Before the
COPYRIGHT ROYALTY JUDGES
LIBRARY OF CONGRESS
Washington, D.C.

In the Matter of Adjustment of Rates and Terms for Preexisting Subscription and Satellite Digital Audio Radio Services	)	Docket No. 2006-1 CRB DSTRA

WRITTEN DIRECT TESTIMONY OF

Robert Law

Senior Vice President and General Manager of Consumer Electronics,
SIRIUS SATELLITE RADIO INC.

Witness for Sirius Satellite Radio Inc.

SIR Ex. 42

Before the
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In the Matter of	)	
	)	**Docket No. 2006-1 CRB DSTRA**
Adjustment of Rates and Terms for Preexisting Subscription and Satellite Digital Audio Radio Services	)	

WRITTEN DIRECT TESTIMONY OF ROBERT LAW

(On behalf of Sirius)

Background and Experience

1. My name is Robert Law. I am Senior Vice President and General Manager of the Consumer Electronics Division of Sirius Satellite Radio Inc. ("Sirius"). I have been with Sirius for three years, including two years in my current capacity. I am responsible for development of new Sirius radios and for sales of those radios through consumer electronic retailers and other outlets (essentially, all selling routes other than new automobile manufacturers or "OEMs").

2. I have spent many years in the consumer electronics industry. For approximately 15 years, I was employed by Kenwood, one of the largest consumer electronics manufacturers in the world, as Senior Vice President of US Sales and Marketing. Prior to working for Kenwood, I owned a retail audio service and installation business in New Jersey.

Summary of Testimony

3. Because the hardware needed to receive the signal from the Sirius satellites is unique, Sirius is necessarily involved in the consumer electronics hardware business. This business is extremely competitive in every respect. Product design in the consumer electronics field is characterized by extremely rapid technological, functional and aesthetic advancement. When new products are introduced into the marketplace, they are already quickly on the way to becoming obsolete. Thus, constant product development is essential. Moreover, while sales volumes can be large, the industry is extremely competitive at every level and margins are very small. Indeed, the consumer electronics hardware portion of Sirius operates at a substantial loss. Sirius works closely with consumer electronics original device manufacturers ("ODMs"), with recognized consumer brands such as Kenwood, Panasonic and Sony, and with large retail chains such as RadioShack, Circuit City and Best Buy, to ensure the development, manufacture and sale of Sirius radios. As discussed below, substantial expenditures and subsidies are paid by Sirius at every step of the process in order to get Sirius radios in the hands of consumers so that they will want to subscribe to the service. I give this testimony based on my personal knowledge and information that I have learned through my work.

Product Design and Development and Manufacturing

4. One of our greatest challenges is developing compelling new products. The heart of any Sirius radio is the chipset, which is developed by the engineering group at Sirius. New Sirius radios are presently using a third generation chipset, which offers substantially improved functionality over its predecessors.

5. My group is responsible for discerning the needs of the consumer electronics market, and defining the industrial design, features, and price points for hardware products that will be both functional and desirable in the marketplace. As a visit to any Best Buy store will confirm, the retail marketplace for consumer electronics is extremely crowded and it is difficult to stand out. Products must look good and have a "wow" factor that will cause them to stand out from competitors. SIR Ex. 11 shows a sampling of the products that we have developed to sell through the retail channel. Among other products, we have recently introduced the Stiletto 100, a new portable satellite radio. We have many additional automotive, transportable and home models with unique features and capabilities, priced in various ranges to attract the broadest mix of consumers.

6. Design and development of products as complex as satellite radios requires a substantial staff. On my in-house staff, at least 21 employees, including Engineers, Product Managers, Logistics Managers, Manufacturing Specialists and Project Managers, are involved directly in product design and development. In addition, we have contractual agreements and work closely with outside design and engineering development companies as well as our ODMs. In total, these companies employ over 200 people who are also involved in design and development of Sirius radios and accessories.

