

SIRIUS XM RADIO INC.  
Form 10-Q  
November 04, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010  
OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_  
COMMISSION FILE NUMBER 001-34295**

**SIRIUS XM RADIO INC.**  
**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of  
incorporation or organization)**

**52-1700207**  
**(I.R.S. Employer Identification Number)**

**1221 Avenue of the Americas, 36th Floor**  
**New York, New York**  
**(Address of principal executive offices)**

**10020**  
**(Zip Code)**

**Registrant's telephone number, including area code: (212) 584-5100**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

|                                                                |                                            |                                                |                                                    |
|----------------------------------------------------------------|--------------------------------------------|------------------------------------------------|----------------------------------------------------|
| Large<br>accelerated filer <input checked="" type="checkbox"/> | Accelerated filer <input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/> | Smaller reporting company <input type="checkbox"/> |
|----------------------------------------------------------------|--------------------------------------------|------------------------------------------------|----------------------------------------------------|

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| <b>(Class)</b>                         | <b>(Outstanding as of October 29, 2010)</b> |
|----------------------------------------|---------------------------------------------|
| <b>COMMON STOCK, \$0.001 PAR VALUE</b> | <b>3,925,899,619 SHARES</b>                 |

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES  
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**Table of Contents****PART I: FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****SIRIUS XM RADIO INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

|                                                                            | <b>For the Three Months<br/>Ended September 30,</b> |             | <b>For the Nine Months<br/>Ended September 30,</b> |              |
|----------------------------------------------------------------------------|-----------------------------------------------------|-------------|----------------------------------------------------|--------------|
|                                                                            | <b>2010</b>                                         | <b>2009</b> | <b>2010</b>                                        | <b>2009</b>  |
| <i>(in thousands, except per share data)</i>                               |                                                     |             |                                                    |              |
| Revenue:                                                                   |                                                     |             |                                                    |              |
| Subscriber revenue, including effects of rebates                           | \$ 612,119                                          | \$ 578,304  | \$ 1,793,258                                       | \$ 1,699,455 |
| Advertising revenue, net of agency fees                                    | 15,973                                              | 12,418      | 46,296                                             | 37,287       |
| Equipment revenue                                                          | 17,823                                              | 10,506      | 50,625                                             | 31,343       |
| Other revenue                                                              | 71,633                                              | 17,428      | 190,914                                            | 28,379       |
| Total revenue                                                              | 717,548                                             | 618,656     | 2,081,093                                          | 1,796,464    |
| Operating expenses (depreciation and amortization shown separately below): |                                                     |             |                                                    |              |
| Cost of services:                                                          |                                                     |             |                                                    |              |
| Revenue share and royalties                                                | 114,482                                             | 100,558     | 320,567                                            | 296,855      |
| Programming and content                                                    | 78,143                                              | 78,315      | 228,595                                            | 230,825      |
| Customer service and billing                                               | 60,613                                              | 56,529      | 175,238                                            | 175,570      |
| Satellite and transmission                                                 | 20,844                                              | 19,542      | 60,944                                             | 59,435       |
| Cost of equipment                                                          | 6,463                                               | 11,944      | 22,187                                             | 27,988       |
| Subscriber acquisition costs                                               | 105,984                                             | 90,054      | 305,745                                            | 230,773      |
| Sales and marketing                                                        | 51,519                                              | 52,530      | 156,813                                            | 152,647      |
| Engineering, design and development                                        | 12,526                                              | 11,252      | 35,209                                             | 32,975       |
| General and administrative                                                 | 54,188                                              | 56,923      | 170,935                                            | 182,953      |
| Depreciation and amortization                                              | 67,450                                              | 72,100      | 206,945                                            | 231,624      |
| Restructuring, impairments and related costs                               | 2,267                                               | 2,554       | 4,071                                              | 30,167       |
| Total operating expenses                                                   | 574,479                                             | 552,301     | 1,687,249                                          | 1,651,812    |
| Income from operations                                                     | 143,069                                             | 66,355      | 393,844                                            | 144,652      |
| Other income (expense):                                                    |                                                     |             |                                                    |              |
| Interest expense, net of amounts capitalized                               | (68,559)                                            | (80,864)    | (223,230)                                          | (246,922)    |
| Loss on extinguishment of debt and credit facilities, net                  | (256)                                               | (138,053)   | (34,695)                                           | (263,767)    |
| Interest and investment (loss) income                                      | (4,305)                                             | 904         | (7,197)                                            | 3,059        |
| Other income                                                               | 1,108                                               | 1,246       | 1,837                                              | 2,505        |
| Total other expense                                                        | (72,012)                                            | (216,767)   | (263,285)                                          | (505,125)    |
| Income (loss) before income taxes                                          | 71,057                                              | (150,412)   | 130,559                                            | (360,473)    |
| Income tax expense                                                         | (3,428)                                             | (1,115)     | (6,060)                                            | (3,344)      |

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|                                                       |           |              |            |              |
|-------------------------------------------------------|-----------|--------------|------------|--------------|
| Net income (loss)                                     | 67,629    | (151,527)    | 124,499    | (363,817)    |
| Preferred stock beneficial conversion feature         | -         | -            | -          | (186,188)    |
| Net income (loss) attributable to common stockholders | \$ 67,629 | \$ (151,527) | \$ 124,499 | \$ (550,005) |
| Net income (loss) per common share:                   |           |              |            |              |
| Basic                                                 | \$ 0.02   | \$ (0.04)    | \$ 0.03    | \$ (0.15)    |
| Diluted                                               | \$ 0.01   | \$ (0.04)    | \$ 0.02    | \$ (0.15)    |
| Weighted average common shares outstanding:           |           |              |            |              |
| Basic                                                 | 3,689,245 | 3,621,062    | 3,686,312  | 3,577,587    |
| Diluted                                               | 6,369,831 | 3,621,062    | 6,361,090  | 3,577,587    |

See accompanying Notes to the unaudited consolidated financial statements.

**Table of Contents****SIRIUS XM RADIO INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

|                                                           | <b>September 30,<br/>2010<br/>(unaudited)</b> | <b>December 31,<br/>2009</b> |
|-----------------------------------------------------------|-----------------------------------------------|------------------------------|
| <i>(in thousands, except share and per share data)</i>    |                                               |                              |
| <b>ASSETS</b>                                             |                                               |                              |
| Current assets:                                           |                                               |                              |
| Cash and cash equivalents                                 | \$ 316,255                                    | \$ 383,489                   |
| Accounts receivable, net                                  | 110,391                                       | 113,580                      |
| Receivables from distributors                             | 78,983                                        | 48,738                       |
| Inventory, net                                            | 18,036                                        | 16,193                       |
| Prepaid expenses                                          | 167,734                                       | 100,273                      |
| Related party current assets                              | 3,894                                         | 106,247                      |
| Deferred tax asset                                        | 74,332                                        | 72,640                       |
| Other current assets                                      | 8,990                                         | 18,620                       |
| Total current assets                                      | 778,615                                       | 859,780                      |
| Property and equipment, net                               | 1,798,406                                     | 1,711,003                    |
| Long-term restricted investments                          | 3,396                                         | 3,400                        |
| Deferred financing fees, net                              | 56,489                                        | 66,407                       |
| Intangible assets, net                                    | 2,644,831                                     | 2,695,115                    |
| Goodwill                                                  | 1,834,856                                     | 1,834,856                    |
| Related party long-term assets                            | 28,937                                        | 111,767                      |
| Other long-term assets                                    | 86,255                                        | 39,878                       |
| Total assets                                              | \$ 7,231,785                                  | \$ 7,322,206                 |
| <b>LIABILITIES AND STOCKHOLDER S EQUITY</b>               |                                               |                              |
| Current liabilities:                                      |                                               |                              |
| Accounts payable and accrued expenses                     | \$ 525,148                                    | \$ 543,686                   |
| Accrued interest                                          | 78,581                                        | 74,566                       |
| Current portion of deferred revenue                       | 1,162,776                                     | 1,083,430                    |
| Current portion of deferred credit on executory contracts | 266,096                                       | 252,831                      |
| Current maturities of long-term debt                      | 5,482                                         | 13,882                       |
| Related party current liabilities                         | 18,318                                        | 108,246                      |
| Total current liabilities                                 | 2,056,401                                     | 2,076,641                    |
| Deferred revenue                                          | 270,820                                       | 255,149                      |
| Deferred credit on executory contracts                    | 580,161                                       | 784,078                      |
| Long-term debt                                            | 2,663,142                                     | 2,799,702                    |
| Long-term related party debt                              | 358,747                                       | 263,579                      |
| Deferred tax liability                                    | 947,667                                       | 940,182                      |
| Related party long-term liabilities                       | 25,211                                        | 46,301                       |
| Other long-term liabilities                               | 60,544                                        | 61,052                       |
| Total liabilities                                         | 6,962,693                                     | 7,226,684                    |

## Commitments and contingencies (Note 14)

## Stockholders' equity:

Preferred stock, par value \$0.001; 50,000,000 authorized at

September 30, 2010 and December 31, 2009:

Series A convertible preferred stock (liquidation preference of \$0 at September 30, 2010 and \$51,370 at December 31, 2009); no shares issued and outstanding at September 30, 2010 and 24,808,959 shares issued and outstanding at December 31, 2009

- 25

Convertible perpetual preferred stock, series B (liquidation preference of \$13 at September 30, 2010 and December 31, 2009); 12,500,000 shares issued and outstanding at September 30, 2010 and December 31, 2009

13 13

Convertible preferred stock, series C junior; no shares issued and outstanding at September 30, 2010 and December 31, 2009

- -

Common stock, par value \$0.001; 9,000,000,000 shares authorized at September 30, 2010 and December 31, 2009; 3,923,840,895 and 3,882,659,087 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively

3,923 3,882

Accumulated other comprehensive loss, net of tax

(5,823) (6,581)

Additional paid-in capital

10,400,588 10,352,291

Accumulated deficit

(10,129,609) (10,254,108)

Total stockholder's equity

269,092 95,522

Total liabilities and stockholder's equity

\$ 7,231,785 \$ 7,322,206

See accompanying Notes to the unaudited consolidated financial statements.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND**  
**COMPREHENSIVE INCOME**

|                          | Series A<br>Convertible<br>Preferred Stock |        | Convertible<br>Perpetual<br>Preferred Stock,<br>Series B |        | Common Stock  |          | Accumulated<br>Other<br>Comprehensive<br>Loss | Additional<br>Paid-in<br>Capital | Accu<br>D |
|--------------------------|--------------------------------------------|--------|----------------------------------------------------------|--------|---------------|----------|-----------------------------------------------|----------------------------------|-----------|
|                          | Shares                                     | Amount | Shares                                                   | Amount | Shares        | Amount   |                                               |                                  |           |
| (are and per share data) |                                            |        |                                                          |        |               |          |                                               |                                  |           |
| 1, 2009                  | 24,808,959                                 | \$ 25  | 12,500,000                                               | \$ 13  | 3,882,659,087 | \$ 3,882 | \$ (6,581)                                    | \$ 10,352,291                    | \$ (10    |
| come:                    |                                            |        |                                                          |        |               |          |                                               |                                  |           |
| able-for-sale securities | -                                          | -      | -                                                        | -      | -             | -        | 469                                           | -                                |           |
| ation adjustment, net of | -                                          | -      | -                                                        | -      | -             | -        | 289                                           | -                                |           |
| come                     | -                                          | -      | -                                                        | -      | -             | -        | -                                             | -                                |           |
| ock to employees and     |                                            |        |                                                          |        |               |          |                                               |                                  |           |
| net of forfeitures       | -                                          | -      | -                                                        | -      | 5,840,513     | 6        | -                                             | 4,634                            |           |
| xpense                   | -                                          | -      | -                                                        | -      | -             | -        | -                                             | 38,525                           |           |
| vesting of restricted    | -                                          | -      | -                                                        | -      | 10,532,336    | 10       | -                                             | 5,138                            |           |
| red stock to common      | (24,808,959)                               | (25)   | -                                                        | -      | 24,808,959    | 25       | -                                             | -                                |           |
| 0, 2010                  | -                                          | \$ -   | 12,500,000                                               | \$ 13  | 3,923,840,895 | \$ 3,923 | \$ (5,823)                                    | \$ 10,400,588                    | \$ (10    |

See accompanying Notes to the unaudited consolidated financial statements.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| <i>(in thousands)</i>                                                                    | <b>For the Nine Months<br/>Ended September 30,</b> |              |
|------------------------------------------------------------------------------------------|----------------------------------------------------|--------------|
|                                                                                          | <b>2010</b>                                        | <b>2009</b>  |
| Cash flows from operating activities:                                                    |                                                    |              |
| Net income (loss)                                                                        | \$ 124,499                                         | \$ (363,817) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                                                    |              |
| Depreciation and amortization                                                            | 206,945                                            | 231,624      |
| Non-cash interest expense, net of amortization of premium                                | 32,983                                             | 39,769       |
| Provision for doubtful accounts                                                          | 23,300                                             | 23,879       |
| Restructuring, impairments and related costs                                             | 4,071                                              | 26,954       |
| Amortization of deferred income related to equity method investment                      | (2,081)                                            | (2,082)      |
| Loss on extinguishment of debt and credit facilities, net                                | 34,695                                             | 263,767      |
| Loss on investments                                                                      | 8,990                                              | 10,967       |
| Loss on disposal of assets                                                               | 927                                                | -            |
| Share-based payment expense                                                              | 50,944                                             | 67,553       |
| Deferred income taxes                                                                    | 6,060                                              | 3,344        |
| Other non-cash purchase price adjustments                                                | (184,703)                                          | (142,487)    |
| Changes in operating assets and liabilities:                                             |                                                    |              |
| Accounts receivable                                                                      | (18,890)                                           | (9,002)      |
| Receivables from distributors                                                            | (22,430)                                           | 4,195        |
| Inventory                                                                                | (1,843)                                            | 3,466        |
| Related party assets                                                                     | (2,654)                                            | 15,539       |
| Prepaid expenses and other current assets                                                | 41,794                                             | 30,188       |
| Other long-term assets                                                                   | 11,765                                             | 64,034       |
| Accounts payable and accrued expenses                                                    | (69,629)                                           | (68,135)     |
| Accrued interest                                                                         | 5,244                                              | (6,600)      |
| Deferred revenue                                                                         | 92,864                                             | 9,032        |
| Related party liabilities                                                                | (50,940)                                           | 46,961       |
| Other long-term liabilities                                                              | (865)                                              | 3,958        |
| Net cash provided by operating activities                                                | 291,046                                            | 253,107      |
| Cash flows from investing activities:                                                    |                                                    |              |
| Additions to property and equipment                                                      | (257,374)                                          | (217,335)    |
| Sale of restricted and other investments                                                 | 9,454                                              | -            |
| Net cash used in investing activities                                                    | (247,920)                                          | (217,335)    |
| Cash flows from financing activities:                                                    |                                                    |              |
| Proceeds from exercise of stock options                                                  | 4,906                                              | -            |

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|                                                  |            |            |
|--------------------------------------------------|------------|------------|
| Preferred stock issuance, net of costs           | -          | (3,712)    |
| Long-term borrowings, net of costs               | 637,406    | 579,936    |
| Related party long-term borrowings, net of costs | 147,094    | 364,964    |
| Short-term financings                            | -          | 2,220      |
| Payment of premiums on redemption of debt        | (24,321)   | (17,075)   |
| Repayment of long-term borrowings                | (820,224)  | (610,932)  |
| Repayment of related party long-term borrowings  | (55,221)   | (351,247)  |
| Net cash used in financing activities            | (110,360)  | (35,846)   |
| Net decrease in cash and cash equivalents        | (67,234)   | (74)       |
| Cash and cash equivalents at beginning of period | 383,489    | 380,446    |
| Cash and cash equivalents at end of period       | \$ 316,255 | \$ 380,372 |

See accompanying Notes to the unaudited consolidated financial statements.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued**

| <i>(in thousands)</i>                                                                                                        | <b>For the Nine Months<br/>Ended September 30,</b> |             |
|------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|-------------|
|                                                                                                                              | <b>2010</b>                                        | <b>2009</b> |
| Supplemental Disclosure of Cash and Non-Cash Flow Information                                                                |                                                    |             |
| Cash paid during the period for:                                                                                             |                                                    |             |
| Interest, net of amounts capitalized                                                                                         | \$ 172,417                                         | \$ 211,143  |
| Non-cash investing and financing activities:                                                                                 |                                                    |             |
| Share-based payments in satisfaction of accrued compensation                                                                 | -                                                  | 31,280      |
| Common stock issued in exchange of 2 <sup>1</sup> / <sub>2</sub> % Convertible Notes due 2009,<br>including accrued interest | -                                                  | 35,164      |
| Structuring fee on 10% Senior PIK Secured Notes due 2011                                                                     | -                                                  | 5,918       |
| Preferred stock issued to Liberty Media                                                                                      | -                                                  | 227,716     |
| Release of restricted investments                                                                                            | -                                                  | 138,000     |
| Sale-leaseback of equipment                                                                                                  | 5,305                                              | -           |
| Conversion of Series A preferred stock to common stock                                                                       | 25                                                 | -           |
| See accompanying Notes to the unaudited consolidated financial statements.                                                   |                                                    |             |

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollar amounts in thousands, unless otherwise stated)

**(1) Business**

We broadcast our music, sports, news, talk, entertainment, traffic and weather channels in the United States for a subscription fee through our proprietary satellite radio systems – the SIRIUS system and the XM system. The SIRIUS system consists of four in-orbit satellites with over 125 terrestrial repeaters, satellite uplink facilities and studios. The XM system consists of five in-orbit satellites with over 650 terrestrial repeaters, satellite uplink facilities and studios. The terrestrial repeaters receive and retransmit signals. Subscribers can also receive certain of our music and other channels over the Internet, including through an application on the Apple iPhone, and Blackberry and Android smartphones.

Our satellite radios are primarily distributed through automakers ( OEMs ), nationwide through retail locations and through our websites. We have agreements with every major automaker to offer SIRIUS or XM satellite radios as factory- or dealer-installed equipment in their vehicles. SIRIUS and XM radios are also offered to customers of certain daily rental car companies.

Subscription fees are our primary source of revenue, with most of our customers subscribing to an annual, semi-annual, quarterly or monthly plan. We also derive revenue from activation and other subscription-related fees, the sale of advertising on select non-music channels, the direct sale of satellite radios and accessories, and other ancillary services, such as our Backseat TV, data and weather services.

In certain cases, automakers include a subscription to our radio services in the sale or lease price of vehicles. The length of these prepaid subscriptions varies, but is typically three to twelve months. In many cases, we receive subscription payments from automakers in advance of the activation of our service. We also reimburse various automakers for certain costs associated with satellite radios installed in their vehicles.

We also have an interest in the satellite radio services offered in Canada.

Unless otherwise indicated,

we, us, our, the company, the companies and similar terms refer to Sirius XM Radio Inc. and its consolidated subsidiaries;

SIRIUS refers to Sirius XM Radio Inc. and its consolidated subsidiaries, excluding XM Satellite Radio Inc., and its consolidated subsidiaries; and

XM refers to XM Satellite Radio Inc. and its consolidated subsidiaries.

In July 2008, our wholly owned subsidiary, Vernon Merger Corporation, merged with and into XM Satellite Radio Holdings Inc., a Delaware corporation, and, as a result, XM Satellite Radio Holdings Inc. became our wholly-owned subsidiary (the Merger ). In April 2010, XM Satellite Radio Holdings Inc. merged with and into XM Satellite Radio Inc., which was the surviving corporation of that merger. As a result, XM Satellite Radio Inc. became a direct wholly-owned subsidiary of Sirius XM Radio Inc.

**(2) Principles of Consolidation and Basis of Presentation**

***Principles of Consolidation***

The accompanying unaudited consolidated financial statements of Sirius XM Radio Inc. and subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ), the instructions to Form 10-Q and Article 10 of Regulation S-X of the United States Securities and Exchange Commission ( SEC ) for interim financial reporting. Accordingly, these interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. All significant intercompany transactions have been eliminated in consolidation.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**  
(Dollar amounts in thousands, unless otherwise stated)

***Basis of Presentation***

In the opinion of management, all normal recurring adjustments necessary for a fair presentation of our unaudited consolidated financial statements as of September 30, 2010, and for the three and nine months ended September 30, 2010 and 2009 have been made.

Interim results are not necessarily indicative of the results that may be expected for a full year. This Quarterly Report on Form 10-Q should be read together with our Annual Report on Form 10-K for the year ended December 31, 2009, that was filed with the SEC on February 25, 2010.

We have evaluated events subsequent to the balance sheet date and prior to the filing of this Quarterly Report on Form 10-Q for the nine months ended September 30, 2010 and have determined no events have occurred that would require adjustment to our unaudited consolidated financial statements as presented.

***Reclassifications***

Certain amounts in our prior period unaudited consolidated financial statements have been reclassified to conform to our current period presentation.

**(3) Summary of Significant Accounting Policies*****Use of Estimates***

In presenting unaudited consolidated financial statements, management makes estimates and assumptions that affect the reported amounts and accompanying notes. Estimates, by their nature, are based on judgment and available information. Actual results could differ materially from those estimates.

Significant estimates inherent in the preparation of the accompanying unaudited consolidated financial statements include revenue recognition, asset impairment, useful lives of our satellites, share-based payment expense, and valuation allowances against deferred tax assets. Economic conditions in the United States could have a material impact on our accounting estimates.

***Recent Accounting Pronouncements***

The Financial Accounting Standards Board ( FASB ) updated Accounting Standards Codification ( ASC ) 470 to incorporate ASU 2009-15, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance*, into the ASC. This standard requires share-lending arrangements in an entity's own shares to be initially measured at fair value and treated as an issuance cost, excluded from basic and diluted earnings per share, and requires an entity to recognize a charge to earnings if it becomes probable the counterparty will default on the arrangement. This guidance was adopted as of January 1, 2010 on a retrospective basis, as required, for all arrangements outstanding as of that date. The following table reflects the retrospective adoption of ASU 2009-15 on our December 31, 2009 consolidated balance sheet:

| Balance Sheet Line Item:                               | As Originally<br>Reported | Retrospective<br>Adjustments | As Currently<br>Reported |
|--------------------------------------------------------|---------------------------|------------------------------|--------------------------|
| Deferred financing fees, net                           | \$ 8,902                  | \$ 57,505                    | \$ 66,407                |
| Related party long-term assets, net of current portion | 110,594                   | 1,173                        | 111,767                  |
| Long-term debt, net of current portion                 | 2,799,127                 | 575                          | 2,799,702                |
| Long-term related party debt, net of current portion   | 263,566                   | 13                           | 263,579                  |
| Additional paid-in capital                             | 10,281,331                | 70,960                       | 10,352,291               |
| Accumulated deficit                                    | (10,241,238)              | (12,870)                     | (10,254,108)             |

The following table reflects the adoption of ASU 2009-15 on our statement of operations for the three and nine months ended September 30, 2009:



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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**  
(Dollar amounts in thousands, unless otherwise stated)

| Statement of Operations Line Item:           | For the Three Months<br>Ended September 30, 2009 |                           |                    | For the Nine Months<br>Ended September 30, 2009 |                           |                    |
|----------------------------------------------|--------------------------------------------------|---------------------------|--------------------|-------------------------------------------------|---------------------------|--------------------|
|                                              | As                                               | As                        | As                 | As                                              | As                        | As                 |
|                                              | Originally Reported                              | Retrospective Adjustments | Currently Reported | Originally Reported                             | Retrospective Adjustments | Currently Reported |
| Interest expense, net of amounts capitalized | \$ (78,527)                                      | \$ (2,337)                | \$ (80,864)        | \$ (240,062)                                    | \$ (6,860)                | \$ (246,922)       |
| Net loss attributable to common stockholders | (149,190)                                        | (2,337)                   | (151,527)          | (543,145)                                       | (6,860)                   | (550,005)          |

For the three and nine months ended September 30, 2010, we recorded \$2,555 and \$7,473, respectively, in interest expense related to the amortization of the costs associated with the share-lending arrangement and other issuance costs. As of September 30, 2010, the unamortized balance of the debt issuance costs was \$53,865, with \$52,788 recorded in deferred financing fees, net, and \$1,077 recorded in long-term related party assets. As of September 30, 2010, the estimated fair value of the remaining 202,400,000 loaned shares was approximately \$242,880.

***Earnings per Share ( EPS )***

Basic net income (loss) per common share is calculated using the weighted average common shares outstanding during each reporting period. Diluted net income (loss) per common share adjusts the weighted average common shares outstanding for the potential dilution that could occur if common stock equivalents (convertible debt and preferred stock, warrants, stock options and restricted stock shares and units) were exercised or converted into common stock. For the three and nine months ended September 30, 2010, common stock equivalents of approximately 727,496,000 and 735,091,000, respectively, were excluded from the calculation of diluted net income per common share as the effect would have been anti-dilutive. Due to the net loss for the three and nine months ended September 30, 2009, common stock equivalents of approximately 3,484,500,000 were excluded from the calculation of net loss per common share as the effect would have been anti-dilutive.

***Accounts Receivable***

Accounts receivable are stated at amounts due from customers net of an allowance for doubtful accounts. Our allowance for doubtful accounts considers historical experience, the age of amounts due, current economic conditions and other factors that may affect the counterparty's ability to pay.

Accounts receivable, net, consists of the following:

|                                 | September 30,<br>2010 | December 31,<br>2009 |
|---------------------------------|-----------------------|----------------------|
| Gross accounts receivable       | \$ 119,207            | \$ 122,247           |
| Allowance for doubtful accounts | (8,816)               | (8,667)              |
| Total accounts receivable, net  | \$ 110,391            | \$ 113,580           |

Receivables from distributors include billed and unbilled amounts due from OEMs for radio services included in the sale or lease price of vehicles, as well as billed amounts due from retailers. Receivables from distributors consist of the following:

**September 30,      December 31,**

|          | <b>2010</b> | <b>2009</b> |
|----------|-------------|-------------|
| Billed   | \$ 40,903   | \$ 25,207   |
| Unbilled | 38,080      | 23,531      |
| Total    | \$ 78,983   | \$ 48,738   |

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**  
(Dollar amounts in thousands, unless otherwise stated)

***Inventory***

Inventory consists of finished goods, refurbished goods, chip sets and other raw material components used in manufacturing radios. Inventory is stated at the lower of cost, determined on a first-in, first-out basis, or market. We record an estimated allowance for inventory that is considered slow moving, obsolete or whose carrying value is in excess of net realizable value. The provision related to products purchased for resale in our direct to consumer distribution channel and components held for resale by us is reported as a component of Cost of equipment in our unaudited consolidated statements of operations. The provision related to inventory consumed in our OEM and retail distribution channel is reported as a component of Subscriber acquisition costs in our unaudited consolidated statements of operations.

Inventory, net, consists of the following:

|                            | September 30,<br>2010 | December 31,<br>2009 |
|----------------------------|-----------------------|----------------------|
| Raw materials              | \$ 16,524             | \$ 17,370            |
| Finished goods             | 22,679                | 19,704               |
| Allowance for obsolescence | (21,167)              | (20,881)             |
| Total inventory, net       | \$ 18,036             | \$ 16,193            |

***Fair Value of Financial Instruments***

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants to sell the asset or transfer the liability. As of September 30, 2010 and December 31, 2009, the carrying amounts of cash and cash equivalents, accounts and other receivables, and accounts payable approximated fair value due to the short-term nature of these instruments.

