

SIRIUS XM RADIO INC.  
Form 10-Q  
November 05, 2009

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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, 2009**

**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 of 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 (§232.405 of this chapter) 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 accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(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

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

**(Class)**

**(Outstanding as of October 31, 2009)**

**COMMON STOCK, \$0.001 PAR VALUE**

**3,858,653,816 SHARES**

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES  
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Exhibit 32.2

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UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

| <i>(in thousands, except per share data)</i>                                   | <b>For the Three Months<br/>Ended September 30,</b> |             | <b>For the Nine Months<br/>Ended September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2009</b>   | <b>2008</b> | <b>2009</b>  | <b>2008</b> |
| Revenue:   |   |             |  |             |
| Subscriber revenue, including effects of rebates                               | \$ 578,304  | \$ 458,237  | \$ 1,699,455                                       | \$ 980,396  |
| Advertising revenue, net of agency fees  | 12,418  | 14,674      | 37,287   | 31,413      |
| Equipment revenue  | 10,506  | 11,271      | 31,343   | 25,290      |
| Other revenue  | 17,428  | 4,261       | 28,379   | 4,710       |
| Total revenue  | 618,656   | 488,443     | 1,796,464  | 1,041,809   |
| Operating expenses (depreciation and amortization shown separately below) (1): |   |             |  |             |
| Cost of services:  |   |             |  |             |
| Satellite and transmission   | 19,542  | 19,526      | 59,435   | 34,800      |
| Programming and content  | 78,315  | 106,037     | 230,825  | 222,975     |
| Revenue share and royalties  | 100,558   | 85,592      | 296,855  | 177,635     |
| Customer service and billing   | 56,529  | 47,432      | 175,570  | 97,218      |
| Cost of equipment  | 11,944  | 13,773      | 27,988   | 28,007      |
| Sales and marketing  | 52,530  | 63,637      | 152,647  | 151,237     |
| Subscriber acquisition costs   | 90,054  | 86,616      | 230,773  | 257,832     |
| General and administrative   | 56,923  | 57,310      | 182,953  | 148,555     |
| Engineering, design and development  | 11,252  | 10,434      | 32,975   | 28,091      |
| Impairment of goodwill   |   | 4,750,859   |  | 4,750,859   |
| Depreciation and amortization  | 72,100  | 66,774      | 231,624  | 120,793     |
| Restructuring, impairments and related costs                                   | 2,554   | 7,430       | 30,167   | 7,457       |
| Total operating expenses   | 552,301   | 5,315,420   | 1,651,812  | 6,025,459   |
| Income (loss) from operations  | 66,355  | (4,826,977) | 144,652  | (4,983,650) |
| Other income (expense):  |   |             |  |             |
| Interest and investment income   | 962   | 4,940       | 2,602  | 9,167       |
| Interest expense, net of amounts capitalized                                   | (78,527)  | (49,216)    | (240,062)  | (83,636)    |
| Loss on extinguishment of debt and credit facilities, net                      | (138,053)   |             | (263,767)  |             |
| (Loss) gain on investments   | (58)  | (3,089)     | 457  | (3,089)     |
| Other income (expense)   | 1,246   | (3,870)     | 2,505  | (3,935)     |
| Total other expense  | (214,430)   | (51,235)    | (498,265)  | (81,493)    |
| Loss before income taxes   | (148,075)   | (4,878,212) | (353,613)  | (5,065,143) |
| Income tax expense   | (1,115)   | (1,215)     | (3,344)  | (2,301)     |
| Net loss   | (149,190)   | (4,879,427) | (356,957)  | (5,067,444) |

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|  |              |                |              |                |
|--|--------------|----------------|--------------|----------------|
| Preferred stock beneficial conversion feature                  |              |                | (186,188)    |                |
| Net loss attributable to common stockholders                   | \$ (149,190) | \$ (4,879,427) | \$ (543,145) | \$ (5,067,444) |
| Net loss per common share (basic and diluted)                  | \$ (0.04)    | \$ (1.93)      | \$ (0.15)    | \$ (2.76)      |
| Weighted average common shares outstanding (basic and diluted) | 3,621,062    | 2,527,692      | 3,577,587    | 1,836,834      |

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

|                                     |           |           |           |           |
|-------------------------------------|-----------|-----------|-----------|-----------|
| Satellite and transmission          | \$ 1,086  | \$ 1,331  | \$ 3,020  | \$ 2,887  |
| Programming and content             | 3,037     | 3,529     | 7,418     | 7,477     |
| Customer service and billing        | 734       | 596       | 2,052     | 1,137     |
| Sales and marketing                 | 2,722     | 3,672     | 10,081    | 11,376    |
| Subscriber acquisition costs        |           |           |           | 14        |
| General and administrative          | 8,442     | 12,904    | 40,141    | 36,359    |
| Engineering, design and development | 1,653     | 1,973     | 4,841     | 4,167     |
| Total share-based payment expense   | \$ 17,674 | \$ 24,005 | \$ 67,553 | \$ 63,417 |

See accompanying Notes to the unaudited consolidated financial statements.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

| <i>(in thousands, except share and per share data)</i>  | <b>September 30,<br/>2009<br/>(Unaudited)</b> | <b>December 31,<br/>2008</b> |
|---|---|------------------------------|
| <b>ASSETS</b>   |   |                              |
| Current assets:   |   |                              |
| Cash and cash equivalents   | \$ 380,372                                    | \$ 380,446                   |
| Accounts receivable, net of allowance for doubtful accounts of \$9,872 and \$10,860, respectively | 87,148  | 102,024                      |
| Receivables from distributors   | 41,755  | 45,950                       |
| Inventory, net  | 20,996  | 24,462                       |
| Prepaid expenses  | 107,350                                       | 67,203                       |
| Related party current assets  | 109,172                                       | 114,177                      |
| Other current assets  | 64,317  | 58,744                       |
| Total current assets  | 811,110                                       | 793,006                      |
| Property and equipment, net   | 1,694,235                                     | 1,703,476                    |
| FCC licenses  | 2,083,654                                     | 2,083,654                    |
| Restricted investments  | 3,400   | 141,250                      |
| Deferred financing fees, net  | 35,889  | 40,156                       |
| Intangible assets, net  | 629,288                                       | 688,671                      |
| Goodwill  | 1,834,856                                     | 1,834,856                    |
| Related party long-term assets  | 114,073                                       | 124,607                      |
| Other long-term assets  | 62,438  | 81,019                       |
| Total assets  | \$ 7,268,943                                  | \$ 7,490,695                 |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |   |                              |
| Current liabilities:  |   |                              |
| Accounts payable and accrued expenses   | \$ 521,621                                    | \$ 642,820                   |
| Accrued interest  | 65,537  | 76,463                       |
| Current portion of deferred revenue   | 987,177                                       | 985,180                      |
| Current portion of deferred credit on executory contracts   | 247,566                                       | 234,774                      |
| Current maturities of long-term debt  | 103,674                                       | 399,726                      |
| Related party current liabilities   | 90,869  | 68,373                       |
| Total current liabilities   | 2,016,444                                     | 2,407,336                    |
| Deferred revenue  | 285,488                                       | 247,889                      |
| Deferred credit on executory contracts  | 851,955                                       | 1,037,190                    |
| Long-term debt  | 2,874,391                                     | 2,851,740                    |
| Long-term related party debt  | 265,659                                       |                              |
| Deferred tax liability  | 906,428                                       | 894,453                      |
| Related party long-term liabilities   | 21,928  |                              |
| Other long-term liabilities   | 39,005  | 43,550                       |
| Total liabilities   | 7,261,298                                     | 7,482,158                    |

## Commitments and contingencies (Note 15)

## Stockholders' equity:

Preferred stock, par value \$0.001; 50,000,000 authorized at September 30, 2009 and December 31, 2008:

Series A convertible preferred stock (liquidation preference of \$51,370 at September 30, 2009 and December 31, 2008); 24,808,959 shares issued and outstanding at September 30, 2009 and December 31, 2008

25 25

Convertible perpetual preferred stock, series B (liquidation preference of \$13 and \$0 at September 30, 2009 and December 31, 2008, respectively); 12,500,000 and zero shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively

13

Convertible preferred stock, series C junior; no shares issued and outstanding at September 30, 2009 and December 31, 2008

Common stock, par value \$0.001; 9,000,000,000 and 8,000,000,000 shares authorized at September 30, 2009 and December 31, 2008, respectively; 3,858,186,839 and 3,651,765,837 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively

3,858 3,652

Accumulated other comprehensive loss, net of tax

(6,598) (7,871)

Additional paid-in capital

10,265,752 9,724,991

Accumulated deficit

(10,255,405) (9,712,260)

Total stockholders' equity

7,645 8,537

Total liabilities and stockholders' equity

\$ 7,268,943 \$ 7,490,695

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 LOSS**

|   | Series A<br>Convertible<br>Preferred Stock |        | Series B<br>Convertible<br>Preferred Stock |        | Common Stock  |          | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss |
|---|--|--------|--|--------|---------------|----------|----------------------------------|------------------------|---|
|   | Shares                                     | Amount | Shares                                     | Amount | Shares        | Amount   |                                  |                        |   |
| September 30, 2008                      | 24,808,959                                 | \$ 25  |  | \$     | 3,651,765,837 | \$ 3,652 | \$ 9,724,991                     | \$ (9,712,260)         | \$ (7,356,957)                                |
| Comprehensive loss:                     |  |        |  |        |               |          |                                  |                        |   |
| on available-for-sale securities,       |  |        |  |        |               |          |                                  |                        |   |
| translation adjustment, net of          |  |        |  |        |               |          |                                  |                        |   |
| Comprehensive loss                      |  |        |  |        |               |          |                                  |                        |   |
| Preferred stock - related party, net of |  |        | 12,500,000                                 | 13     |               |          | 410,179                          | (186,188)              |   |
| Common stock to employees and           |  |        |  |        | 8,520,957     | 9        | 1,917                            |                        |   |
| plans, net of forfeitures               |  |        |  |        | 59,178,819    | 59       | 5,859                            |                        |   |
| in 10% Senior PIK Secured               |  |        |  |        | 91,666        |          | 56,500                           |                        |   |
| ment expense                            |  |        |  |        | (60,000,000)  | (60)     | 60                               |                        |   |
| under share borrow agreements           |  |        |  |        |               |          |                                  |                        |   |
| ected stock units in satisfaction       |  |        |  |        | 59,229,560    | 59       | 31,221                           |                        |   |
| ensation                                |  |        |  |        |               |          |                                  |                        |   |
| 2% Convertible Notes due 2009,          |  |        |  |        | 139,400,000   | 139      | 35,025                           |                        |   |
| and interest                            |  |        |  |        |               |          |                                  |                        |   |
| September 30, 2009                      | 24,808,959                                 | \$ 25  | 12,500,000                                 | \$ 13  | 3,858,186,839 | \$ 3,858 | \$ 10,265,752                    | \$ (10,255,405)        | \$ (6,356,957)                                |

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**

|   | <b>For the Nine Months<br/>Ended September 30,</b> |                |
|---|--|----------------|
|   | <b>2009</b>  | <b>2008</b>    |
| <i>(in thousands)</i>   |  |                |
| Cash flows from operating activities:   |  |                |
| Net loss  | \$ (356,957)                                       | \$ (5,067,444) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |  |                |
| Depreciation and amortization   | 231,624  | 114,923        |
| Impairment of goodwill  |  | 4,750,859      |
| Non-cash interest expense, net of amortization of premium                                 | 32,909   | (1,933)        |
| Provision for doubtful accounts   | 23,879   | 11,125         |
| Amortization of deferred income related to equity method investment                       | (2,082)  | (471)          |
| Loss on extinguishment of debt and credit facilities, net                                 | 263,767  |                |
| Restructuring, impairments and related costs  | 26,954   |                |
| Loss on disposal of assets  |  | 4,879          |
| Loss on investments   | 10,967   | 3,089          |
| Share-based payment expense   | 67,553   | 63,417         |
| Deferred income taxes   | 3,344  | 2,301          |
| Other non-cash purchase price adjustments   | (142,487)  | (23,770)       |
| Other   |  | 1,643          |
| Changes in operating assets and liabilities:  |  |                |
| Accounts receivable   | (9,002)  | 1,575          |
| Inventory   | 3,466  | 2,952          |
| Receivables from distributors   | 4,195  | 9,595          |
| Related party assets  | 15,539   | (1,357)        |
| Prepaid expenses and other current assets   | 30,188   | 3,528          |
| Other long-term assets  | 64,034   | 37,110         |
| Accounts payable and accrued expenses   | (68,135)   | (122,969)      |
| Accrued interest  | (6,600)  | (2,810)        |
| Deferred revenue  | 11,569   | (4,577)        |
| Related party liabilities   | 44,424   | 3,315          |
| Other long-term liabilities   | 3,958  | (1,972)        |
| Net cash provided by (used in) operating activities                                       | 253,107  | (216,992)      |
| Cash flows from investing activities:   |  |                |
| Additions to property and equipment   | (217,335)  | (102,705)      |
| Sales of property and equipment   |  | 105            |
| Purchases of restricted and other investments   |  | (3,000)        |
| Acquisition of acquired entity cash   |  | 819,521        |
| Merger related costs  |  | (13,047)       |
| Sale of restricted and other investments  |  | 65,642         |
| Net cash (used in) provided by investing activities                                       | (217,335)  | 766,516        |

|  |            |             |
|--|------------|-------------|
| Cash flows from financing activities:                |            |             |
| Proceeds from exercise of warrants and stock options |            | 471         |
| Preferred stock issuance costs, net                  | (3,712)    |             |
| Long-term borrowings, net                            | 579,936    | 533,941     |
| Related party long-term borrowings, net              | 364,964    |             |
| Short-term financings                                | 2,220      |             |
| Payment of premiums on redemption of debt            | (17,075)   | (18,693)    |
| Payments to minority interest holder                 |            | (61,880)    |
| Repayment of long-term borrowings                    | (610,932)  | (1,082,428) |
| Repayment of related party long-term borrowings      | (351,247)  |             |
| Other  |            | (98)        |
| Net cash used in financing activities                | (35,846)   | (628,687)   |
| Net decrease in cash and cash equivalents            | (74)       | (79,163)    |
| Cash and cash equivalents at beginning of period     | 380,446    | 438,820     |
| Cash and cash equivalents at end of period           | \$ 380,372 | \$ 359,657  |

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| <i>(in thousands)</i>   | <b>For the Nine Months<br/>Ended September 30,</b> |             |
|---|--|-------------|
|   | <b>2009</b>  | <b>2008</b> |
| Supplemental Disclosure of Cash and Non-Cash Flow Information   |  |             |
| Cash paid during the period for:  |  |             |
| Interest, net of amounts capitalized  | \$ 211,143   | \$ 91,309   |
| Non-cash investing and financing activities:  |  |             |
| Share-based payments in satisfaction of accrued compensation  | 31,280   | 8,729       |
| Common stock issued in exchange of 3 <sup>1</sup> / <sub>2</sub> % Convertible Notes due 2008, including accrued interest |  | 33,502      |
| Common stock issued in exchange of 2 <sup>1</sup> / <sub>2</sub> % Convertible Notes due 2009, 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  |             |
| Equity issued in the acquisition of XM  |  | 5,784,976   |
| 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. On July 28, 2008, our wholly owned subsidiary, Vernon Merger Corporation, merged (the Merger) with and into XM Satellite Radio Holdings Inc. and, as a result, XM Satellite Radio Holdings Inc. is now our wholly owned subsidiary. The SIRIUS system consists of four in-orbit satellites, over 125 terrestrial repeaters that receive and retransmit signals, satellite uplink facilities and studios. The XM system consists of four in-orbit satellites, over 650 terrestrial repeaters that receive and retransmit signals, satellite uplink facilities and studios. Subscribers can also receive certain of our music and other channels over the Internet.

Our satellite radios are primarily distributed through automakers (OEMs), retailers and 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 rental car companies.

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 prepaid subscriptions included in the sale or lease price of a vehicle; certain radios activated for daily rental fleet programs; 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 subscriptions as well as discounts for multiple subscriptions. We also derive revenue from activation 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 August 2009, we began charging our subscribers a U.S. Music Royalty Fee (the MRF).

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. Subscribers to the SIRIUS Canada service and the XM Canada service are not included in our subscriber count.

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 Holdings Inc. and its consolidated subsidiaries;

XM Holdings refers to XM Satellite Radio Holdings Inc. and its consolidated subsidiaries, including XM Satellite Radio Inc.; and

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

**(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, 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, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. All 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 presenting unaudited consolidated financial statements, management makes estimates and assumptions that affect the amounts reported and related disclosures. Additionally, estimates were used when recording the fair values of our assets acquired and liabilities assumed in the Merger. Estimates, by their nature, are based on judgment and available information. Actual results could differ from those estimates. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of our unaudited consolidated financial statements as of September 30, 2009, and for the three and nine months ended September 30, 2009 and 2008, 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, 2008, filed with the SEC on March 10, 2009.

We have evaluated events subsequent to the balance sheet date and prior to filing of this Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 through November 5, 2009 and determined there have not been any events that have occurred that would require adjustment to our unaudited consolidated financial statements.

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

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported and related disclosures.

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. The financial market volatility and economic conditions in the United States have impacted and may continue to impact our business. Such conditions could have a material impact to our significant accounting estimates.

***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 or market. We record an estimated allowance for inventory that is considered slow moving and obsolete or whose carrying value is in excess of net realizable value. The provision related to products purchased for our direct to consumer distribution channel is reported as a component of Cost of equipment in our unaudited consolidated statements of operations. The remaining provision is reported as a component of Subscriber acquisition costs in our unaudited consolidated statements of operations.

Inventory, net, consists of the following:

|                            | <b>September<br/>30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|----------------------------|-----------------------------------|------------------------------|
| Raw materials              | \$ 15,995                         | \$ 11,648                    |
| Finished goods             | 30,920                            | 38,323                       |
| Allowance for obsolescence | (25,919)                          | (25,509)                     |
| Total inventory, net       | \$ 20,996                         | \$ 24,462                    |

***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, 2009 and December 31, 2008, we have determined that the carrying amounts of cash and cash equivalents, accounts and other receivables, and accounts payable approximate fair value due to the short-term nature of these instruments.

The fair value of our long-term debt is determined by either (i) estimating the discounted future cash flows of each instrument at rates currently offered to us for similar debt instruments of comparable maturities, or (ii) quoted market prices at the reporting date for the traded debt securities. As of September 30, 2009 and December 31, 2008, the carrying value of our long-term debt was \$3,243,724 and \$3,251,466, respectively; and the fair value approximated \$3,130,837 and \$1,211,613, respectively.

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(Dollar amounts in thousands, unless otherwise stated)

***Reclassifications***

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

***Recent Accounting Pronouncements***

In September 2009, Accounting Standards Codification ( ASC ) became the source of authoritative U.S. GAAP recognized by the Financial Accounting Standards Board ( FASB ) for nongovernmental entities, except for certain FASB Statements not yet incorporated into ASC. Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative U.S. GAAP for registrants. The discussion below includes the applicable ASC reference.

We adopted ASC 855, *Subsequent Events*, which requires disclosure of events occurring after the balance sheet date but before financial statements are issued or are available to be issued. We adopted this guidance effective April 1, 2009, with no impact on our consolidated results of operations or financial position.

In June 2009, the FASB issued Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*, to require an analysis to determine whether our variable interest(s) give us a controlling financial interest in a variable interest entity. Statement 167 has not been incorporated into ASC and is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact, if any, the adoption of this guidance will have on our consolidated results of operations and financial position.

In June 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, which integrated existing accounting standards with other authoritative guidance to provide a single source of authoritative U.S. GAAP for nongovernmental entities. Statement 168 has not been incorporated into ASC and is effective for interim and annual periods ending after September 15, 2009. We adopted this guidance effective July 1, 2009, with no impact on our consolidated results of operations or financial position.

In July 2009, the FASB proposed an update to ASC 470 to incorporate the previously ratified EITF No. 09-1, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance*, into the ASC. This proposed standard would require 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 recognize a charge to earnings if it becomes probable the counterparty will default on the arrangement. This guidance would be effective for fiscal years beginning on or after December 15, 2009, and retrospective application for all arrangements outstanding as of the adoption date would be required. We are evaluating the impact that adoption of this proposed guidance would have on our consolidated results of operations and financial position.

**(4) Goodwill**

We allocated the consideration paid in connection with the Merger to the fair value of acquired assets and assumed liabilities, respectively, and in 2008 recorded goodwill in the amount of \$6,601,046. During 2008, we recorded an impairment charge of \$4,766,190, of which \$4,750,859 was recognized as of September 30, 2008, resulting in a carrying value of \$1,834,856 at December 31, 2008. There has not been any change in the carrying value of goodwill during 2009.

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**(5) Intangible Assets**

Intangible assets consisted of the following:

|                                   | Weighted<br>Average<br>Useful<br>Lives | September 30, 2009         |                             |                          | December 31, 2008          |                             |                          |
|-----------------------------------|--|----------------------------|-----------------------------|--------------------------|----------------------------|-----------------------------|--------------------------|
|                                   |  | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Net<br>Carrying<br>Value | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Net<br>Carrying<br>Value |
| Indefinite life intangible assets |  |                            |                             |                          |                            |                             |                          |
| FCC licenses                      | Indefinite                             | \$ 2,083,654               | \$                          | \$ 2,083,654             | \$ 2,083,654               | \$                          | \$ 2,083,654             |
| Trademark                         | Indefinite                             | 250,000                    |                             | 250,000                  | 250,000                    |                             | 250,000                  |
| Definite life intangible assets   |  |                            |                             |                          |                            |                             |                          |
| Subscriber relationships          | 9 years                                | \$ 380,000                 | \$ (76,670)                 | \$ 303,330               | \$ 380,000                 | \$ (29,226)                 | \$ 350,774               |
| Proprietary software              | 6 years                                | 16,552                     | (6,020)                     | 10,532                   | 16,552                     | (2,285)                     | 14,267                   |
| Developed technology              | 10 years                               | 2,000                      | (233)                       | 1,767                    | 2,000                      | (83)                        | 1,917                    |
| Licensing agreements              | 9.1 years                              | 75,000                     | (11,452)                    | 63,548                   | 75,000                     | (4,090)                     | 70,910                   |
| Leasehold interests               | 7.4 years                              | 132                        | (21)                        | 111                      | 908                        | (105)                       | 803                      |
| Total intangible assets           |  | \$ 2,807,338               | \$ (94,396)                 | \$ 2,712,942             | \$ 2,808,114               | \$ (35,789)                 | \$ 2,772,325             |

*Indefinite Life Intangible Assets*

We have identified our FCC licenses and the XM trademark as indefinite life intangibles after considering the expected use of the assets, the regulatory and economic environment within which they are being 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. SIRIUS' FCC license for its FM-1, FM-2 and FM-3 satellites (and a ground spare FM-4) expires in 2010, the FCC license for its FM-5 satellite expires in 2017 and the FCC license for its FM-6 satellite will expire eight years after SIRIUS certifies the satellite has been successfully launched and put into operation. XM Holdings' FCC licenses for its satellites expire in 2013 and 2014. Prior to the expirations, 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. The FCC licenses authorize 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, 2009, there are no legal, regulatory or contractual limitations associated with the XM trademark.

We evaluate our indefinite life intangible assets for impairment on an annual basis. During the three and nine months ended September 30, 2009, no impairment loss was recorded for intangible assets with indefinite lives.

*Definite Life Intangible Assets*

Definite life intangible assets consist primarily of subscriber relationships of \$380,000 that were acquired as a result of the Merger. 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 intangibles include certain licensing agreements of \$75,000, which are being amortized over a weighted average useful life of 9.1 years on a straight-line basis.

Amortization expense was \$18,648 and \$9,232 for the three months ended September 30, 2009 and 2008, respectively, and \$58,759 and \$9,232 for the nine months ended September 30, 2009 and 2008, respectively. Expected amortization expense for each of the fiscal years through December 31, 2013 and for periods thereafter is as follows:

| <b>Year ending December 31,</b>      | <b>Amount</b> |
|--------------------------------------|---------------|
| Remaining 2009                       | \$ 17,827     |
| 2010                                 | 65,916        |
| 2011                                 | 58,850        |
| 2012                                 | 53,420        |
| 2013                                 | 47,097        |
| Thereafter                           | 136,178       |
| <br>                                 |               |
| Total definite life intangibles, net | \$ 379,288    |

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**(6) Subscriber  
Revenue**

Subscriber revenue consists of subscription fees, revenue derived from our agreements with rental car companies, non-refundable activation fees and the effects of rebates. Revenues received from automakers for prepaid subscriptions included in the sale or lease price of vehicles are also included in subscriber revenue over the service period upon activation and sale to the customer.

