CONSOLIDATED REPLY COMMENTS OF SIRIUS SATELLITE RADIO INC.
AND XM SATELLITE RADIO HOLDINGS INC.

Sirius Satellite Radio Inc. ("Sirius") and XM Satellite Radio Holdings Inc. ("XM," and with Sirius, the "Applicants") respectfully submit these reply comments with respect to the Notice of Proposed Rulemaking ("NPRM") the Commission issued in connection with the Applicants’ pending merger.¹

INTRODUCTION AND SUMMARY

The NPRM and the extensive record generated in these proceedings give the Commission full means and authority to approve the transfer application, whatever the legal characterization of its decade-old statement on license transfers. It is telling that most of the comments contending otherwise were authored by terrestrial broadcasters (or surrogates for them) who

compete with the Applicants. These opponents of the pending merger offer lengthy expositions of why, as a matter of administrative law, the Commission’s 1997 statement is a binding rule and not a policy statement.

If that language is a binding, substantive rule, the Commission retains the flexibility to revisit it in light of current competitive conditions. By issuing the NPRM, the Commission has provided itself with a valid mechanism for doing so. The record developed in this proceeding demonstrates that the merger will result in numerous benefits for consumers without harming competition, and thus is in the public interest. On this basis, the Commission can and should repeal or modify its decade-old statement and approve the pending merger.


3 If that language is a non-binding policy statement, the Commission is free in these proceedings to revise its understanding of the public interest. See Consolidated Comments of Sirius Satellite Radio Inc. and XM Satellite Radio Holdings Inc., MB Docket No. 07-57, at 4 & n.14 (filed Aug. 13, 2007) (“XM-Sirius Comments”). An “agency retains the discretion and the authority to change”—even abruptly—in any specific case.” Syncor Int’l Corp. v. Shalala, 127 F.3d 90, 94 (D.C. Cir. 1997). *A fortiori*, the Commission may revise its views on the public interest here through this notice-and-comment rulemaking.
DISCUSSION

I. THE COMMISSION RETAINS COMPLETE FLEXIBILITY TO WAIVE, MODIFY, OR REPEAL ITS PRIOR TRANSFER LANGUAGE.

The Commission should clarify that the purported restriction is a policy statement, but even if that language is a binding, substantive rule, the Commission has full rulemaking authority to waive, modify, or repeal it. To do so, the Commission need only provide a reasoned explanation for why the pending merger promotes the public interest based on current facts that the agency could not consider ten years ago. The Commission regularly reverses course when experience proves that earlier, predictive judgments require revision, and it repeals rules when transformations in the market or in technology render those regulations obsolete.

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4 See XM-Sirius Comments at 3-4. The terrestrial broadcasters cannot dispute that publication in Code of Federal Regulations is the quintessential marker of a substantive rule. Nor can they contend that the rule the Commission codified in 1997, 47 C.F.R. § 25.119, explicitly reserves the agency’s discretion to approve license transfers. Their lengthy analyses, however, do not explain why it is reasonable to conclude the Commission promulgated a binding “uncodified rule” that, by purporting to limit the agency’s discretion, conflicts with a simultaneously codified rule.


6 XM-Sirius Comments at 7 & nn.28 & 29.

7 See, e.g., Review of Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers, Second Report and Order, 19 FCC Rcd 13494 (2004) (abandoning “pick-and-choose rule” in favor of “all-or-nothing rule” for interconnection agreements because eight years of experience revealed that the predictive judgments underlying the previous rule were incorrect).

