

SIRIUS XM RADIO INC.  
Form 10-Q  
May 03, 2011

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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 MARCH 31, 2011  
OR**

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

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

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

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

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

**10020  
(Zip Code)**

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

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

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

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

Large 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 April 29, 2011) |
|---------------------------------|------------------------------------|
| COMMON STOCK, \$0.001 PAR VALUE | 3,946,383,454 SHARES               |

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

| <i>(in thousands, except per share data)</i>              | <b>For the Three Months<br/>Ended March 31,</b> |             |
|-----------------------------------------------------------|-------------------------------------------------|-------------|
|                                                           | <b>2011</b>                                     | <b>2010</b> |
| Revenue:                                                  |                                                 |             |
| Subscriber revenue                                        | \$ 622,437                                      | \$ 579,509  |
| Advertising revenue, net of agency fees                   | 16,558                                          | 14,527      |
| Equipment revenue                                         | 15,867                                          | 14,283      |
| Other revenue                                             | 68,977                                          | 55,465      |
| Total revenue                                             | 723,839                                         | 663,784     |
| Operating expenses:                                       |                                                 |             |
| Cost of services:                                         |                                                 |             |
| Revenue share and royalties                               | 106,929                                         | 98,184      |
| Programming and content                                   | 72,959                                          | 78,434      |
| Customer service and billing                              | 65,836                                          | 56,211      |
| Satellite and transmission                                | 18,560                                          | 20,119      |
| Cost of equipment                                         | 6,405                                           | 7,919       |
| Subscriber acquisition costs                              | 105,270                                         | 89,379      |
| Sales and marketing                                       | 47,819                                          | 49,117      |
| Engineering, design and development                       | 11,135                                          | 11,436      |
| General and administrative                                | 56,354                                          | 57,580      |
| Depreciation and amortization                             | 68,400                                          | 70,265      |
| Total operating expenses                                  | 559,667                                         | 538,644     |
| Income from operations                                    | 164,172                                         | 125,140     |
| Other income (expense):                                   |                                                 |             |
| Interest expense, net of amounts capitalized              | (78,218)                                        | (77,868)    |
| Loss on extinguishment of debt and credit facilities, net | (5,994)                                         | (2,450)     |
| Interest and investment loss                              | (1,884)                                         | (3,270)     |
| Other income                                              | 1,617                                           | 1,213       |
| Total other expense                                       | (84,479)                                        | (82,375)    |
| Income before income taxes                                | 79,693                                          | 42,765      |
| Income tax expense                                        | (1,572)                                         | (1,167)     |
| Net income                                                | \$ 78,121                                       | \$ 41,598   |
| Net income per common share:                              |                                                 |             |
| Basic                                                     | \$ 0.02                                         | \$ 0.01     |
| Diluted                                                   | \$ 0.01                                         | \$ 0.01     |

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Weighted average common shares outstanding:

|         |           |           |
|---------|-----------|-----------|
| Basic   | 3,735,136 | 3,677,897 |
| Diluted | 6,481,384 | 6,335,114 |

See accompanying notes to the unaudited consolidated financial statements.

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

|                                                           | <b>March 31, 2011</b> | <b>December 31, 2010</b> |
|-----------------------------------------------------------|-----------------------|--------------------------|
|                                                           | <b>(unaudited)</b>    |                          |
| <i>(in thousands, except share and per share data)</i>    |                       |                          |
| <b>ASSETS</b>                                             |                       |                          |
| Current assets:                                           |                       |                          |
| Cash and cash equivalents                                 | \$ 433,695            | \$ 586,600               |
| Accounts receivable, net                                  | 100,744               | 121,600                  |
| Receivables from distributors                             | 76,558                | 67,500                   |
| Inventory, net                                            | 29,248                | 21,900                   |
| Prepaid expenses                                          | 175,829               | 134,900                  |
| Related party current assets                              | 5,943                 | 6,700                    |
| Deferred tax asset                                        | 52,254                | 44,700                   |
| Other current assets                                      | 4,243                 | 7,400                    |
| Total current assets                                      | 878,514               | 991,700                  |
| Property and equipment, net                               | 1,744,539             | 1,761,200                |
| Long-term restricted investments                          | 3,396                 | 3,300                    |
| Deferred financing fees, net                              | 50,954                | 54,100                   |
| Intangible assets, net                                    | 2,617,385             | 2,632,600                |
| Goodwill                                                  | 1,834,856             | 1,834,800                |
| Related party long-term assets                            | 32,444                | 30,100                   |
| Other long-term assets                                    | 67,332                | 74,800                   |
| Total assets                                              | \$ 7,229,420          | \$ 7,383,000             |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>               |                       |                          |
| Current liabilities:                                      |                       |                          |
| Accounts payable and accrued expenses                     | \$ 483,530            | \$ 593,100               |
| Accrued interest                                          | 80,577                | 72,400                   |
| Current portion of deferred revenue                       | 1,252,144             | 1,201,300                |
| Current portion of deferred credit on executory contracts | 278,063               | 271,000                  |
| Current maturities of long-term debt                      | 100,603               | 195,800                  |
| Related party current liabilities                         | 16,583                | 15,800                   |
| Total current liabilities                                 | 2,211,500             | 2,349,700                |
| Deferred revenue                                          | 263,230               | 273,900                  |
| Deferred credit on executory contracts                    | 433,456               | 508,000                  |
| Long-term debt                                            | 2,666,202             | 2,695,800                |
| Long-term related party debt                              | 326,589               | 325,900                  |
| Deferred tax liability                                    | 923,272               | 914,600                  |
| Related party long-term liabilities                       | 23,823                | 24,500                   |
| Other long-term liabilities                               | 82,722                | 82,800                   |
| Total liabilities                                         | 6,930,794             | 7,175,400                |



Commitments and contingencies (Note 14)

Stockholders' equity:

Preferred stock, par value \$0.001; 50,000,000 authorized at March 31, 2011 and December 31, 2010:

Series A convertible preferred stock; no shares issued and outstanding at March 31, 2011 and

December 31, 2010

-

Convertible perpetual preferred stock, series B-1 (liquidation preference of \$13 at March 31, 2011 and

December 31, 2010); 12,500,000 shares issued and outstanding at March 31, 2011 and

December 31, 2010

13

Convertible preferred stock, series C junior; no shares issued and outstanding at March 31, 2011 and

December 31, 2010

-

Common stock, par value \$0.001; 9,000,000,000 shares authorized at March 31, 2011 and December 31,

2010; 3,943,060,217 and 3,933,195,112 shares issued and outstanding at March 31, 2011 and

December 31, 2010

3,943

3,9

Accumulated other comprehensive loss, net of tax

(5,794)

(5,8

Additional paid-in capital

10,433,396

10,420,6

Accumulated deficit

(10,132,932)

(10,211,0

Total stockholders' equity

298,626

207,6

Total liabilities and stockholders' equity

\$ 7,229,420

\$ 7,383,0

See accompanying notes to the unaudited consolidated financial statements.

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

|                                         | Series A<br>Convertible Preferred<br>Stock |        | Convertible<br>Perpetual Preferred Stock,<br>Series B-1 |        | Common Stock  |          | Accumulated<br>Other Comprehensive<br>Loss |  | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit |
|-----------------------------------------|--------------------------------------------|--------|---------------------------------------------------------|--------|---------------|----------|--------------------------------------------|--|----------------------------------|------------------------|
| (except share and per share data)       | Shares                                     | Amount | Shares                                                  | Amount | Shares        | Amount   |                                            |  |                                  |                        |
| December 31, 2010                       | -                                          | \$ -   | 12,500,000                                              | \$ 13  | 3,933,195,112 | \$ 3,933 | \$ (5,861)                                 |  | \$ 10,420,604                    | \$ (10,211,053)        |
|                                         |                                            |        |                                                         |        |               |          |                                            |  |                                  | 78,121                 |
| Comprehensive income:                   |                                            |        |                                                         |        |               |          |                                            |  |                                  |                        |
| Currency translation adjustment, net of | -                                          | -      | -                                                       | -      | -             | -        | 67                                         |  | -                                | -                      |
| Comprehensive income                    | -                                          | -      | -                                                       | -      | -             | -        | -                                          |  | -                                | -                      |
| Common stock to employees and           |                                            |        |                                                         |        |               |          |                                            |  |                                  |                        |
| profit plans, net of forfeitures        | -                                          | -      | -                                                       | -      | 815,968       | 1        | -                                          |  | 1,210                            | -                      |
| Payment expense                         | -                                          | -      | -                                                       | -      | -             | -        | -                                          |  | 10,519                           | -                      |
| Options and vesting of restricted       | -                                          | -      | -                                                       | -      | 1,926,186     | 2        | -                                          |  | 1,070                            | -                      |
| Common stock issuance upon exercise of  |                                            |        |                                                         |        |               |          |                                            |  |                                  |                        |
|                                         | -                                          | -      | -                                                       | -      | 7,122,951     | 7        | -                                          |  | (7)                              | -                      |
| March 31, 2011                          | -                                          | \$ -   | 12,500,000                                              | \$ 13  | 3,943,060,217 | \$ 3,943 | \$ (5,794)                                 |  | \$ 10,433,396                    | \$ (10,132,932)        |

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 Three Months<br/>Ended March 31,</b> |             |
|---------------------------------------------------------------------------------------------|-------------------------------------------------|-------------|
| <i>(in thousands)</i>                                                                       | <b>2011</b>                                     | <b>2010</b> |
| Cash flows from operating activities:                                                       |                                                 |             |
| Net income                                                                                  | \$ 78,121                                       | \$ 41,598   |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                                 |             |
| Depreciation and amortization                                                               | 68,400                                          | 70,265      |
| Non-cash interest expense, net of amortization of premium                                   | 9,573                                           | 11,119      |
| Provision for doubtful accounts                                                             | 9,623                                           | 7,502       |
| Amortization of deferred income related to equity method investment                         | (694)                                           | (2,194)     |
| Loss on extinguishment of debt and credit facilities, net                                   | 5,994                                           | 2,450       |
| Loss on investments, net                                                                    | 2,350                                           | 2,729       |
| Loss on disposal of assets                                                                  | 266                                             | -           |
| Share-based payment expense                                                                 | 12,856                                          | 17,182      |
| Deferred income taxes                                                                       | 1,111                                           | 1,167       |
| Other non-cash purchase price adjustments                                                   | (66,743)                                        | (58,817)    |
| Changes in operating assets and liabilities:                                                |                                                 |             |
| Accounts receivable                                                                         | 11,291                                          | (9,792)     |
| Receivables from distributors                                                               | (8,982)                                         | (6,037)     |
| Inventory                                                                                   | (7,330)                                         | 2,225       |
| Related party assets                                                                        | (3,686)                                         | 1,285       |
| Prepaid expenses and other current assets                                                   | (39,232)                                        | (14,690)    |
| Long-term restricted investments                                                            | -                                               | (10,160)    |
| Other long-term assets                                                                      | 7,617                                           | 7,876       |
| Accounts payable and accrued expenses                                                       | (110,400)                                       | (115,469)   |
| Accrued interest                                                                            | 8,124                                           | (11,373)    |
| Deferred revenue                                                                            | 39,225                                          | 81,034      |
| Related party liabilities                                                                   | 738                                             | (57,207)    |
| Other long-term liabilities                                                                 | (113)                                           | 1,619       |
| Net cash provided by (used in) operating activities                                         | 18,109                                          | (37,688)    |
| Cash flows from investing activities:                                                       |                                                 |             |
| Additions to property and equipment                                                         | (34,983)                                        | (98,965)    |
| Sale of restricted and other investments                                                    | -                                               | 9,450       |
| Net cash used in investing activities                                                       | (34,983)                                        | (89,515)    |
| Cash flows from financing activities:                                                       |                                                 |             |
| Proceeds from exercise of stock options                                                     | 1,072                                           | -           |

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|                                                     |            |            |
|-----------------------------------------------------|------------|------------|
| Long-term borrowings, net of costs                  | -          | 637,406    |
| Related party long-term borrowings, net of costs    | -          | 147,094    |
| Payment of premiums on redemption of debt           | (4,094)    | -          |
| Repayment of long-term borrowings                   | (133,100)  | (248,183)  |
| Restricted cash used for the redemption of debt     | -          | (524,065)  |
| Net cash (used in) provided by financing activities | (136,122)  | 12,252     |
| Net decrease in cash and cash equivalents           | (152,996)  | (114,951)  |
| Cash and cash equivalents at beginning of period    | 586,691    | 383,489    |
| Cash and cash equivalents at end of period          | \$ 433,695 | \$ 268,538 |

See accompanying notes to the unaudited consolidated financial statements.

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

|                                                                            | <b>For the Three Months<br/>Ended March 31,</b> |             |
|----------------------------------------------------------------------------|-------------------------------------------------|-------------|
| <i>(in thousands)</i>                                                      | <b>2011</b>                                     | <b>2010</b> |
| Supplemental Disclosure of Cash and Non-Cash Flow Information              |                                                 |             |
| Cash paid during the period for:                                           |                                                 |             |
| Interest, net of amounts capitalized                                       | \$ 57,371                                       | \$ 76,198   |
| Non-cash investing and financing activities:                               |                                                 |             |
| Sale-leaseback of equipment                                                | -                                               | 5,305       |
| Common stock issuance upon exercise of warrants                            | 7                                               | -           |
| 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 on a subscription fee basis through our two proprietary satellite radio systems. Subscribers can also receive certain of our music and other channels over the Internet, including through applications for Apple, Blackberry and Android-powered mobile devices.

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

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

In July 2008, our wholly owned subsidiary, Vernon Merger Corporation, merged (the Merger ) with and into XM Satellite Radio Holdings Inc. On August 5, 2008, we changed our name from Sirius Satellite Radio Inc. to Sirius XM Radio Inc.

On January 12, 2011, XM Satellite Radio Inc., our wholly-owned subsidiary, merged with and into Sirius XM Radio Inc. Prior to January 12, 2011, we operated XM Satellite Radio Inc., together with its subsidiaries, as an unrestricted subsidiary under the agreements governing our indebtedness.

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

***Principles of Consolidation***

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

***Basis of Presentation***

In the opinion of management, all normal recurring adjustments necessary for a fair presentation of our unaudited consolidated financial statements as of March 31, 2011 and for the three months ended March 31, 2011 and 2010 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, 2010, which was filed with the SEC on February 16, 2011.

We have evaluated events subsequent to the balance sheet date and prior to the filing of this Quarterly Report on Form 10-Q for the three months ended March 31, 2011 and have determined that no events have occurred that would require adjustment to our unaudited consolidated financial statements. For a discussion of subsequent events refer to Note 15.

