

SIRIUS XM RADIO INC.
Form 10-K
February 25, 2010

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

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

**FOR FISCAL YEAR ENDED DECEMBER 31, 2009
OR**

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

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

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

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

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

**10020
(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Stock, par value \$0.001 per share	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

**None
(Title of class)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No
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

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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
The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 30, 2009 was \$1,670,079,432. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be affiliates of the registrant.

The number of shares of the registrant's common stock outstanding as of February 23, 2010 was 3,884,668,860.

Documents Incorporated by Reference

Information included in our definitive proxy statement for our 2010 annual meeting of stockholders scheduled to be held on Thursday, May 27, 2010 is incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this report.

**SIRIUS XM RADIO INC.
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EXPLANATORY NOTE

Sirius XM Radio Inc. has two principal wholly-owned subsidiaries, XM Satellite Radio Holdings Inc. and Satellite CD Radio Inc. XM Satellite Radio Holdings Inc. owns XM Satellite Radio Inc., the operating company for the XM satellite radio service. Satellite CD Radio Inc. owns the Federal Communications Commission (FCC) license associated with the SIRIUS satellite radio service. XM Satellite Radio Inc. owns XM Radio Inc., the holder of the FCC license associated with the XM satellite radio service.

Unless otherwise indicated,

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

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

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

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

The SIRIUS satellite radio business is conducted by SIRIUS; and the XM satellite radio business is conducted principally by XM under one management team. XM Holdings is primarily a holding company, although XM Holdings owns the former corporate headquarters and data center of XM and leases these buildings to XM; owns the XM-5 and portions of the XM-3 and XM-4 satellites; holds the investment in XM Canada; and holds certain cash accounts.

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 Annual Report on Form 10-K and in other reports and documents published by us from time to time. Any statements about our beliefs, plans, objectives, expectations, assumptions, future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as will likely result, are expected to, will continue, is anticipated, estimated, intend, plan, projection and outlook. Any forward-looking statements are made in their entirety by reference to the factors discussed throughout this Annual Report on Form 10-K and in other reports and documents published by us from time to time, particularly the risk factors described under Risk Factors in Item 1A of this Annual Report on Form 10-K.

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

general economic conditions, which has adversely affected our business;

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

the useful life of our satellites, which have experienced component failures including, with respect to a number of satellites, failures on their solar arrays, and, in certain cases, are not insured; and

the competitive position of SIRIUS and XM versus other forms of audio and video entertainment including terrestrial radio, HD radio, Internet radio, mobile phones, iPods and other MP3 devices, and emerging next-generation networks and technologies.

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.

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PART I

ITEM 1. BUSINESS

We broadcast our music, sports, news, talk, entertainment, traffic and weather channels in the United States for a subscription fee through our proprietary satellite radio systems – the SIRIUS system and the XM system. In July 2008, our wholly owned subsidiary, Vernon Merger Corporation, merged (the Merger) with and into XM Satellite Radio Holdings Inc. and, as a result, XM Satellite Radio Holdings Inc. is now our wholly owned subsidiary. The SIRIUS system consists of four in-orbit satellites, over 125 terrestrial repeaters that receive and retransmit signals, satellite uplink facilities and studios. The XM system consists of four in-orbit satellites, over 650 terrestrial repeaters that receive and retransmit signals, satellite uplink facilities and studios. Subscribers can also receive certain of our music and other channels over the Internet.

As of December 31, 2009, we had 18,772,758 subscribers. Our subscriber totals include:

- subscribers under our regular and discounted pricing plans;
- subscribers that have prepaid, including payments either made or due from automakers for prepaid subscriptions included in the sale or lease price of a new vehicle;
- certain radios activated for daily rental fleet programs;
- certain subscribers to SIRIUS Internet Radio and XM Online, our Internet services; and
- certain subscribers to our weather, traffic, data and video services.

Our primary source of revenue is subscription fees, with most of our customers subscribing to an annual, semi-annual, quarterly or monthly plan. We offer discounts for prepaid and long-term subscriptions as well as discounts for multiple subscriptions on each platform. Since the Merger, we have introduced new programming packages and made certain changes to the pricing of our services. In October 2008, we introduced best of programming to both SIRIUS and XM subscribers for an additional \$4.04 per month. In March 2009, we increased the price of our discounted second radio subscription plan from \$6.99 to \$8.99 per month. In March 2009, we began offering SIRIUS Internet Radio and XM Online, our Internet services, to our subscribers for an additional \$2.99 per month. Effective July 29, 2009, we began adding a U.S. Music Royalty Fee to subscriber invoices. The U.S. Music Royalty Fee is \$1.98 a month on our base \$12.95 subscriptions and \$.97 for base plans that are eligible for a second radio discount. 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 Backseat TV, data and weather services.

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

Sirius Satellite Radio Inc. was incorporated in the State of Delaware as Satellite CD Radio, Inc. on May 17, 1990. On December 7, 1992, Satellite CD Radio, Inc. changed its name to CD Radio Inc., and Satellite CD Radio, Inc. was formed as a wholly owned subsidiary. On November 18, 1999, CD Radio Inc. changed its name to Sirius Satellite Radio Inc. On August 5, 2008, we changed our name from Sirius Satellite Radio Inc. to Sirius XM Radio Inc. XM Satellite Radio Holdings Inc., together with its subsidiaries, is operated as an unrestricted subsidiary under the agreements governing our existing indebtedness. As an unrestricted subsidiary, transactions between the companies are required to comply with various covenants in our respective debt instruments.

Programming

We offer a dynamic programming lineup of more than 135 channels of commercial-free music, sports, news, talk, entertainment, and traffic and weather on each of the SIRIUS platform and the XM platform – of which 104 channels are available to subscribers on both platforms. The channel line-ups for the SIRIUS service and the XM service vary in certain respects and are available at sirius.com and xmradio.com.

Our subscription packages allow most listeners to customize and enhance our standard programming lineup. Our Best of SIRIUS package offers to XM subscribers the Howard Stern channels, Martha Stewart Living Radio, SIRIUS NFL Radio, SIRIUS NASCAR Radio, Playboy Radio and play-by-play NFL games and college sports programming. Our Best of XM package offers to SIRIUS subscribers Oprah Radio, The Virus, XM Public Radio, MLB Home Plate, NHL Home Ice, The PGA Tour Network, and select play-by-play of NBA and NHL games and college sports

programming.

Subscribers with a la carte-capable radios may customize the programming they receive through our a la carte subscription packages. We also offer family friendly, mostly music and mostly sports, news and talk packages. We make changes to our programming lineup from time to time as we strive to attract new subscribers and offer content that appeals to a broad range of audiences and to our existing subscribers.

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Music Programming

The SIRIUS platform offers 69 channels and the XM platform offers 71 channels of commercial-free music. Each platform offers an extensive selection of music genres, ranging from rock, pop and hip-hop to country, dance, jazz, Latin and classical. Within each genre we offer a range of formats, styles and recordings.

All of our original music channels are broadcast commercial free. Certain of our music channels are programmed by third parties and air commercials. Our channels are produced, programmed and hosted by a team of experts in their fields, and each channel is operated as an individual radio station, with a distinct format and branding. We also from time to time provide special features, such as our *Artist Confidential* series which provides interviews and performances from some of the biggest names in music, and an array of pop up channels featuring the music of particular artists.

Sports Programming

Live play-by-play sports is an important part of our programming strategy. We are the Official Satellite Radio Partner of the National Football League (NFL), Major League Baseball (MLB), NASCAR, Formula One, NBA, NHL, and the PGA Tour, and broadcast most major college sports, including NCAA Division I football and basketball games.

Soccer coverage includes matches from the Barclays English Premier League and UEFA Champions League. We also air FIS Alpine Skiing and World Cup events and horse racing.

We offer many exclusive talk channels and programs such as MLB's Home Plate, SIRIUS NASCAR Radio, SIRIUS NFL Radio and Chris Mad Dog Russo's *Mad Dog Unleashed* on Mad Dog Radio, as well as simulcasts of select ESPN television shows, including *SportsCenter*.

Talk and Entertainment Programming

We offer a multitude of talk and entertainment channels for a variety of audiences. Our diverse spectrum of talk programming is a significant differentiator from terrestrial radio and other audio entertainment providers.

In January 2006, Howard Stern moved his radio show to SIRIUS from terrestrial radio and now programs two of our channels. Our agreement with Stern expires on December 31, 2010. Our talk radio offerings also feature dozens of popular talk personalities, many creating radio shows that air exclusively on our services, including Oprah Winfrey, Martha Stewart, Rosie O'Donnell, Barbara Walters, Opie and Anthony, Bob Edwards, Senator Bill Bradley, Deepak Chopra and doctors from the NYU Langone Medical Center.

Our comedy channels present a range of humor such as Jamie Foxx's The Foxxhole, Laugh USA, Blue Collar Comedy and Raw Dog Comedy. Other talk and entertainment channels include SIRIUS XM Book Radio, Kids Place Live and Radio Disney, as well as OutQ, Road Dog Trucking and Playboy Radio.

Our religious programming includes The Catholic Channel, which is programmed with the Archdiocese of New York; EWTN, a Global Catholic Radio Network; and Family Talk and Family Net Radio.

News and Information Programming

We offer a wide range of national, international and financial news, including news from BBC World Service News, Bloomberg Radio, CNBC, CNN, FOX News, NPR and World Radio Network.

We also offer continuous, local traffic reports for 21 metropolitan markets throughout the United States on the XM service, and 20 metropolitan markets throughout the United States on the SIRIUS service. We broadcast these reports, together with local and national weather reports from The Weather Channel.

We also air a range of political call-in talk shows on a variety of channels including our exclusive channel, POTUS.

Distribution of Radios

Automakers

Our primary means of distributing satellite radios is through the sale and lease of new vehicles. We have agreements with every major automaker—Acura/Honda, Aston Martin, Audi, Automobili Lamborghini, Bentley, BMW, Chrysler, Dodge, Ferrari, Ford, General Motors, Honda, Hyundai, Infiniti/Nissan, Jaguar, Jeep, Kia, Land Rover, Lincoln, Lexus, Toyota, Scion, Subaru, Maybach, Mazda, Mercedes-Benz, Mercury, MINI, Mitsubishi, Porsche, Rolls-Royce, Volvo and Volkswagen—to offer either SIRIUS or XM satellite radios as factory or dealer-installed equipment in their vehicles. As of December 31, 2009, satellite radios were available as a factory or dealer-installed option in substantially all vehicle models sold in the United States.

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Many automakers include a subscription to our radio service in the sale or lease price of their vehicles. In many cases, we receive subscription payments from automakers in advance of the activation of our service. We share with certain automakers a portion of the revenues we derive from subscribers using vehicles equipped to receive our service. We also reimburse various automakers for certain costs associated with the satellite radios installed in their vehicles, including in certain cases hardware costs, tooling expenses and promotional and advertising expenses.

Retail

We sell satellite radios directly to consumers through our websites. Satellite radios are also marketed and distributed through major national and regional retailers. We develop in-store merchandising materials and provide sales force training for several retailers.

Previously Owned Vehicles

We expect to acquire an increasing number of subscribers through the sale and lease of previously owned vehicles with factory installed satellite radios. We have entered into agreements with several automakers to market subscriptions to purchasers and lessees of vehicles which include satellite radios sold through their certified pre-owned programs.

We intend to develop systems and methods to identify purchasers and lessees of used vehicles which include satellite radios, and expect to make other efforts to market and sell satellite radio subscriptions to owners of used vehicles.

Our Satellite Radio Systems

Our satellite radio systems are designed to provide clear reception in most areas despite variations in terrain, buildings and other obstructions. Subscribers can receive our transmissions in all outdoor locations where the satellite radio has an unobstructed line-of-sight with one of our satellites or is within range of one of our terrestrial repeaters. We continually monitor our infrastructure and regularly evaluate improvements in technology.

The FCC has allocated the portion of the S-band located between 2320 MHz and 2345 MHz exclusively for satellite radio. Each of SIRIUS and XM uses 12.5 MHz of this bandwidth to transmit its respective signals. Uplink transmissions (from the ground to our satellites) use 12.5 MHz of bandwidth in the 7060-7072.5 MHz band.

Our satellite radio systems have three principal components:

- satellites, terrestrial repeaters and other satellite facilities;
- studios; and
- satellite radios.

Satellites, Terrestrial Repeaters and Other Satellite Facilities

SIRIUS Satellites. SIRIUS owns and operates four orbiting satellites, and owns a spare satellite that is in storage. Space Systems/Loral delivered the first three of SIRIUS operating satellites in 2000, its spare satellite to ground storage in 2002, and its fourth operating satellite in 2009. The SIRIUS satellites are of the Loral FS-1300 model series.

Three of SIRIUS orbiting satellites travel in a figure eight pattern extending above and below the equator, and spend approximately 16 hours per day north of the equator. At any time, two of these three orbiting satellites operate north of the equator while the third satellite does not transmit as it traverses the portion of the orbit south of the equator. This orbital configuration yields high signal elevation angles, reducing service interruptions from signal blockage. SIRIUS fourth operating satellite is deployed in a geostationary orbit at 96° West Longitude. This provides redundant coverage and enhances performance of our satellite constellation.

Space Systems/Loral is constructing a sixth satellite for use in the SIRIUS system. This satellite is also a Loral FS-1300 model satellite. SIRIUS has an agreement with International Launch Services to launch this satellite on a Proton rocket, and expects to launch this sixth satellite in the fourth quarter of 2011. SIRIUS plans to deploy this satellite in a geostationary orbit at 115° West Longitude.

XM Satellites. XM owns four orbiting satellites; two of which, XM-3 and XM-4, currently transmit the XM signal and two of which, XM-1 and XM-2, serve as in-orbit spares. Each of these satellites was manufactured by Boeing Satellite Systems International. The XM satellites were launched in March 2001, May 2001, February 2005 and October 2006, respectively. The XM satellites are deployed in geostationary orbits at 85° West Longitude and 115° West Longitude. Space Systems/Loral is constructing a fifth satellite, XM-5, for use in the XM system. XM-5 is a Loral FS-1300 model satellite. XM has an agreement with International Launch Services to launch XM-5 during the third quarter of

2010 on a Proton rocket.

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Satellite Insurance. SIRIUS does not maintain in-orbit insurance for three of its four operating satellites. XM currently has in-orbit insurance on XM-3 and XM-4, its primary operating satellites, but does not carry insurance coverage for XM-1 and XM-2, its in-orbit spare satellites.

These policies provide coverage for a total, constructive total or partial loss of the satellites that occurs during annual (or multi-year) in-orbit periods. The insurance does not cover the full cost of constructing, launching and insuring new satellites, nor will it protect us from the adverse effect on business operations due to the loss of a satellite. The policies contain standard commercial satellite insurance provisions, including coverage exclusions.

Terrestrial Repeaters. In some areas with high concentrations of tall buildings, such as urban centers, signals from our satellites may be blocked and reception of satellite signals can be adversely affected. In many of these areas, we have deployed terrestrial repeaters to supplement satellite coverage. SIRIUS operates over 125 terrestrial repeaters; XM operates over 650 terrestrial repeaters.

Other Satellite Facilities. SIRIUS controls and communicates with its satellites from an uplink facility in New Jersey. These activities include routine satellite orbital maneuvers and monitoring of the satellites. SIRIUS also maintains earth stations in Panama and Ecuador to control and communicate with its satellites. XM's satellites are monitored, tracked and controlled by Telesat Canada, a satellite operator. In addition, XM and SIRIUS operate backup stations in the United States.

Studios

The programming on the SIRIUS and XM systems originates principally from studios in New York City and Washington D.C., and, to a lesser extent, from smaller studio facilities in Chicago, Cleveland, Los Angeles, Memphis, Nashville and Orlando. Our New York City offices house our corporate headquarters. Both our New York City and Washington D.C. offices house facilities for programming origination, programming personnel and facilities to transmit programming.

Satellite Radios

We design, establish specifications for, source or specify parts and components for, and manage various aspects of the logistics and production of SIRIUS and XM radios. We do not manufacture radios. We have authorized manufacturers to produce and distribute SIRIUS and XM brand radios, and have licensed our technology to various electronics manufacturers to develop, manufacture and distribute radios under various consumer brands. We directly import certain radios distributed through our websites. Due to differences in technology, SIRIUS and XM radios require distinct chip sets to receive and output the respective satellite radio services. To facilitate the sale of SIRIUS and XM radios, we often subsidize a portion of the radio manufacturing costs to reduce the hardware price to consumers. SIRIUS and XM radios are manufactured in three principal configurations – as in-dash radios, Dock & Play radios and portable or wearable radios.