The fair value for publicly traded instruments is determined using quoted market prices while fair value for non-publicly traded instruments is based upon estimates from a market maker and brokerage firm. As of September 30, 2010 and December 31, 2009, the carrying value of our debt was \$3,027,371 and \$3,077,163, respectively; and the fair value approximated \$3,439,203 and \$3,195,375, respectively.

**(4) Goodwill**

Goodwill represents the excess of the purchase price over the estimated fair value of net tangible and identifiable intangible assets acquired in business combinations. Our annual impairment assessment is performed as of October 1<sup>st</sup> of each year. An assessment is performed at other times if events or circumstances indicate it is more likely than not that the asset is impaired. During the three and nine months ended September 30, 2010 and 2009, there were no indicators of impairment and no impairment loss was recorded to our goodwill.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**  
(Dollar amounts in thousands, unless otherwise stated)

**(5) Intangible Assets**

Intangible assets consisted of the following:

|                                   | Weighted Average Useful Lives | September 30, 2010   |                          |                    | December 31, 2009    |                          |                    |
|-----------------------------------|-------------------------------|----------------------|--------------------------|--------------------|----------------------|--------------------------|--------------------|
|                                   |                               | Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| Indefinite life intangible assets |                               |                      |                          |                    |                      |                          |                    |
| FCC licenses                      | Indefinite                    | \$ 2,083,654         | \$ -                     | \$ 2,083,654       | \$ 2,083,654         | \$ -                     | \$ 2,083,654       |
| XM trademark                      | Indefinite                    | 250,000              | -                        | 250,000            | 250,000              | -                        | 250,000            |
| Finite life intangible assets     |                               |                      |                          |                    |                      |                          |                    |
| Subscriber relationships          | 9 years                       | \$ 380,000           | \$ (131,723)             | \$ 248,277         | \$ 380,000           | \$ (91,186)              | \$ 288,814         |
| Marketing agreements              | 9.1 years                     | 75,000               | (21,267)                 | 53,733             | 75,000               | (13,906)                 | 61,094             |
| Proprietary software              | 6 years                       | 16,552               | (9,045)                  | 7,507              | 16,552               | (6,823)                  | 9,729              |
| Developed technology              | 10 years                      | 2,000                | (433)                    | 1,567              | 2,000                | (283)                    | 1,717              |
| Residual interests                | 7.4 years                     | 132                  | (39)                     | 93                 | 132                  | (25)                     | 107                |
| Finite life intangible assets     |                               | \$ 2,807,338         | \$ (162,507)             | \$ 2,644,831       | \$ 2,807,338         | \$ (112,223)             | \$ 2,695,115       |

***Indefinite Life Intangible Assets***

We have identified our FCC licenses and the XM trademark as indefinite life intangible assets after considering the expected use of the assets, the regulatory and economic environment within which they are used and the effects of obsolescence on their use.

We hold FCC licenses to operate our satellite digital audio radio service and provide ancillary services. The following table outlines the years in which each of our licenses expire:

| FCC license                        | Expiration year |
|------------------------------------|-----------------|
| SIRIUS FM-1 satellite              | 2017            |
| SIRIUS FM-2 satellite              | 2017            |
| SIRIUS FM-3 satellite              | 2017            |
| SIRIUS FM-4 ground spare satellite | 2017            |

|                       |      |
|-----------------------|------|
| SIRIUS FM-5 satellite | 2017 |
| XM-1 satellite        | 2014 |
| XM-2 satellite        | 2014 |
| XM-3 satellite        | 2013 |
| XM-4 satellite        | 2014 |

Prior to expiration, we will be required to apply for a renewal of our FCC licenses. The renewal and extension of our licenses is reasonably certain at minimal cost, which is expensed as incurred. Each of the FCC licenses authorizes us to use the broadcast spectrum, which is a renewable, reusable resource that does not deplete or exhaust over time.

In connection with the Merger, \$250,000 of the purchase price was allocated to the XM trademark. As of September 30, 2010, there were no legal, regulatory or contractual limitations associated with the XM trademark.

We evaluate our indefinite life intangible assets for impairment on an annual basis as of October 1<sup>st</sup> of each year. An assessment is performed at other times if events or circumstances indicate it is more likely than not that the assets have been impaired. During the three and nine months ended September 30, 2010 and 2009, there were no indicators of impairment and no impairment loss was recorded for intangible assets with indefinite lives.

#### *Definite Life Intangible Assets*

Subscriber relationships are amortized on an accelerated basis over 9 years, which reflects the estimated pattern in which the economic benefits will be consumed. Other definite life intangible assets include certain licensing agreements, which are amortized over a weighted average useful life of 9.1 years on a straight-line basis.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
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(Dollar amounts in thousands, unless otherwise stated)

Amortization expense for definite life intangible assets was \$16,228 and \$18,648 for the three months ended September 30, 2010 and 2009, respectively, and \$50,342 and \$58,759 for the nine months ended September 30, 2010 and 2009, respectively. Expected amortization expense for each of the fiscal years through December 31, 2014 and for periods thereafter is as follows:

| <b>Year ending December 31,</b>                 | <b>Amount</b>  |
|-------------------------------------------------|----------------|
| Remaining 2010                                  | \$ 15,632      |
| 2011                                            | 58,850         |
| 2012                                            | 53,420         |
| 2013                                            | 47,097         |
| 2014                                            | 38,619         |
| Thereafter                                      | 97,559         |
| <br>Total definite life intangibles assets, net | <br>\$ 311,177 |

**(6) Subscriber Revenue**

Subscriber revenue consists of subscription fees, revenue derived from agreements with certain daily rental fleet operators, non-refundable activation and other fees as well as the effects of rebates. Revenues received from OEMs for subscriptions included in the sale or lease price of vehicles are also included in subscriber revenue over the service period.

Subscriber revenue consists of the following:

|                              | <b>For the Three Months<br/>Ended September 30,</b> |                | <b>For the Nine Months<br/>Ended September 30,</b> |                  |
|------------------------------|-----------------------------------------------------|----------------|----------------------------------------------------|------------------|
|                              | <b>2010</b>                                         | <b>2009</b>    | <b>2010</b>                                        | <b>2009</b>      |
| Subscription fees            | \$ 607,784                                          | \$ 573,611     | \$ 1,780,758                                       | \$ 1,683,568     |
| Activation fees              | 4,381                                               | 5,171          | 12,701                                             | 16,929           |
| Effect of rebates            | (46)                                                | (478)          | (201)                                              | (1,042)          |
| <br>Total subscriber revenue | <br>\$ 612,119                                      | <br>\$ 578,304 | <br>\$ 1,793,258                                   | <br>\$ 1,699,455 |

**(7) Interest Costs**

We capitalize a portion of the interest on funds borrowed to finance the construction costs of our satellites. The following is a summary of our interest costs:

|                                   | <b>For the Three Months<br/>Ended September 30,</b> |               | <b>For the Nine Months<br/>Ended September 30,</b> |                |
|-----------------------------------|-----------------------------------------------------|---------------|----------------------------------------------------|----------------|
|                                   | <b>2010</b>                                         | <b>2009</b>   | <b>2010</b>                                        | <b>2009</b>    |
| Interest costs charged to expense | \$ 68,559                                           | \$ 80,864     | \$ 223,230                                         | \$ 246,922     |
| Interest costs capitalized        | 19,040                                              | 12,742        | 49,470                                             | 47,272         |
| <br>Total interest costs incurred | <br>\$ 87,599                                       | <br>\$ 93,606 | <br>\$ 272,700                                     | <br>\$ 294,194 |

Included in interest costs incurred is non-cash interest expense, consisting of amortization related to original issue discounts, premiums and deferred financing fees of \$10,689 and \$8,447 for the three months ended September 30, 2010 and 2009, respectively, and \$32,983 and \$39,769 for the nine months ended September 30, 2010 and 2009, respectively.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**

(Dollar amounts in thousands, unless otherwise stated)

**(8) Property and Equipment**

Property and equipment, net, consists of the following:

|                                                      | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|------------------------------------------------------|-------------------------------|------------------------------|
| Satellite system                                     | \$ 1,694,656                  | \$ 1,680,732                 |
| Terrestrial repeater network                         | 110,995                       | 108,841                      |
| Leasehold improvements                               | 43,523                        | 43,480                       |
| Broadcast studio equipment                           | 50,671                        | 49,965                       |
| Capitalized software and hardware                    | 151,083                       | 146,035                      |
| Satellite telemetry, tracking and control facilities | 56,218                        | 55,965                       |
| Furniture, fixtures, equipment and other             | 63,304                        | 57,536                       |
| Land                                                 | 38,411                        | 38,411                       |
| Building                                             | 56,553                        | 56,424                       |
| Construction in progress                             | 643,574                       | 430,543                      |
| <br>Total property and equipment                     | <br>2,908,988                 | <br>2,667,932                |
| Accumulated depreciation and amortization            | (1,110,582)                   | (956,929)                    |
| <br>Property and equipment, net                      | <br>\$ 1,798,406              | <br>\$ 1,711,003             |

Construction in progress consists of the following:

|                              | <b>September<br/>30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|------------------------------|-----------------------------------|------------------------------|
| Satellite system             | \$ 592,919                        | \$ 398,425                   |
| Terrestrial repeater network | 17,842                            | 19,396                       |
| Other                        | 32,813                            | 12,722                       |
| <br>Construction in progress | <br>\$ 643,574                    | <br>\$ 430,543               |

Depreciation and amortization expense on property and equipment was \$51,222 and \$53,452 for the three months ended September 30, 2010 and 2009, respectively, and \$156,603 and \$172,865 for the nine months ended September 30, 2010 and 2009, respectively.

***Satellites***

SIRIUS' original three orbiting satellites were launched in 2000. A spare SIRIUS satellite was delivered to ground storage in 2002. SIRIUS' original three-satellite constellation and terrestrial repeater network were placed into service in 2002. In June 2009, SIRIUS launched a fourth satellite into a geostationary orbit, which was placed into service in August 2009.

SIRIUS has an agreement with Space Systems/Loral for the design and construction of a sixth SIRIUS satellite ( FM-6 ). In January 2008, SIRIUS entered into an agreement with International Launch Services ( ILS ) to secure a satellite launch on a Proton rocket.

XM owns five orbiting satellites; XM-1 and XM-2 serve as in-orbit spares while XM-3 and XM-4 transmit the XM signal. The XM-1 through XM-4 satellites were launched in March 2001, May 2001, February 2005 and October 2006, respectively. On October 14, 2010, XM launched XM-5 to serve as an in-orbit spare to the existing fleet of satellites.

During the nine months ended September 30, 2010, we capitalized interest and expenditures related to the construction of our satellites and related launch vehicles for FM-6 and XM-5.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**

(Dollar amounts in thousands, unless otherwise stated)

**(9) Related Party Transactions**

We had the following related party transaction balances at September 30, 2010 and December 31, 2009:

|                | <b>Related party<br/>current assets</b> |                                  | <b>Related party<br/>long-term assets</b> |                                  | <b>Related party<br/>current liabilities</b> |                                  | <b>Related party<br/>long-term liabilities</b> |                                  | <b>Related party<br/>long-term debt</b> |                                  |
|----------------|-----------------------------------------|----------------------------------|-------------------------------------------|----------------------------------|----------------------------------------------|----------------------------------|------------------------------------------------|----------------------------------|-----------------------------------------|----------------------------------|
|                | <b>September<br/>30,<br/>2010</b>       | <b>December<br/>31,<br/>2009</b> | <b>September<br/>30,<br/>2010</b>         | <b>December<br/>31,<br/>2009</b> | <b>September<br/>30,<br/>2010</b>            | <b>December<br/>31,<br/>2009</b> | <b>September<br/>30,<br/>2010</b>              | <b>December<br/>31,<br/>2009</b> | <b>September<br/>30,<br/>2010</b>       | <b>December<br/>31,<br/>2009</b> |
| Liberty Media  | \$ -                                    | \$ -                             | \$ 1,738                                  | \$ 1,974                         | \$ 12,237                                    | \$ 8,523                         | \$ -                                           | \$ -                             | \$ 358,747                              | \$ 263,579                       |
| SIRIUS Canada  | 3,309                                   | 2,327                            | -                                         | -                                | 1,805                                        | -                                | -                                              | -                                | -                                       | -                                |
| XM Canada      | 585                                     | 1,011                            | 27,199                                    | 24,429                           | 4,276                                        | 2,775                            | 25,211                                         | 28,793                           | -                                       | -                                |
| General Motors | -                                       | 99,995                           | -                                         | 85,364                           | -                                            | 93,107                           | -                                              | 17,508                           | -                                       | -                                |
| American Honda | -                                       | 2,914                            | -                                         | -                                | -                                            | 3,841                            | -                                              | -                                | -                                       | -                                |
| <b>Total</b>   | <b>\$ 3,894</b>                         | <b>\$ 106,247</b>                | <b>\$ 28,937</b>                          | <b>\$ 111,767</b>                | <b>\$ 18,318</b>                             | <b>\$ 108,246</b>                | <b>\$ 25,211</b>                               | <b>\$ 46,301</b>                 | <b>\$ 358,747</b>                       | <b>\$ 263,579</b>                |

Neither General Motors nor American Honda is considered a related party following May 27, 2010, the date on which the individuals nominated by General Motors and American Honda respectively, ceased to be members of our board of directors.

**Liberty Media**

In February, 2009, we entered into an Investment Agreement (the "Investment Agreement") with an affiliate of Liberty Media Corporation, Liberty Radio, LLC (collectively, "Liberty Media"). Pursuant to the Investment Agreement, in March 2009 we issued to Liberty Radio, LLC 12,500,000 shares of our Convertible Perpetual Preferred Stock, Series B (the "Series B Preferred Stock"), with a liquidation preference of \$0.001 per share in partial consideration for certain loan investments. Liberty Media has representatives on our board of directors.

The Series B Preferred Stock is convertible into approximately 2,586,976,000 shares of common stock. Liberty Media has agreed not to acquire more than 49.9% of our outstanding common stock prior to March 2012, except that Liberty Media may acquire more than 49.9% of our outstanding common stock at any time after March 2011 pursuant to any cash tender offer for all of the outstanding shares of our common stock that are not beneficially owned by Liberty Media or its affiliates at a price per share greater than the closing price of the common stock on the trading day preceding the earlier of the public announcement or commencement of such tender offer. The Investment Agreement also provides for certain other standstill provisions during the three year period ending in March 2012.

Liberty Media has advised us that as of September 30, 2010 and December 31, 2009, respectively, it owned the following:

|                                      | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|--------------------------------------|-------------------------------|------------------------------|
| 9.625% Senior Notes due 2013         | \$ -                          | \$ 55,221                    |
| 8.75% Senior Notes due 2015          | 150,000                       | -                            |
| 9.75% Senior Secured Notes due 2015  | 50,000                        | 50,000                       |
| 11.25% Senior Secured Notes due 2013 | 87,000                        | 87,000                       |

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|                                                    |            |            |
|----------------------------------------------------|------------|------------|
| 13% Senior Notes due 2013                          | 76,000     | 76,000     |
| 7% Exchangeable Senior Subordinated Notes due 2014 | 11,000     | 11,000     |
| Total principal debt                               | 374,000    | 279,221    |
| Less : discounts                                   | 15,253     | 15,642     |
| Total carrying value debt                          | \$ 358,747 | \$ 263,579 |

In October 2010, Liberty Media tendered its \$87,000 of the 11.25% Senior Secured Notes due 2013 and purchased \$50,000 of XM's 7.625% Senior Notes due 2018 at issuance.

As of September 30, 2010 and December 31, 2009, we recorded \$12,237 and \$8,523, respectively, related to accrued interest with Liberty Media to Related party current liabilities. We recognized Interest expense associated with debt held by Liberty Media of

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
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(Dollar amounts in thousands, unless otherwise stated)

\$10,574 and \$18,067 for the three months ended September 30, 2010 and 2009, respectively, and \$30,538 and \$69,439 for the nine months ended September 30, 2010 and 2009, respectively.

***SIRIUS Canada***

In 2005, SIRIUS entered into a license and services agreement with SIRIUS Canada. Pursuant to such agreement, SIRIUS is reimbursed for certain costs incurred to provide SIRIUS Canada service, including certain costs incurred for the production and distribution of radios, as well as information technology support costs. In consideration for the rights granted pursuant to this license and services agreement, SIRIUS has the right to receive a royalty equal to a percentage of SIRIUS Canada's gross revenues based on subscriber levels (ranging between 5% to 15%) and the number of Canadian-specific channels made available to SIRIUS Canada. SIRIUS' investment in SIRIUS Canada is primarily non-voting shares which carry an 8% cumulative dividend.

We recorded the following revenue from SIRIUS Canada. Royalty income is included in other revenue and dividend income is included in Interest and investment income (loss) in our unaudited consolidated statements of operations:

|                                  | <b>For the Three<br/>Months<br/>Ended September 30,</b> |             | <b>For the Nine Months<br/>Ended September 30,</b> |             |
|----------------------------------|---------------------------------------------------------|-------------|----------------------------------------------------|-------------|
|                                  | <b>2010</b>                                             | <b>2009</b> | <b>2010</b>                                        | <b>2009</b> |
| Royalty income                   | \$ 3,163                                                | \$ 1,525    | \$ 6,603                                           | \$ 3,695    |
| Dividend income                  | 232                                                     | 219         | 689                                                | 612         |
| Total revenue from SIRIUS Canada | \$ 3,395                                                | \$ 1,744    | \$ 7,292                                           | \$ 4,307    |

Receivables from royalty and dividend income were utilized to absorb a portion of our share of net losses generated by SIRIUS Canada during the three and nine months ended September 30, 2010 and 2009. Total costs that have been or will be reimbursed by SIRIUS Canada for the three months ended September 30, 2010 and 2009 were \$2,498 and \$2,471, respectively, and for the nine months ended September 30, 2010 and 2009 were \$7,333 and \$8,196, respectively.

***XM Canada***

In 2005, XM entered into agreements to provide XM Canada with the right to offer XM satellite radio service in Canada. The agreements have an initial ten year term and XM Canada has the unilateral option to extend the agreements for an additional five years. XM receives a 15% royalty for all subscriber fees earned by XM Canada each month for its basic service and an activation fee for each gross activation of an XM Canada subscriber on XM's system. XM Canada is obligated to pay XM a total of \$70,300 for the rights to broadcast and market National Hockey League (NHL) games for a 10-year term. The estimated fair value of deferred revenue from XM Canada as of the Merger date was approximately \$34,000, which is amortized on a straight-line basis through 2020, the expected term of the agreements. As of September 30, 2010 and December 31, 2009, the carrying value of deferred revenue related to XM Canada was \$29,487 and \$31,568, respectively.

XM guarantees certain advertising obligations of XM Canada to the NHL for each season. In September 2010, we were notified that XM Canada has fulfilled and paid the agreed advertising spend for the 2009-2010 season with the NHL. As a result, we reduced our amount due from XM Canada, which is reported as a Related party current asset, and the corresponding liability by \$844 at September 30, 2010.

XM has extended a Cdn\$45,000 standby credit facility to XM Canada, which can be utilized to purchase terrestrial repeaters or finance royalty and activation fees payable to XM. The facility matures on December 31, 2012 and bears interest at 17.75% per annum. XM has the right to convert unpaid principal amounts into Class A subordinate voting shares of XM Canada at the price of Cdn\$16.00 per share. As of September 30, 2010 and

December 31, 2009, amounts drawn by XM Canada on this facility in lieu of payment of fees recorded in Related party long-term assets were \$20,138, net of a \$6,882 valuation allowance, and \$18,429, respectively. The September 30, 2010 valuation allowance of \$6,882 related to the absorption of our share of the net loss from our investment in XM Canada shares.

As of September 30, 2010 and December 31, 2009, amounts due from XM Canada also included \$7,061 and \$6,000, respectively, attributable to deferred programming costs and accrued interest (in addition to the amounts drawn on the standby credit facility), all of which is reported as Related party long-term assets.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**

(Dollar amounts in thousands, unless otherwise stated)

We recorded the following revenue from XM Canada as Other revenue in our unaudited consolidated statements of operations:

|                                           | <b>For the Three<br/>Months<br/>Ended September 30,</b> |             | <b>For the Nine Months<br/>Ended September 30,</b> |             |
|-------------------------------------------|---------------------------------------------------------|-------------|----------------------------------------------------|-------------|
|                                           | <b>2010</b>                                             | <b>2009</b> | <b>2010</b>                                        | <b>2009</b> |
| Amortization of XM Canada deferred income | \$ 693                                                  | \$ 694      | \$ 2,081                                           | \$ 2,082    |
| Subscriber and activation fee royalties   | 2,594                                                   | 225         | 7,599                                              | 499         |
| Licensing fee revenue                     | 750                                                     | 1,500       | 3,000                                              | 4,500       |
| Advertising reimbursements                | -                                                       | -           | 667                                                | 733         |
| Total revenue from XM Canada              | \$ 4,037                                                | \$ 2,419    | \$ 13,347                                          | \$ 7,814    |

***General Motors and American Honda***

XM has a long-term distribution agreement with General Motors Company ( GM ). GM had a representative on our board of directors and was considered a related party through May 27, 2010. During the term of the agreement, GM has agreed to distribute the XM service. XM subsidizes a portion of the cost of XM radios and makes incentive payments to GM when the owners of GM vehicles with factory- or dealer- installed XM radios become self-paying subscribers to XM s service. XM also shares with GM a percentage of the subscriber revenue attributable to GM vehicles with factory- or dealer- installed XM radios. As part of the agreement, GM provides certain call-center related services directly to XM subscribers who are also GM customers for which we reimburse GM.

XM makes bandwidth available to OnStar Corporation for audio and data transmissions to owners of XM-enabled GM vehicles, regardless of whether the owner is an XM subscriber. OnStar s use of XM s bandwidth must be in compliance with applicable laws, must not compete or adversely interfere with XM s business, and must meet XM s quality standards. XM also granted to OnStar a certain amount of time to use XM s studios on an annual basis and agreed to provide certain audio content for distribution on OnStar s services.

XM has a long-term distribution agreement with American Honda. American Honda had a representative on our board of directors and was considered a related party through May 27, 2010. XM has an agreement to make a certain amount of its bandwidth available to American Honda. American Honda s use of XM s bandwidth must be in compliance with applicable laws, must not compete or adversely interfere with XM s business, and must meet XM s quality standards. This agreement remains in effect so long as American Honda holds a certain amount of its investment in us. XM makes incentive payments to American Honda for each purchaser of a Honda or Acura vehicle that becomes a self-paying XM subscriber and shares with American Honda a portion of the subscriber revenue attributable to Honda and Acura vehicles with installed XM radios.

As of May 27, 2010, the following aggregate assets and liabilities related to GM and America Honda were reclassified from related party to non-related party:

|                                   |            |
|-----------------------------------|------------|
| Balance sheet line item:          |            |
| Related party current assets      | \$ 107,908 |
| Related party long term assets    | 73,016     |
| Related party current liabilities | 57,996     |

We recorded the following total related party revenue from GM and American Honda, primarily consisting of subscriber revenue, in connection with the agreements above:



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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**  
(Dollar amounts in thousands, unless otherwise stated)

|                | <b>For the Three Months</b> |             | <b>For the Nine Months</b> |             |
|----------------|-----------------------------|-------------|----------------------------|-------------|
|                | <b>Ended September 30,</b>  |             | <b>Ended September 30,</b> |             |
|                | <b>2010*</b>                | <b>2009</b> | <b>2010*</b>               | <b>2009</b> |
| GM             | \$ -                        | \$ 8,831    | \$ 12,759                  | \$ 22,087   |
| American Honda | -                           | 3,374       | 4,990                      | 9,201       |
| Total          | -                           | 12,205      | 17,749                     | \$ 31,288   |

\* GM and American Honda were considered related parties through May 27, 2010.

We have incurred the following expenses with GM and American Honda:

|                                              | <b>For the Three Months Ended September 30,</b> |              |                 |              | <b>For the Nine Months Ended September 30,</b> |              |                 |              |
|----------------------------------------------|-------------------------------------------------|--------------|-----------------|--------------|------------------------------------------------|--------------|-----------------|--------------|
|                                              | <b>2010*</b>                                    |              | <b>2009</b>     |              | <b>2010*</b>                                   |              | <b>2009</b>     |              |
|                                              | <b>American</b>                                 | <b>GM</b>    | <b>American</b> | <b>GM</b>    | <b>American</b>                                | <b>GM</b>    | <b>American</b> | <b>GM</b>    |
|                                              | <b>GM</b>                                       | <b>Honda</b> | <b>GM</b>       | <b>Honda</b> | <b>GM</b>                                      | <b>Honda</b> | <b>GM</b>       | <b>Honda</b> |
| Sales and marketing                          | \$ -                                            | \$ -         | \$ 7,720        | \$ 1,647     | \$ 13,374                                      | \$ -         | \$ 23,387       | \$ 4,391     |
| Revenue share and royalties                  | -                                               | -            | 15,008          | 1,636        | 15,823                                         | 3,167        | 46,664          | 4,601        |
| Subscriber acquisition costs                 | -                                               | -            | 9,035           | -            | 17,514                                         | 1,969        | 25,066          | -            |
| Customer service and billing                 | -                                               | -            | -               | -            | 125                                            | -            | -               | -            |
| Interest expense, net of amounts capitalized | -                                               | -            | -               | -            | 1,421                                          | -            | -               | -            |
| Total                                        | \$ -                                            | \$ -         | \$ 31,763       | \$ 3,283     | \$ 48,257                                      | \$ 5,136     | \$ 95,117       | \$ 8,992     |

\* GM and American Honda were considered related parties through May 27, 2010.

**(10) Investments**

Our investments consist of the following:

**September 30,**      **December 31,**  
**2010**                      **2009**

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|                                    |    |       |    |        |
|------------------------------------|----|-------|----|--------|
| Investment in SIRIUS Canada        | \$ | -     | \$ | -      |
| Investment in XM Canada            |    | -     |    | 2,390  |
| Investment in XM Canada debentures |    | 3,323 |    | 2,970  |
| Auction rate certificates          |    | -     |    | 8,556  |
| Restricted investments             |    | 3,396 |    | 3,400  |
| Total investments                  | \$ | 6,719 | \$ | 17,316 |

***Canadian Entities***

Our investments in SIRIUS Canada and XM Canada (the Canadian Entities ) are recorded using the equity method since we have a significant influence, but do not control the Canadian Entities. Under this method, our investments in the Canadian Entities, originally recorded at cost, are adjusted quarterly to recognize our proportionate share of net earnings or losses as they occur, rather than at the time dividends or other distributions are received, limited to the extent of our investment in, advances to and commitments to fund the Canadian Entities. We have a 49.9% economic interest in SIRIUS Canada and a 23.33% economic interest in XM Canada.