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

***Use of Estimates***

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

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

(Dollar amounts in thousands, unless otherwise stated)

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

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

Basic net income per common share is calculated using the weighted average common shares outstanding during each reporting period. Diluted net income per common share adjusts the weighted average common shares outstanding for the potential dilution that could occur if common stock equivalents (convertible debt and preferred stock, warrants, stock options, restricted stock and restricted stock units) were exercised or converted into common stock, calculated using the treasury stock method. For the three months ended March 31, 2011 and March 31, 2010, common stock equivalents of approximately 587,254,000 and 714,293,000 were excluded from the calculation of diluted net income per common share as the effect would have been anti-dilutive.

|                                              | <b>For the Three Months<br/>Ended March 31,</b> |             |
|----------------------------------------------|-------------------------------------------------|-------------|
|                                              | <b>2011</b>                                     | <b>2010</b> |
| <i>(in thousands, except per share data)</i> |                                                 |             |
| Net income                                   | \$ 78,121                                       | \$ 41,598   |
| Average common shares outstanding-basic      | 3,735,136                                       | 3,677,897   |
| Dilutive effect of equity instruments        | 2,746,248                                       | 2,657,217   |
| Average common shares outstanding-diluted    | 6,481,384                                       | 6,335,114   |
| Net income per common share                  |                                                 |             |
| Basic                                        | \$ 0.02                                         | \$ 0.01     |
| Diluted                                      | \$ 0.01                                         | \$ 0.01     |

***Accounts Receivable***

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

Accounts receivable, net, consists of the following:

|                                 | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|---------------------------------|---------------------------|------------------------------|
| Gross accounts receivable       | \$ 110,771                | \$ 131,880                   |
| Allowance for doubtful accounts | (10,027)                  | (10,222)                     |
| Total accounts receivable, net  | \$ 100,744                | \$ 121,658                   |

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

|          | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|----------|---------------------------|------------------------------|
| Billed   | \$ 30,841                 | \$ 30,456                    |
| Unbilled | 45,717                    | 37,120                       |
| Total    | \$ 76,558                 | \$ 67,576                    |

***Inventory***

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

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

(Dollar amounts in thousands, unless otherwise stated)

as a component of Cost of equipment in our unaudited consolidated statements of operations. The provision related to inventory consumed in our OEM and retail distribution channel is reported as a component of Subscriber acquisition costs in our unaudited consolidated statements of operations.

Inventory, net, consists of the following:

|                            | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|----------------------------|---------------------------|------------------------------|
| Raw materials              | \$ 25,975                 | \$ 18,181                    |
| Finished goods             | 24,515                    | 24,492                       |
| Allowance for obsolescence | (21,242)                  | (20,755)                     |
| Total inventory, net       | \$ 29,248                 | \$ 21,918                    |

***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 March 31, 2011 and December 31, 2010, the carrying amounts of cash and cash equivalents, accounts and other receivables, and accounts payable approximated fair value due to the short-term nature of these instruments.

The fair value for publicly traded instruments is determined using quoted market prices while the fair value for non-publicly traded instruments is based upon estimates from a market maker and brokerage firm. As of March 31, 2011 and December 31, 2010, the carrying value of our debt was \$3,093,394 and \$3,217,578, respectively; and the fair value approximated \$3,683,281 and \$3,722,905, respectively.

***Reclassifications***

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

**(4) Goodwill**

Goodwill represents the excess of the purchase price over the estimated fair value of net tangible and identifiable intangible assets acquired in business combinations. Our annual impairment assessment is performed as of October 1<sup>st</sup> of each year, and an assessment is performed at other times if events or circumstances indicate it is more likely than not that the asset is impaired. During the three months ended March 31, 2011 and 2010, there were no indicators of impairment and no impairment loss was recorded to our goodwill.

**(5) Intangible Assets**

Intangible assets consist of the following:

|                                      |                             | <b>March 31, 2011</b>           |                           |                             | <b>December 31, 2010</b>        |                           |              |
|--------------------------------------|-----------------------------|---------------------------------|---------------------------|-----------------------------|---------------------------------|---------------------------|--------------|
| <b>Weighted Average Useful Lives</b> | <b>Gross Carrying Value</b> | <b>Accumulated Amortization</b> | <b>Net Carrying Value</b> | <b>Gross Carrying Value</b> | <b>Accumulated Amortization</b> | <b>Net Carrying Value</b> |              |
| Indefinite                           |                             |                                 |                           |                             |                                 |                           |              |
| ngible                               |                             |                                 |                           |                             |                                 |                           |              |
| ts:                                  |                             |                                 |                           |                             |                                 |                           |              |
| C licenses                           | Indefinite                  | \$ 2,083,654                    | \$ -                      | \$ 2,083,654                | \$ 2,083,654                    | \$ -                      | \$ 2,083,654 |
| emark                                | Indefinite                  | 250,000                         | -                         | 250,000                     | 250,000                         | -                         | 250,000      |

|               |           |              |              |              |              |              |            |
|---------------|-----------|--------------|--------------|--------------|--------------|--------------|------------|
| infinite life |           |              |              |              |              |              |            |
| angible       |           |              |              |              |              |              |            |
| ts:           |           |              |              |              |              |              |            |
| subscriber    | 9 years   |              |              |              |              |              |            |
| relationships |           | 380,000      | (156,547)    | 223,453      | 380,000      | (144,325)    | 235,0      |
| ensing        | 9.1 years |              |              |              |              |              |            |
| ements        |           | 78,897       | (26,635)     | 52,262       | 78,897       | (24,130)     | 54,7       |
| proprietary   | 6 years   |              |              |              |              |              |            |
| ware          |           | 16,552       | (10,088)     | 6,464        | 16,552       | (9,566)      | 6,9        |
| eloped        | 10 years  |              |              |              |              |              |            |
| nology        |           | 2,000        | (533)        | 1,467        | 2,000        | (483)        | 1,5        |
| sehold        | 7.4 years |              |              |              |              |              |            |
| ests          |           | 132          | (47)         | 85           | 132          | (43)         |            |
|               |           |              |              |              |              |              |            |
| al            |           |              |              |              |              |              |            |
| angible       |           |              |              |              |              |              |            |
| ts            |           | \$ 2,811,235 | \$ (193,850) | \$ 2,617,385 | \$ 2,811,235 | \$ (178,547) | \$ 2,632,0 |

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

(Dollar amounts in thousands, unless otherwise stated)

*Indefinite Life Intangible Assets*

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

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

| FCC license            | Expiration year |
|------------------------|-----------------|
| SIRIUS FM-1 satellite  | 2017            |
| SIRIUS FM-2 satellite  | 2017            |
| SIRIUS FM-3 satellite  | 2017            |
| SIRIUS FM-4 satellite* | 2017            |
| SIRIUS FM-5 satellite  | 2017            |
| XM-1 satellite         | 2014            |
| XM-2 satellite         | 2014            |
| XM-3 satellite         | 2013            |
| XM-4 satellite         | 2014            |
| XM-5 satellite         | 2018            |

\* In 2010, we retired the FM-4 ground spare satellite. We still maintain the FCC license for this satellite.

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

In connection with the Merger, \$250,000 of the purchase price was allocated to the XM trademark. As of March 31, 2011, there were no legal, regulatory or contractual limitations associated with the XM trademark.

Our annual impairment assessment of our indefinite intangible assets is performed as of October 1st of each year. An assessment is made at other times if events or changes in circumstances indicate that it is more likely than not that the assets have been impaired. As of March 31, 2011, there were no indicators of impairment and no impairment loss was recorded for intangible assets with indefinite lives during the three months ended March 31, 2011 and 2010.

*Definite Life Intangible Assets*

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

Amortization expense for definite life intangible assets was \$15,303 and \$17,296 for the three months ended March 31, 2011 and 2010, respectively. Expected amortization expense for the remaining period in 2011, each of the years 2012 through 2015 and for periods thereafter is as follows:

| Year ending December 31, | Amount    |
|--------------------------|-----------|
| Remaining 2011           | \$ 43,792 |
| 2012                     | 53,680    |
| 2013                     | 47,357    |
| 2014                     | 38,879    |
| 2015                     | 37,553    |

|            |        |
|------------|--------|
| Thereafter | 62,470 |
|------------|--------|

|                                             |            |
|---------------------------------------------|------------|
| Total definite life intangibles assets, net | \$ 283,731 |
|---------------------------------------------|------------|

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

**(6) Subscriber Revenue**

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

Subscriber revenue consists of the following:

|                          | <b>For the Three Months<br/>Ended March 31,</b> |             |
|--------------------------|-------------------------------------------------|-------------|
|                          | <b>2011</b>                                     | <b>2010</b> |
| Subscription fees        | \$ 619,291                                      | \$ 574,721  |
| Activation fees          | 3,146                                           | 4,788       |
| Total subscriber revenue | \$ 622,437                                      | \$ 579,509  |

**(7) Interest Costs**

We capitalize a portion of the interest on funds borrowed to finance the construction costs of our satellites and related launch vehicles for our FM-6 and XM-5 satellites. We also incur interest costs on all of our debt instruments and certain contingent incentive payments due pursuant to our satellite construction agreements. The following is a summary of our interest costs:

|                                   | <b>For the Three Months<br/>Ended March 31,</b> |             |
|-----------------------------------|-------------------------------------------------|-------------|
|                                   | <b>2011</b>                                     | <b>2010</b> |
| Interest costs charged to expense | \$ 78,218                                       | \$ 77,868   |
| Interest costs capitalized        | 7,250                                           | 14,177      |
| Total interest costs incurred     | \$ 85,468                                       | \$ 92,045   |

Included in interest costs incurred is non-cash interest expense, consisting of amortization related to original issue discounts, premiums and deferred financing fees, of \$9,573 and \$11,119 for the three months ended March 31, 2011 and 2010, respectively.

**(8) Property and Equipment**

Property and equipment, net, consists of the following:

|                                                      | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|------------------------------------------------------|---------------------------|------------------------------|
| Satellite system                                     | \$ 1,943,537              | \$ 1,943,537                 |
| Terrestrial repeater network                         | 110,693                   | 109,582                      |
| Leasehold improvements                               | 43,342                    | 43,567                       |
| Broadcast studio equipment                           | 51,719                    | 51,985                       |
| Capitalized software and hardware                    | 169,741                   | 163,689                      |
| Satellite telemetry, tracking and control facilities | 57,230                    | 57,665                       |

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|                                           |              |              |
|-------------------------------------------|--------------|--------------|
| Furniture, fixtures, equipment and other  | 63,503       | 63,265       |
| Land                                      | 38,411       | 38,411       |
| Building                                  | 56,719       | 56,685       |
| Construction in progress                  | 323,948      | 297,771      |
| Total property and equipment              | 2,858,843    | 2,826,157    |
| Accumulated depreciation and amortization | (1,114,304)  | (1,064,883)  |
| Property and equipment, net               | \$ 1,744,539 | \$ 1,761,274 |

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

(Dollar amounts in thousands, unless otherwise stated)

Construction in progress consists of the following:

|                              | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|------------------------------|---------------------------|------------------------------|
| Satellite system             | \$ 291,559                | \$ 262,744                   |
| Terrestrial repeater network | 18,313                    | 19,239                       |
| Other                        | 14,076                    | 15,788                       |
| Construction in progress     | \$ 323,948                | \$ 297,771                   |

Depreciation and amortization expense on property and equipment was \$53,097 and \$52,969 for the three months ended March 31, 2011 and 2010, respectively.

***Satellites***

We own four orbiting satellites for use in the SIRIUS system. Space Systems/Loral is constructing a fifth satellite, FM-6, for use in this system. We have an agreement with International Launch Services to launch this satellite on a Proton rocket.

We own five orbiting satellites for use in the XM system. Four of these satellites were manufactured by Boeing Satellite Systems International and one was manufactured by Space Systems/Loral.

During the three months ended March 31, 2011, we capitalized interest of \$7,250 and expenditures of \$21,565 related to the construction of the FM-6 satellite and related launch vehicle. In the three months ended March 31, 2010, we capitalized \$14,177 of interest and \$35,145 expenditures which also related to FM-6 and XM-5, a satellite for the XM system that was launched in October 2010.

**(9) Related Party Transactions**

We had the following related party transaction balances at March 31, 2011 and December 31, 2010:

|               | <b>Related party<br/>current assets</b> |                                  | <b>Related party<br/>long-term assets</b> |                                  | <b>Related party<br/>current liabilities</b> |                                  | <b>Related party<br/>long-term liabilities</b> |                                  | <b>Related party<br/>long-term debt</b> |                              |
|---------------|-----------------------------------------|----------------------------------|-------------------------------------------|----------------------------------|----------------------------------------------|----------------------------------|------------------------------------------------|----------------------------------|-----------------------------------------|------------------------------|
|               | <b>March<br/>31,<br/>2011</b>           | <b>December<br/>31,<br/>2010</b> | <b>March<br/>31,<br/>2011</b>             | <b>December<br/>31,<br/>2010</b> | <b>March<br/>31,<br/>2011</b>                | <b>December<br/>31,<br/>2010</b> | <b>March<br/>31,<br/>2011</b>                  | <b>December<br/>31,<br/>2010</b> | <b>March 31,<br/>2011</b>               | <b>December 31,<br/>2010</b> |
| Liberty Media | \$ -                                    | \$ -                             | \$ 1,468                                  | \$ 1,571                         | \$ 10,503                                    | \$ 9,765                         | \$ -                                           | \$ -                             | \$ 326,589                              | \$ 325,907                   |
| SIRIUS Canada | 5,154                                   | 5,613                            | -                                         | -                                | 1,805                                        | 1,805                            | -                                              | -                                | -                                       | -                            |
| XM Canada     | 789                                     | 1,106                            | 30,976                                    | 28,591                           | 4,275                                        | 4,275                            | 23,823                                         | 24,517                           | -                                       | -                            |
| <b>Total</b>  | <b>\$ 5,943</b>                         | <b>\$ 6,719</b>                  | <b>\$ 32,444</b>                          | <b>\$ 30,162</b>                 | <b>\$ 16,583</b>                             | <b>\$ 15,845</b>                 | <b>\$ 23,823</b>                               | <b>\$ 24,517</b>                 | <b>\$ 326,589</b>                       | <b>\$ 325,907</b>            |

***Liberty Media***

In February 2009, we entered into an Investment Agreement (the "Investment Agreement") with an affiliate of Liberty Media Corporation, Liberty Radio, LLC (collectively, "Liberty Media"). Pursuant to the Investment Agreement, in March 2009 we issued to Liberty Radio, LLC 12,500,000 shares of our Convertible Perpetual Preferred Stock, Series B-1 (the "Series B Preferred Stock"), with a liquidation preference of \$0.001 per share in partial consideration for certain loan investments. Liberty Media has representatives on our board of directors.

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



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(Dollar amounts in thousands, unless otherwise stated)

Liberty Media has advised us that as of March 31, 2011 and December 31, 2010, respectively, it owned the following amounts of our debt securities:

|                                                    | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|----------------------------------------------------|---------------------------|------------------------------|
| 8.75% Senior Notes due 2015                        | \$ 150,000                | \$ 150,000                   |
| 9.75% Senior Secured Notes due 2015                | 50,000                    | 50,000                       |
| 13% Senior Notes due 2013                          | 76,000                    | 76,000                       |
| 7% Exchangeable Senior Subordinated Notes due 2014 | 11,000                    | 11,000                       |
| 7.625% Senior Notes due 2018                       | 50,000                    | 50,000                       |
| <br>Total principal debt                           | <br>337,000               | <br>337,000                  |
| Less: discounts                                    | 10,411                    | 11,093                       |
| <br>Total carrying value debt                      | <br>\$ 326,589            | <br>\$ 325,907               |

As of March 31, 2011 and December 31, 2010, we recorded \$10,503 and \$9,765, respectively, related to accrued interest with Liberty Media to Related party current liabilities. We recognized Interest expense associated with debt held by Liberty Media of \$8,933 and \$9,062 for the three months ended March 31, 2011 and 2010, respectively.