7. While developing a great product is a necessary step to a successful product launch, it is not sufficient to ensure sales. Sirius must also provide incentives at several steps along the manufacturing and distribution chain in order to sell Sirius radios. The particular deals vary, but the patterns are similar. Sirius provides our complex and

expensive chipset at no cost to the manufacturer. We then subsidize the manufacturing cost of the total receiver as required by competitive conditions and our business objectives. The product is then imported into the US by one of our distributors. The importer then wholesales the radio at a profit to retailers, which in turn also expect a profit when they sell it to a consumer. The typical gross profit margins expected at these different levels varies from 15-30% for the factory level, approximately 18% for the wholesaler, and between 25-30% for retailers. Because the profits expected at each distribution level threaten to increase the price of the finished radio out of the pricing range that Sirius believes new subscribers would be willing to pay, Sirius is forced to provide subsidies at several levels. Each level of the distribution chain typically measures its expected profit in percentages, so Sirius tries as much as possible to concentrate its subsidies at the initial stages, where its subsidy dollar has maximum impact.

Store Level Marketing

8. In addition to these basic distribution subsidies, Sirius has enormous marketing expenses at the store level to ensure Sirius' products can be found by consumers. The competitive pressures in the retail sales arena are intense. In retail, the chains are competing head to head against each other, and are also pitting our service and product directly against other consumer electronics products and services. The leading retailers drive the business of selling aftermarket products. Because they are so large and have such enormous buying power, the leading retailers will not carry a product unless they are convinced they can sell it in mass quantities nationwide. Such large retailers do not promote products that will be attractive only to consumers who are early technology

adaptors; they insist on products that will that are in demand from the mass retail market immediately. Sirius radios are now available in the stores of most of the largest consumer electronics retailers, including Best Buy, Sears, Target, Costco, RadioShack, WalMart and Circuit City.

9. As a further step to ensure shelf space and sales, Sirius must provide financial incentives to the retailers in order to be included in their direct-to-consumer marketing. For example, the major chains such as Circuit City consider their Sunday newspaper supplements to be a critical component of their marketing efforts. Space in those circulars is sold to the highest bidders – the manufacturers of all of the various products sold by the chain compete voraciously for space in those advertising circulars. Thus, when a Sirius radio is promoted in the Circuit City Sunday newspaper circular, Sirius has paid Circuit City for that privilege. The retailers may also participate in revenue sharing arrangements to give them further incentive to sell our product. In some instances, Sirius will pay both an activation fee and a monthly residual for each subscriber who originally purchased a Sirius radio at a retail store.

10. Sirius also provides operational point-of-sale displays for stores. Having operational Sirius radios in the retail environment so that consumers can try out the various available products and experience first-hand the excellent audio quality and programming variety offered by Sirius' service plays a significant role in convincing consumers to purchase Sirius' service. Sirius has paid to develop and install kiosks capable of playing the Sirius service live in several thousand Circuit City, Best Buy, and other retail stores, as well as car dealerships, and even Hertz rent-a-car locations. Each

time Sirius installs such a kiosk, it must also install a Sirius antenna on the roof of the store's building. All of these expenses are paid by Sirius.

11. Perhaps one of the most damaging effects of this competitive retail environment is that it leads to the rapid depression of the retail price point within months of a product's introduction, rather than over several years as consumer electronics manufacturers used to expect. The rapid decline of retail pricing means that Sirius will have to pay even more in subsidies in the near future. The retailers expect that the wholesale price offered to them will go down, so that they can sell the receivers at a cheaper retail price while still maintaining a sufficient profit margin. This exerts downward pressure on the consumer electronics manufacturers.

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DECLARATION OF ROBERT LAW

I, Robert Law, declare under penalty of perjury under the laws of the United States that the statements contained in my Written Direct Testimony in the above-captioned matter are true and correct to the best of my knowledge, information and belief. Executed this 30th day of October 2006.

Robert Law

SIRIUS SATELLITE RADIO

GET SIRIUS | INSTALL + ACTIVATE | WHAT'S ON SIRIUS | LISTEN ONLINE

STORE LOGIN
MY ACCOUNT
VIEW MY CART

ORDER STATUS
STORE HELP
0 ITEM(S) GO

HOME | ALL RADIOS | RADIO PACKAGES | ACCESSORIES | MERCHANDISE | CLEARANCE

- Home Units
- Plug and Play Radios
- Portable Radios

Home > All Radios

SORT BY: - Sort -

SIRIUS One Radio with Car Kit

Price: $49.99

SEE DETAILS | ADD TO CART

Stratus Plug and Play Satellite Radio and Vehicle Kit (Ship...