In-dash radios are integrated into vehicles and allow the user to listen to AM, FM or satellite radio with the push of a button. Aftermarket in-dash radios are available at retailers nationally, and to automakers for factory or dealer installation.

Dock & Play radios enable subscribers to transport their SIRIUS or XM radios easily to and from their cars, trucks, homes, offices, boats or other locations with available adapter kits. Dock & Play radios adapt to existing audio systems through FM modulation or direct audio connection and can be easily installed. Audio systems and boom boxes, which enable subscribers to use their SIRIUS and XM radios virtually anywhere, are available for various models of Dock & Play radios. The SIRIUS Stratus 6 and SIRIUS Starmate 5 Dock & Play radios also support a la carte channel selection.

Portable or wearable radios offer live satellite radio on the go and recorded satellite, MP3 and WMA content. The XMp3 allows consumers to record up to one hundred hours of XM and Best of Sirius programming, and is capable of recording up to five channels simultaneously. The Stiletto 2 allows consumers to record up to 100 hours of SIRIUS and Best of XM programming and can connect to the SIRIUS Internet Radio service through an accessible Wi-Fi network.

SIRIUS and XM home units that provide our satellite services to home and commercial audio systems are also available.

We have introduced an interoperable radio, called MiRGE, containing both SIRIUS and XM chip sets. This radio has a unified control interface allowing for easy switching between the two satellite radio networks. We have introduced the XM SkyDock, which connects to an Apple iPhone and iPod touch and provides live XM satellite radio using the control capability of the iPhone or iPod touch.

Internet Radio

Both SIRIUS and XM simulcast music channels and select non-music channels over the Internet. Access to SIRIUS Internet Radio and XM Online are offered to subscribers for a fee. In 2009, we introduced new products that provide access to our internet radio services in the home, such as clock radios, without the need for a personal computer. We also developed and introduced an application for the Apple iPhone and iPod touch that permits consumers to access SIRIUS Internet Radio and XM Online on such devices. We expect to introduce similar applications to allow consumers to access SIRIUS Internet Radio and XM Online on other personal mobile devices. Subscribers to SIRIUS Internet Radio and XM Online are not included in our subscriber count, unless the service is purchased separately and not as part of a subscription to the SIRIUS or XM satellite radio service.

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International

Canada. We have an interest in the satellite radio services offered in Canada. SIRIUS Canada, a Canadian corporation that we jointly own with Canadian Broadcasting Corporation and Slaight Communications Inc., offers a satellite radio service in Canada. SIRIUS Canada offers 120 channels of commercial-free music and news, sports, talk and entertainment programming, including 12 channels offering Canadian content. XM Canada, a Canadian corporation in which we have an ownership interest, also offers satellite radio service in Canada. XM Canada offers 130 channels of music and news, sports, talk and entertainment programming. Subscribers to the SIRIUS Canada service and the XM Canada service are not included in our subscriber count.

Mexico. We have entered into a letter of intent with a Mexican company, ACIR DARS Mexico, S. de R.L. de C.V., to pursue a license to offer satellite radio in Mexico. ACIR DARS Mexico has filed an application for a license to offer satellite radio with the Mexican government. The letter of intent contemplates us receiving a royalty from ACIR DARS Mexico as well as an option to acquire an equity interest in such Mexican business.

Other regions. We are in discussions with various parties regarding possible joint ventures in other countries.

Other Services

Commercial Accounts. The SIRIUS and XM music services are also available for commercial establishments.

Commercial accounts are available through providers of in-store entertainment solutions and directly from SIRIUS and XM. Commercial subscribers are included in our subscriber count.

Satellite Television Services. We offer music channels as part of certain programming packages on the DISH Network satellite television service. Our agreement to offer music channels as part of programming packages on the DirecTV satellite television service terminated in February 2010. Subscribers to the DISH Network satellite television service are not included in our subscriber count.

SIRIUS and XM Content Through Mobile Phone Carriers. SIRIUS and XM offer between 20 and 25 music and comedy channels to mobile phone users through relationships with AT&T, Alltel, Sprint and RIM. Subscribers to these services are not included in our subscriber count.

Subscribers to the following services are not included in our subscriber count, unless the applicable service is purchased by the subscriber separately and not as part of a subscription to the SIRIUS or XM satellite radio service: *SIRIUS Backseat TV.* SIRIUS offers SIRIUS Backseat TV, a service offering television content designed primarily for children in the backseat of vehicles. SIRIUS Backseat TV is available as a factory-installed option in select Chrysler, Dodge and Jeep models, and at retail for aftermarket installation.

SIRIUS Travel Link. SIRIUS offers SIRIUS Travel Link, a suite of data services that includes real-time traffic, tabular and graphical weather, fuel prices, sports schedules and scores, and movie listings.

Real-Time Traffic Services. Both XM and SIRIUS offer services that provide graphic information as to road closings, traffic flow and incident data to consumers with compatible in-vehicle navigation systems.

Real-Time Weather Services. XM and SIRIUS offer several real-time weather services designed for in-vehicle, marine and/or aviation use.

FCC Conditions

In order to demonstrate to the FCC that the Merger was in the public interest, we agreed to implement a number of voluntary commitments. These programming, public interest and qualified entity channels, equipment, subscription rates, and other service commitments are summarized as follows:

Programming

A La Carte Programming: We offer the a la carte programming options described below to consumers with eligible radios:

50 channels are available for \$6.99 a month. Additional channels can be added for 25 cents each, with premium programming priced at additional cost. However, in no event will a customer subscribing to this a la carte option pay more than \$12.95 per month for this programming.

100 channels, including channels from both services, are available on an a la carte basis for \$14.99 a month.

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Our a la carte packages allow subscribers to pick, through interactive menus available on the Internet, the specific channels they would like to receive. We have introduced these packages, including channels from both services, and a radio capable of receiving them.

Best of Both Programming: We offer customers the ability to receive the best of both SIRIUS and XM programming at a monthly cost of \$16.99.

Mostly Music or News, Sports and Talk Programming: We offer customers an option of mostly music programming or mostly news, sports and talk programming at a cost of \$9.99 per month.

Discounted Family-Friendly Programming: We offer consumers a family-friendly version of existing SIRIUS or XM programming at a cost of \$11.95 a month, representing a discount of \$1.00 per month. We also offer SIRIUS and XM customers a family-friendly version of the best of programming. This programming costs \$14.99 per month, representing a discount of \$2.00 per month from the cost of the best of programming.

Public Interest Channels

We agreed to set aside four percent of the full-time audio channels on the SIRIUS platform and on the XM platform for non-commercial, educational and informational programming within the meaning of the FCC rules that govern similar obligations of direct broadcast satellite providers. We also committed not to select a programmer to fill more than one non-commercial, educational or informational channel on each of the SIRIUS and XM platforms as long as demand by programming providers for such channels exceeds available supply.

Qualified Public Entity Channels

We agreed to enter into long-term leases or other agreements to provide to a Qualified Entity or Entities, defined as an entity or entities that are majority-owned by persons who are African American, not of Hispanic origin; Asian or Pacific Islanders; American Indians or Alaskan Natives; or Hispanics, rights to four percent of the full-time audio channels on the SIRIUS platform and on the XM platform. As digital compression technology enables us to broadcast additional full-time audio channels, we will ensure that four percent of full-time audio channels on the SIRIUS platform and the XM platform are reserved for a Qualified Entity or Entities.

The Qualified Entity or Entities will not be required to make any lease payments for such channels. We will have no editorial control over these channels. The FCC is expected to inform us how it plans to select these Qualified Entities. In February 2009, the FCC commenced a proceeding to determine the method to select these Qualified Entities but has not completed this proceeding. We will implement our commitment to enter into long-term leases or other agreements to provide a Qualified Entity or Entities audio channels on the SIRIUS platform and on the XM platform when the FCC completes its pending proceeding and directs us how to legally implement this requirement.

Equipment

We are required to provide, on commercially reasonable terms, our intellectual property necessary to permit any device manufacturer to develop equipment that can deliver our satellite radio services. Chip sets for satellite radios, which include the encryption, conditional access and security technology necessary to access our satellite radio services, may be purchased by licensees from manufacturers in negotiated transactions with such manufacturers. We have agreed not to enter into any agreement that grants, or that would have the effect of granting, a device manufacturer an exclusive right to manufacture, market and sell equipment that can deliver our satellite radio services. We have also agreed not to execute any agreement or take any other action that would bar, or have the effect of barring, a car manufacturer or other third party from including non-interfering HD radio chips, iPod compatibility, or other audio technology in an automobile or audio device.

Subscription Rates

We have agreed not to raise the retail price for, or reduce the number of channels in, our basic \$12.95 per month subscription package, our a la carte programming packages or our new programming packages described above until July 28, 2011. Under the FCC's order approving the Merger, we may 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. Effective July 29, 2009, we began adding a U.S. Music Royalty Fee to subscriber invoices. The U.S. Music Royalty Fee is \$1.98 a month on our base \$12.95 subscriptions and \$.97 for base plans that are eligible for a second radio discount. Subscription packages, such as our News, Sports and Talk package, that contain little music are not subject to the U.S. Music Royalty Fee. Amounts collected on account of the U.S. Music Royalty Fee are being

used to partially offset payments to the music industry. A summary of the costs passed through pursuant to U.S. Music Royalty Fee is available on our websites.

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Service to Puerto Rico

We agreed to file an application with the FCC to provide the SIRIUS satellite radio service to the Commonwealth of Puerto Rico using terrestrial repeaters. In 2009, the FCC granted us Special Temporary Authority to operate terrestrial repeaters in Puerto Rico, and in late 2009, we introduced the SIRIUS satellite radio service to the Commonwealth.

Interoperable Radios

We agreed to offer for sale an interoperable radio and began offering such radio in early 2009.

Local Programming and Advertising

We have committed not to originate local programming or advertising through our repeater networks.

Transactions between SIRIUS, XM Holdings and XM

Promptly following the Merger, SIRIUS and XM began to integrate their operations, and agreed to share the costs of certain day-to-day functions. For example, XM transferred its employees to SIRIUS, and SIRIUS, in turn, has agreed to provide various services to both companies necessary to support their business, such as product development, sales, marketing, finance, accounting, information technology, programming, human resources, public relations, investor relations, legal and other general management services. XM and SIRIUS share equally the costs of these employees. SIRIUS and XM also agreed to share programming and rationalize their channel line-ups, and to share equally the costs of certain programming that appears on both platforms. In addition, SIRIUS and XM have agreed to jointly market radios and coordinate rebate and warranty support programs to subscribers who purchase radios at retail or via their websites. In general, SIRIUS and XM share equally the costs of this marketing and sales coordination.

SIRIUS and XM have also sought opportunities to jointly increase revenues. SIRIUS and XM have agreed to offer their respective subscribers programming packages that include best of programming from the other service. Each of SIRIUS and XM retains all the respective revenue generated from its respective best of programming package. The companies have also made arrangements to have XM radios offered in RadioShack, a retailer that was previously exclusive to SIRIUS.

XM Holdings and XM are operated as unrestricted subsidiaries under the agreements governing SIRIUS existing debt. As unrestricted subsidiaries, transactions among the companies are required to comply with various contractual provisions in our respective debt instruments. The agreements between XM and SIRIUS are intended to permit both companies to share in the benefits of the inter-company arrangements in approximately equal proportion. The terms of the agreements between XM and SIRIUS are intended to be no more favorable to one company or the other than those that could be obtained at the time in an arm's-length dealing with an unaffiliated firm or person.

Certain operations have not yet been integrated in any significant respect. SIRIUS and XM expect to enter into additional arrangements as they continue to integrate their operations and pursue opportunities to realize cost savings and increase revenues.

From time to time, we continue to evaluate options to further integrate SIRIUS and XM by completing either or both of a merger between XM Holdings and XM or a merger between us and XM Holdings and/or XM.

Competition

We face significant competition for both listeners and advertisers. In addition to pre-recorded entertainment purchased or playing in cars, homes and using portable players, we compete with the following providers of radio or other audio services:

Traditional AM/FM Radio

SIRIUS and XM compete with traditional AM/FM radio. Many traditional radio companies are substantial entities owning large numbers of radio stations or other media properties. The radio broadcasting industry is highly competitive.

Unlike satellite radio, traditional AM/FM radio has had a well established demand for its services and offers free broadcasts paid for by commercial advertising rather than by a subscription fee. Many radio stations offer information programming of a local nature, such as local news and sports. By attracting listeners to their stations, traditional AM/FM radio reduces the likelihood that customers would be willing to pay for our subscription services and by offering free broadcasts they impose limits on what we can charge for our services. Some AM/FM radio stations have reduced the number of commercials per hour, expanded the range of music played on the air and experimented with new formats in order to lure customers away from satellite radio.

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HD Radio

Many radio stations have begun broadcasting digital signals, which have a clarity similar to our signals. These stations do not charge a subscription fee for their digital signals but do generally carry advertising. A group of major broadcast radio networks have created a coalition to jointly market digital radio services. According to this coalition, nearly 2,000 radio stations are currently broadcasting primary signals with HD Radio technology and broadcasting approximately 1,000 new FM multicast channels (HD2/HD3), and manufacturers are marketing and distributing digital receivers. To the extent that traditional AM/FM radio stations adopt digital transmission technology, any competitive advantage that we enjoy over traditional radio because of our clearer digital signal would be lessened. Traditional AM/FM broadcasters are also aggressively entering Internet radio and wireless internet-based distribution arrangements. Approximately 15 automakers have committed to installing HD Radio equipment as either a factory standard or factory option, including Ford, Volkswagen, BMW, Mercedes-Benz, Kia and Hyundai.

Internet Radio

Internet radio broadcasts have no geographic limitations and can provide listeners with radio programming from around the country and the world. Major media companies and online-only providers, including Clear Channel, CBS, and Pandora, make high fidelity digital streams available through the Internet for free or, in some cases, for a fraction of the cost of a satellite radio subscription. In addition, there has been wide proliferation of mobile Internet enabled smartphones, many of which have the capability of interfacing with vehicles. These smartphones can typically play recorded or cached content and access live Internet radio via browsers or dedicated applications. Internet based radio products have also been announced for vehicles, although their adoption is currently nascent. The past few years have seen a steady increase in the audio quality of Internet radio streams and in the amount of audio content available via the Web, resulting in a steady increase in Internet radio audience metrics. We expect that improvements from higher bandwidths and wider programming selection are likely to continue making Internet radio an increasingly significant competitor in the near future. These services already compete directly with SIRIUS and XM's Internet offerings and with our home line of products through the use of home stereo media adapters, media-centric PCs, and specialized IP-based audio consoles.

Portable Audio Devices

The Apple iPod® is a portable digital music player that allows users to download and purchase music through Apple's iTunes® Music Store, as well as convert music on compact disc to digital files. iPods® are compatible with certain car stereos and various home speaker systems, and certain automakers have entered into arrangements with manufacturers of portable media players that are expected to enhance this compatibility. Availability of music in the public MP3 audio standard has been growing in recent years with sound files available on the websites of online music retailers, artists and record labels and through numerous file sharing software programs. In addition, many emerging artists give away their music for free via blogs and other websites in order to increase live event ticket sales, which are often more profitable to emerging artists than music sales. These MP3 files can be played instantly, burned to a compact disc or stored in various portable players available to consumers. Internet-based audio formats are becoming increasingly competitive as quality improves and costs are reduced. In addition, many current generation portable audio devices, such as the iPod touch, also contain WiFi connections enabling direct Internet connections for purchasing additional music or streaming music that is not stored on the local device.

Direct Broadcast Satellite and Cable Audio

A number of companies provide specialized audio services through either direct broadcast satellite or cable audio systems. These services are targeted to fixed locations, mostly in-home. The radio service offered by direct broadcast satellite and cable audio is often included as part of a package of digital services with video service, and video customers generally do not pay an additional monthly charge for the audio service.

Digital Media Services

We face increased competition from businesses that deliver or plan to deliver media content through mobile phones and other wireless devices. The audio entertainment marketplace continues to evolve rapidly, with a steady emergence of new media platforms and portable devices that compete with the XM and SIRIUS services now or that could compete with those services in the future.