***SIRIUS Canada***

In 2005, we 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, we have 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. Our investment in SIRIUS Canada is primarily non-voting shares which carry an 8% cumulative dividend.

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

|                                      | <b>For the Three Months<br/>Ended March 31,<br/>2011</b> | <b>2010</b>  |
|--------------------------------------|----------------------------------------------------------|--------------|
| Royalty income                       | \$ 4,470                                                 | \$ 1,676     |
| Dividend income                      | 238                                                      | 226          |
| <br>Total revenue from SIRIUS Canada | <br>\$ 4,708                                             | <br>\$ 1,902 |

Receivables from royalty and dividend income were utilized to absorb a portion of our share of net losses generated by SIRIUS Canada during the three months ended March 31, 2011 and 2010. Total costs that have been or will be reimbursed by SIRIUS Canada for the three months ended March 31, 2011 and 2010 were \$2,490 and \$2,441, respectively.

***XM Canada***

In 2005, XM entered into agreements to provide XM Canada with the right to offer XM satellite radio service in Canada. The agreements have an initial ten year term and XM Canada has the unilateral option to extend the agreements for an additional five year term. We receive a 15% royalty for all subscriber fees earned by XM Canada each month for its basic service and an activation fee for each gross activation of an XM Canada subscriber on XM's system. XM Canada is obligated to pay us a total of \$70,300 for the rights to broadcast and market National Hockey League ( NHL ) games for a 10-year term. 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, which is amortized on a straight-line basis through 2020, the end of the expected term of the agreements. As of March 31, 2011 and December 31, 2010, the carrying value of deferred revenue related to XM Canada was \$28,098 and \$28,792, respectively.

We have extended a Cdn\$45,000 standby credit facility to XM Canada, which can be utilized to purchase terrestrial repeaters or finance royalty and activation fees payable to us. The facility matures on December 31, 2012 and bears interest at 17.75% per annum. We have 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 March 31, 2011 and December 31, 2010, amounts drawn by XM Canada on this facility in lieu of

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES**  
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payment of fees recorded in Related party long-term assets were \$23,631, net of a \$11,684 valuation allowance, and \$21,390, net of a \$9,607 valuation allowance, respectively. The March 31, 2011 and December 31, 2010 valuation allowance related to the absorption of our share of the net loss from our investment in XM Canada shares.

As of March 31, 2011 and December 31, 2010, amounts due from XM Canada also included \$7,345 and \$7,201, respectively, attributable to deferred programming costs and accrued interest (in addition to the amounts drawn on the standby credit facility), all of which is reported as Related party long-term assets.

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

|                                           | <b>For the Three Months</b> |              |
|-------------------------------------------|-----------------------------|--------------|
|                                           | <b>Ended March 31,</b>      |              |
|                                           | <b>2011</b>                 | <b>2010</b>  |
| Amortization of XM Canada deferred income | \$ 694                      | \$ 694       |
| Subscriber and activation fee royalties   | 2,623                       | 2,347        |
| Licensing fee revenue                     | 1,500                       | 1,500        |
| Advertising reimbursements                | 417                         | 333          |
| <br>Total revenue from XM Canada          | <br>\$ 5,234                | <br>\$ 4,874 |

***General Motors and American Honda***

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

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

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

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

**For the Three**  
**Months**  
**Ended March 31,**

|                |    |              |
|----------------|----|--------------|
|                |    | <b>2010*</b> |
| GM             | \$ | 7,764        |
| American Honda |    | 2,887        |
| Total          | \$ | 10,651       |

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

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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 have incurred the following related party expenses with GM and American Honda:

|                                              | <b>For the Three Months<br/>Ended March 31,<br/>2010*</b> |                           |
|----------------------------------------------|-----------------------------------------------------------|---------------------------|
|                                              | <b>GM</b>                                                 | <b>American<br/>Honda</b> |
| Sales and marketing                          | \$ 7,799                                                  | \$ -                      |
| Revenue share and royalties                  | 9,067                                                     | 1,831                     |
| Subscriber acquisition costs                 | 10,487                                                    | 1,226                     |
| Customer service and billing                 | 75                                                        | -                         |
| Interest expense, net of amounts capitalized | 1,421                                                     | -                         |
| <b>Total</b>                                 | <b>\$ 28,849</b>                                          | <b>\$ 3,057</b>           |

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

**(10) Investments**

Our investments consist of the following:

|                                    | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|------------------------------------|---------------------------|------------------------------|
| Investment in SIRIUS Canada        | \$ -                      | \$ -                         |
| Investment in XM Canada            | -                         | -                            |
| Investment in XM Canada debentures | 3,497                     | 3,313                        |
| Auction rate certificates          | -                         | -                            |
| Restricted investments             | 3,396                     | 3,396                        |
| <b>Total investments</b>           | <b>\$ 6,893</b>           | <b>\$ 6,709</b>              |

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

|                                                                  | <b>For the Three Months<br/>Ended March 31,<br/>2011</b> |                   |
|------------------------------------------------------------------|----------------------------------------------------------|-------------------|
|                                                                  | <b>2011</b>                                              | <b>2010</b>       |
| Share of SIRIUS Canada net loss                                  | \$ (4,458)                                               | \$ (1,902)        |
| Payments received from SIRIUS Canada in excess of carrying value | 2,880                                                    | -                 |
| Share of XM Canada net loss                                      | (2,053)                                                  | (3,151)           |
| Realized gain on sale of auction rate certificates               | -                                                        | 425               |
| <b>Total</b>                                                     | <b>\$ (3,631)</b>                                        | <b>\$ (4,628)</b> |

In addition, during the three months ended March 31, 2011 and 2010, we recorded \$(24) and \$35, respectively, of a foreign exchange (gain) loss to Accumulated other comprehensive loss, net of tax, related to our investment in XM Canada.

***Canadian Entities***

Our investments in SIRIUS Canada and XM Canada (the Canadian Entities ) are recorded using the equity method since we have a significant influence over but do not control the Canadian Entities. Under this method, our investments in the Canadian Entities, originally recorded at cost, are adjusted quarterly to recognize our proportionate share of net earnings or losses as they occur, rather than at the time dividends or other distributions are received, limited to the extent of our investment in, advances to and commitments to fund the Canadian Entities. We have a 49.9% economic interest in SIRIUS Canada and a 21.5% economic interest in XM Canada.

Our share of net earnings or losses of the Canadian Entities is recorded to Interest and investment income (loss) in our unaudited consolidated statements of operations. As it relates to XM Canada, this is done on a one month lag. We evaluate the

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

Canadian Entities periodically and record an impairment charge to Interest and investment income (loss) in our unaudited consolidated statements of operations if we determine that decreases in fair value are considered to be other-than temporary. In addition, any payments received from the Canadian Entities in excess of the carrying value of our investments in, advances to and commitments to such entity is recorded to Interest and investment income (loss) in our unaudited statements of operations.

We hold an investment in Cdn\$4,000 face value of 8% convertible unsecured subordinated debentures issued by XM Canada, for which the embedded conversion feature is bifurcated from the host contract. The host contract is accounted for at fair value as an available-for-sale security with changes in fair value recorded to Accumulated other comprehensive loss, net of tax. The embedded conversion feature is accounted for at fair value as a derivative with changes in fair value recorded in earnings as Interest and investment income (loss). As of March 31, 2011, the carrying values of the host contract and embedded derivative related to our investment in the debentures was \$3,497 and \$0, respectively. As of December 31, 2010, the carrying values of the host contract and embedded derivative related to our investment in the debentures was \$3,302 and \$11, respectively.

***Canada Merger***

Canadian Satellite Radio Holdings Inc. ( CSR ), parent company of XM Canada, and SIRIUS Canada announced in November 2010 a definitive agreement to combine the companies (the Canada Merger ). Under the terms of the agreement, SIRIUS Canada shareholders will be issued shares of CSR representing a 58.0% equity interest in CSR immediately following closing of the transaction. Our approximate ownership interest in CSR following closing of the Canada Merger will be a 37.1% equity interest (25.0% voting interest) representing approximately 45.5 million shares and will be accounted for under the equity method. The Canada Merger is anticipated to close during the second quarter of 2011. We are evaluating the impact of the Canada Merger on our financial statements.

***Auction Rate Certificates***

Auction rate certificates are long-term securities structured to reset their coupon rates by means of an auction. We accounted for our investment in auction rate certificates as available-for-sale securities. In January 2010, our investment in the auction rate certificates was called by the issuer at par plus accrued interest, or \$9,456, resulting in a gain of \$425 in the three months ended March 31, 2010.

***Restricted Investments***

Restricted investments relate to reimbursement obligations under letters of credit issued for the benefit of lessors of office space. As of March 31, 2011 and December 31, 2010, Long-term restricted investments were \$3,396.

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**(11) Debt**

Our debt consists of the following:

|                                                        | <b>Conversion<br/>Price<br/>(per<br/>share)</b> | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|--------------------------------------------------------|-------------------------------------------------|---------------------------|------------------------------|
| 3.25% Convertible Notes due 2011 (a)                   | \$ 5.30                                         | \$ 97,831                 | \$ 191,979                   |
| Less: discount                                         |                                                 | (180)                     | (515)                        |
| 8.75% Senior Notes due 2015 (b)                        | N/A                                             | 800,000                   | 800,000                      |
| Less: discount                                         |                                                 | (11,619)                  | (12,213)                     |
| 9.75% Senior Secured Notes due 2015 (c)                | N/A                                             | 257,000                   | 257,000                      |
| Less: discount                                         |                                                 | (9,693)                   | (10,116)                     |
| 11.25% Senior Secured Notes due 2013 (d)               | N/A                                             | -                         | 36,685                       |
| Less: discount                                         |                                                 | -                         | (1,705)                      |
| 13% Senior Notes due 2013 (e)                          | N/A                                             | 778,500                   | 778,500                      |
| Less: discount                                         |                                                 | (54,878)                  | (59,592)                     |
| 7% Exchangeable Senior Subordinated Notes due 2014 (f) | \$ 1.875                                        | 550,000                   | 550,000                      |
| Less: discount                                         |                                                 | (7,220)                   | (7,620)                      |
| 7.625% Senior Notes due 2018 (g)                       | N/A                                             | 700,000                   | 700,000                      |
| Less: discount                                         |                                                 | (11,774)                  | (12,054)                     |
| Other debt:                                            |                                                 |                           |                              |
| Capital leases                                         | N/A                                             | 5,427                     | 7,229                        |
| <b>Total debt</b>                                      |                                                 | <b>3,093,394</b>          | <b>3,217,578</b>             |
| Less: total current maturities non-related party       |                                                 | 100,603                   | 195,815                      |
| <b>Total long-term</b>                                 |                                                 | <b>2,992,791</b>          | <b>3,021,763</b>             |
| Less: related party                                    |                                                 | 326,589                   | 325,907                      |
| <b>Total long-term, excluding related party</b>        |                                                 | <b>\$ 2,666,202</b>       | <b>\$ 2,695,856</b>          |

**(a) 3.25% Convertible Notes due 2011**

In October 2004, we issued \$230,000 in aggregate principal amount of 3.25% Convertible Notes due October 15, 2011 (the "3.25% Notes"), which are convertible, at the option of the holder, into shares of our common stock at any time at a conversion rate of 188.6792 shares of common stock for each \$1,000 principal amount, or \$5.30 per share of common stock, subject to certain adjustments. Interest is payable semi-annually on April 15 and October 15 of each year. The obligations under the 3.25% Notes are not secured by any of our assets.



In February 2011, we purchased \$94,148 of the outstanding 3.25% Notes at prices between 100.75%-100.94% of the principal amount plus accrued interest. We recognized an aggregate loss on extinguishment of \$1,079 on the 3.25% Notes, which consists primarily of unamortized discount and deferred financing fees during the three months ended March 31, 2011.

In April 2011, we repurchased \$73,965 of the outstanding 3.25% Notes at a price of 101% of the principal amount plus accrued interest. We will recognize an aggregate loss on extinguishment of approximately \$1,200 on the 3.25% Notes, which consists primarily of cash premium paid and unamortized debt discount in the second quarter.

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

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

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

In August 2009, we issued \$257,000 aggregate principal amount of 9.75% Senior Secured Notes due September 1, 2015 (the 9.75% Notes). Interest is payable semi-annually in arrears on March 1 and September 1 of each year at a rate of 9.75% per annum. The 9.75% Notes were issued for \$244,292, resulting in an aggregate original issuance discount of \$12,708. Substantially all of our

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domestic wholly-owned subsidiaries guarantee our obligations under the 9.75% Notes. The 9.75% Notes and related guarantees are secured by first-priority liens on substantially all of our assets and the assets of the guarantors. In connection with the merger of XM Satellite Radio Inc. into Sirius XM Radio Inc. described in Note 1, we entered into a new collateral agreement relating to the 9.75% Notes which secures the 9.75% Notes with a lien on substantially all of our and the guarantors' assets.

***(d) 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). The 11.25% Notes were issued for \$488,398, resulting in an aggregate original issuance discount of \$37,352.

In October 2010, XM purchased \$489,065 in aggregate principal amount of the 11.25% Notes. The aggregate purchase price for the 11.25% Notes, including the consent payments and accrued and unpaid interest, was \$567,927. We recorded an aggregate loss on extinguishment of the 11.25% Notes of \$85,216, consisting primarily of unamortized discount, deferred financing fees and repayment premium to Loss on extinguishment of debt and credit facilities, net, in our consolidated statement of operations. The purchases were made pursuant to a tender offer for the 11.25% Notes. Concurrent with the tender offer for the 11.25% Notes, XM solicited consents to amend the 11.25% Notes and the related indenture and security documents to eliminate most of the restrictive covenants and certain events of default applicable to the 11.25% Notes and to release the security for, and guarantees of, the 11.25% Notes.

The remainder of the 11.25% Notes of \$36,685 was purchased in January 2011 for an aggregate purchase price of \$40,376. A loss from extinguishment of debt of \$4,915 was recorded during the three months ended March 31, 2011.

***(e) 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 mature on August 1, 2013. Substantially all of our domestic wholly-owned subsidiaries guarantee the obligations under the 13% Notes.

***(f) 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 and rank junior in right of payment to our existing and future senior debt and equally in right of payment with our existing and future senior subordinated debt. Substantially all of our domestic wholly-owned subsidiaries have guaranteed the Exchangeable Notes on a senior subordinated basis.

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.

