribers during the fourth quarter were paying the revenue, the royalty pass through? And should we assume that it's kind of fully baked into the subscriber base for the first quarter or will continue to roll out? The third question would be, kind of tough for you guys to talk about, I'm sure, but could you give us any color on where you are with Howard Stern and what scenarios you might be playing at, is there the potential to re-sign Howard, but for maybe fewer days on the air, something like that, or is it all or nothing? And then Last, Mel highlighted the operating leverage inherent in the model in his comments. But in some cases next year in 2010, where are you going to see expenses ramp faster than revenue growth. David kind of hit on it briefly, as the OEMs ramp faster than the retail base, that's part of the driver. But why exactly are revenue share and royalties going faster than revenues, and why exactly is SAC going faster than revenues?

Mel Karmazin
Chief Executive Officer and Director
Why don't you start with the first nine, and then I'll deal with the Howard Stern.

David J. Frear
Chief Financial Officer and Executive Vice President
The reduction in revenue share, we did renegotiate one of our OEM agreements entering 2009. And we're able to -- we extended that agreement. We're able to secure a reduction in the revenue share. As a result, we also have mix issues going on in the OEM side, where we've got an increasing mix of subscribers from OEMs with lower rates. And so overall, that's what brought that down. In terms of the Music Recovery fee, we estimate at this point, that about 2/3 of the self-paid base have had the Music Recovery fee assessed. I think, that the way you should think about it is that the -- -- some of the remaining third will never get it. So we've got subs that are on very long-term plans that may not roll up. The lifetime subscribers that predated the imposition to see of course that they'll never be assessed. And so I think that substantially all the subs who are going to experience the fee will get it in the next couple of months. In terms of the faster growth of some expenses -- one of the things that you know about the model is that when we have rapid growth, we incur all of the SAC expense on the day that we recognize the subscriber, but the revenue follows over some period of time after the subscription is initiated. So if the automotive industry recovers, and if you look at most of the estimates for the automotive industry this year, that it's sort of even with the fourth quarter and then it seems to be rising as you go out through the year. If that forecast comes true, you end up with a decent ramp in OEM additions in the second half of the year. So you'll be recognizing all that SAC expense but the revenue associated with those adds won't really come into 2011. So that sort of covers the SAC thing. If you look back at the company's growth in the, sort of 2004, '05 and '06 period, you'd see a similar behavior of SAC. With revenue share, again that's nothing more than the map. There's nothing actually changing with respect to the underlying rates in the business that, in 2009, we got the one-time benefit of a reduction in rate from one of our automotive partners, as well as the ramp up in mix on some of the lower-rated partners at 60% penetration and with a mix that isn't changing all that much in the course of this year, that it's just the OEM subs become larger proportion of total subs. There's going to be a natural bias up in revenue share expenses as a percentage of revenues. But when you add it all up, we're showing you what I think is very strong contribution margins, they're very strong incremental margins in the business, that you've got $463 million of EBITDA going to $550 million, was it a $87 million improvement. And we've given you guidance of revenues going up by at least $150 million. So that you're looking at incremental margins, that we're providing guidance that put you somewhere in the zip code of a 50% plus incremental EBITDA margin business, that's still a very, very strong economic model.

Mel Karmazin
Chief Executive Officer and Director
And the only other thing along the lines of what David said, is that you should assume that our revenue is growing faster than our operating expenses are. And we'll have EBITDA margin improvement as a percentage as well. So I think, that's the statement. So on the subject to Howard Stern, I wasn't here at the time the decision was made to bring Howard to SIRIUS. Scott and the team made absolutely great decision and something that has worked out terrifically well. So bringing Howard to SIRIUS was a great call. Along with everybody else, I believe that in the last four years, Howard has done his best work. His shows are better than they have ever been before. They're helped by the fact that he has a national platform and probably more importantly, by the fact that for the first time, Howard is operating in a very minimal commercial advertising mode. So in Terrestrial Radio, listeners were hearing up to 22 minutes an hour of commercials, where at SIRIUS XM, the most we're running are six. So when you think about the fact that Howard does about four hours a day, and listeners are hearing 15 minutes an hour more of Howard in essence, an extra hour each show of Howard, it has worked out terrifically well. He has been a great partner. We

would like to continue doing business together. There is nothing in his contract that deals with a timeframe as to when we need to negotiate and do a deal. Some contracts provide a period where that negotiation needs to take place. In Howard's contract, that's not the case. So we have nothing to announce today. My suggestion for those that are interested, and I'm sure many of you are, is that tune to Howard 100 because we will be providing you with regular updates. Howard talks about his life regularly, and I'm sure as he talked about it this morning, he will continue to talk about it. And when we have something to announce, we'll announce it.

Operator
Our next question comes from Barton Crockett with Lazard Capital Markets.

Barton E. Crockett
Lazard Capital Markets LLC, Research Division
I wanted to ask a little bit about your outlook for subscriber growth in 2010, the 500,000 growth. Is it safe to assume that that's all on the auto side and that retail subs are down again?

James E. Meyer
President of Sales and Operations
This is Jim. I think that's safe to assume.

