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Sirius Satellite Radio Q1 2007 Earnings Call Transcript

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Sirius Satellite Radio Inc (SIRI)
Q1 2007 Earnings Call
May 1 2007 8 00 am ET

Executives

Paul Blalock - Senior Vice President, Investor Relations
Mel Karmazin - Chief Executive Officer
James E Meyer - President, Sales and Operations
Scott A Greenstein - President, Entertainment and Sports
David J Frear - Chief Financial Officer, Executive Vice President

Analysts

Laraine Mancini - Merrill Lynch
Lucas Binder - UBS
Robert Peck - Bear Stearns
Cibora Ghuta - Lehman Brothers
Kit Spring - Stifel Nicolaus
Eileen Furukawa - Citigroup
Thomas Eagan - Oppenheimer
David Bank - RBC Capital Markets

Presentation

Operator

Good day, everyone and welcome to the Sirius Satellite Radio first quarter 2007 financial and operating results conference call Today's conference is being recorded At this time, I would like to turn the conference over to Paul Blalock, Senior Vice President of Investor Relations. Mr Blalock, please go ahead.

Paul Blalock

Thanks, Peter. Good morning, everyone, and thank you for your participation This morning, Mel Karmazin, our CEO, joined by Jim Meyer President of Operations and Sales and Scott Greenstein, President of Entertainment and Sports, will review our first quarter 2007 operations and our outlook for 2007 David Frear, our Chief Financial Officer, will then discuss our financial results and our guidance for 2007 as outlined in our press release this morning

At the conclusion of our prepared remarks management will be glad to take your questions

I would like to remind everyone that certain statements made during this call might be forward-looking statements as that 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 on 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 More information about these risks and uncertainties is contained in Sirius' SEC filings We caution listeners not to rely unduly on forward-looking statements and disclaim any intent or obligation to update them

I will now hand the call over to Mel Karmazin for his opening remarks.

Mel Karmazin

Thanks, Paul Good morning and thank you all for joining us. 2007 is off to a great start for Sirius Healthy subscriber growth of

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approximately 557,000 net additions in the first quarter drove a 61% increase in our ending subscriber base from last year. Sirius now has approximately 6 6 million subscribers and we are well on our way to meeting our 2007 outlook for more than 8 million subscribers at the end of the year.

In Q1 alone, we added more than double the number of subscribers that we did in our first year of operation

In the first quarter, Sirius added 66% of total satellite radio segment net additions, and in the retail segment Sirius represented a 76% share This is the sixth consecutive quarter where Sirius has attracted the majority of the satellite radio segment subscriber net additions It is also interesting to note that in the first quarter of 2007, Sirius captured the majority of gross subscriber additions in the segment, marking the second consecutive quarter for that milestone.

Jim will take you through in more detail in a few minutes, but I would like to highlight our progress in the OEM channel During the last few weeks, numerous announcements have been made by our automakers, including Lincoln, Mitsubishi, Audi, Land Rover, and Mini, making Sirius standard in additional models

Last week, Mercedes announced that Sirius is targeted to be installed in 80% of their auto penetration this year and 90% of their auto production next year and more than 90% in 2009 These recent announcements dramatically exceed previously established installation targets and in my view represent a very positive signal for our continued growth

Overall, our exclusive OEM partners are dramatically ramping the number of vehicles in which Sirius service is included Just two years ago in 2005, our exclusive partners included Sirius in roughly 10% of their vehicle production. Last year in 2006, Sirius was included in 23% of their total vehicle production, and in 2007 we expect to be included in approximately 34% of production. So you can easily see how important the recent announcements like Mercedes will be for the future

On the retail front Sirius captured a remarkable 76% of the satellite radio segment retail subscriber additions during the first quarter of 2007 This is the highest share in our history. On the programming front, we continue to cost-effectively add compelling new programming Scott will take you through the highlights in a few moments, but obviously we are very pleased with the response we are seeing from new initiatives, such as NASCAR, the recently launched Sinatra channel, and the upcoming launch of the Jamie Foxx channel