***(g) 7.625% Senior Notes due 2018***

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

***Covenants and Restrictions***

Our debt generally requires compliance with certain covenants that restrict our ability to, among other things, (i) incur additional indebtedness unless our consolidated leverage ratio would be no greater than 6.00 to 1.00 after the incurrence of the indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments,

investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) merge or consolidate with another person, (vi) sell, assign, lease or otherwise dispose of all or substantially all of our assets, and (vii) make voluntary prepayments of certain debt, in each case subject to exceptions.

Under our debt agreements, the following generally constitute an event of default: (i) a default in the payment of interest; (ii) a default in the payment of principal; (iii) failure to comply with covenants; (iv) failure to pay other indebtedness after final maturity or acceleration of other indebtedness exceeding a specified amount; (v) certain events of bankruptcy; (vi) a judgment for payment of

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money exceeding a specified aggregate amount; and (vii) voidance of subsidiary guarantees, subject to grace periods where applicable. If an event of default occurs and is continuing, our debt could become immediately due and payable.

At March 31, 2011, we were in compliance with our debt covenants.

**(12) Stockholders    Equity**

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

We were authorized to issue up to 9,000,000,000 shares of common stock as of March 31, 2011 and December 31, 2010. There were 3,943,060,217 and 3,933,195,112 shares of common stock issued and outstanding as of March 31, 2011 and December 31, 2010, respectively.

As of March 31, 2011, approximately 3,316,950,000 shares of common stock were reserved for issuance in connection with outstanding convertible debt, preferred stock, warrants, incentive stock awards and common stock to be granted to third parties upon satisfaction of performance targets.

To facilitate the offering of the Exchangeable Notes, we entered into share lending agreements with Morgan Stanley Capital Services Inc. ( MS ) and UBS AG London Branch ( UBS ) in July 2008, under which we loaned MS and UBS an aggregate of 262,400,000 shares of our common stock in exchange for a fee of \$0.001 per share. The obligations of MS to us under its share lending agreement are guaranteed by its parent company, Morgan Stanley. During the third quarter of 2009, MS returned to us 60,000,000 shares of our common stock borrowed in July 2008, which were retired upon receipt. As of March 31, 2011, there were 202,400,000 shares loaned under the facilities.

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

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

For the three months ended March 31, 2011 and 2010, we recorded \$2,690 and \$2,427, respectively, in interest expense related to the amortization of the costs associated with the share-lending arrangement and other issuance costs. As of March 31, 2011, the unamortized balance of the debt issuance costs was \$48,553, with \$47,582 recorded in deferred financing fees, net, and \$971 recorded in long-term related party assets. As of December 31, 2010, the unamortized balance of the debt issuance costs was \$51,243, with \$50,218 recorded in deferred financing fees, net, and \$1,025 recorded in long-term related party assets. As of March 31, 2011 and December 31, 2010, the estimated fair value of the remaining 202,400,000 loaned shares was approximately \$333,960 and \$329,912, respectively.

In January 2004, SIRIUS signed a seven-year agreement with a sports programming provider. Upon execution of this agreement, SIRIUS delivered 15,173,070 shares of common stock valued at \$40,967 to that programming provider. These shares of common stock are subject to transfer restrictions which lapse over time. We recognized share-based payment expense associated with these shares of \$1,568 and \$1,641 in the three months ended March 31, 2011 and 2010, respectively. As of March 31, 2011 and December 31, 2010, there was \$0 and \$1,568 remaining balance of common stock value included in other current assets, 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 March 31, 2011 and December 31, 2010.

There were zero shares of Series A Convertible Preferred Stock ( Series A Preferred Stock ) issued and outstanding as of March 31, 2011 and December 31, 2010, respectively.

There were 12,500,000 shares of Convertible Perpetual Preferred Stock, Series B-1 (the Series B Preferred Stock ), issued and outstanding as of March 31, 2011 and December 31, 2010. The Series B Preferred Stock is convertible into shares of our common stock at the rate of 206.9581409 shares of common stock for each share of Series B Preferred Stock, representing approximately 40% of our outstanding shares of common stock (after giving effect to such conversion). As the holder of the Series B Preferred Stock, Liberty Radio LLC is entitled to a number of votes equal to the number of shares of our common stock into which such shares of Series B Preferred Stock are convertible. Liberty Radio LLC will also receive dividends and distributions ratably with our common stock, on an as-converted basis. With respect to dividend rights, the Series B Preferred Stock ranks evenly with our common stock and each other class or series of our equity securities not expressly provided as ranking senior to the Series B Preferred Stock. With respect to liquidation rights, the Series B Preferred Stock ranks evenly with each other class or series of our equity securities not expressly provided as ranking senior to the Series B Preferred Stock, and will rank senior to our common stock.

There were no shares of Preferred Stock, Series C Junior (the Series C Junior Preferred Stock ), issued and outstanding as of March 31, 2011 and December 31, 2010. In 2009, our board of directors created and reserved for issuance in accordance with the Rights Plan (as described below) 9,000 shares of the Series C Junior Preferred Stock. The shares of Series C Junior Preferred Stock are not redeemable and rank, with respect to the payment of dividends and the distribution of assets, junior to all other series of our preferred stock, unless the terms of such series shall so provide.

***Warrants***

We have issued warrants to purchase shares of common stock in connection with distribution and programming agreements, satellite purchase agreements and certain debt issuances. As of March 31, 2011, approximately 24,871,000 warrants to acquire an equal number of shares of common stock with an average exercise price of \$3.22 per share were outstanding and fully vested as of December 31, 2009 and expire at various times through 2015.

In February 2011, Daimler AG exercised 16,500,000 warrants to purchase shares of common stock on a net settlement basis, resulting in the issuance of 7,122,951 shares of our common stock.

***Rights Plan***

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

**(13) Benefits Plans**

We recognized share-based payment expense of \$11,288 and \$15,541 for the three months ended March 31, 2011 and 2010, respectively. We did not realize any income tax benefits from share-based benefits plans during the three months ended March 31, 2011 and 2010 as a result of the full valuation allowance that is maintained for substantially all net deferred tax assets.

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

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

stock-based awards that the compensation committee of our board of directors may deem appropriate. Vesting and other terms of stock-based awards are set forth in the agreements with the individuals receiving the awards. Stock-based awards granted under the 2009 Plan are generally subject to a vesting requirement. Stock-based awards generally expire ten years from the date of grant. Each restricted stock unit entitles the holder to receive one share of common stock upon vesting. As of March 31, 2011, approximately 271,578,000 shares of common stock were available for future grants under the 2009 Plan.

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***Other Plans***

We maintain four other share-based benefit plans – the XM 2007 Stock Incentive Plan, the Amended and Restated Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan, the XM 1998 Shares Award Plan and the XM Talent Option Plan. No further awards may be made under these plans. Outstanding awards under these plans are being continued.

The following table summarizes the weighted-average assumptions used to compute the fair value of options granted to employees and members of our board of directors:

|                                  | <b>For the Three Months<br/>Ended March 31,</b> |             |
|----------------------------------|-------------------------------------------------|-------------|
|                                  | <b>2011</b>                                     | <b>2010</b> |
| Risk-free interest rate          | N/A                                             | 2.6%        |
| Expected life of options - years | N/A                                             | 5.06        |
| Expected stock price volatility  | N/A                                             | 85%         |
| Expected dividend yield          | N/A                                             | 0%          |

There were no options granted to employees and members of our board of directors during the three months ended March 31, 2011. There were no options granted to third parties during the three months ended March 31, 2011 and 2010.

The following table summarizes stock option activity under our share-based payment plans for the three months ended March 31, 2011 (shares in thousands):

|                                 |               | <b>Weighted-<br/>Average</b> | <b>Weighted-Average<br/>Remaining<br/>Contractual<br/>Term</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|---------------------------------|---------------|------------------------------|----------------------------------------------------------------|------------------------------------------|
|                                 | <b>Shares</b> | <b>Exercise<br/>Price</b>    | <b>(Years)</b>                                                 |                                          |
| Outstanding, December 31, 2010  | 401,870       | \$ 1.32                      |                                                                |                                          |
| Granted                         | -             | \$ -                         |                                                                |                                          |
| Exercised                       | (1,825)       | \$ 0.59                      |                                                                |                                          |
| Forfeited, cancelled or expired | (7,212)       | \$ 2.45                      |                                                                |                                          |
| Outstanding, March 31, 2011     | 392,833       | \$ 1.30                      | 6.15                                                           | \$ 328,971                               |
| Exercisable, March 31, 2011     | 126,829       | \$ 2.65                      | 4.34                                                           | \$ 62,111                                |

The weighted average grant date fair value of options granted during the three months ended March 31, 2011 and 2010 was \$0 and \$0.46, respectively; no options were granted during 2011. The total intrinsic value of stock options exercised during the three months ended March 31, 2011 and 2010 was \$2,099 and \$0, respectively.

We recognized share-based payment expense associated with stock options of \$9,977 and \$10,528 for the three months ended March 31, 2011 and 2010, respectively.

The following table summarizes the nonvested restricted stock and restricted stock unit activity under our share-based payment plans for the three months ended March 31, 2011 (shares in thousands):

**Weighted-Average**



|                                | <b>Shares</b> | <b>Grant Date<br/>Fair Value</b> |
|--------------------------------|---------------|----------------------------------|
| Nonvested, December 31, 2010   | 2,397         | \$ 2.57                          |
| Granted                        | -             | \$ -                             |
| Vested restricted stock awards | (1,797)       | \$ 3.31                          |
| Vested restricted stock units  | (101)         | \$ 3.08                          |
| Forfeited                      | (21)          | \$ 3.05                          |
| Nonvested, March 31, 2011      | 478           | \$ 1.63                          |

The weighted average grant date fair value of restricted stock units granted during the three months ended March 31, 2011 and 2010 was \$0, as no shares were granted in the periods. The total intrinsic value of restricted stock and restricted stock units that vested during the three months ended March 31, 2011 and 2010 was \$3,085 and \$1,765, respectively.

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We recognized share-based payment expense associated with restricted stock units and shares of restricted stock of \$542 and \$2,558 for the three months ended March 31, 2011 and 2010, respectively.

Total unrecognized compensation costs related to unvested share-based payment awards for stock options and restricted stock units and shares granted to employees and members of our board of directors at March 31, 2011 and December 31, 2010, net of estimated forfeitures, was \$94,762 and \$108,170, respectively. The weighted-average period over which the compensation expense for these awards is expected to be recognized is three years as of March 31, 2011.

**401(k) Savings Plan**

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

The Sirius XM Plan allows eligible employees to voluntarily contribute from 1% to 50% of their pre-tax eligible earnings, subject to certain defined limits. We match 50% of an employee's voluntary contributions, up to 6% of an employee's pre-tax salary, in the form of shares of common stock. Employer matching contributions under the Sirius XM Plan vest at a rate of  $33\frac{1}{3}\%$  for each year of employment and are fully vested after three years of employment for all current and future contributions. Legacy XM Plan participants are fully vested for all current and future employer contributions. Share-based payment expense resulting from the matching contribution to the plans was \$769 and \$1,205 for the three months ended March 31, 2011 and 2010, respectively.

We may also elect to contribute to the profit sharing portion of the Sirius XM Plan based upon the total eligible compensation of eligible participants. These additional contributions in the form of shares of common stock are determined by the compensation committee of our board of directors. Employees are only eligible to receive profit-sharing contributions during any year in which they are employed on the last day of the year. Profit-sharing contribution expense was \$0 and \$1,250 for the three months ended March 31, 2011 and 2010, respectively.

**(14) Commitments and Contingencies**

The following table summarizes our expected contractual cash commitments as of March 31, 2011:

|                                                    | Remaining<br>2011 | 2012     | 2013       | 2014       | 2015         | Thereafter | Total        |
|----------------------------------------------------|-------------------|----------|------------|------------|--------------|------------|--------------|
| Long-term debt obligations <sup>(1)</sup>          | \$ 100,384        | \$ 1,558 | \$ 779,634 | \$ 550,182 | \$ 1,057,000 | \$ 700,000 | \$ 3,188,758 |
| Cash interest payments <sup>(1)</sup>              | 229,054           | 288,335  | 288,208    | 186,935    | 113,433      | 160,125    | 1,266,090    |
| Satellite and transmission Programming and content | 107,597           | 4,734    | 4,773      | 13,250     | 13,156       | 22,093     | 165,603      |
| Marketing and distribution                         | 146,538           | 219,571  | 174,775    | 151,881    | 145,531      | 3,750      | 842,046      |
| Satellite incentive payments                       | 36,624            | 23,299   | 16,356     | 11,705     | 9,804        | 11,033     | 108,821      |
| Operating lease obligations                        | 8,345             | 12,095   | 12,810     | 12,841     | 12,189       | 86,143     | 144,423      |
| Other                                              | 24,203            | 30,050   | 26,374     | 20,314     | 12,308       | 4,740      | 117,989      |
|                                                    | 23,326            | 10,752   | 401        | 44         | 43           | -          | 34,566       |

|                      |            |            |              |            |              |            |              |
|----------------------|------------|------------|--------------|------------|--------------|------------|--------------|
| Total <sup>(2)</sup> | \$ 676,071 | \$ 590,394 | \$ 1,303,331 | \$ 947,152 | \$ 1,363,464 | \$ 987,884 | \$ 5,868,296 |
|----------------------|------------|------------|--------------|------------|--------------|------------|--------------|

(1) Includes capital lease obligations.

(2) The table does not include our reserve for uncertain taxes, which at March 31, 2011 totaled \$942, as the specific timing of any cash payments relating to this obligation cannot be projected with reasonable certainty.

*Long-term debt obligations.* Long-term debt obligations include principal payments on outstanding debt and capital lease obligations. Included in the chart above in 2011 is \$73,965 of the 3.25% Notes, which were purchased in April 2011 at a price of 101% of the principal amount plus accrued interest. Refer to Note 15.

*Cash interest payments.* Cash interest payments include interest due on outstanding debt through maturity. The chart above does not give effect to the purchase of the 3.25% Notes in April 2011. Refer to Note 15.

*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 a satellite and related launch vehicle for use in our systems.

We have an agreement with Space Systems/Loral to design and construct a fifth satellite, FM-6, for use in the SIRIUS system. In January 2008, we entered into an agreement with International Launch Services (ILS) to secure a satellite launch on a Proton rocket for this satellite.

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

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

*Satellite incentive payments.* Boeing Satellite Systems International, Inc., the manufacturer of four of XM's in-orbit satellites, may be entitled to future in-orbit performance payments with respect to two of XM's satellites. As of March 31, 2011, we have accrued \$28,590 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 future in-orbit performance payments. As of March 31, 2011, we have accrued \$12,118 and \$21,450 related to contingent performance payments for FM-5 and XM-5, respectively, based on expected operating performance over their fifteen-year design life.

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

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

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

***Legal Proceedings***

*State Consumer Investigations.* A Multistate Working Group of 28 State Attorneys General, led by the Attorney General of the State of Ohio, is investigating certain of our consumer practices. The investigation focuses on practices relating to the cancellation of subscriptions; automatic renewal of subscriptions; charging, billing, collecting, and refunding or crediting of payments from consumers; and soliciting customers.