Our share of net earnings or losses of the Canadian Entities is recorded to Interest and investment income (loss) in our unaudited consolidated statements of operations. As it relates to XM Canada, this is done on a one month lag. We evaluate the Canadian Entities periodically and record an impairment charge to Interest and investment income (loss) in our unaudited consolidated statements of operations if we determine that decreases in fair value are considered to be other-than temporary. In addition, any payments received from the Canadian Entities in excess of the carrying value of our investments in, advances to and commitments to such entity is recorded to Interest and investment income (loss) in our unaudited consolidated statements of operations.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**

(Dollar amounts in thousands, unless otherwise stated)

We recorded the following amounts to Interest and investment income (loss):

|                                                    | <b>For the Three Months<br/>Ended September 30,</b> |             | <b>For the Nine Months<br/>Ended September 30,</b> |             |
|----------------------------------------------------|-----------------------------------------------------|-------------|----------------------------------------------------|-------------|
|                                                    | <b>2010</b>                                         | <b>2009</b> | <b>2010</b>                                        | <b>2009</b> |
| Share of SIRIUS Canada net loss                    | \$ (3,361)                                          | \$ (1,744)  | \$ (6,579)                                         | \$ (4,307)  |
| Payments received from SIRIUS                      |                                                     |             |                                                    |             |
| Canada in excess of carrying value                 | 546                                                 | 4,555       | 4,256                                              | 11,424      |
| Share of XM Canada net loss                        | (2,926)                                             | (2,870)     | (9,416)                                            | (1,926)     |
| Impairment of XM Canada                            | -                                                   | -           | -                                                  | (4,734)     |
| Realized gain on sale of auction rate certificates | -                                                   | -           | 425                                                | -           |
| Total                                              | \$ (5,741)                                          | \$ (59)     | \$ (11,314)                                        | \$ 457      |

In addition, during the three and nine months ended September 30, 2010, we recorded \$35 and \$144, respectively, of a foreign exchange gain to Accumulated other comprehensive loss, net of tax, related to our investment in XM Canada.

XM holds an investment in Cdn\$4,000 face value of 8% convertible unsecured subordinated debentures issued by XM Canada, for which the embedded conversion feature is bifurcated from the host contract. The host contract is accounted for at fair value as an available-for-sale security with changes in fair value recorded to Accumulated other comprehensive loss, net of tax. The embedded conversion feature is accounted for at fair value as a derivative with changes in fair value recorded in earnings as Interest and investment income (loss). As of September 30, 2010, the carrying values of the host contract and embedded derivative related to our investment in the debentures was \$3,323 and \$0, respectively. As of December 31, 2009, the carrying values of the host contract and embedded derivative related to our investment in the debentures was \$2,961 and \$9, respectively.

***Auction Rate Certificates***

Auction rate certificates are long-term securities structured to reset their coupon rates by means of an auction. We accounted for our investment in auction rate certificates as available-for-sale securities. In January 2010, our investment in the auction rate certificates was called by the issuer at par plus accrued interest, or \$9,456, resulting in a gain of \$425 in the nine months ended September 30, 2010.

***Restricted Investments***

Restricted investments relate to reimbursement obligations under letters of credit issued for the benefit of lessors of office space. As of September 30, 2010 and December 31, 2009, Long-term restricted investments were \$3,396 and \$3,400, respectively.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
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(Dollar amounts in thousands, unless otherwise stated)

**(11) Debt**

Our debt consists of the following:

|                                                        | <b>Conversion<br/>Price<br/>(per<br/>share)</b> | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|--------------------------------------------------------|-------------------------------------------------|-------------------------------|------------------------------|
| <b>SIRIUS Debt</b>                                     |                                                 |                               |                              |
| 3.25% Convertible Notes due 2011 (a)                   | \$ 5.30                                         | \$ 230,000                    | \$ 230,000                   |
| Less: discount                                         |                                                 | (808)                         | (1,371)                      |
| Senior Secured Term Loan due 2012 (b)                  | N/A                                             | -                             | 244,375                      |
| 9.625% Senior Notes due 2013 (c)                       | N/A                                             | -                             | 500,000                      |
| Less: discount                                         |                                                 | -                             | (3,341)                      |
| 8.75% Senior Notes due 2015 (d)                        | N/A                                             | 800,000                       | -                            |
| Less: discount                                         |                                                 | (12,793)                      | -                            |
| 9.75% Senior Secured Notes due 2015 (e)                | N/A                                             | 257,000                       | 257,000                      |
| Less: discount                                         |                                                 | (10,527)                      | (11,695)                     |
| <b>XM Debt</b>                                         |                                                 |                               |                              |
| 10% Senior PIK Secured Notes due 2011 (f)              | N/A                                             | -                             | 113,685                      |
| Less: discount                                         |                                                 | -                             | (7,325)                      |
| 11.25% Senior Secured Notes due 2013 (g)               | N/A                                             | 525,750                       | 525,750                      |
| Less: discount                                         |                                                 | (26,483)                      | (32,259)                     |
| 13% Senior Notes due 2013 (h)                          | N/A                                             | 778,500                       | 778,500                      |
| Less: discount                                         |                                                 | (64,113)                      | (76,601)                     |
| 9.75% Senior Notes due 2014 (i)                        | N/A                                             | -                             | 5,260                        |
| 7% Exchangeable Senior Subordinated Notes due 2014 (j) | \$ 1.875                                        | 550,000                       | 550,000                      |
| Less: discount                                         |                                                 | (8,010)                       | (9,119)                      |
| Other debt:                                            |                                                 |                               |                              |
| Capital leases                                         | N/A                                             | 8,855                         | 14,304                       |
| <b>Total debt</b>                                      |                                                 | <b>3,027,371</b>              | <b>3,077,163</b>             |
| Less: current maturities non-related party             |                                                 | 5,482                         | 13,882                       |
| <b>Total current maturities</b>                        |                                                 | <b>5,482</b>                  | <b>13,882</b>                |
| <b>Total long-term</b>                                 |                                                 | <b>3,021,889</b>              | <b>3,063,281</b>             |
| Less: related party                                    |                                                 | 358,747                       | 263,579                      |

|                                          |    |           |    |           |
|------------------------------------------|----|-----------|----|-----------|
| Total long-term, excluding related party | \$ | 2,663,142 | \$ | 2,799,702 |
|------------------------------------------|----|-----------|----|-----------|

***SIRIUS Debt***

***(a) 3<sup>1</sup>/<sub>4</sub>% Convertible Notes due 2011***

In October 2004, SIRIUS issued \$230,000 in aggregate principal amount of 3<sup>1</sup>/<sub>4</sub>% Convertible Notes due October 15, 2011 (the "3<sup>1</sup>/<sub>4</sub>% Notes"), which are convertible, at the option of the holder, into shares of our common stock at any time at a conversion rate of 188.6792 shares of common stock for each \$1,000 principal amount, or \$5.30 per share of common stock, subject to certain adjustments. Interest is payable semi-annually on April 15 and October 15 of each year. The obligations under the 3<sup>1</sup>/<sub>4</sub>% Notes are not secured by any of our assets.

***(b) Senior Secured Term Loan due 2012***

In June 2007, SIRIUS entered into a term credit agreement with a syndicate of financial institutions. The term credit agreement provided for a senior secured term loan (the "Senior Secured Term Loan") of \$250,000, which was fully drawn. On March 16, 2010, we used net proceeds of \$244,714 from the sale of our 8.75% Senior Notes due 2015 to repay the Senior Secured Term Loan,

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
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(Dollar amounts in thousands, unless otherwise stated)

including accrued and unpaid interest of \$339. We recorded an aggregate loss on extinguishment on the Senior Secured Term Loan of \$2,450, consisting of deferred financing fees to Loss on extinguishment of debt and credit facilities, net, in our unaudited consolidated statements of operations.

***(c) 9<sup>5</sup>/<sub>8</sub>% Senior Notes due 2013***

In August 2005, SIRIUS issued \$500,000 in aggregate principal amount of 9<sup>5</sup>/<sub>8</sub>% Senior Notes due 2013 (the 9<sup>5</sup>/<sub>8</sub>% Notes ). On April 16, 2010, we used net proceeds of \$534,091 from the issuance of our 8.75% Senior Notes due 2015 to redeem the 9<sup>5</sup>/<sub>8</sub>% Notes, including accrued and unpaid interest of \$10,026 and a repayment premium of \$24,065. We recorded an aggregate loss on extinguishment on the 9<sup>5</sup>/<sub>8</sub>% Notes of \$27,705, consisting primarily of unamortized discount, deferred financing fees and repayment premium to Loss on extinguishment of debt and credit facilities, net, in our unaudited consolidated statements of operations.

***(d) 8.75% Senior Notes due 2015***

In March 2010, SIRIUS issued \$800,000 aggregate principal amount of 8.75% Senior Notes due April 1, 2015 (the 8.75% Notes ). Interest is payable semi-annually in arrears on April 1 and October 1 of each year at a rate of 8.75% per annum. The 8.75% Notes were issued for \$786,000, resulting in an aggregate original issuance discount of \$14,000. Certain of the domestic wholly-owned subsidiaries of SIRIUS guarantee SIRIUS obligations under the 8.75% Notes on a senior unsecured basis.

***(e) 9.75% Senior Secured Notes due 2015***

In August 2009, SIRIUS issued \$257,000 aggregate principal amount of 9.75% Senior Secured Notes due September 1, 2015 (the 9.75% Notes ). Interest is payable semi-annually in arrears on March 1 and September 1 of each year at a rate of 9.75% per annum. The 9.75% Notes were issued for \$244,292, resulting in an aggregate original issuance discount of \$12,708. Certain of the domestic wholly-owned subsidiaries of SIRIUS guarantee SIRIUS obligations under the 9.75% Notes. The 9.75% Notes and related guarantees are secured by first-priority liens on substantially all of the assets of SIRIUS and the guarantors other than certain excluded assets (including cash, accounts receivable and certain inventory).

***XM Debt***

***(f) 10% Senior PIK Secured Notes due 2011***

At December 31, 2009, XM had outstanding \$113,685 aggregate principal amount of 10% Senior PIK Secured Notes due 2011 (the PIK Notes ). On June 1, 2010, we redeemed all outstanding PIK Notes at a price of 100% plus accrued interest. We recognized an aggregate loss on extinguishment of the PIK Notes of \$4,138, consisting primarily of unamortized discount, as a Loss on extinguishment of debt and credit facilities, net, in our unaudited consolidated statements of operations.

***(g) 11.25% Senior Secured Notes due 2013***

In June 2009, XM issued \$525,750 aggregate principal amount of 11.25% Senior Secured Notes due 2013 (the 11.25% Notes ). Interest is payable semi-annually in arrears on June 15 and December 15 of each year at a rate of 11.25% per annum. The 11.25% Notes mature on June 15, 2013. The 11.25% Notes were issued for \$488,398, resulting in an aggregate original issuance discount of \$37,352. Substantially all the domestic wholly-owned subsidiaries of XM guarantee XM s obligations under the 11.25% Notes. The 11.25% Notes and related guarantees were secured by first-priority liens on substantially all of the assets of XM and the guarantors.

On October 27, 2010, XM purchased \$489,065 in aggregate principal amount of the 11.25% Notes. The aggregate purchase price for the 11.25% Notes, including the consent payments and accrued and unpaid interest, was \$567,927. The purchases were made pursuant to XM s tender offer for the 11.25% Notes described in its Offer to Purchase and Consent Solicitation Statement dated October 13, 2010. Such tender offer for the 11.25% Notes is scheduled to expire on November 9, 2010 and XM may purchase additional 11.25% Notes tendered on or prior to that date pursuant to such tender offer. Concurrent with the tender offer for the 11.25% Notes, XM solicited consents to amend the 11.25% Notes and the related indenture and security documents to eliminate most of the restrictive covenants and certain events of default applicable to the 11.25% Notes and to release the security for, and guarantees

of, the 11.25% Notes. The requisite consents to effect the amendments have been obtained and documentation giving effect to the amendments has been executed and delivered. Accordingly, the 11.25% Notes are no longer secured or guaranteed.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
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(Dollar amounts in thousands, unless otherwise stated)

***(h) 13% Senior Notes due 2013***

In July 2008, XM issued \$778,500 aggregate principal amount of 13% Senior Notes due 2013 (the "13% Notes"). Interest is payable semi-annually in arrears on February 1 and August 1 of each year at a rate of 13% per annum. The 13% Notes are unsecured and mature on August 1, 2013. Substantially all the domestic wholly-owned subsidiaries of XM guarantee XM's obligations under the 13% Notes.

***(i) 9.75% Senior Notes due 2014***

On December 31, 2009, XM had outstanding \$5,260 aggregate principal amount of 9.75% Senior Notes due 2014 (the "XM 9.75% Notes"). On August 16, 2010, XM redeemed all of the outstanding XM 9.75% Senior Notes plus accrued interest of \$150 for \$5,666. We recorded a loss on extinguishment on the XM 9.75% Notes of \$256 due to the cash redemption premium paid, as a Loss on extinguishment of debt and credit facilities, net, in our unaudited consolidated statements of operations.

***(j) 7% Exchangeable Senior Subordinated Notes due 2014***

In August 2008, XM issued \$550,000 aggregate principal amount of 7% Exchangeable Senior Subordinated Notes due 2014 (the "Exchangeable Notes"). The Exchangeable Notes are senior subordinated obligations of XM and rank junior in right of payment to its existing and future senior debt and equally in right of payment with its existing and future senior subordinated debt. Substantially all the domestic wholly-owned subsidiaries of XM have guaranteed the Exchangeable Notes on a senior subordinated basis.

The Exchangeable Notes are not guaranteed by SIRIUS or Satellite CD Radio, Inc. Interest is payable semi-annually in arrears on June 1 and December 1 of each year at a rate of 7% per annum. The Exchangeable Notes mature on December 1, 2014. The Exchangeable Notes are exchangeable at any time at the option of the holder into shares of our common stock at an initial exchange rate of 533.3333 shares of common stock per \$1,000 principal amount of Exchangeable Notes, which is equivalent to an approximate exchange price of \$1.875 per share of common stock.

***7.625% Senior Notes due 2018***

In October 2010, XM issued \$700,000 aggregate principal amount of 7.625% Senior Notes due 2018 (the "7.625% Senior Notes"). Interest is payable semi-annually in arrears on May 1 and November 1 of each year, commencing on May 1, 2011, at a rate of 7.625% per annum. A majority of the net proceeds were used to purchase \$489,065 aggregate principal amount of our 11.25% Notes. The 7.625% Senior Notes mature on November 1, 2018. Substantially all of the domestic wholly-owned subsidiaries of XM guarantee XM's obligations under the 7.625% Senior Notes.

***Covenants and Restrictions***

Our debt generally requires compliance with certain covenants that restrict our ability to, among other things, (i) incur additional indebtedness unless our consolidated leverage ratio would be no greater than 6.00 to 1.00 after the incurrence of the indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) merge or consolidate with another person, (vi) sell, assign, lease or otherwise dispose of all or substantially all of our assets, and (vii) make voluntary prepayments of certain debt, in each case subject to exceptions. SIRIUS operates XM as an unrestricted subsidiary for purposes of compliance with the covenants contained in its debt instruments.

Under our debt agreements, the following generally constitute an event of default: (i) a default in the payment of interest; (ii) a default in the payment of principal; (iii) failure to comply with covenants; (iv) failure to pay other indebtedness after final maturity or acceleration of other indebtedness exceeding a specified amount; (v) certain events of bankruptcy; (vi) judgment for payment of money exceeding a specified aggregate amount; and (vii) voidance of subsidiary guarantees, subject to grace periods where applicable. If an event of default occurs and is continuing, our debt could become immediately due and payable.

At September 30, 2010, we were in compliance with our debt covenants.



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**(12) Stockholders' Equity**

***Common Stock, par value \$0.001 per share***

We were authorized to issue up to 9,000,000,000 shares of common stock as of September 30, 2010 and December 31, 2009. There were 3,923,840,895 and 3,882,659,087 shares of common stock issued and outstanding as of September 30, 2010 and December 31, 2009, respectively.

As of September 30, 2010, approximately 3,384,298,000 shares of common stock were reserved for issuance in connection with outstanding convertible debt, preferred stock, warrants, incentive stock awards and common stock to be granted to third parties upon satisfaction of performance targets.

To facilitate the offering of the Exchangeable Notes, we entered into share lending agreements with Morgan Stanley Capital Services Inc. ( "MS" ) and UBS AG London Branch ( "UBS" ) in July 2008, under which we loaned MS and UBS an aggregate of 262,400,000 shares of our common stock in exchange for a fee of \$.001 per share. The obligations of MS to us under its share lending agreement are guaranteed by its parent company, Morgan Stanley. During the third quarter of 2009, MS returned to us 60,000,000 shares of our common stock borrowed in July 2008, which were retired upon receipt. As of September 30, 2010, there were 202,400,000 shares loaned under the facilities.

Under each share lending agreement, the share loan will terminate in whole or in part, as the case may be, and the relevant borrowed shares must be returned to us upon the earliest of the following: (i) the share borrower terminates all or a portion of the loan between it and us, (ii) we notify the share borrower that some of the Exchangeable Notes as to which borrowed shares relate have been exchanged, repaid or repurchased or are otherwise no longer outstanding, (iii) the maturity date of the Exchangeable Notes, December 1, 2014, (iv) the date as of which the entire principal amount of the Exchangeable Notes ceases to be outstanding as a result of exchange, repayment, repurchase or otherwise or (v) the termination of the share lending agreement by the share borrower or by us upon default by the other party, including the bankruptcy of us or the share borrower or, in the case of the MS share lending agreement, the guarantor. A share borrower may delay the return of borrowed shares for up to 30 business days (or under certain circumstances, up to 60 business days) if such share borrower is legally prevented from returning the borrowed shares to us, in which case the share borrower may, under certain circumstances, choose to pay us the value of the borrowed shares in cash instead of returning the borrowed shares. Once borrowed shares are returned to us, they may not be re-borrowed under the share lending agreements. There were no requirements for the share borrowers to provide collateral.

The shares we loaned to the share borrowers are issued and outstanding for corporate law purposes, and holders of borrowed shares (other than the share borrowers) have the same rights under those shares as holders of any of our other outstanding common shares. Under GAAP, the borrowed shares are not considered outstanding for the purpose of computing and reporting our net income (loss) per common share. The accounting method may change if, due to a default by either UBS or MS (or Morgan Stanley, as guarantor), the borrowed shares, or the equivalent value of those shares, will not be returned to us as required under the share lending agreements.

In January 2004, SIRIUS signed a seven-year agreement with a sports programming provider. Upon execution of this agreement, SIRIUS delivered 15,173,070 shares of common stock valued at \$40,967 to that programming provider. These shares of common stock are subject to transfer restrictions which lapse over time. We recognized share-based payment expense associated with these shares of \$1,641 in each of the three months ended September 30, 2010 and 2009 and \$3,501 in each of the nine months ended September 30, 2010 and 2009. As of September 30, 2010, there was a \$3,919 remaining balance of common stock value included in other current assets. As of December 31, 2009, there was a \$7,420 remaining balance of common stock value included in other current assets and other long-term assets in the amount of \$5,852 and \$1,568, respectively.

***Preferred Stock, par value \$0.001 per share***

We were authorized to issue up to 50,000,000 shares of undesignated preferred stock as of September 30, 2010 and December 31, 2009.

There were zero and 24,808,959 shares of Series A Convertible Preferred Stock ( Series A Preferred Stock ) issued and outstanding as of September 30, 2010 and December 31, 2009, respectively. On September 21, 2010, the holder of the Series A Preferred Stock converted the 24,808,959 outstanding shares into an equal number of shares of our common stock.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**

(Dollar amounts in thousands, unless otherwise stated)

There were 12,500,000 shares of Convertible Perpetual Preferred Stock, Series B (the Series B Preferred Stock ), issued and outstanding as of September 30, 2010 and December 31, 2009. The Series B Preferred Stock is convertible into shares of our common stock at the rate of 206.9581409 shares of common stock for each share of Series B Preferred Stock, representing approximately 40% of our outstanding shares of common stock (after giving effect to such conversion). As the holder of the Series B Preferred Stock, Liberty Radio LLC is entitled to a number of votes equal to the number of shares of our common stock into which each such Series B Preferred Stock share is convertible. Liberty Radio LLC will also receive dividends and distributions ratably with our common stock, on an as-converted basis. With respect to dividend rights, the Series B Preferred Stock ranks evenly with our common stock and each other class or series of our equity securities not expressly provided as ranking senior to the Series B Preferred Stock. With respect to liquidation rights, the Series B Preferred Stock ranks evenly with each other class or series of our equity securities not expressly provided as ranking senior to the Series B Preferred Stock, and will rank senior to our common stock. In 2009, we accounted for the issuance of Series B Preferred Stock by recording a \$227,716 increase to additional paid-in capital for the amount of allocated proceeds received and an additional \$186,188 increase to paid-in capital for the beneficial conversion feature, which was recognized as a charge to retained earnings.

There were no shares of Preferred Stock, Series C Junior (the Series C Junior Preferred Stock ), issued and outstanding as of September 30, 2010 and December 31, 2009. In 2009, our board of directors created and reserved for issuance in accordance with the Rights Plan (as described below) 9,000 shares of the Series C Junior Preferred Stock. The shares of Series C Junior Preferred Stock are not redeemable and rank, with respect to the payment of dividends and the distribution of assets, junior to all other series of our preferred stock, unless the terms of such series shall so provide.

***Warrants***

We have issued warrants to purchase shares of common stock in connection with distribution and programming agreements, satellite purchase agreements and certain debt issuances. As of September 30, 2010, approximately 46,946,000 warrants to acquire an equal number of shares of common stock with an average exercise price of \$3 per share were outstanding. Warrants vest over time or upon the achievement of milestones and expire at various times through 2015. We did not have any warrant related expense for the three months ended September 30, 2010 and 2009 and incurred warrant related expense of \$0 and \$2,522 for the nine months ended September 30, 2010 and 2009, respectively.

***Rights Plan***

In April 2009, our board of directors adopted a rights plan. The terms of the rights and the rights plan are set forth in a Rights Agreement dated as of April 29, 2009 (the Rights Plan ). The Rights Plan is intended to act as a deterrent to any person or group acquiring 4.9% or more of our outstanding common stock (assuming for purposes of this calculation that all of our outstanding convertible preferred stock is converted into common stock) without the approval of our board of directors. The Rights Plan will continue in effect until August 1, 2011, unless it is terminated or redeemed earlier by our board of directors.

**(13) Benefits Plans**

We recognized share-based payment expense of \$16,220 and \$16,033 for the three months ended September 30, 2010 and 2009, respectively, and \$47,443 and \$61,530 for the nine months ended September 30, 2010 and 2009, respectively. We did not realize any income tax benefits from share-based benefits plans during the three and nine months ended September 30, 2010 and 2009 as a result of the full valuation allowance that is maintained for substantially all net deferred tax assets.

***2009 Long-Term Stock Incentive Plan***

In May 2009, our stockholders approved the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan (the 2009 Plan ). Employees, consultants and members of our board of directors are eligible to receive awards under the 2009 Plan. The 2009 Plan provides for the grant of stock options, restricted stock, restricted stock units and other

stock-based awards that the compensation committee of our board of directors may deem appropriate. Vesting and other terms of stock-based awards are set forth in the agreements with the individuals receiving the awards. Stock-based awards granted under the 2009 Plan are generally subject to a vesting requirement. Stock-based awards generally expire ten years from the date of grant. Each restricted stock unit entitles the holder to receive one share of common stock upon vesting. As of September 30, 2010, approximately 266,829,000 shares of common stock were available for future grants under the 2009 Plan.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**

(Dollar amounts in thousands, unless otherwise stated)

***Other Plans***

SIRIUS and XM maintain four other share-based benefit plans – the XM 2007 Stock Incentive Plan, the Amended and Restated Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan, the XM 1998 Shares Award Plan and the XM Talent Option Plan. These plans generally provided for the grant of stock options, restricted stock, restricted stock units and other stock-based awards. No further awards may be made under these plans. Outstanding awards under these plans are being continued.

The following table summarizes the weighted-average assumptions used to compute the fair value of options granted to employees and members of our board of directors during the three and nine months ended September 30, 2010 and 2009:

|                                  | <b>For the Three<br/>Months<br/>Ended September 30,</b> |             | <b>For the Nine Months<br/>Ended September 30,</b> |             |
|----------------------------------|---------------------------------------------------------|-------------|----------------------------------------------------|-------------|
|                                  | <b>2010</b>                                             | <b>2009</b> | <b>2010</b>                                        | <b>2009</b> |
| Risk-free interest rate          | 1.5%                                                    | 2.5%        | 1.7%                                               | 2.5%        |
| Expected life of options - years | 5.33                                                    | 4.57        | 5.28                                               | 4.64        |
| Expected stock price volatility  | 85%                                                     | 88%         | 85%                                                | 88%         |
| Expected dividend yield          | 0%                                                      | 0%          | 0%                                                 | 0%          |

The following table summarizes the range of assumptions used to compute the fair value of options granted to third parties, other than non-employee members of our board of directors, during the three and nine months ended September 30, 2010 and 2009.

|                                 | <b>For the Three Months<br/>Ended September 30,</b> |              | <b>For the Nine Months<br/>Ended September 30,</b> |              |
|---------------------------------|-----------------------------------------------------|--------------|----------------------------------------------------|--------------|
|                                 | <b>2010</b>                                         | <b>2009</b>  | <b>2010</b>                                        | <b>2009</b>  |
| Risk-free interest rate         | N/A                                                 | 1.45 - 2.53% | N/A                                                | 1.08 - 2.54% |
| Expected life - years           | N/A                                                 | 2.58 - 4.98  | N/A                                                | 2.50 - 6.19  |
| Expected stock price volatility | N/A                                                 | 88 - 112%    | N/A                                                | 83 - 112%    |
| Expected dividend yield         | N/A                                                 | 0%           | N/A                                                | 0%           |

There were no options granted to third parties during the three and nine months ended September 30, 2010.

The following table summarizes stock option activity under our share-based payment plans for the nine months ended September 30, 2010 (shares in thousands):

|                                 |               | <b>Weighted- Average</b>  | <b>Weighted-Average<br/>Remaining<br/>Contractual<br/>Term<br/>(Years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|---------------------------------|---------------|---------------------------|----------------------------------------------------------------------------|------------------------------------------|
|                                 | <b>Shares</b> | <b>Exercise<br/>Price</b> |                                                                            |                                          |
| Outstanding, December 31, 2009  | 364,792       | \$ 1.44                   |                                                                            |                                          |
| Granted                         | 71,096        | 0.97                      |                                                                            |                                          |
| Exercised                       | (10,341)      | 0.50                      |                                                                            |                                          |
| Forfeited, cancelled or expired | (12,422)      | 3.84                      |                                                                            |                                          |

|                                 |         |         |      |           |
|---------------------------------|---------|---------|------|-----------|
| Outstanding, September 30, 2010 | 413,125 | 1.31    | 6.75 | \$193,047 |
| Exercisable, September 30, 2010 | 95,288  | \$ 3.40 | 4.98 | \$ 11,980 |

The weighted average grant date fair value of options granted during the nine months ended September 30, 2010 and 2009 was \$0.66 and \$0.35, respectively. The total intrinsic value of stock options exercised during the nine months ended September 30, 2010 was \$5,611. The total intrinsic value of stock options exercised during the nine months ended September 30, 2009 was \$0; no options were exercised in that period.