On the financial front, first quarter results clearly demonstrate that Sirius is scaling the business, managing our costs and accomplishing our goals With more than $200 million in first quarter revenue, we are well-positioned to approach the $1 billion in revenue this year We are the fastest growing radio company in the United States

It is also apparent that we are focused on controlling costs On a line by line basis our income statement is scaling and costs are decreasing as a percentage of revenue SAC improved and is on track for our full-year guidance of $95 Overall churn was 2 3%, in the middle of the range we expect for the full year of 2 2% to 2 4%

Sirius reported a 68% improvement in our reported net loss from last year, reflecting a $0 10 loss this year versus last year's $0 33 loss, as stock-based compensation declined 91% from last year

Overall Sirius had a solid first quarter It is important to note that demand for Sirius continues to be strong and our financial performance is on track and we are executing very well and on our business plan Jim

James E. Meyer

Thanks, Mel First quarter 2007 was very successful for Sirius Our goal for 2007 was to maintain our leadership position and Sirius accomplished that goal, capturing 66% total satellite radio segment share We added 988,000 gross subscriber additions in the first quarter, up slightly from total gross additions last year First quarter 2007 net additions of 556,000 were comprised of approximately 365,000 net additions from our OEM partners and approximately 193,000 after market net additions

Churn was 2 3% for the quarter, consistent with our guidance for full-year churn at 2 2% to 2 4%

Turning first to the after market sector, the 193,000 net additions for the first quarter are clearly below last year's strong momentum resulting from the arrival of Howard Stern However, Sirius' share of the satellite radio after market segment was 76%, the highest in our history

In the first quarter, we achieved our objectives in the after market and I am particularly pleased with our share improvements in non-NPD reporting segments I believe overall industry growth in the after market segment will continue to run at approximately 4 million gross additions for 2007 We are very focused on this channel of distribution and continue to work with our after market partners to achieve our share and growth objectives.

Now let's turn to the OEM world In the first quarter Sirius added 365,000 OEM net additions, capturing 62% of total OEM net addition share, the highest results in our history As the numbers attest during the first quarter, Sirius, in conjunction with our OEM partners executed very well on all fronts.

Much of the first quarter success can be attributed to pull from end users as evidenced by those partners marketing Sirius as a free-flow option The great news is that penetration rates for Sirius are exceeding initial projections and strong customer and dealer demand for the Sirius option is driving these high penetration rates

We believe that these results speak volumes about an exciting, evolving strategy with our OEM partners Through our programming promotion, and technology, Sirius is becoming a key marketing influencer to the vehicle buyer The penetration rates referenced earlier by Mel demonstrate this and the aggressive deployment of standard equipment programs also bear this out

In the past few weeks, Sirius made five new standard equipment programming announcements, including Audi with six models and Lincoln which is now including Sirius as standard equipment in all 2008 model year satellite-ready vehicles

In addition Mercedes-Benz which not only increased the number of vehicles offering Sirius as standard but also is now targeting penetration rates across the board that will grow from 80% to over 90% in 2009

Our automotive partners are confidently stepping up their rollout of Sirius with packaging and promotional strategies up to and including lifetime subscription offerings, as evidenced by our Mini announcement

We are pleased to announce that starting today, Mercury will embark on a two-month national promotion prominently featuring Sirius in their models with a paid three-year subscription As with last year's very successful Mercury promotion, Mercury will back this program with extensive national and local TV advertising, along with print and electronic media support We are excited to be partnering with Mercury again on this integrated campaign

Overall in 2007 Ford expects to more than double the number of vehicles shipped with factory-installed Sirius radio, from the nearly 600,000 that have already been shipped to date

On the technology front, Sirius made headlines with our collaborative backseat TV press announcement with the Chrysler Group. The first ever live in-vehicle TV network will launch this summer with 2008 model year Chrysler, Dodge and Jeep vehicles Nickelodeon, Disney Channel, and Cartoon Network, the biggest names in family TV, will enable us to deliver three live channels directly to the vehicle Backseat TV will further enhance the already exceptional Sirius entertainment experience with Chrysler Group vehicles