A separate investigation into our consumer practices is being conducted by the Attorney General of the State of Florida. In addition, in September 2010, the Attorney General of the State of Missouri commenced an action against us in Missouri Circuit Court, Twenty-Second Judicial Circuit, St. Louis, Missouri, alleging violations of the Missouri Telemarketing No-Call List Act. The suit seeks a permanent injunction prohibiting us from making, or causing to be made, telephone solicitations to our subscribers in the State of Missouri who are on Missouri's no-call list, statutory penalties and reimbursement of costs. We believe our telemarketing activities to our subscribers in Missouri fully comply with applicable law.

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

*Carl Blessing et al. v. Sirius XM Radio Inc.* A subscriber, Carl Blessing, filed a lawsuit against us in the United States District Court for the Southern District of New York. Mr. Blessing's lawsuit has been consolidated with substantially identical lawsuits brought by other subscribers. Mr. Blessing and 23 other plaintiffs purport to represent all subscribers who were subject to:

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

(Dollar amounts in thousands, unless otherwise stated)

an increase in the price for additional-radio subscriptions from \$6.99 to \$8.99; the imposition of the US Music Royalty Fee; and the elimination of our free streaming internet service. Based on these pricing changes, the suit raises four claims. First, the suit claims the pricing changes show that the Merger lessened competition or led to a monopoly in violation of the Clayton Act. Second, it claims that, for the same reason, the Merger led to monopolization in violation of the Sherman Act. Third, it claims that our subscriber service agreement misrepresents that the US Music Royalty Fee will be used exclusively to defray increases in royalty costs incurred since the filing of the merger application with the FCC (and as permitted by the FCC order) in violation of the consumer protection and unfair trade practice laws of 41 states and the District of Columbia. A fourth claim that the alleged misrepresentation violates the implied duty of good faith and fair dealing we owe our subscribers under New York contract law has been dismissed by the court. The complaint seeks monetary damages as well as treble damages under the Clayton Act.

In March 2011, the court granted our motion for summary judgment and dismissed the plaintiffs' claims that our subscriber service agreement misrepresents that the US Music Royalty Fee will be used exclusively to defray increases in royalty costs incurred since the filing of the merger application with the FCC (and as permitted by the FCC order) in violation of the consumer protection and unfair trade practice laws of 41 states and the District of Columbia. At the same time, the Court granted the plaintiff's motion to certify as a class action, and denied our motion for summary judgment, the remaining claims that the Merger lessened competition, or led to a monopoly, in violation of the Clayton Act and led to monopolization in violation of the Sherman Act. A trial in this matter is expected to be scheduled for this summer. We believe that the plaintiffs' claims are without merit and we are vigorously defending ourselves in this litigation.

A stockholder, Mark Fialkov, also filed a shareholder derivative suit in the Supreme Court of the State of New York claiming that, by allowing the price increases that prompted the Blessing litigation, our board of directors breached its duty of loyalty to the corporation. The action names as defendants Sirius XM and fifteen individuals—all directors or former directors of Sirius XM. This lawsuit has been stayed pending resolution of the Blessing litigation.

*One Twelve, Inc. and Don Buchwald v. Sirius XM Radio Inc.* In March 2011, One Twelve, Inc., Howard Stern's production company, and Don Buchwald, Stern's agent, commenced an action against us in the Supreme Court of the State of New York, County of New York. The action alleges that, upon the Merger, we failed to honor our obligations under the performance-based compensation provisions of our prior agreement dated October 2004 with One Twelve and Buchwald, as agent; One Twelve and Buchwald each assert a claim of breach of contract. More specifically, the complaint alleges that subscribers to the XM Satellite Radio service should have been counted as Sirius subscribers following the Merger for purposes of provisions entitling One Twelve and Buchwald to compensation in the event that the number of Sirius subscribers exceeded the projected growth amounts of Sirius subscribers by certain magnitudes specified in the 2004 agreement for each year of that agreement. The suit seeks damages, plus interest and costs, in an amount to be determined. We believe that the claims are without merit and intend to vigorously defend this action.

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

**(15) Subsequent Events**

***Repurchase of 3.25% Notes***

In April 2011, we repurchased \$73,965 of the outstanding 3.25% Notes at a price of 101% of the principal amount plus accrued interest. We will recognize an aggregate loss on extinguishment of approximately \$1,200 on the 3.25% Notes, which consists primarily of cash premium paid and unamortized debt discount in the second quarter.

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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 statement is qualified in its entirety by reference to the factors discussed throughout this Quarterly Report on Form 10-Q and in other reports and documents published by us from time to time, particularly the risk factors described under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010 and

Management's Discussion and Analysis of Financial Condition and Results of Operations herein and in Part II, Item 7, of our Annual Report on Form 10-K for the year ended December 31, 2010.

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

- our competitive position 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;
- our ability to retain subscribers and maintain our average monthly revenue per subscriber;
- our dependence upon automakers and other third parties, such as manufacturers and distributors of satellite radios, retailers and programming providers;
- the tragedy in Japan, which may have certain adverse effects on automakers, radio manufacturers and other third parties that play a role in the supply of satellite radios;
- our substantial indebtedness; and
- the useful life of our satellites, which, in most cases, are not insured.

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 two proprietary satellite radio systems. Subscribers can also receive certain of our music and other channels over the Internet, including through an application on Apple, Blackberry and Android-powered mobile devices.

We have agreements with every major automaker ( "OEMs" ) to offer satellite radios as factory- or dealer-installed equipment in their vehicles. We also distribute our satellite radios through retail locations nationwide and through our website. Satellite radio services are also offered to customers of certain daily rental car companies.

As of March 31, 2011, we had 20,564,028 subscribers. Our subscriber totals include subscribers under our regular pricing plans; discounted pricing plans; subscribers that have prepaid, including payments either made or due from automakers and dealers for subscriptions included in the sale or lease price of a vehicle; activated radios in daily rental fleet vehicles; certain subscribers to our Internet services; and certain subscribers to our weather, traffic, data and video services.

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



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

We also have an interest in the satellite radio services offered in Canada. Canadian Satellite Radio Holdings Inc. ( CSR ), the parent company of XM Canada, and SIRIUS Canada announced in November 2010 a definitive agreement to combine (the Canada Merger ). The Canada Merger is expected to close in the second quarter of 2011. Following the Canada Merger, we will own approximately 37.1% of the equity of CSR.

**Actual Results of Operations**

Set forth below are our results of operations for the three months ended March 31, 2011 compared with the three months ended March 31, 2010.

|                                                           | <b>Unaudited For the Three Months</b> |             | <b>2011 vs 2010 Change</b> |          |
|-----------------------------------------------------------|---------------------------------------|-------------|----------------------------|----------|
|                                                           | <b>Ended March 31,</b>                |             | <b>Amount</b>              | <b>%</b> |
|                                                           | <b>2011</b>                           | <b>2010</b> |                            |          |
| Revenue:                                                  |                                       |             |                            |          |
| Subscriber revenue, including effects of rebates          | \$ 622,437                            | \$ 579,509  | \$ 42,928                  | 7%       |
| Advertising revenue, net of agency fees                   | 16,558                                | 14,527      | 2,031                      | 14%      |
| Equipment revenue                                         | 15,867                                | 14,283      | 1,584                      | 11%      |
| Other revenue                                             | 68,977                                | 55,465      | 13,512                     | 24%      |
| Total revenue                                             | 723,839                               | 663,784     | 60,055                     | 9%       |
| Operating expenses:                                       |                                       |             |                            |          |
| Revenue share and royalties                               | 106,929                               | 98,184      | 8,745                      | 9%       |
| Programming and content                                   | 72,959                                | 78,434      | (5,475)                    | (7%)     |
| Customer service and billing                              | 65,836                                | 56,211      | 9,625                      | 17%      |
| Satellite and transmission                                | 18,560                                | 20,119      | (1,559)                    | (8%)     |
| Cost of equipment                                         | 6,405                                 | 7,919       | (1,514)                    | (19%)    |
| Subscriber acquisition costs                              | 105,270                               | 89,379      | 15,891                     | 18%      |
| Sales and marketing                                       | 47,819                                | 49,117      | (1,298)                    | (3%)     |
| Engineering, design and development                       | 11,135                                | 11,436      | (301)                      | (3%)     |
| General and administrative                                | 56,354                                | 57,580      | (1,226)                    | (2%)     |
| Depreciation and amortization                             | 68,400                                | 70,265      | (1,865)                    | (3%)     |
| Total operating expenses                                  | 559,667                               | 538,644     | 21,023                     | 4%       |
| Income from operations                                    | 164,172                               | 125,140     | 39,032                     | 31%      |
| Other income (expense):                                   |                                       |             |                            |          |
| Interest expense, net of amounts capitalized              | (78,218)                              | (77,868)    | (350)                      | 0%       |
| Loss on extinguishment of debt and credit facilities, net | (5,994)                               | (2,450)     | (3,544)                    | (145%)   |
| Interest and investment loss                              | (1,884)                               | (3,270)     | 1,386                      | 42%      |
| Other income                                              | 1,617                                 | 1,213       | 404                        | 33%      |

|                            |           |           |           |       |
|----------------------------|-----------|-----------|-----------|-------|
| Total other expense        | (84,479)  | (82,375)  | (2,104)   | (3%)  |
| Income before income taxes | 79,693    | 42,765    | 36,928    | 86%   |
| Income tax expense         | (1,572)   | (1,167)   | (405)     | (35%) |
| Net income                 | \$ 78,121 | \$ 41,598 | \$ 36,523 | 88%   |

**Total Revenue**

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

*Three Months:* For the three months ended March 31, 2011 and 2010, subscriber revenue was \$622,437 and \$579,509, respectively, an increase of 7%, or \$42,928. The increase was primarily attributable to a 8% increase in daily weighted average subscribers, an increase in sales of premium services, including Best of programming, data services and streaming, partially offset by an increase in billing credits and adjustments.

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

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

*Three Months:* For the three months ended March 31, 2011 and 2010, advertising revenue was \$16,558 and \$14,527, respectively, an increase of 14%, or \$2,031. The increase was primarily due to more effective sales efforts and improvements in the national market for advertising.

Our advertising revenue is subject to fluctuation based on the effectiveness of our sales efforts and the national economic environment. We expect advertising revenue to grow as advertisers are attracted by the growth in our subscriber base and national advertising spend continues to increase.

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

*Three Months:* For the three months ended March 31, 2011 and 2010, equipment revenue was \$15,867 and \$14,283, respectively, an increase of 11%, or \$1,584. The increase was driven by royalties from increased OEM installations.

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

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

*Three Months:* For the three months ended March 31, 2011 and 2010, other revenue was \$68,977 and \$55,465, respectively, an increase of 24%, or \$13,512. The increase was primarily due to additional subscribers subject to the U.S. Music Royalty Fee, which was introduced in the third quarter of 2009 and increased royalty revenue from Sirius Canada.

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

## ***Operating Expenses***

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

*Three Months:* For the three months ended March 31, 2011 and 2010, revenue share and royalties were \$106,929 and \$98,184, respectively, an increase of 9%, or \$8,745 but remained flat as a percentage of total revenue. The increase was primarily attributable to a 19% increase in our revenues subject to royalty and/or revenue sharing arrangements and a 7% increase in the statutory royalty rate for the performance of sound recordings, partially offset by a \$4,578 increase in the benefit to earnings from the amortization of deferred credits on executory contracts initially recognized in purchase price accounting associated with the Merger.

We expect our revenue sharing and royalty costs to increase as our revenues grow, as we expand our distribution of satellite radios through automakers, and as a result of statutory increases in the royalty rate for the performance of sound recordings. Under the terms of the Copyright Royalty Board's decision, we paid royalties of 7.5% and 7.0% of gross revenues, subject to certain exclusions, for the three months ended March 31, 2011 and 2010, respectively, and will pay royalties of 8.0% for 2012. The deferred credits on executory contracts initially recognized in purchase price accounting associated with the Merger are expected to provide increasing benefits to revenue share and royalties through the expiration of the acquired executory contracts, principally in 2012 and 2013.

*Programming and Content* includes costs to acquire, create and produce content and on-air talent costs. We have entered into various agreements with third parties for music and non-music programming that require us to pay license fees, share advertising revenue, purchase advertising on media properties owned or controlled by the licensor

and pay other guaranteed amounts.

*Three Months:* For the three months ended March 31, 2011 and 2010, programming and content expenses were \$72,959 and \$78,434, respectively, a decrease of 7%, or \$5,475, and decreased as a percentage of total revenue. The decrease was primarily due to savings in content agreements, production costs and general operating costs, partially offset by increases

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in personnel costs and a \$2,323 reduction in the benefit to earnings from purchase price accounting adjustments associated with the Merger attributable to the amortization of the deferred credit on acquired programming executory contracts.

Based on our current programming offerings, we expect our programming and content expenses to decrease as agreements expire and are renewed or replaced on more cost effective terms. The impact of purchase price accounting adjustments associated with the Merger attributable to the amortization of the deferred credit on acquired programming executory contracts will continue to decline, in absolute amount and as a percentage of reported programming and content costs, through 2013.

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

*Three Months:* For the three months ended March 31, 2011 and 2010, customer service and billing expenses were \$65,836 and \$56,211, respectively, an increase of 17%, or \$9,625, and an increase as a percentage of total revenue. The increase was primarily due to higher call volume, billing and collection costs, bad debt expense and personnel costs, partially offset by lower general operating costs.

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

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

*Three Months:* For the three months ended March 31, 2011 and 2010, satellite and transmission expenses were \$18,560 and \$20,119, respectively, a decrease of 8%, or \$1,559, and a decrease as a percentage of total revenue. The decrease was primarily due to savings in repeater expenses and personnel costs.

We expect satellite and transmission expenses to decline as a result of decreasing operating costs associated with our in-orbit satellite fleet and repeater network optimization.

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

*Three Months:* For the three months ended March 31, 2011 and 2010, cost of equipment was \$6,405 and \$7,919, respectively, a decrease of 19%, or \$1,514, and a decrease as a percentage of total revenue. The decrease was primarily due to lower inventory write-downs and reduced costs to produce aftermarket radios.

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

*Subscriber Acquisition Costs* include hardware subsidies paid to radio manufacturers, distributors and automakers, including subsidies paid to automakers who include a satellite radio and 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; device royalties for certain radios; commissions paid to retailers and automakers as incentives to purchase, install and activate satellite radios; product warranty obligations; and provisions for inventory allowances attributable to inventory consumed in our OEM and retail distribution channels. The majority of subscriber acquisition costs are incurred and expensed in advance of, or concurrent with, acquiring a subscriber. Subscriber acquisition costs do not include advertising, loyalty payments to distributors and dealers of satellite radios and revenue share payments to automakers and retailers of satellite radios.

