(DJ) 02/20 10:43AM =DJ UPDATE:Karmazin Confident XM Deal Synergies Could Be $5B-$6B

(Adds more details from conference call throughout.)

By Ellen Sheng

Of DOW JONES NEWSWIRES

NEW YORK (Dow Jones)--By combining, XM Satellite Radio Holdings Inc. (XMSR) and Sirius Satellite Radio Inc. (SIRI) could save between $5 billion to $6 billion, Mel Karmazin, chief executive of Sirius, said Tuesday.

"There are synergies in every line item of the income statement," Karmazin said on a conference call, noting savings on everything from catering bills to legal expenses.

Wall Street analysts have in the past estimated between $3 billion to $7 billion in savings from a merger. Cost savings, which are expected to equal or exceed the market capitalization of one of the companies, will help the combined company generate more cash flow and reach profitability sooner.

Putting to rest months of speculation, XM and Sirius announced their intention to combine in a merger of equals on Monday. XM and Sirius shareholders will each own 50% of the combined company.

The big question mark hanging over the merger is regulatory approval. Speaking on a conference call Tuesday, executives said they are confident that the deal has more than a 50% chance of approval. The deal benefits not only shareholders but consumers as well, they said. Combined, they said, the companies will be able to offer broader content choices and faster technological innovation, all on a smaller combined budget.

A combined company will also benefit from more advertising interest. Together, the companies have about 14 million subscribers, making the combined company a more attractive nationwide advertiser, Karmazin said.

The companies are working closely with regulators. The proposal will be put before shareholders in four to six months, executives said. Regulatory approval is expected within nine months, and the companies expect the deal will close by the end of the year. It comes with a $175 million breakup fee if one of the boards does not approve the transaction.

Meanwhile, operations at the two companies will remain independent and unchanged until the deal closes. Karmazin will stay on as CEO of the new company, which does not yet have a name. Gary Parsons, XM's chairman, will become chairman of the combined company.

Integrating the operations of the two companies may take quite some time. Besides deciding on the base of operations - XM is based in Washington, D.C., while Sirius is in New York - the companies' satellites and equipment will need to be integrated slowly without disrupting current agreements with car makers and programmers.

William Kidd, an analyst at Wedbush Morgan, expects that it will take three to five years for many of the revenue synergies to be realized.

Shares of XM rose $1.66, or 12%, to $15.66 in recent trading. Sirius' stock was up 27 cents, or 7%, to $3.96.

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