Through Sirius, our automotive partners are able to differentiate their vehicles and create unique marketing messages by creating new offers which make it clear that Sirius continues to become more important to both the customer and the OEM partners and dealers

During the quarter, Sirius also launched real-time traffic with the Chrysler Group Along with Backseat TV, these emerging programs continue to position Sirius as a compelling value proposition

In conclusion I would like to make a few closing comments First quarter demand has been on plan and is consistent with our guidance of ending 2007 with over 8 million subscribers I expect year-over-year variances in the after-market segment to continue to improve and I am optimistic that the important Father's Day period will be good

In addition we remain committed to a multiple channel distribution strategy, incorporating both the after market and OEM segments Success in both is critical for achieving our growth objectives

Now let me turn it over to Scott

Scott A Greenstein

Thanks, Jim Beyond the business news articles in the first quarter, one story remained the same in entertainment media and mainstream news Sirius reinforced its position as the programming leader in all of radio by delivering new personalities,

innovative channels, and original shows, making it clear why Sirius is the best radio on radio, whereas we are sometimes referred to as the leading provider of audio entertainment content

Competition across the audio entertainment landscape continues to increase and we are driven every day to deliver fresh, compelling programming that is exclusive and definitive appeals to the many niches of our diverse listenership and captures the imagination of a nation of listeners

We've added new programming and we strengthened our existing lineup. Some highlights we are cementing our role as the leader in sports programming As part of our exclusive NFL relationship, Sirius broadcast 10 game calls of the Super Bowl in seven languages As part of its newly commenced NASCAR deal Sirius NASCAR radio is the best place for 24-7 NASCAR coverage, including every race being featured on Sirius 10 race-day driver-to crew channels, where you can hear each of the drivers and the race simultaneously. Tony Stewart Live, and the Juan Pablo Montoya Report We carried every game at the NCAA Men s Division 1 Basketball Championship and the Women's Final Four

With our unrivaled coverage of the NFL and NASCAR, not to mention the NBA and the NCAA, we single-handedly provide sports fans with the best sports product available for their audio listening needs

In music, we launched an exclusive channel with Frank Sinatra Enterprises Siriusly Sinatra, co-created with the Chairman of the Board and featuring a weekly show hosted by Frank himself through the benefits of our technology, as well as Nancy Sinatra s weekly show to complement her Dad's efforts

We also launched two new commercial-free music channels, a punk rock channel and Lithium a 90s alternative channel. All have been critically well-received All of our music channels continue to be 100% commercial-free

In talk, Howard Stern celebrated his first year on satellite radio Barbara Walters launched her live call-in show to complement having the broadcast rights to her extensive library of interviews on Sirius, and we look forward, as Mel mentioned, to the debut this spring of our newest comedy channel, the Foxxhole, presented by Jamie Foxx

We renewed our programming deal with NPR, broadcasting two channels of the best in public radio We added CNN to our over 80 channels we offer to Sirius Internet radio subscribers, and with our many storied hosts, ranging from Howard Stern to Barbara Walters and many in between, we provide every one of our 12 million listeners with their ideal radio companion

The audio entertainment world continues to grow every day, but we have every confidence that our great content, original programming and collection of branded assets will continue to make Sirius the best listening experience anywhere, and the brand synonymous with that attribute on whatever platform Sirius appears

In the marketing area we treat marketing as the public representation of our programming s unrivaled quality and breadth Our marketing remains preeminently important We have an efficient, effective and far-reaching campaign to launch for Father's Day and into Q2 that allows us to receive and give out general brand awareness and to highlight specific attributes of our exclusive content

In addition we have planned certain marketing directed to niches including NASCAR marketing as we continue what we successfully started in the first quarter with NASCAR, and other specific marketing that targets untapped audiences corresponding with unique Sirius programming

Complementing such marketing efforts in a cost-effective manner is our nationwide public relations outreach, which generates hundreds of millions of media impressions across outlets that range from sports and music to talk and entertainment