*Three Months:* For the three months ended March 31, 2011 and 2010, subscriber acquisition costs were \$105,270 and \$89,379, respectively, an increase of 18%, or \$15,891, and an increase as a percentage of total revenue. The increase was primarily a result of the 19% increase in gross subscriber additions and higher subsidies related to the 24% increase in OEM installations, partially offset by lower OEM subsidies per vehicle and a \$3,990 increase in the benefit to earnings from the amortization of the deferred credit for acquired executory contracts recognized in purchase price accounting associated with the Merger.

We expect total subscriber acquisition costs to fluctuate with increases or decreases in OEM installations, which are driven by OEM manufacturing and penetration rates, and changes in our gross subscriber additions. Declines in the cost of subsidized radio components will also impact total subscriber acquisition costs. The impact of purchase

price accounting adjustments associated with the Merger attributable to the amortization of the deferred credit for acquired executory contracts will vary, in absolute amount and as a percentage of reported subscriber acquisition costs, through the expiration of the acquired contracts, primarily in 2013. We intend to continue to offer subsidies, commissions and other incentives to acquire subscribers.

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

*Three Months:* For the three months ended March 31, 2011 and 2010, sales and marketing expenses were \$47,819 and \$49,117, respectively, a decrease of 3%, or \$1,298, and a decrease as a percentage of total revenue. The decrease was primarily due to reductions in consumer advertising and event marketing, partially offset by increased subscriber communications and retention programs.

We expect sales and marketing expenses to increase as we increase advertising and promotional initiatives to attract new subscribers in existing and new distribution channels, and launch and expand programs to retain our subscribers.

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

*Three Months:* For the three months ended March 31, 2011 and 2010, engineering, design and development expenses were \$11,135 and \$11,436, respectively, a decrease of \$301 but remained flat as a percentage of total revenue. The decrease was primarily due to lower share based payment expenses offset by higher aftermarket product development costs.

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

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

*Three Months:* For the three months ended March 31, 2011 and 2010, general and administrative expenses were \$56,354 and \$57,580, respectively, a decrease of 2%, or \$1,226, and a decrease as a percentage of total revenue. The decrease was primarily due to lower personnel costs and share-based payment expense partially offset by higher legal costs.

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

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

*Three Months:* For the three months ended March 31, 2011 and 2010, depreciation and amortization expense was \$68,400 and \$70,265, respectively, a decrease of 3%, or \$1,865, and a decrease as a percentage of total revenue. The decrease was primarily due to a reduction in the amortization of subscriber relationships, partially offset by depreciation recognized on additional assets placed in-service.

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

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

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

*Three Months:* For the three months ended March 31, 2011 and 2010, interest expense was \$78,218 and \$77,868, respectively, an increase of \$350. The increase was primarily due to lower capitalized interest related to the construction of our satellites and related launch vehicles.

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

*Three Months:* For the three months ended March 31, 2011 and 2010, loss on extinguishment of debt and credit facilities, net, was \$5,994 and \$2,450, respectively, an increase of 145%, or \$3,544. During the three months ended March 31, 2011, the loss was incurred on the repayment of our 11.25% Senior Secured Notes due 2013 and the partial repayment of



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our 3.25% Convertible Notes due 2011. During the three months ended March 31, 2010, the loss was incurred on the retirement of our Senior Secured Term Loan.

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

*Three Months:* For the three months ended March 31, 2011 and 2010, interest and investment loss was \$1,884 and \$3,270, respectively, a decrease of 42%, or \$1,386. The decrease was primarily attributable to lower net losses at XM Canada and SIRIUS Canada.

***Income Taxes***

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

*Three Months:* For the three months ended March 31, 2011 and 2010, income tax expense was \$1,572 and \$1,167, respectively, an increase of 35%, or \$405.

**Table of Contents****Subscriber Data**

The following table contains actual subscriber data for the three months ended March 31, 2011 and 2010, respectively:

|                                              | <b>Unaudited<br/>For the Three Months Ended<br/>March 31,</b> |             |
|----------------------------------------------|---------------------------------------------------------------|-------------|
|                                              | <b>2011</b>                                                   | <b>2010</b> |
| Beginning subscribers                        | 20,190,964                                                    | 18,772,758  |
| Gross subscriber additions                   | 2,052,367                                                     | 1,720,848   |
| Deactivated subscribers                      | (1,679,303)                                                   | (1,549,407) |
| Net additions                                | 373,064                                                       | 171,441     |
| Ending subscribers                           | 20,564,028                                                    | 18,944,199  |
| Self-pay                                     | 16,807,643                                                    | 15,773,671  |
| Paid promotional                             | 3,756,385                                                     | 3,170,528   |
| Ending subscribers                           | 20,564,028                                                    | 18,944,199  |
| Self-pay                                     | 120,844                                                       | 69,739      |
| Paid promotional                             | 252,220                                                       | 101,702     |
| Net additions                                | 373,064                                                       | 171,441     |
| Daily weighted average number of subscribers | 20,233,144                                                    | 18,783,263  |
| Average self-pay monthly churn (1)           | 2.0%                                                          | 2.0%        |
| Conversion rate (2)                          | 44.7%                                                         | 45.2%       |

Note: See pages 37 through 41 for footnotes.

*Subscribers.* At March 31, 2011, we had 20,564,028 subscribers, an increase of 1,619,829 subscribers, or 9%, from the 18,944,199 subscribers as of March 31, 2010.

*Three Months:* For the three months ended March 31, 2011 and 2010, net additions were 373,064 and 171,441, respectively, an increase of 118%, or 201,623. The improvement was due to the 19% increase in gross subscriber additions, primarily resulting from an increase in U.S. light vehicle sales, new vehicle penetration and returning activations.

*Average Self-pay Monthly Churn* is derived by dividing the monthly average of self-pay deactivations for the quarter by the average self-pay subscriber balance for the quarter. (See accompanying footnotes on pages 37 through 41 for more details.)

*Three Months:* For the three months ended March 31, 2011 and 2010, our average self-pay monthly churn rate was 2.0% and 2.0%, respectively. While churn remained flat, increases in deactivations due to changes in vehicle ownership were offset by reductions in non-pay cancellation rates.

*Conversion Rate* is the percentage of owners and lessees of new vehicles that receive our service and convert to become self-paying subscribers after an initial promotional period. (See accompanying footnotes on pages 37 through 41 for more details.)

*Three Months:* For the three months ended March 31, 2011 and 2010, our conversion rate was 44.7% and 45.2%, respectively. The decrease was primarily due to changing mix of sales among auto manufacturers.

The discussion of operating results below excludes the effects of stock-based compensation and purchase price accounting adjustments associated with the Merger.

### **Adjusted Results of Operations**

In this section, we present certain financial performance measures that are not calculated and presented in accordance with generally accepted accounting principles in the United States of America ( Non-GAAP ). These Non-GAAP financial measures include:

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average monthly revenue per subscriber, or ARPU; subscriber acquisition cost, or SAC, per gross subscriber addition; customer service and billing expenses, per average subscriber; free cash flow; adjusted total revenue; and adjusted EBITDA. These measures exclude the impact of certain purchase price accounting adjustments. We use these Non-GAAP financial measures to manage our business, set operational goals and as a basis for determining performance-based compensation for our employees.

The purchase price accounting adjustments include the elimination of the earnings benefit of deferred revenue associated with the investment in XM Canada, the recognition of subscriber revenues not recognized in purchase price accounting and the elimination of the earnings benefit of deferred credits on executory contracts, which are primarily attributable to third party arrangements with an OEM and programming providers.

Our adjusted EBITDA also reallocates share-based payment expense from functional operating expense line items to a separate line within operating expenses. We believe the exclusion of share-based payment expense from functional operating expenses is useful given the significant variation in expense that can result from changes in the fair value as determined by the Black-Scholes-Merton model which varies based on assumptions used for the expected life, expected stock price volatility and risk-free interest rates; the effect of which is unrelated to the operational conditions that give rise to variations in the components of our operating costs.

We believe these Non-GAAP financial measures provide useful information to investors regarding our financial condition and results of operations. We believe investors find these Non-GAAP financial performance measures useful in evaluating our core trends because it provides a direct view of our underlying contractual costs. We believe investors use our current and projected adjusted EBITDA to estimate our current or prospective enterprise value and to make investment decisions. By providing these Non-GAAP financial measures, together with the reconciliations to the most directly comparable GAAP measure, we believe we are enhancing investors' understanding of our business and our results of operations. These Non-GAAP financial measures should be viewed in addition to, and not as an alternative for or superior to, our reported results prepared in accordance with GAAP. Please refer to the footnotes (pages 37 through 41) for a further discussion of such Non-GAAP financial measures and reconciliations to the most directly comparable GAAP measure.

The following table contains our key operating metrics based on our unaudited adjusted results of operations for the three months ended March 31, 2011 and 2010, respectively:

|                                                                   | <b>Unaudited Adjusted<br/>For the Three Months Ended<br/>March 31,</b> |              |
|-------------------------------------------------------------------|------------------------------------------------------------------------|--------------|
| <i>(in thousands, except for per subscriber amounts)</i>          | <b>2011</b>                                                            | <b>2010</b>  |
| ARPU (3)                                                          | \$ 11.52                                                               | \$ 11.48     |
| SAC, per gross subscriber addition (4)                            | \$ 57                                                                  | \$ 59        |
| Customer service and billing expenses, per average subscriber (5) | \$ 1.08                                                                | \$ 0.99      |
| Free cash flow (6)                                                | \$ (16,874)                                                            | \$ (127,203) |
| Adjusted total revenue (8)                                        | \$ 727,561                                                             | \$ 670,563   |
| Adjusted EBITDA (7)                                               | \$ 181,359                                                             | \$ 157,757   |

Note: See pages 37 through 41 for footnotes.

ARPU is derived from total earned subscriber revenue, net advertising revenue and other subscription-related revenue, net of purchase price accounting adjustments, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. (See accompanying footnotes on pages 37 through 41 for more details.)

*Three Months:* For the three months ended March 31, 2011 and 2010, ARPU was \$11.52 and \$11.48, respectively. The increase was driven primarily by an increase in sales of premium services, including Best of programming, data services and streaming and an increase in other revenue due to additional subscribers

subject to the U.S. Music Royalty Fee, partially offset by an increase in subscriber retention programs and in the number of subscribers on promotional plans.

*SAC, Per Gross Subscriber Addition* is derived from subscriber acquisition costs and margins from the direct sale of radios and accessories, excluding share-based payment expense and purchase price accounting adjustments, divided by the number of gross subscriber additions for the period. (See accompanying footnotes on pages 37 through 41 for more details.)

*Three Months:* For the three months ended March 31, 2011 and 2010, SAC, per gross subscriber addition was \$57 and \$59, respectively. The decrease was primarily due to a 19% increase in gross subscribers, lower per radio subsidy rates

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for certain OEMs and growth in subscriber reactivations and royalties from radio manufacturers, partially offset by an increase in OEM production with factory-installed satellite radios compared to the three months ended March 31, 2010.

*Customer Service and Billing Expenses, Per Average Subscriber* is derived from total customer service and billing expenses, excluding share-based payment expense and purchase price accounting adjustments, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. (See accompanying footnotes on pages 37 through 41 for more details.)

*Three Months:* For the three months ended March 31, 2011 and 2010, customer service and billing expenses, per average subscriber was \$1.08 and \$0.99, respectively. The increase was primarily due to higher call volume and handle time per call, an increase to bad debt expense driven by an alignment of policies and personnel costs, partially offset by lower general operating costs.

*Free Cash Flow* includes the net cash provided by (used in) operations, additions to property and equipment, merger related costs and restricted and other investment activity. (See accompanying footnotes on pages 37 through 41 for more details.)

*Three Months:* For the three months ended March 31, 2011 and 2010, free cash flow was (\$16,874) and (\$127,203), respectively, an increase of \$110,329. Net cash provided by operating activities increased \$55,797 to \$18,109 for the three months ended March 31, 2011 compared to the (\$37,688) used in operations for the three months ended March 31, 2010. Capital expenditures for property and equipment for the three months ended March 31, 2011 decreased \$63,982 to \$34,983 compared to \$98,965 for the three months ended March 31, 2010. The increase in net cash provided by operating activities was primarily the result of higher collections of amounts due from subscribers, the timing of interest payments on our debt, and the early repayment in the first quarter of 2010 of liabilities deferred in 2009 that were scheduled to be repaid, at 15% interest, in monthly installments from April 2010 through March 2011. The decrease in capital expenditures for the three months ended March 31, 2011 was primarily the result of decreased satellite construction and launch expenditures due to the launch in the fourth quarter of 2010 of our XM-5 satellite.

*Adjusted Total Revenue.* Our adjusted total revenue includes the recognition of deferred subscriber revenues acquired in the Merger that are not recognized in our results under purchase price accounting and the elimination of the benefit in earnings from deferred revenue associated with our investment in XM Canada acquired in the Merger. (See accompanying footnotes on pages 37 through 41 for more details.)

|                                                  | <b>Unaudited<br/>For the Three Months<br/>Ended<br/>March 31,</b> |             |
|--------------------------------------------------|-------------------------------------------------------------------|-------------|
|                                                  | <b>2011</b>                                                       | <b>2010</b> |
| Revenue:                                         |                                                                   |             |
| Subscriber revenue, including effects of rebates | \$ 622,437                                                        | \$ 579,509  |
| Advertising revenue, net of agency fees          | 16,558                                                            | 14,527      |
| Equipment revenue                                | 15,867                                                            | 14,283      |
| Other revenue                                    | 68,977                                                            | 55,465      |
| Purchase price accounting adjustments:           |                                                                   |             |
| Subscriber revenue, including effects of rebates | 1,909                                                             | 4,966       |
| Other revenue                                    | 1,813                                                             | 1,813       |
| Adjusted total revenue                           | \$ 727,561                                                        | \$ 670,563  |

*Three Months:* Our adjusted total revenue increased 9%, or \$56,998, in the three months ended March 31, 2011 compared to the three months ended March 31, 2010. Subscriber revenue increased 7%, or \$42,928, in the three months ended March 31, 2011 compared to the three months ended March 31, 2010. The increase in subscriber revenue was primarily attributable to a 8% increase in daily weighted average subscribers, an increase in sales of premium services, including Best of programming, data services and streaming. Other revenue increased 24%, or \$13,512, in the three months ended March 31, 2011 compared to the three months ended March 31, 2010. The increase in other revenue was driven by additional subscribers subject to the U.S. Music Royalty Fee, which was introduced in the third quarter of 2009 and increased royalty revenue from Sirius Canada.

*Adjusted EBITDA.* EBITDA is defined as net income (loss) before interest and investment income (loss); interest expense, net of amounts capitalized; income tax expense and depreciation and amortization. Adjusted EBITDA removes the impact of other

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income and expense, losses on extinguishment of debt as well as certain other charges, such as goodwill impairment; restructuring, impairments and related costs; certain purchase price accounting adjustments and share-based payment expense. (See the accompanying footnotes on pages 37 through 41 for more details):

*Three Months:* For the three months ended March 31, 2011 and 2010, adjusted EBITDA was \$181,359 and \$157,757, respectively, an increase of 15%, or \$23,602. The increase was primarily due to an increase of 9%, or \$56,998, in adjusted revenues, partially offset by an increase of 7%, or \$33,396, in expenses included in adjusted EBITDA. The increase in adjusted revenue was primarily due to the increase in our subscriber base and by additional subscribers subject to the U.S. Music Royalty Fee. The increase in expenses was primarily driven by higher subscriber acquisition costs related to the 19% increase in gross additions, higher revenue share and royalties expenses associated with growth in revenues subject to revenue sharing and royalty arrangements, and increased customer service and billing expenses associated with subscriber growth, partially offset by lower programming and content costs.



