

Stern's threat to quit Sirius could be empty talk

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In this Dec. 18, 2009 file photo, radio host Howard Stern and his wife, Beth Ostrosky, talk while attending an NBA basketball game between the New York Knicks and Los Angeles Clippers, in New York. Howard Stern is threatening to leave Sirius XM Radio Inc. now that the shock jock and the satellite radio provider are getting set to enter contract talks in 2010. (AP Photo/Kathy Kmonicek, file)

(AP) --Howard Stern is threatening to leave Sirius XM Radio Inc. now that the shock jock and the satellite radio provider are getting set to enter contract talks in 2010.

That threat probably seems less daunting to Sirius than it once would have. Sirius originally wanted Stern so badly that it gave him the most lucrative radio contract ever, a five-year deal that started in 2006 and paid him \$500 million in cash and stock.

Today, he doesn't have many places left to go - at least if he wants another huge payday.

Free radio stations are struggling with steep drops in advertising and high debt loads, and probably can't pay top dollar to get Stern back to the medium where he began. He also likely would chafe at being censored again after enjoying the freedom of [satellite radio](#), where his racy banter hasn't been subject to federal restrictions on language and content.

He can't switch to another satellite radio provider - Sirius swallowed the only other one, XM, last year.

So if Stern, 55, does re-sign with Sirius, it's likely to be for less this time around.

Sirius nearly had to file for bankruptcy protection this year and is still trying to reduce costs. The company is feeling the brunt of weak auto sales, which deliver many of its new customers. And it faces new threats from emerging commercial-free rivals such as Internet radio.

For these reasons - and because Stern has warned other times that he might quit or retire - his latest threat rings hollow to some analysts.

"It's probably positioning for contract negotiations," said Brett Harriss, an analyst at Gabelli & Co., whose parent Gamco Investors Inc. owns 1.1 million shares of Sirius. "I don't think he would give up his bullhorn."

Sirius' chief executive, Mel Karmazin, told The Associated Press in a recent interview that he will work hard to retain Stern, but the company would not offer more detailed comments. Stern's agent, Don Buchwald, did not respond to requests for comment.

Stern made his name on traditional or "terrestrial" radio. While Sirius

mainly makes its money from selling subscriptions, the money that flowed to Stern on traditional radio came from syndication rights. In that setup, radio stations pay companies that distribute programs such as Stern's.

Many of those radio stations have struggled since Stern left the free airwaves, and the recession compounded the problems. In the first nine months of the year, radio advertising revenue fell by 21 percent to \$11.8 billion, according to the Radio Advertising Bureau.

Citadel Broadcasting Corp., the nation's third-largest operator of radio stations, filed for bankruptcy protection Sunday. Other big station owners also are wrestling with debts, and the syndication division of the largest station owner, Clear Channel Communications Inc., already is believed to be paying Rush Limbaugh \$400 million over an eight-year contract.

"Who else can afford Howard Stern?" Harriss said.

When Stern signed with Sirius, the company trailed XM Satellite Radio Holdings Inc. in the race for customers. It badly needed a marquee name to attract subscribers to its service, which delivers 130 radio channels anywhere in the country for \$6.99 a month to \$19.99 a month, depending on the package.

Now after buying XM for \$3.3 billion, Sirius has 18.5 million subscribers, down slightly from a peak of 19 million at the end of last year. Sirius' radio lineup beyond Stern includes Oprah Winfrey, Martha Stewart, NFL games and Major League Baseball. Half of its channels are music and free of commercials, while the rest air sports, talk shows, news, entertainment, traffic and weather.

The company still has never posted a net profit. Revenue was nearly flat

in the last quarter, and Sirius remains pressured to cut costs. Sirius narrowly avoided [bankruptcy](#) protection 10 months ago by getting \$530 million in financing from Liberty Media Corp. Sirius had to give a 40 percent ownership stake to Liberty, which is controlled by satellite mogul John Malone.

As Sirius tries to get its finances in order, it must cope with threats from emerging technologies, such as [Internet radio](#) services that also deliver radio programming without commercials.

The company has been trying to cut costs. Sirius' programming expenses in the past four quarters fell 18 percent from the total paid by Sirius and XM in the previous year, when they were still separate companies. Sirius has eliminated duplicative radio programs since it absorbed XM and found ways to reduce "on-air talent costs."

Given the climate, if Stern returns to Sirius, "he's not going to get \$500 million again," said Miller Tabak analyst David Joyce. Robert Eatman, the agent for Sirius talents Opie & Anthony and rapper Nick Cannon, agreed that Stern is "probably not worth" \$500 million to Sirius now.

But the question will be just how much less Sirius can pay and still keep Stern.

Stern accounts for about \$80 million of Sirius' annual programming costs, which have totaled \$365 million over the past four quarters. The \$80 million covers Stern's salary, wages for his staff and production and operating expenses, according to filings with the Securities and Exchange Commission. The remainder of the contract was paid in stock.

There are no independent ratings available to track the popularity of Stern's show, which airs Mondays through Thursdays from 6 a.m. to 9 a.m. But he has been so important to Sirius that he was the sole radio

talent mentioned in SEC filings from 2006 through 2009 as a party whose failure could hurt Sirius' business. (Automakers were also among the listed entities.) In his first year at Sirius, Stern received a stock bonus worth \$82.9 million because Sirius' subscriber count exceeded an agreed-upon target by more than 2 million.

Stern could leave to start a new venture, perhaps a subscription service that sends his show to PCs and mobile devices. Sirius already streams Stern's shows online and through the iPhone. Or he could explore more options in cable TV, where his first pay-per-view special, "Howard Stern's Negligee and Underpants Party," was offered in 1988.

Stern also could retire.

"Howard has the creative and business freedom to do what he wants to. He can just about write his own ticket in a number of areas," said Tom Taylor, executive news editor of Radio-Info.com, which tracks the radio industry. "He doesn't need to do anything. He's going to pay the rent fine."

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