Public relations has been from the beginning and continues to be a factor on its own, and an efficient substitute for marketing dollars This is in addition to the extensive Mercury campaign Jim referred to earlier

In conclusion the best radio on radio is much more than a marketing statement for us It was born from our programming and our desire to never stop giving listeners the best audio entertainment experience available today Better than free radio, better then Internet radio Sirius Satellite Radio is the audio entertainment content leader

I'll turn it over to David

David J Frear

Thanks, Scott As in prior calls my comments will follow the condensed operating statement in our press release, which excludes the effect of stock-based compensation expenses in the individual line items This quarter, we have added a new line item to the P&L, revenue share and royalties This should make it easier to look at variable versus fixed costs and see the very rampant progress that we are making

The first quarter put us solidly on track to achieving our goals for 2007 with the company adding a very strong 556,490

subscribers, significantly above consensus estimate Total churn, which includes self-paid churn as well as non-conversions upon built subs, was 2 3% in the first quarter right in the middle of our guidance range for the year of 2 2% to 2 4% The up-tick versus last year is primarily attributable to the increase in our OEM subscriber mix

Our operating results are very clearly scaling Total revenue in the first quarter was up 61% to $204 million, an annualized revenue run-rate that is now in excess of $800 million

Our contribution margin, which is revenue less customer service and billing expenses, as well as revenue share and royalties and cost of equipment, continues to exceed 70% of revenue. Our fixed costs, excluding the non-cash items of depreciation and stock compensation in the quarter were up only 9% compared to a 61% growth in the revenue As a result, $0.60 of every dollar increase in revenue turned into an improvement in pre-SAC EBITDA, which was positive $19 million for the quarter

As mentioned earlier on the call, SAC per gross add continues to improve at $104, 8% better than the year-ago quarter and keeping us on track for our full-year SAC guidance of $95 per gross add

The decline in SAC per gross add led to a 10% improvement in subscriber acquisition costs, despite the increase over last year in total gross adds to 988 000

Adding it all up our first quarter adjusted loss from operations improved by $53 million on $77 million of increased revenue That is $0 68 of improved EBITDA for every dollar of incremental revenue

On the non-cash side stock comp fell 91% versus the year-ago quarter as we continue to move away from historical contracts of significant equity components, and all of this drove the 70% improvement that you saw in net loss per share

Our free cash flow loss for the quarter improved by nearly $20 million year over year, and we ended the quarter with roughly $264 million in cash cash equivalents and marketable securities, in addition to our restricted investments

To conclude, the first quarter was another milestone period for Sirius, as we added a strong number of net new subs in a cost-effective manner, continuing to enhance the best radio on radio and made significant strides in furthering our OEM development

As disclosed in the press release, we are reiterating all of our guidance for 2007, including revenue approaching $1 billion for the year, ending subscribers of over 8 million, average monthly churn of approximately 2 2% to 2 4%, and SAC per gross add of approximately $95

With that let me turn it back to Mel

Mel Karmazin

Thanks, David I would like to address a couple of additional areas. I've recently received questions about our pricing, so I would like to take this opportunity to comment on that

Sirius has kept its monthly price at $12.95 since inception As we have said in the past, we have added enormous amounts of premium content including Howard Stern, the NFL NASCAR, and we have not increased price I have also said in the past that we believe we offer a premium product over XM and that we can justify a higher price than we currently charge, if we were only looking at XM

However we are competing against alternatives that are effectively priced at free Even though our content justifies a higher price our focus is on growing satellite radio vis-a-vis terrestrial radio, Internet radio, iPods, content over mobile phones, and other alternatives for audio entertainment.

Right now we have a relatively small number of people subscribing to satellite radio and we want that number to grow huge The way to do so is by providing great content at a good price

To look at it another way, if we do not have enough subscribers at $12 95 how will we get them at $14 95 or higher?