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>2009</b>   | <b>2008</b>    | <b>2009</b>  | <b>2008</b>    |
| Subscription fees            | \$ 573,611  | \$ 453,540     | \$ 1,683,568                                       | \$ 963,454     |
| Activation fees              | 5,171   | 4,920          | 16,929   | 17,271         |
| Effect of rebates            | (478)   | (223)          | (1,042)  | (329)          |
| <br>Total subscriber revenue | <br>\$ 578,304                                      | <br>\$ 458,237 | <br>\$ 1,699,455                                   | <br>\$ 980,396 |

**(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>2009</b>   | <b>2008</b>   | <b>2009</b>  | <b>2008</b>   |
| Interest costs charged to expense | \$ 78,527   | \$ 49,216     | \$ 240,062   | \$ 83,636     |
| Interest costs capitalized        | 12,742  | 7,791         | 47,272   | 14,340        |
| <br>Total interest costs incurred | <br>\$ 91,269                                       | <br>\$ 57,007 | <br>\$ 287,334                                     | <br>\$ 97,976 |

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**(8) Property and Equipment**

Property and equipment, net, consists of the following:

|  | <b>September 30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|--|-------------------------------|------------------------------|
| Satellite system                                     | \$ 1,664,286                  | \$ 1,414,625                 |
| Terrestrial repeater network                         | 108,698                       | 109,228                      |
| Leasehold improvements                               | 43,033                        | 42,878                       |
| Broadcast studio equipment                           | 49,818                        | 49,186                       |
| Capitalized software and hardware                    | 138,174                       | 132,555                      |
| Satellite telemetry, tracking and control facilities | 56,013                        | 56,217                       |
| Furniture, fixtures, equipment and other             | 59,804                        | 57,995                       |
| Land   | 38,411                        | 38,411                       |
| Building   | 56,322                        | 56,392                       |
| Construction in progress                             | 379,748                       | 474,716                      |
| Total property and equipment                         | 2,594,307                     | 2,432,203                    |
| Accumulated depreciation and amortization            | (900,072)                     | (728,727)                    |
| Property and equipment, net                          | \$ 1,694,235                  | \$ 1,703,476                 |

|                              | <b>September<br/>30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|------------------------------|-----------------------------------|------------------------------|
| Satellite system             | \$ 353,938                        | \$ 449,129                   |
| Terrestrial repeater network | 19,067                            | 19,070                       |
| Leasehold improvements       |                                   |                              |
| Other                        | 6,743                             | 6,517                        |
| Construction in progress     | \$ 379,748                        | \$ 474,716                   |

Depreciation and amortization expense on property and equipment was \$53,452 and \$57,542 for the three months ended September 30, 2009 and 2008, respectively, and \$172,865 and \$111,561 for the nine months ended September 30, 2009 and 2008, respectively.

**Satellites**

SIRIUS' initial three orbiting satellites were successfully launched in 2000. Our spare SIRIUS satellite was delivered to ground storage in 2002. SIRIUS' three-satellite constellation and terrestrial repeater network were placed into service in 2002. On June 30, 2009, SIRIUS launched a satellite into a geostationary orbit and placed it into service in August 2009 along with SIRIUS' other three orbiting satellites.

SIRIUS has an agreement with Space Systems/Loral for the design and construction of a sixth SIRIUS satellite. In January 2008, SIRIUS entered into an agreement with International Launch Services ( ILS ) to secure a satellite launch on a Proton rocket. We currently expect to launch this satellite in the fourth quarter of 2011.

XM owns four orbiting satellites; two of which, XM-3 and XM-4, currently transmit the XM signal and two of which, XM-1 and XM-2, serve as in-orbit spares. The XM satellites were launched in March 2001, May 2001, February 2005

and October 2006.

Space Systems/Loral has constructed a fifth satellite, XM-5, for use in the XM system. In 2006, XM entered into an agreement with Sea Launch to secure a launch for XM-5. In June 2009, Sea Launch filed for bankruptcy protection under Title 11 of the United States Code and as a result, XM recorded a charge of \$24,196 to Restructuring, impairments and related costs in our unaudited consolidated statements of operations for amounts previously paid, including capitalized interest. In October 2009, XM Holdings terminated its satellite launch agreement with Sea Launch with the consent of the Bankruptcy Court. In October 2009, we entered into an agreement with ILS to secure a satellite launch for XM-5 on a Proton rocket. We currently expect to launch XM-5 in the second or third quarter of 2010.

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**(9) Related Party Transactions**

***Liberty Media***

Liberty Media Corporation and its affiliate, Liberty Media, LLC (collectively, Liberty Media ) is the holder of our Convertible Perpetual Preferred Stock, Series B (the Series B Preferred Stock ), has representatives on our board of directors and is considered a related party. See Note 11, Debt, to our unaudited consolidated financial statements for further information regarding indebtedness previously owed to Liberty Media.

***Investment Agreement***

On February 17, 2009, we entered into an Investment Agreement (the Investment Agreement ) with Liberty Media. Pursuant to the Investment Agreement, we agreed to issue to Liberty Radio, LLC 12,500,000 shares of Series B Preferred Stock with a liquidation preference of \$0.001 per share in partial consideration for certain loan investments. The Series B Preferred Stock was issued on March 6, 2009.

The Series B Preferred Stock is convertible into 40% of our outstanding shares of common stock (after giving effect to such conversion). Liberty Radio, LLC has agreed not to acquire more than 49.9% of our outstanding common stock for three years from the date the Series B Preferred Stock was issued, except that Liberty Radio, LLC may acquire more than 49.9% of our outstanding common stock at any time after the second anniversary of such date pursuant to any cash tender offer for all of the outstanding shares of our common stock that are not beneficially owned by Liberty Radio, LLC 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 such three year period.

The holder of our Series B Preferred Stock is entitled to appoint a number of directors to our board of directors proportionate to its ownership levels from time to time.

We accounted for the Series B Preferred Stock by recording a \$227,716 increase to additional paid-in capital, excluding issuance costs, for the amount of allocated proceeds received and an additional \$186,188 increase in paid-in capital for the beneficial conversion feature, which was immediately recognized as a charge to retained earnings.

***Loan Investments***

On February 17, 2009, SIRIUS entered into a Credit Agreement (the LM Credit Agreement ) with Liberty Media Corporation, as administrative agent and collateral agent, and Liberty Media, LLC, as lender. The LM Credit Agreement provided for a \$250,000 term loan and \$30,000 of purchase money loans. In August 2009, we repaid all amounts due and terminated the LM Credit Agreement in connection with the issue and sale of XM s 9.75% Senior Secured Notes due 2015.

On February 17, 2009, XM entered into a Credit Agreement with Liberty Media Corporation, as administrative agent and collateral agent, and Liberty Media, LLC, as lender. On March 6, 2009, XM amended and restated that credit agreement (the Second-Lien Credit Agreement ) with Liberty Media Corporation. In June 2009, XM repaid all amounts due and terminated the Second-Lien Credit Agreement in connection with the issue and sale of its 11.25% Senior Secured Notes due 2013.

On March 6, 2009, XM amended and restated the \$100,000 Term Loan, dated as of June 26, 2008 and the \$250,000 Credit Agreement, dated as of May 5, 2006. These facilities were combined as term loans into the Amended and Restated Credit Agreement, dated as of March 6, 2009. Liberty Media, LLC, purchased \$100,000 aggregate principal amount of such loans from the existing lenders. In June 2009, XM used a portion of the net proceeds from the sale of its 11.25% Senior Secured Notes due 2013 to extinguish the Amended and Restated Credit Agreement.

In June 2009, Liberty Media Corporation purchased \$100,000 aggregate principal amount of XM s 11.25% Senior Secured Notes due 2013 as part of the offering of such notes. In August 2009, Liberty Media Corporation purchased \$50,000 aggregate principal amount of SIRIUS 9.75% Senior Secured Notes due 2015 as part of the offering of such notes.

As of September 30, 2009, we recorded \$265,659 as Long-term related party debt related to the transactions with Liberty Media. This amount included the following principal amounts; \$87,000 of XM s 11.25% Senior Secured Notes

due 2013, \$76,000 of XM's 13% Senior Notes due 2013, \$11,000 of XM's 7% Exchangeable Senior Subordinated Notes due 2014, \$55,221 of SIRIUS' 8% Senior Notes due 2013, and \$50,000 of SIRIUS' 9.75% Senior Secured Notes due 2015. As of September 30, 2009, we recorded \$5,737 related to accrued interest with Liberty Media to Related party current liabilities.

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We recognized Interest expense related to Liberty Media of \$18,067 and \$69,439 for the three and nine months ended September 30, 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.

Total costs that have been or will be reimbursed by SIRIUS Canada for the three months ended September 30, 2009 and 2008 were \$2,471 and \$3,345, respectively, and \$8,196 and \$11,175 for the nine months ended September 30, 2009 and 2008, respectively. We recorded \$1,525 and \$0 in royalty income for the three months ended September 30, 2009 and 2008, respectively, and \$3,695 and \$0 for the nine months ended September 30, 2009 and 2008, respectively. Such royalty income was recognized as a component of Other revenue in our unaudited consolidated statements of operations. We also recorded dividend income of \$219 and \$0 for the three months ended September 30, 2009 and 2008, respectively, and \$612 and \$0 for the nine months ended September 30, 2009 and 2008, respectively, which was included in Interest and investment income in our unaudited consolidated statements of operations.

Receivables recorded relating to royalty income and dividend income were fully utilized to absorb a portion of our share of the losses generated by SIRIUS Canada during the three and nine months ended September 30, 2009.

As of September 30, 2009 and December 31, 2008, other amounts due from SIRIUS Canada recorded in Related party current assets were \$3,379 and \$1,814, respectively. As of September 30, 2009 and December 31, 2008, amounts payable to SIRIUS Canada to fund its remaining capital requirements recorded in Related party current liabilities were \$1,305 and \$1,160, 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 term of ten years and XM Canada has the unilateral option to extend the term of the agreements for an additional five years at no additional cost beyond the current financial arrangements. XM Canada has expressed its intent to exercise this option at the end of the initial term of the agreements. XM has the right to receive a 15% royalty for all subscriber fees earned by XM Canada each month for its basic service and a nominal 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 \$71,800 for the rights to broadcast and market National Hockey League (NHL) games for the 10-year term of XM's contract with the NHL. We recognize these payments on a gross basis as a principal obligor pursuant to the provisions of ASC 605, *Revenue Recognition*.

The estimated fair value of deferred revenue from XM Canada as of the Merger date was approximately \$34,000, and is being amortized on a straight-line basis over the remaining expected term of the agreements. Subsequent to the Merger date, we began to record additional deferred revenue on our agreements with XM Canada involving royalties on subscriber and activation fees. As of September 30, 2009 and December 31, 2008, the carrying value of Deferred revenue related to XM Canada was \$39,566 and \$36,002, respectively.

XM has extended a Cdn\$45,000 standby credit facility to XM Canada which can be utilized to purchase terrestrial repeaters or finance the payment of subscription fees. The facility matures on December 31, 2012 and bears interest at a rate of 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, 2009 and December 31, 2008, amounts drawn by XM Canada on this facility in lieu of payment of subscription fees recorded in Related party long-term assets were \$15,522 and \$8,311, respectively.

In connection with the deferred income related to XM Canada, we recorded amortization of \$694 and \$471 for the three months ended September 30, 2009 and 2008, respectively, and \$2,082 and \$471 for the nine months ended September 30, 2009 and 2008, respectively. The royalty fees XM earns related to subscriber and activation fees are reported as a component of Other revenue in our unaudited consolidated statements of operations. We recorded royalty fees of \$225 and \$146 for the three months ended September 30, 2009 and 2008, respectively, and \$499 and \$146 for the nine months ended September 30, 2009 and 2008, respectively. XM Canada pays XM a licensing fee and reimburses XM for advertising, both of which are reported as a component of Other revenue in our unaudited consolidated statements of operations. We recognized licensing fee revenue of \$1,500 and \$1,000 for the three months ended September 30, 2009 and 2008, respectively, and \$4,500 and \$1,000 for the nine months ended September 30, 2009 and 2008, respectively. We recognized advertising reimbursements of \$0 for each of the three months ended September 30, 2009 and 2008, respectively, and \$733 and \$0 for the nine months ended September 30, 2009 and 2008, respectively. As of September 30, 2009 and December 31, 2008, amounts due from XM Canada recorded in Related party current assets were \$3,408 and \$5,594, respectively. As of September 30, 2009 and December 31, 2008, amounts due from XM Canada (in addition to the amounts drawn on the standby credit facility) recorded in Related party long-term assets were \$6,000 and \$0, respectively.

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***General Motors***

XM has a long-term distribution agreement with General Motors Company ( GM ). GM has a representative on our board of directors and is considered a related party. 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 installed XM radios become subscribers to XM s service. XM also shares with GM a percentage of the subscriber revenue attributable to GM vehicles with 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.

We recorded total revenue from GM, primarily consisting of subscriber revenue, of \$8,831 and \$6,733 for the three months ended September 30, 2009 and 2008, respectively, and \$22,087 and \$6,733 for the nine months ended September 30, 2009 and 2008, respectively.

We recognized Sales and marketing expense with GM of \$7,720 and \$8,539 for the three months ended September 30, 2009 and 2008, respectively, and \$23,387 and \$8,539 for the nine months ended September 30, 2009 and 2008, respectively. We recognized Revenue share and royalties expense with GM of \$15,008 and \$26,021 for the three months ended September 30, 2009 and 2008, respectively, and \$46,664 and \$26,021 for the nine months ended September 30, 2009 and 2008, respectively. We recognized Subscriber acquisition costs with GM of \$9,035 and \$29,530 for the three months ended September 30, 2009 and 2008, respectively, and \$25,066 and \$29,530 for the nine months ended September 30, 2009 and 2008, respectively.

As of September 30, 2009, amounts due from GM and prepaid expenses with GM recorded in Related party current assets were \$8,175 and \$91,902, respectively. As of September 30, 2009, prepaid expenses with GM recorded in Related party long-term assets were \$92,551. As of December 31, 2008, amounts due from GM and prepaid expenses with GM recorded in Related party current assets were \$10,132 and \$94,444, respectively. As of December 31, 2008, prepaid expenses with GM recorded in Related party long-term assets were \$116,296.

As of September 30, 2009 and December 31, 2008, amounts due to GM recorded in Related party current liabilities were \$79,813 and \$63,023, respectively. As of September 30, 2009 and December 31, 2008, amounts due to GM recorded in Related party long-term liabilities were \$21,928 and \$0, respectively.

***American Honda***

XM has an agreement to make a certain amount of its bandwidth available to American Honda. American Honda has a representative on our board of directors and is considered a related party. 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.

We recorded total revenue from American Honda, primarily consisting of subscriber revenue, of \$3,374 and \$3,321 for the three months ended September 30, 2009 and 2008, respectively, and \$9,201 and \$3,321 for the nine months ended September 30, 2009 and 2008, respectively.

We recognized Sales and marketing expense with American Honda of \$1,647 and \$1,848 for the three months ended September 30, 2009 and 2008, respectively, and \$4,391 and \$1,848 for the nine months ended September 30, 2009 and 2008, respectively. We recognized Revenue share and royalties expense with American Honda of \$1,636 and \$747 for the three months ended September 30, 2009 and 2008, respectively, and \$4,601 and \$747 for the nine months

ended September 30, 2009 and 2008, respectively.

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As of September 30, 2009 and December 31, 2008, amounts due from American Honda recorded in Related party current assets were \$2,308 and \$2,194, respectively.

As of September 30, 2009 and December 31, 2008, amounts due to American Honda recorded in Related party current liabilities were \$4,014 and \$4,190, respectively.

**(10) Investments**

Investments consist of the following:

|   | <b>September<br/>30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---|-----------------------------------|------------------------------|
| Marketable securities   | \$ 11,555                         | \$ 10,525                    |
| Restricted investments  | 3,400                             | 141,250                      |
| Embedded derivative accounted for separately from the host contract | 26                                | 2                            |
| Equity method investments   | 2,679                             | 8,873                        |
| Total investments   | \$ 17,660                         | \$ 160,650                   |

***SIRIUS Canada***

We have a 49.9% economic interest in SIRIUS Canada. Our investment in SIRIUS Canada is recorded using the equity method since we have a significant influence, but less than a controlling voting interest in SIRIUS Canada. Under this method, our investment in SIRIUS Canada, originally recorded at cost, is 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 SIRIUS Canada. Our share of net earnings or losses of SIRIUS Canada is recorded to Gain (loss) on investments in our unaudited consolidated statements of operations. We recorded losses of \$1,744 and \$0 for the three months ended September 30, 2009 and 2008, respectively, and \$4,307 and \$0 for the nine months ended September 30, 2009 and 2008, respectively, for our share of SIRIUS Canada's net loss. We recorded \$4,555 and \$11,424, respectively, for the three and nine months ended September 30, 2009 to Gain (loss) on investments in our unaudited consolidated statements of operations for payments received from SIRIUS Canada in excess of our carrying value of our investments in, advances to and commitments to such entity. As of September 30, 2009, the carrying value of our equity method investment in SIRIUS Canada was \$0.

***XM Canada***

We have a 23.33% economic interest in XM Canada. The amount of the Merger purchase price allocated to the fair value of our investment in XM Canada was \$41,188. Our investment in XM Canada is recorded using the equity method (on a one-month lag) since we have significant influence, but less than a controlling voting interest in XM Canada. Under this method, our investment in XM Canada is adjusted quarterly to recognize our 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 XM Canada. Our share of net earnings or losses of XM Canada is recorded to Gain (loss) on investments in our unaudited consolidated statements of operations. We recorded \$2,870 and \$1,926 for the three and nine months ended September 30, 2009, respectively, for our share of XM Canada's net loss. We recorded \$3,088 for the three and nine months ended September 30, 2008 for our share of XM Canada's net loss. During the three and nine months ended September 30, 2009, we reduced the carrying value of our investment in XM Canada due to decreases in fair value that were considered to be other than temporary and recorded impairment charges of \$4,734 and \$0 for the nine months ended September 30, 2009 and 2008, respectively. In addition, during the three and nine months ended September 30, 2009, we recorded (\$35) and \$466, respectively, as a foreign exchange gain (loss) to Accumulated other comprehensive loss, net of tax.

XM Holdings 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 as an available-for-sale security at fair value with changes in fair value recorded to Accumulated other comprehensive loss, net of tax. The embedded conversion feature is accounted for as a derivative at fair value with changes in fair value recorded in earnings as Interest and investment income. As of September 30, 2009, the carrying value of our equity method investment in XM Canada was \$2,679, while the carrying values of the host contract and embedded derivative related to our investment in the debentures was \$2,967 and \$26, respectively. As of December 31, 2008, the carrying value of our equity method investment in XM Canada was \$8,873, while the carrying values of the host contract and embedded derivative related to our investment in the debentures was \$2,540 and \$2, respectively.

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

**Auction Rate Certificates**

Auction rate certificates are long-term securities structured to reset their coupon rates by means of an auction. We account for our investment in auction rate certificates as available-for-sale securities. As of September 30, 2009 and December 31, 2008, the carrying value of these securities was \$8,588 and \$7,985, respectively.

**Restricted Investments**

Restricted investments relate to deposits placed into escrow for the benefit of third parties pursuant to programming agreements and reimbursement obligations under letters of credit issued for the benefit of lessors of office space. As of September 30, 2009 and December 31, 2008, the carrying value of our long-term restricted investments was \$3,400 and \$141,250, respectively.

**(11) Debt**

Our debt consists of the following:

|   | Conversion<br>Price<br>(per share) | Long Term Debt           |                      |
|---|------------------------------------|--------------------------|----------------------|
|   |                                    | September<br>30,<br>2009 | December 31,<br>2008 |
| SIRIUS Debt   |                                    |                          |                      |
| 8 <sup>3</sup> / <sub>4</sub> % Convertible Subordinated Notes due 2009 | \$ 28.46                           | \$                       | \$ 1,744             |
| 3 <sup>1</sup> / <sub>4</sub> % Convertible Notes due 2011              | \$ 5.30                            | 230,000                  | 230,000              |
| Senior Secured Term Loan due 2012                                       | N/A                                | 245,000                  | 246,875              |
| 9 <sup>5</sup> / <sub>8</sub> % Senior Notes due 2013                   | N/A                                | 500,000                  | 500,000              |
| 9.75% Senior Secured Notes due 2015                                     | N/A                                | 257,000                  |                      |
| Less: discount  |                                    | (12,006)                 |                      |
| 2 <sup>1</sup> / <sub>2</sub> % Convertible Notes due 2009              | \$ 4.41                            |                          | 189,586              |
| XM and XM Holdings Debt   |                                    |                          |                      |
| 10% Convertible Senior Notes due 2009                                   | \$ 10.87                           | 48,450                   | 400,000              |
| Less: discount  |                                    | (371)                    | (16,449)             |
| 10% Senior Secured Discount Convertible Notes due 2009                  | \$ 0.69                            | 33,249                   | 33,249               |
| Add: premium  |                                    | 6,450                    | 34,321               |
| 10% Senior PIK Secured Notes due 2011                                   | N/A                                | 172,485                  |                      |
| Less: discount  |                                    | (12,870)                 |                      |
| 11.25% Senior Secured Notes due 2013                                    | N/A                                | 525,750                  |                      |
| Less: discount  |                                    | (34,525)                 |                      |
| 13% Senior Notes due 2013   | N/A                                | 778,500                  | 778,500              |
| Less: discount  |                                    | (66,538)                 | (74,986)             |
| 9.75% Senior Notes due 2014   | N/A                                | 5,260                    | 5,260                |
| 7% Exchangeable Senior Subordinated Notes due 2014                      | \$ 1.875                           | 550,000                  | 550,000              |
| Senior Secured Term Loan due 2009                                       | N/A                                |                          | 100,000              |
| Senior Secured Revolving Credit Facility due 2009                       | N/A                                |                          | 250,000              |
| Add: premium  |                                    |                          | 151                  |
| Other debt:   |                                    |                          |                      |
| Capital leases  | N/A                                | 17,890                   | 23,215               |
| Total debt  |                                    | 3,243,724                | 3,251,466            |
| Less: current maturities  |                                    | 103,674                  | 399,726              |

|  |              |              |
|--|--------------|--------------|
| Total long-term                          | 3,140,050    | 2,851,740    |
| Less: related party                      | 265,659      |              |
| Total long-term, excluding related party | \$ 2,874,391 | \$ 2,851,740 |

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***SIRIUS Debt******8<sup>3</sup>/<sub>4</sub>% Convertible Subordinated Notes due 2009***

In 1999, SIRIUS issued 8<sup>3</sup>/<sub>4</sub>% Convertible Subordinated Notes due 2009 (the 8<sup>3</sup>/<sub>4</sub>% Notes ). The balance of the 8<sup>3</sup>/<sub>4</sub>% Notes matured on September 29, 2009 and were repaid in cash.

***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 2011 (the 3<sup>1</sup>/<sub>4</sub>% Notes ) resulting in net proceeds, after debt issuance costs, of \$224,813. The 3<sup>1</sup>/<sub>4</sub>% Notes 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. The 3<sup>1</sup>/<sub>4</sub>% Notes mature on October 15, 2011 and 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.

***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 provides for a senior secured term loan (the Senior Secured Term Loan ) of \$250,000, which has been fully drawn. Interest under the Senior Secured Term Loan is based, at our option, on (i) adjusted LIBOR plus 2.25% or (ii) the higher of (a) the prime rate and (b) the Federal Funds Effective Rate plus 1/2 of 1.00%, plus 1.25%. The current interest rate is 2.563%. The Senior Secured Term Loan amortizes in equal quarterly installments of 0.25% of the initial aggregate principal amount for the first four and a half years, with the balance of the loan thereafter being repaid in four equal quarterly installments. The Senior Secured Term Loan matures on December 20, 2012.

The Senior Secured Term Loan is guaranteed by certain of our wholly owned subsidiaries, including Satellite CD Radio, Inc. (the Guarantor ), and is secured by a lien on substantially all of SIRIUS and the Guarantor's assets, including SIRIUS four in-orbit satellites, one ground spare satellite and the shares of the Guarantor.

The Senior Secured Term Loan contains customary affirmative covenants and event of default provisions. The negative covenants contained in the Senior Secured Term Loan are substantially similar to those contained in the indenture governing SIRIUS 9<sup>8</sup>/<sub>10</sub>% Senior Notes due 2013.

***LM Term Loan and LM Purchase Money Loan***

In February 2009, SIRIUS entered into a Credit Agreement (the LM Credit Agreement ) with Liberty Media Corporation, as administrative agent and collateral agent. The LM Credit Agreement provided for a \$250,000 term loan ( LM Term Loan ) and \$30,000 of purchase money loans ( LM Purchase Money Loan ). Concurrently with entering into the LM Credit Agreement, SIRIUS borrowed \$250,000 under the LM Term Loan. The proceeds of the LM Term Loan were used (i) to repay at maturity our outstanding 2<sup>1</sup>/<sub>2</sub>% Convertible Notes due February 17, 2009 and (ii) for general corporate purposes, including related transaction costs.

In August 2009, SIRIUS used net proceeds from the sale of its 9.75% Senior Secured Notes due 2015 to extinguish the LM Term Loan and LM Purchase Money Loan. We recorded an aggregate loss on extinguishment of the LM Term Loan and LM Purchase Money Loan of \$134,520 consisting primarily of the unamortized discount, deferred financing fees and unaccreted portion of the repayment premium to Loss on extinguishment of debt and credit facilities in our unaudited consolidated statements of operations.