Price: $59.99

SEE DETAILS | ADD TO CART

SIRIUS Starmate Replay Radio with Car Kit

Price: $99.99

SEE DETAILS | ADD TO CART

SIRIUS Starmate 3 with Car Kit

Price: $99.99

SEE DETAILS | ADD TO CART

SIRIUS Sportster 3 with Car Kit

SIRIUS Sportster Replay Radio and Car Kit

1.888.GET.SIRIUS

LEARN MORE ABOUT HOW TO GET A FREE SIRIUS RADIO!

CLICK HERE

SIR Ex. 13-A

FINAL

Price: $119.99

SEE DETAILS ADD TO CART

Price: $129.99

SEE DETAILS ADD TO CART

SIRIUS Sportster 4 with Car Kit

Price: $149.99

SEE DETAILS ADD TO CART

SIRIUS SRH550 home tuner with antenna

Price: $269.99

SEE DETAILS ADD TO CART

Tivoli's SIRIUS table radio

Price: $299.99

SEE DETAILS ADD TO CART

STILETTO 100 SL100 (Ships Week Of 11/06)

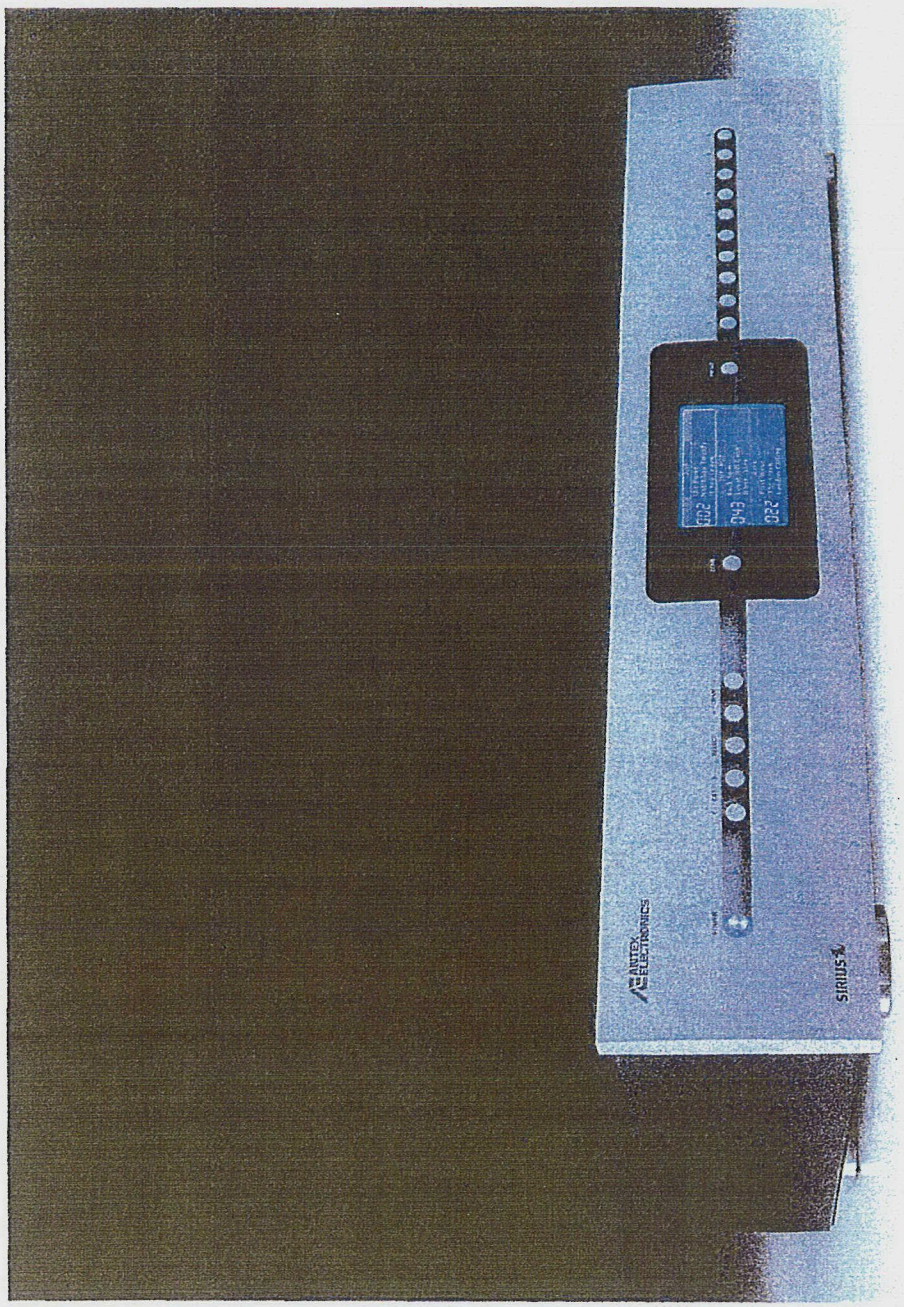
Price: $349.99

SEE DETAILS ADD TO CART

Contact Us | Returns | Activate | Rebates | Terms and Conditions | Privacy Policy | STORE SEARCH Product Title GO