We recognized share-based payment expense associated with stock options of \$11,679 and \$8,577 for the three months ended September 30, 2010 and 2009, respectively, and \$32,459 and \$40,890 for the nine months ended September 30, 2010 and 2009, respectively.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**

(Dollar amounts in thousands, unless otherwise stated)

The following table summarizes the nonvested restricted stock and restricted stock unit activity under our share-based payment plans for the nine months ended September 30, 2010 (shares in thousands):

|                                | Shares  | Weighted-Average<br>Grant Date<br>Fair Value |
|--------------------------------|---------|----------------------------------------------|
| Nonvested, December 31, 2009   | 6,919   | \$ 2.65                                      |
| Granted                        | -       | -                                            |
| Vested restricted stock awards | (4,036) | 2.85                                         |
| Vested restricted stock units  | (192)   | 2.92                                         |
| Forfeited                      | (239)   | 2.69                                         |
| Nonvested, September 30, 2010  | 2,452   | \$ 2.57                                      |

The weighted average grant date fair value of restricted stock units granted during the nine months ended September 30, 2010 was \$0; no restricted stock units were granted during the period. The weighted average grant date fair value of restricted stock units granted during the nine months ended September 30, 2009 was \$0.37. The total intrinsic value of restricted stock and restricted stock units that vested during the nine months ended September 30, 2010 and 2009 was \$3,923 and \$28,865, respectively.

We recognized share-based payment expense associated with restricted stock units and shares of restricted stock of \$1,385 and \$5,024 for the three months ended September 30, 2010 and 2009, respectively, and \$6,059 and \$17,881 for the nine months ended September 30, 2010 and 2009, respectively.

Total unrecognized compensation costs related to unvested share-based payment awards granted to employees and members of our board of directors at September 30, 2010 and December 31, 2009, net of estimated forfeitures, was \$122,745 and \$114,068, respectively. The weighted-average period over which the compensation expense for these awards is expected to be recognized is three years as of September 30, 2010.

**401(k) Savings Plan**

We sponsor the Sirius XM Radio 401(k) Savings Plan (the "Sirius XM Plan") for eligible employees.

The Sirius XM Plan allows eligible employees to voluntarily contribute from 1% to 50% of their pre-tax eligible earnings, subject to certain defined limits. We match 50% of an employee's voluntary contributions, up to 6% of an employee's pre-tax salary, in the form of shares of common stock. Employer matching contributions under the Sirius XM Plan vest at a rate of 33 $\frac{1}{3}$ % for each year of employment and are fully vested after three years of employment for all current and future contributions. Legacy XM Plan participants are fully vested for all current and future employer contributions. Share-based payment expense resulting from the matching contribution to the plans was \$724 and \$895 for the three months ended September 30, 2010 and 2009, respectively, and \$2,649 and \$2,186 for the nine months ended September 30, 2010 and 2009, respectively.

We may also elect to contribute to the profit sharing portion of the Sirius XM Plan based upon the total eligible compensation of eligible participants. These additional contributions in the form of shares of common stock are determined by the compensation committee of our board of directors. Employees are only eligible to receive profit-sharing contributions during any year in which they are employed on the last day of the year. Profit-sharing contribution expense was \$2,432 and \$1,537 for the three months ended September 30, 2010 and 2009, respectively, and \$6,276 and \$573 for the nine months ended September 30, 2010 and 2009, respectively.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** **Continued**

(Dollar amounts in thousands, unless otherwise stated)

**(14) Commitments and Contingencies**

The following table summarizes our expected contractual cash commitments as of September 30, 2010:

|                                                    | <b>Remaining<br/>2010</b> | <b>2011</b>       | <b>2012</b>       | <b>2013</b>         | <b>2014</b>       | <b>There after</b>  | <b>Total</b>        |
|----------------------------------------------------|---------------------------|-------------------|-------------------|---------------------|-------------------|---------------------|---------------------|
| Long-term debt obligations                         | \$ 1,813                  | \$ 234,160        | \$ 1,558          | \$ 1,305,386        | \$ 550,182        | \$ 1,057,006        | \$ 3,150,105        |
| Cash interest payments                             | 90,491                    | 301,500           | 294,107           | 264,406             | 133,560           | 60,058              | 1,144,122           |
| Satellite and transmission Programming and content | 28,202                    | 100,970           | 5,473             | 5,992               | 14,481            | 35,072              | 190,190             |
| Marketing and distribution                         | 39,516                    | 172,007           | 130,097           | 33,365              | 10,350            | 4,000               | 389,335             |
| Satellite incentive payments                       | 43,164                    | 25,811            | 19,750            | 12,815              | 8,590             | 15,000              | 125,130             |
| Operating lease obligations                        | 1,874                     | 8,851             | 10,505            | 11,099              | 10,807            | 63,535              | 106,671             |
| Other                                              | 16,646                    | 29,894            | 25,621            | 21,885              | 15,814            | 10,437              | 120,297             |
|                                                    | 13,765                    | 27,605            | 8,640             | 29                  | 2                 | -                   | 50,041              |
| <b>Total</b>                                       | <b>\$ 235,471</b>         | <b>\$ 900,798</b> | <b>\$ 495,751</b> | <b>\$ 1,654,977</b> | <b>\$ 743,786</b> | <b>\$ 1,245,108</b> | <b>\$ 5,275,891</b> |

*Long-term debt obligations.* Long-term debt obligations include principal payments on outstanding debt and capital lease obligations. Included in the chart above is the aggregate principal balance of \$525,750 of the 11.25% Notes. On October 27, 2010, XM purchased \$489,065 in aggregate principal amount of the 11.25% Notes. The aggregate purchase price for the 11.25% Notes, including the consent payments and accrued and unpaid interest was \$567,927. The purchases were made pursuant to XM's tender offer for the 11.25% Notes described in the Offer to Purchase and Consent Solicitation Statement dated October 13, 2010. Such tender offer for the 11.25% Notes is scheduled to expire on November 9, 2010 and XM may purchase additional 11.25% Notes tendered on or prior to such date pursuant to such tender offer. The table above continues to reflect the contractual payments of interest and principal for the 11.25% Notes. The above chart does not include the aggregate principal amount of \$700,000 of the 7.625% Senior Notes due 2018 issued on October 27, 2010 and payments of interest and principal for these notes.

*Cash interest payments.* Cash interest payments include interest due on outstanding debt through maturity and does not give effect to the issuance of the 7.625% Senior Notes due 2018 issued on October 27, 2010 or the purchase of \$489,065 in aggregate principal amount of the 11.25% Notes.

*Satellite and transmission.* We have entered into agreements with third parties to operate and maintain the off-site satellite telemetry, tracking and control facilities and certain components of our terrestrial repeater networks. We have also entered into various agreements to design and construct satellites and related launch vehicles for use in our systems.

SIRIUS has an agreement with Space Systems/Loral to design and construct a sixth satellite, FM-6. In January 2008, SIRIUS entered into an agreement with ILS to secure a satellite launch on a Proton rocket.

*Programming and content.* We have entered into various programming agreements. Under the terms of these agreements, we are obligated to provide payments to other entities that may include fixed payments, advertising commitments and revenue sharing arrangements.

*Marketing and distribution.* We have entered into various marketing, sponsorship and distribution agreements to promote our brand and are obligated to make payments to sponsors, retailers, automakers and radio manufacturers under these agreements. Certain programming and content agreements also require us to purchase advertising on properties owned or controlled by the licensors. We also reimburse automakers for certain engineering and development costs associated with the incorporation of satellite radios into vehicles they manufacture. In addition, in the event certain new products are not shipped by a distributor to its customers within 90 days of the distributor's receipt of goods, we have agreed to purchase and take title to the product.

*Satellite incentive payments.* Boeing Satellite Systems International, Inc., the manufacturer of four of XM's in-orbit satellites, may be entitled to future in-orbit performance payments with respect to two of XM's satellites. As of September 30, 2010, we have accrued \$28,599 related to contingent in-orbit performance payments for XM-3 and XM-4 based on expected operating performance over their fifteen year design life. Boeing may also be entitled to an additional \$10,000 if XM-4 continues to operate above baseline specifications during the five years beyond the satellite's fifteen-year design life.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued**

(Dollar amounts in thousands, unless otherwise stated)

Space Systems/Loral, the manufacturer of SIRIUS fifth satellite, may be entitled to future in-orbit performance payments. As of September 30, 2010, we have accrued \$13,145 related to contingent performance payments for FM-5 based on expected operating performance over its fifteen-year design life.

*Operating lease obligations.* We have entered into cancelable and non-cancelable operating leases for office space, equipment and terrestrial repeaters. These leases provide for minimum lease payments, additional operating expense charges, leasehold improvements and rent escalations that have initial terms ranging from one to fifteen years, and certain leases that have options to renew. The effect of the rent holidays and rent concessions are recognized on a straight-line basis over the lease term, including reasonably assured renewal periods.

*Other.* We have entered into various agreements with third parties for general operating purposes. In addition to the minimum contractual cash commitments described above, we have entered into agreements with other variable cost arrangements. These future costs are dependent upon many factors, including subscriber growth, and are difficult to anticipate; however, these costs may be substantial. We may enter into additional programming, distribution, marketing and other agreements that contain similar variable cost provisions.

We do not have any other significant off-balance sheet arrangements that are reasonably likely to have a material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

***Legal Proceedings***

*FCC Merger Order.* On July 25, 2008, the FCC adopted an order approving the Merger. In September 2008, Mt. Wilson FM Broadcasters, Inc. filed a Petition for Reconsideration of the FCC's merger order. On October 19, 2010, the FCC released an Order dismissing this Petition for Reconsideration.

*Advanced Recording Functionality Disputes.* Commencing in May 2006, holders of copyrights in sound recordings and holders of copyrights in musical works brought three actions against XM for copyright infringement in the Federal District Court in the Southern District of New York; namely, *Atlantic Recording Corp. et al. v. XM Satellite Radio Inc.*, *Famous Music LLC, et al. v. XM Satellite Radio, Inc.*, and *In re XM Satellite Radio Copyright Litigation*. These actions sought monetary damages and equitable relief in connection with the advanced recording functionality included in the XM Inno, the XM NeXus, the XM Helix, the XM SkyFi3 line of satellite radios. As previously reported, XM settled these claims with the major record companies and a significant number of music publishers, resulting in the dismissal of two of the three actions. XM has also reached agreement with certain independent holders of sound recordings and musical works to settle the third action, a purported class action.

Prior to introducing retail sales of the SIRIUS S50 and the SIRIUS Stiletto line of satellite radio receivers with advanced recording functionality, SIRIUS entered into agreements with the major recording companies concerning such devices. SIRIUS has also reached agreement with the National Music Publishers Association to settle the copyright infringement claims which is now being offered to the principal holders of copyrights for musical works. SIRIUS is also in negotiation to settle the *Nota Music Publishing, Inc., et al. v. Sirius Satellite Radio Inc.* action, a purported class action, brought on behalf of certain independent record companies and music publishers.

SIRIUS and XM believe that the distribution and use of their products do not violate applicable copyright laws or any other statutory or common laws. There can be no assurance regarding the ultimate outcome of these matters and settlement discussions, or the significance, if any, to our business, consolidated results of operations or financial position.

*State Consumer Investigations.* In October 2010, a Multistate Working Group, led by the Attorney General of the State of Ohio and joined by the Offices of the Attorneys General of Arizona, Connecticut, Tennessee, Vermont and the District of Columbia, commenced a multi-jurisdictional investigation into certain of SIRIUS and XM's consumer practices. The investigation focuses on practices relating to the cancellation of subscriptions; automatic renewal of subscriptions; charging, billing, collecting, and refunding or crediting of payments from consumers; and soliciting customers.

A separate investigation into SIRIUS and XM's consumer-related practices is being conducted by the Attorney General of the State of Florida. In addition, in September 2010, the Attorney General of the State of Missouri

commenced an action against us regarding our telemarketing practices to residents of the State of Missouri.

We are cooperating with these investigations and believe our consumer-related practices comply with all applicable federal and state laws and regulations.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**

(Dollar amounts in thousands, unless otherwise stated)

*Other Matters.* In the ordinary course of business, we are a defendant in various lawsuits and arbitration proceedings, including actions filed by subscribers, both on behalf of themselves and on a class action basis; former employees; parties to contracts or leases; and owners of patents, trademarks, copyrights or other intellectual property. None of these actions are, in our opinion, likely to have a material adverse effect on our cash flows, financial position or results of operations.

**(15) Condensed Consolidating Financial Information**

Sirius Asset Management, LLC and Satellite CD Radio, Inc. (collectively, the *Guarantor Subsidiaries* ) are our wholly-owned subsidiaries. The *Guarantor Subsidiaries* have fully and unconditionally, jointly and severally, directly or indirectly, guaranteed, on an unsecured basis, the debt issued by us in connection with certain of our financings. Our unrestricted subsidiary, XM, and its consolidated subsidiaries are non-guarantor subsidiaries (collectively, the *Non-Guarantor Subsidiaries* ).

These condensed consolidating financial statements should be read in conjunction with the consolidated financial statements of Sirius XM Radio Inc. and Subsidiaries.

**Basis of Presentation**

In presenting our condensed consolidating financial statements, the equity method of accounting has been applied to (i) our interests in the *Guarantor Subsidiaries* and *Non-Guarantor Subsidiaries* and (ii) the *Guarantor Subsidiaries* interests in the *non-Guarantor Subsidiaries*, where applicable, even though all such subsidiaries meet the requirements to be consolidated under GAAP. All intercompany balances and transactions between us, the *Guarantor Subsidiaries* and the *Non-Guarantor Subsidiaries* have been eliminated, as shown in the column *Eliminations*.

Our accounting bases in all subsidiaries, including goodwill and identified intangible assets, have been pushed down to the applicable subsidiaries.

**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010**

|                                              | Sirius XM<br>Radio | Sirius Asset<br>Mgmt | Satellite CD<br>Radio | Non -<br>Guarantors | Eliminations | Consolidated<br>Sirius XM<br>Radio |
|----------------------------------------------|--------------------|----------------------|-----------------------|---------------------|--------------|------------------------------------|
| (in thousands)                               | Inc.               | LLC                  |                       |                     |              | Inc.                               |
| Revenue                                      | \$ 335,120         | \$ -                 | \$ -                  | \$ 382,428          | \$ -         | \$ 717,548                         |
| Cost of services                             | 155,818            | -                    | -                     | 124,727             | -            | 280,545                            |
| Subscriber acquisition costs                 | 67,283             | -                    | -                     | 38,701              | -            | 105,984                            |
| Sales and marketing                          | 15,935             | -                    | -                     | 35,584              | -            | 51,519                             |
| Engineering, design and development          | 7,265              | -                    | -                     | 5,261               | -            | 12,526                             |
| General and administrative                   | 35,082             | -                    | -                     | 19,106              | -            | 54,188                             |
| Depreciation and amortization                | 32,337             | 114                  | -                     | 34,999              | -            | 67,450                             |
| Restructuring, impairments and related costs | 1,139              | 932                  | -                     | 196                 | -            | 2,267                              |

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|                                                           |           |            |          |           |           |           |
|-----------------------------------------------------------|-----------|------------|----------|-----------|-----------|-----------|
| Total operating expenses                                  | 314,859   | 1,046      | -        | 258,574   | -         | 574,479   |
| Income (loss) from operations                             | 20,261    | (1,046)    | -        | 123,854   | -         | 143,069   |
| Other income (expense):                                   |           |            |          |           |           |           |
| Interest expense, net of amounts capitalized              | (22,552)  | -          | -        | (51,835)  | 5,828     | (68,559)  |
| Loss on extinguishment of debt and credit facilities, net | -         | -          | -        | (597)     | 341       | (256)     |
| Loss on change in value of embedded derivative            | -         | -          | -        | (45,796)  | 45,796    | -         |
| Interest and investment income (loss)                     | 18,476    | -          | -        | (1,748)   | (21,033)  | (4,305)   |
| Other income                                              | (243)     | -          | -        | 1,567     | (216)     | 1,108     |
| Income (loss) before income taxes                         | 15,942    | (1,046)    | -        | 25,445    | 30,716    | 71,057    |
| Income tax expense                                        | (60)      | -          | (574)    | (2,794)   | -         | (3,428)   |
| Net income (loss)                                         | 15,882    | (1,046)    | (574)    | 22,651    | 30,716    | 67,629    |
| Preferred stock beneficial conversion feature             | -         | -          | -        | -         | -         | -         |
| Net income (loss) attributable to common stockholders     | \$ 15,882 | \$ (1,046) | \$ (574) | \$ 22,651 | \$ 30,716 | \$ 67,629 |

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**

(Dollar amounts in thousands, unless otherwise stated)

**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009**

|                                                           | <b>Sirius XM</b> |            | <b>Sirius</b>       |                   | <b>Consolidated</b> |             |
|-----------------------------------------------------------|------------------|------------|---------------------|-------------------|---------------------|-------------|
|                                                           | <b>Radio</b>     |            | <b>Asset</b>        |                   | <b>Sirius XM</b>    |             |
|                                                           | <b>Inc.</b>      |            | <b>Mgmt</b>         |                   | <b>Radio</b>        |             |
| <i>(in thousands)</i>                                     | <b>Inc.</b>      | <b>LLC</b> | <b>Satellite CD</b> | <b>Non -</b>      | <b>Eliminations</b> | <b>Inc.</b> |
|                                                           |                  |            | <b>Radio</b>        | <b>Guarantors</b> |                     |             |
| Revenue                                                   | \$ 293,000       | \$ -       | \$ -                | \$ 325,656        | \$ -                | \$ 618,656  |
| Cost of services                                          | 144,237          | 1          | -                   | 122,650           | -                   | 266,888     |
| Subscriber acquisition costs                              | 54,945           | -          | -                   | 35,109            | -                   | 90,054      |
| Sales and marketing                                       | 20,745           | -          | -                   | 31,785            | -                   | 52,530      |
| Engineering, design and development                       | 5,837            | -          | -                   | 5,415             | -                   | 11,252      |
| General and administrative                                | 31,705           | -          | -                   | 25,218            | -                   | 56,923      |
| Depreciation and amortization                             | 30,474           | 39         | -                   | 41,587            | -                   | 72,100      |
| Restructuring, impairments and related costs              | (476)            | -          | -                   | 3,030             | -                   | 2,554       |
| Total operating expenses                                  | 287,467          | 40         | -                   | 264,794           | -                   | 552,301     |
| Income (loss) from operations                             | 5,533            | (40)       | -                   | 60,862            | -                   | 66,355      |
| Other income (expense):                                   |                  |            |                     |                   |                     |             |
| Interest expense, net of amounts capitalized              | (23,504)         | -          | -                   | (70,538)          | 13,178              | (80,864)    |
| Loss on extinguishment of debt and credit facilities, net | (134,520)        | -          | -                   | (3,786)           | 253                 | (138,053)   |
| Loss on change in value of embedded derivative            | -                | -          | -                   | (33,700)          | 33,700              | -           |
| Interest and investment income (loss)                     | (50,900)         | -          | -                   | 2,593             | 49,211              | 904         |
| Other income                                              | 4,654            | -          | -                   | (3,408)           | -                   | 1,246       |

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|                                                       |              |         |          |             |           |              |
|-------------------------------------------------------|--------------|---------|----------|-------------|-----------|--------------|
| Income (loss) before income taxes                     | (198,737)    | (40)    | -        | (47,977)    | 96,342    | (150,412)    |
| Income tax expense                                    | -            | -       | (537)    | (578)       | -         | (1,115)      |
| Net income (loss)                                     | (198,737)    | (40)    | (537)    | (48,555)    | 96,342    | (151,527)    |
| Preferred stock beneficial conversion feature         | -            | -       | -        | -           | -         | -            |
| Net income (loss) attributable to common stockholders | \$ (198,737) | \$ (40) | \$ (537) | \$ (48,555) | \$ 96,342 | \$ (151,527) |

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**

(Dollar amounts in thousands, unless otherwise stated)

**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010**

|                                                            | Sirius XM<br>Radio | Sirius Asset<br>Mgmt |                       |                     |              | Consolidated<br>Sirius XM<br>Radio |
|------------------------------------------------------------|--------------------|----------------------|-----------------------|---------------------|--------------|------------------------------------|
| <i>(in thousands)</i>                                      | Inc.               | LLC                  | Satellite CD<br>Radio | Non -<br>Guarantors | Eliminations | Inc.                               |
| Revenue                                                    | \$ 974,868         | \$ -                 | \$ -                  | \$ 1,106,225        | \$ -         | \$ 2,081,093                       |
| Cost of services                                           | 443,304            | -                    | -                     | 364,227             | -            | 807,531                            |
| Subscriber acquisition costs                               | 195,967            | -                    | -                     | 109,778             | -            | 305,745                            |
| Sales and marketing                                        | 54,570             | -                    | -                     | 102,243             | -            | 156,813                            |
| Engineering, design and development                        | 19,726             | -                    | -                     | 15,483              | -            | 35,209                             |
| General and administrative                                 | 96,900             | -                    | -                     | 74,035              | -            | 170,935                            |
| Depreciation and amortization                              | 97,637             | 422                  | -                     | 108,886             | -            | 206,945                            |
| Restructuring, impairments and related costs               | 2,240              | 932                  | -                     | 899                 | -            | 4,071                              |
| Total operating expenses                                   | 910,344            | 1,354                | -                     | 775,551             | -            | 1,687,249                          |
| Income (loss) from operations                              | 64,524             | (1,354)              | -                     | 330,674             | -            | 393,844                            |
| Other income (expense):                                    |                    |                      |                       |                     |              |                                    |
| Interest expense, net of amounts capitalized               | (70,362)           | -                    | -                     | (168,714)           | 15,846       | (223,230)                          |
| Loss on extinguishment of debt and credit facilities, net  | (30,155)           | -                    | -                     | (4,881)             | 341          | (34,695)                           |
| Gain (loss) on change in fair value of embedded derivative | -                  | -                    | -                     | (94,399)            | 94,399       | -                                  |
| Interest and investment income (loss)                      | 51,235             | -                    | -                     | (5,651)             | (52,781)     | (7,197)                            |
| Other income                                               | (514)              | -                    | -                     | 2,693               | (342)        | 1,837                              |

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|                                                       |           |            |            |           |           |            |
|-------------------------------------------------------|-----------|------------|------------|-----------|-----------|------------|
| Income (loss) before income taxes                     | 14,728    | (1,354)    | -          | 59,722    | 57,463    | 130,559    |
| Income tax expense                                    | (471)     | -          | (1,651)    | (3,938)   | -         | (6,060)    |
| Net income (loss)                                     | 14,257    | (1,354)    | (1,651)    | 55,784    | 57,463    | 124,499    |
| Preferred stock beneficial conversion feature         | -         | -          | -          | -         | -         | -          |
| Net income (loss) attributable to common stockholders | \$ 14,257 | \$ (1,354) | \$ (1,651) | \$ 55,784 | \$ 57,463 | \$ 124,499 |

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**

(Dollar amounts in thousands, unless otherwise stated)

**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009**

|                                                           | <b>Consolidated</b>        |                                  |                               |                             |                     |                            |
|-----------------------------------------------------------|----------------------------|----------------------------------|-------------------------------|-----------------------------|---------------------|----------------------------|
|                                                           | <b>Sirius XM<br/>Radio</b> | <b>Sirius<br/>Asset<br/>Mgmt</b> |                               |                             |                     | <b>Sirius XM<br/>Radio</b> |
| <i>(in thousands)</i>                                     | <b>Inc.</b>                | <b>LLC</b>                       | <b>Satellite CD<br/>Radio</b> | <b>Non -<br/>Guarantors</b> | <b>Eliminations</b> | <b>Inc.</b>                |
| Revenue                                                   | \$ 861,354                 | \$ -                             | \$ -                          | \$ 935,110                  | \$ -                | \$ 1,796,464               |
| Cost of services                                          | 417,599                    | 9                                | -                             | 373,065                     | -                   | 790,673                    |
| Subscriber acquisition costs                              | 147,027                    | -                                | -                             | 83,746                      | -                   | 230,773                    |
| Sales and marketing                                       | 54,229                     | -                                | -                             | 98,418                      | -                   | 152,647                    |
| Engineering, design and development                       | 16,177                     | -                                | -                             | 16,798                      | -                   | 32,975                     |
| General and administrative                                | 91,263                     | -                                | -                             | 91,690                      | -                   | 182,953                    |
| Depreciation and amortization                             | 84,949                     | 213                              | -                             | 146,462                     | -                   | 231,624                    |
| Restructuring, impairments and related costs              | 553                        | -                                | -                             | 29,614                      | -                   | 30,167                     |
| Total operating expenses                                  | 811,797                    | 222                              | -                             | 839,793                     | -                   | 1,651,812                  |
| Income (loss) from operations                             | 49,557                     | (222)                            | -                             | 95,317                      | -                   | 144,652                    |
| Other income (expense):                                   |                            |                                  |                               |                             |                     |                            |
| Interest expense, net of amounts capitalized              | (63,306)                   | -                                | -                             | (226,375)                   | 42,759              | (246,922)                  |
| Loss on extinguishment of debt and credit facilities, net | (152,157)                  | -                                | -                             | (111,863)                   | 253                 | (263,767)                  |
| Loss on change in value of embedded derivative            | -                          | -                                | -                             | (111,703)                   | 111,703             | -                          |
| Interest and investment income (loss)                     | (353,140)                  | -                                | -                             | (4,815)                     | 361,014             | 3,059                      |
| Other income                                              | (46)                       | -                                | -                             | 2,551                       | -                   | 2,505                      |

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|                                                       |              |          |            |              |            |              |
|-------------------------------------------------------|--------------|----------|------------|--------------|------------|--------------|
| Income (loss) before income taxes                     | (519,092)    | (222)    | -          | (356,888)    | 515,729    | (360,473)    |
| Income tax expense                                    | -            | -        | (1,611)    | (1,733)      | -          | (3,344)      |
| Net income (loss)                                     | (519,092)    | (222)    | (1,611)    | (358,621)    | 515,729    | (363,817)    |
| Preferred stock beneficial conversion feature         | (186,188)    | -        | -          | -            | -          | (186,188)    |
| Net income (loss) attributable to common stockholders | \$ (705,280) | \$ (222) | \$ (1,611) | \$ (358,621) | \$ 515,729 | \$ (550,005) |

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**

(Dollar amounts in thousands, unless otherwise stated)