Traffic News Services

A number of providers also compete with the XM and SIRIUS traffic services. Clear Channel and Tele Atlas deliver nationwide traffic information for the top 50 markets to in-vehicle navigation systems using RDS/TMC, the radio broadcast standard technology for delivering traffic and travel information to drivers. The in-dash navigation market in which we primarily compete is also being threatened by increasingly capable smartphones that provide advanced navigation functionality, including live traffic. For instance, the Motorola Droid, Google Nexus One, Palm Pre, and Apple iPhone 3GS all include GPS functionality with turn-by-turn navigation although these services often require more expensive data plans or other fees.

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Government Regulation

As operators of a privately owned satellite system, we are regulated by the FCC under the Communications Act of 1934, principally with respect to:

- the licensing of our satellite systems;
- preventing interference with or to other users of radio frequencies; and
- compliance with FCC rules established specifically for U.S. satellites and satellite radio services.

Any assignment or transfer of control of our FCC licenses must be approved by the FCC. The FCC's order approving the Merger requires us to comply with certain voluntary commitments we made as part of the FCC merger proceeding. We believe we comply with those commitments.

In 1997, XM and SIRIUS was each a winning bidder for an FCC license to operate a satellite digital audio radio service and provide other ancillary services. SIRIUS' FCC licenses for its satellites expire in 2017. XM's FCC licenses for its satellites expire in 2013 and 2014. We anticipate that, absent significant misconduct on our part, the FCC will renew our licenses to permit operation of our satellites for their useful lives, and grant a license for any replacement satellites.

SIRIUS has entered into an agreement with Space Systems/Loral to design and construct a sixth satellite. In September 2008, the FCC granted SIRIUS' application to amend its license to add this satellite to the existing SIRIUS satellite constellation.

In some areas with high concentrations of tall buildings, such as urban centers, signals from our satellites may be blocked and reception can be adversely affected. In many of these areas, we have installed terrestrial repeaters to supplement our satellite signal coverage. The FCC has not yet established rules governing terrestrial repeaters. Rulemaking on the subject has been initiated by the FCC and is still pending. Many comments have been filed as part of this and related rulemakings. The comments cover many topics relating to the operation of our terrestrial repeaters, but principally seek to protect adjoining wireless services from interference. We cannot predict the outcome or timing of these FCC proceedings and the final rules adopted by the FCC may limit our ability to deploy additional terrestrial repeaters, require us to reduce the power of our existing terrestrial repeaters or fail to protect us from interference by adjoining spectrum holders. In the interim, the FCC has granted XM and SIRIUS special temporary authority (STA) to operate their terrestrial repeaters and offer service on a non-harmful interference basis to other wireless services. Following the FCC's review of whether certain repeaters had been operating at variance to the specifications in their STAs, both XM and SIRIUS entered into consent decrees in 2008 requiring both remedial action and a voluntary contribution to the federal government. We believe the repeaters operated by SIRIUS and XM comply with the consent decrees, the STAs and applicable FCC rules.

We design, establish specifications for, source or specify parts and components for, manage various aspects of the logistics and production of, and, in most cases, obtain FCC certifications for, satellite radios, including satellite radios that include FM modulators. Part 15 of the FCC's rules establish a number of requirements relating to FM modulators, including emissions and frequency rules. Following the FCC's review of whether the FM transmitters in certain XM and SIRIUS radios comply with the FCC's emissions and frequency rules, we entered into consent decrees in 2008 requiring both remedial action and a voluntary contribution to the federal government. We believe our radios that are in production comply with the consent decree and applicable FCC rules.

We are required to obtain export licenses from the United States government to deliver components of our satellite radio systems and related technical data thereto. In addition, the delivery of satellites and the supply of related ground control equipment, technical data, and satellite communication/control services to destinations outside the United States and to foreign persons is subject to strict export control and prior approval requirements from the United States government (including prohibitions on the sharing of certain satellite-related goods and services with China). Changes in law or regulations relating to communications policy or to matters affecting our services could adversely affect our ability to retain our FCC licenses or the manner in which we operate.

Copyrights to Programming

In connection with our music programming, we must negotiate and enter into royalty arrangements with two sets of rights holders: holders of copyrights in musical works (that is, the music and lyrics) and holders of copyrights in sound recordings (that is, the actual recording of a work).

Musical works rights holders, generally songwriters and music publishers, are represented by performing rights organizations such as the American Society of Composers, Authors and Publishers (ASCAP), Broadcast Music, Inc. (BMI), and SESAC, Inc. (SESAC). These organizations negotiate fees with copyright users, collect royalties and distribute them to the rights holders. We have arrangements with all of these organizations.

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Sound recording rights holders, typically large record companies, are primarily represented by SoundExchange, an organization which negotiates licenses, and collects and distributes royalties on behalf of record companies and performing artists. Under the Digital Performance Right in Sound Recordings Act of 1995 and the Digital Millennium Copyright Act of 1998, we may negotiate royalty arrangements with the sound recording copyright owners, or if negotiation is unsuccessful, the royalty rate is established by the Copyright Royalty Board (the CRB) of the Library of Congress. In January 2008, the CRB issued a decision regarding the royalty rate payable by SIRIUS and XM under the statutory license covering the performance of sound recordings over their satellite radio services for the six-year period starting January 1, 2007 and ending December 31, 2012. Our next rate settling proceeding before the CRB is scheduled to commence in January 2011. Under the terms of the CRB's decision, we paid a royalty of 6.0%, 6.0% and 6.5% of gross revenues, subject to certain exclusions, for 2007, 2008 and 2009, respectively. Under this decision, we will pay a royalty of 7.0% for 2010, 7.5% for 2011 and 8.0% for 2012.

Trademarks

SIRIUS has registered, and intends to maintain, the trademark SIRIUS and the Dog design logo with the United States Patent and Trademark Office (the PTO) in connection with the transmission services offered by it. SIRIUS is not aware of any material claims of infringement or other challenges to its right to use the SIRIUS trademark or the Dog design logo in the United States. SIRIUS also has registered, and intends to maintain, trademarks for the names of certain of its channels. SIRIUS has also registered the trademark, SIRIUS, and the Dog design logo, in Canada. SIRIUS has granted a license to use its trademark in Canada to SIRIUS Canada.

XM has registered, and intends to maintain, the trademark XM with the PTO in connection with the transmission services offered by it. XM is not aware of any material claims of infringement or other challenges to its right to use the XM trademark in the United States. XM also has registered, and intends to maintain, trademarks for the names of certain of its channels. XM has also registered the trademark, XM, and the logo, in Canada. XM has granted a license to use its trademark in Canada to XM Canada.

Personnel

As of December 31, 2009, we had 1,514 full-time employees. In addition, we rely upon a number of part-time employees, consultants, other advisors and outsourced relationships. None of our employees is represented by a labor union, and we believe that our employee relations are good.

Corporate Information

Our executive offices are located at 1221 Avenue of the Americas, 36th floor, New York, New York 10020 and our telephone number is (212) 584-5100. Our internet address is siriusxm.com. Our annual, quarterly and current reports, and amendments to those reports, filed or furnished pursuant to Section 14(a) or 15(d) of the Securities Exchange Act of 1934 may be accessed free of charge through our website after we have electronically filed such material with, or furnished it to, the SEC. Siriusxm.com (including any other reference to such address in this Annual Report) is an inactive textual reference only, meaning that the information contained on or accessible from the website is not part of this Annual Report on Form 10-K and is not incorporated in this report by reference.

XM Holdings and XM also file and furnish annual, quarterly and current reports, and amendments to those reports, pursuant to the Securities Exchange Act of 1934, and those reports may be accessed free of charge through xmradio.com after XM Holdings and XM have electronically filed such material with, or furnished it to, the SEC. Xmradio.com (including any other reference to such address in this Annual Report) is an inactive textual reference only, meaning that the information contained on or accessible from the website is not part of this Annual Report on Form 10-K and is not incorporated in this report by reference.

Executive Officers of the Registrant

Certain information regarding our executive officers is provided below:

Name	Age	Position
Mel Karmazin	66	Chief Executive Officer
Scott A. Greenstein	50	President and Chief Content Officer
James E. Meyer	55	President, Operations and Sales
Dara F. Altman	51	Executive Vice President and Chief Administrative Officer

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Patrick L. Donnelly	48	Executive Vice President, General Counsel and Secretary
David J. Frear	53	Executive Vice President and Chief Financial Officer

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Mel Karmazin has served as our Chief Executive Officer and a member of our board of directors since November 2004. Prior to joining us, Mr. Karmazin was President and Chief Operating Officer and a member of the board of directors of Viacom Inc. from May 2000 until June 2004. Prior to joining Viacom, Mr. Karmazin was President and Chief Executive Officer of CBS Corporation from January 1999 and a director of CBS Corporation from 1997 until its merger with Viacom in May 2000. He was President and Chief Operating Officer of CBS Corporation from April 1998 through December 1998. Mr. Karmazin joined CBS Corporation in December 1996 as Chairman and Chief Executive Officer of CBS Radio and served as Chairman and Chief Executive Officer of the CBS Station Group (Radio and Television) from May 1997 to April 1998. Prior to joining CBS Corporation, Mr. Karmazin served as President and Chief Executive Officer of Infinity Broadcasting Corporation from 1981 until its acquisition by CBS Corporation in December 1996. Mr. Karmazin served as Chairman, President and Chief Executive Officer of Infinity from December 1998 until the merger of Infinity Broadcasting Corporation with Viacom in February 2001.

Scott A. Greenstein has served as our President and Chief Content Officer since May 2004. Prior to May 2004, Mr. Greenstein was Chief Executive Officer of The Greenstein Group, a media and entertainment consulting firm. From 1999 until 2002, he was Chairman of USA Films, a motion picture production, marketing and distribution company. From 1997 until 1999, Mr. Greenstein was Co-President of October Films, a motion picture production, marketing and distribution company. Prior to joining October Films, Mr. Greenstein was Senior Vice President of Motion Pictures, Music, New Media and Publishing at Miramax Films, and held senior positions at Viacom Inc.

James E. Meyer has served as our President, Operations and Sales since May 2004. Prior to May 2004, Mr. Meyer was President of Aegis Ventures Incorporated, a consulting firm that provides general management services. From December 2001 until 2002, Mr. Meyer served as special advisor to the Chairman of Thomson S.A., a leading consumer electronics company. From January 1997 until December 2001, Mr. Meyer served as the Senior Executive Vice President for Thomson as well as the Chief Operating Officer for Thomson Consumer Electronics. From 1992 until 1996, Mr. Meyer served as Thomson's Senior Vice President of Product Management. Mr. Meyer is a director of ROVI Corporation.

Dara F. Altman has served as our Executive Vice President and Chief Administrative Officer since September 2008. From January 2006 until September 2008, Ms. Altman served as Executive Vice President, Business and Legal Affairs, of XM. Ms. Altman was Executive Vice President of Business Affairs for Discovery Communications from 1997 to 2005. From 1993 to 1997, Ms. Altman served as Senior Vice President and General Counsel of Reiss Media Enterprises, which owned Request TV, a national pay-per-view service. Before Request TV, Ms. Altman served as counsel for Home Box Office. Ms. Altman started her career as an attorney at the law firm of Willkie, Farr & Gallagher LLP.

Patrick L. Donnelly has served as our Executive Vice President, General Counsel and Secretary since May 1998. From June 1997 to May 1998, he was Vice President and deputy general counsel of ITT Corporation, a hotel, gaming and entertainment company that was acquired by Starwood Hotels & Resorts Worldwide, Inc. in February 1998. From October 1995 to June 1997, he was assistant general counsel of ITT Corporation. Prior to October 1995, Mr. Donnelly was an attorney at the law firm of Simpson Thacher & Bartlett LLP.

David J. Frear has served as our Executive Vice President and Chief Financial Officer since June 2003. From July 1999 through February 2003, Mr. Frear was Executive Vice President and Chief Financial Officer of Savvis Communications Corporation, a global managed service provider, delivering internet protocol applications for business customers. From October 1999 through February 2003, Mr. Frear also served as a director of Savvis. Mr. Frear was an independent consultant in the telecommunications industry from August 1998 until June 1999. From October 1993 to July 1998, Mr. Frear was Senior Vice President and Chief Financial Officer of Orion Network Systems Inc., an international satellite communications company that was acquired by Loral Space & Communications Ltd. in March 1998. From 1990 to 1993, Mr. Frear was Chief Financial Officer of Millicom Incorporated, a cellular, paging and cable television company. Prior to joining Millicom, he was an investment banker at Bear, Stearns & Co., Inc. and Credit Suisse.

Employment Agreements

Mel Karmazin

In June 2009, we amended our employment agreement with Mel Karmazin. The amendment (i) extended the term of his employment agreement through December 31, 2012, (ii) increased his base salary from \$1,250,000 per year to \$1,500,000 per year beginning on January 1, 2010, and (iii) provided for the grant of an option to purchase 120,000,000 shares of our common stock, at an exercise price of \$0.430 per share (the closing price of our common stock on the date of the amendment).

These options vest in equal installments on each of December 31, 2010, December 31, 2011, June 30, 2012 and December 31, 2012. The vesting of these stock options accelerate upon the termination of Mr. Karmazin's employment by us without cause, by him for good reason, upon his death or disability and in the event of a change of control. These options will generally expire on December 31, 2014; *provided* that if the parties subsequently agree to extend the term of his employment agreement through December 31, 2013 or later, then the term of these options will automatically extend until the later of (i) December 31, 2015 and (ii) the date that is one year following the date that such new employment agreement expires.

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In the event that any payment we make, or benefit we provide, to Mr. Karmazin would require him to pay an excise tax under Section 280G of the Internal Revenue Code, we have agreed to pay Mr. Karmazin the amount of such tax and such additional amount as may be necessary to place him in the exact same financial position that he would have been in if the excise tax was not imposed.

Scott A. Greenstein

In July 2009, we entered into a new employment agreement with Scott A. Greenstein to continue to serve as our President and Chief Content Officer through July 27, 2013. The employment agreement provides for an annual base salary of \$850,000, with an increase to at least \$925,000 on January 1, 2010; at least \$1,000,000 on January 1, 2011; at least \$1,100,000 on January 1, 2012; and at least \$1,250,000 on January 1, 2013. Mr. Greenstein will also be eligible to receive annual bonuses in an amount determined each year by the Compensation Committee of our board of directors.

In connection with the execution of the employment agreement, we granted Mr. Greenstein an option to purchase 27,768,136 shares of our common stock at an exercise price of \$0.43 per share (the closing price of our common stock on the date of the employment agreement). These options vest in four equal installments on each of July 26, 2010, July 26, 2011, July 26, 2012 and July 26, 2013. The vesting of these stock options will accelerate upon the termination of Mr. Greenstein's employment by us without cause, by him for good reason, and upon his death or disability. These options will generally expire on July 27, 2019, subject to earlier termination following Mr. Greenstein's termination of employment.

If Mr. Greenstein's employment is terminated without cause or he terminates his employment for good reason, subject to an execution of a release of claims, we are obligated to pay him a lump sum payment equal to his then annual salary and the cash value of the bonus last paid or payable to him in respect of the preceding fiscal year and to continue his health and life insurance benefits for one year.

In the event that any payment we make, or benefit we provide, to Mr. Greenstein would require him to pay an excise tax under Section 280G of the Internal Revenue Code, we have agreed to pay Mr. Greenstein the amount of such tax and such additional amount as may be necessary to place him in the exact same financial position that he would have been in if the excise tax was not imposed.

James E. Meyer

In October 2009, we entered into a new employment agreement with James E. Meyer to continue to serve as our President, Operations and Sales, through May 1, 2013. The employment agreement provides for an initial base salary of \$950,000, with specified increases. The employment agreement also provides for a lump sum severance payment in an amount equal to (1) Mr. Meyer's annual base salary plus, (2) the greater of (x) a bonus equal to 60% of his then annual base salary or (y) the prior year's bonus actually paid to him (the Designated Amount) in the case of certain qualifying terminations. In the event Mr. Meyer elects to retire in April 2011, he will receive two times the Designated Amount generally in lieu of any other payments under the employment agreement. Our obligation to pay the foregoing amounts are subject to Mr. Meyer's execution of a valid release of claims against us and his compliance with certain restrictive covenants. We have also agreed to indemnify for any excise taxes that may be imposed on him under Section 280G of the Internal Revenue Code.

Upon the expiration of the employment agreement in May 2013 or following his retirement in April 2011, we have agreed to offer Mr. Meyer a one-year consulting agreement for no additional consideration, other than reimbursement of reasonable out-of-pocket expenses associated with the performance of his obligations under the consulting agreement.