Now, what I would like to do is take a few moments to discuss our pending merger with XM As you know, there has been considerable debate in congress regarding this transaction A number of leading voices from both the House and the Senate have opined on the merger We are pleased that a number of these leaders have expressed confidence that competition will be preserved in the audio entertainment marketplace following the merger of our companies

Even though the FCC comment period hasn't yet begun, we expect to receive endorsements from a number of prominent organizations many of which we expect to file letters of support with the FCC

From the beginning, we understood that this process would be extensive. We also expected that, like any merger, we would

have to demonstrate the benefit of our combination to different constituencies We were prepared to do that from day one and we are actively engaged in the process

From our porspective, that process is moving forward in line with our expectation

To recap some of the important steps we have already taken, on March 13th we filed our Hart-Scott-Rodino application with the DOJ On April 12th we received a second request for additional information, which was expected We filed our merger application with the FCC on March 20th We anticipate that the commission will issue a public notice in the near future that sets a schedule to comment on the merger Once the commission issues a public notice, it will trigger a comment period followed by a reply period As you know, we have testified before Congress on four occasions

All of these milestones are merely steps in an ongoing process and as that process moves forward we will continue to illustrate the many benefits this merger provides, including better prices and more choices for consumers

In an increasingly competitive audio entertainment environment, this transaction will strengthen satellite radio's position within the marketplace while maintaining robust competition in the audio entertainment market

The bottom line is this, the merger of Sirius and XM is good for consumers, good for shareholders, and good for the audio entertainment industry as a whole We remain confident that the regulatory authorities will carefully weigh the merits of the transaction and that we will be able to close the transaction by the end of the year

Let me end by saying that Sirius has a very solid business model and from our operating performance, you could see we are executing almost flawlessly on it, not just for the first quarter of '07 but for the last few years Sirius will continue to focus on our execution and you should expect that we will execute very well

Thank you for joining us this morning and now we are ready to take your questions

Question-and-Answer Session

Operator

(Operator Instructions)

We'll go first to Laraine Mancini, Merrill Lynch

Laraine Mancini - Merrill Lynch

Two questions for you, first of all, your competitor suggested that they regained some retail market share later in the quarter, so can you discuss what your full-year expectation is? Do you think that they will regain some share over time, or would you expect to stay where you are now?

Second maybe Mel, you can comment on radio ad sales market has been pretty weak in terrestrial radio Your 1Q number was actually lower than last year's Do you still think there's acceleration in the ad model or do you need to get more subscribers before you get there?

Mel Karmazin

We are really happy with where our market share is Obviously in the first quarter we had 76% of the net adds That is an awesome number that we are fighting every day to maximize our share as long as it is profitable and as long as it's with intelligent pricing, and that we continue to believe that we are going to be the dominant brand at retail for all of this year There may be months where our share will fluctuate but we fully expect to have the majority of the shares at retail

On the ad sales side, first let me say that our first quarter was lower than last year predominantly for one reason Howard Stern as you know is responsible for a significant amount of our ad revenue Last year, he started We had a number of charter advertisers that were there who wanted to be part of him signing on In addition, Howard's work schedule last year consisted of him not taking any vacation in the first quarter and him working virtually every Friday which was not something he needed to do with his contract, and we reaped the benefits of having more revenues in his show because he did more shows

I could tell you that for the year for 2007, we are currently pacing slightly over 20% higher than we were pacing last year and we fully expect that our advertising revenue would accelerate

We wish that terrestrial radio was doing better because obviously we are competing for many of those same advertisers. We are finding ourselves having to do more and more new business development in the radio national advertising front because we are not seeing that the other companies who are in that space are doing it, but we are very optimistic about that second stream of revenue We would like it to be higher and we are convinced that as the year goes on, you are going to see

significant improvements in that number

Laraine Mancini - Merrill Lynch

Great, and just one clarification on the retail I think Jim said that you guys expect the whole retail market for satellite radio to be about 4 million subs this year Would you think that you can get 60% to 70% of those numbers?