***9.75% Senior Secured Notes due 2015***

In August 2009, SIRIUS issued \$257,000 aggregate principal amount of 9.75% Senior Secured Notes due 2015 (the 9.75% Notes ). Interest is payable semi-annually in arrears on March 1 and September 1 of each year, commencing on March 1, 2010, at a rate of 9.75% per annum. The 9.75% Notes mature on September 1, 2015. The 9.75% Notes were issued for \$244,787, resulting in an aggregate original issuance discount, including fees, of \$12,213. The proceeds of the 9.75% Notes were used to extinguish the LM Term Loan and LM Purchase Money Loan.

SIRIUS and the domestic subsidiaries of SIRIUS that guarantee certain of the indebtedness of SIRIUS and its restricted subsidiaries 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).

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(Dollar amounts in thousands, unless otherwise stated)

***9<sup>5</sup>/8% Senior Notes due 2013***

In August 2005, SIRIUS issued \$500,000 in aggregate principal amount of 9<sup>5</sup>/8% Senior Notes due 2013 (the "9<sup>5</sup>/8% Notes") resulting in net proceeds, after debt issuance costs, of \$493,005. The 9<sup>5</sup>/8% Notes mature on August 1, 2013 and interest is payable semi-annually on February 1 and August 1 of each year. The obligations under the 9<sup>5</sup>/8% Notes are not secured by any of our assets.

***2<sup>1</sup>/2% Convertible Notes due 2009***

In February 2004, SIRIUS issued \$250,000 in aggregate principal amount of 2<sup>1</sup>/2% Convertible Notes due 2009 (the "2<sup>1</sup>/2% Notes") resulting in net proceeds, after debt issuance costs, of \$244,625. The remaining principal balance of the 2<sup>1</sup>/2% Notes matured on February 17, 2009, and was paid in cash at maturity.

***Space Systems/Loral Credit Agreement***

In July 2007, SIRIUS amended and restated its existing Credit Agreement with Space Systems/Loral (the "Loral Credit Agreement"). Under the Loral Credit Agreement, Space Systems/Loral agreed to make loans to SIRIUS to finance the purchase of its fifth and sixth satellites through June 10, 2010. As of September 30, 2009, Loral's commitment was approximately \$19,730. Loans made under the Loral Credit Agreement will be secured by SIRIUS' rights under the Satellite Purchase Agreement with Space Systems/Loral, including SIRIUS' rights to its sixth satellite. The loans will also be entitled to the benefits of a subsidiary guarantee from Satellite CD Radio, Inc., the subsidiary that holds SIRIUS' FCC license, and any future material subsidiary that may be formed by SIRIUS. The maturity date of the loans is the earliest to occur of (i) June 10, 2010, (ii) 90 days after the sixth satellite becomes available for shipment and (iii) 30 days prior to the scheduled launch of the sixth satellite. The Loral Credit Agreement contains certain conditions to borrowings, including payment of periodic commitment fees. Any loans made under the Loral Credit Agreement generally will bear interest at a variable rate equal to 3-month LIBOR plus 4.75%. The daily unused balance bears interest at a rate per annum equal to 0.50%, payable quarterly on the last day of each March, June, September and December. The Loral Credit Agreement permits SIRIUS to prepay all or a portion of the loans outstanding without penalty. SIRIUS has not borrowed under the Loral Credit Agreement.

***XM and XM Holdings Debt******10% Convertible Senior Notes due 2009***

XM Holdings has issued \$400,000 aggregate principal amount of 10% Convertible Senior Notes due 2009 (the "10% Convertible Notes"). Interest is payable semi-annually at a rate of 10% per annum. The 10% Convertible Notes mature on December 1, 2009. The 10% Convertible Notes may be converted by the holder, at its option, into shares of our common stock at a conversion rate of 92.0 shares of our common stock per \$1,000 principal amount, which is equivalent to a conversion price of \$10.87 per share of common stock (subject to adjustment in certain events). As a result of the fair valuation at the acquisition date, we recognized an initial discount of \$23,700.

In February 2009, we exchanged \$172,485 aggregate principal amount of the outstanding 10% Convertible Notes for a like principal amount of XM Holdings' 10% Senior PIK Secured Notes due 2011. We accounted for the exchange as a modification of debt and recorded \$2,008 to General and administrative expense in our unaudited consolidated statements of operations and \$10,990 of additional debt discount in our unaudited consolidated balance sheets.

In July 2009, XM used a portion of the net proceeds received from the issuance of its 11.25% Senior Secured Notes due 2013 and cash on hand to purchase at par \$179,065 aggregate principal amount of the 10% Convertible Notes. We recorded a loss of \$3,031 related to the unamortized discount to Loss on extinguishment of debt and credit facilities in our unaudited consolidated statements of operations as a result of this transaction.

***10% Senior Secured Discount Convertible Notes due 2009***

XM Holdings and XM, as co-obligors, have outstanding \$33,249 aggregate principal amount of 10% Senior Secured Discount Convertible Notes due 2009 (the "10% Discount Convertible Notes"). Interest is payable semi-annually at a rate of 10% per annum. The 10% Discount Convertible Notes mature on December 31, 2009. At any time, a holder of the notes may convert all or part of the accreted value of the notes at a conversion price of \$0.69 per share. As a result of the fair valuation at the acquisition date, we recognized an initial premium of \$57,550.



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**10% Senior PIK Secured Notes due 2011**

In February 2009, XM Holdings exchanged \$172,485 aggregate principal amount of outstanding 10% Convertible Notes for a like principal amount of its 10% Senior PIK Secured Notes due 2011 (the PIK Notes ). Interest is payable on the PIK Notes semiannually in arrears on June 1 and December 1 of each year at a rate of 10% per annum paid in cash from December 1, 2008 to December 1, 2009; at a rate of 10% per annum paid in cash and 2% per annum paid in kind from December 1, 2009 to December 1, 2010; and at a rate of 10% per annum paid in cash and 4% per annum paid in kind from December 1, 2010 to the maturity date.

The PIK Notes are fully and unconditionally guaranteed by XM 1500 Eckington LLC and XM Investment LLC (together, the Subsidiary Guarantors ) and are secured by a first-priority lien on substantially all of the property of the Subsidiary Guarantors. XM Holdings may, at its option, redeem some or all of the PIK Notes at any time at 100% of the principal amount prepaid, together with accrued and unpaid interest, if any.

We paid a fee equal to, at each exchanging noteholders' election, either (i) 833 shares of our common stock (the Structuring Fee Shares ) for every \$1 principal amount of 10% Convertible Notes exchanged or (ii) an amount in cash equal to \$0.05 for every \$1 principal amount of 10% Convertible Notes exchanged. The total number of Structuring Fee Shares delivered was 59,178,819, and the aggregate cash delivered was approximately \$5,100.

In October 2009, we purchased \$58,800 aggregate principal amount of the PIK Notes at a price of \$60,499, which included accrued interest of \$2,287. We will record a net loss of \$3,669, related to the unamortized discount and the discount on the purchase, to Loss on extinguishment of debt and credit facilities in our unaudited consolidated statements of operations as a result of this transaction.

**Amended and Restated Credit Agreement due 2011**

In March 2009, XM amended and restated the \$100,000 Senior Secured Term Loan due 2009, dated as of June 26, 2008 and the \$250,000 Senior Secured Revolving Credit Facility due 2009, dated as of May 5, 2006. These facilities were combined as term loans into the Amended and Restated Credit Agreement, dated as of March 6, 2009. Liberty Media LLC ( Liberty ) purchased \$100,000 aggregate principal amount of such loans from the lenders.

In June 2009, XM used net proceeds from the sale of its 11.25% Senior Secured Notes due 2013 to repay amounts due under and extinguish the Amended and Restated Credit Agreement. XM paid a repayment premium of \$6,500. We recorded an aggregate loss on extinguishment of the Amended and Restated Credit Agreement of \$49,786 consisting primarily of the unamortized discount, deferred financing fees and unaccreted portion of the repayment premium to Loss on extinguishment of debt and credit facilities in our unaudited consolidated statements of operations.

**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 \$489,952, resulting in an aggregate original issuance discount, including fees, of \$35,798.

XM Holdings and the domestic subsidiaries of XM that guarantee certain of the indebtedness of XM and its restricted subsidiaries guarantee XM's obligations under the 11.25% Notes. The 11.25% Notes and related guarantees are secured by first-priority liens on substantially all of the assets of XM Holdings, XM and the guarantors.

In June 2009, XM used a portion of the net proceeds from the sale of the 11.25% Notes to repay in full \$325,000 principal amount outstanding under the Amended and Restated Credit Agreement. In connection with the sale of the 11.25% Notes, XM terminated the Second-Lien Credit Agreement and repaid all amounts thereunder.

**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 were issued for \$700,105, resulting in an original issuance discount of \$78,395. The 13% Notes are unsecured and mature on August 1, 2013.

**9.75% Senior Notes due 2014**

XM has outstanding \$5,260 aggregate principal amount of 9.75% Senior Notes due 2014 (the XM 9.75% Notes ). Interest on the XM 9.75% Notes is payable semi-annually on May 1 and November 1 at a rate of 9.75% per annum. The XM 9.75% Notes are unsecured and mature on May 1, 2014. XM, at its option, may redeem the XM 9.75% Notes at declining redemption prices at any time on or after May 1, 2010, subject to certain restrictions. Prior to May 1, 2010, XM may redeem the XM 9.75% Notes, in whole or in part, at a price equal to 100% of the principal amount thereof, plus a make-whole premium and accrued and unpaid interest to the date of redemption.

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In March 2009, XM executed and delivered a Third Supplemental Indenture (the XM 9.75% Notes Supplemental Indenture ). The XM 9.75% Notes Supplemental Indenture amended the indenture to eliminate substantially all of the restrictive covenants, eliminated certain events of default and modified or eliminated certain other provisions contained in the indenture and the XM 9.75% Notes.

***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. XM Holdings, XM Equipment Leasing LLC and XM Radio Inc. 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.

***Second-Lien Credit Agreement***

In February 2009, XM entered into a Credit Agreement (the XM Credit Agreement ) with Liberty Media Corporation, as administrative agent and collateral agent. The XM Credit Agreement provided for a \$150,000 term loan. On March 6, 2009, XM amended and restated the XM Credit Agreement (the Second-Lien Credit Agreement ) with Liberty Media Corporation.

In June 2009, XM terminated the Second-Lien Credit Agreement in connection with the sale of the 11.25% Notes and repaid all amounts due thereunder. We recorded a loss on termination of the Second-Lien Credit Agreement of \$57,663 related to deferred financing fees to Loss on extinguishment of debt and credit facilities in our unaudited consolidated statements of operations.

***Covenants and Restrictions***

Our debt generally requires compliance with certain covenants that restrict our ability to, among other things, (i) incur additional 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 Holdings as an unrestricted subsidiary for purposes of compliance with the covenants contained in its debt instruments. If we fail to comply with these covenants, our debt could become immediately payable.

At September 30, 2009, we were in compliance with all financial covenants.

**(12) Stockholders' Equity**

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

We were authorized to issue up to 9,000,000,000 and 8,000,000,000 shares of common stock as of September 30, 2009 and December 31, 2008, respectively. There were 3,858,186,839 and 3,651,765,837 shares of common stock issued and outstanding as of September 30, 2009 and December 31, 2008, respectively.

As of September 30, 2009, approximately 3,848,417,000 shares of common stock were reserved for issuance in connection with outstanding convertible debt, preferred stock, warrants, incentive stock plans and common stock to be granted to third parties upon satisfaction of performance targets. During the three and nine months ended September 30, 2009, employees did not exercise any stock options.

During the third quarter of 2009, Morgan Stanley Capital Services Inc. returned 60,000,000 shares of our common stock initially borrowed in July 2008 to facilitate the offering of the Exchangeable Notes. The returned shares were retired upon receipt.

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 expense associated with these shares of \$1,641 for each of the three months ended September 30, 2009 and 2008, respectively, and \$3,501 for each of the nine months ended September 30, 2009 and 2008, respectively. As of September 30, 2009, there was a \$9,771 remaining balance of common stock value included in Other current assets and Other long-term assets in the amount of \$5,852 and \$3,919, respectively. As of December 31, 2008, there was a \$13,272 remaining balance of common stock value included in Other current assets and Other long-term assets in the amount of \$5,852 and \$7,420, respectively.

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***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, 2009. There were 24,808,959 shares of Series A convertible preferred stock issued and outstanding as of September 30, 2009 and December 31, 2008. 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, 2009. There were no shares of Preferred Stock, Series C Junior (the Series C Junior Preferred Stock), issued and outstanding at September 30, 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 40% of our outstanding shares of common stock (after giving effect to such conversion). As 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, the Series A Preferred 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 and the Series A Preferred Stock.

During 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.

In April 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, 2009, approximately 49,315,000 warrants to acquire approximately 81,739,000 shares of common stock with an average exercise price of \$3.12 per share were outstanding. We recognized expense of \$1,318 during the three months ended March 31, 2009 due to the cancellation of certain warrants and the issuance of replacement warrants expiring in March 2015. Warrants vest over time or upon the achievement of milestones and expire at various times through 2015. We recognized aggregate warrant related expense (benefit) of \$0 and (\$620) for the three months ended September 30, 2009 and 2008, respectively, and \$2,522 and \$2,236 for the nine months ended September 30, 2009 and 2008, 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. We plan to submit the Rights Plan to a stockholder vote prior to June 30, 2010, and the failure to obtain this approval will result in a termination of the Rights Plan.

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

**(13) Benefits Plans**

We maintain four share-based benefits plans. We satisfy awards and options granted under these plans through the issuance of new shares. We recognized share-based payment expense of \$17,674 and \$24,005 for the three months ended September 30, 2009 and 2008, respectively, and \$67,553 and \$63,417 for the nine months ended September 30, 2009 and 2008, respectively. For a summarized schedule of share-based payment expense, see the appended footnote to our unaudited consolidated statements of operations. We did not realize any income tax benefits from share-based benefits plans during the three and nine months ended September 30, 2009 and 2008, as a result of a 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, 2009, approximately 359,762,000 shares of common stock were available for future grant under the 2009 Plan.

**Other Plans**

SIRIUS and XM Holdings maintain three other share-based benefit plans – the XM Holdings 2007 Stock Incentive Plan, the Amended and Restated Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan and the XM Holdings 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 will be continued.

The following table summarizes the weighted-average assumptions used to compute reported share-based payment expense to employees and members of our board of directors for the three and nine months ended September 30, 2009 and 2008:

|                                  | <b>For the Three Months<br/>Ended September 30,<br/>2009</b> |             | <b>For the Nine Months<br/>Ended September 30,<br/>2009</b> |             |
|----------------------------------|--|-------------|---|-------------|
|                                  | <b>2009</b>  | <b>2008</b> | <b>2009</b>   | <b>2008</b> |
| Risk-free interest rate          | 2.5%   | 3.1%        | 2.5%  | 2.7%        |
| Expected life of options – years | 4.57   | 4.06        | 4.64  | 4.06        |
| Expected stock price volatility  | 88%  | 80%         | 88%   | 80%         |
| Expected dividend yield          | \$   | \$          | \$  | \$          |

The following table summarizes the range of assumptions used to compute reported share-based payment expense to third parties, other than non-employee members of our board of directors, for the three and nine months ended September 30, 2009 and 2008:

|                         | <b>For the Three Months<br/>Ended September 30,<br/>2009</b> |             | <b>For the Nine Months<br/>Ended September 30,<br/>2009</b> |             |
|-------------------------|--|-------------|---|-------------|
|                         | <b>2009</b>  | <b>2008</b> | <b>2009</b>   | <b>2008</b> |
| Risk-free interest rate | 1.45 - 2.53%   | 2.0 - 3.0%  | 1.08 - 2.54%  | 1.6 - 3.3%  |
| Expected life – years   | 2.58 - 4.98  | 1.50 - 4.06 | 2.50 - 6.19   | 1.50 - 4.08 |

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|                                 |    |         |    |     |    |         |    |     |
|---------------------------------|----|---------|----|-----|----|---------|----|-----|
| Expected stock price volatility |    | 88-112% |    | 80% |    | 83-112% |    | 80% |
| Expected dividend yield         | \$ |         | \$ |     | \$ |         | \$ |     |

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

(Dollar amounts in thousands, unless otherwise stated)

The following table summarizes stock option activity under our share-based payment plans for the nine months ended September 30, 2009 (shares in thousands):

|                                 | Shares   | Weighted-Average<br>Exercise<br>Price | Weighted-Average<br>Remaining<br>Contractual<br>Term<br>(Years) | Aggregate<br>Intrinsic<br>Value |
|---------------------------------|----------|---------------------------------------|---|---------------------------------|
| Outstanding, December 31, 2008  | 165,436  | \$ 4.42                               |   |                                 |
| Granted                         | 240,239  | \$ 0.52                               |   |                                 |
| Exercised                       |          | \$                                    |   |                                 |
| Forfeited, cancelled or expired | (53,985) | \$ 5.08                               |   |                                 |
| <br>                            |          |                                       |   |                                 |
| Outstanding, September 30, 2009 | 351,690  | \$ 1.66                               | 6.83  | \$ 34,683                       |
| Exercisable, September 30, 2009 | 87,205   | \$ 4.53                               | 4.44  | \$ 1                            |

The weighted average grant date fair value of options granted during the nine months ended September 30, 2009 and 2008 was \$0.35 and \$1.73, respectively. The total intrinsic value of stock options exercised during the nine months ended September 30, 2009 and 2008 was \$0 and \$127, respectively.

We recognized share-based payment expense associated with stock options of \$8,577 and \$13,940 for the three months ended September 30, 2009 and 2008, respectively, and \$40,890 and \$36,465 for the nine months ended September 30, 2009 and 2008, respectively.

The following table summarizes the non-vested restricted stock and restricted stock unit activity under our share-based payment plans for the nine months ended September 30, 2009 (shares in thousands):

|                               | Shares   | Weighted-Average<br>Grant Date<br>Fair Value |
|-------------------------------|----------|--|
| Nonvested, December 31, 2008  | 19,931   | \$ 2.84                                      |
| Granted                       | 84,851   | \$ 0.37                                      |
| Vested                        | (69,123) | \$ 0.75                                      |
| Forfeited                     | (2,124)  | \$ 1.97                                      |
| <br>                          |          |  |
| Nonvested, September 30, 2009 | 33,535   | \$ 0.96                                      |

The weighted average grant date fair value of restricted stock units granted during the nine months ended September 30, 2009 and 2008 was \$0.37 and \$2.87, respectively. The total intrinsic value of restricted stock units that vested during the nine months ended September 30, 2009 and 2008 was \$28,865 and \$19,529, respectively.

We recognized share-based payment expense associated with restricted stock units and shares of restricted stock of \$5,024 and \$6,849 for the three months ended September 30, 2009 and 2008, respectively, and \$17,881 and \$14,433 for the nine months ended September 30, 2009 and 2008, 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, 2009 and December 31, 2008, net of estimated forfeitures, was \$118,637 and \$90,310, 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, 2009.

***401(k) Savings Plans***

We sponsor the Sirius Satellite Radio 401(k) Savings Plan (the Sirius Plan ) for eligible employees. During 2009, we merged the XM Satellite Radio 401(k) Savings Plan (the XM Plan ) into the Sirius Plan. All eligible employees under the XM Plan became subject to the contribution, matching and vesting rules of the Sirius Plan.

The Sirius Plan allows eligible employees to voluntarily contribute from 1% to 50% of their pre-tax salary 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. Matching contributions under the Sirius Plan vest at a rate of 33<sup>1</sup>/<sub>3</sub>% for each year of employment and are fully vested after three years of employment. Expense resulting from the matching contribution to the plans was \$895 and \$857 for the three months ended September 30, 2009 and 2008, respectively, and \$2,484 and \$2,086 for the nine months ended September 30, 2009 and 2008, respectively.

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

(Dollar amounts in thousands, unless otherwise stated)

We may also elect to contribute to the profit sharing portion of the Sirius Plan based upon the total eligible compensation of eligible participants. These additional contributions, referred to as profit-sharing contributions, 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 \$1,537 and \$1,665 for the three months ended September 30, 2009 and 2008, respectively, and \$573 and \$5,025 for the nine months ended September 30, 2009 and 2008, respectively.

**(14) Income Taxes**

We recorded income tax expense of \$1,115 and \$1,215 for the three months ended September 30, 2009 and 2008, respectively, and \$3,344 and \$2,301 for the nine months ended September 30, 2009 and 2008, respectively. Such expense primarily represents the recognition of a deferred tax liability related to the difference in accounting for the FCC license intangible assets, which are amortized over 15 years for tax purposes but are not amortized for book purposes.

**(15) Commitments and Contingencies**

The following table summarizes our expected contractual cash commitments as of September 30, 2009:

|                              | <b>Remaining<br/>2009</b> | <b>2010</b>       | <b>2011</b>         | <b>2012</b>       | <b>2013</b>         | <b>Thereafter</b>   | <b>Total</b>        |
|------------------------------|---------------------------|-------------------|---------------------|-------------------|---------------------|---------------------|---------------------|
| Long-term debt obligations   | \$ 85,746                 | \$ 13,742         | \$ 407,889          | \$ 239,541        | \$ 1,804,406        | \$ 812,260          | \$ 3,363,584        |
| Cash interest payments       | 65,638                    | 304,935           | 295,019             | 276,326           | 244,049             | 88,871              | 1,274,838           |
| Satellite and transmission   | 34,685                    | 98,933            | 106,834             | 36,659            | 2,370               | 22,183              | 301,664             |
| Programming and content      | 87,630                    | 257,126           | 147,529             | 129,236           | 38,638              | 29,955              | 690,114             |
| Marketing and distribution   | 51,529                    | 43,666            | 24,868              | 14,533            | 3,000               | 4,500               | 142,096             |
| Satellite incentive payments | 1,801                     | 7,384             | 8,851               | 10,505            | 11,099              | 74,342              | 113,982             |
| Operating lease obligations  | 13,338                    | 37,352            | 22,851              | 18,861            | 15,046              | 14,854              | 122,302             |
| Other                        | 16,321                    | 34,096            | 20,677              | 8,234             |                     |                     | 79,328              |
| <b>Total</b>                 | <b>\$ 356,688</b>         | <b>\$ 797,234</b> | <b>\$ 1,034,518</b> | <b>\$ 733,895</b> | <b>\$ 2,118,608</b> | <b>\$ 1,046,965</b> | <b>\$ 6,087,908</b> |

*Long-term debt obligations.* Long-term debt obligations include principal payments on outstanding debt.

*Cash interest payments.* Cash interest payments include interest due on outstanding debt through maturity.

*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 for use in our systems and to launch those satellites. SIRIUS has an agreement with Space Systems/Loral to design and construct a sixth satellite. In January 2008, SIRIUS entered into an agreement with International Launch Services ( ILS ) to secure a satellite launch on a Proton rocket. We expect to launch our sixth satellite in the fourth quarter of 2011.

Space Systems/Loral has constructed a fifth satellite, XM-5, for use in the XM system. In 2006, XM entered into an agreement with Sea Launch to secure a launch for XM-5. In June 2009, Sea Launch filed for bankruptcy protection

under Title 11 of the United States Code. In October 2009, XM Holdings terminated its satellite launch agreement with Sea Launch with the consent of the Bankruptcy Court. In October 2009, we entered into an agreement with ILS to secure a satellite launch for XM-5 on a Proton rocket. We currently expect to launch XM-5 in the second or third quarter of 2010.

*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.

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

(Dollar amounts in thousands, unless otherwise stated)

*Satellite incentive payments.* Boeing Satellite Systems International, Inc., the manufacturer of XM's four in-orbit satellites, may be entitled to future in-orbit performance payments with respect to two of XM's four satellites. As of September 30, 2009, we have accrued \$28,655 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.

Space Systems/Loral may be entitled to an additional \$22,500 if FM-5 continues to operate above baseline specifications during the satellite's 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.

*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 provisions.

We are required under the terms of certain agreements to provide letters of credit and deposit monies in escrow, which place restrictions on cash and cash equivalents. As of September 30, 2009 and December 31, 2008, \$3,400 and \$141,250, respectively, were classified as Restricted investments as a result of obligations under these letters of credit and escrow deposits.

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. The order became effective immediately upon adoption. In September 2008, Mt. Wilson FM Broadcasters, Inc. filed a Petition for Reconsideration of this order. This Petition for Reconsideration remains pending.

*Atlantic Recording Corporation, BMG Music, Capital Records, Inc., Elektra Entertainment Group Inc., Interscope Records, Motown Record Company, L.P., Sony BMG Music Entertainment, UMG Recordings, Inc., Virgin Records, Inc. and Warner Bros. Records Inc. v. XM Satellite Radio Inc.* In May 2006, the plaintiffs filed this action in the United States District Court for the Southern District of New York. The complaint seeks monetary damages and equitable relief, and alleges that XM radios that include advanced recording functionality infringe upon plaintiffs copyrighted sound recordings. XM filed a motion to dismiss this matter, and that motion was denied in January 2007. XM has resolved the lawsuit with respect to Universal Music Group, Warner Music Group, Sony BMG Music Entertainment and EMI Group, and each of these parties has withdrawn as a party to the lawsuit, and this lawsuit has been dismissed with respect to such parties.