In connection with the execution of the employment agreement, we granted Mr. Meyer an option to purchase 25,184,984 shares of our common stock at an exercise price of \$0.5752 per share (the closing sale price of our common stock on date of the employment agreement). The option will generally vest in four equal installments on each of October 14, 2010, October 14, 2011, October 14, 2012 and October 14, 2013, subject to earlier acceleration or termination under certain circumstances.

Dara F. Altman

In September 2008, we entered into a three year employment agreement with Dara F. Altman to serve as our Executive Vice President and Chief Administrative Officer. We pay Ms. Altman an annual salary of \$446,331, and

annual bonuses in an amount determined each year by the Compensation Committee of our board of directors. If Ms. Altman's employment is terminated without cause or she terminates her employment for good reason, she is entitled to receive a lump sum severance payment, in cash equal to two times the sum of (1) her base salary as in effect immediately prior to the termination date or, if higher, in effect immediately prior to the first occurrence of an event or circumstance constituting good reason, and (2) the higher of (a) the last annual bonus actually paid to her and (b) 55% of her base salary as in effect immediately prior to the termination date or, if higher, in effect immediately prior to the first occurrence of an event or circumstance constituting good reason. In the event Ms. Altman's employment is terminated without cause or she terminates her employment for good reason, all options to purchase our common stock, restricted stock units or restricted shares of common stock issued by us to her during the term that are held by her on the termination date shall immediately vest. Any such vested stock options shall expire 90 days following the termination. In addition, in the event Ms. Altman's employment is terminated without cause or she terminates her employment for good reason, we are also obligated to continue her medical, dental and life insurance benefits for 24 months following her termination.

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In the event that any payment we make, or benefit we provide, to Ms. Altman would require her to pay an excise tax under Section 280G of the Internal Revenue Code, we have agreed to pay Ms. Altman the amount of such tax and any additional amount as may be necessary to place her in the exact same financial position that she would have been in if the excise tax was not imposed.

Patrick L. Donnelly

In January 2010, we entered into a new employment agreement with Patrick L. Donnelly to continue to serve as our Executive Vice President, General Counsel and Secretary, through January 13, 2014. The employment agreement provides for an initial base salary of \$575,000, with specified increases. If Mr. Donnelly's employment is terminated without cause or he terminates his employment for good reason, we are obligated to pay him a lump sum payment equal to his then annual salary and the cash value of the bonus last paid or payable to him in respect of the preceding fiscal year and to continue his health and life insurance benefits for one year. Our obligations to pay the foregoing amounts are subject to Mr. Donnelly's execution of a valid release of claims against us and his compliance with certain restrictive covenants. We have also agreed to indemnify Mr. Donnelly for any excise taxes that may be imposed on him under Section 280G of the Internal Revenue Code.

In connection with the execution of the employment agreement, we granted Mr. Donnelly an option to purchase 13,163,495 shares of our common stock at an exercise price of \$0.6669 per share (the last sale price of our common stock on the Nasdaq Global Select Market prior to the execution of the employment agreement). The option will generally vest in four equal installments on each of January 14, 2011, January 14, 2012, January 14, 2013 and January 14, 2014, subject to earlier acceleration or termination under certain circumstances.

David J. Frear

Mr. Frear has agreed to serve as our Executive Vice President and Chief Financial Officer through July 2011. We pay Mr. Frear an annual salary of \$750,000, and annual bonuses in an amount determined each year by the Compensation Committee of our board of directors.

If Mr. Frear's employment is terminated without cause or he terminates his employment for good reason, we are obligated to pay him a lump sum payment equal to the sum of his annual salary and the annual bonus last paid to him and to continue his medical and life insurance benefits for one year.

In the event that any payment we make, or benefit we provide, to Mr. Frear would require him to pay an excise tax under Section 280G of the Internal Revenue Code, we have agreed to pay Mr. Frear the amount of such tax and such additional amount as may be necessary to place him in the exact same financial position that he would have been in if the excise tax was not imposed.

Additional information regarding the compensation for Messrs. Karmazin, Greenstein, Meyer, Donnelly and Frear and Ms. Altman will be included in our definitive proxy statement for our 2010 annual meeting of stockholders scheduled to be held on Thursday, May 27, 2010.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of Form 4s furnished to us during our most recent fiscal year, we know of no director, executive officer or beneficial owner of more than ten percent of our common stock who failed to file on a timely basis reports of beneficial ownership of our common stock as required by Section 16(a) of the Securities Exchange Act of 1934, as amended.

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ITEM 1A. RISK FACTORS

In addition to the other information in this Annual Report on Form 10-K, including the information under the caption Competition, the following risk factors should be considered carefully in evaluating us and our business. This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. Actual results and the timing of events could differ materially from those projected in forward-looking statements due to a number of factors, including those set forth below and elsewhere in this Annual Report on Form 10-K. See Special Note Regarding Forward-Looking Statements.

Our business and our financial condition have been adversely affected by general economic conditions.

The purchase of a satellite radio subscription is discretionary, and we believe that our business and our financial condition have been adversely affected by general economic conditions. In addition, the dramatic slowdown in auto sales negatively impacted our subscriber growth in 2008 and 2009.

Demand for our services is difficult to predict.

We cannot estimate with any certainty whether consumer demand for our services will be sufficient for us to continue to increase the number of subscribers to our services. Our satellite radio services have experienced a decrease in new subscriptions from retail subscribers and most new subscription growth has come from new and used automobiles.

Failure of third parties to perform could adversely affect our business.

Our business depends in part on the efforts of various third parties, including:

- manufacturers that build and distribute satellite radios;
- companies that manufacture and sell integrated circuits for satellite radios;
- programming providers and on-air talent, including Howard Stern;
- retailers that market and sell satellite radios and promote subscriptions to our services; and
- vendors that have designed or built, and vendors that support or operate, important elements of our systems, such as our satellites and customer service facilities.

If one or more of these third parties do not perform in a sufficient or timely manner, our business could be adversely affected. In addition, a number of third parties on which we depend have, and may in the future, experience financial difficulties or file for bankruptcy protection. Such third parties may not be able to perform their obligations to us in a timely manner, if at all, as a result of their financial condition or may be relieved of their obligations to us as part of seeking bankruptcy protection.

We design, establish specifications, source or specify parts and components, and manage various aspects of the logistics and production of radios. As a result of these activities, we may be exposed to liabilities associated with the design, manufacture and distribution of radios that the providers of an entertainment service would not customarily be subject to, such as liabilities for design defects, patent infringement and compliance with applicable laws, as well as the costs of returned product.

Programming is an important part of our services, and the costs to renew our programming arrangements may be more than anticipated.

Third-party content is an important part of our satellite radio services, and we compete with many entities for content. We have entered into a number of important content arrangements, including agreements with the National Football League, Howard Stern and NASCAR, which require us to pay substantial sums. Our agreement with Howard Stern expires in December 2010; our agreement with the NFL expires at the end of the 2010-2011 NFL season; and our agreement with NASCAR expires in December 2011. As these agreements expire, we may not be able to negotiate renewals of one or more of these agreements, or renew such agreements at costs we believe are attractive.

In addition, we may not be able to obtain additional third-party content within the costs contemplated by our business plans.

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

We must maintain and pay license fees for music rights.

We must maintain music programming royalty arrangements with, and pay license fees to, BMI, ASCAP and SESAC. These organizations negotiate with copyright users, collect royalties and distribute them to songwriters and music publishers. We have agreements with ASCAP and SESAC through December 2011. We do not have a definitive agreement with BMI, and we continue to operate under an interim agreement with BMI. There can be no assurance that the BMI royalty fee will remain at the current level when the pending agreement is finalized.

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Under the Digital Performance Right in Sound Recordings Act of 1995 and the Digital Millennium Copyright Act of 1998, we pay royalties to copyright owners of sound recordings. Those royalty rates may be established through negotiation or, if negotiation is unsuccessful, by the CRB. Our next rate setting proceeding before the CRB is scheduled to commence in January 2011, and, if negotiations prove unsuccessful, these royalty rates may not remain at their current levels following the proceeding.

Higher than expected costs of attracting new subscribers, higher subscriber turnover or weaker than expected advertising revenue could each adversely affect our financial performance and operating results.

We are spending substantial funds on advertising and marketing and in transactions with automakers, radio manufacturers, retailers and others to obtain and attract subscribers. If the costs of attracting new subscribers are greater than expected, our financial performance and operating results could be adversely affected.

We are experiencing, and expect to continue to experience, subscriber turnover, or churn. If we are unable to retain our current subscribers, or the costs of retaining subscribers are higher than we expect, our financial performance and operating results could be adversely affected. We cannot predict how successful we will be at retaining customers who purchase or lease vehicles that include a subscription to their satellite radio services. During 2009, we converted approximately 45.4% of the customers who received a promotional subscription as part of the purchase or lease of a new vehicle to a self-paying subscription. Over the same period, we have experienced churn of our self-pay subscribers of approximately 2.03% per month.

We cannot predict the amount of churn we will experience over the longer term. Our inability to retain customers who either purchase or lease new vehicles with our services beyond the promotional period, or who purchase or lease a new vehicle that includes a prepaid subscription to our services, and self-pay subscriber churn could adversely affect our financial performance and results of operations.

Our ability to generate advertising revenues is directly affected by general economic conditions, the number of subscribers to our services and the amount of time subscribers spend listening to the talk and entertainment channels or the traffic and weather services. General economic conditions are affecting our ad revenues. Our ability to generate advertising revenues also depends on several factors, including the level and type of penetration of our services, competition for advertising dollars from other media, and changes in the advertising industry and the economy generally. We directly compete for audiences and advertising revenues with traditional AM/FM radio stations and other media, some of which maintain longstanding relationships with advertisers.

We may from time to time modify our business plan, and these changes could adversely affect us and our financial condition.

We regularly evaluate our plans and strategy. These evaluations often result in changes to our plans and strategy, some of which may be material and significantly change our cash requirements. These changes in our plans or strategy may include: the acquisition or termination 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.

Our substantial indebtedness could adversely affect our ability to raise additional capital to fund our operations and could limit our ability to react to changes in the economy or our industry.

As of December 31, 2009, we had an aggregate principal amount of approximately \$3.1 billion of indebtedness. Our substantial indebtedness has important consequences. For example, it:

- increases our vulnerability to general adverse economic and industry conditions;
- requires us to dedicate a substantial portion of our cash flow from operations to payments on indebtedness, reducing the availability of cash flow to fund working capital, capital expenditures and other general corporate activities;
- limits our ability to borrow additional funds or make capital expenditure;
- limits our flexibility in planning for, or reacting to, changes in our business and the audio entertainment industry; and
- may place us at a competitive disadvantage compared to other competitors.

A substantial portion of our cash flows from operations is dedicated to the payment of principal and interest on our indebtedness and will not be available for other purposes, including our operations, capital expenditures, investments in new technologies and future business opportunities.

The instruments governing our indebtedness contain covenants that, among other things, restrict our ability to incur more debt, pay dividends, make distributions, make certain investments, repurchase stock, create liens, enter into transactions with affiliates, enter into sale lease-back transactions, merge or consolidate, and transfer or sell assets. Failure to comply with the covenants contained in the indentures and agreements governing this debt could result in an event of default, which, if not cured or waived, could cause us to seek the protection of the bankruptcy laws, discontinue operations or seek a purchaser for our business or assets.

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Our business might never become profitable.

As of December 31, 2009, we had an accumulated deficit of approximately \$10.2 billion. We expect our cumulative net losses to grow as we make payments under various contracts, incur marketing and subscriber acquisition costs and make interest payments on existing debt. As of December 31, 2009, we had total debt of approximately \$3.1 billion. If we are unable ultimately to consistently generate sufficient revenues to become profitable, we may not be able to make the required payments on our indebtedness and could ultimately default on our commitments.

Our business depends in large part upon automakers, a number of whom have experienced a sharp decline in sales, have reduced production and are experiencing extreme financial difficulties.

The sale and lease of vehicles with satellite radios is an important source of subscribers for our satellite radio services. We have agreements with every major automaker to include satellite radios in new vehicles, although these agreements do not require automakers to install specific or minimum quantities of radios in any given period. Economic conditions, particularly the dramatic slowdown in auto sales, negatively impacted subscriber growth for our services in 2008 and 2009.

Our subscription growth is dependent, in large part, on sales and vehicle production by automakers. Automotive sales and production are dependent on many factors, including the availability of consumer credit, general economic conditions, consumer confidence and fuel costs. To the extent vehicle sales by automakers continue to decline, or the penetration of factory-installed satellite radios in those vehicles is reduced, and there is no offsetting growth in vehicle sales or increased penetration by other automakers, subscriber growth for our satellite radio services will be adversely impacted.

Rapid technological and industry changes could adversely impact our services.

The audio entertainment industry is characterized by rapid technological change, frequent new product innovations, changes in customer requirements and expectations, and evolving standards. If we are unable to keep pace with these changes, our business may be unsuccessful. Products using new technologies, or emerging industry standards, could make our technologies less competitive in the marketplace.

Consumers could pirate our services.

Individuals who engage in piracy may be able to obtain or rebroadcast our satellite radio service or access the internet transmission of our services without paying the subscription fee. Although we use encryption technologies to mitigate the risk of signal theft, such technologies may not be adequate to prevent theft of the signals. If signal theft becomes widespread, it could harm our business.

Failure of our satellites would significantly damage our business and potential satellite losses may not be covered by insurance.

We operate eight in-orbit satellites, four supporting the SIRIUS service and four supporting the XM service, including two satellites that are used for backup purposes only. The useful lives of these satellites will vary and depend on a number of factors, including:

- degradation and durability of solar panels;
- quality of construction;
- random failure of satellite components, which could result in significant damage to or loss of a satellite;
- amount of fuel the satellites consume; and
- damage or destruction by electrostatic storms or collisions with other objects in space.

Three of SIRIUS' orbiting satellites were launched in 2000; the fourth satellite was launched in 2009. We currently estimate that two of SIRIUS' initial in-orbit satellites will have a 13-year operational life from the time of launch and the other orbiting SIRIUS satellites will each have a 15-year operational life from the time of launch. SIRIUS' operating results would be materially adversely affected if the useful life of its satellites is significantly shorter than expected, whether as a result of a satellite failure or technical obsolescence, and SIRIUS does not launch replacement satellites in a timely manner.

Three of the SIRIUS in-orbit satellites have experienced circuit failures on their solar arrays. The circuit failures these satellites have experienced do not affect current operations. Additional circuit failures on the first three SIRIUS satellites could reduce the estimated useful lives of those satellites.

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If two or more of the SIRIUS satellites fail in orbit in close proximity in time, the SIRIUS service could be suspended until replacement satellites are launched and placed into service. In such event, SIRIUS' business would be materially impacted and it could default on its commitments.

SIRIUS has entered into an agreement with Space Systems/Loral to design and construct a new satellite which is expected to be launched in the fourth quarter of 2011. Satellite launches have significant risks, including launch failure, damage or destruction of the satellite during launch and failure to achieve a proper orbit or operate as planned. SIRIUS' agreement with Space Systems/Loral does not protect it against the risks inherent in a satellite launch or in-orbit operations.

XM placed its XM-3 and XM-4 satellites into service during the second quarter of 2005 and during the fourth quarter of 2006, respectively. XM's XM-1 and XM-2 satellites experienced progressive degradation problems common to early Boeing 702 class satellites and now serve as in-orbit spares. We estimate that the XM-3 and XM-4 satellites will meet their 15-year predicted useful lives, and that XM-1 and XM-2 satellites' useful lives will end in 2011. An operational failure or loss of XM-3 or XM-4 would, at least temporarily, affect the quality of XM's service, and could interrupt the continuation of its service and harm its business. We expect to launch the XM-5 satellite, which will serve as an in-orbit spare for the SIRIUS and XM services, in the third quarter of 2010. In the event of any satellite failure prior to that time, XM would need to rely on its back-up satellites, XM-1 and XM-2. There can be no assurance that restoring service through XM-1 and XM-2 would allow XM to maintain adequate broadcast signal strength through the date on which XM-5 is brought into service, particularly if XM-1 or XM-2 were to suffer unanticipated additional performance degradation or experience an operational failure.

In addition, SIRIUS' network of terrestrial repeaters communicates with one third-party satellite and XM's network of terrestrial repeaters communicates with one XM satellite. If the satellites communicating with the SIRIUS or XM repeater network fail unexpectedly, the services would be disrupted for several hours or longer.