Mel Karmazin
Chief Executive Officer and Director
I think, one of the things that you have to think about longer term, and starting -- when I say longer-term, I'm not talking ancient long-term away, including in 2010, that the aftermarket as you knew it, before OEMs ramped up, is going to sort of migrate toward the used-car market. Because that market is really the potential for us to add significant amounts of additional subscribers. So there will always be an aftermarket. Our DTC and retail stores will continue to sell it. But as people are principally using the car as the opportunity to access radio, that's the main spot. Our initiatives in new cars and used cars will be the predominant driver, and that's a good business model for us.

Barton E. Crockett
Lazard Capital Markets LLC, Research Division
And to that end, I was going to ask about used cars. Can you give us any sense of how much contribution used cars were to the subscriber total in 2009? And any color on how that might change in 2010?

David J. Frear
Chief Financial Officer and Executive Vice President
We generally -- it's certainly going to be increasing, in terms of number of adds each year, Barton. But we haven't broken out those figures for you yet. I don't think, we're going to do so today. But it is one of these things that, as we look at the 25 million or so factory-installed radios that are in the field and the roughly maybe 11 million or so that are active, there's obviously a growing pool of those that there are opportunities for us to get turned back on. Most of those are still in the hands of the original owner, because the ramp up in OEM has been fairly recent. But in the course of the next couple of years, the second-owner market's going to kick in. And we're going to start seeing a really significant numbers of them begin to turn over. And of course at 60% penetration levels, the total pool was growing pretty rapidly. So I think, as we see the volume grow, right, and I think, you'll hear us talk more about it and probably give you more details about it in the future.

Mel Karmazin
Chief Executive Officer and Director
I think, you should expect in the future as our IT systems evolve, to be able to get us the kind of precise information we want, that will become a reporting item as well. So we will be reporting, the aftermarket will be reporting at some point, the used-car secondary market, as well as the OEMs.

Barton E. Crockett
Lazard Capital Markets LLC, Research Division
On the topic of cars, can you talk about the Toyota issue? What impact that has had on you in the quarter and to what, if any impact, is happening in the first quarter and might have for the balance of the year?

James E. Meyer
President of Sales and Operations
So with Toyota, number one, the Toyota program that we have is a non-pay trial. And so the impact to the first quarter in terms of subscribers is zero. In terms of production, as you know, they were down for a fair amount of days. They're now back up and running. They've made up a lot of their production. What we can't predict is what's

going to happen to their market share. And so I really don't think it's going to be terribly disruptive to our numbers in the first half of 2010.

Mel Karmazin
Chief Executive Officer and Director
We had a meeting yesterday of all of our senior executives, and we talked about another advantage of the merger for the companies, is that the combined company has deals with every single OEM. So if in fact, one of our OEMs is going to lose some market share, then another of our OEMs is going to pick up that market share and we, for the most part, are not adversely affected at all.

Barton E. Crockett
Lazard Capital Markets LLC, Research Division
Then a final question here, I wanted to switch quick gears and ask a bit about the relationship with Liberty. And in particular -- and about a year, a little over a year, they would have an opportunity to adjust their holding structure. One thing they've done in recent history is with their holdings with DirecTV, which they weren't given full credit for that. They spun it off and merged then with DirecTV, which is a good thing for their shareholders. Is there any scenario under which it might make sense for SIRIUS to think about doing something like that with Liberty? So if you can talk a little bit about that?

Mel Karmazin
Chief Executive Officer and Director
So obviously, about a year ago, when we first got together with Liberty, it turned out to be a very, very good deal for SIRIUS. They stepped up and provided us the liquidity we needed. We paid them back, we've refinanced it. It was an extraordinary investment for Liberty. And at this point, what hypotheticals and possibilities could exist in the future, I really don't want to comment on. And I also think that any questions about what Liberty might do is best directed to Greg Maffei and John Malone. From our point of view, there's a standstill. One of the reasons that we were attracted to the Liberty deal and not to other deals that we had the opportunity to do, was that we didn't want to provide control of this company to somebody without a significant control premium. So the Liberty investment is at 40%, and there's a period of time where they have to stay at that. So what Liberty does with its shares of SIRIUS is really something that should be directed to Liberty.

Operator
Our next question comes from Mike Pace with JPMorgan.

Michael Pace
JP Morgan
I'd love to debate some of your guidance. But first of all, what SAR are you assuming in your subscriber guidance for 2010?

Mel Karmazin
Chief Executive Officer and Director
We do a bottoms-up approach in arriving at our guidance and subscriber numbers. We talk to each of our team that represents the various automotives. We look at each of the contracts. So we're not -- we have the range of SARS, what everybody has given. We're not in the SAR-predicting business. But we tend to be more conservative than what is out there generally.

Michael Pace
JP Morgan
And then I guess -- and I acknowledge that there's a greater than sign [>] next to your revenue guidance. But if I think about your growing subs, you still have some more royalty rate pass-throughs to hit the financials in 2010. I guess if I just look at annualizing fourth quarter revenue numbers, and that would assume, really, no more growth. We're already above the 2.7 number. I'm just wondering if we're missing anything. Do you expect the underlying ARPU to be more promotional or safe techniques as you're thinking about that?

