



BY MICHAEL WILLIAMSON — THE WASHINGTON POST

Steve McDonnell sits at the controls in the XM Satellite Radio operations center.

XM's Mark on Northeast D.C.

Fate of Headquarters Uncertain if Sirius Merger Goes Through

By THOMAS HEATH
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XM Satellite Radio chief executive Hugh Panero and his top engineer were exploring an abandoned printing plant in Northeast Washington back in 1999, looking for a home for their growing space-age radio company.

"This is the greatest place I can imagine," Panero recalled saying to himself, noting its spacious rooms and 20-foot ceilings. Not even the spent bullets strewn across the roof dissuaded him, he said last week — though the engineer, a retired Air Force brigadier general, "thought I was nuts."

XM bought the building. The company invested \$70 million in high-tech and aerospace hardware. And as it grew into a \$4.3 billion enterprise that today employs more than 700 people, it helped turn the area around New York and Florida avenues NE from a strip of boarded-up buildings into a growing commercial center with a Metro

stop, office and condo space and the future headquarters of the Bureau of Alcohol, Tobacco, Firearms and Explosives.

But XM itself has been on a wild ride, losing more than \$3 billion over the past seven years. Its stock, which had rocketed from \$2 to nearly \$40 a share, closed at \$15.10 Friday, four days after the company announced its plan to merge with its New York-based rival, Sirius Satellite Radio.

The \$13 billion deal is far from a lock, because the companies will have to overcome antitrust regulatory hurdles. But inside XM and elsewhere in Washington there was concern that the District might lose a company that had added some cutting-edge glamour to a business community better known for its government contractors.

"That's been a feather in our cap that XM Satellite has made their headquarters in the District," said James J. Abdo, chief executive of Abdo Development, which has a big

See XM, D8, Col. 1

XM Gave Life to Blighted Area

XM, From D1

project about a mile up New York Avenue.

It was certainly a change for the neighborhood when the Allman Brothers crew unloaded a couple of semis full of equipment into the XM Performance Theater, where the band spent three days re-recording its classic "Eat a Peach" album for a show called "Then ... Again ... Live." Jethro Tull did the same thing with "Aqualung." Janet Jackson stopped by on a publicity tour and talked for four hours on various shows. Tori Amos and Ludacris came by.

Sirius chief executive Mel Karmazin, who would run the merged company, said in an interview that XM's headquarters building is a valuable asset and that he might even expand its workforce. But there was an anxious mood last week in the XM hallways — where dimly lit studios have names like XM Kids and Liquid Metal, and the conference rooms are labeled Sinatra, Springsteen and Hendrix.

"There are definitely people who are nervous," said programming director Billy Zero. "Without a doubt, there's going to be some overlap. I'm a creative guy. I'm an innovator. Hopefully, I will be part of that team. That's what it's going to be about — pulling the most creative and innovative people onto the next leg of this tour."

Scott Waltermann, director of news programming, said he worried that most of the operation would be shifted to New York.

"I've done Manhattan when I was younger," said Waltermann, 48, who has been with XM since 2001.

But, he added, "you do what you've got to do and go where you've got to go at the end of the day. Nobody knows how everything is going to play out."

Like many of his colleagues, he's uneasy about the idea of merging with a longtime rival. "It's kind of like the collapse of the Berlin Wall," Waltermann said. "You fight an enemy for six years and now you are allied with them."

"It might take us a few more days to get on the bandwagon and huzzah," said Bob Edwards, the former National Public Radio mainstay who hosts an XM show weekday mornings. People are in "a period of adjustment because we've been in this toe-to-toe battle with these guys, and now we're brothers and sisters. If it helps the company and saves satellite radio and makes it viable, then we're all for it. It's already helped my stock."

XM has been a Washington company since 1998, when founder Gary Parsons purchased one of two available satellite-radio spectrum licenses from the Federal Communications Commission and subleased space at 23rd and M Streets NW to be near the FCC and Capitol Hill. He recruited Panero, 51, who was working for a start-up pay-per-view network in Colorado, soon after.

They started shopping their idea for a subscription radio service to investors such as General Motors, which put up \$75 million. The company initially raised \$250 million.

"I turned down the investment several times because the whole proposition seemed like a long shot," said Mark D. Ein, a Wash-

ington venture capitalist who later signed on as an investor. "But Hugh sold his vision, and his vision became true. It's one of the great business success stories in Washington ever."

By the time XM went public in 1999, it needed a headquarters. "We wanted to be easily accessible to the bands touring the East Coast," said XM spokesman Chance Patterson, who was a consultant to XM for the accounting firm KPMG at the time. "It seemed like a stretch that Paul McCartney or P. Diddy would want to hang out near Dulles," where AOL and other tech firms are located.

They found the abandoned building that had been home to Judd & Detweiler, the master printers who for decades produced National Geographic magazine. The corner of Florida and New York avenues was minutes from Interstate 95, and not far from downtown D.C. nightclubs and the Verizon Center, so entertainers could swing by after performances.

Panero liked the idea that a Metro stop was planned nearby. He loved the building's red-brick, retro look, which reminded him of the homes of other start-ups. And he took into account the fact that if the neighborhood improved, so would the value of XM's headquarters. (The building is fully paid for.)



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Chance Patterson says XM chose its location partly because of its proximity to performance venues in Washington.

Mayor Anthony A. Williams heard about XM and saw a chance to bring an entirely new industry to a blighted area. He offered a package of tax breaks to save XM millions of dollars and help seal the deal.

"I viewed it as ... a kind of iconic, symbolic statement that convinces people that an area is turning around," Williams said. "It was

a signature investment."

"They have really helped to transform that neighborhood," said Barbara B. Lang, president of the D.C. Chamber of Commerce.

Panero, who will not be part of the company if the merger goes through, said no decisions have been made regarding management and responsibilities after the companies combine, but he said

he expected there would still be a strong presence in Washington.

"What has been said is we have to continue to run the company as separate companies until the merger is closed," Panero said. "When it closes, the plan is to take advantage of great talent that exists in both companies. Clearly, there will be redundancies. But these are growth companies."