In the ordinary course of operation, satellites experience failures of component parts and operational and performance anomalies. Components on our in-orbit satellites have failed and from time to time we have experienced anomalies in the operation and performance of these satellites. These failures and anomalies are expected to continue in the ordinary course, and we cannot predict if any of these future events will have a material adverse effect on our operations or the useful life of our existing in-orbit satellites.

We do not maintain in-orbit insurance policies covering three of the four satellites broadcasting the SIRIUS service. We maintain in-orbit insurance covering our primary satellites broadcasting the XM service, but do not maintain insurance on the XM back-up satellites.

Any insurance proceeds will not fully cover our losses in the event of a satellite failure or significant degradation. For example, the policies covering the insured satellites do not cover the full cost of constructing, launching and insuring new satellites or XM's in-orbit spare satellites, nor will they cover, and SIRIUS and XM do not have protection against, business interruption, loss of business or similar losses. Our insurance contains customary exclusions, material change and other conditions that could limit recovery under those policies. Further, any insurance proceeds may not be received on a timely basis in order to launch a spare satellite or construct and launch a replacement satellite or take other remedial measures. In addition, the policies are subject to limitations involving uninsured losses, large satellite performance deductibles and policy limits that may not be sufficient to cover losses.

Our broadcast studios, terrestrial repeater networks, satellite uplink facilities or other ground facilities could be damaged by natural catastrophes or terrorist activities.

An earthquake, tornado, flood, terrorist attack or other catastrophic event could damage our broadcast studios, terrestrial repeater networks or satellite uplink facilities, interrupt the SIRIUS or XM service and harm our business. We do not have replacement or redundant facilities that can be used to assume the functions of their terrestrial repeater networks. We do have redundant facilities that can be used to assume immediately many of the functions of the broadcast studios and satellite uplink facilities in the event of a catastrophic event.

Any damage to the satellites that transmit to the SIRIUS or XM terrestrial repeater network would likely result in degradation of the affected company's service for some subscribers and could result in complete loss of service in certain or all areas. Damage to our satellite uplink facilities could result in a complete loss of either the XM or SIRIUS service until the affected company could transfer its operations to its respective back-up facilities.

Electromagnetic interference from others could damage our business.

Our satellite radio service may be subject to interference caused by other users of radio frequencies, such as Wireless Communications Service (WCS) users. The FCC is seeking comment on proposals by certain WCS licensees for modification of rules regarding their operations in spectrum adjacent to satellite radio, including rule changes to facilitate mobile broadband services in the WCS frequencies. We are participating actively in this proceeding and have opposed the changes requested by WCS licensees out of a concern for their impact on the reception of satellite radio service. We cannot predict the outcome of the FCC proceeding, or the impact on satellite radio reception.

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Failure to comply with FCC requirements could damage our business.

We hold FCC licenses and authorizations to operate commercial satellite radio services in the United States, including authorizations for satellites and terrestrial repeaters, and related authorizations. The FCC generally grants licenses and authorizations for a fixed term. Although we expect our licenses and authorizations to be renewed in the ordinary course upon their expiration, there can be no assurance that this will be the case. Any assignment or transfer of control of any of our FCC licenses or authorizations must be approved in advance by the FCC.

The operation of our satellite radio systems is subject to significant regulation by the FCC under authority granted through the Communications Act and related federal law. We are required, among other things, to operate only within specified frequencies; to meet certain conditions regarding the interoperability of our satellite radios with those of other licensed satellite radio systems; to coordinate our satellite radio services with radio systems operating in the same range of frequencies in neighboring countries; and to coordinate our communications links to our satellites with other systems that operate in the same frequency band. Non-compliance by us with these requirements or other conditions or with other applicable FCC rules and regulations could result in fines, additional license conditions, license revocation or other detrimental FCC actions. There is no guarantee that Congress will not modify the statutory framework governing our services, or that the FCC will not modify its rules and regulations in a manner that would have a material impact on our operations.

The terms of our licenses, the order of the FCC approving the Merger, and the consent decrees we entered into with the FCC require us to meet certain conditions. We have agreed to implement a number of voluntary commitments, including programming, a la carte, minority and public interest, equipment, subscription rates and other service commitments. Non-compliance with these conditions could result in fines, additional license conditions, license revocation or other detrimental FCC actions.

The FCC has not yet issued final rules permitting us to operate and deploy terrestrial repeaters to fill gaps in our satellite coverage. We are operating the SIRIUS and XM terrestrial repeaters on a non-interference basis pursuant to grants of special temporary authority from the FCC. The FCC's final terrestrial repeater rules may require us to reduce the power of our terrestrial repeaters or limit our ability to deploy additional repeaters. If the FCC requires us to reduce significantly the number or power of our terrestrial repeaters, this would have an adverse effect on the quality of our service in certain markets and/or cause us to alter our terrestrial repeater infrastructure at a substantial cost. If the FCC limits our ability to deploy additional terrestrial repeaters, our ability to improve any deficiencies in our service quality that may be identified in the future would be adversely affected.

Changes in consumer protection laws and their enforcement could damage our business.

We engage in extensive marketing efforts to attract and retain subscribers to our services. We employ a wide variety of communications tools as part of our marketing campaigns, including print, television, radio and online advertising; telemarketing efforts; and email solicitations. The United States Federal Trade Commission, the FCC and various states agencies have responsibility for consumer protection and have jurisdiction over components of our consumer marketing efforts.

Consumer protection laws, rules and regulations are extensive and have developed rapidly. Consumer protection laws in certain jurisdictions cover nearly all aspects of our marketing efforts, including the content of our advertising, the terms of consumer offers and the manner in which we communicate with subscribers and prospective subscribers. We are engaged in considerable efforts to ensure that all our activities comply with federal and state laws, rules and regulations relating to consumer protection. Modifications to federal and state laws, rules and regulations concerning consumer protection, including decisions by federal and state courts and agencies interpreting these laws, could have an adverse impact on our ability to attract and retain subscribers to our services. While we monitor the changes in and interpretations of these laws in consumer-related settlements and decisions, and while we believe that we are in material compliance with applicable laws, there can be no assurances that new laws or regulations will not be enacted or adopted, or preexisting laws or regulations will not be more strictly enforced, which might adversely affect our operations.

The unfavorable outcome of pending or future litigation could have a material adverse effect.

We are parties to several legal proceedings arising out of various aspects of our business. We are defending all claims against us. The outcome of these proceedings may not be favorable, and an unfavorable outcome may have a material

adverse effect on our business or financial results.

Our business may be impaired by third-party intellectual property rights.

Development of the XM and SIRIUS systems has depended upon the intellectual property that we have developed, as well as intellectual property licensed from third parties. If the intellectual property that we have developed or use is not adequately protected, others will be permitted to and may duplicate portions of our satellite radio systems or services without liability. In addition, others may challenge, invalidate, render unenforceable or circumvent our intellectual property rights, patents or existing sublicenses or we may face significant legal costs in connection with defending and enforcing those intellectual property rights. Some of the know-how and technology we have developed, and plan to develop, is not now, nor will it be, covered by U.S. patents or trade secret protections. Trade secret protection and contractual agreements may not provide adequate protection if there is any unauthorized use or disclosure. The loss of necessary technologies could require us to obtain substitute technology of lower quality performance standards, at greater cost or on a delayed basis, which could harm us.

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Other parties may have patents or pending patent applications, which will later mature into patents or inventions that may block our ability to operate the SIRIUS or XM system or license technologies. We may have to resort to litigation to enforce our rights under license agreements or to determine the scope and validity of other parties' proprietary rights in the subject matter of those licenses. This may be expensive. Also, we may not succeed in any such litigation.

Third parties may assert claims or bring suit against us for patent, trademark or copyright infringement, or for other infringement or misappropriation of intellectual property rights. Any such litigation could result in substantial cost, and diversion of effort and adverse findings in any proceeding could subject us to significant liabilities to third parties; require us to seek licenses from third parties; block our ability to operate our systems or license our technology; or otherwise adversely affect our ability to successfully develop and market our satellite radio systems.

Liberty Media Corporation has significant influence over our business and affairs and its interests may differ from ours.

Liberty Media Corporation holds preferred stock that is convertible into approximately 40% of the issued and outstanding shares of our common stock. Pursuant to the terms of the preferred stock held by Liberty Media we cannot take certain actions, such as certain issuances of equity or debt securities, without the consent of Liberty Media. Additionally, Liberty Media has the right to designate six members of our fifteen-member board of directors. As a result, Liberty Media has significant influence over our business and affairs. The interests of Liberty Media may differ from our interests. The extent of Liberty Media's stock ownership in us also may have the effect of discouraging offers to acquire control of us.

Our net operating loss carryforwards could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code.

We have generated a federal net operating loss carryforward of approximately \$8 billion through the year ended December 31, 2009, and we may generate net operating loss carryforwards in future years.

Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), contains rules that limit the ability of a company that undergoes an ownership change, which is generally any change in ownership of more than 50% of its stock over a three-year period, to utilize its net operating loss carryforwards and certain built-in losses recognized in years after the ownership change. These rules generally operate by focusing on ownership changes among stockholders owning directly or indirectly 5% or more of the stock of a company and any change in ownership arising from a new issuance of stock by the company.

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our common stock, including purchases or sales of stock between 5% stockholders, our ability to use our net operating loss carryforwards and to recognize certain built-in losses would be subject to the limitations of Section 382.

Depending on the resulting limitation, a significant portion of our net operating loss carryforwards could expire before we would be able to use them. Our inability to utilize our net operating loss carryforwards could have a negative impact on our long-term financial position and results of operations.

In April 2009, our board of directors adopted a shareholder rights plan designed to preserve shareholder value and the value of certain tax assets primarily associated with net operating loss carryforwards and built-in losses under Section 382 of the Code. We have agreed to submit this shareholder rights plan to a vote of our stockholders. If our stockholders do not approve this shareholder rights plan prior to June 30, 2010 it will terminate in accordance with its terms.

Our stockholders have approved a reverse stock split, and a reverse stock split could have certain adverse effects.

On September 15, 2009, we received notice from the Nasdaq Stock Market that our common stock had closed below \$1.00 per share for 30 consecutive business days and was therefore not in compliance with the Nasdaq Marketplace Rules. We may regain compliance if at any time by March 15, 2010 our common stock closes at or above \$1.00 for 10 consecutive business days. The closing price of our common stock on February 23, 2010 was \$1.12. However, we cannot assure you that our common stock will close at or above \$1.00 for 10 consecutive business days by March 15, 2010.

In December 2008 and May 2009, our stockholders approved an amendment to our certificate of incorporation to effect a reverse stock split at a ratio of not less than one-for-ten and not more than one-for-fifty. Our board of directors

has authority to select an exchange ratio within the approved range at any time prior to June 30, 2010. Our board of directors intends to effect the reverse stock split only if it determines the reverse split to be in the best interests of the company and its stockholders.

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A reverse stock split could have certain adverse consequences, including:

if the reverse stock split is effected and the market price of our common stock declines, the percentage decline may be greater than would occur in the absence of a reverse stock split.

there can be no assurance that the reverse stock split will result in any particular price for our common stock. As a result, the trading liquidity of our common stock may not necessarily improve.

the total market capitalization of our common stock after the reverse stock split may be lower than the total market capitalization before the reverse stock split. Moreover, in the future, the market price of our common stock following the reverse stock split may not exceed or remain higher than the market price prior to the reverse stock split.

because the number of issued and outstanding shares of common stock would decrease as result of the reverse stock split, the number of authorized but unissued shares of common stock may increase on a relative basis. If we issue additional shares of common stock, the ownership interest of our current stockholders would be diluted, possibly substantially.

the proportion of unissued authorized shares to issued shares could, under certain circumstances, have an anti-takeover effect. For example, the issuance of a large block of common stock could dilute the stock ownership of a person seeking to effect a change in the composition of the board of directors or contemplating a tender offer or other transaction for the combination of the company with another company. the reverse stock split may result in some stockholders owning odd lots of less than 100 shares of common stock. Odd lot shares may be more difficult to sell, and brokerage commissions and other costs of transactions in odd lots are generally somewhat higher than the costs of transactions in round lots of even multiples of 100 shares.

holders of common stock otherwise entitled to a fractional share as a result of the reverse stock split will receive a cash payment in lieu of such fractional share. As a result, the ownership interest in the company of certain small stockholders could be terminated.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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Below is a list of the principal properties that we own or lease:

Location	Purpose	Own/Lease
New York, NY	Corporate headquarters and studio/production facilities	Lease
New York, NY	Office facilities	Lease
Washington, DC	Office and studio/production facilities	Own
Washington, DC	Office facilities and data center	Own
Lawrenceville, NJ	Office and technical/engineering facilities	Lease
Deerfield Beach, FL	Office and technical/engineering facilities	Lease
New York, NY	Studio/production facilities @ Jazz at Lincoln Center	Lease
Farmington Hills, MI	Office and technical/engineering facilities	Lease
Nashville, TN	Studio/production facility	Lease
Vernon, NJ	Technical/engineering facilities	Own
Ellenwood, GA	Technical/engineering facilities	Lease

We also own or lease other small facilities that we use as offices for our advertising sales personnel, studios and warehouse and maintenance space. These facilities are not material to our business or operations. We also lease properties in Panama and Ecuador that we use as earth stations to command and control the SIRIUS satellites. In addition, we lease space at approximately 1,000 locations for use in connection with the terrestrial repeater networks that support the XM and SIRIUS services. In general, these leases are for space on building rooftops and communications towers. None of these individual leases is material to our business or operations.

ITEM 3. LEGAL PROCEEDINGS

FCC Merger Order. On July 25, 2008, the FCC adopted an order approving the Merger. In September 2008, Mt. Wilson FM Broadcasters, Inc. filed a Petition for Reconsideration of the FCC's merger order. This Petition for Reconsideration remains pending.

Advanced Recording Functionality Disputes/Atlantic Recording Corporation, BMG Music, Capital Records, Inc., Elektra Entertainment Group Inc., Interscope Records, Motown Record Company, L.P., Sony BMG Music Entertainment, UMG Recordings, Inc., Virgin Records, Inc. and Warner Bros. Records Inc. v. XM Satellite Radio Inc. Commencing in May 2006, holders of copyrights in sound recordings and holders of copyrights in musical works brought, or threatened to bring, actions against SIRIUS and XM in connection with the advanced recording functionality included in the XM Inno, the XM NeXus, the XM Helix, the XM SkyFi3, the SIRIUS S50 and the SIRIUS Stiletto line of radios. The plaintiffs brought this action in the United States District Court for the Southern District of New York, seeking monetary damages and equitable relief.

XM has settled these claims with the major record companies and a significant number of music publishers. XM is in discussions to settle these claims with certain independent record companies and other music publishers.

Prior to introducing retail sales of devices with advanced recording functionality, SIRIUS entered into agreements with the major recording companies concerning such devices. SIRIUS is in discussions to settle the remaining claims with certain independent record companies and music publishers.

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

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

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

None.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on the Nasdaq Global Select Market under the symbol SIRI. The following table sets forth the high and low sales price for our common stock, as reported by Nasdaq, for the periods indicated below:

	High	Low
Year ended December 31, 2008		
First Quarter	\$ 3.89	\$ 2.51
Second Quarter	2.92	1.80
Third Quarter	2.75	0.57
Fourth Quarter	0.69	0.08
Year ended December 31, 2009		
First Quarter	\$ 0.43	\$ 0.05
Second Quarter	0.63	0.30
Third Quarter	0.78	0.35
Fourth Quarter	0.69	0.51

On February 23, 2010, the closing sales price of our common stock on the Nasdaq Global Select Market was \$1.12 per share. On February 23, 2010, there were approximately 935,000 beneficial holders of our common stock.

We have never paid cash dividends on our common stock. We currently intend to retain earnings, if any, for use in our business and do not anticipate paying any cash dividends in the foreseeable future.

COMPARISON OF CUMULATIVE TOTAL RETURNS

Set forth below is a graph comparing the cumulative performance of our common stock with the Standard & Poor's Composite-500 Stock Index, or the S&P 500, and the NASDAQ Telecommunications Index from December 31, 2004 to December 31, 2009. The graph assumes that \$100 was invested on December 31, 2004 in each of our common stock, the S&P 500 and the NASDAQ Telecommunications Index and that all dividends were reinvested.