**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATING BALANCE SHEETS**  
**AS OF SEPTEMBER 30, 2010**

|                                       |                            |                                  |                               |                             |                     | <b>Consolidated</b>        |
|---------------------------------------|----------------------------|----------------------------------|-------------------------------|-----------------------------|---------------------|----------------------------|
|                                       | <b>Sirius XM<br/>Radio</b> | <b>Sirius<br/>Asset<br/>Mgmt</b> |                               |                             |                     | <b>Sirius XM<br/>Radio</b> |
| <i>(in thousands)</i>                 | <b>Inc.</b>                | <b>LLC</b>                       | <b>Satellite CD<br/>Radio</b> | <b>Non -<br/>Guarantors</b> | <b>Eliminations</b> | <b>Inc.</b>                |
| Current assets:                       |                            |                                  |                               |                             |                     |                            |
| Cash and cash equivalents             | \$ 187,391                 | \$ -                             | \$ -                          | \$ 128,864                  | \$ -                | \$ 316,255                 |
| Accounts receivable, net              | 53,020                     | -                                | -                             | 57,371                      | -                   | 110,391                    |
| Receivable from distributors          | 67,818                     | -                                | -                             | 11,165                      | -                   | 78,983                     |
| Due from subsidiaries/affiliates      | 187,123                    | 3,333                            | -                             | 1,912                       | (192,368)           | -                          |
| Inventory, net                        | 12,164                     | -                                | -                             | 5,872                       | -                   | 18,036                     |
| Prepaid expenses                      | 39,046                     | -                                | -                             | 128,688                     | -                   | 167,734                    |
| Related party current assets          | 4,182                      | -                                | -                             | 585                         | (873)               | 3,894                      |
| Deferred tax asset                    | 6,916                      | -                                | -                             | 67,416                      | -                   | 74,332                     |
| Other current assets                  | 4,422                      | -                                | -                             | 4,568                       | -                   | 8,990                      |
| <br>Total current assets              | <br>562,082                | <br>3,333                        | <br>-                         | <br>406,441                 | <br>(193,241)       | <br>778,615                |
| <br>Property and equipment, net       | <br>884,646                | <br>15,447                       | <br>-                         | <br>898,313                 | <br>-               | <br>1,798,406              |
| Investment in subsidiaries/affiliates | (547,439)                  | -                                | -                             | -                           | 547,439             | -                          |
| Restricted investments                | 3,146                      | -                                | -                             | 250                         | -                   | 3,396                      |
| Deferred financing fees, net          | 1,479                      | -                                | -                             | 63,238                      | (8,228)             | 56,489                     |
| Intangible assets, net                | -                          | -                                | 83,654                        | 2,561,177                   | -                   | 2,644,831                  |
| Goodwill                              | -                          | -                                | -                             | -                           | 1,834,856           | 1,834,856                  |
| Related party long-term assets        | 332                        | -                                | -                             | 28,771                      | (166)               | 28,937                     |
| Other long-term assets                | 8,642                      | -                                | -                             | 77,613                      | -                   | 86,255                     |
| <br>Total assets                      | <br>\$ 912,888             | <br>\$ 18,780                    | <br>\$ 83,654                 | <br>\$ 4,035,803            | <br>\$ 2,180,660    | <br>\$ 7,231,785           |

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Current liabilities:

|                                                           |            |        |      |            |           |            |
|-----------------------------------------------------------|------------|--------|------|------------|-----------|------------|
| Accounts payable and accrued expenses                     | \$ 303,198 | \$ -   | \$ - | \$ 222,556 | \$ (606)  | \$ 525,148 |
| Accrued interest                                          | 35,793     | -      | -    | 42,788     | -         | 78,581     |
| Due to subsidiaries/affiliates                            | 9,802      | 20,551 | 477  | 161,123    | (191,953) | -          |
| Current portion of deferred revenue                       | 610,602    | -      | -    | 551,636    | 538       | 1,162,776  |
| Current portion of deferred credit on executory contracts | -          | -      | -    | 266,096    | -         | 266,096    |
| Current maturities of long-term debt                      | 1,351      | -      | -    | 4,131      | -         | 5,482      |
| Related party current liabilities                         | 9,284      | -      | -    | 9,907      | (873)     | 18,318     |

|                           |         |        |     |           |           |           |
|---------------------------|---------|--------|-----|-----------|-----------|-----------|
| Total current liabilities | 970,030 | 20,551 | 477 | 1,258,237 | (192,894) | 2,056,401 |
|---------------------------|---------|--------|-----|-----------|-----------|-----------|

|                                        |           |   |        |           |        |           |
|----------------------------------------|-----------|---|--------|-----------|--------|-----------|
| Deferred revenue                       | 118,472   | - | -      | 152,348   | -      | 270,820   |
| Deferred credit on executory contracts | -         | - | -      | 580,161   | -      | 580,161   |
| Long-term debt                         | 1,070,505 | - | -      | 1,508,599 | 84,038 | 2,663,142 |
| Long-term related party debt           | 195,553   | - | -      | 161,479   | 1,715  | 358,747   |
| Deferred tax liability                 | 6,917     | - | 18,559 | 922,191   | -      | 947,667   |
| Related party long-term liabilities    | -         | - | -      | 25,211    | -      | 25,211    |
| Other long-term liabilities            | 22,681    | - | -      | 37,863    | -      | 60,544    |

|                   |           |        |        |           |           |           |
|-------------------|-----------|--------|--------|-----------|-----------|-----------|
| Total liabilities | 2,384,158 | 20,551 | 19,036 | 4,646,089 | (107,141) | 6,962,693 |
|-------------------|-----------|--------|--------|-----------|-----------|-----------|

Commitments and contingencies

Stockholders' equity (deficit):

|                                         |              |         |          |             |             |              |
|-----------------------------------------|--------------|---------|----------|-------------|-------------|--------------|
| Preferred and common stock              | 3,936        | -       | -        | -           | -           | 3,936        |
| Accumulated other comprehensive loss    | (5,823)      | -       | -        | (5,824)     | 5,824       | (5,823)      |
| Additional paid-in-capital              | 10,400,588   | -       | 83,654   | 6,060,660   | (6,144,314) | 10,400,588   |
| Retained earnings (accumulated deficit) | (11,869,971) | (1,771) | (19,036) | (6,665,122) | 8,426,291   | (10,129,609) |
|                                         | (1,471,270)  | (1,771) | 64,618   | (610,286)   | 2,287,801   | 269,092      |

Total stockholders  
equity (deficit)

|                                              |    |         |    |        |    |        |    |           |    |           |    |           |
|----------------------------------------------|----|---------|----|--------|----|--------|----|-----------|----|-----------|----|-----------|
| Total liabilities and<br>stockholders equity | \$ | 912,888 | \$ | 18,780 | \$ | 83,654 | \$ | 4,035,803 | \$ | 2,180,660 | \$ | 7,231,785 |
|----------------------------------------------|----|---------|----|--------|----|--------|----|-----------|----|-----------|----|-----------|

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**

(Dollar amounts in thousands, unless otherwise stated)

**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING BALANCE SHEETS**  
**AS OF DECEMBER 31, 2009**

|                                       |                            |                                  |                               |                             |                     | <b>Consolidated</b>        |
|---------------------------------------|----------------------------|----------------------------------|-------------------------------|-----------------------------|---------------------|----------------------------|
|                                       | <b>Sirius XM<br/>Radio</b> | <b>Sirius<br/>Asset<br/>Mgmt</b> |                               |                             |                     | <b>Sirius XM<br/>Radio</b> |
| <i>(in thousands)</i>                 | <b>Inc.</b>                | <b>LLC</b>                       | <b>Satellite CD<br/>Radio</b> | <b>Non -<br/>Guarantors</b> | <b>Eliminations</b> | <b>Inc.</b>                |
| Current assets:                       |                            |                                  |                               |                             |                     |                            |
| Cash and cash equivalents             | \$ 171,265                 | \$ -                             | \$ -                          | \$ 212,224                  | \$ -                | \$ 383,489                 |
| Accounts receivable, net              | 102,276                    | -                                | -                             | 60,042                      | -                   | 162,318                    |
| Due from subsidiaries/affiliates      | 127,110                    | -                                | -                             | 930                         | (128,040)           | -                          |
| Inventory, net                        | 12,177                     | -                                | -                             | 4,016                       | -                   | 16,193                     |
| Prepaid expenses                      | 25,042                     | -                                | -                             | 75,231                      | -                   | 100,273                    |
| Related party current assets          | 2,768                      | -                                | -                             | 103,479                     | -                   | 106,247                    |
| Deferred tax asset                    | 7,999                      | -                                | -                             | 64,641                      | -                   | 72,640                     |
| Other current assets                  | 12,896                     | -                                | -                             | 5,724                       | -                   | 18,620                     |
| <br>Total current assets              | <br>461,533                | <br>-                            | <br>-                         | <br>526,287                 | <br>(128,040)       | <br>859,780                |
| <br>Property and equipment, net       | <br>894,485                | <br>17,113                       | <br>-                         | <br>799,405                 | <br>-               | <br>1,711,003              |
| Investment in subsidiaries/affiliates | (600,976)                  | -                                | -                             | -                           | 600,976             | -                          |
| Restricted investments                | 3,150                      | -                                | -                             | 250                         | -                   | 3,400                      |
| Deferred financing fees, net          | 3,595                      | -                                | -                             | 68,571                      | (5,759)             | 66,407                     |
| Intangible assets, net                | -                          | -                                | 83,654                        | 2,611,461                   | -                   | 2,695,115                  |
| Goodwill                              | -                          | -                                | -                             | -                           | 1,834,856           | 1,834,856                  |
| Due from subsidiaries/affiliates      | -                          | -                                | -                             | -                           | -                   | -                          |
| Related party long-term assets        | 155                        | -                                | -                             | 111,730                     | (118)               | 111,767                    |
| Other long-term assets                | 14,350                     | -                                | -                             | 25,528                      | -                   | 39,878                     |
| <br>Total assets                      | <br>\$ 776,292             | <br>\$ 17,113                    | <br>\$ 83,654                 | <br>\$ 4,143,232            | <br>\$ 2,301,915    | <br>\$ 7,322,206           |

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Current liabilities:

|                                                           |            |        |      |            |            |            |
|-----------------------------------------------------------|------------|--------|------|------------|------------|------------|
| Accounts payable and accrued expenses                     | \$ 343,131 | \$ -   | \$ - | \$ 207,803 | \$ (7,248) | \$ 543,686 |
| Accrued interest                                          | 27,627     | -      | -    | 46,939     | -          | 74,566     |
| Due to subsidiaries/affiliates                            | -          | 17,530 | 477  | 110,032    | (128,039)  | -          |
| Current portion of deferred revenue                       | 569,742    | -      | -    | 506,440    | 7,248      | 1,083,430  |
| Current portion of deferred credit on executory contracts | -          | -      | -    | 252,831    | -          | 252,831    |
| Current maturities of long-term debt                      | 2,500      | -      | -    | 11,382     | -          | 13,882     |
| Related party current liabilities                         | 3,934      | -      | -    | 104,312    | -          | 108,246    |

|                           |         |        |     |           |           |           |
|---------------------------|---------|--------|-----|-----------|-----------|-----------|
| Total current liabilities | 946,934 | 17,530 | 477 | 1,239,739 | (128,039) | 2,076,641 |
|---------------------------|---------|--------|-----|-----------|-----------|-----------|

|                                        |           |   |        |           |         |           |
|----------------------------------------|-----------|---|--------|-----------|---------|-----------|
| Deferred revenue                       | 121,286   | - | -      | 133,863   | -       | 255,149   |
| Deferred credit on executory contracts | -         | - | -      | 784,078   | -       | 784,078   |
| Long-term debt                         | 1,109,893 | - | -      | 1,494,921 | 194,888 | 2,799,702 |
| Long-term related party debt           | 102,577   | - | -      | 157,032   | 3,970   | 263,579   |
| Deferred tax liability                 | 7,999     | - | 16,908 | 915,275   | -       | 940,182   |
| Related party long-term liabilities    | -         | - | -      | 46,301    | -       | 46,301    |
| Other long-term liabilities            | 22,201    | - | -      | 38,851    | -       | 61,052    |

|                   |           |        |        |           |        |           |
|-------------------|-----------|--------|--------|-----------|--------|-----------|
| Total liabilities | 2,310,890 | 17,530 | 17,385 | 4,810,060 | 70,819 | 7,226,684 |
|-------------------|-----------|--------|--------|-----------|--------|-----------|

Commitments and contingencies

Stockholders' equity (deficit):

|                                         |              |       |          |             |             |              |
|-----------------------------------------|--------------|-------|----------|-------------|-------------|--------------|
| Preferred and common stock              | 3,920        | -     | -        | -           | -           | 3,920        |
| Accumulated other comprehensive loss    | (6,581)      | -     | -        | (6,581)     | 6,581       | (6,581)      |
| Additional paid-in-capital              | 10,352,291   | -     | 83,654   | 6,060,660   | (6,144,314) | 10,352,291   |
| Retained earnings (accumulated deficit) | (11,884,228) | (417) | (17,385) | (6,720,907) | 8,368,829   | (10,254,108) |
|                                         | (1,534,598)  | (417) | 66,269   | (666,828)   | 2,231,096   | 95,522       |

Total stockholders  
equity (deficit)

|                                              |    |         |    |        |    |        |    |           |    |           |    |           |
|----------------------------------------------|----|---------|----|--------|----|--------|----|-----------|----|-----------|----|-----------|
| Total liabilities and<br>stockholders equity | \$ | 776,292 | \$ | 17,113 | \$ | 83,654 | \$ | 4,143,232 | \$ | 2,301,915 | \$ | 7,322,206 |
|----------------------------------------------|----|---------|----|--------|----|--------|----|-----------|----|-----------|----|-----------|

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**

(Dollar amounts in thousands, unless otherwise stated)

**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF**  
**STOCKHOLDERS' EQUITY (DEFICIT) AND COMPREHENSIVE LOSS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010**

|                                                                                      | <b>Consolidated</b> |               |                  |                       |                     |                  |
|--------------------------------------------------------------------------------------|---------------------|---------------|------------------|-----------------------|---------------------|------------------|
|                                                                                      | <b>Sirius XM</b>    | <b>Sirius</b> |                  |                       |                     | <b>Sirius XM</b> |
|                                                                                      | <b>Radio</b>        | <b>Asset</b>  |                  |                       |                     | <b>Radio</b>     |
|                                                                                      | <b>Inc.</b>         | <b>Mgmt</b>   | <b>Satellite</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Inc.</b>      |
| <i>(in thousands)</i>                                                                | <b>Inc.</b>         | <b>LLC</b>    | <b>CD Radio</b>  | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Inc.</b>      |
| Balance at                                                                           |                     |               |                  |                       |                     |                  |
| December 31, 2009                                                                    | \$ (1,534,598)      | \$ (417)      | \$ 66,269        | \$ (666,828)          | \$ 2,231,096        | \$ 95,522        |
| Net income (loss)                                                                    | 14,257              | (1,354)       | (1,651)          | 55,784                | 57,463              | 124,499          |
| Other comprehensive income:                                                          |                     |               |                  |                       |                     |                  |
| Unrealized gain on available-for-sale securities                                     | 469                 | -             | -                | 469                   | (469)               | 469              |
| Foreign currency translation adjustment                                              | 289                 | -             | -                | 289                   | (289)               | 289              |
| Total comprehensive income (loss)                                                    | 15,015              | (1,354)       | (1,651)          | 56,542                | 56,705              | 125,257          |
| Issuance of common stock to employees and employee benefit plans, net of forfeitures | 4,640               | -             | -                | -                     | -                   | 4,640            |
| Share-based payment expense                                                          | 38,525              | -             | -                | -                     | -                   | 38,525           |
| Exercise of options and vesting of restricted share units                            | 5,148               | -             | -                | -                     | -                   | 5,148            |
| Contributed capital                                                                  | -                   | -             | -                | -                     | -                   | -                |
| Balance at                                                                           |                     |               |                  |                       |                     |                  |
| September 30, 2010                                                                   | \$ (1,471,270)      | \$ (1,771)    | \$ 64,618        | \$ (610,286)          | \$ 2,287,801        | \$ 269,092       |

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**

(Dollar amounts in thousands, unless otherwise stated)

**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010**

| <i>(in thousands)</i>                                       | <b>Sirius XM<br/>Radio<br/><br/>Inc.</b> | <b>Sirius Asset<br/>Mgmt<br/><br/>LLC</b> | <b>Satellite CD<br/>Radio</b> | <b>Non -<br/>Guarantors</b> | <b>Eliminations</b> | <b>Consolidated<br/>Sirius XM<br/>Radio<br/><br/>Inc.</b> |
|-------------------------------------------------------------|------------------------------------------|-------------------------------------------|-------------------------------|-----------------------------|---------------------|-----------------------------------------------------------|
| Net cash provided by<br>(used in) operating<br>activities   | \$ 82,229                                | \$ -                                      | \$ -                          | \$ 208,817                  | \$ -                | \$ 291,046                                                |
| Cash flows from<br>investing activities:                    |                                          |                                           |                               |                             |                     |                                                           |
| Additions to property and<br>equipment                      | (85,057)                                 | -                                         | -                             | (172,317)                   | -                   | (257,374)                                                 |
| Sale of restricted and<br>other investments                 | 4                                        | -                                         | -                             | 9,450                       | -                   | 9,454                                                     |
| Net cash used in<br>investing activities                    | (85,053)                                 | -                                         | -                             | (162,867)                   | -                   | (247,920)                                                 |
| Cash flows from<br>financing activities :                   |                                          |                                           |                               |                             |                     |                                                           |
| Long-term borrowings,<br>net of costs                       | 637,406                                  | -                                         | -                             | -                           | -                   | 637,406                                                   |
| Related party long-term<br>borrowings , net of costs        | 147,094                                  | -                                         | -                             | -                           | -                   | 147,094                                                   |
| Restricted cash to be used<br>for the redemption of<br>debt |                                          | -                                         | -                             | -                           | -                   | -                                                         |
| Repayment of long-term<br>borrowings                        | (691,170)                                |                                           |                               | (129,054)                   |                     | (820,224)                                                 |
| Repayment of related<br>party long term<br>borrowings       | (55,221)                                 | -                                         | -                             | -                           | -                   | (55,221)                                                  |
| Payment of premiums                                         | (24,065)                                 | -                                         | -                             | (256)                       | -                   | (24,321)                                                  |
| Proceeds from the<br>exercise of options                    | 4,906                                    | -                                         | -                             |                             | -                   | 4,906                                                     |
| Net cash provided by<br>(used in ) financing                | 18,950                                   | -                                         | -                             | (129,310)                   | -                   | (110,360)                                                 |

activities

|                                                      |            |      |      |            |      |            |
|------------------------------------------------------|------------|------|------|------------|------|------------|
| Net (decrease) increase in cash and cash equivalents | 16,126     | -    | -    | (83,360)   | -    | (67,234)   |
| Cash and cash equivalents at beginning of period     | 171,265    | -    | -    | 212,224    | -    | 383,489    |
| Cash and cash equivalents at end of period           | \$ 187,391 | \$ - | \$ - | \$ 128,864 | \$ - | \$ 316,255 |

**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009**

|                                                      | <b>Sirius XM<br/>Radio<br/>Inc.</b> | <b>Sirius Asset<br/>Mgmt<br/>LLC</b> | <b>Satellite CD<br/>Radio</b> | <b>Non-Guarantor</b> | <b>Eliminations</b> | <b>Consolidated<br/>Sirius XM<br/>Radio<br/>Inc.</b> |
|------------------------------------------------------|-------------------------------------|--------------------------------------|-------------------------------|----------------------|---------------------|------------------------------------------------------|
| <i>(in thousands)</i>                                |                                     |                                      |                               |                      |                     |                                                      |
| Net cash provided by (used in ) operating activities | \$ 25,668                           | \$ 5,058                             | \$ -                          | \$ 228,562           | \$ (6,181)          | \$ 253,107                                           |
| Cash flows from investing activities :               |                                     |                                      |                               |                      |                     |                                                      |
| Additions to property and equipment                  | (173,466)                           | (5,058)                              | -                             | (38,811)             | -                   | (217,335)                                            |
| Net cash used in investing activities                | (173,466)                           | (5,058)                              | -                             | (38,811)             | -                   | (217,335)                                            |
| Cash flows from financing activities :               |                                     |                                      |                               |                      |                     |                                                      |
| Preferred stock issuance costs, net                  | (3,712)                             | -                                    | -                             | -                    | -                   | (3,712)                                              |
| Long-term borrowings, net of costs                   | 186,571                             | -                                    | -                             | 387,184              | 6,181               | 579,936                                              |
| Related party long-term borrowings , net of costs    | 269,871                             | -                                    | -                             | 95,093               | -                   | 364,964                                              |
| Short -term financing                                | 2,220                               | -                                    | -                             | -                    | -                   | 2,220                                                |
| Payment of premiums on redemption of debt            | (175,205)                           | -                                    | -                             | (17,075)             | -                   | (17,075)                                             |
|                                                      |                                     | -                                    | -                             | (435,727)            | -                   | (610,932)                                            |

|                                                      |           |      |      |            |       |            |
|------------------------------------------------------|-----------|------|------|------------|-------|------------|
| Repayment of long-term borrowings                    |           |      |      |            |       |            |
| Repayment of related party long-term borrowings      | (251,247) | -    | -    | (100,000)  | -     | (351,247)  |
| Net cash provided by (used in ) financing activities | 28,498    | -    | -    | (70,525)   | 6,181 | (35,846)   |
| Net (decrease) increase in cash and cash equivalents | (119,300) | -    | -    | 119,226    | -     | (74)       |
| Cash and cash equivalents at beginning of period     | 173,647   | -    | -    | 206,799    | -     | 380,446    |
| Cash and cash equivalents at end of period           | \$ 54,347 | \$ - | \$ - | \$ 326,025 | \$ -  | \$ 380,372 |

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*(All dollar amounts referenced in this Item 2 are in thousands, unless otherwise stated)*

**Special Note Regarding Forward-Looking Statements**

We have included in this Quarterly Report on Form 10-Q, and from time to time, our management may make statements that may constitute forward-looking statements within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. The following cautionary statements identify important factors that could cause our actual results to differ materially from those projected in forward-looking statements made in this Quarterly Report on Form 10-Q and in other reports and documents published by us from time to time. Any statements about our beliefs, plans, objectives, expectations, assumptions, future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as will likely result, are expected to, will continue, is anticipated, estimated, intend, projection and outlook. For a discussion of other significant factors and risks that could affect our future results and financial condition, see Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009 and Management's Discussion and Analysis of Financial Condition and Results of Operations herein and in Part II, Item 7, of our Annual Report on Form 10-K for the year ended December 31, 2009.

Among the significant factors that could cause our actual results to differ materially from those expressed in the forward-looking statements are:

- our dependence upon automakers, many of which have experienced a dramatic drop in sales, and other third parties, such as manufacturers and distributors of satellite radios, retailers and programming providers;
- the substantial indebtedness of SIRIUS and XM;
- the useful life of our satellites, which have experienced component failures including, with respect to a number of satellites, failures on their solar arrays, and, in certain cases, are not insured; and
- the competitive position of SIRIUS and XM versus other forms of audio and video entertainment including terrestrial radio, HD radio, Internet radio, mobile phones, iPods and other MP3 devices, and emerging next-generation networks and technologies.

Third-party content is an important part of our satellite radio service, and we compete with many entities for content. We have entered into a number of important content arrangements, including agreements with the National Football League, Howard Stern and NASCAR, which require us to pay substantial sums. Our agreement with Howard Stern expires in December 2010; our agreement with the NFL expires at the end of the 2010 NFL season; and our agreement with NASCAR expires in December 2011. Although discussions have been held with the NFL, Howard Stern and NASCAR regarding new programming arrangements, we may not be able to secure new programming arrangements with these providers, or enter into new agreements at costs that are acceptable to us. If we do not secure new programming arrangements with these providers, certain of our subscribers may elect to cancel or not to renew their subscriptions. We cannot quantify how many subscribers may cancel or elect not to renew their subscriptions if we fail to secure new programming arrangements with these providers; however, we have no reason to believe that any such subscriber loss will be material to our business or financial condition taken as a whole.

We employ, or independently contract with, on-air talent who maintain significant loyal audiences in or across various demographic groups. There can be no assurance that this on-air talent will remain with us or that we will be able to retain their respective audiences. If we lose the services of one or more of them, or fail to attract qualified replacement personnel, it could harm our business and future prospects.

Because the risk factors referred to above could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us or on our behalf, you should not place undue reliance on any of these forward-looking statements. In addition, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which the statement is made, to reflect the occurrence of unanticipated events or otherwise. New factors emerge from time to time, and it is not possible for

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us to predict which will arise or to assess with any precision the impact of each factor on our business or the extent to which any factor, or a combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

### **Executive Summary**

We broadcast our music, sports, news, talk, entertainment, traffic and weather channels in the United States on a subscription fee basis through our proprietary satellite radio systems – the SIRIUS system and the XM system. The SIRIUS system consists of four in-orbit satellites with over 125 terrestrial repeaters, satellite uplink facilities and studios. The XM system consists of five in-orbit satellites with over 650 terrestrial repeaters, satellite uplink facilities and studios. The terrestrial repeaters receive and retransmit signals. Subscribers can also receive certain of our music and other channels over the Internet, including through an application on the Apple iPhone, and Blackberry and Android smartphones.

Our satellite radios are primarily distributed through automakers ( OEMs ), nationwide through retail locations and through our websites. We have agreements with every major automaker to offer SIRIUS or XM satellite radios as factory- or dealer-installed equipment in their vehicles. SIRIUS and XM radios are also offered to customers of certain daily rental car companies.

As of September 30, 2010, we had 19,862,175 subscribers; 9,643,910 SIRIUS subscribers and 10,218,265 XM subscribers. Our subscriber totals include subscribers under our regular pricing plans; discounted pricing plans; subscribers that have prepaid, including payments either made or due from automakers and dealers for subscriptions included in the sale or lease price of a vehicle; activated radios in daily rental fleet vehicles; certain subscribers to SIRIUS Internet Radio and XM Radio Online, our Internet services; and certain subscribers to our weather, traffic, data and video services.

Our primary source of revenue is subscription fees, with most of our customers subscribing on an annual, semi-annual, quarterly or monthly basis. We offer discounts for prepaid and long-term subscription plans, as well as discounts for multiple subscriptions on each platform. We also derive revenue from activation and other subscription-related fees, the sale of advertising on select non-music channels, the direct sale of satellite radios, components and accessories, and other ancillary services, such as our Backseat TV, data and weather services.

In certain cases, automakers include a subscription to our radio services in the sale or lease price of new and certified pre-owned vehicles. The length of these prepaid subscriptions varies, but is typically three to twelve months. In many cases, we receive subscription payments from automakers in advance of the activation of our service. We also reimburse various automakers for certain costs associated with satellite radios installed in their vehicles.

We also have an interest in the satellite radio services offered in Canada. Subscribers to the SIRIUS Canada service and the XM Canada service are not included in our subscriber count.

In April 2010, XM Satellite Radio Holdings Inc. merged with and into XM Satellite Radio Inc. XM Satellite Radio Inc., together with its subsidiaries, is operated as an unrestricted subsidiary under the agreements governing our existing indebtedness. As a result, transactions between the companies are required to comply with various contractual provisions in our respective debt agreements.

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### **Actual Results of Operations**

Set forth below are our results of operations for the three and nine months ended September 30, 2010 compared with the three and nine months ended September 30, 2009.

#### ***Total Revenue***

*Subscriber Revenue* includes subscription fees, activation and other fees and the effects of rebates.

*Three Months:* For the three months ended September 30, 2010 and 2009, subscriber revenue was \$612,119 and \$578,304, respectively, an increase of 6%, or \$33,815. The increase was primarily attributable to the 7% increase in daily weighted average subscribers, an increase in the sale of Best of programming, decreases in discounts on multi-subscription and internet packages and a \$5,962 decrease in the impact of purchase price accounting adjustments attributable to acquired deferred subscriber revenues, partially offset by an increase in the number of subscribers on promotional plans.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, subscriber revenue was \$1,793,258 and \$1,699,455, respectively, an increase of 6%, or \$93,803. The increase was primarily attributable to the 4% increase in daily weighted average subscribers, an increase in the sale of Best of programming, decreases in discounts on multi-subscription and internet packages and a \$28,894 decrease in the impact of purchase price accounting adjustments attributable to acquired deferred subscriber revenues, partially offset by an increase in the number of subscribers on promotional plans.