**Table of Contents****Liquidity and Capital Resources*****Cash Flows for the Three Months Ended March 31, 2011 Compared with the Three Months Ended March 31, 2010***

As of March 31, 2011 and December 31, 2010, we had \$433,695 and \$586,691, respectively, of cash and cash equivalents. The following table presents a summary of our cash flow activity for the periods set forth below:

|                                                     | <b>For the Three Months<br/>Ended,<br/>March 31,</b> |             | <b>2011 vs.<br/>2010</b> |
|-----------------------------------------------------|------------------------------------------------------|-------------|--------------------------|
|                                                     | <b>2011</b>                                          | <b>2010</b> |                          |
| Net cash provided by (used in) operating activities | \$ 18,109                                            | \$ (37,688) | \$ 55,797                |
| Net cash used in investing activities               | (34,983)                                             | (89,515)    | 54,532                   |
| Net cash (used in) provided by financing activities | (136,122)                                            | 12,252      | (148,374)                |
| Net decrease in cash and cash equivalents           | (152,996)                                            | (114,951)   | (38,045)                 |
| Cash and cash equivalents at beginning of period    | 586,691                                              | 383,489     | 203,202                  |
| Cash and cash equivalents at end of period          | \$ 433,695                                           | \$ 268,538  | \$ 165,157               |

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

Cash provided by operating activities increased by \$55,797, or 148%, to \$18,109 for the three months ended March 31, 2011 from cash used in operating activities of (\$37,688) for the three months ended March 31, 2010. The primary drivers of our operating cash flow growth have been improvements in profitability and changes in operating assets and liabilities.

Our net income was \$78,121 and \$41,598 for the three months ended March 31, 2011 and 2010, respectively. Our revenue growth has been primarily due to an increase in our subscriber revenues of \$42,928, or 7%, for the three months ended March 31, 2011.

Net non-cash adjustments to net income were \$42,736 and \$51,403 for the three months ended March 31, 2011 and 2010, respectively. Significant components of non-cash expenses, and their impact on cash flows from operating activities, include the following:

|                                                           | <b>For the Three Months Ended<br/>March 31,</b> |             |
|-----------------------------------------------------------|-------------------------------------------------|-------------|
|                                                           | <b>2011</b>                                     | <b>2010</b> |
| Depreciation and amortization                             | \$ 68,400                                       | \$ 70,265   |
| Loss on extinguishment of debt and credit facilities, net | 5,994                                           | 2,450       |
| Share-based payment expense                               | 12,856                                          | 17,182      |
| Other non-cash purchase price adjustments                 | (66,743)                                        | (58,817)    |

Depreciation and amortization expense is expected to increase in future periods as we recognize depreciation expense on our recently launched satellite, XM-5, and complete the construction and launch of our FM-6 satellite.

Loss on extinguishment of debt and credit facilities, net, includes losses incurred as a result of the conversion and retirement of certain debt instruments. Future charges related to the retirement or conversions of debt are dependent upon many factors, including the conversion price of debt or our ability to refinance or retire specific debt instruments.

Share-based payment expense is expected to increase in future periods as we grant equity awards to our employees and directors. Compensation expense for share-based awards is recorded in the financial statements based on the fair value of the underlying equity awards. The fair value of stock option awards are determined using the Black-Scholes-Merton option-pricing model which is subject to various assumptions including the market price of our stock, estimated forfeiture rates of awards and the volatility of our stock price. The fair value of restricted shares and restricted stock units is based on the market price of our stock at date of grant.

Other non-cash purchase price adjustments include liabilities recorded as a result of the Merger related to executory contracts with an OEM and certain programming providers, as well as amortization resulting from changes in the value of deferred revenue as a result of the Merger.

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Changes in operating assets and liabilities contributed (\$102,748) and (\$130,689) to operating cash flows for the three months ended March 31, 2011 and 2010, respectively. Significant changes in operating assets and liabilities include the timing of collections from our customers and the timing of payments to vendors and related parties. As we continue to grow our subscriber and revenue base, we expect that deferred revenue and amounts due from customers and distributors will continue to increase. Amounts payable to vendors are also expected to increase as our business grows. The timing of payments to vendors and related parties are based on both contractual commitments.

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

Cash used for investing activities consists primarily of capital expenditures for property and equipment. Capital expenditures have decreased following the successful launch of XM-5. We will continue to incur significant costs to construct and launch our new satellites and improve our terrestrial repeater network and broadcast and administrative infrastructure. We have entered into various agreements to design, construct and launch our satellites in the normal course of business.

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

Cash flows used in financing activities have generally been the result of the issuance and repayment of long-term debt and related party debt and cash proceeds from equity issuances. Proceeds from long-term debt, related party debt and equity issuances have been used to fund our operations, construct and launch new satellites and invest in other infrastructure improvements.

### ***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-1 Preferred Stock provides that, so long as Liberty Media beneficially owns at least half of its initial equity investment, Liberty Media's consent is required for certain actions, including the grant or issuance of our equity securities and the incurrence of debt (other than, in general, debt incurred to refinance existing debt) in amounts greater than \$10,000 in any calendar year.

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

As disclosed in Note 14 to our unaudited consolidated financial statements, as of March 31, 2011, we expect to incur capital expenditures of approximately \$107,597 and \$4,734 in 2011 and 2012, respectively, and an additional \$53,272 over the next five years, the majority of which is attributable to the construction and launch of our FM-6 satellite and related launch vehicle.

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

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

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

### ***Debt Covenants***

The indentures governing our debt include restrictive covenants. As of March 31, 2011, we were in compliance with our debt covenants.

For a discussion of our Debt Covenants, refer to Note 11 to our unaudited consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q.



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***Off-Balance Sheet Arrangements***

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

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

In May 2009, our stockholders approved the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan (the 2009 Plan ). Employees, consultants and members of our board of directors are eligible to receive awards under the 2009 Plan, which provides for the grant of stock options, restricted stock, restricted stock units and other stock-based awards that the compensation committee of our board of directors may deem appropriate. Vesting and other terms of stock-based awards are set forth in the agreements with the 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 March 31, 2011, approximately 271,578,000 shares of common stock were available for future grants under the 2009 Plan.

***Other Plans***

We maintain four other share-based benefit plans the XM 2007 Stock Incentive Plan, the Amended and Restated Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan, the XM 1998 Shares Award Plan and the XM Talent Option Plan. No further awards may be made under these plans. Outstanding awards under these plans are being continued.

***Contractual Cash Commitments***

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

***Related Party Transactions***

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

***Critical Accounting Policies and Estimates***

For a discussion of our Critical Accounting Policies and Estimates, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2010 and Note 3 to our unaudited consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q. There have been no material changes to our critical accounting policies and estimates since December 31, 2010.

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

|                                                | <b>Unaudited</b>                  |             |
|------------------------------------------------|-----------------------------------|-------------|
|                                                | <b>For the Three Months Ended</b> |             |
|                                                | <b>March 31,</b>                  |             |
|                                                | <b>2011</b>                       | <b>2010</b> |
| Subscriber revenue (GAAP)                      | \$ 622,437                        | \$ 579,509  |
| Add: net advertising revenue (GAAP)            | 16,558                            | 14,527      |
| Add: other subscription-related revenue (GAAP) | 58,531                            | 47,947      |
| Add: purchase price accounting adjustments     | 1,909                             | 4,966       |
|                                                | \$ 699,435                        | \$ 646,949  |
| Daily weighted average number of subscribers   | 20,233,144                        | 18,783,263  |
| ARPU                                           | \$ 11.52                          | \$ 11.48    |

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

|                                                                 | <b>Unaudited</b>                  |             |
|-----------------------------------------------------------------|-----------------------------------|-------------|
|                                                                 | <b>For the Three Months Ended</b> |             |
|                                                                 | <b>March 31,</b>                  |             |
|                                                                 | <b>2011</b>                       | <b>2010</b> |
| Subscriber acquisition costs (GAAP)                             | \$ 105,270                        | \$ 89,379   |
| Less: margin from direct sales of radios and accessories (GAAP) | (9,462)                           | (6,364)     |

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|                                            |            |            |
|--------------------------------------------|------------|------------|
| Add: purchase price accounting adjustments | 21,656     | 17,666     |
|                                            | \$ 117,464 | \$ 100,681 |
| Gross subscriber additions                 | 2,052,367  | 1,720,848  |
| SAC, per gross subscriber addition         | \$ 57      | \$ 59      |

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

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associated with incremental share-based payment arrangements recognized at the Merger date. Customer service and billing expenses, per average subscriber, is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

|                                                                                 | <b>Unaudited</b>                  |             |
|---------------------------------------------------------------------------------|-----------------------------------|-------------|
|                                                                                 | <b>For the Three Months Ended</b> |             |
|                                                                                 | <b>March 31,</b>                  |             |
|                                                                                 | <b>2011</b>                       | <b>2010</b> |
| Customer service and billing expenses (GAAP)                                    | \$ 65,836                         | \$ 56,211   |
| Less: share-based payment expense, net of purchase price accounting adjustments | (367)                             | (728)       |
| Add: purchase price accounting adjustments                                      | 18                                | 94          |
|                                                                                 | \$ 65,487                         | \$ 55,577   |
| Daily weighted average number of subscribers                                    | 20,233,144                        | 18,783,263  |
| Customer service and billing expenses, per average subscriber                   | \$ 1.08                           | \$ 0.99     |

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

|                                                     | <b>Unaudited</b>                  |              |
|-----------------------------------------------------|-----------------------------------|--------------|
|                                                     | <b>For the Three Months Ended</b> |              |
|                                                     | <b>March 31,</b>                  |              |
|                                                     | <b>2011</b>                       | <b>2010</b>  |
| Net cash provided by (used in) operating activities | \$ 18,109                         | \$ (37,688)  |
| Additions to property and equipment                 | (34,983)                          | (98,965)     |
| Restricted and other investment activity            | -                                 | 9,450        |
| Free cash flow                                      | \$ (16,874)                       | \$ (127,203) |

(7) EBITDA is defined as net income (loss) before interest and investment income (loss); interest expense, net of amounts capitalized; taxes expense and depreciation and amortization. We adjust EBITDA to remove the impact of other income and expense, loss on extinguishment of debt as well as certain other charges discussed below. This measure is one of the primary Non-GAAP financial measures on which we (i) evaluate the performance of our businesses, (ii) base our internal budgets and (iii) compensate management. Adjusted EBITDA is a Non-GAAP financial performance measure that excludes (if applicable): (i) certain adjustments as a result of the purchase price accounting for the Merger, (ii) goodwill impairment, (iii) restructuring, impairments, and related costs, (iv) depreciation and amortization and (v) share-based payment expense. The purchase price accounting adjustments include: (i) the elimination of deferred revenue associated with the investment in XM Canada, (ii) recognition of deferred subscriber revenues not recognized in purchase price accounting, and (iii) elimination of the benefit of deferred credits on executory contracts, which are primarily attributable to third party arrangements with an OEM and programming providers. We believe adjusted EBITDA is a useful measure of the underlying trend of our operating performance, which provides useful information about our business apart from the costs associated with our physical plant, capital structure and purchase price accounting. We believe investors find this Non-GAAP financial measure useful when analyzing our results and comparing our operating



performance to the performance of other communications, entertainment and media companies. We believe investors use current and projected adjusted EBITDA to estimate our current and prospective enterprise value and to make investment decisions. Because we fund and build-out our satellite radio system through the periodic raising and expenditure of large amounts of capital, our results of operations reflect significant charges for depreciation expense. The exclusion of depreciation and amortization expense is useful given significant variation in depreciation and amortization expense that can result from the potential variations in estimated useful lives, all of which can vary widely across different industries or among companies within the same industry. We 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 value as determined using the Black-Scholes-Merton model which varies based on assumptions used for the expected life, expected stock price volatility and risk-free interest rates.

Adjusted EBITDA has certain limitations in that it does not take into account the impact to our statement of operations of certain expenses, including share-based payment expense and certain purchase price accounting for the Merger. We endeavor to compensate for the limitations of the Non-GAAP measure presented by also providing the comparable GAAP measure with equal or greater prominence and descriptions of the reconciling items, including quantifying such items, to derive the Non-GAAP measure. Investors that wish to compare and evaluate our operating results after giving effect for these costs, should refer to net income (loss) as disclosed in our consolidated statements of operations. Since adjusted EBITDA is a Non-GAAP

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financial performance measure, our calculation of adjusted EBITDA may be susceptible to varying calculations; may not be comparable to other similarly titled measures of other companies; and should not be considered in isolation, as a substitute for, or superior to measures of financial performance prepared in accordance with GAAP.