8 See, e.g., Appropriate Framework for Broadband Access to the Internet over Wireline Facilities, Report and Order and Notice of Proposed Rulemaking, 20 FCC Rcd 14853 (2005); id. ¶ 47 (repealing regulatory obligations for wireline broadband providers because “[t]he broadband marketplace before us today is an emerging and rapidly changing marketplace that is markedly different from the narrowband marketplace that the Commission considered in adopting the Computer Inquiry rules”). Cf. 47 U.S.C. § 161 (manifesting Congressional policy in favor of repealing or modifying rules that no longer serve the public interest).
Nothing in the commenters’ arguments prevents the Commission from acting on the powerful evidence and argument demonstrating that the pending merger promotes the public interest. Although some commenters focus on the purported “high hurdle” barring the Applicants’ request for a waiver, they ignore the fact that the agency has complete authority to repeal or modify any rule or policy that may otherwise prohibit the merger. Merger opponents similarly ignore the Commission’s rulemaking flexibility when they contend that the agency must reject the Application if it concludes that the 1997 language is a binding rule. Finally, notwithstanding settled law establishing that rule changes are not inherently suspect, the NAB irrationally argues that rule changes face “a particularly high threshold.” Regardless, the Commission can overcome any purported presumption against change by doing just what the Applicants have asked: provide a reasoned explanation for why the merger serves the public interest.

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9 See infra Part II.

10 See, e.g., NAB Coalition Comments at 3; Clear Channel Comments at 5-6; Entravision Comments at 5-6; NAB Comments at 10-13; NPR Comments at 9-10. For the reasons discussed in this and other filings by the Applicants, the pending merger satisfies the requirement that a waiver be in the public interest. A waiver, moreover, would not “eviscerate” the uncodified rule or its purpose, for the Commission would have the option of applying the rule in a subsequent application to transfer the licenses.

11 Clear Channel Comments at 5; NAB Comments at 10.

12 See XM-Sirius Comments at 6-7.

13 NAB Comments at 15. The NAB’s attempt to entrench the status quo in order to “deflect competitive pressure from innovative and effective technology” is reminiscent of its unsuccessful invocation of the Carroll doctrine to oppose authorization of DBS. See Nat’l Ass’n of Broadcasters v. FCC, 740 F.2d 1190, 1198, 1220-21 (D.C. Cir. 1984). When later abolishing the longstanding Carroll doctrine, the Commission fittingly explained that it “must stay aware of the consequences of its policies and alter them if it determines that time or changed circumstances demonstrate that the public interest is no longer served.” Policies Regarding Detrimental Effects of Proposed New Broadcast Stations on Existing Stations, Report and Order, 3 FCC Rcd 638 ¶ 10 (1988).
If the arguments advanced by the NAB and other merger opponents were correct, the Commission would never be permitted to change one of its rules—a radical and unsupportable departure from applicable legal requirements and longstanding agency practice.

II. THE RECORD IN THIS PROCEEDING SUPPORTS THE REPEAL OR MODIFICATION OF THE COMMISSION’S 1997 TRANSFER LANGUAGE.

As several parties properly recognize, the same finding that would allow the Commission to repeal or modify its decade-old statement would also allow it to approve the merger. The record in this proceeding demonstrates that this standard clearly has been met.

A. The Applicants Have Plainly Shown That Approval of the Merger Is In the Public Interest.

Left without any meaningful procedural arguments, commenters generally rehash their well-worn allegations that the transaction would be anticompetitive. For example, the NAB recycles its prior assertions that satellite radio is a product market unto itself and that the merger would result in higher prices and fewer programming choices. This mantric repetition of the “merger to monopoly” claim, however, is no substitute for actual evidence concerning the market in which satellite radio competes. The Applicants have shown that satellite radio is a small part of a broad and competitive market for audio entertainment which is dominated by terrestrial radio, and that all of this competition would constrain the combined company’s ability...
to increase prices or decrease output. Prominent economists have agreed. While the NAB criticizes the Applicants for not using the “relevant” price constraint test in their analysis, it does not even address the Applicants’ expert conclusions explaining why using the NAB’s simplistic approach is not adequate to produce an informed analysis of the likely competitive effects of the transaction, given the dynamic market conditions that the Applicants face.