Shipping | Payment | Store Help

TRUITION POWERED



SIR Ex. 13-B

FINAL

MEMO
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Swing Street
Fats Waller
Two Sleepy People
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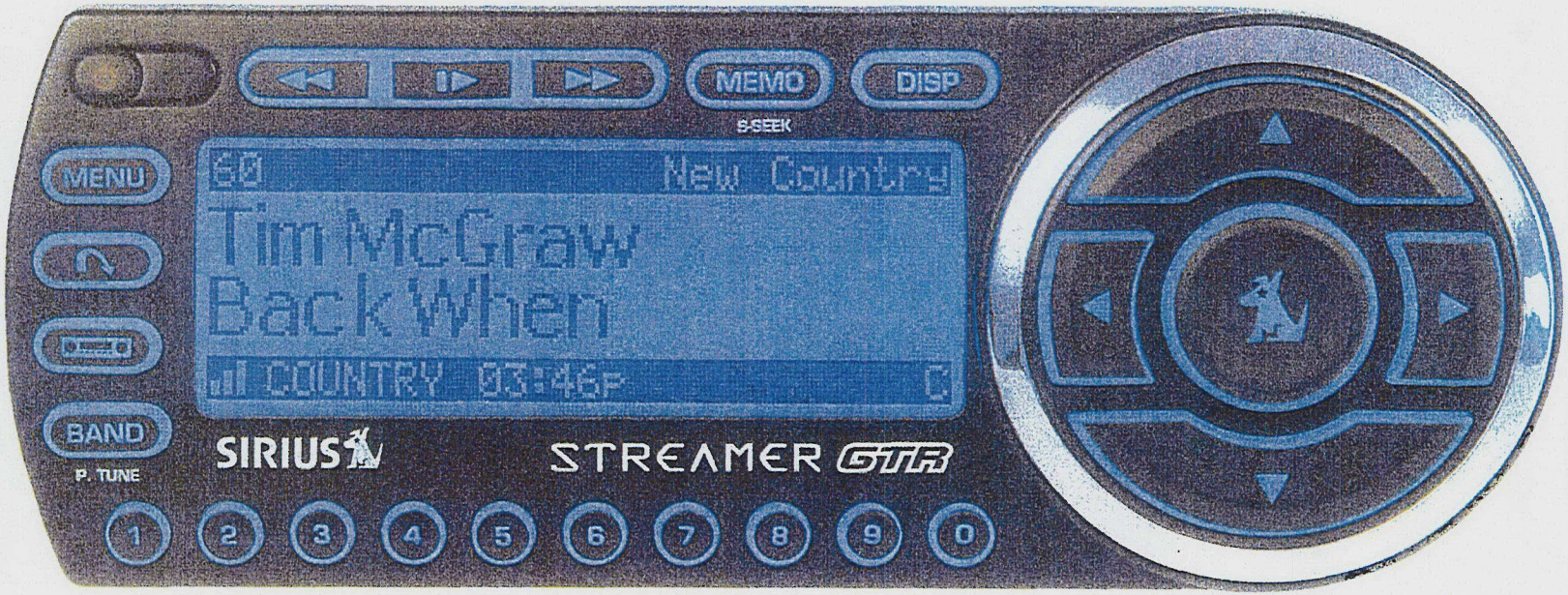
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60 New Country