James E. Meyer

I want to be clear here -- when I say that, I mean the after market, which is far more than just the retail segment, as you know. It includes direct-to-consumer and all the non-NPD reporting as well as special markets

I think that our goal is to be the market leader I don t think I have a comment on what our specific objective would be

Mel Karmazin

We basically have given you guidance and the guidance says that we are going to increase our number of subs at year-end to over 8 million and that is going to be accomplished by us being the market leader in retail and by continuing to do the kind of job we are doing on OEM execution

Laraine Mancini - Merrill Lynch

Thank you

Operator

We'll go next to Lucas Binder, UBS

Lucas Binder - UBS

Good morning Just a couple of quick questions. Can you talk a little bit about, on the churn side, obviously within your guidance, what are some of the things you are doing to ensure that it stabilizes this year and address basically the turnover in some of the OEM contracts, trying to make sure that you are very active with churn?

And then one question on ARPU, excluding the rebate and the Hertz impact what is causing the year-over-year decline? Is it penetration of family plan so you have longer life customers? Could you talk a little bit about that as well?

David J. Frear

On the ARPU side family plans are bringing ARPU down -- you did ask exclusive of the ad revenue component, is that right, Lucas?

Lucas Binder - UBS

Correct

David J. Frear

So the growing amount of multi-receiver subscriptions is going to be bringing it down, and that would be the principal reason for it

On the churn side we do manage the churn in terms of conversions and self-pay We have people that are dedicated to doing those things Separately, on the self-pay side we continue to just try and put best practices in place There is a lot of contact with the customer either from an engagement perspective with the kinds of communications that go to them about what is on the air as well as calls to the call center So it is a lot of fundamental blocking and tackling

We have made investments in people and systems to aid in the analytics to see what are the, what can we predict about churn behavior Are there in fact statistical tendencies within the group that will help us understand who is more likely to churn? And then we develop initiatives to go after those groups which have a higher propensity to churn and see if we can't in fact prevent that

And then on the OEM side, it is a two-pronged attack You have to come at it from both the front-end as well as the back-end At the point of sale at the time they are buying the car you really want to focus on execution at the dealer in terms of what are they being told about satellite radio? Are they getting the demonstration? Are they hearing the radio, seeing how it works in their car? Is the programming, the tremendous variety and quality of the programming actually being explained to them? There

is no better time to make that sale than when the customer is right there before the car rolls over the curb. We do know that the better the demonstration at the dealer, the more likely it is that the car buyer is likely to become a converted subscriber.

And then, on the back-end, it is working through in our automotive partners in terms of how many times we are able to reach out and touch that customer. There are these days a lot of issues with respect to proactively reaching out and selling to customers, so the OEMs have to monitor how often they touch the customer, we have to monitor how often we do, and so we work in very close connection with our automotive partners to optimize the communication stream with those subscribers.

Mel Karmazin

I think the secret sauce for us with churn is our programming and our content and our brand. I think that contributes to us having a leading position in the churn area.

Lucas Binder - UBS

Great. Thank you very much, guys.

Operator

We'll go next to Robert Peck, Bear Stearns.

Robert Peck - Bear Stearns

David, I was wondering if you could clarify two things for us. One is, could you tell us what the OEM conversion rate is, or maybe the percent of people who when they come off their year contracts, how many are sticking around?

Number two, could you also comment on the impact you saw from NASCAR?

After that, Mel, if you wouldn't mind commenting a little bit on A, would you reiterate or do you reiterate your guidance for 2010 of $3 billion in revenue, $1 billion of free cash flow? I know you gave that guidance about a year or so ago, and given a lot has changed, particularly a tougher resale market, can you talk to us about what gives you confidence on those estimates?

David J. Frear

On the OEM conversion rate, as we've said many times before, that is not something that we are going to come out and discuss. We view it as an isolated statistic. It is something that we follow in managing the business, but the guidance we are providing you is to total subscribers, total revenues and most importantly free cash flow.

I think that in order to make the conversion rate actionable we would start having to actually blow out the rest of the statistics in the business, including the SAC per gross add by the individual channels and the gross adds by the individual channels. I think it is a level of detail that we just don't feel is appropriate to go to.

I don't have anything further to say about the OEM conversion rate.