More importantly, the Applicants have submitted abundant evidence concerning the merger-specific benefits the combined company will provide to consumers. The merger opponents recite their usual litany of misrepresentations in an attempt to show otherwise, but these assertions are unsupported. For example, as the Applicants have explained:

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19 NAB Comments at 19-20.

20 See Joint Opposition at 56-57 (explaining why the NAB’s simplistic analysis is not likely to produce economically meaningful results when applied to evolving businesses); see also CRA Competitive Effects Analysis at 43-44 (¶ 76).

21 See generally Joint Opposition at 9-34; see also Hazlett at 13 (”[a]rguments as to the relevant market and its competitiveness are secondary” to the question “whether a given transaction will benefit consumers and the economy”).

22 Apart from these misrepresentations about the merger’s benefits, several parties put forth proposed conditions irrelevant to the issues raised by the Notice of Proposed Rulemaking. For example, Entravision asks the Commission to require the combined company to relinquish spectrum within one year and, in the interim, to provide a new competing terrestrial licensee consortium (which Entravision has generously offered to lead) with satellites, equipment, and facilities. See Entravision Comments at 6-8.

Similarly, U.S. Electronics argues that a combined Sirius-XM must be “prohibited from limiting the availability of satellite radio receivers to those designed, developed, manufactured and distributed by the network provider directly or through a single agent.” USE Comments at iv. The Commission should reject these proposed conditions in the related transfer of control proceeding because they are clearly designed to advance the companies’ business interests to the detriment of consumers, see Joint Opposition at 100,
• The increased consumer choice made possible through the combined company’s a la carte and other program offerings is not “illusory.”23 To the contrary, it is substantial and in some respects unprecedented. The NAB does not address the entire range of targeted programming packages the combined company will provide, instead focusing its criticism on the companies’ proposed a la carte offerings.24 However, the benefit to consumers of being able to choose and pay for only those channels that they actually want is self-evident, and numerous interest groups and consumers have lauded these offerings.25 This multiplicity of offerings and lower prices represents the very sort of “real benefits” that the NAB calls for,26 and that the Commission has applauded in past mergers.27 And given competition from many sources, the Applicants do not have “discretion to change” these offerings and prices “at any time” as the NAB alleges.28

• The transaction will lead to numerous merger-specific efficiencies, which will strengthen satellite radio as a competitor and allow it to provide consumers with better services29—including but not limited to the expanded programming offerings noted above.

• Far from “diminish[ing] the availability of niche programming,”30 the merger’s synergies will expand opportunities for content providers of all types—something that content providers and interest groups have recognized.31

and it should dismiss them as procedurally improper here. Finally, although the Applicants agree with NextWave that the Commission should adopt technical rules addressing the operation of satellite radio terrestrial repeaters and Wireless Communications Services (“WCS”) systems, see NextWave Comments at 3, that matter need not delay or even affect the Commission’s consideration of the merger.

23 NAB Comments at 22.
24 Id. at 20-21.
25 See, e.g., Joint Opposition at 18-19 (citing illustrative comments).
26 NAB Comments at 21.
27 Joint Opposition at 15 (citing Commission decisions).
28 NAB Comments at 20.
29 Compare, e.g., NAB Comments at 20 (“Applicants also have made no effort to demonstrate that any of these new service offerings and pricing plans could not be accomplished absent the merger.”), with Joint Opposition at 17-18 (explaining why consumers will obtain increased choice “more rapidly and efficiently following the merger than they ever would without it—which, of course, is the relevant standard under the Commission’s precedent”) (citation omitted), id. at 24-34 (describing merger-specific efficiencies), and id., Ex. D, Declaration of David Frear, Executive Vice President and Chief Financial Officer, Sirius Satellite Radio Inc. (same).
30 NAB Comments at 22.
- The Applicants have complied fully with the requirement that they develop an interoperable radio, and await the synergies of their merger to be able to take the next step—which the Commission has never required—of manufacturing, marketing, distributing, and selling them to consumers.