Music publishing companies and certain other record companies also have filed lawsuits, purportedly on a class basis, with similar allegations. We believe these allegations are without merit and that our products comply with applicable copyright law, including the Audio Home Recording Act. We intend to vigorously defend this matter. There can be no assurance regarding the ultimate outcome of these matters, or the significance, if any, to our business, consolidated results of operations or financial position.

*Other Matters.* In the ordinary course of business, we are a defendant in various lawsuits and arbitration proceedings, including actions filed by 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.



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

(Dollar amounts in thousands, unless otherwise stated)

**(16) 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 Holdings and its consolidated subsidiaries, are 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 (ii) the Guarantor Subsidiaries' interests in the Non-Guarantor Subsidiaries, where applicable, even though all such subsidiaries meet the requirements to be consolidated under U.S. generally accepted accounting principles. 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.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED 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, 2009**

|                                       | <b>Sirius XM</b>  | <b>Sirius</b>    | <b>Satellite</b> | <b>Non -</b>        |                     | <b>Consolidated</b> |
|---------------------------------------|-------------------|------------------|------------------|---------------------|---------------------|---------------------|
|                                       | <b>Radio Inc.</b> | <b>Asset</b>     | <b>CD</b>        | <b>Guarantors</b>   | <b>Eliminations</b> | <b>Sirius XM</b>    |
| <i>(in thousands)</i>                 |                   | <b>Mgmt</b>      | <b>Radio</b>     |                     |                     | <b>Radio Inc.</b>   |
|                                       |                   | <b>LLC</b>       |                  |                     |                     |                     |
| Current assets:                       |                   |                  |                  |                     |                     |                     |
| Cash and cash equivalents             | \$ 54,347         | \$               | \$               | \$ 326,025          | \$                  | \$ 380,372          |
| Accounts receivable, net              | 83,660            |                  |                  | 45,243              |                     | 128,903             |
| Due from subsidiaries/affiliates      | 141,247           |                  |                  | 103                 | (141,350)           |                     |
| Inventory, net                        | 18,073            |                  |                  | 2,923               |                     | 20,996              |
| Prepaid expenses                      | 28,080            |                  |                  | 79,270              |                     | 107,350             |
| Related party current assets          | 3,500             |                  |                  | 105,672             |                     | 109,172             |
| Other current assets                  | 17,633            |                  |                  | 57,594              | (10,910)            | 64,317              |
| <b>Total current assets</b>           | <b>346,540</b>    |                  |                  | <b>616,830</b>      | <b>(152,260)</b>    | <b>811,110</b>      |
| Property and equipment, net           | 878,817           | 17,171           |                  | 798,247             |                     | 1,694,235           |
| Investment in subsidiaries/affiliates | (766,229)         |                  |                  |                     | 766,229             |                     |
| FCC licenses                          |                   |                  | 83,654           | 2,000,000           |                     | 2,083,654           |
| Restricted investments                | 3,150             |                  |                  | 250                 |                     | 3,400               |
| Deferred financing fees, net          | 8,579             |                  |                  | 27,310              |                     | 35,889              |
| Intangible assets, net                |                   |                  |                  | 629,288             |                     | 629,288             |
| Goodwill                              |                   |                  |                  |                     | 1,834,856           | 1,834,856           |
| Due from subsidiaries/affiliates      |                   |                  |                  |                     |                     |                     |
| Related party long-term assets        |                   |                  |                  | 114,073             |                     | 114,073             |
| Other long-term assets                | 20,878            |                  |                  | 41,560              |                     | 62,438              |
| <b>Total assets</b>                   | <b>\$ 491,735</b> | <b>\$ 17,171</b> | <b>\$ 83,654</b> | <b>\$ 4,227,558</b> | <b>\$ 2,448,825</b> | <b>\$ 7,268,943</b> |
| Current liabilities:                  |                   |                  |                  |                     |                     |                     |
| Accounts payable and accrued expenses | \$ 323,766        | \$               | \$               | \$ 205,084          | \$ (7,229)          | \$ 521,621          |

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|   |                    |                  |                  |                     |                     |                     |
|---|--------------------|------------------|------------------|---------------------|---------------------|---------------------|
| Accrued interest  | 13,279             |                  |                  | 52,258              |                     | 65,537              |
| Due to subsidiaries/affiliates                            |                    | 17,548           | 477              | 123,344             | (141,369)           |                     |
| Current portion of deferred revenue                       | 507,241            |                  |                  | 472,688             | 7,248               | 987,177             |
| Current portion of deferred credit on executory contracts |                    |                  |                  | 247,566             |                     | 247,566             |
| Current maturities of long-term debt                      | 2,500              |                  |                  | 101,300             | (126)               | 103,674             |
| Related party current liabilities                         | 2,692              |                  |                  | 88,177              |                     | 90,869              |
| <b>Total current liabilities</b>                          | <b>849,478</b>     | <b>17,548</b>    | <b>477</b>       | <b>1,290,417</b>    | <b>(141,476)</b>    | <b>2,016,444</b>    |
| Deferred revenue  | 119,587            |                  |                  | 165,901             |                     | 285,488             |
| Deferred credit on executory contracts                    |                    |                  |                  | 851,955             |                     | 851,955             |
| Long-term debt  | 1,113,627          |                  |                  | 1,636,869           | 123,895             | 2,874,391           |
| Long-term related party debt                              | 103,868            |                  |                  | 159,275             | 2,516               | 265,659             |
| Deferred tax liability                                    | 1,077              |                  | 16,372           | 899,889             | (10,910)            | 906,428             |
| Related party long-term liabilities                       |                    |                  |                  | 21,928              |                     | 21,928              |
| Other long-term liabilities                               | 5,024              |                  |                  | 33,981              |                     | 39,005              |
| <b>Total liabilities</b>                                  | <b>2,192,661</b>   | <b>17,548</b>    | <b>16,849</b>    | <b>5,060,215</b>    | <b>(25,975)</b>     | <b>7,261,298</b>    |
| <b>Commitments and contingencies</b>                      |                    |                  |                  |                     |                     |                     |
| <b>Stockholders' equity (deficit):</b>                    |                    |                  |                  |                     |                     |                     |
| Preferred and common stock                                | 3,896              |                  |                  |                     |                     | 3,896               |
| Accumulated other comprehensive loss                      | (6,598)            |                  |                  | (6,598)             | 6,598               | (6,598)             |
| Additional paid-in-capital                                | 10,265,752         |                  | 83,654           | 5,989,700           | (6,073,354)         | 10,265,752          |
| Retained earnings (accumulated deficit)                   | (11,963,976)       | (377)            | (16,849)         | (6,815,759)         | 8,541,556           | (10,255,405)        |
| <b>Total stockholders' equity (deficit)</b>               | <b>(1,700,926)</b> | <b>(377)</b>     | <b>66,805</b>    | <b>(832,657)</b>    | <b>2,474,800</b>    | <b>7,645</b>        |
| <b>Total liabilities and stockholders' equity</b>         | <b>\$ 491,735</b>  | <b>\$ 17,171</b> | <b>\$ 83,654</b> | <b>\$ 4,227,558</b> | <b>\$ 2,448,825</b> | <b>\$ 7,268,943</b> |

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED 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, 2008**

|                                       | <b>Sirius XM</b>  | <b>Sirius</b>    | <b>Satellite</b> | <b>Non -</b>        | <b>Eliminations</b> | <b>Consolidated</b> |
|---------------------------------------|-------------------|------------------|------------------|---------------------|---------------------|---------------------|
| <i>(in thousands)</i>                 | <b>Radio Inc.</b> | <b>Asset</b>     | <b>CD</b>        | <b>Guarantors</b>   | <b>Eliminations</b> | <b>Sirius XM</b>    |
|                                       | <b>Radio Inc.</b> | <b>Mgmt</b>      | <b>Radio</b>     | <b>Guarantors</b>   | <b>Eliminations</b> | <b>Radio Inc.</b>   |
|                                       | <b>Radio Inc.</b> | <b>LLC</b>       | <b>Radio</b>     | <b>Guarantors</b>   | <b>Eliminations</b> | <b>Radio Inc.</b>   |
| Current assets:                       |                   |                  |                  |                     |                     |                     |
| Cash and cash equivalents             | \$ 173,647        | \$               | \$               | \$ 206,799          | \$                  | \$ 380,446          |
| Accounts receivable, net              | 95,247            |                  |                  | 52,727              |                     | 147,974             |
| Due from subsidiaries/affiliates      | 64,279            |                  |                  | 2,751               | (67,030)            |                     |
| Inventory, net                        | 19,973            |                  |                  | 4,489               |                     | 24,462              |
| Prepaid expenses                      | 29,852            |                  |                  | 37,351              |                     | 67,203              |
| Related party current assets          | 1,814             |                  |                  | 112,363             |                     | 114,177             |
| Other current assets                  | 17,513            |                  |                  | 53,004              | (11,773)            | 58,744              |
| <b>Total current assets</b>           | <b>402,325</b>    |                  |                  | <b>469,484</b>      | <b>(78,803)</b>     | <b>793,006</b>      |
| Property and equipment, net           | 816,562           | 12,326           |                  | 874,588             |                     | 1,703,476           |
| Investment in subsidiaries/affiliates | (525,687)         |                  |                  |                     | 525,687             |                     |
| FCC licenses                          |                   |                  | 83,654           | 2,000,000           |                     | 2,083,654           |
| Restricted investments                | 21,000            |                  |                  | 120,250             |                     | 141,250             |
| Deferred financing fees, net          | 9,853             |                  |                  | 30,303              |                     | 40,156              |
| Intangible assets, net                |                   |                  |                  | 688,671             |                     | 688,671             |
| Goodwill                              |                   |                  |                  |                     | 1,834,856           | 1,834,856           |
| Related party long-term assets        |                   |                  |                  | 124,607             |                     | 124,607             |
| Other long-term assets                | 46,735            |                  |                  | 34,284              |                     | 81,019              |
| <b>Total assets</b>                   | <b>\$ 770,788</b> | <b>\$ 12,326</b> | <b>\$ 83,654</b> | <b>\$ 4,342,187</b> | <b>\$ 2,281,740</b> | <b>\$ 7,490,695</b> |
| Current liabilities:                  |                   |                  |                  |                     |                     |                     |
| Accounts payable and accrued expenses | \$ 405,303        | \$               | \$               | \$ 245,598          | \$ (8,081)          | \$ 642,820          |
| Accrued interest                      | 25,920            |                  |                  | 50,543              |                     | 76,463              |
|                                       |                   | 12,481           | 477              | 15,497              | (28,455)            |                     |

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|   |                    |                  |                  |                     |                     |                     |
|---|--------------------|------------------|------------------|---------------------|---------------------|---------------------|
| Due to subsidiaries/affiliates                              |                    |                  |                  |                     |                     |                     |
| Current portion of deferred revenue                         | 557,392            |                  |                  | 419,707             | 8,081               | 985,180             |
| Current portion of deferred credit on executory contracts   |                    |                  |                  | 234,774             |                     | 234,774             |
| Current maturities of long-term debt                        | 4,244              |                  |                  | 355,739             | 39,743              | 399,726             |
| Related party current liabilities                           | 23,018             |                  |                  | 83,930              | (38,575)            | 68,373              |
| <b>Total current liabilities</b>                            | <b>1,015,877</b>   | <b>12,481</b>    | <b>477</b>       | <b>1,405,788</b>    | <b>(27,287)</b>     | <b>2,407,336</b>    |
| Deferred revenue  | 116,634            |                  |                  | 131,255             |                     | 247,889             |
| Deferred credit on executory contracts                      |                    |                  |                  | 1,037,190           |                     | 1,037,190           |
| Long-term debt  | 1,163,961          |                  |                  | 1,439,102           | 248,677             | 2,851,740           |
| Deferred tax liability                                      | 4,990              |                  | 14,761           | 886,475             | (11,773)            | 894,453             |
| Related party long-term liabilities                         |                    |                  |                  |                     |                     |                     |
| Other long-term liabilities                                 | 7,225              |                  |                  | 36,325              |                     | 43,550              |
| <b>Total liabilities</b>                                    | <b>2,308,687</b>   | <b>12,481</b>    | <b>15,238</b>    | <b>4,936,135</b>    | <b>209,617</b>      | <b>7,482,158</b>    |
| <b>Commitments and contingencies</b>                        |                    |                  |                  |                     |                     |                     |
| <b>Stockholders' equity (deficit):</b>                      |                    |                  |                  |                     |                     |                     |
| Common and preferred stock                                  | 3,677              |                  |                  |                     |                     | 3,677               |
| Accumulated other comprehensive loss                        | (7,871)            |                  |                  | (7,871)             | 7,871               | (7,871)             |
| Additional paid-in-capital                                  | 9,724,991          |                  | 83,654           | 5,870,502           | (5,954,156)         | 9,724,991           |
| Retained earnings (accumulated deficit)                     | (11,258,696)       | (155)            | (15,238)         | (6,456,579)         | 8,018,408           | (9,712,260)         |
| <b>Total stockholders' equity (deficit)</b>                 | <b>(1,537,899)</b> | <b>(155)</b>     | <b>68,416</b>    | <b>(593,948)</b>    | <b>2,072,123</b>    | <b>8,537</b>        |
| <b>Total liabilities and stockholders' equity (deficit)</b> | <b>\$ 770,788</b>  | <b>\$ 12,326</b> | <b>\$ 83,654</b> | <b>\$ 4,342,187</b> | <b>\$ 2,281,740</b> | <b>\$ 7,490,695</b> |



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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED 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>Satellite</b> | <b>Non -</b>      |                     | <b>Consolidated</b> |
|---|-------------------|---------------|------------------|-------------------|---------------------|---------------------|
|   | <b>Radio Inc.</b> | <b>Asset</b>  | <b>CD</b>        | <b>Guarantors</b> | <b>Eliminations</b> | <b>Sirius XM</b>    |
| <i>(in thousands)</i>                                 |                   | <b>Mgmt</b>   | <b>Radio</b>     |                   |                     | <b>Radio Inc.</b>   |
|   |                   | <b>LLC</b>    |                  |                   |                     |                     |
| Revenue   | \$ 293,000        | \$            | \$               | \$ 325,656        | \$                  | \$ 618,656          |
| Cost of services                                      | 144,237           | 1             |                  | 122,650           |                     | 266,888             |
| Sales and marketing                                   | 20,745            |               |                  | 31,785            |                     | 52,530              |
| Subscriber acquisition costs                          | 54,945            |               |                  | 35,109            |                     | 90,054              |
| General and administrative                            | 31,705            |               |                  | 25,218            |                     | 56,923              |
| Engineering, design and development                   | 5,837             |               |                  | 5,415             |                     | 11,252              |
| 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 and investment income                        | 235               |               |                  | 727               |                     | 962                 |
| Interest expense, net of amounts capitalized          | (23,504)          |               |                  | (70,617)          | 15,594              | (78,527)            |
| Gain (loss) on change in value of embedded derivative |                   |               |                  | (33,700)          | 33,700              |                     |
| Loss on extinguishment of debt and facilities, net    | (134,520)         |               |                  | (3,786)           | 253                 | (138,053)           |
| Gain (loss) on investments                            | (51,135)          |               |                  | 1,866             | 49,211              | (58)                |
| Other income (expense)                                | 4,654             |               |                  | (3,408)           |                     | 1,246               |
| Income (loss) before income taxes                     | (198,737)         | (40)          |                  | (48,056)          | 98,758              | (148,075)           |

|   |              |         |          |             |           |              |
|---|--------------|---------|----------|-------------|-----------|--------------|
| Income tax expense                                    |              |         | (537)    | (578)       |           | (1,115)      |
| Net income (loss)                                     | (198,737)    | (40)    | (537)    | (48,634)    | 98,758    | (149,190)    |
| Preferred stock beneficial conversion feature         |              |         |          |             |           |              |
| Net income (loss) attributable to common stockholders | \$ (198,737) | \$ (40) | \$ (537) | \$ (48,634) | \$ 98,758 | \$ (149,190) |

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED 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, 2008**

| <i>(in thousands)</i>                              | <b>Sirius XM</b>  | <b>Sirius</b> | <b>Satellite</b> | <b>Non -</b>      | <b>Eliminations</b> | <b>Consolidated</b> |
|--|-------------------|---------------|------------------|-------------------|---------------------|---------------------|
|  | <b>Radio Inc.</b> | <b>Asset</b>  | <b>CD</b>        | <b>Guarantors</b> |                     | <b>Sirius XM</b>    |
|  | <b>Radio Inc.</b> | <b>Mgmt</b>   | <b>Radio</b>     |                   |                     | <b>Radio Inc.</b>   |
|  |                   | <b>LLC</b>    |                  |                   |                     |                     |
| Revenue  | \$ 292,963        | \$            | \$               | \$ 195,480        | \$                  | \$ 488,443          |
| Cost of services                                   | 174,329           |               |                  | 98,031            |                     | 272,360             |
| Sales and marketing                                | 34,407            |               |                  | 29,230            |                     | 63,637              |
| Subscriber acquisition costs                       | 59,058            |               |                  | 27,558            |                     | 86,616              |
| General and administrative                         | 38,095            |               |                  | 19,215            |                     | 57,310              |
| Engineering, design and development                | 5,243             |               |                  | 5,191             |                     | 10,434              |
| Impairment of goodwill                             |                   |               |                  | 4,750,859         |                     | 4,750,859           |
| Depreciation and amortization                      | 32,136            | 18            |                  | 34,620            |                     | 66,774              |
| Restructuring, impairments and related costs       | 7,430             |               |                  |                   |                     | 7,430               |
| Total operating expenses                           | 350,698           | 18            |                  | 4,964,704         |                     | 5,315,420           |
| Income (loss) from operations                      | (57,735)          | (18)          |                  | (4,769,224)       |                     | (4,826,977)         |
| Other income (expense):                            |                   |               |                  |                   |                     |                     |
| Interest and investment income                     | 977               |               |                  | 3,963             |                     | 4,940               |
| Interest expense, net of amounts capitalized       | (16,311)          |               |                  | (32,905)          |                     | (49,216)            |
| Loss on extinguishment of debt and facilities, net |                   |               |                  |                   |                     |                     |
| Gain (loss) on investments                         | (4,806,394)       |               |                  | (3,089)           | 4,806,394           | (3,089)             |
| Other income (expense)                             | 204               |               |                  | (4,074)           |                     | (3,870)             |
|  | (4,879,259)       | (18)          |                  | (4,805,329)       | 4,806,394           | (4,878,212)         |

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|                                      |                |         |          |                |              |                |  |
|--------------------------------------|----------------|---------|----------|----------------|--------------|----------------|--|
| Income (loss) before<br>income taxes |                |         |          |                |              |                |  |
| Income tax expense                   |                |         | (543)    | (672)          |              | (1,215)        |  |
| Net income (loss)                    | \$ (4,879,259) | \$ (18) | \$ (543) | \$ (4,806,001) | \$ 4,806,394 | \$ (4,879,427) |  |

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED 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>Sirius XM</b>  | <b>Sirius</b> | <b>Satellite</b> | <b>Non -</b>        | <b>Consolidated</b> |
|---|-------------------|---------------|------------------|---------------------|---------------------|
| <i>(in thousands)</i>                                 | <b>Radio Inc.</b> | <b>Asset</b>  | <b>CD</b>        | <b>Guarantors</b>   | <b>Sirius XM</b>    |
|   | <b>Radio Inc.</b> | <b>Mgmt</b>   | <b>Radio</b>     | <b>Eliminations</b> | <b>Radio Inc.</b>   |
|   | <b>LLC</b>        | <b>LLC</b>    | <b>Radio</b>     | <b>Eliminations</b> | <b>Radio Inc.</b>   |
| Revenue   | \$ 861,354        | \$            | \$               | \$ 935,110          | \$ 1,796,464        |
| Cost of services                                      | 417,599           | 9             |                  | 373,065             | 790,673             |
| Sales and marketing                                   | 54,229            |               |                  | 98,418              | 152,647             |
| Subscriber acquisition costs                          | 147,027           |               |                  | 83,746              | 230,773             |
| General and administrative                            | 91,263            |               |                  | 91,690              | 182,953             |
| Engineering, design and development                   | 16,177            |               |                  | 16,798              | 32,975              |
| 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 and investment income                        | 757               |               |                  | 1,845               | 2,602               |
| Interest expense, net of amounts capitalized          | (63,306)          |               |                  | (226,934)           | (240,062)           |
| Gain (loss) on change in value of embedded derivative |                   |               |                  | (111,703)           | 111,703             |
| Loss on extinguishment of debt and facilities, net    | (152,157)         |               |                  | (111,863)           | (263,767)           |
| Gain (loss) on investments                            | (353,897)         |               |                  | (6,660)             | 457                 |
| Other income (expense)                                | (46)              |               |                  | 2,551               | 2,505               |
|   | (519,092)         | (222)         |                  | (357,447)           | (353,613)           |

|   |              |          |            |              |            |  |              |
|---|--------------|----------|------------|--------------|------------|--|--------------|
| Income (loss) before<br>income taxes                        |              |          |            |              |            |  |              |
| Income tax expense  |              |          | (1,611)    | (1,733)      |            |  | (3,344)      |
| Net income (loss)   | (519,092)    | (222)    | (1,611)    | (359,180)    | 523,148    |  | (356,957)    |
| Preferred stock beneficial<br>conversion feature            | (186,188)    |          |            |              |            |  | (186,188)    |
| Net income<br>(loss) attributable to<br>common stockholders | \$ (705,280) | \$ (222) | \$ (1,611) | \$ (359,180) | \$ 523,148 |  | \$ (543,145) |

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED 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, 2008**

| <i>(in thousands)</i>                              | <b>Sirius XM<br/>Radio Inc.</b> | <b>Sirius<br/>Asset<br/>Mgmt<br/>LLC</b> | <b>Satellite<br/>CD<br/>Radio</b> | <b>Non -<br/>Guarantors</b> | <b>Eliminations</b> | <b>Consolidated<br/>Sirius XM<br/>Radio Inc.</b> |
|--|---------------------------------|--|-----------------------------------|-----------------------------|---------------------|--|
| Revenue  | \$ 846,329                      | \$                                       | \$                                | \$ 195,480                  | \$                  | \$ 1,041,809                                     |
| Cost of services                                   | 462,051                         |  |                                   | 98,584                      |                     | 560,635  |
| Sales and marketing                                | 120,688                         |  |                                   | 30,549                      |                     | 151,237  |
| Subscriber acquisition costs                       | 230,264                         |  |                                   | 27,568                      |                     | 257,832  |
| General and administrative                         | 129,339                         |  |                                   | 19,216                      |                     | 148,555  |
| Engineering, design and development                | 22,900                          |  |                                   | 5,191                       |                     | 28,091   |
| Impairment of goodwill                             |                                 |  |                                   | 4,750,859                   |                     | 4,750,859  |
| Depreciation and amortization                      | 86,119                          | 54                                       |                                   | 34,620                      |                     | 120,793  |
| Restructuring, impairments and related costs       | 7,457                           |  |                                   |                             |                     | 7,457  |
| Total operating expenses                           | 1,058,818                       | 54                                       |                                   | 4,966,587                   |                     | 6,025,459  |
| Income (loss) from operations                      | (212,489)                       | (54)                                     |                                   | (4,771,107)                 |                     | (4,983,650)                                      |
| Other income (expense):                            |                                 |  |                                   |                             |                     |  |
| Interest and investment income                     | 5,204                           |  |                                   | 3,963                       |                     | 9,167  |
| Interest expense, net of amounts capitalized       | (50,731)                        |  |                                   | (32,905)                    |                     | (83,636)   |
| Loss on extinguishment of debt and facilities, net |                                 |  |                                   |                             |                     |  |
| Gain (loss) on investments                         | (4,809,567)                     |  |                                   | (3,089)                     | 4,809,567           | (3,089)  |
| Other income (expense)                             | 139                             |  |                                   | (4,074)                     |                     | (3,935)  |
|  | (5,067,444)                     | (54)                                     |                                   | (4,807,212)                 | 4,809,567           | (5,065,143)                                      |

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|                                      |                |         |            |                |              |                |  |
|--------------------------------------|----------------|---------|------------|----------------|--------------|----------------|--|
| Income (loss) before<br>income taxes |                |         |            |                |              |                |  |
| Income tax expense                   |                |         | (1,629)    | (672)          |              | (2,301)        |  |
| Net income (loss)                    | \$ (5,067,444) | \$ (54) | \$ (1,629) | \$ (4,807,884) | \$ 4,809,567 | \$ (5,067,444) |  |