Mel Karmazin
Chief Executive Officer and Director
I think, you've read the guidance correctly. I think that our guidance of greater than 2.7 covers it.

Michael Pace
JP Morgan

And then finally just on cost saves, what are the key line items that you still have some more to do? And I'm thinking particularly more customer service and billing and programming of course. If you can be as specific as possible, that would be great.

David J. Frear
Chief Financial Officer and Executive Vice President
So we've said this many times that as each contract comes up that we take -- regardless of where it is, programming, automotive, retail printing, legal services, that we take the opportunity to negotiate hard with the bigger buying power that we now have. So on the programming side, there are a number of high-profile contracts that sort of come up year-by-year. I think, everybody knows that the Howard deal is up at the end of this year, that we are entering our last season under the current NFL agreement in the fall of the year and also in 2011. And those are up in 2012. And NASCAR is up and then there are others that follow year-after-year. I think, in terms of line items that we will be integrating the subscriber management system platforms, in the sort of third quarter of this year. That could give us opportunities on the IT side of things in 2011, really not so much in 2010, that IT expenditures get split between G&A and customer service and billing, so they'll be in there. We still think there are opportunities for other improvements on the G&A side. And then just generally, it's part of the D&A of this company that we go through and we beat the expenses up every month. And so again, I think as we've said before, you shouldn't expect to see the dramatic improvements in every single line item that we show in the last 18 months. But you should expect to continue to see expanding EBITDA as a percentage of revenues.

Operator
Our next question comes from Jim Goss with Barrington Research.

James C. Goss
Barrington Research Associates, Inc., Research Division
First, Mel, I'd be interested in your thoughts and some insights into your thought process with regard to pricing philosophy. I realize we're still more than a year away before you can really address the basic prices. But you do have these several significant contracts coming due. And I imagine as you look at those, you can think of the two systems you might spread certain of the programming over and there could be an involvement of a premium service, versus -- an interior versus just straight pricing. Could you provide any thoughts on that matter?

Mel Karmazin
Chief Executive Officer and Director
Yes. I think, obviously, we have a lot of competition. We compete with free. And we believe right now, that we're offering extraordinary value to our subscribers. We talked about how we've seen the churn improvement in the fourth quarter from a point of view of even passing along the MRF, and as the economy gets better. We'd like to be able to continue to offer our subscribers value, that we're sort of mandated under the SEC order until July or I guess August of 2011, about making any current subscriber pay more for what they were currently getting before. And as we go through that process, we'll start looking at ways that we can add more value for our subscribers. And that might include subscribers paying a little bit more for some of the value that we're going to add. But we really have not announced anything, and I really have no comment today on anything that we may be doing some time in the future.

James C. Goss
Barrington Research Associates, Inc., Research Division
One for David. With regard to the 2013 maturities, despite the fact that you have no maturities this year and manageable in 2011 and 2012, the looming 2013 still seems to pop up periodically with investors. And I'm wondering if there's any thought aside from building cash to try to -- are there things you can do to try to address that issue ahead of time?

David J. Frear
Chief Financial Officer and Executive Vice President
Sure. Yes, you should expect us to be smart and opportunistic with respect to the 2013 maturities, and that they're obviously a long way out. The company's credit profile is very clearly improving rapidly and dramatically. And so, as we keep a pretty close eye on the markets, if there's an opportunity to go into the markets and get attractively-priced, long-term paper to term out some of those maturities, that's something that you should expect us to do, to the extent that the paper trades weekly from time to time, that as we build the cash over the course of the next couple of years, that we could decide to buy paper in early. So I think, it's obviously an important thing for the company to focus on. And we put a lot of effort into it. And as the opportunities arise, you can expect us to move quickly and take advantage of it.

Mel Karmazin
Chief Executive Officer and Director

I mean, I think -- just to answer -- I agree with what David said, is that you should just assume that extending the 2013 maturities is something that we would like to do.

James C. Goss
Barrington Research Associates, Inc., Research Division
The share of autos with built-in radio at year end, I think earlier in the year, you thought the year-end target would be something like 58%. Is that about where you wound up?

David J. Frear
Chief Financial Officer and Executive Vice President
60% in the fourth quarter.

James C. Goss
Barrington Research Associates, Inc., Research Division
And the upside is not much more than that, 65% or so?

Mel Karmazin
Chief Executive Officer and Director
No, I think you should plan the penetration to stay at least in '10 around 60%, 62%. Just one point, one of the things we're going through now, and I think, it's a great sign of the maturity of the company, there are certain cars that are built that just don't yield an acceptable subscriber profile for us. An example is in one of our large OEMs, there is a group of commercial trucks that we learned don't convert anywhere near to give us an acceptable financial equation. And despite the short-term impact on subscribers, we're eliminating those from including satellite radio, going forward.

Operator
And thank you for dialing in and that concludes our conference call.

David J. Frear
Chief Financial Officer and Executive Vice President
Thank you.

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