The merger opponents’ comments serve only to obscure the record; they provide no reason to dispute the inescapable conclusion that the pending merger will produce substantial benefits for consumers. Accordingly, the Commission should find that the merger is in the public interest and approve it.

In addition, approving this transaction would not “compel[]” the Commission to “eliminate” or even modify its media ownership rules, as some parties have claimed. Such arguments are without merit. A fundamental purpose of ownership limits in the terrestrial broadcast arena is preventing a decrease in local viewpoint diversity. Because neither Sirius nor XM carries local programming, their merger will have no impact on local viewpoint diversity and would not prejudge the resolution of the Commission’s longstanding media ownership proceeding. What is more, the Applicants’ small penetration in any given market means that their merger need not lead to increased consolidation among their competitors. Thus, any revisions to the media ownership rules would require the Commission to compile a

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31 Joint Opposition at 19-21.
32 NAB Comments at 20.
33 Joint Opposition at 95-96.
34 Clear Channel Comments at 7.
36 Joint Opposition at 72 n.256.
37 See, e.g., CRA Competitive Effects Analysis at 77-78 (¶¶ 155-56).
much different record and consider complex issues that are unique to terrestrial media ownership and independent of those presented by this merger.

**B. Arguments Relating to a “Spectrum Monopoly” Reflect an Outmoded View of the Commission’s Spectrum Policies and Ignore Current Competitive Conditions.**

Several parties also insist that approving the merger would be inconsistent with the Commission’s “pro-competitive spectrum policy” because it would result in one entity controlling all of the satellite DARS spectrum.\(^{38}\) According to this view, the Commission’s policy has been and should be to focus on a particular spectrum band and then apply a *per se* prohibition on one entity controlling all of it.

The Commission’s actual approach to spectrum issues, however, is far more nuanced than the NAB and others would give it credit for. First, the commenters’ myopic focus on “competition in the satellite DARS spectrum” band reflects a “silo” view of spectrum that is not consistent with current Commission practices.\(^{39}\) Through its “flexible use” policy and secondary markets reforms, the Commission has sought to afford licensees the ability to provide a variety of different services using their spectrum.\(^{40}\) These additional services could very well compete with others provided within and outside of the same spectrum band—as explained in detail in the

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38 NAB Comments at 16-17; see also Clear Channel Comments at 7; NPR Comments at 17-18; NAB Coalition Comments at 7.
39 NAB Comments at 16.
report submitted by Dr. Charles Jackson.\footnote{See generally Joint Opposition, Ex. F, Charles L. Jackson, Service and Spectrum Alternatives for Audio News and Entertainment Services (July 24, 2007).} As a result, spectrum has become more fungible, and can no longer be associated solely with one service. This should be no revelation to the broadcasters, who previously have sought similar flexibility in order to provide additional services that will enable them to “compete for consumers’ attention with all the various media available today”—including, of course, “direct competition from satellite radio providers XM and Sirius.”\footnote{Comments of the National Association of Broadcasters, filed in MM Docket No. 99-325, at 7 (June 16, 2004). Consistent with its flexible use policies generally, the Commission granted this request. Digital Audio Broad. Sys. and Their Impact on the Terrestrial Radio Broad. Svc., Second Report and Order, First Order on Reconsideration and Second Further Notice of Proposed Rulemaking, FCC 07-33, ¶ 29 (rel. May 31, 2007).}

In this environment, it is appropriate for the Commission to take a broader view rather than the band-specific approach advocated by the NAB. For example, when the Commission granted returned Mobile Satellite Service (“MSS”) 2 GHz spectrum to the remaining licensees in that band, it noted that the licensees’ MSS offerings “will compete in the same product market as the offerings of licensees in other MSS bands,” such as Big LEO and the L-Band.\footnote{Use of Returned Spectrum in the 2 GHz Mobile Satellite Service Frequency Bands, Order, 20 FCC Red 19696 ¶ 33 (2005).} There is no reason for a different approach here.