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED 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, 2009**

|  | <b>Sirius XM</b>  | <b>Sirius</b> | <b>Satellite</b> | <b>Non-</b>       | <b>Eliminations</b> | <b>Consolidated</b> |
|--|-------------------|---------------|------------------|-------------------|---------------------|---------------------|
| <i>(in thousands)</i>  | <b>Radio Inc.</b> | <b>Asset</b>  | <b>CD</b>        | <b>Guarantors</b> | <b>Eliminations</b> | <b>Sirius XM</b>    |
|  | <b>Radio Inc.</b> | <b>Mgmt</b>   | <b>Radio</b>     | <b>Guarantors</b> | <b>Eliminations</b> | <b>Radio Inc.</b>   |
|  | <b>Radio Inc.</b> | <b>LLC</b>    | <b>Radio</b>     | <b>Guarantors</b> | <b>Eliminations</b> | <b>Radio Inc.</b>   |
| Balance at December 31, 2008   | \$ (1,537,899)    | \$ (155)      | \$ 68,416        | \$ (593,948)      | \$ 2,072,123        | \$ 8,537            |
| Net income (loss)  | (519,092)         | (222)         | (1,611)          | (359,180)         | 523,148             | (356,957)           |
| Other comprehensive loss:  |                   |               |                  |                   |                     |                     |
| Unrealized gain on available-for-sale securities, net of tax                         | 579               |               |                  | 579               | (579)               | 579                 |
| Foreign currency translation adjustment, net of tax                                  | 694               |               |                  | 694               | (694)               | 694                 |
| Total comprehensive loss   | (517,819)         | (222)         | (1,611)          | (357,907)         | 521,875             | (355,684)           |
| Issuance of preferred stock - related party, net of issuance costs                   | 224,004           |               |                  |                   |                     | 224,004             |
| Issuance of common stock to employees and employee benefit plans, net of forfeitures | 1,926             |               |                  |                   |                     | 1,926               |
| Structuring fee on 10% Senior PIK Notes due 2011                                     | 5,918             |               |                  |                   |                     | 5,918               |
| Share-based payment expense  | 56,500            |               |                  |                   |                     | 56,500              |
| Issuance of restricted stock units in satisfaction of accrued compensation           | 31,280            |               |                  |                   |                     | 31,280              |
| Exchange of 2 1/2% Convertible Notes due 2009, including accrued interest            | 35,164            |               |                  |                   |                     | 35,164              |
| Contributed capital  |                   |               |                  | 119,198           | (119,198)           |                     |
| Balance at September 30, 2009  | \$ (1,700,926)    | \$ (377)      | \$ 66,805        | \$ (832,657)      | \$ 2,474,800        | \$ 7,645            |



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

(Dollar amounts in thousands, unless otherwise stated)

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

|   | <b>Sirius XM<br/>Radio</b> | <b>Sirius Asset<br/>Mgmt</b> | <b>Satellite<br/>CD<br/>Radio</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Consolidated<br/>Sirius XM<br/>Radio</b> |
|---|----------------------------|------------------------------|-----------------------------------|-----------------------|---------------------|---|
| <i>(in thousands)</i>   | <b>Inc.</b>                | <b>LLC</b>                   | <b>Radio</b>                      | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Inc.</b>                                 |
| Net cash provided by<br>(used in) operating<br>activities           | \$ 25,668                  | \$ 5,058                     | \$                                | \$ 228,562            | \$ (6,181)          | \$ 253,107                                  |
| Cash flows from<br>investing activities:                            |                            |                              |                                   |                       |                     |   |
| Additions to property<br>and equipment                              | (173,466)                  | (5,058)                      |                                   | (38,811)              |                     | (217,335)                                   |
| Purchases of restricted<br>and other investments                    |                            |                              |                                   |                       |                     |   |
| Merger related costs  |                            |                              |                                   |                       |                     |   |
| Sale of restricted and<br>other investments                         |                            |                              |                                   |                       |                     |   |
| Net cash used in<br>investing activities                            | (173,466)                  | (5,058)                      |                                   | (38,811)              |                     | (217,335)                                   |
| Cash flows from<br>financing activities:                            |                            |                              |                                   |                       |                     |   |
| Preferred stock issuance<br>costs, net                              | (3,712)                    |                              |                                   |                       |                     | (3,712)                                     |
| Long-term borrowings,<br>net of costs                               | 186,571                    |                              |                                   | 387,184               | 6,181               | 579,936                                     |
| Related party long-term<br>borrowings, net of costs                 | 269,871                    |                              |                                   | 95,093                |                     | 364,964                                     |
| Short-term financings   | 2,220                      |                              |                                   |                       |                     | 2,220                                       |
| Payment of premiums on<br>redemption of debt                        |                            |                              |                                   | (17,075)              |                     | (17,075)                                    |
| Repayment of related<br>party long-term<br>borrowings, net of costs | (251,247)                  |                              |                                   | (100,000)             |                     | (351,247)                                   |
| Repayment of long-term<br>borrowings                                | (175,205)                  |                              |                                   | (435,727)             |                     | (610,932)                                   |

|  |           |            |            |          |
|--|-----------|------------|------------|----------|
| Net cash provided by<br>(used in) financing<br>activities  | 28,498    | (70,525)   | 6,181      | (35,846) |
| Net (decrease) increase<br>in cash and cash<br>equivalents | (119,300) | 119,226    |            | (74)     |
| Cash and cash<br>equivalents at beginning<br>of period     | 173,647   | 206,799    |            | 380,446  |
| Cash and cash<br>equivalents at end of<br>period           | \$ 54,347 | \$ 326,025 | \$ 380,372 |          |

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

(Dollar amounts in thousands, unless otherwise stated)

**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008**

|  | <b>Sirius XM<br/>Radio</b> | <b>Sirius Asset<br/>Mgmt</b> | <b>Satellite<br/>CD<br/>Radio</b> | <b>Non-Guarantors<br/>Eliminations</b> | <b>Consolidated<br/>Sirius XM<br/>Radio</b> |
|--|----------------------------|------------------------------|-----------------------------------|--|---|
| <i>(in thousands)</i>                                      | <b>Inc.</b>                | <b>LLC</b>                   |                                   |  | <b>Inc.</b>                                 |
| Net cash (used in)<br>provided by operating<br>activities  | \$ (220,763)               | \$ 6,744                     | \$                                | \$ (2,973)                             | \$ (216,992)                                |
| Cash flows from<br>investing activities:                   |                            |                              |                                   |  |   |
| Additions to property<br>and equipment                     | (88,068)                   | (6,744)                      |                                   | (7,893)                                | (102,705)                                   |
| Sales of property and<br>equipment                         | 105                        |                              |                                   |  | 105   |
| Purchases of restricted<br>and other investments           | (3,000)                    |                              |                                   |  | (3,000)                                     |
| Merger related costs                                       | (13,047)                   |                              |                                   |  | (13,047)                                    |
| Acquisition of acquired<br>entity cash                     |                            |                              |                                   | 819,521                                | 819,521                                     |
| Sale of restricted and<br>other investments                | 40,242                     |                              |                                   | 25,400                                 | 65,642                                      |
| Net cash (used in)<br>provided by investing<br>activities  | (63,768)                   | (6,744)                      |                                   | 17,507                                 | 766,516                                     |
| Cash flows from<br>financing activities:                   |                            |                              |                                   |  |   |
| Proceeds from exercise<br>of warrants and stock<br>options | 471                        |                              |                                   |  | 471   |
| Long-term borrowings,<br>net of costs                      |                            |                              |                                   | 533,941                                | 533,941                                     |
| Payments to minority<br>interest holder                    |                            |                              |                                   | (61,880)                               | (61,880)                                    |
| Payment of premiums<br>on redemption of debt               |                            |                              |                                   | (18,693)                               | (18,693)                                    |
|  | (1,875)                    |                              |                                   | (1,080,553)                            | (1,082,428)                                 |

|  |            |            |            |           |
|--|------------|------------|------------|-----------|
| Repayment of long-term borrowings                    |            |            |            |           |
| Other  |            | (98)       |            | (98)      |
| Net cash used in financing activities                | (1,404)    | (627,283)  |            | (628,687) |
| Net (decrease) increase in cash and cash equivalents | (285,935)  | (612,749)  | 819,521    | (79,163)  |
| Cash and cash equivalents at beginning of period     | 430,226    | 828,115    | (819,521)  | 438,820   |
| Cash and cash equivalents at end of period           | \$ 144,291 | \$ 215,366 | \$ 359,657 |           |

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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**

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, plan, projection and outlook. Any forward-looking statements are made in their entirety by reference to the factors discussed throughout our Annual Report on Form 10-K for the year ended December 31, 2008 (the Form 10-K), and in other reports and documents published by us from time to time, particularly the risk factors described under Business Risk Factors in Item 1A of the Form 10-K.

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

- the substantial indebtedness of SIRIUS, XM Holdings 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;
- our dependence upon automakers, many of which have experienced a dramatic drop in sales and are in financial distress, and other third parties, such as manufacturers and distributors of satellite radios, retailers and programming providers; 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.

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 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 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. On July 28, 2008, our wholly owned subsidiary, Vernon Merger Corporation, merged (the Merger) with and into XM Satellite Radio Holdings Inc. and, as a result, XM Satellite Radio Holdings Inc. is now our wholly owned subsidiary. The SIRIUS system consists of four in-orbit satellites, over 125 terrestrial repeaters that receive and retransmit signals, satellite uplink facilities and studios. The XM system consists of four in-orbit satellites, over 650 terrestrial repeaters that receive and retransmit signals, satellite uplink facilities and studios. Subscribers can also receive certain of our music and other channels over the Internet, including through an app on the Apple iPhone.

Our satellite radios are primarily distributed through automakers (OEMs), retailers 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 rental car companies.

As of September 30, 2009, we had 18,515,730 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 prepaid subscriptions included in the sale or lease price of a vehicle; certain radios activated for daily rental fleet programs; subscribers to SIRIUS Internet Radio and XM Radio Online, our Internet services; and certain subscribers to our weather, traffic, data and video services.



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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 pre-paid and long-term subscriptions as well as discounts for multiple subscriptions on each platform. In 2009, we increased the discounted price for additional subscriptions from \$6.99 per month to \$8.99 per month. We also derive revenue from activation 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 August 2009, we began charging our subscribers a U.S. Music Royalty Fee (the MRF). The MRF is \$1.98 a month on our base subscriptions and \$.97 for plans that are eligible for a second radio discount. The MRF also varies depending upon subscriber package and plan term. Amounts we collect through the MRF are included in Other revenue on our unaudited consolidated statements of operations. The FCC decision approving the Merger permits us to pass through to subscribers increases in music royalties since March 20, 2007, the date we asked the FCC to approve the Merger. The MRF is the implementation of that FCC decision.

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. Subscribers to the SIRIUS Canada service and the XM Canada service are not included in our subscriber count.

On August 5, 2008, Sirius Satellite Radio Inc. changed its name to Sirius XM Radio Inc. XM Satellite Radio Holdings Inc., together with its subsidiaries, is operated as an unrestricted subsidiary under the agreements governing our existing indebtedness. As an unrestricted subsidiary, transactions between the companies are required to comply with various contractual provisions in our respective debt instruments.

**Unaudited Actual and Pro Forma Information**

Our discussion of our unaudited pro forma information includes non-GAAP financial results that assume the Merger occurred on January 1, 2008. These financial results exclude the impact of purchase price accounting adjustments and refinancing transactions related to the Merger. The discussion also includes the following non-GAAP financial measures: average self-pay monthly churn; conversion rate; average monthly revenue per subscriber, or ARPU; subscriber acquisition cost, or SAC, as adjusted, per gross subscriber addition; customer service and billing expenses, as adjusted, per average subscriber; free cash flow; and adjusted income (loss) from operations. We believe this non-GAAP financial information provides meaningful supplemental information regarding our operating performance and is used for internal management purposes, when publicly providing the business outlook, and as a means to evaluate period-to-period comparisons. Please refer to the footnotes (pages 53 through 62) following our discussion of results of operations for the definitions and a further discussion of the usefulness of such non-GAAP financial information and reconciliation to GAAP.

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*Subscriber and Key Operating Metrics.* The following tables contain our actual and pro forma subscriber and key operating metrics for the three and nine months ended September 30, 2009 and 2008, respectively:

**Unaudited Actual and Pro Forma Quarterly Subscribers and Metrics:**

|  | <b>Unaudited</b>                            |                    |  |                    |
|--|---|--------------------|--|--------------------|
|  | <b>Three Months Ended<br/>September 30,</b> |                    | <b>Nine Months Ended<br/>September 30,</b> |                    |
|  | <b>2009</b>                                 | <b>2008</b>        | <b>2009</b>                                | <b>2008</b>        |
|  | <b>(Actual)</b>                             | <b>(Pro Forma)</b> | <b>(Actual)</b>                            | <b>(Pro Forma)</b> |
| Beginning subscribers                        | 18,413,435                                  | 18,576,830         | 19,003,856                                 | 17,348,622         |
| Gross subscriber additions                   | 1,606,446                                   | 1,843,785          | 4,325,532                                  | 5,997,096          |
| Deactivated subscribers                      | (1,504,151)                                 | (1,499,704)        | (4,813,658)                                | (4,424,807)        |
| Net additions                                | 102,295                                     | 344,081            | (488,126)                                  | 1,572,289          |
| Ending subscribers                           | 18,515,730                                  | 18,920,911         | 18,515,730                                 | 18,920,911         |
| Retail                                       | 7,925,904                                   | 9,036,420          | 7,925,904                                  | 9,036,420          |
| OEM  | 10,488,530                                  | 9,777,704          | 10,488,530                                 | 9,777,704          |
| Rental                                       | 101,296                                     | 106,787            | 101,296                                    | 106,787            |
| Ending subscribers                           | 18,515,730                                  | 18,920,911         | 18,515,730                                 | 18,920,911         |
| Retail                                       | (309,972)                                   | (149,417)          | (979,298)                                  | (202,295)          |
| OEM  | 407,131                                     | 492,216            | 492,692                                    | 1,744,436          |
| Rental                                       | 5,136                                       | 1,282              | (1,520)                                    | 30,148             |
| Net additions                                | 102,295                                     | 344,081            | (488,126)                                  | 1,572,289          |
| Self-pay                                     | 15,456,748                                  | 15,190,588         | 15,456,748                                 | 15,190,588         |
| Paid promotional                             | 3,058,982                                   | 3,730,323          | 3,058,982                                  | 3,730,323          |
| Ending subscribers                           | 18,515,730                                  | 18,920,911         | 18,515,730                                 | 18,920,911         |
| Self-pay                                     | 35,405                                      | 361,438            | (92,838)                                   | 1,317,242          |
| Paid promotional                             | 66,890                                      | (17,357)           | (395,288)                                  | 255,047            |
| Net additions                                | 102,295                                     | 344,081            | (488,126)                                  | 1,572,289          |
| Daily weighted average number of subscribers | 18,393,678                                  | 18,710,940         | 18,514,041                                 | 18,187,927         |

**Unaudited Pro Forma**  
**Three Months Ended**                      **Nine Months Ended**

|   | September 30, |           | September 30, |           |
|---|---------------|-----------|---------------|-----------|
|   | 2009          | 2008      | 2009          | 2008      |
| Average self-pay monthly churn (1)(7)   |               | 2.0%      |               | 1.7%      |
| Conversion rate (2)(7)  |               | 46.8%     |               | 45.3%     |
| ARPU (3)(7)   | \$            | 10.87     | \$            | 10.51     |
| SAC, as adjusted, per gross subscriber addition (4)(7)                            | \$            | 69        | \$            | 74        |
| Customer service and billing expenses, as adjusted, per average subscriber (5)(7) | \$            | 1.01      | \$            | 1.05      |
| Total revenue   | \$            | 629,607   | \$            | 612,776   |
| Free cash flow (6)(7)   | \$            | 26,724    | \$            | (97,594)  |
| Adjusted income (loss) from operations (8)  | \$            | 106,140   | \$            | (36,851)  |
| Net loss  | \$            | (181,935) | \$            | (217,010) |
|   |               |           | \$            | 1,842,924 |
|   |               |           | \$            | 1,792,632 |
|   |               |           | \$            | 35,772    |
|   |               |           | \$            | (577,648) |
|   |               |           | \$            | 347,198   |
|   |               |           | \$            | (168,096) |
|   |               |           | \$            | (416,090) |
|   |               |           | \$            | (653,867) |

Note: See pages 53 through 62 for footnotes.

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*Subscribers.* At September 30, 2009 we had 18,515,730 subscribers, a decrease of 405,181 subscribers, or 2%, from the 18,920,911 subscribers as of September 30, 2008. The decrease was principally the result of 671,341 fewer paid promotional trials due to the decline in North American auto sales. This decline was partially offset by an increase of 266,160 in self-pay subscribers compared to September 30, 2008. Gross subscriber additions decreased approximately 13% and 28% during the three and nine months ended September 30, 2009 compared to the three and nine months ended September 30, 2008, respectively. OEM gross subscriber additions decreased due to the decline in North American automobile sales and retail gross subscriber additions decreased due to declines in consumer spending. Deactivation rates for self-pay subscriptions in the quarter increased to 2.0% per month reflecting reductions in consumer discretionary spending, subscriber response to our increase in prices for multi-subscription accounts, channel line-up changes in 2008, the institution of a monthly charge for our streaming service and the introduction of the U.S. Music Royalty Fee.

*ARPU.* ARPU is derived from total earned subscriber revenue and net advertising revenue, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. See accompanying footnotes for more details.

*Three Months:* For the three months ended September 30, 2009 and 2008, total ARPU was \$10.87 and \$10.51, respectively. The increase was driven mainly by the sale of Best of programming, increased rates on our multi-subscription packages and revenues earned on our internet packages, partially offset by lower ad revenue.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, total ARPU was \$10.67 and \$10.53, respectively. Increases in subscriber revenue were driven mainly by the sale of Best of programming, increased rates on our multi-subscription packages and revenues earned on our internet packages, partially offset by lower ad revenue.

*SAC, As Adjusted, Per Gross Subscriber Addition.* SAC, as adjusted, 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, divided by the number of gross subscriber additions for the period. See accompanying footnotes for more details.

*Three Months:* For the three months ended September 30, 2009 and 2008, SAC, as adjusted, per gross subscriber addition was \$69 and \$74, respectively. The decrease in SAC was primarily due to lower OEM subsidies and lower aftermarket inventory settlements partially offset by higher OEM subsidies on installations compared to the three months ended September 30, 2008.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, SAC, as adjusted, per gross subscriber addition was \$63 and \$76, respectively. The decrease was primarily driven by fewer OEM installations relative to gross subscriber additions, decreased production of certain radios, lower OEM subsidies and lower aftermarket inventory settlements in the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008.

*Customer Service and Billing Expenses, As Adjusted, Per Average Subscriber.* Customer service and billing expenses, as adjusted, per average subscriber is derived from total customer service and billing expenses, excluding share-based payment expense, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. See accompanying footnotes for more details.

*Three Months:* For the three months ended September 30, 2009 and 2008, customer service and billing expenses, as adjusted, per average subscriber was \$1.01 and \$1.05, respectively. The decline was primarily due to decreases in personnel costs and customer call center expenses.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, customer service and billing expenses, as adjusted, per average subscriber was \$1.04 and \$1.08, respectively. The decline was primarily due to decreases in personnel costs and customer call center expenses.

*Adjusted Income (Loss) from Operations.* We refer to net loss before interest and investment income; interest expense, net of amounts capitalized; income tax expense, loss on extinguishment of debt and credit facilities, net; gain (loss) on investments, other expense (income), restructuring, impairments and related costs, depreciation and amortization, and share-based payment expense as adjusted income (loss) from operations. See accompanying footnotes for more

details.

*Three Months:* For the three months ended September 30, 2009 and 2008, our adjusted income (loss) from operations was \$106,140 and (\$36,851), respectively. Adjusted income (loss) from operations was favorably impacted by an increase of 3%, or \$16,831, in revenues and a decrease of 19%, or \$126,160, in total expenses included in adjusted income (loss) from operations. The increase in revenue was due mainly to increased rates on multi-subscription packages, revenues earned on internet packages, the introduction of the U.S. Music Royalty Fee and the sale of Best of programming. The decreases in expenses were primarily driven by lower Subscriber acquisition costs, lower Sales and marketing discretionary spend, savings in Programming and content expenses, and lower legal and consulting costs in General and administrative expenses.

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*Nine Months:* For the nine months ended September 30, 2009 and 2008, our adjusted income (loss) from operations was \$347,198 and (\$168,096), respectively. Adjusted income (loss) from operations was favorably impacted by an increase of 3%, or \$50,292, in revenues and a decrease of 24%, or \$465,002, in total expenses included in adjusted income (loss) from operations. The increase in revenue was due mainly to an increase in weighted average subscribers as well as increased rates on multi-subscription packages, revenues earned on internet packages, the introduction of the U.S. Music Royalty Fee and the sale of Best of programming. The decreases in expenses were primarily driven by lower Subscriber acquisition costs, lower Sales and marketing discretionary spend, savings in Programming and content expenses, and lower legal and consulting costs in General and administrative expenses.

*Unaudited Pro Forma Results of Operations.* Set forth below are certain pro forma items that give effect to the Merger as if it had occurred on January 1, 2008. The pro forma information below does not give effect to any adjustments as a result of the purchase price accounting for the Merger, or the goodwill impairment charge taken during 2008. See footnote 8 (pages 54 to 55) for a reconciliation of net loss to adjusted income (loss) from operations.

|  | <b>Unaudited Pro Forma</b>                  |                     |  |                     |
|--|---|---------------------|--|---------------------|
|  | <b>Three Months Ended<br/>September 30,</b> |                     | <b>Nine Months Ended<br/>September 30,</b> |                     |
|  | <b>2009</b>                                 | <b>2008</b>         | <b>2009</b>                                | <b>2008</b>         |
| <b>Revenue:</b>                                  |   |                     |  |                     |
| Subscriber revenue, including effects of rebates | \$ 587,442                                  | \$ 572,355          | \$ 1,740,477                               | \$ 1,669,700        |
| Advertising revenue, net of agency fees          | 12,418                                      | 17,867              | 37,287                                     | 54,156              |
| Equipment revenue                                | 10,506                                      | 12,856              | 31,343                                     | 38,687              |
| Other revenue                                    | 19,241                                      | 9,698               | 33,817                                     | 30,089              |
| <b>Total revenue</b>                             | <b>629,607</b>                              | <b>612,776</b>      | <b>1,842,924</b>                           | <b>1,792,632</b>    |
| <b>Operating expenses:</b>                       |   |                     |  |                     |
| Satellite and transmission                       | 18,676                                      | 25,136              | 57,077                                     | 76,336              |
| Programming and content                          | 93,230                                      | 131,630             | 277,614                                    | 341,422             |
| Revenue share and royalties                      | 123,531                                     | 120,800             | 362,463                                    | 355,251             |
| Customer service and billing                     | 55,795                                      | 58,857              | 173,517                                    | 177,159             |
| Cost of equipment                                | 11,944                                      | 16,179              | 27,988                                     | 48,020              |
| Sales and marketing                              | 52,827                                      | 78,178              | 152,039                                    | 260,583             |
| Subscriber acquisition costs                     | 109,384                                     | 132,477             | 274,082                                    | 444,396             |
| General and administrative                       | 48,481                                      | 75,981              | 142,812                                    | 215,440             |
| Engineering, design and development              | 9,599                                       | 10,389              | 28,134                                     | 42,121              |
| Depreciation and amortization                    | 47,997                                      | 64,111              | 145,596                                    | 196,051             |
| Share-based payment expense                      | 18,799                                      | 29,809              | 71,301                                     | 99,673              |
| Restructuring, impairments and related costs     | 2,554                                       | 7,430               | 30,167                                     | 7,457               |
| <b>Total operating expenses</b>                  | <b>592,817</b>                              | <b>750,977</b>      | <b>1,742,790</b>                           | <b>2,263,909</b>    |
| Income (loss) from operations                    | 36,790                                      | (138,201)           | 100,134                                    | (471,277)           |
| Other expense                                    | (217,610)                                   | (77,086)            | (512,880)                                  | (178,777)           |
| Loss before income taxes                         | (180,820)                                   | (215,287)           | (412,746)                                  | (650,054)           |
| Income tax expense                               | (1,115)                                     | (1,723)             | (3,344)                                    | (3,813)             |
| <b>Net loss</b>                                  | <b>\$ (181,935)</b>                         | <b>\$ (217,010)</b> | <b>\$ (416,090)</b>                        | <b>\$ (653,867)</b> |

*Highlights for the Three Months Ended September 30, 2009.* Our revenue grew 3%, or \$16,831, in the three months ended September 30, 2009 compared to the same period in 2008. Subscriber revenue increased 3%, or \$15,087, in the three months ended September 30, 2009 compared to the same period in 2008. The increase in subscriber revenue was driven by the sale of Best of programming and the rate increases to our multi-subscription and internet packages. Advertising revenue decreased 30%, or \$5,449, in the three months ended September 30, 2009 compared to the same period in 2008. The decrease in advertising revenue was driven by the current economic environment. Equipment revenue decreased 18%, or \$2,350, in the three months ended September 30, 2009 compared to the same period in 2008. The decrease in equipment revenue was driven by declines in sales through our direct to consumer distribution channel. Other revenue increased 98%, or \$9,543, in the three months ended September 30, 2009 compared to the same period in 2008. The increase in other revenue was driven by the U.S. Music Royalty Fee introduced this quarter. The overall increase in revenue, combined with a decrease of 19%, or \$126,160, in adjusted operating costs (total operating expense excluding restructuring, impairments and related costs, depreciation and amortization and share-based payment expense), resulted in improved adjusted income (loss) from operations of \$106,140 in the three months ended September 30, 2009 compared to (\$36,851) in the same period in 2008.