Mel Karmazin

Regarding the effect of NASCAR, I think if you take a look at our 76% net adds in the first quarter and our very strong position relative to our competitor, I think you can see that we think that our content, including NASCAR, contributed to it.

Anecdotally, we have seen at a number of races in those particular markets that the Sirius product had been sold out in many retail stores when we had a team of people down there. We think that unlike a Howard when he started on January 9th, everybody was signing up on that day. In the case of NASCAR, we think that we are going to see that growth go throughout the year as the races go from city to city and from different locations. We think that NASCAR was a very good, very strong programming investment to us that again is contributing not only toward our brand but toward our market share.

I think that on guidance, since we announced the merger, I think the only guidance that we are going to give is the guidance that we have given you. I can tell you that fundamentally, my viewpoint is nothing has changed in my outlook on how I see the company longer term.

David J. Frear

Bob, just one more thing on the conversion rate, which I should have mentioned. Unlike our competitor, we have, our auto makers have many different go-to-market strategies in terms of what is bundled in with the car. So we have Chrysler at a year, we have Ford at six months, we have Mercedes at a year, we have new guys coming on with different programs next year, and so it would be very difficult to give you a conversion rate that you could actually apply to something. It has to be applied to the

subscriptions that are coming up for renewal and in order for the statistic to be useful for you, we'd actually have to give you a forecast of what is coming up for renewal. I just think it kind of gets us into a level of detail that isn't helpful.

Robert Peck - Bear Stearns

Thanks, David.

Operator

We'll take our next question from Vijay Jayant with Lehman Brothers.

Cibora Ghuta - Lehman Brothers

Hi, this is [Cibora Ghuta] for Vijay. A couple of quick questions First of all, can you tell us what percentage of your subscriber base now takes the family package? And do you have any plans to change pricing on the family plan?

David J. Frear

I'm sorry, takes the daily package?

Cibora Ghuta - Lehman Brothers

Takes the family package?

David J. Frear

About 16%. You mean the multi-receiver plan, right?

Cibora Ghuta - Lehman Brothers

Yes.

David J. Frear

Okay, yes, 16%.

Cibora Ghuta - Lehman Brothers

Do you have any plans to change pricing on that plan?

Mel Karmazin

We have not announced any -- I think my comment on pricing stands that I made at the beginning of the call.

Cibora Ghuta - Lehman Brothers

Thank you.

Operator

We'll go next to Kit Spring, Stifel Nicolaus.

Kit Spring - Stifel Nicolaus

Can you talk about what your conversion rates are between the higher end cars and lower end cars, and where you think you need to be for a subscriber to deliver an appropriate ROI as far as subsidizing a radio in a new car? Thanks.

David J. Frear

We found obviously the statistics are a little bit of a random walk, so I would not say there is anything strongly correlative about the different levels, but if you go to opposite ends of the spectrum, I think you will find the very high-priced vehicles have stronger conversion rates than the very low-priced vehicles, but other than that directional statement, I don't think there is anything, any strongly correlative trend. You are not going to find it linear along the way.

What was the second part of your question, Kit?

Kit Spring - Stifel Nicolaus

What conversion rate do you need for it to make sense to put it in a car -- is it 30, is it 50, 40?

David J. Frear

Let me come at it from this perspective; we think that all of the OEM agreements we have are going to add a significant amount of value to the business, that there isn't anything that we are seeing in the conversion rate trends, either at XM or within our own business that would indicate anything other than the fact that OEM is going to provide a significant upside for shareholders.

Kit Spring - Stifel Nicolaus

Did you give the self-paying churn number?

David J. Frear

We didn't. There's really no change in it. It is tracking in the first quarter exactly consistent with the past. We have had a long time here with self-paid churn moving in a very tight range, and so there really isn't anything new to say about that.

Kit Spring - Stifel Nicolaus

Thank you. Good quarter.

Operator

We'll go next to Eileen Furukawa, Citigroup.

Eileen Furukawa - Citigroup

On your new royalty line, it looks like it's about 13% of revenue. Is that the same percentage of revenue you saw for this line item in '06? Is that where you expect it to stay around and is this all music royalty payments?