Future subscriber revenue will be dependent, among other things, upon the growth of our subscriber base, conversion and churn rates, promotions, rebates offered to subscribers and corresponding take-rates, plan mix, subscription prices and the identification of additional revenue streams from subscribers. The impact of purchase price accounting adjustments attributable to acquired subscriber deferred revenues will continue to decline in absolute amount and as a percentage of reported total subscriber revenues through 2013 as balances are earned over the acquired subscription period.

*Advertising Revenue* includes the sale of advertising on our non-music channels, net of agency fees. Agency fees are based on a contractual percentage of the gross advertising billing revenue.

*Three Months:* For the three months ended September 30, 2010 and 2009, advertising revenue was \$15,973 and \$12,418, respectively, an increase of 29%, or \$3,555. The increase was primarily due to more effective sales efforts and improvements in the national market for advertising.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, advertising revenue was \$46,296 and \$37,287, respectively, an increase of 24%, or \$9,009. The increase was primarily due to more effective sales efforts and improvements in the national market for advertising.

Our advertising revenue is subject to fluctuation based on the effectiveness of our sales efforts and the national economic environment. We expect advertising revenue to grow as our subscribers increase and the economy improves.

*Equipment Revenue* includes revenue and royalties from the sale of SIRIUS and XM radios, components and accessories.

*Three Months:* For the three months ended September 30, 2010 and 2009, equipment revenue was \$17,823 and \$10,506, respectively, an increase of 70%, or \$7,317. The increase was driven by royalties from increased OEM installations.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, equipment revenue was \$50,625 and \$31,343, respectively, an increase of 62%, or \$19,282. The increase was driven by royalties from increased OEM installations.

We expect equipment revenue to fluctuate based on OEM installations for which we receive royalty payments for our technology and, to a lesser extent, on the volume and mix of equipment sales in our direct to consumer business.

*Other Revenue* includes the U.S. Music Royalty Fee, revenue from affiliates, content licensing fees and syndication fees.

*Three Months:* For the three months ended September 30, 2010 and 2009, other revenue was \$71,633 and \$17,428, respectively. The \$54,205 increase was primarily due to the introduction of the U.S. Music Royalty

Fee in the third quarter of 2009.

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*Nine Months:* For the nine months ended September 30, 2010 and 2009, other revenue was \$190,914 and \$28,379, respectively. The \$162,535 increase was primarily due to the introduction of the U.S. Music Royalty Fee in the third quarter of 2009.

Future other revenues will be dependent, among other items, upon subscribers becoming subject to the U.S. Music Royalty Fee at subscription renewal dates, the growth of our subscribers, and the monthly fee assessed for the U.S. Music Royalty Fee. The FCC's order approving the Merger allows us to pass through cost increases incurred since the filing of our FCC merger application as a result of statutorily or contractually required payments to the music, recording and publishing industries for the performance of musical works and sound recordings or for device recording fees.

### ***Operating Expenses***

*Revenue Share and Royalties* include distribution and content provider revenue share, residuals and broadcast and web streaming royalties. Residuals are monthly fees paid based upon the number of subscribers using SIRIUS and XM radios purchased from retailers. Advertising revenue share is recognized as a component of revenue share and royalties in the period in which the advertising is broadcast.

*Three Months:* For the three months ended September 30, 2010 and 2009, revenue share and royalties were \$114,482 and \$100,558, respectively, an increase of 14%, or \$13,924. The increase was primarily attributable to a 14% increase in our revenues subject to royalty and/or revenue sharing arrangements and an 8% increase in the statutory royalty rate for the performance of sound recordings, partially offset by a decrease in the revenue sharing rate with an automaker and a \$4,526 increase in the benefit to earnings from the amortization of deferred credits on executory contracts initially recognized in purchase price accounting associated with the Merger.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, revenue share and royalties were \$320,567 and \$296,855, respectively, an increase of 8%, or \$23,712. The increase was primarily attributable to a 11% increase in our revenues subject to royalty and/or revenue sharing arrangements and an 8% increase in the statutory royalty rate for the performance of sound recordings, partially offset by a decrease in the revenue sharing rate with an automaker and a \$13,663 increase in the benefit to earnings from the amortization of deferred credits on executory contracts initially recognized in purchase price accounting associated with the Merger.

We expect our revenue sharing and royalty costs to increase as our revenues grow, as we expand our distribution of SIRIUS and XM radios through automakers, and as a result of statutory increases in the royalty rate for the performance of sound recordings. Under the terms of the Copyright Royalty Board's decision, we paid royalties of 6.5% and 7.0% of gross revenues, subject to certain exclusions, for 2009 and 2010, respectively, and will pay royalties of 7.5% and 8.0% for 2011 and 2012, respectively. Our next rate setting proceeding before the Copyright Royalty Board is scheduled to commence in January 2011 and the results of that proceeding may have an impact on our results of operations. The deferred credits on executory contracts initially recognized in purchase price accounting associated with the Merger are expected to provide increasing benefits to revenue share and royalties through the expiration of the acquired executory contracts, principally in 2012 and 2013.

*Programming and Content* includes costs to acquire, create and produce content and on-air talent costs. We have entered into various agreements with third parties for music and non-music programming that require us to pay license fees, share advertising revenue, purchase advertising on media properties owned or controlled by the licensor and pay other guaranteed amounts. Purchased advertising is recognized as a component of sales and marketing expense and the cost of sharing advertising revenue is recognized as a component of revenue share and royalties in the period in which the advertising is broadcast.

*Three Months:* For the three months ended September 30, 2010 and 2009, programming and content expenses were \$78,143 and \$78,315, respectively, a decrease of \$172. The decrease was primarily due to savings in content agreements and production costs, partially offset by a \$4,162 reduction in the benefit to earnings from purchase price accounting adjustments associated with the Merger attributable to the amortization of the deferred credit on acquired programming executory contracts.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, programming and content expenses were \$228,595 and \$230,825, respectively, a decrease of 1%, or \$2,230. The decrease was primarily due to

savings in content agreements and production costs, partially offset by increases in personnel costs, general operating expenses and a \$11,903 reduction in the benefit to earnings from purchase price accounting adjustments associated with the Merger attributable to the amortization of the deferred credit on acquired programming executory contracts.

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Our programming and content expenses, excluding the impact of purchase price adjustments, are expected to decrease as various agreements expire and are renewed or replaced on more cost effective terms. The impact of purchase price accounting adjustments associated with the Merger attributable to the amortization of the deferred credit on acquired programming executory contracts will continue to decline, in absolute amount and as a percentage of reported programming and content costs, through 2013 as acquired programming contracts expire, principally in 2012 and 2013. Our agreements with third-party content providers are subject to contractual expiration dates. We may or may not be able to negotiate renewals of these agreements on cost effective terms or at all. See Special Note Regarding Forward-Looking Statements for a discussion of these risks.

*Customer Service and Billing* includes costs associated with the operation of third party customer service centers and our subscriber management systems as well as bad debt expense.

*Three Months:* For the three months ended September 30, 2010 and 2009, customer service and billing expenses were \$60,613 and \$56,529, respectively, an increase of 7%, or \$4,084. The increase was primarily due to higher call volume, partially offset by lower call center expenses as a result of moving calls to lower cost locations.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, customer service and billing expenses were \$175,238 and \$175,570, respectively, a decrease of \$332. The decrease was primarily due to lower call center expenses as a result of moving calls to lower cost locations; partially offset by higher call volume.

We expect our customer care and billing expenses to increase as our subscriber base grows due to increased call center operating costs, transaction fees and bad debt expense.

*Satellite and Transmission* consists of costs associated with the operation and maintenance of our satellites; satellite telemetry, tracking and control systems; terrestrial repeater networks; satellite uplink facilities; and broadcast studios.

*Three Months:* For the three months ended September 30, 2010 and 2009, satellite and transmission expenses were \$20,844 and \$19,542, respectively, an increase of 7%, or \$1,302. The increase was primarily due to increased satellite insurance costs and repeater expenses.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, satellite and transmission expenses were \$60,944 and \$59,435, respectively, an increase of 3%, or \$1,509. The increase was primarily due to increased satellite insurance costs, partially offset by savings in personnel costs and repeater expenses.

We expect satellite and transmission expenses to decrease due to reductions in orbit satellite insurance and continuing cost reduction efforts, offset in part by the additions of XM-5 and FM-6 to our in-orbit satellite fleet and continued enhancement of our terrestrial repeater networks.

*Cost of Equipment* includes costs from the sale of SIRIUS and XM radios, components and accessories and provisions for inventory allowance attributable to products purchased for resale in our direct to consumer distribution channels.

*Three Months:* For the three months ended September 30, 2010 and 2009, cost of equipment was \$6,463 and \$11,944, respectively, a decrease of 46%, or \$5,481. The decrease was primarily due to lower inventory write-downs.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, cost of equipment was \$22,187 and \$27,988, respectively, a decrease of 21%, or \$5,801. The decrease was primarily due to lower inventory write-downs.

We expect cost of equipment to vary with changes in sales, inventory, and inventory valuations.

*Subscriber Acquisition Costs* include hardware subsidies paid to radio manufacturers, distributors and automakers, including subsidies paid to automakers who include a SIRIUS or XM radio and subscription to our service in the sale or lease price of a new or certified pre-owned vehicle; subsidies paid for chip sets and certain other components used in manufacturing radios; device royalties for certain radios; commissions paid to retailers and automakers as incentives to purchase, install and activate SIRIUS and XM radios; product warranty obligations; and provisions for inventory allowances attributable to inventory consumed in our OEM and retail distribution channels. The majority of subscriber acquisition costs are incurred and expensed in advance of, or concurrent with, acquiring a subscriber. Subscriber acquisition costs do not include advertising, loyalty payments to distributors and dealers of

SIRIUS and XM radios and revenue share payments to automakers and retailers of SIRIUS and XM radios.

*Three Months:* For the three months ended September 30, 2010 and 2009, subscriber acquisition costs were \$105,984 and \$90,054, respectively, an increase of 18%, or \$15,930. The increase was primarily a result of the 22% increase in gross subscriber additions and higher subsidies related to the 33% increase in OEM installations, partially offset by

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lower OEM subsidies per vehicle and a \$1,559 increase in the benefit to earnings from the amortization of the deferred credit for acquired executory contracts recognized in purchase price accounting associated with the Merger.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, subscriber acquisition costs were \$305,745 and \$230,773, respectively, an increase of 32%, or \$74,972. The increase was primarily a result of the 32% increase in gross subscriber additions and higher subsidies related to the 65% increase in OEM installations, partially offset by lower OEM subsidies per vehicle and a \$15,546 increase in the benefit to earnings from the amortization of the deferred credit for acquired executory contracts recognized in purchase price accounting associated with the Merger.

We expect total subscriber acquisition costs to fluctuate with increases or decreases in OEM installations and changes in our gross subscriber additions. Declines in the cost of subsidized radio components will also impact subscriber acquisition costs. OEM installations are primarily driven by manufacturing and penetration rates. The impact of purchase price accounting adjustments associated with the Merger attributable to the amortization of the deferred credit for acquired executory contracts will vary, in absolute amount and as a percentage of reported subscriber acquisition costs, through the expiration of the acquired contracts, principally in 2013. We intend to continue to offer subsidies, commissions and other incentives to acquire subscribers.

*Sales and Marketing* includes costs for advertising, media and production, including promotional events and sponsorships; cooperative marketing; customer retention and personnel. Cooperative marketing costs include fixed and variable payments to reimburse retailers and automakers for the cost of advertising and other product awareness activities performed on our behalf.

*Three Months:* For the three months ended September 30, 2010 and 2009, sales and marketing expenses were \$51,519 and \$52,530, respectively, a decrease of 2%, or \$1,011. The decrease was primarily due to reductions in consumer advertising, event marketing and third party distribution support expenses, partially offset by additional cooperative marketing and personnel costs.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, sales and marketing expenses were \$156,813 and \$152,647, respectively, an increase of 3%, or \$4,166. The increase was primarily due to additional cooperative marketing and personnel costs, partially offset by reductions in consumer advertising, event marketing and third party distribution support expenses.

We expect sales and marketing expenses to increase as we increase our advertising, retention and promotional activities.

*Engineering, Design and Development* includes costs to develop chip sets and new products, research and development for broadcast information systems and costs associated with the incorporation of our radios into vehicles manufactured by automakers.

*Three Months:* For the three months ended September 30, 2010 and 2009, engineering, design and development expenses were \$12,526 and \$11,252, respectively, an increase of 11%, or \$1,274. The increase was primarily due to higher personnel, overhead costs, and aftermarket product development costs.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, engineering, design and development expenses were \$35,209 and \$32,975, respectively, an increase of 7%, or \$2,234. The increase was primarily due to higher personnel, overhead and aftermarket product development costs, partially offset by reductions in chip set development costs.

We expect engineering, design and development expenses to increase in future periods as we develop our next generation chip sets and products.

*General and Administrative* includes rent and occupancy, finance, legal, human resources, information technology and investor relations costs.

*Three Months:* For the three months ended September 30, 2010 and 2009, general and administrative expenses were \$54,188 and \$56,923, respectively, a decrease of 5%, or \$2,735. The decrease was primarily due to lower consulting and office costs, partially offset by increased personnel and share-based payment expense.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, general and administrative expenses were \$170,935 and \$182,953, respectively, a decrease of 7%, or \$12,018. The decrease was primarily due to lower share-based payment expense, consulting, accounting and office costs, partially offset by increased personnel costs.

We expect our general and administrative expenses to increase in future periods primarily as a result of increased information technology and personnel costs to support the growth of our business, as well as rising legal costs.

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*Depreciation and Amortization* represents the systematic recognition in earnings of the acquisition cost of assets used in operations, including our satellite constellations, property, equipment and intangible assets, over their estimated service lives.

*Three Months:* For the three months ended September 30, 2010 and 2009, depreciation and amortization expense was \$67,450 and \$72,100, respectively, a decrease of 6%, or \$4,650. The decrease was primarily due to a \$7,628 reduction in the charge to earnings attributable to the acquired satellite constellation and subscriber relationships, partially offset by additional depreciation recognized on assets placed in-service subsequent to the Merger.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, depreciation and amortization expense was \$206,945 and \$231,624, respectively, a decrease of 11%, or \$24,679. The decrease was primarily due to a \$33,742 reduction in the charge to earnings attributable to the acquired satellite constellation and subscriber relationships, partially offset by additional depreciation recognized on assets placed in-service subsequent to the Merger.

We expect depreciation and amortization expenses to increase in future periods as we place our recently launched satellite, XM-5, into service and complete the construction and launch of our FM-6 satellite, which will be partially offset by reduced depreciation and amortization associated with the stepped-up basis in assets acquired in the Merger (including intangible assets, satellites, property and equipment) through the end of their estimated service lives, principally through 2017.

### ***Other Income (Expense)***

*Interest Expense, Net of Amounts Capitalized*, includes interest on outstanding debt, reduced by interest capitalized in connection with the construction of our satellites and related launch vehicles.

*Three Months:* For the three months ended September 30, 2010 and 2009, interest expense was \$68,559 and \$80,864, respectively, a decrease of 15%, or \$12,305. The decrease was primarily due to a lower weighted average interest rate on our outstanding debt in the three months ended September 30, 2010 compared to the three months ended September 30, 2009 and the redemption of XM's 10% Senior PIK Secured Notes due 2011 on June 1, 2010.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, interest expense was \$223,230 and \$246,922, respectively, a decrease of 10%, or \$23,692. The decrease was primarily due to decreases in the weighted average interest rate on our outstanding debt in the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 and the redemption of XM's 10% Senior PIK Secured Notes due 2011 on June 1, 2010.

*Loss on Extinguishment of Debt and Credit Facilities, Net*, includes losses incurred as a result of the conversion and retirement of certain debt.

*Three Months:* For the three months ended September 30, 2010 and 2009, loss on extinguishment of debt and credit facilities, net, was \$256 and \$138,053, respectively, a decrease of 100%, or \$137,797. During the three months ended September 30, 2010, the loss was incurred on the repayment of XM's 9.75% Senior Notes due 2014. During the three months ended September 30, 2009, the loss was incurred on the extinguishment of SIRIUS Term Loan and Purchase Money Loan with Liberty Media and the partial repayment of XM's 10% Convertible Senior Notes due 2009.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, loss on extinguishment of debt and credit facilities, net, was \$34,695 and \$263,767, respectively, a decrease of 87%, or \$229,072. During the nine months ended September 30, 2010, the loss was incurred on the repayment of SIRIUS Senior Secured Term Loan due 2012 and 9<sup>5</sup>/<sub>8</sub>% Senior Notes due 2013 and XM's 10% Senior PIK Secured Notes due 2011 and 9.75% Senior Notes due 2014. During the nine months ended September 30, 2009, the loss was incurred on the retirement of SIRIUS 22% Convertible Notes due 2009, the extinguishment of SIRIUS Term Loan and Purchase Money Loan with Liberty Media, the repayment of the XM's Amended and Restated Credit Agreement due 2011, the partial repayment of XM's 10% Convertible Senior Notes due 2009 and the termination of XM's Second Lien Credit Agreement.

*Interest and Investment Income (Loss)* includes realized gains and losses, dividends, interest income, our share of SIRIUS Canada's and XM Canada's net losses and losses recorded from investments in those entities, as well as debt instruments issued by XM Canada, when the fair value of those instruments falls below carrying value and the decline is determined to be other than temporary.

*Three Months:* For the three months ended September 30, 2010 and 2009, interest and investment (loss) income was (\$4,305) and \$904, respectively, a decrease of 576%, or \$5,209. The decrease in income was primarily attributable to

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higher net losses at XM Canada, lower net income at SIRIUS Canada and a decrease in payments received from SIRIUS Canada in excess of our carrying value of our investments during the three months ended September 30, 2010.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, interest and investment (loss) income was (\$7,197) and \$3,059, respectively, a decrease of 335%, or \$10,256. The decrease in income was primarily attributable to higher net losses at XM Canada, lower net income at SIRIUS Canada and a decrease in payments received from SIRIUS Canada in excess of our carrying value of our investments, partially offset by the sale of auction rate securities during the nine months ended September 30, 2010.

***Income Taxes***

*Income Tax Expense* primarily represents the deferred tax liability related to the difference in accounting for our FCC licenses, which are amortized over 15 years for tax purposes but not amortized for book purposes in accordance with GAAP.

*Three Months:* For the three months ended September 30, 2010 and 2009, income tax expense was \$3,428 and \$1,115, respectively, an increase of 207%, or \$2,313 primarily related to an increase in the applicable tax rate and withholding taxes for royalty income.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, income tax expense was \$6,060 and \$3,344, respectively, an increase of 81%, or \$2,716 primarily related to an increase in the applicable tax rate and withholding taxes for royalty income.

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The following table contains actual subscriber data for the three and nine months ended September 30, 2010 and 2009, respectively:

|                                              | <b>For the Three Months Ended<br/>September 30,</b> |             | <b>For the Nine Months Ended<br/>September 30,</b> |             |
|----------------------------------------------|-----------------------------------------------------|-------------|----------------------------------------------------|-------------|
|                                              | <b>2010</b>                                         | <b>2009</b> | <b>2010</b>                                        | <b>2009</b> |
| Beginning subscribers                        | 19,527,448                                          | 18,413,435  | 18,772,758                                         | 19,003,856  |
| Gross subscriber additions                   | 1,952,054                                           | 1,606,446   | 5,693,409                                          | 4,325,532   |
| Deactivated subscribers                      | (1,617,327)                                         | (1,504,151) | (4,603,992)                                        | (4,813,658) |
| Net additions                                | 334,727                                             | 102,295     | 1,089,417                                          | (488,126)   |
| Ending subscribers                           | 19,862,175                                          | 18,515,730  | 19,862,175                                         | 18,515,730  |
| Retail                                       | 7,088,562                                           | 7,925,904   | 7,088,562                                          | 7,925,904   |
| OEM                                          | 12,630,463                                          | 10,488,530  | 12,630,463                                         | 10,488,530  |
| Rental                                       | 143,150                                             | 101,296     | 143,150                                            | 101,296     |
| Ending subscribers                           | 19,862,175                                          | 18,515,730  | 19,862,175                                         | 18,515,730  |
| Self-pay                                     | 16,335,819                                          | 15,456,748  | 16,335,819                                         | 15,456,748  |
| Paid promotional                             | 3,526,356                                           | 3,058,982   | 3,526,356                                          | 3,058,982   |
| Ending subscribers                           | 19,862,175                                          | 18,515,730  | 19,862,175                                         | 18,515,730  |
| Retail                                       | (188,884)                                           | (309,972)   | (637,188)                                          | (979,298)   |
| OEM                                          | 529,798                                             | 407,131     | 1,699,511                                          | 492,692     |
| Rental                                       | (6,187)                                             | 5,136       | 27,094                                             | (1,520)     |
| Net additions                                | 334,727                                             | 102,295     | 1,089,417                                          | (488,126)   |
| Self-pay                                     | 258,105                                             | 35,405      | 631,887                                            | (92,838)    |
| Paid promotional                             | 76,622                                              | 66,890      | 457,530                                            | (395,288)   |
| Net additions                                | 334,727                                             | 102,295     | 1,089,417                                          | (488,126)   |
| Daily weighted average number of subscribers | 19,610,837                                          | 18,393,678  | 19,181,040                                         | 18,514,041  |
| Average self-pay monthly churn (1)           | 1.9%                                                | 2.0%        | 1.9%                                               | 2.1%        |

|                     |       |       |       |       |
|---------------------|-------|-------|-------|-------|
| Conversion rate (2) | 48.1% | 46.2% | 46.6% | 45.0% |
|---------------------|-------|-------|-------|-------|

Note: See pages 52 through 58 for footnotes.

*Subscribers.* At September 30, 2010, we had 19,862,175 subscribers, an increase of 1,346,445 subscribers, or 7%, from the 18,515,730 subscribers as of September 30, 2009.

*Three Months:* For the three months ended September 30, 2010 and 2009, net additions were 334,727 and 102,295, respectively, an increase in net additions of 232,432. The improvement was due to the 22% increase in gross subscriber additions, primarily resulting from an increase in new vehicle penetration along with an increase in returning activations, partially offset by an 8% increase in deactivations resulting from higher promotional churn due to an increase in the volume of trial subscriptions.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, net additions were 1,089,417 and (488,126), respectively, an increase in net additions of 1,577,543. The improvement was due to the 32% increase in gross subscriber additions, primarily resulting from an improvement in U.S. auto sales, an increase in new vehicle penetration, and an increase in returning activations from previously inactive vehicles, and the 4% decline in deactivations resulting from higher conversions of paid promotional trials to self-paying subscribers and improvements in the average self-pay monthly churn rates.

*Average Self-pay Monthly Churn* is derived by dividing the monthly average of self-pay deactivations for the quarter by the average self-pay subscriber balance for the quarter. (See accompanying footnotes on pages 52 through 58 for more details.)

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*Three Months:* For the three months ended September 30, 2010 and 2009, our average self-pay monthly churn rate was 1.9% and 2.0%, respectively. The decrease was due to an improving economy, the success of retention and win-back programs and reductions in non-pay cancellation rates.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, our average self-pay monthly churn rate was 1.9% and 2.1%, respectively. The decrease was due to an improving economy, the success of retention and win-back programs and reductions in non-pay cancellation rates.

*Conversion Rate* is the percentage of vehicle owners and lessees that receive our service and convert to become self-paying subscribers after an initial promotional period. (See accompanying footnotes on pages 52 through 58 for more details.)

*Three Months:* For the three months ended September 30, 2010 and 2009, our conversion rate was 48.1% and 46.2%, respectively. The increase was primarily due to marketing to promotional period subscribers and an improving economy.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, our conversion rate was 46.6% and 45.0%, respectively. The increase was primarily due to marketing to promotional period subscribers and an improving economy.

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The discussion of operating results below excludes the effects of stock-based compensation and purchase accounting adjustments associated with the Merger. Financial measures and metrics previously reported as pro forma have been renamed adjusted.

**Adjusted Results of Operations**

In this report, we present certain financial performance measures that are not calculated and presented in accordance with generally accepted accounting principles in the United States of America ( Non-GAAP ). These Non-GAAP financial measures include: average monthly revenue per subscriber, or ARPU; subscriber acquisition cost, or SAC, per gross subscriber addition; customer service and billing expenses, per average subscriber; free cash flow; and adjusted EBITDA. These measures include the historical results of operations of XM, and exclude the impact of certain purchase price accounting adjustments. We use these Non-GAAP financial measures to manage our business, set operational goals and as a basis for determining performance-based compensation for our employees.

The purchase price accounting adjustments include the elimination of the earnings benefit of deferred revenue associated with the investment in XM Canada, the recognition of subscriber revenues not recognized in purchase price accounting and the elimination of the earnings benefit of deferred credits on executory contracts, which are primarily attributable to third party arrangements with an OEM and programming providers. The purchase price accounting adjustments to EBITDA do not include the incremental depreciation and amortization for certain XM property, equipment and intangible assets acquired in the Merger and reported on a stepped up basis.

Our adjusted EBITDA also reallocates share-based payment expense from functional operating expense line items to a separate line within operating expenses. We believe the exclusion of share-based payment expense from functional operating expenses is useful given the significant variation in expense that can result from changes in the fair market value of our common stock, the effect of which is unrelated to the operational conditions that give rise to variations in the components of our operating costs.

We believe these Non-GAAP financial measures provide useful information to investors regarding our financial condition and results of operations. We believe investors find these Non-GAAP financial performance measures useful in evaluating our core trends because it provides a direct view of our underlying contractual costs. We believe investors use our current and projected adjusted EBITDA to estimate our current or prospective enterprise value and to make investment decisions. By providing these Non-GAAP financial measures, together with the reconciliations to the most directly comparable GAAP measure, we believe we are enhancing investors understanding of our business and our results of operations. These Non-GAAP financial measures should be viewed in addition to, and not as an alternative for or superior to, our reported results prepared in accordance with GAAP. Please refer to the footnotes (pages 52 through 58) for a further discussion of such Non-GAAP financial measures and reconciliations to the most directly comparable GAAP measure.

The following table contains our key operating metrics based on our unaudited adjusted results of operations for the three and nine months ended September 30, 2010 and 2009, respectively:

|                                                                         | Unaudited Adjusted     |            |                           |              |
|-------------------------------------------------------------------------|------------------------|------------|---------------------------|--------------|
|                                                                         | For the Three Months   |            | For the Nine Months Ended |              |
|                                                                         | Ended<br>September 30, |            | September 30,             |              |
| (in thousands, except for per<br>subscriber amounts)                    | 2010                   | 2009       | 2010                      | 2009         |
| ARPU (3)                                                                | \$ 11.81               | \$ 11.09   | \$ 11.70                  | \$ 10.74     |
| SAC, per gross subscriber<br>addition (4)                               | \$ 59                  | \$ 69      | \$ 59                     | \$ 63        |
| Customer service and billing<br>expenses, per average<br>subscriber (5) | \$ 1.02                | \$ 1.01    | \$ 1.00                   | \$ 1.04      |
| Free cash flow (6)                                                      | \$ 61,998              | \$ 26,724  | \$ 43,126                 | \$ 35,772    |
| Adjusted total revenue (8)                                              | \$ 722,537             | \$ 629,607 | \$ 2,098,659              | \$ 1,842,924 |

|                     |            |            |            |            |
|---------------------|------------|------------|------------|------------|
| Adjusted EBITDA (7) | \$ 169,727 | \$ 106,140 | \$ 481,799 | \$ 347,198 |
|---------------------|------------|------------|------------|------------|

Note: See pages 52  
through 58 for  
footnotes.