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Satellite and transmission costs decreased 26%, or \$6,460, in the three months ended September 30, 2009 compared to the same period in 2008 due to reductions in maintenance costs, repeater lease expense and personnel costs.

Programming and content costs decreased 29%, or \$38,400, in the three months ended September 30, 2009 compared to the same period in 2008, due mainly to a \$27,500 one-time payment recognized in 2008 to a programming provider upon completion of the Merger, reductions in personnel and on-air talent costs as well as savings on certain content agreements. Revenue share and royalties increased 2%, or \$2,731, in the three months ended September 30, 2009 compared to the same period in 2008 primarily due to an increase in our revenues and an increase in the statutory royalty rate for the performance of sound recordings. Customer service and billing costs decreased 5%, or \$3,062, in the three months ended September 30, 2009 compared to the same period in 2008 primarily due to decreases in personnel costs and customer call center expenses. Cost of equipment decreased 26%, or \$4,235, in the three months ended September 30, 2009 compared to the same period in 2008 as a result of a decrease in our direct to customer sales and lower inventory write-downs.

Sales and marketing costs decreased 32%, or \$25,351, and decreased as a percentage of revenue to 8% from 13% in the three months ended September 30, 2009 compared to the same period in 2008 due to reduced advertising and cooperative marketing spend as well as reductions to personnel costs and third party distribution support expenses.

Subscriber acquisition costs decreased 17%, or \$23,093, and decreased as a percentage of revenue to 17% from 22% in the three months ended September 30, 2009 compared to the same period in 2008. This improvement was driven by fewer OEM installations relative to gross subscriber additions, decreased production of certain radios, lower OEM subsidies and lower aftermarket inventory reserves as compared to the three months ended September 30, 2008. Subscriber acquisition costs also decreased as a result of the 13% decline in gross additions during the three months ended September 30, 2009 compared to the three months ended September 30, 2008.

General and administrative costs decreased 36%, or \$27,500, in the three months ended September 30, 2009 compared to the same period in 2008 mainly due to the absence of certain legal and regulatory charges incurred in 2008 and lower personnel costs. Engineering, design and development costs decreased 8%, or \$790, in the three months ended September 30, 2009 compared to the same period in 2008, due to lower costs associated with manufacturing of radios, OEM tooling and manufacturing, and personnel.

Restructuring, impairments and related costs decreased 66%, or \$4,876, in the three months ended September 30, 2009 compared to the same period in 2008 mainly due to fewer restructuring charges associated with the Merger.

Other expenses increased 182%, or \$140,524, in the three months ended September 30, 2009 compared to the same period in 2008 driven mainly by the Loss on extinguishment of debt and credit facilities of \$138,053, and an increase in Interest expense of \$11,554, offset by an increase of \$7,491 in Gain on investments. The Loss on the extinguishment of debt and credit facilities was incurred on the full repayment of SIRIUS LM Credit Agreement.

Interest expense increased due primarily to the issuance of XM's 13% Senior Notes due 2013 and the 7% Exchangeable Senior Subordinated Notes due 2014 in the third quarter of 2008.

*Highlights for the Nine Months Ended September 30, 2009.* Our subscriber revenue grew 4%, or \$70,777, in the nine months ended September 30, 2009 compared to the same period in 2008. Advertising revenue decreased 31%, or \$16,869, in the nine months ended September 30, 2009 compared to the same period in 2008. The decrease in advertising revenue was driven by the current economic environment. Equipment revenue decreased 19%, or \$7,344, in the nine months ended September 30, 2009 compared to the same period in 2008. The decrease in equipment revenue was driven by declines in sales through our direct to consumer distribution channel. Other revenue increased 12%, or \$3,728, in the nine months ended September 30, 2009 compared to the same period in 2008. The increase in other revenue was driven by the U.S. Music Royalty Fee introduced this quarter. Total revenue increased 3%, or \$50,292, and combined with a decrease of 24%, or \$465,002, in adjusted operating costs (total operating expenses excluding restructuring, impairments and related costs, depreciation and amortization and share-based payment expense), resulted in improved adjusted income (loss) from operations of \$347,198 in the nine months ended September 30, 2009 compared to (\$168,096) in 2008.

Satellite and transmission costs decreased 25%, or \$19,259, in the nine months ended September 30, 2009 compared to the same period in 2008 due to reductions in maintenance costs, repeater lease expense, and personnel costs.

Programming and content costs decreased 19%, or \$63,808, in the nine months ended September 30, 2009 compared

to the same period in 2008, due mainly to a \$27,500 one-time payment recognized in 2008 to a programming provider upon completion of the Merger, to reductions in personnel and on-air talent costs as well as savings on certain content agreements. Revenue share and royalties increased 2%, or \$7,212, in the nine months ended September 30, 2009 compared to the same period in 2008. Customer service and billing costs decreased 2%, or \$3,642, in the nine months ended September 30, 2009 compared to the same period in 2008 due to scale efficiencies over a larger subscriber base. Cost of equipment decreased 42%, or \$20,032, in the nine months ended September 30, 2009 compared to the same period in 2008 as a result of a decrease in direct to customer sales and lower inventory write-downs.

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Sales and marketing costs decreased 42%, or \$108,544, and decreased as a percentage of revenue to 8% from 15% in the nine months ended September 30, 2009 compared to the same period in 2008 due to reduced advertising and cooperative marketing spend as well as reductions to personnel costs and third party distribution support expenses. Subscriber acquisition costs decreased 38%, or \$170,314, and decreased as a percentage of revenue to 15% from 25% in the nine months ended September 30, 2009 compared to the same period in 2008. This decrease was driven by a 17% improvement in SAC, as adjusted, per gross addition due to fewer OEM installations relative to gross subscriber additions, decreased production of certain radios, lower OEM subsidies and lower aftermarket inventory reserves in the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008. Subscriber acquisition costs also decreased as a result of the 28% decline in gross additions during the nine months ended September 30, 2009.

General and administrative costs decreased 34%, or \$72,628, mainly due to the absence of certain legal and regulatory charges incurred in 2008 and lower personnel costs. Engineering, design and development costs decreased 33%, or \$13,987, in the nine months ended September 30, 2009 compared to the same period in 2008, due to lower costs associated with manufacturing of radios, OEM tooling and manufacturing, and personnel.

Restructuring, impairments and related costs increased 305%, or \$22,710, mainly due to a loss of \$24,196 on capitalized installment payments, which are expected to provide no future benefit due to the counterparty's bankruptcy filing, for the launch of a satellite, offset partially by a decrease in personnel related restructuring costs.

Other expenses increased 187%, or \$334,103, in the nine months ended September 30, 2009 compared to the same period in 2008 driven mainly by the increase in Loss on extinguishment of debt and credit facilities of \$263,767 and an increase in Interest expense of \$90,297, offset by an increase of \$16,556 in Gain on investments. The Loss on the extinguishment of debt and credit facilities was incurred on the full repayment of SIRIUS LM Credit Agreement and XM's Amended and Restated Credit Agreement and XM's Second-Lien Credit Agreement. Interest expense increased due primarily to the issuance of XM's 13% Senior Notes due 2013 and the 7% Exchangeable Senior Subordinated Notes due 2014 in the third quarter of 2008.

**Table of Contents****Unaudited Actual Results of Operations**

Our discussion of our unaudited actual results of operations includes the following non-GAAP financial measures: average self-pay monthly churn; conversion rate; average monthly revenue per subscriber, or ARPU; subscriber acquisition cost, or SAC, as adjusted, per gross subscriber addition; customer service and billing expenses, as adjusted, per average subscriber; free cash flow; and adjusted income (loss) from operations. We believe these non-GAAP financial measures provide meaningful supplemental information regarding our operating performance and are used for internal management purposes, when publicly providing the business outlook, and as a means to evaluate period-to-period comparisons. Please refer to the footnotes (pages 53 through 62) following our discussion of results of operations for the definitions and a further discussion of the usefulness of such non-GAAP financial measures.

The discussion of our results of operations for the three and nine months ended September 30, 2009 and 2008 includes the financial results of XM from the date of the Merger. The inclusion of these results may render direct comparisons with results for prior periods less meaningful. Accordingly, the discussion below addresses trends we believe are significant.

*Subscriber and Key Operating Metrics.* The following tables contain our actual subscribers and key operating metrics for the three and nine months ended September 30, 2009 and 2008:

**Unaudited Actual Quarterly Subscribers and Metrics:**

|                            | <b>Unaudited Actual</b>                     |             |  |             |
|----------------------------|---|-------------|--|-------------|
|                            | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|                            | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
| Beginning subscribers      | 18,413,435                                  | 8,924,139   | 19,003,856                                 | 8,321,785   |
| Gross subscriber additions | 1,606,446                                   | 11,208,193  | 4,325,532                                  | 13,240,902  |
| Deactivated subscribers    | (1,504,151)                                 | (1,211,421) | (4,813,658)                                | (2,641,776) |
| Net additions              | 102,295                                     | 9,996,772   | (488,126)                                  | 10,599,126  |
| Ending subscribers         | 18,515,730                                  | 18,920,911  | 18,515,730                                 | 18,920,911  |
| Retail                     | 7,925,904                                   | 9,036,420   | 7,925,904                                  | 9,036,420   |
| OEM                        | 10,488,530                                  | 9,777,704   | 10,488,530                                 | 9,777,704   |
| Rental                     | 101,296                                     | 106,787     | 101,296                                    | 106,787     |
| Ending subscribers         | 18,515,730                                  | 18,920,911  | 18,515,730                                 | 18,920,911  |
| Retail                     | (309,972)                                   | 4,359,721   | (979,298)                                  | 4,395,710   |
| OEM                        | 407,131                                     | 5,546,161   | 492,692                                    | 6,112,073   |
| Rental                     | 5,136                                       | 90,890      | (1,520)                                    | 91,343      |
| Net additions              | 102,295                                     | 9,996,772   | (488,126)                                  | 10,599,126  |
| Self-pay                   | 15,456,748                                  | 15,190,588  | 15,456,748                                 | 15,190,588  |
| Paid promotional           | 3,058,982                                   | 3,730,323   | 3,058,982                                  | 3,730,323   |

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|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Ending subscribers                           | 18,515,730 | 18,920,911 | 18,515,730 | 18,920,911 |
| Self-pay                                     | 35,405     | 9,048,281  | (92,838)   | 9,505,524  |
| Paid promotional                             | 66,890     | 948,491    | (395,288)  | 1,093,602  |
| Net additions                                | 102,295    | 9,996,772  | (488,126)  | 10,599,126 |
| Daily weighted average number of subscribers | 18,393,678 | 15,472,506 | 18,514,041 | 10,887,028 |

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|  | <b>Unaudited Actual</b>                              |                |   |                |
|--|--|----------------|---|----------------|
|  | <b>Three Months Ended<br/>September 30,<br/>2009</b> |                | <b>Nine Months Ended<br/>September 30,<br/>2009</b> |                |
|  | <b>2009</b>  | <b>2008</b>    | <b>2009</b>   | <b>2008</b>    |
| Average self-pay monthly churn (1)(7)  | 2.0%   | 1.7%           | 2.1%  | 1.7%           |
| Conversion rate (2)(7)   | 46.8%  | 47.0%          | 45.3%   | 49.1%          |
| ARPU (7)(10)   | \$ 10.71   | \$ 10.19       | \$ 10.42  | \$ 10.33       |
| SAC, as adjusted, per gross subscriber addition (7)(11)                            | \$ 57  | \$ 60          | \$ 53   | \$ 74          |
| Customer service and billing expenses, as adjusted, per average subscriber (7)(12) | \$ 1.01  | \$ 1.01        | \$ 1.04   | \$ 0.98        |
| Total revenue  | \$ 618,656   | \$ 488,443     | \$ 1,796,464  | \$ 1,041,809   |
| Free cash flow (7)(13)   | \$ 26,724  | \$ (52,722)    | \$ 35,772   | \$ (270,344)   |
| Adjusted income (loss) from operations (14)  | \$ 158,683   | \$ 22,091      | \$ 473,996  | \$ (41,124)    |
| Net loss   | \$ (149,190)   | \$ (4,879,427) | \$ (356,957)  | \$ (5,067,444) |

Note: See pages 53 through 62 for footnotes.

*Subscribers.* At September 30, 2009 we had 18,515,730 subscribers, a decrease of 405,181 subscribers, or 2%, from the 18,920,911 subscribers as of September 30, 2008. The decrease was principally the result of 671,341 fewer paid promotional trials due to the decline in North American auto sales. This decline was partially offset by an increase of 266,160 in self-pay subscribers compared to September 30, 2008. Deactivation rates for self-pay subscriptions in the quarter increased to 2.0% per month reflecting reductions in consumer discretionary spending, subscriber response to our increase in prices for multi-subscription accounts, channel line-up changes in 2008, the institution of a monthly charge for our streaming service and the introduction of the U.S. Music Royalty Fee.

*ARPU.* ARPU is derived from total earned subscriber revenue and net advertising revenue, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. See accompanying footnotes for more details.

*Three Months:* For the three months ended September 30, 2009 and 2008, total ARPU was \$10.71 and \$10.19, respectively. The increase was driven by the revenues earned for Best of programming, increased rates on multi-subscription packages and internet subscriptions.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, total ARPU was \$10.42 and \$10.33, respectively. The increase was driven by the revenues earned for Best of programming, increased rates on multi-subscription packages and internet subscriptions.

We expect ARPU to fluctuate based on promotions, rebates offered to subscribers and corresponding take-rates, plan mix, subscription prices, advertising sales and the identification of additional revenue from subscribers.

*SAC, As Adjusted, Per Gross Subscriber Addition.* SAC, as adjusted, 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, divided by the number of gross subscriber additions for the period. See accompanying footnotes for more details.

*Three Months:* For the three months ended September 30, 2009 and 2008, SAC, as adjusted, per gross subscriber addition was \$57 and \$60, respectively. The decrease in SAC was attributed to lower OEM subsidies, decreased production of certain radios, lower aftermarket inventory reserves and improved equipment margins, offset by an additional month of XM subscriber acquisition costs in the three months ended September 30, 2009 compared to the prior year period.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, SAC, as adjusted, per gross subscriber addition was \$53 and \$74, respectively. The decrease was primarily driven by the effect of purchase price accounting adjustments, lower OEM subsidies, decreased production of certain radios, lower aftermarket inventory reserves and improved equipment margins in the nine months ended September 30, 2009 compared to the prior year period.

We expect SAC, as adjusted, per gross subscriber addition to decline as the costs of subsidized components of SIRIUS and XM radios decrease in the future. Our SAC, as adjusted, per gross subscriber addition will be impacted by our increasing mix of OEM additions and the effects of purchase price accounting adjustments.

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*Customer Service and Billing Expenses, As Adjusted, Per Average Subscriber.* Customer service and billing expenses, as adjusted, per average subscriber is derived from total customer service and billing expenses, excluding share-based payment expense, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. See accompanying footnotes for more details.

*Three Months:* For each of the three months ended September 30, 2009 and 2008, customer service and billing expenses, as adjusted, per average subscriber was \$1.01.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, customer service and billing expenses, as adjusted, per average subscriber was \$1.04 and \$0.98, respectively. The increase was primarily due to the inclusion of XM, which has historically experienced higher customer service and billing expenses.

We expect customer service and billing expenses, as adjusted, per average subscriber to decrease on an annual basis as our subscriber base grows due to scale efficiencies in our call centers and other customer care and billing operations.

*Adjusted Income (Loss) from Operations.* We refer to net loss before interest and investment income; interest expense, net of amounts capitalized; income tax expense, loss on extinguishment of debt and credit facilities, net; gain (loss) on investments, other expense (income), restructuring, impairments and related costs, depreciation and amortization, and share-based payment expense as adjusted income (loss) from operations. See accompanying footnotes for more details.

*Three Months:* For the three months ended September 30, 2009 and 2008, our adjusted income (loss) from operations was \$158,683 and \$22,091, respectively. Adjusted income (loss) from operations was favorably impacted by the \$130,213 increase in revenues, and the \$6,379 decrease in expenses included in adjusted income (loss) from operations. The increase was due primarily to the inclusion of XM.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, our adjusted income (loss) from operations was \$473,996 and (\$41,124), respectively. Adjusted income (loss) from operations was favorably impacted by the \$754,655 increase in revenues, partially offset by the \$239,535 increase in expenses included in adjusted income (loss) from operations. The increase was due primarily to the inclusion of XM.

***Three and Nine Months Ended September 30, 2009 Compared with Three and Nine Months Ended September 30, 2008 Actual***

***Total Revenue***

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

*Three Months:* For the three months ended September 30, 2009 and 2008, subscriber revenue was \$578,304 and \$458,237, respectively, an increase of 26% or \$120,067. The Merger was responsible for approximately \$95,684 of the increase and the remaining increase was primarily attributable to the sale of Best of programming and increased internet and multi-subscription rates.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, subscriber revenue was \$1,699,455 and \$980,396, respectively, an increase of 73% or \$719,059. The Merger was responsible for approximately \$670,870 of the increase and the remaining increase was primarily attributable to the sale of Best of programming and increased internet and multi-subscription rates, as well as higher average subscribers.

The following table contains a breakdown of our subscriber revenue for the periods presented:

|                   | <b>For the Three Months<br/>Ended September 30,<br/>2009</b> |             | <b>For the Nine Months<br/>Ended September 30,<br/>2009</b> |             |
|-------------------|--|-------------|---|-------------|
|                   | <b>2009</b>  | <b>2008</b> | <b>2009</b>   | <b>2008</b> |
| Subscription fees | \$ 573,611   | \$ 453,540  | \$ 1,683,568  | \$ 963,454  |
| Activation fees   | 5,171  | 4,920       | 16,929  | 17,271      |
| Effect of rebates | (478)  | (223)       | (1,042)   | (329)       |

|                          |            |            |              |            |
|--------------------------|------------|------------|--------------|------------|
| Total subscriber revenue | \$ 578,304 | \$ 458,237 | \$ 1,699,455 | \$ 980,396 |
|--------------------------|------------|------------|--------------|------------|

Future subscriber revenue will be dependent upon, among other things, the growth of our subscriber base, promotions, rebates offered to subscribers and corresponding take-rates, plan mix, subscription prices and the identification of additional revenue streams from subscribers.

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

*Three Months:* For the three months ended September 30, 2009 and 2008, net advertising revenue was \$12,418 and \$14,674, respectively, which represents a decrease of 15%, or \$2,256. The decrease in ad revenue was due to the current economic environment.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, net advertising revenue was \$37,287 and \$31,413, respectively, which represents an increase of 19%, or \$5,874. The increase was due to the inclusion of XM revenue from the Merger, which was offset by a decrease in ad revenue due to the current economic environment.

Our advertising revenue is subject to fluctuation based on the national economic environment. We believe general economic conditions have negatively affected our advertising revenue in recent quarters. We expect advertising revenue to grow as our subscribers increase, as we continue to improve brand awareness and content, and as we increase the size and effectiveness of our advertising sales force.

**Equipment Revenue.** 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, 2009 and 2008, equipment revenue was \$10,506 and \$11,271 respectively, which represents a decrease of 7%, or \$765. The equipment revenue decrease was mainly due to a decrease in sales through our direct to consumer distribution channel partially offset by the inclusion of XM revenue from the Merger.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, equipment revenue was \$31,343 and \$25,290 respectively, which represents an increase of 24%, or \$6,053. The Merger was responsible for approximately \$13,397 of the increase. The equipment revenue increase was partially offset by a decrease in sales through our direct to consumer distribution channel.

We expect equipment revenue to increase as we introduce new products and as sales grow through our direct to consumer distribution channel.

**Operating Expenses**

**Satellite and Transmission.** Satellite and transmission expenses consist of costs associated with the operation and maintenance of our satellites; satellite telemetry, tracking and control system; terrestrial repeater network; satellite uplink facility; and broadcast studios.

*Three Months:* For the three months ended September 30, 2009 and 2008, satellite and transmission expenses were \$19,542 and \$19,526, respectively, remaining relatively flat. The inclusion of a full quarter of XM's satellite and transmission expense was offset by reductions in personnel costs and maintenance.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, satellite and transmission expenses were \$59,435 and \$34,800, respectively, which represents an increase of 71%, or \$24,635. The satellite and transmission increase was primarily due to the inclusion of XM's satellite and transmission expense, partially offset by decreases due to the elimination of contracts, decommissioned repeater sites, and decrease in web-streaming costs.

We expect satellite and transmission expenses, excluding share-based payment expense, to increase as we add to our in-orbit satellite fleet.

**Programming and Content.** Programming and content expenses include 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 recorded as a sales and marketing expense and the cost of sharing advertising revenue is recorded as Revenue share and royalties in the period the advertising is broadcast.

*Three Months:* For the three months ended September 30, 2009 and 2008, programming and content expenses were \$78,315 and \$106,037, respectively, which represents a decrease of 26%, or \$27,722.

The decrease was primarily due to a \$27,500 one-time payment recognized in 2008 to a programming

provider upon completion of the Merger, savings on content agreements, and personnel and on-air talent costs, which were partially offset by a full quarter of XM's programming and content expense.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, programming and content expenses were \$230,825 and \$222,975, respectively, which represents an increase of 4%, or \$7,850. The increase was due to the inclusion of XM's programming and content expense, which was partially offset by decreases due to a \$27,500 one-time payment recognized in 2008 to a programming provider upon completion of the Merger, the impact of the Merger, and by savings on content agreements, personnel and on-air talent costs.

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Our programming and content expenses, excluding share-based payment expense, are expected to decrease as we reduce duplicate programming and content costs.

*Revenue Share and Royalties.* 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 recorded to revenue share and royalties in the period the advertising is broadcast.

*Three Months:* For the three months ended September 30, 2009 and 2008, revenue share and royalties were \$100,558 and \$85,592, respectively, which represents an increase of 17%, or \$14,966. The increase was primarily attributable to the inclusion of a full quarter of XM's revenue share and royalty expense as a result of the Merger, an increase in our revenues and an increase in the statutory royalty rate for the performance of sound recordings.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, revenue share and royalties were \$296,855 and \$177,635, respectively, which represents an increase of 67%, or \$119,220. The increase was primarily attributable to the inclusion of XM's revenue share and royalty expense as a result of the Merger, an increase in our revenues and an increase in the statutory royalty rate for the performance of sound recordings.

We expect these 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.

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

*Three Months:* For the three months ended September 30, 2009 and 2008, customer service and billing expenses were \$56,529 and \$47,432, respectively, which represents an increase of 19%, or \$9,097. The increase was primarily attributable to the inclusion of a full quarter of XM's customer service and billing expense as a result of the Merger and increased bad debt expense due to the current economic environment.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, customer service and billing expenses were \$175,570 and \$97,218, respectively, which represents an increase of 81%, or \$78,352. The increase was primarily due to the inclusion of XM's customer and billing expense as a result of the Merger and increased bad debt expense due to the current economic environment.

We expect our customer care and billing expenses to decrease on a per subscriber basis, but increase overall as our subscriber base grows due to increased call center operating costs, transaction fees and bad debt expense associated with a larger subscriber base.

*Cost of Equipment.* Cost of equipment includes costs from the sale of SIRIUS and XM radios, components and accessories.

*Three Months:* For the three months ended September 30, 2009 and 2008, cost of equipment was \$11,944 and \$13,773, respectively, which represents a decrease of 13%, or \$1,829. The decrease was mainly due to lower sales volume through our direct to consumer channel and lower inventory related charges, offset by the inclusion of a full quarter of XM's cost of equipment expense as a result of the Merger.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, cost of equipment was \$27,988 and \$28,007, respectively, remaining relatively flat period over period. This was mainly due to lower sales volume through our direct to consumer channel and lower inventory related charges, offset by the inclusion of XM's cost of equipment expense as a result of the Merger.

We expect cost of equipment to vary in the future with changes in sales through our direct to consumer distribution channel.

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*Sales and Marketing.* Sales and marketing expenses include 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.

*Three Months:* For the three months ended September 30, 2009 and 2008, sales and marketing expenses were \$52,530 and \$63,637, respectively, which represents a decrease of 17%, or \$11,107. The decrease was primarily driven by reductions in consumer advertising and cooperative marketing, personnel costs and third party distribution support expenses, offset by the inclusion of a full quarter of XM's sales and marketing expense.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, sales and marketing expenses were \$152,647 and \$151,237, respectively, which represents an increase of 1%, or \$1,410. The increase is due to the inclusion of XM's sales and marketing expense, partially offset by reductions in consumer advertising and cooperative marketing, personnel costs and third party distribution support expenses.

We expect sales and marketing expenses, excluding share-based payment expense, to decrease as we consolidate our advertising and promotional activities, gain efficiencies in marketing management and eliminate overlapping distribution support costs.