Also, within your first quarter results, what would you attribute, how much would you attribute to merger costs and where do these costs show up in G&A and sales and marketing, and what do you think they are going to go forward?

My last question is on Mercedes, in your discussion with them about the new penetration amounts, what was the real primary reason for them in your mind to increase penetration rates so high? Was it that they were just seeing higher than the expected conversion rates or was there something else?

James E. Meyer

The Mercedes conversation, I think it was pretty clear that they value the Sirius experience as part of their new car sale. I think it is exactly what you said. I think their customers are finding it a part of the buying experience, and so I'm really pleased with the way the Mercedes relationship ended up. I think it is going to be very good for us.

David J. Frear

On the revenue sharing and royalties, Eileen, it was 11% the first quarter a year ago versus 13% in this quarter. Up a little bit for OEM mix, up a little bit for the webcaster decision, where there was an increase in royalties for the streaming side of the business. And then we have accruals in there for the new agreements that get decided later this year.

On merger costs, for us they are actually in the balance sheet. We are working through the details that we think from an accounting perspective that Sirius will be viewed as the acquirer and therefore we will be capitalizing merger costs. It was about $5 million for the quarter.

Eileen Furukawa - Citigroup

On the royalties, even after the negotiation you think 13% of revenue is probably a good estimate of where you are going to be at, given the accruals that you talked about?

David J. Frear

The revenue share and royalties line, which also includes residuals that are paid to retailers, all of those elements are in the 13% number for the first quarter.

Eileen Furukawa - Citigroup

Do you expect it to trend like that going forward?

David J. Frear

I think that as the OEM business gets to be a bigger and bigger part of the business, that that's likely to move up a little bit.

Eileen Furukawa - Citigroup

Thanks a lot.

Operator

We will go next to Thomas Eagan, Oppenheimer.

Thomas Eagan - Oppenheimer

This is actually Dorothy for Tom. He wanted to know at retail, what devices did you see, if any, that stood out in terms of sales? In particular, have you heard anything from retailers regarding consumer interest in the category specifically, and if you have any new products that may be launching in the summer.

Mel Karmazin

Well, you know, our industry leading number one and number two selling devices are clearly in the $79 to $149 range. Those are the two leading models, so it is certainly not the lowest priced. I think it is fair to say I'm a little disappointed in the growth of the wearable products. That hasn't grown quite as fast as I would have expected and the products at around $99 have grown a little faster than what I expected. That is where the volume is and how things are going.

We don't have any comment right now on new products. You can clearly expect some. It's just we are not going to comment on them right now.

Operator

We'll go next to David Bank, RBC Capital Markets.

David Bank - RBC Capital Markets

Good morning. Just a quick follow-up on some of the details you gave on the OEM penetration ramp. Thanks very much for the clarity there. The 10 going to 23 going to 34 -- are those penetrations manufacture production weighted? What is behind that penetration number? Can you give a little bit more clarity?

David J. Frear

Sure. At the end of the day what those numbers will represent is our penetration of the vehicles that those manufacturers build that are capable of accepting satellite radio.

David Bank - RBC Capital Markets

So on a blended basis for 2007, every one will have about a 34% penetration?

David J. Frear

No, some are much higher and some are slightly lower. Remember also we just launched our Audi VW deal and we are still figuring out where -- we are so early on that, they are just in a ramp-up of penetration right now

David Bank - RBC Capital Markets

Can you give a sense of Ford, Chrysler penetration for 2007 targets?

David J. Frear

I think we gave penetration for Chrysler in our last call, and that was that we expect the penetration to be over 40%. I am very pleased with how we are doing with Chrysler and I have to tell you, in the quarter, we were extremely pleased with where we ended up with Ford. I don't intend to give the specific number right now and can't without their permission.

Operator

This does conclude today's question-and-answer session. At this time, I would like to turn the call back over to Mr. Karmazin for any additional or closing remarks.

Mel Karmazin

No, we have no more remarks. Thank you all for joining us. Goodbye.

Operator

This does conclude today's conference. Thank you for your participation.

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