Contrary to the NAB’s representations, such an approach would not be inconsistent with the Commission’s decision in connection with the proposed DBS merger several years ago. The Commission’s discussion of its spectrum policy in that proceeding was premised on its finding that granting one entity control over all of the DBS spectrum would “result[] in disproportionate power in both the U.S. [multichannel video programming distributor] and satellite broadband
markets to the disadvantage of consumers.” In addition, while the Commission did not make a final determination regarding the relevant product market, it did state that “the DBS service” competed in a narrowly defined market with high entry barriers that did not include broadcast television and might not even include cable. In light of these findings, the Commission concluded that the merger was inconsistent with its policy of “creating competitive spectrum-based communications services within and among the voice, video and data services markets” and stated that it would “take account of this inconsistency” in reaching its public interest determination.

That reasoning does not apply here. Today, even a combined satellite provider would have a much smaller percentage of the listening audience and overall radio revenues, and it would still be required to compete against a variety of audio entertainment options—one of which, terrestrial radio, is ubiquitous nationwide. In contrast, the Commission found that the DBS merger would “increase concentration in a market that is already highly concentrated.” For this and other reasons that the Applicants and other parties have discussed at length, the Commission’s decision on the DBS merger is not “closely analogous” to this transaction and

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44 Application of EchoStar Communications Corporation (a Nevada Corporation), General Motors Corporation, and Hughes Electronics Corporation (Delaware Corporations), Transferors, and EchoStar Communications Corporation (a Delaware Corporation), Transferee, Hearing Designation Order, 17 FCC Rcd 20559 ¶ 92 (2002) (“EchoStar/DIRECTV Order”).

45 Id. ¶ 96, 114-15, 150.

46 Id. ¶ 96.

47 Joint Opposition at 8.

48 See generally id. at 35-62 (discussing competitive alternatives to satellite radio).

49 EchoStar/DIRECTV Order ¶ 139.

50 See Joint Opposition at 91-93; CRA Competitive Effects Analysis at 7, 77-78 (¶¶ 9, 154-56); League of Rural Voters, Sirius/XM vs. EchoStar/DIRECTV: A Fundamentally Different Merger for Rural Consumers, filed in MB Docket No. 07-57 (June 2007).
does not prejudge the outcome here. The NAB’s arguments to the contrary simply beg the question discussed above—whether satellite radio competes in its own product market or in a broader market of audio entertainment services.

In short, the proposed merger would raise no competitive concerns that implicate the Commission’s spectrum policies. Rather, as Dr. Jackson describes, there are already a multitude of “competitive spectrum-based communications services” providing the same basic product as satellite radio and which will continue to proliferate notwithstanding the merger. Thus, approving the satellite radio merger would not require the Commission to “change course radically” or “repudiate” its pro-competitive policies. If anything, such action would promote competition in the market for audio entertainment services.

**CONCLUSION**

Whether the 1997 statement is a policy statement or a rule, the Commission has full authority in these proceedings to grant the Application. In a bid to distract the Commission from this inescapable conclusion, the terrestrial broadcasters strain in vain to score debaters’ points on collateral issues. These proceedings, however, turn on one question: whether the pending merger promotes the public interest. The extensive record and submissions in these proceedings amply demonstrates that it does—a conclusion the terrestrial broadcasters’

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51 NAB Comments at 17.
52 *EchoStar/DIRECTV Order ¶ 96*. Of course, consumers of these various products likely are unaware of the specific spectrum band being used to deliver the service, and they have no reason to be otherwise. This agnosticism as to the specific platform further justifies focusing on the services provided rather than on the specific spectrum used.
53 NAB Comments at 17. Even if the Commission did feel that approving the pending merger represented some form of departure from its precedent on spectrum issues, it could proceed with its decision provided only that it explain its reasoning, as discussed above.
repackaged attacks on the merits leave untouched. The Commission can and should approve the pending merger.

Respectfully submitted,

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August 27, 2007