The reconciliation of net income (loss) to the adjusted EBITDA is calculated as follows (in thousands):

|                                                                           | <b>Unaudited<br/>For the Three Months<br/>Ended<br/>March 31,</b> |             |
|---------------------------------------------------------------------------|-------------------------------------------------------------------|-------------|
|                                                                           | <b>2011</b>                                                       | <b>2010</b> |
| Net income (GAAP):                                                        | \$ 78,121                                                         | \$ 41,598   |
| Add back items excluded from Adjusted EBITDA:                             |                                                                   |             |
| Purchase price accounting adjustments:                                    |                                                                   |             |
| Revenues (see pages 40-41)                                                | 3,722                                                             | 6,779       |
| Operating expenses (see pages 40-41)                                      | (67,972)                                                          | (62,610)    |
| Share-based payment expense, net of purchase price accounting adjustments | 13,037                                                            | 18,183      |
| Depreciation and amortization (GAAP)                                      | 68,400                                                            | 70,265      |
| Interest expense, net of amounts capitalized (GAAP)                       | 78,218                                                            | 77,868      |
| Loss on extinguishment of debt and credit facilities, net (GAAP)          | 5,994                                                             | 2,450       |
| Interest and investment loss (GAAP)                                       | 1,884                                                             | 3,270       |
| Other income (GAAP)                                                       | (1,617)                                                           | (1,213)     |
| Income tax expense (GAAP)                                                 | 1,572                                                             | 1,167       |
| Adjusted EBITDA                                                           | \$ 181,359                                                        | \$ 157,757  |

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(8) The following tables reconcile our actual revenues and operating expenses to our adjusted revenues and operating expenses for the three months ended March 31, 2011 and 2010:

|                                                  | <b>Unaudited For the Three Months Ended March 31, 2011</b> |                                                          |                                                               |                 |
|--------------------------------------------------|------------------------------------------------------------|----------------------------------------------------------|---------------------------------------------------------------|-----------------|
|                                                  | <b>As<br/>Reported</b>                                     | <b>Purchase<br/>Price<br/>Accounting<br/>Adjustments</b> | <b>Allocation of<br/>Share-<br/>based Payment<br/>Expense</b> | <b>Adjusted</b> |
| <i>(in thousands)</i>                            |                                                            |                                                          |                                                               |                 |
| Revenue:                                         |                                                            |                                                          |                                                               |                 |
| Subscriber revenue, including effects of rebates | \$ 622,437                                                 | \$ 1,909                                                 | \$                                                            | \$ 624,346      |
| Advertising revenue, net of agency fees          | 16,558                                                     |                                                          |                                                               | 16,558          |
| Equipment revenue                                | 15,867                                                     |                                                          |                                                               | 15,867          |
| Other revenue                                    | 68,977                                                     | 1,813                                                    |                                                               | 70,790          |
| Total revenue                                    | \$ 723,839                                                 | \$ 3,722                                                 | \$                                                            | \$ 727,561      |
| Operating expenses                               |                                                            |                                                          |                                                               |                 |
| Cost of services:                                |                                                            |                                                          |                                                               |                 |
| Revenue share and royalties                      | 106,929                                                    | 29,933                                                   |                                                               | 136,862         |
| Programming and content                          | 72,959                                                     | 12,824                                                   | (2,510)                                                       | 83,273          |
| Customer service and billing                     | 65,836                                                     | 18                                                       | (367)                                                         | 65,487          |
| Satellite and transmission                       | 18,560                                                     | 239                                                      | (567)                                                         | 18,232          |
| Cost of equipment                                | 6,405                                                      |                                                          |                                                               | 6,405           |
| Subscriber acquisition costs                     | 105,270                                                    | 21,656                                                   |                                                               | 126,926         |
| Sales and marketing                              | 47,819                                                     | 3,212                                                    | (1,875)                                                       | 49,156          |
| Engineering, design and development              | 11,135                                                     | 31                                                       | (1,142)                                                       | 10,024          |
| General and administrative                       | 56,354                                                     | 59                                                       | (6,576)                                                       | 49,837          |
| Depreciation and amortization (a)                | 68,400                                                     |                                                          |                                                               | 68,400          |
| Share-based payment expense (b)                  |                                                            |                                                          | 13,037                                                        | 13,037          |
| Total operating expenses                         | \$ 559,667                                                 | \$ 67,972                                                | \$                                                            | \$ 627,639      |

(a) Purchase price accounting adjustments included above exclude the incremental depreciation and amortization associated with the \$785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the three months ended March 31, 2011 was \$15,000.

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

|                                     |          |       |    |          |
|-------------------------------------|----------|-------|----|----------|
| Programming and content             | \$ 2,483 | \$ 27 | \$ | \$ 2,510 |
| Customer service and billing        | 349      | 18    |    | 367      |
| Satellite and transmission          | 548      | 19    |    | 567      |
| Sales and marketing                 | 1,848    | 27    |    | 1,875    |
| Engineering, design and development | 1,111    | 31    |    | 1,142    |
| General and administrative          | 6,517    | 59    |    | 6,576    |

|                                   |           |        |           |
|-----------------------------------|-----------|--------|-----------|
| Total share-based payment expense | \$ 12,856 | \$ 181 | \$ 13,037 |
|-----------------------------------|-----------|--------|-----------|

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|                                                  | <b>Unaudited For the Three Months Ended March 31, 2010</b> |                                          |                                                   |                 |
|--------------------------------------------------|------------------------------------------------------------|------------------------------------------|---------------------------------------------------|-----------------|
|                                                  |                                                            | <b>Purchase<br/>Price<br/>Accounting</b> | <b>Allocation of<br/>Share-<br/>based Payment</b> |                 |
| <i>(in thousands)</i>                            | <b>As<br/>Reported</b>                                     | <b>Adjustments</b>                       | <b>Expense</b>                                    | <b>Adjusted</b> |
| Revenue:                                         |                                                            |                                          |                                                   |                 |
| Subscriber revenue, including effects of rebates | \$ 579,509                                                 | \$ 4,966                                 | \$                                                | \$ 584,475      |
| Advertising revenue, net of agency fees          | 14,527                                                     |                                          |                                                   | 14,527          |
| Equipment revenue                                | 14,283                                                     |                                          |                                                   | 14,283          |
| Other revenue                                    | 55,465                                                     | 1,813                                    |                                                   | 57,278          |
| Total revenue                                    | \$ 663,784                                                 | \$ 6,779                                 | \$                                                | \$ 670,563      |
| Operating expenses                               |                                                            |                                          |                                                   |                 |
| Cost of services:                                |                                                            |                                          |                                                   |                 |
| Revenue share and royalties                      | 98,184                                                     | 25,355                                   |                                                   | 123,539         |
| Programming and content                          | 78,434                                                     | 15,147                                   | (3,110)                                           | 90,471          |
| Customer service and billing                     | 56,211                                                     | 94                                       | (728)                                             | 55,577          |
| Satellite and transmission                       | 20,119                                                     | 323                                      | (1,053)                                           | 19,389          |
| Cost of equipment                                | 7,919                                                      |                                          |                                                   | 7,919           |
| Subscriber acquisition costs                     | 89,379                                                     | 17,666                                   |                                                   | 107,045         |
| Sales and marketing                              | 49,117                                                     | 3,525                                    | (2,700)                                           | 49,942          |
| Engineering, design and development              | 11,436                                                     | 186                                      | (1,796)                                           | 9,826           |
| General and administrative                       | 57,580                                                     | 314                                      | (8,796)                                           | 49,098          |
| Depreciation and amortization (a)                | 70,265                                                     |                                          |                                                   | 70,265          |
| Share-based payment expense (b)                  |                                                            |                                          | 18,183                                            | 18,183          |
| Total operating expenses                         | \$ 538,644                                                 | \$ 62,610                                | \$                                                | \$ 601,254      |

(a) Purchase price accounting adjustments included above exclude the incremental depreciation and amortization associated with the \$785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the three months ended March 31, 2010 was \$19,000.

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

|                                     |           |          |    |           |
|-------------------------------------|-----------|----------|----|-----------|
| Programming and content             | \$ 2,950  | \$ 160   | \$ | \$ 3,110  |
| Customer service and billing        | 634       | 94       |    | 728       |
| Satellite and transmission          | 951       | 102      |    | 1,053     |
| Sales and marketing                 | 2,555     | 145      |    | 2,700     |
| Engineering, design and development | 1,610     | 186      |    | 1,796     |
| General and administrative          | 8,482     | 314      |    | 8,796     |
| Total share-based payment expense   | \$ 17,182 | \$ 1,001 | \$ | \$ 18,183 |



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

As of March 31, 2011, we did not have any derivative financial instruments. We do not hold or issue any free-standing derivatives. We hold investments in marketable securities consisting of money market funds, and we also hold certificates of deposit and investments in debt and equity securities of other entities. We classify our investments in marketable securities as available-for-sale. These securities are consistent with the investment objectives in our investment policy. The basic objectives of our investment policy are the preservation of capital, maintaining sufficient liquidity to meet operating requirements and maximizing yield.

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

**ITEM 4. CONTROLS AND PROCEDURES**

***Controls and Procedures***

As of March 31, 2011, an evaluation was performed under the supervision and with the participation of our management, including Mel Karmazin, our Chief Executive Officer, and David J. Frear, our Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as that term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act). Based on that evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of March 31, 2011. There has been no change in our internal control over financial reporting (as that term is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act) during the quarter ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

*State Consumer Investigations.* A Multistate Working Group of 28 State Attorneys General, led by the Attorney General of the State of Ohio, is investigating certain of our consumer practices. The investigation focuses on practices relating to the cancellation of subscriptions; automatic renewal of subscriptions; charging, billing, collecting, and refunding or crediting of payments from consumers; and soliciting customers.

A separate investigation into our consumer practices is being conducted by the Attorney General of the State of Florida. In addition, in September 2010, the Attorney General of the State of Missouri commenced an action against us in Missouri Circuit Court, Twenty-Second Judicial Circuit, St. Louis, Missouri, alleging violations of the Missouri Telemarketing No-Call List Act. The suit seeks a permanent injunction prohibiting us from making, or causing to be made, telephone solicitations to our subscribers in the State of Missouri who are on Missouri's no-call list, statutory penalties and reimbursement of costs. We believe our telemarketing activities to our subscribers in Missouri fully comply with applicable law.

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

*Carl Blessing et al. v. Sirius XM Radio Inc.* A subscriber, Carl Blessing, filed a lawsuit against us in the United States District Court for the Southern District of New York. Mr. Blessing's lawsuit has been consolidated with substantially identical lawsuits brought by other subscribers. Mr. Blessing and 23 other plaintiffs purport to represent all subscribers who were subject to: an increase in the price for additional-radio subscriptions from \$6.99 to \$8.99; the imposition of the US Music Royalty Fee; and the elimination of our free streaming internet service. Based on these pricing changes, the suit raises four claims. First, the suit claims the pricing changes show that the Merger lessened competition or led to a monopoly in violation of the Clayton Act. Second, it claims that, for the same reason, the Merger led to monopolization in violation of the Sherman Act. Third, it claims that our subscriber service agreement misrepresents that the US Music Royalty Fee will be used exclusively to defray increases in royalty costs incurred since the filing of the merger application with the FCC (and as permitted by the FCC order) in violation of the consumer protection and unfair trade practice laws of 41 states and the District of Columbia. A fourth claim—that the alleged misrepresentation violates the implied duty of good faith and fair dealing we owe our subscribers under New York contract law—has been dismissed by the court. The complaint seeks monetary damages as well as treble damages

under the Clayton Act.

In March 2011, the court granted our motion for summary judgment and dismissed the plaintiffs' claims that our subscriber service agreement misrepresents that the US Music Royalty Fee will be used exclusively to defray increases in royalty costs incurred.



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since the filing of the merger application with the FCC (and as permitted by the FCC order) in violation of the consumer protection and unfair trade practice laws of 41 states and the District of Columbia. At the same time, the Court granted the plaintiff's motion to certify as a class action, and denied our motion for summary judgment, the remaining claims that the Merger lessened competition, or led to a monopoly, in violation of the Clayton Act and led to monopolization in violation of the Sherman Act. A trial in this matter is expected to be scheduled for this summer. We believe that the plaintiffs' claims are without merit and we are vigorously defending ourselves in this litigation.

A stockholder, Mark Fialkov, also filed a shareholder derivative suit in the Supreme Court of the State of New York claiming that, by allowing the price increases that prompted the Blessing litigation, our board of directors breached its duty of loyalty to the corporation. The action names as defendants Sirius XM and fifteen individuals—all directors or former directors of Sirius XM. This lawsuit has been stayed pending resolution of the Blessing litigation.

*One Twelve, Inc. and Don Buchwald v. Sirius XM Radio Inc.* In March 2011, One Twelve, Inc., Howard Stern's production company, and Don Buchwald, Stern's agent, commenced an action against us in the Supreme Court of the State of New York, County of New York. The action alleges that, upon the Merger, we failed to honor our obligations under the performance-based compensation provisions of our prior agreement dated October 2004 with One Twelve and Buchwald, as agent; One Twelve and Buchwald each assert a claim of breach of contract. More specifically, the complaint alleges that subscribers to the XM Satellite Radio service should have been counted as Sirius subscribers following the Merger for purposes of provisions entitling One Twelve and Buchwald to compensation in the event that the number of Sirius subscribers exceeded the projected growth amounts of Sirius subscribers by certain magnitudes specified in the 2004 agreement for each year of that agreement. The suit seeks damages, plus interest and costs, in an amount to be determined. We believe that the claims are without merit and intend to vigorously defend this action.

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

### **ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors previously disclosed in response to Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2010.

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

Not applicable.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

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

### **ITEM 5. OTHER INFORMATION**

Not applicable.

### **ITEM 6. EXHIBITS**

See Exhibit Index attached hereto.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 3<sup>rd</sup> day of May 2011.

SIRIUS XM RADIO INC.

By: /s/ David J. Frear

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

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**EXHIBIT INDEX**

| <b>Exhibit</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1            | Certificate of Ownership and Merger, dated January 12, 2011 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated January 12, 2011).                                                                                                                                                                                        |
| 4.1            | Supplemental Indenture, dated January 12, 2011, by and among XM Satellite Radio Inc., the Company, certain subsidiaries thereof and The Bank of New York Mellon, as trustee, relating to the 13% Senior Notes due 2013 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 12, 2011).                          |
| 4.2            | Supplemental Indenture, dated January 12, 2011, by and among XM Satellite Radio Inc., the Company, certain subsidiaries thereof and The Bank of New York Mellon, as trustee, relating to the 7% Exchangeable Senior Subordinated Notes due 2014 (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on January 12, 2011). |
| 4.3            | Supplemental Indenture, dated January 12, 2011, by and among XM Satellite Radio Inc., the Company, certain subsidiaries thereof and U.S. Bank National Association, as trustee, relating to the 7.625% Senior Notes due 2018 (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed on January 12, 2011).                    |
| 4.4            | Supplemental Indenture, dated January 12, 2011, by and among the Company, certain subsidiaries thereof and U.S. Bank National Association, as trustee, relating to the 8.75% Senior Notes due 2015 (incorporated by reference to Exhibit 4.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010).                                  |
| 4.5            | Supplemental Indenture, dated January 12, 2011, by and among the Company, certain subsidiaries thereof and U.S. Bank National Association, as trustee, relating to the 9.75% Senior Secured Notes due 2015 (incorporated by reference to Exhibit 4.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010).                          |
| 4.6            | Collateral Agreement, dated January 12, 2011, by and among the Company, certain subsidiaries thereof and U.S. Bank National Association, as collateral agent, relating to the 9.75% Senior Secured Notes due 2015 (incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K filed on January 12, 2011).                               |
| 10.1*          | First Amendment, dated as of February 14, 2011, to the Employment Agreement, dated as of October 14, 2009, between the Company and James E. Meyer (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 15, 2011).                                                                                             |
| 31.1           | Certificate of Mel Karmazin, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).                                                                                                                                                                                                                                 |
| 31.2           | Certificate of David J. Frear, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).                                                                                                                                                                                                  |
| 32.1           | Certificate of Mel Karmazin, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).                                                                                                                                                                                  |

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- 32.2 Certificate of David J. Frear, Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 101.1\*\* The following information from Sirius XM Radio Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 formatted in XBRL: (i) Unaudited Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010; (ii) Consolidated Balance Sheets as of March 31, 2011 (Unaudited) and December 31, 2010; (iii) Unaudited Consolidated Statements of Stockholders' Equity as of March 31, 2011 and Comprehensive Income for the
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| <b>Exhibit</b> | <b>Description</b>                                                                                                                                                                                                                 |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                | three months ended March 31, 2011; (iv) Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2010; and (v) Notes to Unaudited Consolidated Financial Statements tagged as blocks of text. |

\* This document has been identified as a management contract or compensatory plan or arrangement.

\*\* Furnished with this Form 10-Q.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.