*ARPU* is derived from total earned subscriber revenue, net advertising revenue and other subscription-related revenue, net of purchase price accounting adjustments, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. (See accompanying footnotes on pages 52 through 58 for more details.)

*Three Months:* For the three months ended September 30, 2010 and 2009, total ARPU was \$11.81 and \$11.09, respectively. The increase was driven primarily by the introduction of the U.S. Music Royalty Fee in the third quarter of 2009, increased revenues from the sale of Best of programming, decreases in discounts on multi-subscription and internet packages, and increased net advertising revenue, partially offset by an increase in the number of subscribers on promotional plans.

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*Nine Months:* For the nine months ended September 30, 2010 and 2009, total ARPU was \$11.70 and \$10.74, respectively. The increase was driven primarily by the introduction of the U.S. Music Royalty Fee in the third quarter of 2009, increased revenues from the sale of Best of programming, decreases in discounts on multi-subscription and internet packages, and increased net advertising revenue, partially offset by an increase in the number of subscribers on promotional plans.

*SAC, Per Gross Subscriber Addition* is derived from subscriber acquisition costs and margins from the direct sale of radios and accessories, excluding share-based payment expense and purchase price accounting adjustments, divided by the number of gross subscriber additions for the period. (See accompanying footnotes on pages 52 through 58 for more details.)

*Three Months:* For the three months ended September 30, 2010 and 2009, SAC, per gross subscriber addition was \$59 and \$69, respectively. The decrease was primarily due to lower per radio subsidy rates for certain OEMs and growth in subscriber reactivations and royalties from radio manufacturers compared to the three months ended September 30, 2009, partially offset by a 33% increase in OEM production with factory-installed satellite radios.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, SAC, per gross subscriber addition was \$59 and \$63, respectively. The decrease was primarily due to lower per radio subsidy rates for certain OEMs and growth in subscriber reactivations and royalties for radio manufacturers compared to the nine months ended September 30, 2009, partially offset by a 65% increase in OEM production with factory-installed satellite radios.

*Customer Service and Billing Expenses, Per Average Subscriber* is derived from total customer service and billing expenses, excluding share-based payment expense and purchase price accounting adjustments, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. (See accompanying footnotes on pages 52 through 58 for more details.)

*Three Months:* For the three months ended September 30, 2010 and 2009, customer service and billing expenses, per average subscriber was \$1.02 and \$1.01, respectively. The increase was primarily due to higher call volume, partially offset by lower call center expenses as a result of moving calls to lower cost locations.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, customer service and billing expenses, per average subscriber was \$1.00 and \$1.04, respectively. The decrease was primarily due to a lower call center expense as a result of moving calls to lower cost locations.

*Free Cash Flow* includes the net cash provided by (used in) operations, additions to property and equipment, merger related costs and restricted and other investment activity. (See accompanying footnotes on pages 52 through 58 for more details.)

*Three Months:* For the three months ended September 30, 2010 and 2009, free cash flow was \$61,998 and \$26,724, respectively, an increase of \$35,274. Net income plus non-cash operating activities increased 197%, to \$117,055, from \$39,461, principally as a result of improvements in our adjusted EBITDA. Changes in our operating assets and liabilities decreased \$43,783 compared to the three months ended September 30, 2009. The decrease was primarily due to decreases in cash flows from operations resulting from the periodic payment of related party liabilities in the current period compared to a deferral of such payments in the three months ended September 30, 2009 and the routine amortization of prepaid programming costs and release of credit card hold-backs included in other long-term assets in the three months ended September 30, 2009. The decrease was partially offset by increases in cash flows from operations resulting from higher collections of amounts due from subscribers and distributors during the three months ended September 30, 2010 as compared to the three months ended September 30, 2009. As a result of these transactions, net cash provided by operating activities increased \$33,811 to \$150,059 in the three months ended September 30, 2010 compared to the \$116,248 provided by operations in the three months ended September 30, 2009. In addition, capital expenditures in the three months ended

September 30, 2010 decreased \$1,463 to \$88,061 compared to \$89,524 expended in the three months ended September 30, 2009.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, free cash flow was \$43,126 and \$35,772, respectively, an increase of \$7,354. Net income plus non-cash operating activities increased 92%, to \$306,630, from \$159,471, principally as a result of improvements in our adjusted EBITDA. Changes in our operating assets and liabilities decreased \$109,220 compared to the nine months ended September 30, 2009. The decrease was primarily due to pay-downs of related party liabilities deferred in 2009 and employee bonus payments in the first quarter of 2010 where no bonus payments were made in 2009, a prepayment to a programming provider in 2010 that had been paid over the course of the year in 2009 and the release of credit card funds during the nine months ended September 30, 2009. As a result of these transactions net cash provided by operating activities increased \$37,939 to \$291,046 in the nine months

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ended September 30, 2010 compared to the \$253,107 provided by operations in the nine months ended September 30, 2009. In addition, capital expenditures in the nine months ended September 30, 2010 increased \$40,039 to \$257,374 compared to \$217,335 expended in the nine months ended September 30, 2009, primarily due to increased satellite and related launch vehicle spending, offset by \$9,454 of proceeds from the sale of investment securities in the nine months ended September 30, 2010.

*Adjusted Total Revenue.* Set forth below are our adjusted total revenue for the three and nine months ended September 30, 2010 and 2009. Our adjusted total revenue includes the recognition of deferred subscriber revenues acquired in the Merger that are not recognized in our results under purchase price accounting and the elimination of the benefit in earnings from deferred revenue associated with our investment in XM Canada acquired in the Merger. (See the accompanying footnotes on pages 52 through 58 for more details.)

|                                                  | <b>For the Three Months<br/>Ended<br/>September 30,</b> |             | <b>For the Nine Months<br/>Ended<br/>September 30,</b> |              |
|--------------------------------------------------|---------------------------------------------------------|-------------|--------------------------------------------------------|--------------|
|                                                  | <b>2010</b>                                             | <b>2009</b> | <b>2010</b>                                            | <b>2009</b>  |
| <i>(in thousands)</i>                            |                                                         |             |                                                        |              |
| Revenue:                                         |                                                         |             |                                                        |              |
| Subscriber revenue, including effects of rebates | \$ 612,119                                              | \$ 578,304  | \$ 1,793,258                                           | \$ 1,699,455 |
| Advertising revenue, net of agency fees          | 15,973                                                  | 12,418      | 46,296                                                 | 37,287       |
| Equipment revenue                                | 17,823                                                  | 10,506      | 50,625                                                 | 31,343       |
| Other revenue                                    | 71,633                                                  | 17,428      | 190,914                                                | 28,379       |
| Purchase price accounting adjustments:           |                                                         |             |                                                        |              |
| Subscriber revenue                               | 3,176                                                   | 9,138       | 12,128                                                 | 41,022       |
| Other revenue                                    | 1,813                                                   | 1,813       | 5,438                                                  | 5,438        |
| Adjusted total revenue                           | \$ 722,537                                              | \$ 629,607  | \$ 2,098,659                                           | \$ 1,842,924 |

*Three Months:* Our adjusted total revenue grew 15%, or \$92,930, in the three months ended September 30, 2010 compared to the three months ended September 30, 2009. Subscriber revenue increased 6%, or \$33,815, in the three months ended September 30, 2010 compared to the three months ended September 30, 2009. The increase in subscriber revenue was driven by the increase in subscribers as well as an increase in the sale of Best of programming and the decreases in discounts on multi-subscription and internet packages, partially offset by an increase in the number of subscribers on promotional plans. Advertising revenue increased 29%, or \$3,555, in the three months ended September 30, 2010 compared to the three months ended September 30, 2009. The increase in advertising revenue was driven by more effective sales efforts and improvements in the national market for advertising. Equipment revenue increased 70%, or \$7,317, in the three months ended September 30, 2010 compared to the three months ended September 30, 2009. The increase in equipment revenue was driven by royalties from increased OEM installations. Other revenue increased \$54,205 in the three months ended September 30, 2010 compared to the three months ended September 30, 2009. The increase in other revenue was driven by the introduction of the U.S. Music Royalty Fee in the third quarter of 2009.

*Nine Months:* Our adjusted total revenue grew 14%, or \$255,735, in the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. Subscriber revenue increased 6%, or \$93,803, in the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. The increase in subscriber revenue was driven by the increase in subscribers as well as an increase in the sale of Best of programming and the decreases in discounts on multi-subscription and internet packages, partially offset by an increase in the number of subscribers on promotional plans. Advertising revenue increased 24%, or \$9,009, in the nine months ended September 30, 2010 compared to the nine months ended September 30,

2009. The increase in advertising revenue was driven by more effective sales efforts and improvements in the national market for advertising. Equipment revenue increased 62%, or \$19,282, in the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. The increase in equipment revenue was driven by royalties from increased OEM installations. Other revenue increased \$162,535 in the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. The increase in other revenue was driven by the introduction of the U.S. Music Royalty Fee in the third quarter of 2009.

*Adjusted EBITDA.* EBITDA is defined as net income (loss) before interest and investment income (loss); interest expense, net of amounts capitalized; income tax expense and depreciation and amortization. Adjusted EBITDA also removes the impact of other income and expense, losses on extinguishment of debt as well as certain non-cash charges, such as, goodwill impairment; restructuring, impairments and related costs; certain purchase price accounting adjustments and share-based payment expense. Our adjusted EBITDA for

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the three and nine months ended September 30, 2010 compared with the three and nine months ended September 30, 2009 is as follows (see the accompanying footnotes on pages 52 through 58 for more details):

|                 | <b>Unaudited Adjusted</b>   |             |                                  |             |
|-----------------|-----------------------------|-------------|----------------------------------|-------------|
|                 | <b>For the Three Months</b> |             | <b>For the Nine Months Ended</b> |             |
|                 | <b>Ended</b>                |             | <b>September 30,</b>             |             |
|                 | <b>September 30,</b>        |             | <b>September 30,</b>             |             |
| (in thousands)  | <b>2010</b>                 | <b>2009</b> | <b>2010</b>                      | <b>2009</b> |
| Adjusted EBITDA | \$ 169,727                  | \$ 106,140  | \$ 481,799                       | \$ 347,198  |

*Three Months:* For the three months ended September 30, 2010 and 2009, adjusted EBITDA was \$169,727 and \$106,140, respectively, an increase of 60%, or \$63,587. The increase was primarily due to an increase of 15%, or \$92,930, in revenues, partially offset by an increase of 6%, or \$29,343, in expenses included in adjusted EBITDA. The increase in revenue was primarily due to the increase in our subscriber base and the introduction of the U.S. Music Royalty Fee in the third quarter of 2009, as well as increased advertising and equipment revenue, decreases in discounts on multi-subscription and internet packages, and an increase in the sale of Best of programming, partially offset by an increase in the number of subscribers on promotional plans. The increase in expenses was primarily driven by higher subscriber acquisition costs related to the 22% increase in gross additions and higher revenue share and royalties expenses associated with growth in revenues subject to revenue sharing and royalty arrangements.

*Nine Months:* For the nine months ended September 30, 2010 and 2009, adjusted EBITDA was \$481,799 and \$347,198, respectively, an increase of 39%, or \$134,601. The increase was primarily due to an increase of 14%, or \$255,735, in revenues, partially offset by an increase of 8%, or \$121,134, in expenses included in adjusted EBITDA. The increase in revenue was primarily due to the increase in our subscriber base, the introduction of the U.S. Music Royalty Fee in the third quarter of 2009, increased advertising and equipment revenue, decreases in discounts on multi-subscription and internet packages, and an increase in the sale of Best of programming, partially offset by an increase in the number of subscribers on promotional plans. The increase in expenses was primarily driven by higher subscriber acquisition costs related to the 32% increase in gross additions, higher revenue share and royalties expenses associated with growth in revenues subject to revenue sharing and royalty arrangements and additional sales and marketing costs, primarily related to co-operative marketing.

**Table of Contents****Liquidity and Capital Resources*****Cash Flows for the Nine Months Ended September 30, 2010 Compared with the Nine Months Ended September 30, 2009***

As of September 30, 2010 and December 31, 2009, we had \$316,255 and \$383,489, respectively, in cash and cash equivalents. The following table presents a summary of our cash flow activity for the periods set forth below (in thousands):

|                                                  | <b>For the Nine Months Ended<br/>September 30,</b> |             |                      |
|--------------------------------------------------|----------------------------------------------------|-------------|----------------------|
|                                                  | <b>2010</b>                                        | <b>2009</b> | <b>2010 vs. 2009</b> |
| Net cash provided by operating activities        | \$ 291,046                                         | \$ 253,107  | \$ 37,939            |
| Net cash used in investing activities            | (247,920)                                          | (217,335)   | (30,585)             |
| Net cash used in financing activities            | (110,360)                                          | (35,846)    | (74,514)             |
| Net decrease in cash and cash equivalents        | (67,234)                                           | (74)        | (67,160)             |
| Cash and cash equivalents at beginning of period | 383,489                                            | 380,446     | 3,043                |
| Cash and cash equivalents at end of period       | \$ 316,255                                         | \$ 380,372  | \$ (64,117)          |

***Cash Flows Provided by Operating Activities***

*Nine Months:* Net cash provided by operating activities increased \$37,939, to \$291,046, for the nine months ended September 30, 2010 from \$253,107 for the nine months ended September 30, 2009. The increase was primarily due to improvements in our income from operations and increases in deferred revenue related to the growth of our subscriber base, partially offset by pay-downs of related party liabilities deferred in 2009 and employee bonus payments in the first quarter of 2010 where no bonus payments were made in 2009, a prepayment to a programming provider in 2010 that had been paid over the course of the year in 2009 and the release of credit card funds during the nine months ended September 30, 2009.

***Cash Flows Used in Investing Activities***

*Nine Months:* Net cash used in investing activities increased \$30,585, to \$247,920, for the nine months ended September 30, 2010 from \$217,335 for the nine months ended September 30, 2009. The increase was primarily the result of an increase of \$40,039 in capital expenditures for construction of our satellites and related launch vehicles, offset by \$9,454 of proceeds from the sale of investment securities.

We will incur significant capital expenditures to construct and launch our new satellites and improve our terrestrial repeater network and broadcast and administrative infrastructure. We have entered into various agreements to design, construct, and launch our satellites in the normal course of business. These capital expenditures will support our growth and the resiliency of our operations, and will also support the delivery of new revenue streams.

***Cash Flows Used in Financing Activities***

*Nine Months:* Net cash used in financing activities increased \$74,514, to \$110,360, for the nine months ended September 30, 2010 from \$35,846 for the nine months ended September 30, 2009. The increase in cash used in financing activities was primarily due to a decrease of \$160,400 in net proceeds from the issuance of debt, partially offset by a decrease of \$86,734 in repayments of debt. During the nine months ended September 30, 2010, we received net proceeds of \$784,500 from the issuance of our 8.75% Senior Notes due 2015 while during the nine months ended September 30, 2009, we received net proceeds of

\$944,900 from the issuance of XM's 11.25% Senior Secured Notes due 2013, SIRIUS' 9.75% Senior Secured Notes due 2015 and agreements with Liberty Media. During the nine months ended September 30, 2010, we made debt repayments of \$875,445, principally to holders of SIRIUS' 9.75% Senior Notes due 2013, SIRIUS Senior Secured Term Loan due 2012, XM's 10% Senior PIK Secured Notes due 2011 and XM's 9.75% Senior Notes due 2014 while during the nine months ended September 30, 2009, we made debt repayments of \$962,179, principally to holders of SIRIUS' 12% Convertible Notes due 2009, XM's Amended and Restated Credit Agreement due 2011 and XM's 10% Convertible Senior Notes due 2009, as well as debt held under our agreements with Liberty Media. During the nine months ended September 30, 2010 and 2009, we paid \$24,321 and \$17,075 in premiums on the redemption of debt, respectively.

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### ***Financings and Capital Requirements***

We have historically financed our operations through the sale of debt and equity securities. The Certificate of Designations for our Series B Preferred Stock provides that, so long as Liberty Media beneficially owns at least half of its initial equity investment, Liberty Media's consent is required for certain actions, including the grant or issuance of our equity securities and the incurrence of debt (other than, in general, debt incurred to refinance existing debt) in amounts greater than \$10,000 in any calendar year.

### ***Future Liquidity and Capital Resource Requirements***

We have entered into various agreements to design, construct, and launch our satellites in the normal course of business. As disclosed in Note 14 in our unaudited condensed consolidated financial statements, as of September 30, 2010, we expect to incur capital expenditures of approximately \$28,202 and \$100,970 during the remainder of 2010 and in 2011, respectively, and an additional \$61,018 over the next five years, the majority of which is attributable to the construction and launch of our FM-6 satellite and related launch vehicle.

Based upon our current plans, we believe that both SIRIUS and XM have sufficient cash, cash equivalents and marketable securities to cover their estimated funding needs. We expect to fund operating expenses, capital expenditures, working capital requirements, interest payments, taxes and scheduled maturities of our debt with existing cash and cash flow from operations, and we believe that we will be able to generate sufficient revenues to meet our cash requirements.

Our ability to meet our debt and other obligations depends on our future operating performance and on economic, financial, competitive and other factors. We continually review our operations for opportunities to adjust the timing of expenditures to ensure that sufficient resources are maintained. Our financial projections are based on assumptions, which we believe are reasonable but contain significant uncertainties.

Sirius XM Radio Inc. is the sole stockholder of XM Satellite Radio Inc., and its business is operated as an unrestricted subsidiary under the agreements governing our existing indebtedness. Under certain circumstances, SIRIUS may be unwilling or unable to contribute or loan XM capital. Similarly, under certain circumstances, XM may be unwilling or unable to dividend or loan SIRIUS capital. To the extent SIRIUS or XM's funds are insufficient to support its business, SIRIUS or XM may be required to seek additional financing, which may not be available on favorable terms, or at all. If SIRIUS or XM is unable to secure additional financing, its business and results of operations may be adversely affected.

We regularly evaluate our business plans and strategy. These evaluations often result in changes to our business plans and strategy, some of which may be material and significantly change our cash requirements. These changes in our business plans or strategy may include: the acquisition of unique or compelling programming; the introduction of new features or services; significant new or enhanced distribution arrangements; investments in infrastructure, such as satellites, equipment or radio spectrum; and acquisitions, including acquisitions that are not directly related to our satellite radio business. In addition, our operations are affected by the FCC order approving the Merger, which imposed certain conditions upon, among other things, our program offerings and our ability to increase prices.

### ***Debt Covenants***

The indentures governing our debt include restrictive covenants. As of September 30, 2010, we were in compliance with our debt covenants.

For a discussion of our debt covenants see Note 11 to our unaudited consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q.

### ***Off-Balance Sheet Arrangements***

We do not have any significant off-balance sheet arrangements other than those disclosed in Note 14 to our unaudited consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q that are reasonably likely to have a material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

### ***2009 Long-Term Stock Incentive Plan***

In May 2009, our stockholders approved the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan (the 2009 Plan). Employees, consultants and members of our board of directors are eligible to receive awards under the 2009 Plan, which provides for the grant of stock options, restricted stock, restricted stock units and other stock-based awards that the compensation committee of our board of directors may deem appropriate. Vesting and other terms of

stock-based awards are set forth in the agreements with the

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individuals receiving the awards. Stock-based awards granted under the 2009 Plan are generally subject to a vesting requirement. Stock-based awards generally expire ten years from the date of grant. Each restricted stock unit entitles the holder to receive one share of common stock upon vesting. As of September 30, 2010, approximately 266,829,000 shares of common stock were available for future grants under the 2009 Plan.

***Other Plans***

SIRIUS and XM maintain four other share-based benefit plans the XM 2007 Stock Incentive Plan, the Amended and Restated Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan, the XM 1998 Shares Award Plan and the XM Talent Option Plan. These plans generally provide for the grant of stock options, restricted stock, restricted stock units and other stock based awards. No further awards may be made under these plans. Outstanding awards under these plans are being continued.

***Contractual Cash Commitments***

For a discussion of our Contractual Cash Commitments, refer to Note 14 to our unaudited consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q.

***Related Party Transactions***

For a discussion of Related Party Transactions, refer to Note 9 to our unaudited consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q.

***Critical Accounting Policies and Estimates***

For a discussion of our Critical Accounting Policies and Estimates, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2009 and Note 3 to our unaudited consolidated financial statements in Item 1 of this Form 10-Q. There have been no material changes to our critical accounting policies and estimates since December 31, 2009.

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- (1) Average self-pay monthly churn represents the monthly average of self-pay deactivations for the quarter divided by the average number of self-pay subscribers for the quarter.
- (2) We measure the percentage of vehicle owners and lessees that receive our service and convert to become self-paying subscribers after the initial promotion period. We refer to this as the conversion rate. At the time satellite radio enabled vehicles are sold or leased, the owners or lessees generally receive trial subscriptions ranging from three to twelve months. Promotional periods generally include the period of trial service plus 30 days to handle the receipt and processing of payments. We measure conversion rate three months after the period in which the trial service ends.
- (3) ARPU is derived from total earned subscriber revenue, net advertising revenue and other subscription-related revenue, net of purchase price accounting adjustments, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. Other subscription-related revenue includes the U.S. Music Royalty Fee, which was initially charged to subscribers in the third quarter of 2009. Purchase price accounting adjustments include the recognition of deferred subscriber revenues not recognized in purchase price accounting associated with the Merger. ARPU is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

|                                              | <b>Unaudited</b>                  |             |                                  |              |
|----------------------------------------------|-----------------------------------|-------------|----------------------------------|--------------|
|                                              | <b>For the Three Months Ended</b> |             | <b>For the Nine Months Ended</b> |              |
|                                              | <b>September 30,</b>              |             | <b>September 30,</b>             |              |
|                                              | <b>2010</b>                       | <b>2009</b> | <b>2010</b>                      | <b>2009</b>  |
| Subscriber revenue (GAAP)                    | \$ 612,119                        | \$ 578,304  | \$ 1,793,258                     | \$ 1,699,455 |
| Net advertising revenue (GAAP)               | 15,973                            | 12,418      | 46,296                           | 37,287       |
| Other subscription-related revenue (GAAP)    | 63,554                            | 11,851      | 168,195                          | 11,851       |
| Purchase price accounting adjustments        | 3,176                             | 9,138       | 12,128                           | 41,022       |
|                                              | \$ 694,822                        | \$ 611,711  | \$ 2,019,877                     | \$ 1,789,615 |
| Daily weighted average number of subscribers | 19,610,837                        | 18,393,678  | 19,181,040                       | 18,514,041   |
| ARPU                                         | \$ 11.81                          | \$ 11.09    | \$ 11.70                         | \$ 10.74     |

- (4) Subscriber acquisition cost, per gross subscriber addition (or SAC, per gross subscriber addition) is derived from subscriber acquisition costs and margins from the direct sale of radios and accessories, excluding purchase price accounting adjustments, divided by the number of gross subscriber additions for the period. Purchase price accounting adjustments associated with the Merger include the elimination of the benefit of amortization of deferred credits on executory contracts recognized at the Merger date attributable to an OEM. SAC, per gross subscriber addition, is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

|  | <b>Unaudited</b>            |                                  |
|--|-----------------------------|----------------------------------|
|  | <b>For the Three Months</b> | <b>For the Nine Months Ended</b> |
|  | <b>Ended</b>                |                                  |

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|                                                                  | September 30,<br>2010 |           | September 30,<br>2009 |           |    |           |    |           |
|------------------------------------------------------------------|-----------------------|-----------|-----------------------|-----------|----|-----------|----|-----------|
| Subscriber acquisition costs (GAAP)                              | \$                    | 105,984   | \$                    | 90,054    | \$ | 305,745   | \$ | 230,773   |
| Less : margin from direct sales of radios and accessories (GAAP) |                       | (11,360)  |                       | 1,438     |    | (28,438)  |    | (3,355)   |
| Add: purchase price accounting adjustments                       |                       | 20,889    |                       | 19,330    |    | 58,855    |    | 43,309    |
|                                                                  | \$                    | 115,513   | \$                    | 110,822   | \$ | 336,162   | \$ | 270,727   |
| Gross subscriber additions                                       |                       | 1,952,054 |                       | 1,606,446 |    | 5,693,409 |    | 4,325,532 |
| SAC, per gross subscriber addition                               | \$                    | 59        | \$                    | 69        | \$ | 59        | \$ | 63        |

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- (5) Customer service and billing expenses, per average subscriber, is derived from total customer service and billing expenses, excluding share-based payment expense and purchase price accounting adjustments associated with the Merger, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. We believe the exclusion of share-based payment expense in our calculation of customer service and billing expenses, per average subscriber, is useful given the significant variation in expense that can result from changes in the fair market value of our common stock, the effect of which is unrelated to the operational conditions that give rise to variations in the components of our customer service and billing expenses. Purchase price accounting adjustments associated with the Merger include the elimination of the benefit associated with incremental share-based payment arrangements recognized at the Merger date. Customer service and billing expenses, per average subscriber, is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

|                                                                                 | <b>Unaudited</b>                  |             |                                  |             |
|---------------------------------------------------------------------------------|-----------------------------------|-------------|----------------------------------|-------------|
|                                                                                 | <b>For the Three Months Ended</b> |             | <b>For the Nine Months Ended</b> |             |
|                                                                                 | <b>September 30,</b>              |             | <b>September 30,</b>             |             |
|                                                                                 | <b>2010</b>                       | <b>2009</b> | <b>2010</b>                      | <b>2009</b> |
| Customer service and billing expenses (GAAP)                                    | \$ 60,613                         | \$ 56,529   | \$ 175,238                       | \$ 175,570  |
| Less: share-based payment expense, net of purchase price accounting adjustments | (700)                             | (849)       | (2,157)                          | (2,411)     |
| Add: purchase price accounting adjustment                                       | 54                                | 115         | 226                              | 358         |
|                                                                                 | \$ 59,967                         | \$ 55,795   | \$ 173,307                       | \$ 173,517  |
| Daily weighted average number of subscribers                                    | 19,610,837                        | 18,393,678  | 19,181,040                       | 18,514,041  |
| Customer service and billing expenses, per average subscriber                   | \$ 1.02                           | \$ 1.01     | \$ 1.00                          | \$ 1.04     |

- (6) Free cash flow is calculated as follows (in thousands):

|                                           | <b>Unaudited</b>                  |             |                                  |             |
|-------------------------------------------|-----------------------------------|-------------|----------------------------------|-------------|
|                                           | <b>For the Three Months Ended</b> |             | <b>For the Nine Months Ended</b> |             |
|                                           | <b>September 30,</b>              |             | <b>September 30,</b>             |             |
|                                           | <b>2010</b>                       | <b>2009</b> | <b>2010</b>                      | <b>2009</b> |
| Net cash provided by operating activities | \$ 150,059                        | \$ 116,248  | \$ 291,046                       | \$ 253,107  |
| Additions to property and equipment       | (88,061)                          | (89,524)    | (257,374)                        | (217,335)   |
| Restricted and other investment activity  | -                                 | -           | 9,454                            | -           |
| Free cash flow                            | \$ 61,998                         | \$ 26,724   | \$ 43,126                        | \$ 35,772   |

- (7) EBITDA is defined as net income (loss) before interest and investment income (loss); interest expense, net of amounts capitalized; taxes expense and depreciation and amortization. We adjust EBITDA to remove the impact of other income and expense, loss on extinguishment of debt as well as certain non-cash charges discussed below. This measure is one of the primary Non-GAAP financial measures on which we (i) evaluate the performance of

our businesses, (ii) base our internal budgets and (iii) compensate management. Adjusted EBITDA is a Non-GAAP financial performance measure that excludes (if applicable): (i) certain adjustments as a result of the purchase price accounting for the Merger, (ii) goodwill impairment, (iii) restructuring, impairments, and related costs, (iv) depreciation and amortization and (v) share-based payment expense. The purchase price accounting adjustments include: (i) the elimination of deferred revenue associated with the investment in XM Canada, (ii) recognition of deferred subscriber revenues not recognized in purchase price accounting, and (iii) elimination of the benefit of deferred credits on executory contracts, which are primarily attributable to third party arrangements with an OEM and programming providers. We believe adjusted EBITDA is a useful measure of the underlying trend of our operating performance, which provides useful information about our business apart from the costs associated with our physical plant, capital structure and purchase price accounting. We believe investors find this Non-GAAP financial measure useful when analyzing our results and comparing our operating performance to the performance of other communications, entertainment and media companies. We believe investors use current and projected adjusted EBITDA to estimate our current and prospective enterprise value and to make investment decisions. Because we fund and build-out our satellite radio system through the periodic raising and expenditure of large amounts of capital, our results of operations reflect significant charges for depreciation expense. The exclusion of depreciation and amortization expense is useful given significant variation in depreciation and amortization expense that can result from the potential variations in estimated useful lives, all of which can vary widely across different industries or among companies within the same industry. We believe the exclusion of restructuring, impairments and related costs is useful given the nature of these expenses. We also believe the exclusion of share-based payment expense is useful given the significant variation in expense that can result from changes in the fair market value of our common stock.