Table of Contents**Stockholder Return Performance Table**

	Nasdaq Telecommunications		S&P 500	Sirius XM Radio Inc.
	Index		Index	
December 31, 2004	\$ 100.00	\$	100.00	\$ 100.00
December 31, 2005	\$ 92.79	\$	103.00	\$ 87.93
December 31, 2006	\$ 118.55	\$	117.03	\$ 46.46
December 31, 2007	\$ 129.42	\$	121.16	\$ 39.76
December 31, 2008	\$ 73.79	\$	74.53	\$ 1.57
December 31, 2009	\$ 109.39	\$	92.01	\$ 7.87

Equity Compensation Plan Information

<i>(shares in thousands)</i>	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Plan category			
Equity compensation plans approved by security holders	364,792	\$ 1.44	274,425
Equity compensation plans not approved by security holders			
Total	364,792	\$ 1.44	274,425

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Our selected financial data set forth below with respect to the consolidated statements of operations for the years ended December 31, 2009, 2008 and 2007, and with respect to the consolidated balance sheets at December 31, 2009 and 2008, are derived from our audited consolidated financial statements included in Item 8 of this Annual Report on Form 10-K. Our selected financial data set forth below with respect to the consolidated statements of operations for the years ended December 31, 2006 and 2005, and with respect to the consolidated balance sheets at December 31, 2007, 2006 and 2005 are derived from our audited consolidated financial statements, which are not included in this Annual Report on Form 10-K. This selected financial data should be read in conjunction with the Consolidated Financial Statements and related notes thereto included in Item 8 of this Annual Report on Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations.

<i>(in thousands, except per share data)</i>	For the Years Ended December 31,				
	2009	2008(1)	2007	2006	2005
Statements of Operations Data:					
Total revenue	\$ 2,472,638	\$ 1,663,992	\$ 922,066	\$ 637,235	\$ 242,245
Net loss	(342,790)	(5,313,288)	(565,252)	(1,104,867)	(862,997)
Net loss per share (basic and diluted)	\$ (0.15)	\$ (2.45)	\$ (0.39)	\$ (0.79)	\$ (0.65)
Weighted average common shares outstanding (basic and diluted)	3,585,864	2,169,489	1,462,967	1,402,619	1,325,739
Balance Sheet Data:					
Cash and cash equivalents	\$ 383,489	\$ 380,446	\$ 438,820	\$ 393,421	\$ 762,007
Restricted investments	3,400	141,250	53,000	77,850	107,615
Total assets	7,263,528	7,459,736	1,687,231	1,650,147	2,075,519
Long-term debt, net of current portion	3,062,693	2,820,781	1,271,699	1,059,868	1,074,594
Stockholders' equity (deficit) (2)	37,432	8,537	(792,737)	(389,071)	324,968

(1) The 2008 results and balances reflect the results and balances of XM Holdings from the date of the Merger and a \$4,766,190 goodwill impairment charge.

(2) No cash dividends were declared or paid in any of the periods presented.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. Actual results and the timing of events could differ materially from those projected in forward-looking statements due to a number of factors, including those described under Item 1A Risk Factors and elsewhere in this Annual Report. See Special Note Regarding Forward-Looking Statements.

(All dollar amounts referenced in this Item 7 are in thousands, unless otherwise stated)

Executive Summary

We broadcast our music, sports, news, talk, entertainment, traffic and weather channels in the United States on a subscription fee basis through our proprietary satellite radio systems – the SIRIUS system and the XM system. On July 28, 2008, our wholly owned subsidiary, Vernon Merger Corporation, merged (the Merger) with and into XM Satellite Radio Holdings Inc. and, as a result, XM Satellite Radio Holdings Inc. is now our wholly owned subsidiary. The SIRIUS system consists of four in-orbit satellites, over 125 terrestrial repeaters that receive and retransmit signals, satellite uplink facilities and studios. The XM system consists of four in-orbit satellites, over 650 terrestrial repeaters that receive and retransmit signals, satellite uplink facilities and studios. Subscribers can also receive certain of our music and other channels over the Internet, including through an application on the Apple iPhone.

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

As of December 31, 2009, we had 18,772,758 subscribers. Our subscriber totals include subscribers under our regular pricing plans; discounted pricing plans; subscribers that have prepaid, including payments either made or due from automakers and dealers for prepaid subscriptions included in the sale or lease price of a vehicle; certain radios activated for daily rental fleet programs; certain subscribers to SIRIUS Internet Radio and XM Radio Online, our Internet services; and certain subscribers to our weather, traffic, data and video services.

Our primary source of revenue is subscription fees, with most of our customers subscribing on an annual, semi-annual, quarterly or monthly basis. We offer discounts for pre-paid and long-term subscriptions 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, components and accessories, and other ancillary services, such as our Backseat TV, data and weather services.

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

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

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

Unaudited Pro Forma and Actual Information

Our discussion of our unaudited pro forma information includes non-GAAP financial results that assume the Merger occurred on January 1, 2007. These financial results exclude the impact of purchase price accounting adjustments and refinancing transactions related to the Merger. The discussion also includes the following non-GAAP financial measures: average self-pay monthly churn; conversion rate; average monthly revenue per subscriber, or ARPU; subscriber acquisition cost, or SAC, as adjusted, per gross subscriber addition; customer service and billing expenses, as adjusted, per average subscriber; free cash flow; and adjusted income (loss) from operations. We believe this non-GAAP financial information provides meaningful supplemental information regarding our operating performance and is used for internal management purposes, when publicly providing the business outlook, and as a means to evaluate period-to-period comparisons. Please refer to the footnotes (pages 50 through 63) following our discussion of

results of operations for the definitions and a further discussion of the usefulness of such non-GAAP financial information and reconciliation to GAAP.

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Unaudited Actual and Pro Forma Subscribers and Metrics. The following tables contain our actual and pro forma subscriber and key operating metrics for the three months and three years ended December 31, 2009, 2008 and 2007, respectively:

	Unaudited		
	For the Three Months Ended December 31,		
	2009	2008	2007
	(Actual)	(Actual)	(Pro Forma)
Beginning subscribers	18,515,730	18,920,911	16,234,070
Gross subscriber additions	1,882,950	1,713,210	2,336,640
Deactivated subscribers	(1,625,922)	(1,630,265)	(1,222,088)
Net additions	257,028	82,945	1,114,552
Ending subscribers	18,772,758	19,003,856	17,348,622
Retail	7,725,750	8,905,087	9,238,715
OEM	10,930,952	9,995,953	8,033,268
Rental	116,056	102,816	76,639
Ending subscribers	18,772,758	19,003,856	17,348,622
Retail	(200,154)	(131,333)	314,908
OEM	442,422	218,249	791,356
Rental	14,760	(3,971)	8,288
Net additions	257,028	82,945	1,114,552
Self-pay	15,703,932	15,549,657	13,873,346
Paid promotional	3,068,826	3,454,199	3,475,276
Ending subscribers	18,772,758	19,003,856	17,348,622
Self-pay	247,182	359,069	822,326
Paid promotional	9,846	(276,124)	292,226
Net additions	257,028	82,945	1,114,552
Daily weighted average number of subscribers	18,576,151	18,910,689	16,629,079

Unaudited Pro Forma
For the Three Months Ended December 31,
2009 2008 2007

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Average self-pay monthly churn (1)(7)	2.0%	1.8%	1.7%
Conversion rate (2)(7)	46.4%	44.2%	51.4%
ARPU (3)(7)	\$ 10.92	\$ 10.65	\$ 10.47
SAC, as adjusted, per gross subscriber addition (4)(7)	\$ 64	\$ 70	\$ 83
Customer service and billing expenses, as adjusted, per average subscriber (5)(7)	\$ 1.06	\$ 1.18	\$ 1.30
Total revenue	\$ 683,779	\$ 644,108	\$ 557,515
Free cash flow (6)(7)	\$ 149,547	\$ 25,877	\$ 5,405
Adjusted income (loss) from operations (8)	\$ 115,339	\$ 31,797	\$ (224,143)
Net loss	\$ (25,243)	\$ (248,468)	\$ (405,041)

Note: See pages 50 through 63 for footnotes.

Subscribers. At December 31, 2009, we had 18,772,758 subscribers, a decrease of 231,098 subscribers, or 1%, from the 19,003,856 subscribers as of December 31, 2008. Net subscriber additions increased 174,083, or 210%, in the three months ended December 31, 2009 compared to 2008. Net subscriber additions in our OEM channel increased 224,173, or 103%, in the three months ended December 31, 2009 compared to 2008. Net subscriber additions in our retail channel decreased 68,821, or 52%, in the three months ended December 31, 2009 compared to 2008.

Deactivation rates for self-pay subscriptions in the quarter increased to 2.0% per month reflecting reductions in consumer discretionary spending, subscriber response to our increase in prices for multi-subscription accounts, channel line-up changes in 2008, the institution of a monthly charge for our upgraded streaming service and the introduction of the U.S. Music Royalty Fee.

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We ended the fourth quarter 2008 with 19,003,856 subscribers, an increase of 1,655,234 subscribers, or 10%, from the 17,348,622 subscribers as of December 31, 2007. Net subscriber additions decreased 1,031,607, or 93%, in the three months ended December 31, 2008 compared to 2007. Net additions in our OEM channel decreased 573,107, or 72%, in the three months ended December 31, 2008 compared to 2007. Net subscriber additions in our retail channel decreased 446,241, or 142%, in the three months ended December 31, 2008 compared to 2007. Deactivation rates for self-pay subscriptions in the quarter increased slightly to 1.8% per month.

ARPU. ARPU is derived from total earned subscriber revenue and net advertising revenue, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. See accompanying footnotes for more details. For the three months ended December 31, 2009 and 2008, total ARPU was \$10.92 and \$10.65, respectively. The increase was driven mainly by the sale of Best of programming, increased rates on our multi-subscription packages and revenues earned on our internet packages, partially offset by lower advertising revenue.

For the three months ended December 31, 2008 and 2007, total ARPU was \$10.65 and \$10.47, respectively. The increase was driven by the start of our Best of package sales and by lower OEM inventories. These factors were partially offset by an increase in the mix of discounted OEM promotional trials, subscriber win-back programs, second subscribers and a decline in net advertising revenue per average subscriber.

SAC, As Adjusted, Per Gross Subscriber Addition. SAC, as adjusted, per gross subscriber addition is derived from subscriber acquisition costs and margins from the direct sale of radios and accessories, excluding share-based payment expense, divided by the number of gross subscriber additions for the period. See accompanying footnotes for more details. For the three months ended December 31, 2009 and 2008, SAC, as adjusted, per gross subscriber addition was \$64 and \$70, respectively. The decrease in SAC was primarily due to lower OEM subsidies, lower chip set costs and lower aftermarket acquisition costs, partially offset by higher aftermarket inventory related charges compared to the three months ended December 31, 2008.

For the three months ended December 31, 2008 and 2007, SAC, as adjusted, per gross subscriber addition was \$70 and \$83, respectively. The decrease was primarily driven by lower retail and OEM subsidies due to better product economics and improved equipment margin.

Customer Service and Billing Expenses, As Adjusted, Per Average Subscriber. Customer service and billing expenses, as adjusted, per average subscriber is derived from total customer service and billing expenses, excluding share-based payment expense, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. See accompanying footnotes for more details. For the three months ended December 31, 2009 and 2008, customer service and billing expenses, as adjusted, per average subscriber was \$1.06 and \$1.18, respectively. The decline was primarily due to decreases in personnel costs and customer call center expenses. For the three months ended December 31, 2008 and 2007, Customer service and billing expenses, as adjusted, per average subscriber was \$1.18 and \$1.30, respectively. The decline was primarily due to efficiencies across a larger subscriber base.

Adjusted Income (Loss) from Operations. We refer to net income (loss) before interest and investment income; interest expense, net of amounts capitalized; income tax expense; loss on extinguishment of debt and credit facilities, net; (gain) loss on investments; other expense (income); restructuring, impairments and related costs; depreciation and amortization; and share-based payment expense as adjusted income (loss) from operations. See accompanying footnotes for more details. For the three months ended December 31, 2009 and 2008, our adjusted income (loss) from operations was \$115,339 and \$31,797, respectively. Adjusted income (loss) from operations was favorably impacted by an increase of 6%, or \$39,671, in revenues and a decrease of 7%, or \$43,871, in total expenses included in adjusted income (loss) from operations. The increase in revenue was due mainly to increased rates on multi-subscription packages, revenues earned on internet packages, the introduction of the U.S. Music Royalty Fee and the sale of Best of programming, partially offset by decreased equipment revenue. The decreases in expenses were primarily driven by lower subscriber acquisition costs, lower customer service and billing expense, savings in programming and content expenses, and lower legal and consulting costs in general and administrative expenses.

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For the three months ended December 31, 2008 and 2007, our adjusted income (loss) from operations was \$31,797 and (\$224,143), respectively. Adjusted income (loss) from operations was favorably impacted by an increase of 16%, or \$86,593, in revenues and a decrease of 22%, or \$169,347, in total expenses included in adjusted income (loss) from operations.

	Unaudited		
	For the Years Ended December 31,		
	2009	2008	2007
	(Actual)	(Pro Forma)	(Pro Forma)
Beginning subscribers	19,003,856	17,348,622	13,653,107
Gross subscriber additions	6,208,482	7,710,306	8,077,674
Deactivated subscribers	(6,439,580)	(6,055,072)	(4,382,159)
Net additions	(231,098)	1,655,234	3,695,515
Ending subscribers	18,772,758	19,003,856	17,348,622
Retail	7,725,750	8,905,087	9,238,715
OEM	10,930,952	9,995,953	8,033,268
Rental	116,056	102,816	76,639
Ending subscribers	18,772,758	19,003,856	17,348,622
Retail	(1,179,452)	(333,628)	784,135
OEM	935,114	1,962,685	2,863,895
Rental	13,240	26,177	47,485
Net additions	(231,098)	1,655,234	3,695,515
Self-pay	15,703,932	15,549,657	13,873,346
Paid promotional	3,068,826	3,454,199	3,475,276
Ending subscribers	18,772,758	19,003,856	17,348,622
Self-pay	154,275	1,676,311	2,382,480
Paid promotional	(385,373)	(21,077)	1,313,035
Net additions	(231,098)	1,655,234	3,695,515
Daily weighted average number of subscribers	18,529,696	18,373,274	15,342,041

Unaudited Pro Forma
For the Years Ended December 31,

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	2009	2008	2007
Average self-pay monthly churn (1)(7)	2.0%	1.8%	1.7%
Conversion rate (2)(7)	45.4%	47.5%	50.9%
ARPU (7)(10)	\$ 10.73	\$ 10.56	\$ 10.66
SAC, as adjusted, per gross subscriber addition (7)(11)	\$ 63	\$ 74	\$ 86
Customer service and billing expenses, as adjusted, per average subscriber (7)(12)	\$ 1.05	\$ 1.11	\$ 1.18
Total revenue	\$ 2,526,703	\$ 2,436,740	\$ 2,058,608
Free cash flow (7)(13)	\$ 185,319	\$ (551,771)	\$ (504,869)
Adjusted income (loss) from operations (14)	\$ 462,539	\$ (136,298)	\$ (565,452)
Net loss	\$ (441,333)	\$ (902,335)	\$ (1,247,633)

Note: See pages 50 through 63 for footnotes.

Subscribers. At December 31, 2009, we had 18,772,758 subscribers, a decrease of 231,098 subscribers, or 1%, from the 19,003,856 subscribers as of December 31, 2008. The decrease was principally the result of 385,373 fewer paid promotional trials compared to December 31, 2008 due to the decline in North American auto sales. This decline was partially offset by an increase of 154,275 in self-pay subscribers compared to December 31, 2008. Deactivation rates for self-pay subscriptions in the year increased to 2.0% per month reflecting reductions in consumer discretionary spending, subscriber response to our increase in prices for multi-subscription accounts, channel line-up changes in 2008, the institution of a monthly charge for our upgraded streaming service and the introduction of the U.S. Music Royalty Fee.

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We ended 2008 with 19,003,856 subscribers, an increase of 1,655,234, or 10%, from the 17,348,622 subscribers as of December 31, 2007. Net subscriber additions decreased 2,040,281, or 55% during 2008 from 2007. Deactivation rates for self-pay subscriptions in the year increased slightly to 1.8%; deactivations due to non-conversions of subscribers in paid promotional trial periods increased as production penetration rates increased.

ARPU. For the years ended December 31, 2009 and 2008, total ARPU was \$10.73 and \$10.56, respectively. Increases in subscriber revenue were driven mainly by the sale of Best of programming, increased rates on our multi-subscription packages and revenues earned on our internet packages, partially offset by lower advertising revenue.

