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XM, Sirius announce merger

Following months of speculation, the two satellite radio operators will combine in a merger of equals; Karmazin will be CEO.

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NEW YORK (CNNMoney.com) -- Rivals XM Satellite Satellite Radio are entering into a merger of equals that the companies announced Monday. [XM \(Charts\)](#) and [Sirius \(Charts\)](#) said they would each own half of the combined company, which would offer listeners a much wider variety of programming, including sports, news and high-profile entertainers such as shock jock Howard Stern. **Shock jock Howard Stern has been widely credited for much of Sirius's success, helping the satellite radio operator finish 2006 with more than 6 million subscribers.**

As part of the deal, XM Chairman Gary Parsons would remain chairman of the combined firm, while Sirius' Mel Karmazin would assume the role of CEO. XM chief executive Hugh Panero will remain as CEO until the merger is completed.

The two companies, which have a combined 14 million subscribers, said they had not yet determined a new name for the combined company or where its headquarters would be located.

"This combination is the next logical step in the evolution of audio entertainment," Karmazin said in a statement.

The company would have a market value of roughly \$13 billion, including approximately \$1.6 billion in net debt.

XM shareholders would get 4.6 shares of Sirius stock for each share of XM they own.

The deal would value XM shares at \$17.02, a 22 percent premium to its Friday closing price of \$13.98.

Shares of XM shot up nearly 28 percent in pre-market trading on Tuesday morning while Sirius' stock rose 13 percent before hours. The markets were closed in observance of President's Day when the deal was announced.

Sirius and XM said that as a result of the merger it hoped to offer listeners an "a la carte" option, allowing them to pick and choose the channels they wanted, such as Sirius' "Martha Stewart Living Radio" or XM's "Theme Time Radio Hour" with music legend Bob Dylan.

"The combined company will be better positioned to compete effectively with the continually expanding array of entertainment alternatives that consumers have embraced since the Federal Communications Commission (FCC) first granted our satellite radio licenses a decade ago," Parsons and Panero said in a joint statement.

Speculation has run rampant on Wall Street about a possible tie-up between XM and Sirius since the beginning of the year.

Both companies, although rapidly growing, have continued to lose money despite strong revenue and subscriber growth.

No 'slam dunk'

David Bank, an analyst at RBC Capital Markets, said he was not surprised by the deal since the merger makes a lot of sense, but he warned the tie-up was not a "slam dunk."

Besides getting shareholder approval, XM and Sirius will also have to get the endorsement of regulators, including the FCC.

The National Association of Broadcasters, a trade group that represents local radio and TV stations, urged policymakers Monday to reject the deal, calling it an "anti-consumer proposal."

"Given the government's history of opposing monopolies in all forms, NAB would be shocked if federal regulators permitted a merger of XM and Sirius," the trade group said in a statement. "It bears mentioning that regulators summarily rejected a similar monopoly merger of the nation's only two satellite television companies - DirecTV and DISH Network - just a few years back."

Bank added that as a condition of the merger the Department of Justice might impose some sort of price caps so that the combined company can't raise monthly subscription rates by a big amount, if at all.

Right now, both Sirius and XM have tiered-payment subscription packages, which start at \$12.95 per month or \$142.45 per year.

Calls to both XM and Sirius about what impact the merger would have on subscription rates were not immediately returned.

Executives from both companies are planning on discussing the details of the merger on a conference call scheduled for Tuesday morning.