*Subscriber Acquisition Costs.* 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 a prepaid subscription to our service in the sale or lease price of a new vehicle; subsidies paid for chip sets and certain other components used in manufacturing radios; commissions paid to retailers and automakers as incentives to purchase, install and activate SIRIUS and XM radios; product warranty obligations; provisions for inventory allowance; and personnel costs associated with stock-based awards granted in connection with certain distribution agreements. 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, 2009 and 2008, subscriber acquisition costs were \$90,054 and \$86,616, respectively, which represents an increase of 4%, or \$3,438. This increase was primarily due to the inclusion of a full quarter of XM's subscriber acquisition costs, partially offset by lower OEM subsidies, and lower aftermarket inventory settlements in the three months ended September 30, 2009 compared to the three months ended September 30, 2008.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, subscriber acquisition costs were \$230,773 and \$257,832, respectively, which represents a decrease of 10%, or \$27,059. This decrease was primarily due to lower OEM subsidies, and lower aftermarket inventory settlements in the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008, partially offset by the inclusion of XM's subscriber acquisition costs as a result of the Merger.

We expect total subscriber acquisition costs to fluctuate as increases or decreases in our gross subscriber additions are accompanied by continuing declines in the costs of subsidized components of SIRIUS and XM radios. We intend to continue to offer subsidies, commissions and other incentives to acquire subscribers.

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

*Three Months:* For the three months ended September 30, 2009 and 2008, general and administrative expenses were \$56,923 and \$57,310, respectively, remaining relatively flat, primarily due to the impact of the Merger, offset by lower costs for certain merger, litigation and regulatory matters.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, general and administrative expenses were \$182,953 and \$148,555, respectively, which represents an increase of 23%, or \$34,398, primarily due to the impact of the Merger, offset by lower costs for certain merger, litigation and regulatory matters.

We expect total general and administrative expenses, excluding share-based payment expense, to decrease in future periods as we gain efficiencies in staff, facilities, and information technology costs.



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

*Three Months:* For the three months ended September 30, 2009 and 2008, engineering, design and development expenses were \$11,252 and \$10,434, respectively, which represents an increase of 8%, or \$818. This increase was primarily due to the inclusion of a full quarter of XM's engineering, design and development expenses, partially offset by lower costs associated with manufacturing of radios, OEM tooling and manufacturing, and personnel.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, engineering, design and development expenses were \$32,975 and \$28,091, respectively, which represents an increase of 17%, or \$4,884. This increase was primarily due to the inclusion of XM's engineering, design and development expenses, partially offset by lower costs associated with manufacturing of radios, OEM tooling and manufacturing, and personnel.

We expect engineering, design and development expenses, excluding share-based payment expense, to increase in future periods as we increase development of our next generation chipsets.

**Other Income (Expense)**

*Interest and Investment Income.* Interest and investment income includes realized gains and losses, dividends and interest income, including amortization of the premium and discount arising at purchase.

*Three Months:* For the three months ended September 30, 2009 and 2008, interest and investment income was \$962 and \$4,940, respectively. The decrease of 81%, or \$3,978, was primarily attributable to lower interest rates in 2009 and a lower average cash balance.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, interest and investment income was \$2,602 and \$9,167, respectively. The decrease of 72%, or \$6,565, was primarily attributable to lower interest rates in 2009 and a lower average cash balance.

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

*Three Months:* For the three months ended September 30, 2009 and 2008, interest expense was \$78,527 and \$49,216, respectively, which represents an increase of 60%, or \$29,311. Interest expense increased significantly as a result of the Merger, due to additional debt and higher interest rates. Increases in interest expense were partially offset by the capitalized interest associated with satellite construction and related launch vehicles.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, interest expense was \$240,062 and \$83,636, respectively, which represents an increase of 187%, or \$156,426. Interest expense increased significantly as a result of the Merger, due to additional debt and higher interest rates. Increases in interest expense were partially offset by the capitalized interest associated with satellite construction and related launch vehicles.

*Loss on Extinguishment of Debt and Credit Facilities, net.* Loss on extinguishment of debt and credit facilities, net, includes losses incurred as a result of the conversion and retirement of certain debt instruments.

*Three Months:* For the three months ended September 30, 2009 and 2008, loss on extinguishment of debt and credit facilities, net, was \$138,053 and \$0, respectively. The loss was incurred on the retirement of the outstanding Term Loan and Purchase Money Loan borrowings from Liberty Media and the repurchase of a portion of XM Holdings' 10% Convertible Senior Notes due 2009.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, loss on extinguishment of debt and credit facilities, net, was \$263,767 and \$0, respectively. The loss was incurred on the retirement of the outstanding Term Loan and Purchase Money Loan borrowings from Liberty Media, the repurchase of a portion of XM Holdings' 10% Convertible Senior Notes due 2009, and the retirement of XM's Amended and Restated Credit Agreement and XM's Second-Lien Credit Agreement.



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*Gain (loss) on investments.* Gain (loss) on investments includes our share of SIRIUS Canada's and XM Canada's net losses, and losses recorded from our investment in XM Canada when the fair value was determined to be other than temporary.

*Three Months:* For the three months ended September 30, 2009 and 2008, loss on investment was \$58 and \$3,089, respectively. The decrease was attributable to payments received from SIRIUS Canada in excess of our carrying value of our investments, partially offset by our share of SIRIUS Canada's and XM Canada's net losses for the three months ended September 30, 2009.

*Nine Months:* For the nine months ended September 30, 2009 and 2008, gain (loss) on investment was \$457 and (\$3,089), respectively. The increase was attributable to payments received from SIRIUS Canada in excess of our carrying value of our investments, partially offset by our share of SIRIUS Canada's and XM Canada's net losses for the nine months ended September 30, 2009 and an impairment charge related to our investment in XM Canada.

**Income Taxes**

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

*Three Months:* We recorded income tax expense of \$1,115 and \$1,215 for the three months ended September 30, 2009 and 2008, respectively.

*Nine Months:* We recorded income tax expense of \$3,344 and \$2,301 for the nine months ended September 30, 2009 and 2008, respectively. The increase is attributed to the inclusion of XM.

**Liquidity and Capital Resources****Cash Flows for the Nine Months Ended September 30, 2009 Compared with Nine Months Ended September 30, 2008**

As of September 30, 2009 and 2008, we had \$380,372 and \$359,657, respectively, in cash and cash equivalents and \$380,446 as of December 31, 2008.

The following table presents a summary of our cash flow activity for the periods set forth below:

|   | <b>For the Nine Months<br/>Ended September 30,</b> |              |                 |
|---|--|--------------|-----------------|
|   | <b>2009</b>  | <b>2008</b>  | <b>Variance</b> |
| Net cash provided by (used in) operating activities | \$ 253,107   | \$ (216,992) | \$ 470,099      |
| Net cash (used in) provided by investing activities | (217,335)  | 766,516      | (983,851)       |
| Net cash used in financing activities               | (35,846)   | (628,687)    | 592,841         |
| Net decrease in cash and cash equivalents           | (74)   | (79,163)     | 79,089          |
| Cash and cash equivalents at beginning of period    | 380,446  | 438,820      | (58,374)        |
| Cash and cash equivalents at end of period          | \$ 380,372   | \$ 359,657   | \$ 20,715       |

**Cash Flows Provided by (Used in) Operating Activities**

Net cash provided by operating activities increased \$470,099 to \$253,107 for the nine months ended September 30, 2009 from net cash used in operating activities of \$216,992 for the nine months ended September 30, 2008. The increase was primarily the result of a decreased net loss, net of non-cash operating activities of \$300,853, and a decrease in cash used in other operating assets and liabilities of \$169,246.

**Cash Flows (Used in) Provided by Investing Activities**

Net cash used in investing activities increased \$983,851 to \$217,335 for the nine months ended September 30, 2009 from net cash provided by investing activities of \$766,516 for the nine months ended September 30, 2008. The increase was primarily the result of a decrease of \$819,521 in net cash acquired from XM in the Merger, a decrease of \$65,642 from the sale of restricted and other investments and an increase in capital expenditures of \$114,630

associated with our satellite construction and launch, partially offset by a decrease of \$13,047 in Merger-related costs. We will incur significant capital expenditures to construct and launch our new satellites and improve our terrestrial repeater network and broadcast and administrative infrastructure. These capital expenditures will support our growth and the resiliency of our operations, and will also support the delivery of future new revenue streams.

**Table of Contents***Cash Flows Used in Financing Activities*

Net cash used in financing activities decreased \$592,841 to \$35,846 for the nine months ended September 30, 2009 from \$628,687 for the nine months ended September 30, 2008. The decrease in cash used in financing activities was primarily due to an increase of \$410,959 in net proceeds from our agreement with Liberty Media and issuance of 11.25% Notes and SIRIUS 9.75% Notes during the nine months ended September 30, 2009 compared to proceeds from our Exchangeable Notes during the nine months ended September 30, 2008; a decrease in debt payment of \$120,249, principally to holders of our 2<sup>1</sup>/<sub>2</sub>% Convertible Notes due 2009, Amended and Restated Credit Agreement and our agreement with Liberty Media during the nine months ended September 30, 2009 compared to debt payment to holders of the XM 9.75% Notes, XM Floating Rate Notes and XM's Debt of Consolidated Variable Interest Entity during the nine months ended September 30, 2008; and a decrease of \$61,880 in payments to a minority interest holder.

*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 beneficially owns at least half of its initial equity investment, we need the consent of Liberty for certain actions, including the grant or issuance of our equity securities and the incurrence of debt in amounts greater than a stated threshold.

*Future Liquidity and Capital Resource Requirements*

Based upon our current plans, we believe that we have sufficient cash, cash equivalents and marketable securities to cover the estimated funding needs through cash flow breakeven, the point at which revenues are sufficient to fund expected operating expenses, capital expenditures, working capital requirements, interest payments and taxes. The 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. We have the ability and intend to manage the timing and related expenditures of certain activities, including the launch of satellites, the deferral of capital projects, as well as the deferral of other discretionary expenses. Our financial projections are based on assumptions, which we believe are reasonable but contain significant uncertainties. There can be no assurance that our plan will be successful. We are the sole stockholder of XM Holdings 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 contribute or loan SIRIUS capital. To the extent XM's funds are insufficient to support its business, XM may be required to seek additional financing, which may not be available on favorable terms, or at all. If XM is unable to secure additional financing, its business and results of operations may be adversely affected.

We regularly evaluate our plans and strategy. These evaluations often result in changes to our plans and strategy, some of which may be material and significantly change our cash requirements. These changes in our 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 of third parties that own programming, distribution, infrastructure, assets, or any combination of the foregoing. In addition, our operations will also be 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. Our future liquidity also may be adversely affected by, among other things, the nature and extent of the benefits achieved by operating XM as a wholly owned unrestricted subsidiary under our existing indebtedness.

*Off-Balance Sheet Arrangements*

We are required under the terms of certain agreements to provide letters of credit and deposit monies in escrow, which place restrictions on our cash and cash equivalents. As of September 30, 2009 and December 31, 2008, \$3,400 and \$141,250, respectively, was classified as restricted investments as a result of obligations under these letters of credit and escrow deposits. In February 2009, we released to programming providers an aggregate of \$138,000 held in escrow in satisfaction of future obligations under our agreements with them.

We do not have any significant off-balance sheet arrangements other than those disclosed in Note 15 to our unaudited consolidated financial statements in Item 1 of this 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.

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***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 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, 2009, approximately 359,762,000 shares of common stock were available for future grant under the 2009 Plan.

***Other Plans***

SIRIUS and XM Holdings maintain three other share-based benefit plans the XM Holdings 2007 Stock Incentive Plan, the Amended and Restated Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan and the XM Holdings 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 will be continued.

***Contractual Cash Commitments***

For a discussion of our Contractual Cash Commitments refer to Note 15 to our unaudited consolidated financial statements in Item 1 of this 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 Form 10-Q.

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***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 within our Annual Report on Form 10-K for the year ended December 31, 2008 and Note 3 to our unaudited consolidated financial statements in Item 1 of this Form 10-Q.

***Footnotes to Results of Operations***

- (1) Average self-pay monthly churn represents the monthly average of self-pay deactivations by the quarter divided by the average self-pay subscriber balance for the quarter.
  
- (2) We measure the percentage of subscribers that receive our service and convert to self-paying after the initial promotion period. We refer to this as the conversion rate. At the time of sale, vehicle owners generally receive between three and twelve month prepaid trial subscriptions and we receive a subscription fee from the OEM. 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. Based on our experience it may take up to 90 days after the trial service ends for subscribers to respond to our marketing communications and become self-paying subscribers.

- (3) ARPU is derived from total earned subscriber revenue and net advertising revenue, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. ARPU is calculated as follows (in thousands, except for per subscriber amounts):

|                         | <b>Unaudited Pro Forma</b>                           |            |   |              |
|-------------------------|--|------------|---|--------------|
|                         | <b>Three Months Ended<br/>September 30,<br/>2009</b> |            | <b>Nine Months Ended<br/>September 30,<br/>2008</b> |              |
| Subscriber revenue      | \$ 587,442   | \$ 572,355 | \$ 1,740,477  | \$ 1,669,700 |
| Net advertising revenue | 12,418   | 17,867     | 37,287  | 54,156       |

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|  |            |            |              |              |
|--|------------|------------|--------------|--------------|
| Total subscriber and net advertising revenue | \$ 599,860 | \$ 590,222 | \$ 1,777,764 | \$ 1,723,856 |
| Daily weighted average number of subscribers | 18,393,678 | 18,710,940 | 18,514,041   | 18,187,927   |
| ARPU   | \$ 10.87   | \$ 10.51   | \$ 10.67     | \$ 10.53     |

(4) SAC, as adjusted, 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, divided by the number of gross subscriber additions for the period. SAC, as adjusted, per gross subscriber addition is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

|  | <b>Unaudited Pro Forma</b>                           |            |   |            |
|--|--|------------|---|------------|
|  | <b>Three Months Ended<br/>September 30,<br/>2009</b> |            | <b>Nine Months Ended<br/>September 30,<br/>2008</b> |            |
| Subscriber acquisition cost  | \$ 109,384   | \$ 132,477 | \$ 274,082  | \$ 444,410 |
| Less: share-based payment expense granted to third parties and employees |  |            |   | (14)       |
| Less/Add: margin from direct sales of radios and accessories             | 1,438  | 3,323      | (3,355)   | 9,333      |
| SAC, as adjusted   | \$ 110,822   | \$ 135,800 | \$ 270,727  | \$ 453,729 |

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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Gross subscriber additions                      | 1,606,446 | 1,843,785 | 4,325,532 | 5,997,096 |
| SAC, as adjusted, per gross subscriber addition | \$ 69     | \$ 74     | \$ 63     | \$ 76     |

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- (5) Customer service and billing expenses, as adjusted, per average subscriber is derived from total customer service and billing expenses, excluding share-based payment expense, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. Customer service and billing expenses, as adjusted, per average subscriber is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

|                                       | <b>Unaudited Pro Forma</b> |             |                          |             |
|---------------------------------------|----------------------------|-------------|--------------------------|-------------|
|                                       | <b>Three Months Ended</b>  |             | <b>Nine Months Ended</b> |             |
|                                       | <b>September 30,</b>       |             | <b>September 30,</b>     |             |
|                                       | <b>2009</b>                | <b>2008</b> | <b>2009</b>              | <b>2008</b> |
| Customer service and billing expenses | \$ 56,644                  | \$ 59,786   | \$ 175,928               | \$ 180,270  |
| Less: share-based payment expense     | (849)                      | (929)       | (2,411)                  | (3,111)     |

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|  |           |           |            |            |
|--|-----------|-----------|------------|------------|
| Customer service and billing expenses, as adjusted | \$ 55,795 | \$ 58,857 | \$ 173,517 | \$ 177,159 |
|--|-----------|-----------|------------|------------|

|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Daily weighted average number of subscribers | 18,393,678 | 18,710,940 | 18,514,041 | 18,187,927 |
|--|------------|------------|------------|------------|

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Customer service and billing expenses, as adjusted, per average subscriber | \$ 1.01 | \$ 1.05 | \$ 1.04 | \$ 1.08 |
|--|---------|---------|---------|---------|

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

|   | <b>Unaudited Pro Forma</b>                  |              |  |              |
|---|---|--------------|--|--------------|
|   | <b>Three Months Ended<br/>September 30,</b> |              | <b>Nine Months Ended<br/>September 30,</b> |              |
|   | <b>2009</b>                                 | <b>2008</b>  | <b>2009</b>                                | <b>2008</b>  |
| Net cash provided by (used in) operating activities | \$ 116,248                                  | \$ (101,983) | \$ 253,107                                 | \$ (468,078) |
| Additions to property and equipment                 | (89,524)                                    | (32,403)     | (217,335)                                  | (133,548)    |
| Merger related costs                                |   | 1,796        |  | (13,047)     |
| Restricted and other investment activity            |   | 34,996       |  | 37,025       |
| Free cash flow                                      | \$ 26,724                                   | \$ (97,594)  | \$ 35,772                                  | \$ (577,648) |

(7) Average self-pay monthly churn; conversion rate; ARPU; SAC, as adjusted, per gross subscriber addition; customer service and billing expenses, as adjusted, per average subscriber; and free cash flow are not measures of financial performance under U.S. generally accepted accounting principles ( GAAP ). We believe these non-GAAP

financial measures provide meaningful supplemental information regarding our operating performance and are used by us for budgetary and planning purposes; when publicly providing our business outlook; as a means to evaluate period-to-period comparisons; and to compare our performance to that of our competitors. We believe that investors also use our current and projected metrics to monitor the performance of our business and to make investment decisions.

We believe the exclusion of share-based payment expense in our calculations of SAC, as adjusted, per gross subscriber addition and customer service and billing expenses, as adjusted, 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 subscriber acquisition costs and customer service and billing expenses. Specifically, the exclusion of share-based payment expense in our calculation of SAC, as adjusted, per gross subscriber addition is critical in being able to understand the economic impact of the direct costs incurred to acquire a subscriber and the effect over time as economies of scale are reached.

These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with GAAP.

These non-GAAP financial measures 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.

- (8) We refer to net loss before interest and investment income; interest expense net of amounts capitalized, income tax expense; loss from redemption of debt; gain (loss) on investments; other expense (income); restructuring, impairments and related costs; depreciation and amortization; and share related payment expense as adjusted income (loss) from operations.  
Adjusted income

(loss) from operations is not a measure of financial performance under U.S. GAAP. We believe adjusted income (loss) from operations is a useful measure of our operating performance. We use adjusted income (loss) from operations for budgetary and planning purposes; to assess the relative profitability and on-going performance of our consolidated operations; to compare our performance from period-to-period; and to compare our performance to that of our competitors. We also believe adjusted income (loss) from operations is useful to investors to compare our operating performance to the performance of other communications, entertainment and media companies. We believe that

investors use  
current and  
projected  
adjusted income  
(loss) from  
operations to  
estimate our  
current or  
prospective  
enterprise value  
and to make  
investment  
decisions.

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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 interest and depreciation expense. We believe adjusted income (loss) from operations provides useful information about the operating performance of our business apart from the costs associated with our capital structure and physical plant. The exclusion of interest and depreciation and amortization expense is useful given fluctuations in interest rates and significant variation in depreciation and amortization expense that can result from the amount and timing of capital expenditures and 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 taxes is appropriate for comparability purposes as the tax positions of companies can vary because of their differing abilities to take advantage of tax benefits and because of the tax policies of the various jurisdictions in which they operate. We believe the exclusion of restructuring, impairments and related costs is useful given the non-recurring 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. To compensate for the exclusion of taxes, other (expense) income, depreciation and amortization and share-based

payment expense, we separately measure and budget for these items.

There are material limitations associated with the use of adjusted income (loss) from operations in evaluating our company compared with net loss, which reflects overall financial performance, including the effects of taxes, other income (expense), depreciation and amortization, restructuring, impairments and related costs and share-based payment expense. We use adjusted income (loss) from operations to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Investors that wish to compare and evaluate our operating results after giving effect for these costs, should refer to net loss as disclosed in our unaudited

consolidated statements of operations. Since adjusted income (loss) from operations is a non-GAAP financial measure, our calculation of adjusted income (loss) from operations 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 the pro forma unadjusted net loss to the pro forma adjusted income (loss) from operations is calculated as follows (see footnotes for reconciliation of the pro forma amounts to their respective GAAP amounts):

*(in thousands)*

| <b>Unaudited Pro Forma</b> |             |                          |             |
|----------------------------|-------------|--------------------------|-------------|
| <b>Three Months Ended</b>  |             | <b>Nine Months Ended</b> |             |
| <b>September 30,</b>       |             | <b>September 30,</b>     |             |
| <b>2009</b>                | <b>2008</b> | <b>2009</b>              | <b>2008</b> |

## Reconciliation of Net loss to Adjusted income

(loss) from operations:

|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| Net loss  | \$ (181,935) | \$ (217,010) | \$ (416,090) | \$ (653,867) |
| Add back Net loss items excluded from Adjusted income (loss) from operations: |              |              |              |              |
| Interest and investment income  | (962)        | (5,534)      | (2,602)      | (12,180)     |
| Interest expense, net of amounts capitalized                                  | 81,707       | 70,153       | 254,677      | 164,380      |
| Income tax expense  | 1,115        | 1,723        | 3,344        | 3,813        |
| Loss on extinguishment of debt and facilities, net                            | 138,053      |              | 263,767      |              |
| Loss (gain) on investments  | 58           | 7,549        | (457)        | 16,099       |
| Other (income) expense  | (1,246)      | 4,918        | (2,505)      | 10,478       |
| Income (loss) from operations   | 36,790       | (138,201)    | 100,134      | (471,277)    |
| Restructuring, impairments and related costs                                  | 2,554        | 7,430        | 30,167       | 7,457        |
| Depreciation and amortization   | 47,997       | 64,111       | 145,596      | 196,051      |
| Share-based payment expense   | 18,799       | 29,809       | 71,301       | 99,673       |
| Adjusted income (loss) from operations  | \$ 106,140   | \$ (36,851)  | \$ 347,198   | \$ (168,096) |

There are material limitations associated with the use of a pro forma unadjusted results of operations in evaluating our company compared with our GAAP Results of operations, which reflects overall financial performance. We use pro forma unadjusted results of operations to supplement GAAP results to provide a more complete understanding of the factors and trends

affecting the business than GAAP results alone. Investors that wish to compare and evaluate our operating results after giving effect for these costs, should refer to Results of operations as disclosed in our unaudited consolidated statements of operations. Since pro forma unadjusted results of operations is a non-GAAP financial measure, our 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.