Tim McGraw
Back When
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P. TUNE
SIRIUS
STREAMER GTR
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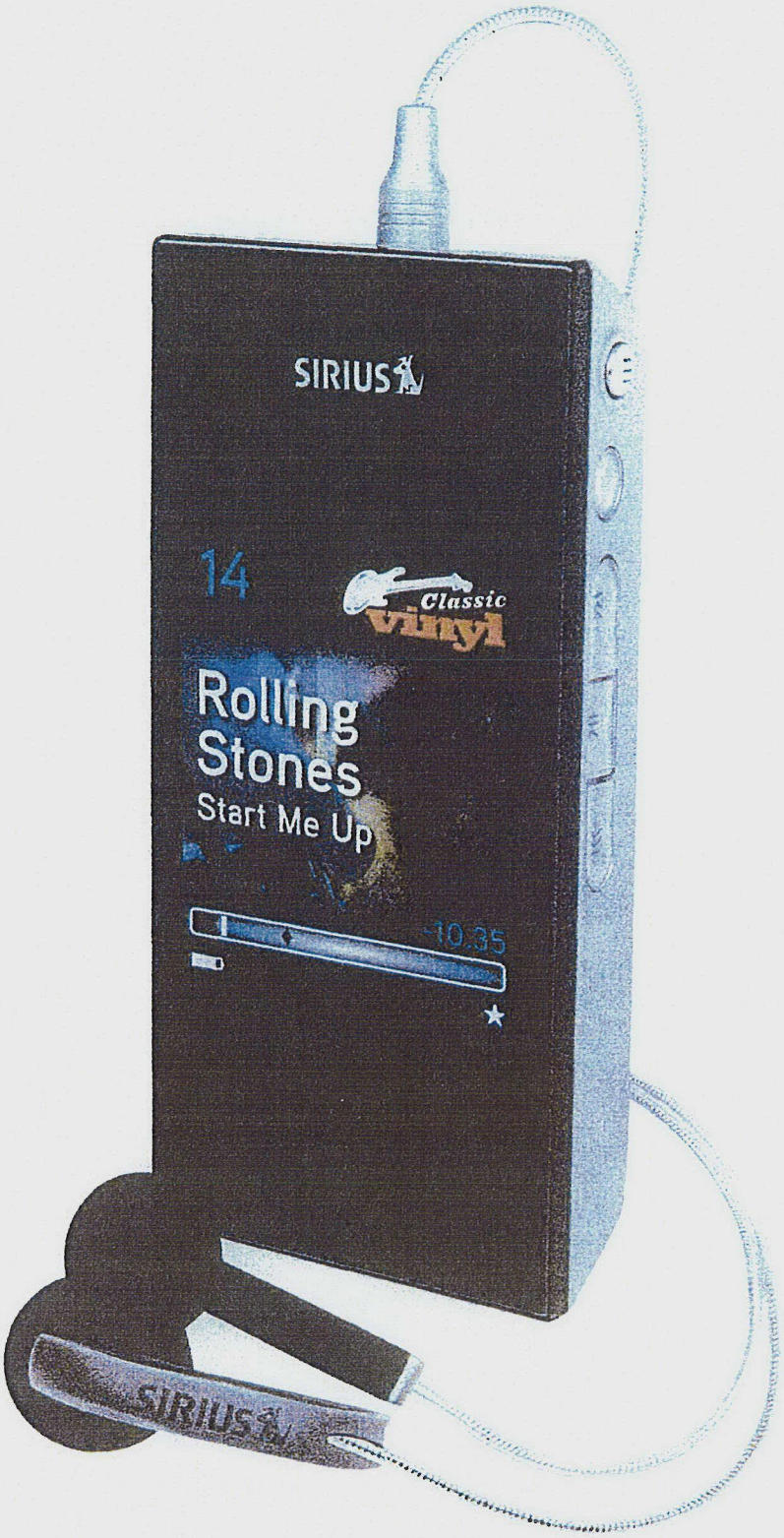
SIRIUS
14
Classic vinyl
Rolling Stones
Start Me Up
10:35
SIRIUS

MONSTER
SIRIUS

SIRIUS