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Adjusted EBITDA has certain limitations in that it does not take into account the impact to our statement of operations of certain expenses, including share-based payment expense and certain purchase price accounting for the Merger. We endeavor to compensate for the limitations of the Non-GAAP measure presented by also providing the comparable GAAP measure with equal or greater prominence and descriptions of the reconciling items, including quantifying such items, to derive the Non-GAAP measure. Investors that wish to compare and evaluate our operating results after giving effect for these costs, should refer to net income (loss) as disclosed in our consolidated statements of operations. Since adjusted EBITDA is a Non-GAAP financial performance measure, our calculation of adjusted EBITDA may be susceptible to varying calculations; may not be comparable to other similarly titled measures of other companies; and should not be considered in isolation, as a substitute for, or superior to measures of financial performance prepared in accordance with GAAP. The reconciliation of net income (loss) to the adjusted EBITDA is calculated as follows (in thousands):

|                                                                                             | Unaudited              |              |                        |              |
|---------------------------------------------------------------------------------------------|------------------------|--------------|------------------------|--------------|
|                                                                                             | For the Three Months   |              | For the Nine Months    |              |
|                                                                                             | Ended<br>September 30, |              | Ended<br>September 30, |              |
|                                                                                             | 2010                   | 2009         | 2010                   | 2009         |
| Net income (loss) (GAAP):                                                                   | \$ 67,629              | \$ (151,527) | \$ 124,499             | \$ (363,817) |
| Add back items excluded from Adjusted EBITDA                                                |                        |              |                        |              |
| :                                                                                           |                        |              |                        |              |
| Purchase price accounting adjustments:                                                      |                        |              |                        |              |
| Revenues (see pages 55-58)                                                                  | 4,989                  | 10,951       | 17,566                 | 46,460       |
| Operating expenses (see pages 55-58)                                                        | (66,438)               | (64,619)     | (193,904)              | (177,006)    |
| Share-based payment expense, net of purchase price accounting adjustments (see pages 55-58) | 18,390                 | 18,799       | 53,277                 | 71,301       |
| Depreciation and amortization (GAAP)                                                        | 67,450                 | 72,100       | 206,945                | 231,624      |
| Restructuring, impairments and related costs (GAAP)                                         | 2,267                  | 2,554        | 4,071                  | 30,167       |
| Interest expense, net of amounts capitalized (GAAP)                                         | 68,559                 | 80,864       | 223,230                | 246,922      |
| Loss on extinguishment of debt and credit facilities, net (GAAP)                            | 256                    | 138,053      | 34,695                 | 263,767      |
| Interest and investment income (loss) (GAAP)                                                | 4,305                  | (904)        | 7,197                  | (3,059)      |
| Other (loss) income (GAAP)                                                                  | (1,108)                | (1,246)      | (1,837)                | (2,505)      |
| Income tax expense (GAAP)                                                                   | 3,428                  | 1,115        | 6,060                  | 3,344        |
| Adjusted EBITDA                                                                             | \$ 169,727             | \$ 106,140   | \$ 481,799             | \$ 347,198   |

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(8) The following tables reconcile our actual revenues and operating expenses to our adjusted revenues and operating expenses:

|                                                  | <b>Unaudited For the Three Months Ended September 30, 2010</b> |                                                          |                                                               |                 |
|--------------------------------------------------|----------------------------------------------------------------|----------------------------------------------------------|---------------------------------------------------------------|-----------------|
|                                                  | <b>As<br/>Reported</b>                                         | <b>Purchase<br/>Price<br/>Accounting<br/>Adjustments</b> | <b>Allocation of<br/>Share-<br/>based Payment<br/>Expense</b> | <b>Adjusted</b> |
| <i>(in thousands)</i>                            |                                                                |                                                          |                                                               |                 |
| Revenue:                                         |                                                                |                                                          |                                                               |                 |
| Subscriber revenue, including effects of rebates | \$ 612,119                                                     | \$ 3,176                                                 | \$                                                            | \$ 615,295      |
| Advertising revenue, net of agency fees          | 15,973                                                         |                                                          |                                                               | 15,973          |
| Equipment revenue                                | 17,823                                                         |                                                          |                                                               | 17,823          |
| Other revenue                                    | 71,633                                                         | 1,813                                                    |                                                               | 73,446          |
| Total revenue                                    | \$ 717,548                                                     | \$ 4,989                                                 | \$                                                            | \$ 722,537      |
| Operating expenses                               |                                                                |                                                          |                                                               |                 |
| Cost of services:                                |                                                                |                                                          |                                                               |                 |
| Revenue share and royalties                      | 114,482                                                        | 27,499                                                   |                                                               | 141,981         |
| Programming and content                          | 78,143                                                         | 13,955                                                   | (3,229)                                                       | 88,869          |
| Customer service and billing                     | 60,613                                                         | 54                                                       | (700)                                                         | 59,967          |
| Satellite and transmission                       | 20,844                                                         | 272                                                      | (1,093)                                                       | 20,023          |
| Cost of equipment                                | 6,463                                                          |                                                          |                                                               | 6,463           |
| Subscriber acquisition costs                     | 105,984                                                        | 20,889                                                   |                                                               | 126,873         |
| Sales and marketing                              | 51,519                                                         | 3,506                                                    | (2,812)                                                       | 52,213          |
| Engineering, design and development              | 12,526                                                         | 93                                                       | (1,776)                                                       | 10,843          |
| General and administrative                       | 54,188                                                         | 170                                                      | (8,780)                                                       | 45,578          |
| Depreciation and amortization (a)                | 67,450                                                         |                                                          |                                                               | 67,450          |
| Restructuring, impairments and related costs     | 2,267                                                          |                                                          |                                                               | 2,267           |
| Share-based payment expense (b)                  |                                                                |                                                          | 18,390                                                        | 18,390          |
| Total operating expenses                         | \$ 574,479                                                     | \$ 66,438                                                | \$                                                            | \$ 640,917      |

(a) Purchase price accounting adjustments included in the tables above exclude the incremental depreciation and amortization associated with the \$785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the three months ended September 30, 2010 was \$16,000.

(b) Amounts related to share-based payment expense included in operating expenses were as follows:

|                              |          |       |    |          |
|------------------------------|----------|-------|----|----------|
| Programming and content      | \$ 3,148 | \$ 81 | \$ | \$ 3,229 |
| Customer service and billing | 646      | 54    |    | 700      |
| Satellite and transmission   | 1,042    | 51    |    | 1,093    |
| Sales and marketing          | 2,732    | 80    |    | 2,812    |

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|                                     |           |        |           |
|-------------------------------------|-----------|--------|-----------|
| Engineering, design and development | 1,683     | 93     | 1,776     |
| General and administrative          | 8,610     | 170    | 8,780     |
| Total share-based payment expense   | \$ 17,861 | \$ 529 | \$ 18,390 |

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(8) The following tables reconcile our actual revenues and operating expenses to our adjusted revenues and operating expenses (continued):

|                                                  | <b>Unaudited For the Three Months Ended September 30, 2009</b> |                                          |                                                   |                 |
|--------------------------------------------------|----------------------------------------------------------------|------------------------------------------|---------------------------------------------------|-----------------|
|                                                  |                                                                | <b>Purchase<br/>Price<br/>Accounting</b> | <b>Allocation of<br/>Share-<br/>based Payment</b> |                 |
| <i>(in thousands)</i>                            | <b>As<br/>Reported</b>                                         | <b>Adjustments</b>                       | <b>Expense</b>                                    | <b>Adjusted</b> |
| Revenue:                                         |                                                                |                                          |                                                   |                 |
| Subscriber revenue, including effects of rebates | \$ 578,304                                                     | \$ 9,138                                 | \$                                                | \$ 587,442      |
| Advertising revenue, net of agency fees          | 12,418                                                         |                                          |                                                   | 12,418          |
| Equipment revenue                                | 10,506                                                         |                                          |                                                   | 10,506          |
| Other revenue                                    | 17,428                                                         | 1,813                                    |                                                   | 19,241          |
| Total revenue                                    | \$ 618,656                                                     | \$ 10,951                                | \$                                                | \$ 629,607      |
| Operating expenses                               |                                                                |                                          |                                                   |                 |
| Cost of services:                                |                                                                |                                          |                                                   |                 |
| Revenue share and royalties                      | 100,558                                                        | 22,973                                   |                                                   | 123,531         |
| Programming and content                          | 78,315                                                         | 18,117                                   | (3,202)                                           | 93,230          |
| Customer service and billing                     | 56,529                                                         | 115                                      | (849)                                             | 55,795          |
| Satellite and transmission                       | 19,542                                                         | 331                                      | (1,197)                                           | 18,676          |
| Cost of equipment                                | 11,944                                                         |                                          |                                                   | 11,944          |
| Subscriber acquisition costs                     | 90,054                                                         | 19,330                                   |                                                   | 109,384         |
| Sales and marketing                              | 52,530                                                         | 3,155                                    | (2,858)                                           | 52,827          |
| Engineering, design and development              | 11,252                                                         | 224                                      | (1,877)                                           | 9,599           |
| General and administrative                       | 56,923                                                         | 374                                      | (8,816)                                           | 48,481          |
| Depreciation and amortization (a)                | 72,100                                                         |                                          |                                                   | 72,100          |
| Restructuring, impairments and related costs     | 2,554                                                          |                                          |                                                   | 2,554           |
| Share-based payment expense (b)                  |                                                                |                                          | 18,799                                            | 18,799          |
| Total operating expenses                         | \$ 552,301                                                     | \$ 64,619                                | \$                                                | \$ 616,920      |

(a) Purchase price accounting adjustments included in the tables above exclude the incremental depreciation and amortization associated with the \$785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the three months ended September 30, 2009 was \$24,000.

(b) Amounts related to share-based payment expense included in operating expenses were as follows:

|                                     |          |        |    |          |
|-------------------------------------|----------|--------|----|----------|
| Programming and content             | \$ 3,037 | \$ 165 | \$ | \$ 3,202 |
| Customer service and billing        | 734      | 115    |    | 849      |
| Satellite and transmission          | 1,086    | 111    |    | 1,197    |
| Sales and marketing                 | 2,722    | 136    |    | 2,858    |
| Engineering, design and development | 1,653    | 224    |    | 1,877    |
| General and administrative          | 8,442    | 374    |    | 8,816    |

|                                   |           |          |           |
|-----------------------------------|-----------|----------|-----------|
| Total share-based payment expense | \$ 17,674 | \$ 1,125 | \$ 18,799 |
|-----------------------------------|-----------|----------|-----------|

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(8) The following tables reconcile our actual revenues and operating expenses to our adjusted revenues and operating expenses (continued):

| <b>Unaudited For the Nine Months Ended September 30, 2010</b> |                        |                                          |                                                   |                     |
|---------------------------------------------------------------|------------------------|------------------------------------------|---------------------------------------------------|---------------------|
|                                                               |                        | <b>Purchase<br/>Price<br/>Accounting</b> | <b>Allocation of<br/>Share-<br/>based Payment</b> |                     |
| <i>(in thousands)</i>                                         | <b>As<br/>Reported</b> | <b>Adjustments</b>                       | <b>Expense</b>                                    | <b>Adjusted</b>     |
| Revenue:                                                      |                        |                                          |                                                   |                     |
| Subscriber revenue, including effects of rebates              | \$ 1,793,258           | \$ 12,128                                | \$                                                | \$ 1,805,386        |
| Advertising revenue, net of agency fees                       | 46,296                 |                                          |                                                   | 46,296              |
| Equipment revenue                                             | 50,625                 |                                          |                                                   | 50,625              |
| Other revenue                                                 | 190,914                | 5,438                                    |                                                   | 196,352             |
| <b>Total revenue</b>                                          | <b>\$ 2,081,093</b>    | <b>\$ 17,566</b>                         | <b>\$</b>                                         | <b>\$ 2,098,659</b> |
| Operating expenses                                            |                        |                                          |                                                   |                     |
| Cost of services:                                             |                        |                                          |                                                   |                     |
| Revenue share and royalties                                   | 320,567                | 79,271                                   |                                                   | 399,838             |
| Programming and content                                       | 228,595                | 42,805                                   | (8,129)                                           | 263,271             |
| Customer service and billing                                  | 175,238                | 226                                      | (2,157)                                           | 173,307             |
| Satellite and transmission                                    | 60,944                 | 897                                      | (3,196)                                           | 58,645              |
| Cost of equipment                                             | 22,187                 |                                          |                                                   | 22,187              |
| Subscriber acquisition costs                                  | 305,745                | 58,855                                   |                                                   | 364,600             |
| Sales and marketing                                           | 156,813                | 10,692                                   | (8,274)                                           | 159,231             |
| Engineering, design and development                           | 35,209                 | 427                                      | (5,332)                                           | 30,304              |
| General and administrative                                    | 170,935                | 731                                      | (26,189)                                          | 145,477             |
| Depreciation and amortization (a)                             | 206,945                |                                          |                                                   | 206,945             |
| Restructuring, impairments and related costs                  | 4,071                  |                                          |                                                   | 4,071               |
| Share-based payment expense (b)                               |                        |                                          | 53,277                                            | 53,277              |
| <b>Total operating expenses</b>                               | <b>\$ 1,687,249</b>    | <b>\$ 193,904</b>                        | <b>\$</b>                                         | <b>\$ 1,881,153</b> |

(a) Purchase price accounting adjustments included in the tables above exclude the incremental depreciation and amortization associated with the \$785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the nine months ended September 30, 2010 was \$52,000.

(b) Amounts related to share-based payment expense included in operating expenses were as follows:

|                                     |          |        |    |          |
|-------------------------------------|----------|--------|----|----------|
| Programming and content             | \$ 7,760 | \$ 369 | \$ | \$ 8,129 |
| Customer service and billing        | 1,931    | 226    |    | 2,157    |
| Satellite and transmission          | 2,960    | 236    |    | 3,196    |
| Sales and marketing                 | 7,930    | 344    |    | 8,274    |
| Engineering, design and development | 4,905    | 427    |    | 5,332    |
| General and administrative          | 25,458   | 731    |    | 26,189   |

|                                   |    |        |    |       |    |        |
|-----------------------------------|----|--------|----|-------|----|--------|
| Total share-based payment expense | \$ | 50,944 | \$ | 2,333 | \$ | 53,277 |
|-----------------------------------|----|--------|----|-------|----|--------|

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(8) The following tables reconcile our actual revenues and operating expenses to our adjusted revenues and operating expenses (continued):

| <b>Unaudited For the Nine Months Ended September 30, 2009</b> |                        |                                          |                                                   |                     |
|---------------------------------------------------------------|------------------------|------------------------------------------|---------------------------------------------------|---------------------|
|                                                               |                        | <b>Purchase<br/>Price<br/>Accounting</b> | <b>Allocation of<br/>Share-<br/>based Payment</b> |                     |
| <i>(in thousands)</i>                                         | <b>As<br/>Reported</b> | <b>Adjustments</b>                       | <b>Expense</b>                                    | <b>Adjusted</b>     |
| Revenue:                                                      |                        |                                          |                                                   |                     |
| Subscriber revenue, including effects of rebates              | \$ 1,699,455           | \$ 41,022                                | \$                                                | \$ 1,740,477        |
| Advertising revenue, net of agency fees                       | 37,287                 |                                          |                                                   | 37,287              |
| Equipment revenue                                             | 31,343                 |                                          |                                                   | 31,343              |
| Other revenue                                                 | 28,379                 | 5,438                                    |                                                   | 33,817              |
| <b>Total revenue</b>                                          | <b>\$ 1,796,464</b>    | <b>\$ 46,460</b>                         | <b>\$</b>                                         | <b>\$ 1,842,924</b> |
| Operating expenses                                            |                        |                                          |                                                   |                     |
| Cost of services:                                             |                        |                                          |                                                   |                     |
| Revenue share and royalties                                   | 296,855                | 65,608                                   |                                                   | 362,463             |
| Programming and content                                       | 230,825                | 54,708                                   | (7,919)                                           | 277,614             |
| Customer service and billing                                  | 175,570                | 358                                      | (2,411)                                           | 173,517             |
| Satellite and transmission                                    | 59,435                 | 1,013                                    | (3,371)                                           | 57,077              |
| Cost of equipment                                             | 27,988                 |                                          |                                                   | 27,988              |
| Subscriber acquisition costs                                  | 230,773                | 43,309                                   |                                                   | 274,082             |
| Sales and marketing                                           | 152,647                | 9,986                                    | (10,594)                                          | 152,039             |
| Engineering, design and development                           | 32,975                 | 772                                      | (5,613)                                           | 28,134              |
| General and administrative                                    | 182,953                | 1,252                                    | (41,393)                                          | 142,812             |
| Depreciation and amortization (a)                             | 231,624                |                                          |                                                   | 231,624             |
| Restructuring, impairments and related costs                  | 30,167                 |                                          |                                                   | 30,167              |
| Share-based payment expense (b)                               |                        |                                          | 71,301                                            | 71,301              |
| <b>Total operating expenses</b>                               | <b>\$ 1,651,812</b>    | <b>\$ 177,006</b>                        | <b>\$</b>                                         | <b>\$ 1,828,818</b> |

(a) Purchase price accounting adjustments included in the tables above exclude the incremental depreciation and amortization associated with the \$785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the nine months ended September 30, 2009 was \$86,000.

(b) Amounts related to share-based payment expense included in operating expenses were as follows:

|                                     |          |        |    |          |
|-------------------------------------|----------|--------|----|----------|
| Programming and content             | \$ 7,418 | \$ 501 | \$ | \$ 7,919 |
| Customer service and billing        | 2,052    | 359    |    | 2,411    |
| Satellite and transmission          | 3,020    | 351    |    | 3,371    |
| Sales and marketing                 | 10,081   | 513    |    | 10,594   |
| Engineering, design and development | 4,841    | 772    |    | 5,613    |
| General and administrative          | 40,141   | 1,252  |    | 41,393   |

|                                   |    |        |    |       |    |        |
|-----------------------------------|----|--------|----|-------|----|--------|
| Total share-based payment expense | \$ | 67,553 | \$ | 3,748 | \$ | 71,301 |
|-----------------------------------|----|--------|----|-------|----|--------|

(9) The following table reconciles our GAAP Net cash provided by operating activities to our Net income plus non-cash operating activities (in thousands):

|                                                        | <b>For the Three Months<br/>Ended<br/>September 30,</b> |             | <b>For the Nine Months<br/>Ended<br/>September 30,</b> |             |
|--------------------------------------------------------|---------------------------------------------------------|-------------|--------------------------------------------------------|-------------|
|                                                        | <b>2010</b>                                             | <b>2009</b> | <b>2010</b>                                            | <b>2009</b> |
| Net cash provided by operating activities              | \$ 150,059                                              | \$ 116,248  | \$ 291,046                                             | \$ 253,107  |
| Less: Changes in operating assets and liabilities, net | (33,004)                                                | (76,787)    | 15,584                                                 | (93,636)    |
| Net income plus non cash operating activities          | \$ 117,055                                              | \$ 39,461   | \$ 306,630                                             | \$ 159,471  |

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS**

As of September 30, 2010, we did not have any derivative financial instruments. We do not hold or issue any free-standing derivatives. We hold investments in marketable securities, which consist of certificates of deposit and investments in debt and equity securities of other entities. We classify our investments in marketable securities as available-for-sale. These securities are consistent with the investment objectives contained within our investment policy. The basic objectives of our investment policy are the preservation of capital, maintaining sufficient liquidity to meet operating requirements and maximizing yield.

Our debt includes fixed rate instruments and the fair market value of our debt is sensitive to changes in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage our exposure to interest rate fluctuations.

**ITEM 4. CONTROLS AND PROCEDURES**

***Controls and Procedures***

As of September 30, 2010, an evaluation was performed under the supervision and with the participation of our management, including Mel Karmazin, our Chief Executive Officer, and David J. Frear, our Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as that term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act). Based on that evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of September 30, 2010. There has been no change in our internal control over financial reporting (as that term is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act) during the quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

*FCC Merger Order.* On July 25, 2008, the FCC adopted an order approving the Merger. In September 2008, Mt. Wilson FM Broadcasters, Inc. Filed a Petition for Reconsideration of the FCC's merger order. On October 19, 2010, the FCC released an Order dismissing this Petition for Reconsideration.

*Advanced Recording Functionality Disputes.* Commencing in May 2006, holders of copyrights in sound recordings and holders of copyrights in musical works brought three actions against XM for copyright infringement in the Federal District Court in the Southern District of New York; namely, *Atlantic Recording Corp. et al. v. XM Satellite Radio Inc.*, *Famous Music LLC, et al. v. XM Satellite Radio, Inc.*, and *In re XM Satellite Radio Copyright Litigation*. These actions sought monetary damages and equitable relief in connection with the advanced recording functionality included in the XM Inno, the XM NeXus, the XM Helix, the XM SkyFi3 line of satellite radios. As previously reported, XM settled these claims with the major record companies and a significant number of music publishers, resulting in the dismissal of two of the three actions. XM has also reached agreement with certain independent holders of sound recordings and musical works to settle the third action, a purported class action.

Prior to introducing retail sales of the SIRIUS S50 and the SIRIUS Stiletto line of satellite radio receivers with advanced recording functionality, SIRIUS entered into agreements with the major recording companies concerning such devices. SIRIUS has also reached agreement with the National Music Publishers Association to settle the copyright infringement claims which is now being offered to the principal holders of copyrights for musical works. SIRIUS is also in negotiation to settle the *Nota Music Publishing, Inc., et al. v. Sirius Satellite Radio Inc.* action, a purported class action, brought on behalf of certain independent record companies and music publishers.

*State Consumer Investigations.* In October 2010, a Multistate Working Group, led by the Attorney General of the State of Ohio and joined by the Offices of the Attorneys General of Arizona, Connecticut, Tennessee, Vermont and the District of Columbia, commenced a multi-jurisdictional investigation into certain of SIRIUS and XM's consumer practices. The investigation focuses on practices relating to the cancellation of subscriptions; automatic renewal of subscriptions; charging, billing, collecting, and refunding or crediting of payments from consumers; and soliciting customers.

A separate investigation into SIRIUS and XM's consumer-related practices is being conducted by the Attorney General of the State of Florida. In addition, in September 2010, the Attorney General of the State of Missouri commenced an action against us regarding our telemarketing practices to residents of the State of Missouri.

We are cooperating with these investigations and believe our consumer-related practices comply with all applicable federal and state laws and regulations.

*Other Matters.* In the ordinary course of business, we are a defendant in various lawsuits and arbitration proceedings, including actions filed by subscribers, both on behalf of themselves and on a class action basis; former employees; parties to contracts or leases; and owners of patents, trademarks, copyrights or other intellectual property. None of these actions are, in our opinion, likely to have a material adverse effect on our cash flows, financial position or results of operations.

**ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors previously disclosed in response to Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2009.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Not applicable.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. (REMOVED AND RESERVED)**

**ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS**

See Exhibits Index attached hereto.



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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 4<sup>th</sup> day of November 2010.

SIRIUS XM RADIO INC.

By: /s/ David J. Frear

**David J. Frear**  
**Executive Vice President and**  
**Chief Financial Officer**  
**(Duly Authorized Officer and**  
**Principal Financial Officer)**

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**EXHIBIT INDEX**

| <b>Exhibit</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.1            | Indenture, dated as of October 27, 2010, among XM Satellite Radio Inc., the guarantors thereto and U.S. Bank National Association, as trustee, relating to the 7.625% Senior Notes due 2018 (incorporated by reference to Exhibit 4.1 to XM Satellite Radio Inc.'s Current Report on Form 8-K filed on October 28, 2010).                                                                                                                                                                                                                                                                                                                                                                                                            |
| 4.2            | Supplemental Indenture, dated as of October 27, 2010, among XM Satellite Radio Inc., the guarantors thereto and U.S. Bank National Association, as trustee, relating to the 11.25% Senior Secured Notes due 2013 (incorporated by reference to Exhibit 4.2 to XM Satellite Radio Inc.'s Current Report on Form 8-K filed on October 28, 2010).                                                                                                                                                                                                                                                                                                                                                                                       |
| 31.1           | Certificate of Mel Karmazin, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 31.2           | Certificate of David J. Frear, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 32.1           | Certificate of Mel Karmazin, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 32.2           | Certificate of David J. Frear, Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 101.1*         | The following information from Sirius XM Radio Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 formatted in XBRL: (i) Unaudited Consolidated Statements of Operations for the three and nine months ended September 30, 2010 and 2009; (ii) Consolidated Balance Sheets as of September 30, 2010 (Unaudited) and December 31, 2009; (iii) Unaudited Consolidated Statements of Stockholder's Equity as of September 30, 2010 and Comprehensive Income for the nine months ended September 30, 2010; (iv) Unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009; and (v) Notes to Unaudited Consolidated Financial Statements tagged as blocks of text. |

\* Furnished with this Form 10-Q.