For the years ended December 31, 2008 and 2007, total ARPU was \$10.56 and \$10.66, respectively. The decrease was driven by a change in the mix of discounted OEM promotional subscriptions, subscriber win-back programs, second subscribers and a decline in net advertising revenue per average subscriber.

SAC, As Adjusted, Per Gross Subscriber Addition. For the years ended December 31, 2009 and 2008, SAC, as adjusted, per gross subscriber addition was \$63 and \$74, respectively. The decrease was primarily driven by lower OEM subsidies, fewer OEM installations relative to gross subscriber additions and lower aftermarket inventory charges in the year ended December 31, 2009 compared to 2008.

For the years ended December 31, 2008 and 2007, SAC, as adjusted, per gross subscriber addition was \$74 and \$86, respectively. The decrease was primarily driven by lower retail and OEM subsidies due to better product economics and improved equipment margin.

Customer Service and Billing Expenses, As Adjusted, Per Average Subscriber. For the years ended December 31, 2009 and 2008, customer service and billing expenses, as adjusted, per average subscriber was \$1.05 and \$1.11, respectively. The decline was primarily due to decreases in personnel costs and customer call center expenses.

For the years ended December 31, 2008 and 2007, Customer service and billing expenses, as adjusted, per average subscriber was \$1.11 and \$1.18, respectively. The decline was primarily due to efficiencies across a larger subscriber base.

Adjusted Income (Loss) from Operations. For the years ended December 31, 2009 and 2008, our adjusted income (loss) from operations was \$462,539 and (\$136,298), respectively. Adjusted income (loss) from operations was favorably impacted by an increase of 4%, or \$89,963, in revenues and a decrease of 20%, or \$508,874, in total expenses included in adjusted income (loss) from operations. The increase in revenue was due mainly to an increase in weighted average subscribers as well as increased rates on multi-subscription packages, revenues earned on internet packages, the introduction of the U.S. Music Royalty Fee and the sale of Best of programming, partially offset by decreased by equipment revenue. The decreases in expenses were primarily driven by lower subscriber acquisition costs, lower sales and marketing discretionary spend, savings in programming and content expenses, and lower legal and consulting costs in general and administrative expenses.

For the years ended December 31, 2008 and 2007, our adjusted income (loss) from operations was (\$136,298) and (\$565,452), respectively. Adjusted income (loss) from operations was favorably impacted by an increase of 18%, or \$378,132, in revenues and a decrease of 2%, or \$51,022, in total expenses included in adjusted income (loss) from operations.

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Unaudited Pro Forma Results of Operations. Set forth below are certain pro forma items that give effect to the Merger as if it had occurred on January 1, 2007. The pro forma information below does not give effect to any adjustments as a result of the purchase price accounting for the Merger, or the goodwill impairment charge taken during 2008. See footnote 8 (pages 51 to 52) and footnote 14 (page 57) for a reconciliation of net income (loss) to adjusted income (loss) from operations.

<i>(in thousands)</i>	Unaudited Pro Forma		
	For the Three Months Ended December 31,		
	2009	2008	2007
Revenue:			
Subscriber revenue, including effects of rebates	\$ 593,841	\$ 588,622	\$ 501,595
Advertising revenue, net of agency fees	14,467	15,776	20,571
Equipment revenue	19,008	30,712	25,133
Other revenue	56,463	8,998	10,216
Total revenue	683,779	644,108	557,515
Operating expenses:			
Satellite and transmission	25,094	22,851	23,697
Programming and content	92,857	105,215	109,076
Revenue share and royalties	124,527	122,711	163,541
Customer service and billing	58,887	67,036	65,006
Cost of equipment	12,200	18,084	37,334
Sales and marketing	80,161	81,712	123,711
Subscriber acquisition costs	127,588	132,731	180,767
General and administrative	39,108	51,591	64,223
Engineering, design and development	8,018	10,380	14,303
Depreciation and amortization	57,549	49,519	75,045
Restructuring, impairments and related costs	2,640	2,977	
Share-based payment expense	7,480	24,945	52,897
Total operating expenses	636,109	689,752	909,600
Income (loss) from operations	47,670	(45,644)	(352,085)
Other expense	(70,276)	(202,649)	(52,055)
Loss before income taxes	(22,606)	(248,293)	(404,140)
Income tax expense	(2,637)	(175)	(901)
Net loss	\$ (25,243)	\$ (248,468)	\$ (405,041)

Highlights for the Three Months Ended December 31, 2009. Our revenue grew 6%, or \$39,671, in the three months ended December 31, 2009 compared to 2008. Subscriber revenue increased 1%, or \$5,219, in the three months ended December 31, 2009 compared to 2008. The increase in subscriber revenue was driven by the sale of Best of programming and the price increases to our multi-subscription and internet packages. Advertising revenue decreased 8%, or \$1,309, in the three months ended December 31, 2009 compared to 2008. The decrease in advertising revenue was driven by the current economic environment. Equipment revenue decreased 38%, or \$11,704, in the three months ended December 31, 2009 compared to 2008. The decrease in equipment revenue was driven by declines in sales

through our direct to consumer distribution channel and lower product royalties. Other revenue increased 528%, or \$47,465, in the three months ended December 31, 2009 compared to 2008. The increase in other revenue was driven by the U.S. Music Royalty Fee introduced in the third quarter of 2009. The overall increase in revenue, combined with a decrease of 7%, or \$43,871, in adjusted operating costs (total operating expense excluding restructuring, impairments and related costs, depreciation and amortization and share-based payment expense), resulted in improved adjusted income (loss) from operations of \$115,339 in the three months ended December 31, 2009 compared to \$31,797 in 2008.

Satellite and transmission costs increased 10%, or \$2,243, in the three months ended December 31, 2009 compared to 2008 due to non-cash repeater lease charges and an increase in in-orbit insurance expense, partially offset by reductions in repeater maintenance costs and personnel costs. Programming and content costs decreased 12%, or \$12,358, in the three months ended December 31, 2009 compared to 2008, due mainly to reductions in personnel and on-air talent costs as well as savings on certain content agreements. Revenue share and royalties increased 1%, or \$1,816, in the three months ended December 31, 2009 compared to 2008 primarily due to an increase in our revenues and an increase in the statutory royalty rate for the performance of sound recordings. Customer service and billing costs decreased 12%, or \$8,149, in the three months ended December 31, 2009 compared to 2008 primarily due to decreases in personnel costs and customer call center expenses. Cost of equipment decreased 33%, or \$5,884, in the three months ended December 31, 2009 compared to 2008 as a result of a decrease in our direct to customer sales and lower inventory write-downs.

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Sales and marketing costs decreased 2%, or \$1,551, in the three months ended December 31, 2009 compared to 2008 due to reduced personnel costs and third party distribution support expenses. Subscriber acquisition costs decreased 4%, or \$5,143, in the three months ended December 31, 2009 compared to 2008. This improvement was driven by lower OEM subsidies, improved chip set costs and lower aftermarket acquisition costs, partially offset by higher aftermarket inventory related charges.

General and administrative costs decreased 24%, or \$12,483, in the three months ended December 31, 2009 compared to 2008 mainly due to the absence of certain legal and regulatory charges incurred in 2008 and lower personnel costs. Engineering, design and development costs decreased 23%, or \$2,362, in the three months ended December 31, 2009 compared to 2008, due to lower costs associated with development, tooling and testing of radios as well as lower personnel costs.

Restructuring, impairments and related costs decreased 11%, or \$337, in the three months ended December 31, 2009 compared to 2008 mainly due to fewer restructuring charges associated with the Merger.

Other expenses decreased 65%, or \$132,373, in the three months ended December 31, 2009 compared to 2008 driven mainly by a decrease in loss on extinguishment of debt and credit facilities of \$94,324 and a decrease of \$28,892 in loss on investments.

Highlights for the Three Months Ended December 31, 2008. Our revenue grew 16%, or by \$86,593, in the three months ended December 31, 2008 compared to 2007. The increase in subscriber revenue was driven primarily by a 14% growth in average subscribers. Advertising revenue decreased 23%, or \$4,795, in the three months ended December 31, 2008 compared to 2007. The decrease in advertising revenue was driven by reduced spending by advertisers. Equipment revenue increased 22%, or \$5,579, in the three months ended December 31, 2008 compared to 2007. The increase in equipment revenue was driven by increased sales through our direct to consumer distribution channel at higher average prices. Other revenue decreased 12%, or \$1,218, in the three months ended December 31, 2008 compared to 2007. The decrease in other revenue was driven mainly by decreased content license fees. The overall increase in revenue was accompanied by lower operating costs, as described below, resulting in a significantly improved adjusted income (loss) from operations of \$31,797 compared to (\$224,143) in the fourth quarter of 2007. Total operating expenses, excluding goodwill impairment, restructuring, depreciation and share-based payment expense, decreased by 22%, or \$169,347, in the quarter.

Satellite and transmission costs decreased 4%, or \$846, in the three months ended December 31, 2008 compared to 2007 primarily due to reductions in repeater maintenance costs and personnel costs. Programming and content costs decreased 4%, or \$3,861, in the three months ended December 31, 2008 compared to 2007 as a result of Merger related savings. Revenue share and royalties, representing approximately 19% and 29% of revenue during 2008 and 2007 respectively, decreased by 25%, or \$40,830, over the prior year's quarter. The prior period included a charge of \$52,440 resulting from the decision in January 2008 of the Copyright Royalty Board to increase royalties to the music industry commencing January 1, 2007. Adjusting for the royalty accrual in the fourth quarter of 2007, revenue share and royalties increased 10%, or \$11,610, from the fourth quarter of 2007. Customer service and billing costs increased 3%, or \$2,030, from the prior year's quarter, reflecting higher subscriber totals and improved scale efficiencies. Cost of equipment decreased 52%, or \$19,250, in the three months ended December 31, 2008 compared to 2007 as a result of lower product costs.

Sales and marketing cost decreased 34%, or \$41,999, in the three months ended December 31, 2008 compared to 2007 due to reduced advertising and cooperative marketing spend and Merger related savings, partially offset by higher customer retention spending. Subscriber acquisition costs decreased 27%, or \$48,036, in the three months ended December 31, 2008 compared to 2007. This improvement was primarily driven by 27% lower gross additions in the fourth quarter of 2008.

General and administrative costs decreased 20%, or \$12,632, in the three months ended December 31, 2008 compared to 2007, reflecting lower Merger costs and savings from the integration of administrative functions. Engineering, design and development costs decreased 27%, or \$3,923, in the three months ended December 31, 2008 compared to 2007 due to lower product development costs and Merger savings.

Restructuring, impairments and related costs increased \$2,977 in the three months ended December 31, 2008 compared to 2007 due to restructuring charges associated with the Merger.

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Other expenses increased by \$150,594 or 289% as compared to prior year's quarter as a result of higher interest expense and loss from redemption of debt during 2008.

<i>(in thousands)</i>	Unaudited Pro Forma		
	For the Years Ended December 31,		
	2009	2008	2007
Revenue:			
Subscriber revenue, including effects of rebates	\$ 2,334,317	\$ 2,258,322	\$ 1,888,709
Advertising revenue, net of agency fees	51,754	69,933	73,340
Equipment revenue	50,352	69,398	57,614
Other revenue	90,280	39,087	38,945
Total revenue	2,526,703	2,436,740	2,058,608
Operating expenses:			
Satellite and transmission	82,170	99,185	101,721
Programming and content	370,470	446,638	401,461
Revenue share and royalties	486,990	477,962	403,059
Customer service and billing	232,405	244,195	217,402
Cost of equipment	40,188	66,104	97,820
Sales and marketing	232,199	342,296	413,084
Subscriber acquisition costs	401,670	577,126	654,775
General and administrative	181,920	267,032	271,831
Engineering, design and development	36,152	52,500	62,907
Depreciation and amortization	203,145	245,571	293,976
Restructuring, impairments and related costs	32,807	10,434	
Share-based payment expense	78,782	124,619	165,099
Total operating expenses	2,378,898	2,953,662	3,083,135
Income (loss) from operations	147,805	(516,922)	(1,024,527)
Other expense	(583,157)	(381,425)	(221,610)
Loss before income taxes	(435,352)	(898,347)	(1,246,137)
Income tax expense	(5,981)	(3,988)	(1,496)
Net loss	\$ (441,333)	\$ (902,335)	\$ (1,247,633)

Highlights for the Year Ended December 31, 2009. Our revenue grew 4%, or \$89,963, in the year ended December 31, 2009 compared to 2008. Subscriber revenue grew 3%, or \$75,995, in the year ended December 31, 2009 compared to 2008. Advertising revenue decreased 26%, or \$18,179, in the year ended December 31, 2009 compared to 2008. The decrease in advertising revenue was driven by the current economic environment. Equipment revenue decreased 27%, or \$19,046, in the year ended December 31, 2009 compared to 2008. The decrease in equipment revenue was driven by declines in sales through our direct to consumer distribution channel and lower product and component sales offset by higher product royalties. Other revenue increased 131%, or \$51,193, in the year ended December 31, 2009 compared to 2008. The increase in other revenue was driven by the U.S. Music Royalty Fee introduced in the third quarter of 2009. The overall increase in revenue, combined with a decrease of 20%, or \$508,874, in adjusted operating costs (total operating expense excluding restructuring, impairments and related costs, depreciation and amortization

and share-based payment expense), resulted in improved adjusted income (loss) from operations of \$462,539 in the year ended December 31, 2009 compared to (\$136,298) in 2008.

Satellite and transmission costs decreased 17%, or \$17,015, in the year ended December 31, 2009 compared to 2008 due to reductions in repeater maintenance costs, non-cash repeater lease charges and personnel costs. Programming and content costs decreased 17%, or \$76,168, in the year ended December 31, 2009 compared to 2008, due mainly to a \$27,500 one-time payment recognized in 2008 to a programming provider upon completion of the Merger, reductions in personnel and on-air talent costs as well as savings on certain content agreements. Revenue share and royalties increased 2%, or \$9,028, in the year ended December 31, 2009 compared to 2008. Customer service and billing costs decreased 5%, or \$11,790, in the year ended December 31, 2009 compared to 2008 due to scale efficiencies. Cost of equipment decreased 39%, or \$25,916, in the year ended December 31, 2009 compared to 2008 as a result of a decrease in direct to customer sales, lower inventory write-downs and lower product and component sales.

Sales and marketing costs decreased 32%, or \$110,097, in the year ended December 31, 2009 compared to 2008 due to reduced advertising and cooperative marketing spend as well as reductions to personnel costs and third party distribution support expenses. Subscriber acquisition costs decreased 30%, or \$175,456, in the year ended December 31, 2009 compared to 2008. This improvement was driven by fewer OEM installations relative to gross subscriber additions, improved OEM subsidies and chip set cost, decreased production of certain radios and lower aftermarket inventory reserves as compared to 2008. Subscriber acquisition costs also decreased as a result of the 19% decline in gross additions during the year ended December 31, 2009 compared to 2008.

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General and administrative costs decreased 32%, or \$85,112, mainly due to the absence of certain legal and regulatory charges incurred in 2008 and lower personnel costs. Engineering, design and development costs decreased 31%, or \$16,348, in the year ended December 31, 2009 compared to 2008, due to lower costs associated with development, tooling and testing of radios as well as lower personnel costs.

Restructuring, impairments and related costs increased 214%, or \$22,373, mainly due to a loss of \$24,196 on capitalized installment payments for the launch of a satellite, which are expected to provide no future benefit due to the counterparty's bankruptcy filing, offset partially by a decrease in personnel related restructuring costs.

Other expenses increased 53%, or \$201,732, in the year ended December 31, 2009 compared to 2008 driven mainly by the increase in loss on extinguishment of debt and credit facilities of \$169,443 and an increase in interest expense of \$88,787, partially offset by a decrease of \$45,448 in loss on investments. The loss on the extinguishment of debt and credit facilities was incurred on the full repayment of SIRIUS Credit Agreement with Liberty Media and XM's Amended and Restated Credit Agreement and termination of XM's Second-Lien Credit Agreement. Interest expense increased due primarily to the issuance of XM's 13% Senior Notes due 2013 and the 7% Exchangeable Senior Subordinated Notes due 2014 in the third quarter of 2008.