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- (9) The following tables reconcile our GAAP Results of operations to our non-GAAP pro forma unadjusted results of operations:

|  | <b>Unaudited For the Three Months Ended September 30, 2009</b> |  |  |                  |
|--|--|--|--|------------------|
|  | <b>As Reported</b>   | <b>Purchase Price Accounting Adjustments</b> | <b>Allocation of Share-based Payment Expense</b> | <b>Pro Forma</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           |
| <b>Total revenue</b>   | <b>618,656</b>   | <b>10,951</b>                                |  | <b>629,607</b>   |
| Operating expenses (excludes depreciation and amortization shown separately below) |  |  |  |                  |
| (1)  |  |  |  |                  |
| Cost of services:  |  |  |  |                  |
| Satellite and transmission   | 19,542   | 331  | (1,197)  | 18,676           |
| Programming and content  | 78,315   | 18,117                                       | (3,202)  | 93,230           |
| Revenue share and royalties  | 100,558  | 22,973                                       |  | 123,531          |
| Customer service and billing   | 56,529   | 115  | (849)  | 55,795           |
| Cost of equipment  | 11,944   |  |  | 11,944           |
| Sales and marketing  | 52,530   | 3,155  | (2,858)  | 52,827           |
| Subscriber acquisition costs   | 90,054   | 19,330                                       |  | 109,384          |
| General and administrative   | 56,923   | 374  | (8,816)  | 48,481           |
| Engineering, design and development  | 11,252   | 224  | (1,877)  | 9,599            |
| Depreciation and amortization  | 72,100   | (24,103)                                     |  | 47,997           |
| Share-based payment expense  |  |  | 18,799   | 18,799           |
| Restructuring, impairments and related costs                                       | 2,554  |  |  | 2,554            |
| <b>Total operating expenses</b>  | <b>552,301</b>   | <b>40,516</b>                                |  | <b>592,817</b>   |
| Income (loss) from operations  | 66,355   | (29,565)                                     |  | 36,790           |
| Other income (expense)   |  |  |  |                  |

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|  |              |             |              |
|--|--------------|-------------|--------------|
| Interest and investment income                     | 962          |             | 962          |
| Interest expense, net of amounts capitalized       | (78,527)     | (3,180)     | (81,707)     |
| Loss on extinguishment of debt and facilities, net | (138,053)    |             | (138,053)    |
| Loss on investments                                | (58)         |             | (58)         |
| Other income                                       | 1,246        |             | 1,246        |
| Total other expense                                | (214,430)    | (3,180)     | (217,610)    |
| Loss before income taxes                           | (148,075)    | (32,745)    | (180,820)    |
| Income tax expense                                 | (1,115)      |             | (1,115)      |
| Net loss   | \$ (149,190) | \$ (32,745) | \$ (181,935) |

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

|                                     |           |          |           |
|-------------------------------------|-----------|----------|-----------|
| Satellite and transmission          | \$ 1,086  | \$ 111   | \$ 1,197  |
| Programming and content             | 3,037     | 165      | 3,202     |
| Customer service and billing        | 734       | 115      | 849       |
| Sales and marketing                 | 2,722     | 136      | 2,858     |
| Subscriber acquisition costs        |           |          |           |
| General and administrative          | 8,442     | 374      | 8,816     |
| Engineering, design and development | 1,653     | 224      | 1,877     |
| Total share-based payment expense   | \$ 17,674 | \$ 1,125 | \$ 18,799 |

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|   | <b>Unaudited For the Three Months Ended September 30, 2008</b> |  |  |   |                      |
|---|--|--|--|---|----------------------|
|   | <b>As<br/>Reported</b>   | <b>Predecessor<br/>Financial<br/>Information</b> | <b>Purchase<br/>Price<br/>Accounting<br/>Adjustments<br/>(a)</b> | <b>Allocation of<br/>Share-<br/>based Payment<br/>Expense</b> | <b>Pro<br/>Forma</b> |
| Revenue:  |  |  |  |   |                      |
| Subscriber revenue,<br>including effects of rebates   | \$ 458,237   | \$ 95,684  | \$ 18,434  | \$  | \$ 572,355           |
| Advertising revenue, net of<br>agency fees  | 14,674   | 3,193  |  |   | 17,867               |
| Equipment revenue   | 11,271   | 1,585  |  |   | 12,856               |
| Other revenue   | 4,261  | 4,242  | 1,195  |   | 9,698                |
| <b>Total revenue</b>  | <b>488,443</b>   | <b>104,704</b>                                   | <b>19,629</b>  |   | <b>612,776</b>       |
| Operating expenses<br>(excludes depreciation and<br>amortization shown<br>separately below) (1) |  |  |  |   |                      |
| Cost of services:   |  |  |  |   |                      |
| Satellite and transmission  | 19,526   | 6,644  | 638  | (1,672)   | 25,136               |
| Programming and content   | 106,037  | 15,991   | 13,912   | (4,310)   | 131,630              |
| Revenue share and royalties   | 85,592   | 24,198   | 11,010   |   | 120,800              |
| Customer service and billing  | 47,432   | 12,249   | 105  | (929)   | 58,857               |
| Cost of equipment   | 13,773   | 2,406  |  |   | 16,179               |
| Sales and marketing   | 63,637   | 17,268   | 2,081  | (4,808)   | 78,178               |
| Subscriber acquisition costs  | 86,616   | 33,366   | 12,495   |   | 132,477              |
| General and administrative  | 57,310   | 33,209   | 777  | (15,315)  | 75,981               |
| Engineering, design and<br>development  | 10,434   | 2,611  | 119  | (2,775)   | 10,389               |
| Impairment of goodwill  | 4,750,859  |  | (4,750,859)  |   |                      |
| Depreciation and<br>amortization  | 66,774   | 10,828   | (13,491)   |   | 64,111               |
| Restructuring, impairments<br>and related costs   | 7,430  |  |  |   | 7,430                |
| Share-based payment<br>expense  |  |  |  | 29,809  | 29,809               |
| <b>Total operating expenses</b>   | <b>5,315,420</b>   | <b>158,770</b>                                   | <b>(4,723,213)</b>   |   | <b>750,977</b>       |
| Loss from operations  | (4,826,977)  | (54,066)   | 4,742,842  |   | (138,201)            |
| Other income (expense)  |  |  |  |   |                      |
| Interest and investment<br>income   | 4,940  | 594  |  |   | 5,534                |
| Interest expense, net of<br>amounts capitalized   | (49,216)   | (14,130)   | (6,807)  |   | (70,153)             |

|  |                |             |              |              |
|--|----------------|-------------|--------------|--------------|
| Loss on extinguishment of debt and facilities, net |                |             |              |              |
| Loss on investments                                | (3,089)        | (4,460)     |              | (7,549)      |
| Other expense                                      | (3,870)        | (1,048)     |              | (4,918)      |
| Total other expense                                | (51,235)       | (19,044)    | (6,807)      | (77,086)     |
| Loss before income taxes                           | (4,878,212)    | (73,110)    | 4,736,035    | (215,287)    |
| Income tax expense                                 | (1,215)        | (508)       |              | (1,723)      |
| Net loss   | \$ (4,879,427) | \$ (73,618) | \$ 4,736,035 | \$ (217,010) |

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

|                                     |           |          |          |           |
|-------------------------------------|-----------|----------|----------|-----------|
| Satellite and transmission          | \$ 1,331  | \$ 305   | \$ 36    | \$ 1,672  |
| Programming and content             | 3,529     | 586      | 195      | 4,310     |
| Customer service and billing        | 596       | 228      | 105      | 929       |
| Sales and marketing                 | 3,672     | 770      | 366      | 4,808     |
| Subscriber acquisition costs        |           |          |          |           |
| General and administrative          | 12,904    | 1,634    | 777      | 15,315    |
| Engineering, design and development | 1,973     | 510      | 292      | 2,775     |
| Total share-based payment expense   | \$ 24,005 | \$ 4,033 | \$ 1,771 | \$ 29,809 |

(a) Includes impairment of goodwill.

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|   | <b>Unaudited For the Nine Months Ended September 30, 2009</b> |                    |                      |                  |
|---|---|--------------------|----------------------|------------------|
|   | <b>As</b>   | <b>Purchase</b>    | <b>Allocation of</b> |                  |
|   | <b>Reported</b>   | <b>Price</b>       | <b>Share-</b>        |                  |
|   |   | <b>Accounting</b>  | <b>based Payment</b> |                  |
|   |   | <b>Adjustments</b> | <b>Expense</b>       | <b>Pro Forma</b> |
| <b>Revenue:</b>   |   |                    |                      |                  |
| 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>1,842,924</b> |
| <b>Operating expenses (excludes depreciation and amortization shown separately below) (1)</b> |   |                    |                      |                  |
| <b>Cost of services:</b>  |   |                    |                      |                  |
| Satellite and transmission  | 59,435  | 1,013              | (3,371)              | 57,077           |
| Programming and content   | 230,825   | 54,708             | (7,919)              | 277,614          |
| Revenue share and royalties   | 296,855   | 65,608             |                      | 362,463          |
| Customer service and billing  | 175,570   | 358                | (2,411)              | 173,517          |
| Cost of equipment   | 27,988  |                    |                      | 27,988           |
| Sales and marketing   | 152,647   | 9,986              | (10,594)             | 152,039          |
| Subscriber acquisition costs  | 230,773   | 43,309             |                      | 274,082          |
| General and administrative  | 182,953   | 1,252              | (41,393)             | 142,812          |
| Engineering, design and development   | 32,975  | 772                | (5,613)              | 28,134           |
| Depreciation and amortization   | 231,624   | (86,028)           |                      | 145,596          |
| Share-based payment expense   |   |                    | 71,301               | 71,301           |
| Restructuring, impairments and related costs  | 30,167  |                    |                      | 30,167           |
| <b>Total operating expenses</b>   | <b>1,651,812</b>  | <b>90,978</b>      |                      | <b>1,742,790</b> |
| Income (loss) from operations   | 144,652   | (44,518)           |                      | 100,134          |
| Other income (expense)  |   |                    |                      |                  |
| Interest and investment income  | 2,602   |                    |                      | 2,602            |
| Interest expense, net of amounts capitalized  | (240,062)   | (14,615)           |                      | (254,677)        |
| Loss on extinguishment of debt and facilities, net  | (263,767)   |                    |                      | (263,767)        |
| Gain on investments   | 457   |                    |                      | 457              |
| Other income  | 2,505   |                    |                      | 2,505            |
| <b>Total other expense</b>  | <b>(498,265)</b>  | <b>(14,615)</b>    |                      | <b>(512,880)</b> |
| <b>Loss before income taxes</b>   | <b>(353,613)</b>  | <b>(59,133)</b>    |                      | <b>(412,746)</b> |

|                    |              |             |    |              |
|--------------------|--------------|-------------|----|--------------|
| Income tax expense | (3,344)      |             |    | (3,344)      |
| Net loss           | \$ (356,957) | \$ (59,133) | \$ | \$ (416,090) |

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

|                                     |           |          |    |           |
|-------------------------------------|-----------|----------|----|-----------|
| Satellite and transmission          | \$ 3,020  | \$ 351   | \$ | \$ 3,371  |
| Programming and content             | 7,418     | 501      |    | 7,919     |
| Customer service and billing        | 2,052     | 359      |    | 2,411     |
| Sales and marketing                 | 10,081    | 513      |    | 10,594    |
| Subscriber acquisition costs        |           |          |    |           |
| General and administrative          | 40,141    | 1,252    |    | 41,393    |
| Engineering, design and development | 4,841     | 772      |    | 5,613     |
| Total share-based payment expense   | \$ 67,553 | \$ 3,748 | \$ | \$ 71,301 |

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| <b>Unaudited For the Nine Months Ended September 30, 2008</b>                                   |                        |  |  |   |                  |
|---|------------------------|--|--|---|------------------|
|   | <b>As<br/>Reported</b> | <b>Predecessor<br/>Financial<br/>Information</b> | <b>Purchase<br/>Price<br/>Accounting<br/>Adjustments<br/>(a)</b> | <b>Allocation of<br/>Share-<br/>based Payment<br/>Expense</b> | <b>Pro Forma</b> |
| Revenue:  |                        |  |  |   |                  |
| Subscriber revenue,<br>including effects of rebates   | \$ 980,396             | \$ 670,870                                       | \$ 18,434  | \$  | \$ 1,669,700     |
| Advertising revenue, net of<br>agency fees  | 31,413                 | 22,743   |  |   | 54,156           |
| Equipment revenue   | 25,290                 | 13,397   |  |   | 38,687           |
| Other revenue   | 4,710                  | 24,184   | 1,195  |   | 30,089           |
| <b>Total revenue</b>  | <b>1,041,809</b>       | <b>731,194</b>                                   | <b>19,629</b>  |   | <b>1,792,632</b> |
| Operating expenses<br>(excludes depreciation and<br>amortization shown<br>separately below) (1) |                        |  |  |   |                  |
| Cost of services:   |                        |  |  |   |                  |
| Satellite and transmission  | 34,800                 | 46,566   | 638  | (5,668)   | 76,336           |
| Programming and content   | 222,975                | 117,156  | 13,912   | (12,621)  | 341,422          |
| Revenue share and royalties   | 177,635                | 166,606  | 11,010   |   | 355,251          |
| Customer service and billing  | 97,218                 | 82,947   | 105  | (3,111)   | 177,159          |
| Cost of equipment   | 28,007                 | 20,013   |  |   | 48,020           |
| Sales and marketing   | 151,237                | 126,054  | 2,081  | (18,789)  | 260,583          |
| Subscriber acquisition costs  | 257,832                | 174,083  | 12,495   | (14)  | 444,396          |
| General and administrative  | 148,555                | 116,444  | 777  | (50,336)  | 215,440          |
| Engineering, design and<br>development  | 28,091                 | 23,045   | 119  | (9,134)   | 42,121           |
| Impairment of goodwill  | 4,750,859              |  | (4,750,859)  |   |                  |
| Depreciation and<br>amortization  | 120,793                | 88,749   | (13,491)   |   | 196,051          |
| Restructuring, impairments<br>and related costs   | 7,457                  |  |  |   | 7,457            |
| Share-based payment<br>expense  |                        |  |  | 99,673  | 99,673           |
| <b>Total operating expenses</b>   | <b>6,025,459</b>       | <b>961,663</b>                                   | <b>(4,723,213)</b>   |   | <b>2,263,909</b> |
| Loss from operations  | (4,983,650)            | (230,469)  | 4,742,842  |   | (471,277)        |
| Other income (expense)  |                        |  |  |   |                  |
| Interest and investment<br>income   | 9,167                  | 3,013  |  |   | 12,180           |
| Interest expense, net of<br>amounts capitalized   | (83,636)               | (73,937)   | (6,807)  |   | (164,380)        |

|  |                |              |              |              |
|--|----------------|--------------|--------------|--------------|
| Loss on extinguishment of debt and facilities, net |                |              |              |              |
| Loss on investments                                | (3,089)        | (13,010)     |              | (16,099)     |
| Other expense                                      | (3,935)        | (6,543)      |              | (10,478)     |
| Total other expense                                | (81,493)       | (90,477)     | (6,807)      | (178,777)    |
| Loss before income taxes                           | (5,065,143)    | (320,946)    | 4,736,035    | (650,054)    |
| Income tax expense                                 | (2,301)        | (1,512)      |              | (3,813)      |
| Net loss   | \$ (5,067,444) | \$ (322,458) | \$ 4,736,035 | \$ (653,867) |

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

|                                     |           |           |          |           |
|-------------------------------------|-----------|-----------|----------|-----------|
| Satellite and transmission          | \$ 2,887  | \$ 2,745  | \$ 36    | \$ 5,668  |
| Programming and content             | 7,477     | 4,949     | 195      | 12,621    |
| Customer service and billing        | 1,137     | 1,869     | 105      | 3,111     |
| Sales and marketing                 | 11,376    | 7,047     | 366      | 18,789    |
| Subscriber acquisition costs        | 14        |           |          | 14        |
| General and administrative          | 36,359    | 13,200    | 777      | 50,336    |
| Engineering, design and development | 4,167     | 4,675     | 292      | 9,134     |
| Total share-based payment expense   | \$ 63,417 | \$ 34,485 | \$ 1,771 | \$ 99,673 |

(a) Includes impairment of goodwill.

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- (10) ARPU is derived from total earned subscriber revenue and net advertising revenue, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. ARPU is calculated as follows (in thousands, except for per subscriber amounts):

|  | <b>Unaudited Actual</b>                              |            |   |              |
|--|--|------------|---|--------------|
|  | <b>Three Months Ended<br/>September 30,<br/>2009</b> |            | <b>Nine Months Ended<br/>September 30,<br/>2008</b> |              |
| Subscriber revenue                           | \$ 578,304   | \$ 458,237 | \$ 1,699,455  | \$ 980,396   |
| Net advertising revenue                      | 12,418   | 14,674     | 37,287  | 31,413       |
| Total subscriber and net advertising revenue | \$ 590,722   | \$ 472,911 | \$ 1,736,742  | \$ 1,011,809 |
| Daily weighted average number of subscribers | 18,393,678   | 15,472,506 | 18,514,041  | 10,887,028   |
| ARPU   | \$ 10.71   | \$ 10.19   | \$ 10.42  | \$ 10.33     |

- (11) SAC, as adjusted, 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, divided by the number of gross subscriber additions for the period. SAC, as adjusted, per gross subscriber addition is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

|  | <b>Unaudited Actual</b>                     |             |  |             |
|--|---|-------------|--|-------------|
|  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|  | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
| Subscriber acquisition cost  | \$ 90,054                                   | \$ 86,616   | \$ 230,773                                 | \$ 257,832  |
| Less: share-based payment expense granted to third parties and employees |   |             |  | (14)        |
| Less/Add: margin from direct sales of radios and accessories             | 1,438                                       | 2,502       | (3,355)                                    | 2,717       |
| SAC, as adjusted   | \$ 91,492                                   | \$ 89,118   | \$ 227,418                                 | \$ 260,535  |
| Gross subscriber additions   | 1,606,446                                   | 1,495,790   | 4,325,532                                  | 3,528,499   |
| SAC, as adjusted, per gross subscriber addition                          | \$ 57                                       | \$ 60       | \$ 53                                      | \$ 74       |

(12) Customer service and billing expenses, as adjusted, per average subscriber is derived from total customer service and billing expenses, excluding share-based

payment expense, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. Customer service and billing expenses, as adjusted, per average subscriber is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

|  | <b>Unaudited Actual</b>                              |            |   |            |
|--|--|------------|---|------------|
|  | <b>Three Months Ended<br/>September 30,<br/>2009</b> |            | <b>Nine Months Ended<br/>September 30,<br/>2008</b> |            |
| Customer service and billing expenses                                      | \$ 56,529  | \$ 47,432  | \$ 175,570  | \$ 97,218  |
| Less: share-based payment expense  | (734)  | (596)      | (2,052)   | (1,137)    |
| Customer service and billing expenses, as adjusted                         | \$ 55,795  | \$ 46,836  | \$ 173,518  | \$ 96,081  |
| Daily weighted average number of subscribers                               | 18,393,678   | 15,472,506 | 18,514,041  | 10,887,028 |
| Customer service and billing expenses, as adjusted, per average subscriber | \$ 1.01  | \$ 1.01    | \$ 1.04   | \$ 0.98    |

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

|   | <b>Unaudited Actual</b>                     |             |  |              |
|---|---|-------------|--|--------------|
|   | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |              |
|   | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b>  |
| Net cash provided by (used in) operating activities | \$ 116,248                                  | \$ (85,911) | \$ 253,107                                 | \$ (216,992) |
| Additions to property and equipment                 | (89,524)                                    | (29,007)    | (217,335)                                  | (102,705)    |
| Merger related costs                                |   | 1,796       |  | (13,047)     |
| Restricted and other investment activity            |   | 60,400      |  | 62,400       |
| Free cash flow                                      | \$ 26,724                                   | \$ (52,722) | \$ 35,772                                  | \$ (270,344) |

- (14) We refer to net loss before interest and investment income; interest expense net of amounts capitalized; income tax expense; loss on extinguishment of debt and credit facilities, net; gain (loss) on investments; other expense (income); restructuring, impairments and related cost; depreciation and amortization; and share related payment expense as adjusted income (loss) from operations. Adjusted income (loss) from operations is not a measure of financial

performance under U.S. GAAP. We believe adjusted income (loss) from operations is a useful measure of our operating performance. We use adjusted income (loss) from operations for budgetary and planning purposes; to assess the relative profitability and on-going performance of our consolidated operations; to compare our performance from period-to-period; and to compare our performance to that of our competitors. We also believe adjusted income (loss) from operations is useful to investors to compare our operating performance to the performance of other communications, entertainment and media companies. We believe that investors use current and projected adjusted income (loss) from operations to estimate our current or 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 interest and depreciation expense. We believe adjusted income (loss) from operations provides useful information about the operating performance of our business apart from the costs associated with our capital structure and physical plant. The exclusion of interest and depreciation and amortization expense is useful given fluctuations in interest rates and significant variation in depreciation and amortization expense that can result from the amount and timing of capital expenditures and 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 taxes is appropriate for comparability purposes as the tax positions of companies can vary because of their differing abilities to take advantage of tax benefits and because of the tax policies of the various jurisdictions in which they operate. We believe the exclusion of restructuring, impairments and related costs is useful given the non-recurring 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. To compensate for the exclusion of taxes, other (expense) income, depreciation and amortization and share-based

payment expense, we separately measure and budget for these items.

There are material limitations associated with the use of adjusted income (loss) from operations in evaluating our company compared with net loss, which reflects overall financial performance, including the effects of taxes, other income (expense), depreciation and amortization and share-based payment expense. We use adjusted income (loss) from operations to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Investors that wish to compare and evaluate our operating results after giving effect for these costs, should refer to net loss as disclosed in our unaudited consolidated statements of operations. Since

adjusted income (loss) from operations is a non-GAAP financial measure, our calculation of adjusted income (loss) from operations 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.

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Adjusted income (loss) from operations is calculated as follows:

| <i>(in thousands)</i>   | <b>Unaudited Actual</b>                              |                |   |                |
|---|--|----------------|---|----------------|
|   | <b>Three Months Ended<br/>September 30,<br/>2009</b> |                | <b>Nine Months Ended<br/>September 30,<br/>2009</b> |                |
| Reconciliation of Net loss to Adjusted income (loss) from operations:         |  |                |   |                |
| Net loss  | \$ (149,190)   | \$ (4,879,427) | \$ (356,957)  | \$ (5,067,444) |
| Add back Net loss items excluded from Adjusted income (loss) from operations: |  |                |   |                |
| Interest and investment income  | (962)  | (4,940)        | (2,602)   | (9,167)        |
| Interest expense, net of amounts capitalized                                  | 78,527   | 49,216         | 240,062   | 83,636         |
| Income tax expense  | 1,115  | 1,215          | 3,344   | 2,301          |
| Loss on extinguishment of debt and facilities, net                            | 138,053  |                | 263,767   |                |
| Loss (gain) on investments  | 58   | 3,089          | (457)   | 3,089          |
| Other (income) expense  | (1,246)  | 3,870          | (2,505)   | 3,935          |
| Income (loss) from operations   | 66,355   | (4,826,977)    | 144,652   | (4,983,650)    |
| Restructuring, impairments and related costs                                  | 2,554  | 7,430          | 30,167  | 7,457          |
| Impairment of goodwill  |  | 4,750,859      |   | 4,750,859      |
| Depreciation and amortization   | 72,100   | 66,774         | 231,624   | 120,793        |
| Share-based payment expense   | 17,674   | 24,005         | 67,553  | 63,417         |
| Adjusted income (loss) from operations  | \$ 158,683   | \$ 22,091      | \$ 473,996  | \$ (41,124)    |

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

As of September 30, 2009, 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 auction rate certificates and a debt security. We classify our marketable securities as available-for-sale. We hold an investment in auction rate certificates which are classified 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 and variable 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, 2009, 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. 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, 2009. There has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting during the three months ended September 30, 2009.

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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. The order became effective immediately upon adoption. In September 2008, Mt. Wilson FM Broadcasters, Inc. filed a Petition for Reconsideration of this order. This Petition for Reconsideration remains pending.

*Atlantic Recording Corporation, BMG Music, Capital Records, Inc., Elektra Entertainment Group Inc., Interscope Records, Motown Record Company, L.P., Sony BMG Music Entertainment, UMG Recordings, Inc., Virgin Records, Inc. and Warner Bros. Records Inc. v. XM Satellite Radio Inc.* In May 2006, the plaintiffs filed this action in the United States District Court for the Southern District of New York. The complaint seeks monetary damages and equitable relief, and alleges that XM radios that include advanced recording functionality infringe upon plaintiffs copyrighted sound recordings. XM filed a motion to dismiss this matter, and that motion was denied in January 2007. XM has resolved the lawsuit with respect to Universal Music Group, Warner Music Group, Sony BMG Music Entertainment and EMI Group, and each of these parties has withdrawn as a party to the lawsuit, and this lawsuit has been dismissed with respect to such parties.

Music publishing companies and certain other record companies also have filed lawsuits, purportedly on a class basis, with similar allegations. We believe these allegations are without merit and that our products comply with applicable copyright law, including the Audio Home Recording Act. We intend to vigorously defend this matter. There can be no assurance regarding the ultimate outcome of these matters, or the significance, if any, to our business, consolidated results of operations or financial position.

*Other Matters.* In the ordinary course of business, we are a defendant in various lawsuits and arbitration proceedings, including actions filed by 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**

Except as disclosed in our Quarterly Report on Form 10-Q for the three months ended March 31, 2009, there have been no material changes to the risk factors previously disclosed in response to Part 1, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2008.

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

Not applicable.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

**ITEM 5. OTHER INFORMATION**

*Resignation of Jeffrey D. Zients.* On June 22, 2009, Jeffrey D. Zients resigned from our board of directors. Mr. Zients was confirmed by the United States Senate as Deputy Director for Management, Office of Management and Budget, of the United States and was required to resign as a director.

Due to the resignation of Mr. Zients, we no longer comply with NASDAQ's independent director requirement for continued listing as set forth in the NASDAQ Listing Rules. We currently have fourteen directors, seven of whom our board has determined to be an independent director as such term is defined under the NASDAQ Listing Rules. In accordance with the NASDAQ Listing Rules, we will comply with the independent director requirement prior to the earlier of our next annual stockholders meeting or June 22, 2010.

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*Directors Compensation.* As previously disclosed in our annual proxy statement, each non-employee member of our board of directors is entitled to receive annually a \$50,000 cash retainer and an option to purchase our common stock with a grant date fair value equal to \$70,000. The number of shares underlying the option is determined using a Black-Scholes pricing model using the same assumptions we then employ in calculating option expense in our consolidated financial statements. The option is granted following each year's annual meeting of stockholders. Our 2009 annual meeting of stockholders was held on May 27, 2009.

On May 27, 2009 (the Grant Date), we granted each non-employee member of our board of directors an option to purchase 214,237 shares of our common stock at an exercise price of \$0.35 per share, the closing price of our common stock that day on the Nasdaq Global Select Market (the Original Option Award). In calculating the number of shares, we used a Black Scholes pricing model that overstated the fair market value of the options, which resulted in us awarding insufficient number of shares per director.

Accordingly, on August 5, 2009, we awarded each non-employee member of our board of directors an additional option to purchase 53,973 shares of our common stock at an exercise price of \$0.54 per share, the closing price of our common stock that day on the Nasdaq Global Select Market (the Additional Option Award). The Additional Option Award is subject to the same terms and conditions as the Original Option Award, including the vesting schedule. The aggregate Black-Scholes value, as of the respective option grant dates, of the Original Option Award and the Additional Option Award is \$70,000 for each non-employee director. Mr. Huber and Mr. Mendel have elected to forgo all compensation paid to directors and did not participate in these stock option awards.

**ITEM 6. EXHIBITS**

See Exhibits Index attached hereto.

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**SIGNATURES**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Sirius XM Radio Inc.

By: /s/ David J. Frear

**David J. Frear**

**Executive Vice President and**

**Chief Financial Officer**

**(Principal Financial Officer)**

November 5, 2009