Highlights for the Year Ended December 31, 2008. Our revenue grew 18%, or by \$378,132, in the year ended December 31, 2008. Subscriber revenue grew 20%, or \$369,613, in the year ended December 31, 2008 compared to 2007. Advertising revenue decreased 5%, or \$3,407, in the year ended December 31, 2008 compared to 2007. The decrease in advertising revenue was driven by the economic environment. Equipment revenue increased 20%, or \$11,784, in the year ended December 31, 2008 compared to 2007. The increase in equipment revenue was driven by higher product royalties and increased sales through our direct to consumer distribution channel at higher average prices. Other revenue increased \$142 in the year ended December 31, 2008 compared to 2007. This revenue growth was driven by our 20% growth in average subscribers. This increase, combined with lower fixed costs, particularly in the fourth quarter, resulted in improved adjusted loss from operations of (\$136,298) in 2008 versus (\$565,452) in 2007, as increases in our variable costs were more than offset by decreases in other operating expenses. Total operating expenses, excluding restructuring, depreciation and share-based payment expense and a \$27,500 one-time Merger related payment to a programming provider, decreased by 3%, or \$78,522, during 2008.

Satellite and transmission costs decreased 2%, or \$2,536, in the year ended December 31, 2008 compared to 2007 due to reductions in repeater maintenance costs and personnel costs. Programming and content costs increased 11%, or \$45,177, in the year ended December 31, 2008 compared to 2007, primarily due to a one-time payment to a programming provider of \$27,500 due upon completion of the Merger. Excluding this one-time payment, programming costs increased by 4%, or \$17,677. Revenue share and royalties increased by 19%, or \$74,903, in the year ended December 31, 2008 compared to 2007, maintaining a flat percentage of revenue of approximately 20% in 2008 and 2007. Customer service and billing costs increased 12%, or \$26,793, in the year ended December 31, 2008 compared to 2007 due to a larger subscriber base, mitigated by scale efficiencies. Cost of equipment decreased by 32%, or \$31,716, in the year ended December 31, 2008 compared to 2007 as a result of lower product costs.

Sales and marketing costs decreased 17%, or \$70,788, in the year ended December 31, 2008 compared to 2007 due to reduced advertising and cooperative marketing spend, offset in part by higher customer retention spending. Subscriber acquisition costs declined nearly 12%, or \$77,649, in the year ended December 31, 2008 compared to 2007. This improvement was primarily driven by a 14% improvement in SAC, as adjusted, per gross addition due to improved product economics and lower retail and OEM subsidies. Subscriber acquisition costs also declined as a result of the 5% decline in gross additions during 2008.

General and administrative costs decreased 2%, or \$4,799, in the year ended December 31, 2008 compared to 2007, reflecting lower one-time costs in connection with the Merger and early integration savings in 2008. Engineering, design and development costs decreased 17%, or \$10,407, in the year ended December 31, 2008 compared to 2007 due to fewer OEM platform launches and lower product development costs.

Restructuring, impairments and related costs increased \$10,434, in the year ended December 31, 2008 compared to 2007 due to restructuring charges associated with the Merger.

Other expenses increased by \$159,815 or 72%, in the year ended December 31, 2008 compared to 2007 as a result of higher interest expense and loss from redemption of debt during 2008.

Unaudited Actual Information

Our discussion of our unaudited actual results of operations includes the following non-GAAP financial measures: average self-pay monthly churn; conversion rate; average monthly revenue per subscriber, or ARPU; subscriber acquisition cost, or SAC, as adjusted, per gross subscriber addition; customer service and billing expenses, as adjusted, per average subscriber; free cash flow; and adjusted income (loss) from operations. We believe these non-GAAP financial measures provide meaningful supplemental information regarding our operating performance and are used for internal management purposes, when publicly providing the business outlook, and as a means to evaluate period-to-period comparisons. Please refer to the footnotes (pages 50 through 63) following our discussion of results of operations for the definitions and a further discussion of the usefulness of such non-GAAP financial measures.

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The discussion of our results of operations for the three months and three years ended December 31, 2009, 2008, and 2007 includes the financial results of XM from the date of the Merger. The inclusion of these results may render direct comparisons with results for prior periods less meaningful. Accordingly, the discussion below addresses trends we believe are significant.

Unaudited Actual Subscribers and Metrics. The following tables contain our actual subscribers and key operating metrics for the three months and three years ended December 31, 2009, 2008 and 2007:

	Unaudited Actual		
	For the Three Months Ended December 31,		
	2009	2008	2007
Beginning subscribers	18,515,730	18,920,911	7,667,476
Gross subscriber additions	1,882,950	1,713,210	1,194,014
Deactivated subscribers	(1,625,922)	(1,630,265)	(539,705)
Net additions	257,028	82,945	654,309
Ending subscribers	18,772,758	19,003,856	8,321,785
Retail	7,725,750	8,905,087	4,640,710
OEM	10,930,952	9,995,953	3,665,631
Rental	116,056	102,816	15,444
Ending subscribers	18,772,758	19,003,856	8,321,785
Retail	(200,154)	(131,333)	211,962
OEM	442,422	218,249	444,244
Rental	14,760	(3,971)	(1,897)
Net additions	257,028	82,945	654,309
Self-pay	15,703,932	15,549,657	5,685,064
Paid promotional	3,068,826	3,454,199	2,636,721
Ending subscribers	18,772,758	19,003,856	8,321,785
Self-pay	247,182	359,069	423,794
Paid promotional	9,846	(276,124)	230,515
Net additions	257,028	82,945	654,309
Daily weighted average number of subscribers	18,576,151	18,910,689	7,878,574

Unaudited Actual

	For the Three Months Ended December 31,		
	2009	2008	2007
Average self-pay monthly churn (1)(7)	2.0%	1.8%	1.7%
Conversion rate (2)(7)	46.4%	44.2%	47.4%
ARPU (7)(16)	\$ 10.81	\$ 10.30	\$ 10.05
SAC, as adjusted, per gross subscriber addition (7)(17)	\$ 55	\$ 59	\$ 87
Customer service and billing expenses, as adjusted, per average subscriber (7)(18)	\$ 1.06	\$ 1.18	\$ 1.23
Total revenue	\$ 676,173	\$ 622,183	\$ 249,816
Free cash flow (7)(19)	\$ 149,547	\$ 25,877	\$ 75,921
Adjusted income (loss) from operations (20)	\$ 170,566	\$ 72,155	\$ (107,220)
Net loss	\$ 14,167	\$ (245,844)	\$ (166,223)

Note: See pages 50
through 63 for
footnotes.

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Subscribers. At December 31, 2009, we had 18,772,758 subscribers, a decrease of 231,098 subscribers, or 1%, from the 19,003,856 subscribers as of December 31, 2008. Net subscriber additions increased 174,083, or 210%, in the three months ended December 31, 2009 compared to 2008. Net subscriber additions in our OEM channel increased 224,173, or 103%, in the three months ended December 31, 2009 compared to 2008. Net subscriber additions in our retail channel decreased 68,821, or 52%, in the three months ended December 31, 2009 compared to 2008.

Deactivation rates for self-pay subscriptions in the quarter increased to 2.0% per month reflecting reductions in consumer discretionary spending, subscriber response to our increase in prices for multi-subscription accounts, channel line-up changes in 2008, the institution of a monthly charge for our streaming service and the introduction of the U.S. Music Royalty Fee.

We ended the fourth quarter of 2008 with 19,003,856 subscribers, an increase of 10,682,071 subscribers, or 128%. The increase was primarily a result of the additional subscribers acquired in the Merger. Net subscriber additions decreased 571,364, or 87%, in the three months ended December 31, 2008 compared to 2007. Net subscriber additions in our OEM channel decreased 225,995, or 51%, in the three months ended December 31, 2008 compared to 2007. Net subscriber additions in our retail channel decreased 343,295, or 162%, in the three months ended December 31, 2008 compared to 2007. Deactivations include the results of XM in the quarter. Deactivations for self-pay subscriptions increased slightly to 1.8% per month; non-conversions of subscribers in paid promotional trial periods increased as production penetration rates increased.

ARPU. For the three months ended December 31, 2009 and 2008, total ARPU was \$10.81 and \$10.30, respectively. The increase was driven by the revenues earned for Best of programming, increased rates on multi-subscription packages and internet subscriptions.

For the three months ended December 31, 2008 and 2007, total ARPU was \$10.30 and \$10.05, respectively. The increase was driven by the start of our Best of package sales and by a lower mix of prepaid subscriptions from automakers in vehicles which have not sold through to customers. These factors were partially offset by an increase in the mix of discounted OEM promotional trials, subscriber win-back programs, second subscribers, the effect of purchase price accounting adjustments and a decline in net advertising revenue per average subscriber as subscriber growth exceeded the growth in ad revenues.

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

SAC, As Adjusted, Per Gross Subscriber Addition. For the three months ended December 31, 2009 and 2008, SAC, as adjusted, per gross subscriber addition was \$55 and \$59, respectively. The decrease in SAC was primarily due to lower OEM subsidies, lower chip set costs and lower aftermarket acquisition costs, partially offset by higher aftermarket inventory related charges compared to the three months ended December 31, 2008.

For the three months ended December 31, 2008 and 2007, SAC, as adjusted, per gross subscriber addition was \$59 and \$87, respectively. The decrease was primarily driven by lower retail and OEM subsidies due to better product economics, the effect of purchase price accounting adjustments and improved equipment margins.

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

Customer Service and Billing Expenses, As Adjusted, Per Average Subscriber. For the three months ended December 31, 2009 and 2008, customer service and billing expenses, as adjusted, per average subscriber was \$1.06 and \$1.18, respectively.

For the three months ended December 31, 2008 and 2007, Customer service and billing expenses, as adjusted, per average subscriber decreased \$1.18 and \$1.23, respectively. The decline was primarily due to efficiencies across a larger subscriber base.

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

Adjusted Income (Loss) from Operations. For the three months ended December 31, 2009 and 2008, our adjusted income (loss) from operations was \$170,566 and \$72,155, respectively. Adjusted income (loss) from operations was favorably impacted by an increase of 9%, or \$53,990, in revenues and a decrease of 8%, or \$44,421, in total expenses

included in adjusted income (loss) from operations. The increase in revenue was due mainly to increased rates on multi-subscription packages, revenues earned on internet packages, the introduction of the U.S. Music Royalty Fee and the sale of Best of programming. The decreases in expenses were primarily driven by lower subscriber acquisition costs, savings in programming and content expenses, lower customer service and billing expenses and lower legal and consulting costs in general and administrative expenses.

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For the three months ended December 31, 2008 and 2007, our adjusted income (loss) from operations was \$72,155 and (\$107,220), respectively. Adjusted income (loss) from operations was favorably impacted by the \$372,367 increase in revenues, partially offset by the \$192,992 increase in expenses included in adjusted income (loss) from operations, both of which were favorably impacted by the inclusion of the operating results of XM in the amount of \$60,371.

	Unaudited Actual		
	For the Years Ended December 31,		
	2009	2008	2007
Beginning subscribers	19,003,856	8,321,785	6,024,555
Gross subscriber additions	6,208,482	14,954,112	4,183,901
Deactivated subscribers	(6,439,580)	(4,272,041)	(1,886,671)
Net additions	(231,098)	10,682,071	2,297,230
Ending subscribers	18,772,758	19,003,856	8,321,785
Retail	7,725,750	8,905,087	4,640,710
OEM	10,930,952	9,995,953	3,665,631
Rental	116,056	102,816	15,444
Ending subscribers	18,772,758	19,003,856	8,321,785
Retail	(1,179,452)	4,264,378	598,884
OEM	935,114	6,330,321	1,706,622
Rental	13,240	87,372	(8,276)
Net additions	(231,098)	10,682,071	2,297,230
Self-pay	15,703,932	15,549,657	5,685,064
Paid promotional	3,068,826	3,454,199	2,636,721
Ending subscribers	18,772,758	19,003,856	8,321,785
Self-pay	154,275	9,864,593	1,262,222
Paid promotional	(385,373)	817,478	1,035,008
Net additions	(231,098)	10,682,071	2,297,230
Daily weighted average number of subscribers	18,529,696	13,378,035	7,082,927

Unaudited Actual
For the Years Ended December 31,

	2009	2008	2007
Average self-pay monthly churn (1)(7)	2.0%	1.8%	1.6%
Conversion rate (2)(7)	45.4%	47.5%	47.5%
ARPU (7)(21)	\$ 10.52	\$ 9.94	\$ 10.46
SAC, as adjusted, per gross subscriber addition (7)(22)	\$ 53	\$ 69	\$ 98
Customer service and billing expenses, as adjusted, per average subscriber (7)(23)	\$ 1.05	\$ 1.02	\$ 1.10
Total revenue	\$ 2,472,638	\$ 1,663,992	\$ 922,066
Free cash flow (7)(24)	\$ 185,319	\$ (244,467)	\$ (218,624)
Adjusted income (loss) from operations (25)	\$ 644,564	\$ 31,032	\$ (327,410)
Net loss	\$ (342,790)	\$ (5,313,288)	\$ (565,252)

Note: See pages 50
through 63 for
footnotes.

Subscribers. At December 31, 2009, we had 18,772,758 subscribers, a decrease of 231,098 subscribers, or 1%, from the 19,003,856 subscribers as of December 31, 2008. The decrease was principally the result of 385,373 fewer paid promotional trials due to the decline in North American auto sales. This decline was partially offset by an increase of 154,275 in self-pay subscribers compared to December 31, 2008. Deactivation rates for self-pay subscriptions in the quarter increased to 2.0% per month reflecting reductions in consumer discretionary spending, subscriber response to our increase in prices for multi-subscription accounts, channel line-up changes in 2008, the institution of a monthly charge for our streaming service and the introduction of the U.S. Music Royalty Fee.

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We ended 2008 with 19,003,856 subscribers, an increase of 128% from the 8,321,785 subscribers as of December 31, 2007. The increase was a result of the 9,716,070 subscribers acquired in the Merger. Gross additions in our OEM channel continued to grow as automakers continued to increase the portion of their production which incorporates satellite radio. The growth in OEM gross additions was offset by declines in retail gross additions. Deactivations include the results of XM from the date of the Merger. The deactivation rate for self-pay subscriptions increased slightly to 1.8% while the conversion rate for subscribers in paid promotional trial periods stayed constant.

ARPU. For the years ended December 31, 2009 and 2008, total ARPU was \$10.52 and \$9.94, respectively. The increase was driven by the revenues earned for Best of programming, increased rates on multi-subscription packages and internet subscriptions.

For the years ended December 31, 2008 and 2007, total ARPU was \$9.94 and \$10.46, respectively. The decrease was driven by an increase in the mix of discounted OEM promotional trials, subscriber win-back programs, second subscribers, the effect of purchase price accounting adjustments and a decline in net advertising revenue per average subscriber as subscriber growth exceeded the growth in ad revenues.

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

SAC, As Adjusted, Per Gross Subscriber Addition. For the years ended December 31, 2009 and 2008, SAC, as adjusted, per gross subscriber addition was \$53 and \$69, respectively. The decrease was primarily driven by the effect of purchase price accounting adjustments, lower OEM subsidies, decreased production of certain radios, lower aftermarket inventory reserves and improved equipment margins in the year ended December 31, 2009 compared to 2008.

For the years ended December 31, 2008 and 2007, SAC, as adjusted, per gross subscriber addition was \$69 and \$98, respectively. The decrease was primarily driven by lower retail and OEM subsidies due to better product economics, the effect of purchase price accounting adjustments and improved equipment margins.

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

Customer Service and Billing Expenses, As Adjusted, Per Average Subscriber. For the years ended December 31, 2009 and 2008, customer service and billing expenses, as adjusted, per average subscriber was \$1.05 and \$1.02, respectively. The increase was primarily due to the inclusion of XM, which had historically experienced higher customer service and billing expenses.

For the years ended December 31, 2008 and 2007, Customer service and billing expenses, as adjusted, per average subscriber was \$1.02 and \$1.10, respectively. The decline was primarily due to efficiencies across a larger subscriber base.

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

Adjusted Income (Loss) from Operations. For the years ended December 31, 2009 and 2008, our adjusted income (loss) from operations was \$644,564 and \$31,032, respectively. Adjusted income (loss) from operations was favorably impacted by an increase of 49%, or \$808,646, in revenues, partially offset by the increase of 12%, or \$195,114, in total expenses included in adjusted income (loss) from operations. The increase in revenue was due mainly to the inclusion of XM for a full year, an increase in weighted average subscribers, increased rates on multi-subscription packages, revenues earned on internet packages, the introduction of the U.S. Music Royalty Fee and the sale of Best of programming. The increases in expenses were primarily driven by the inclusion of XM for a full year.

For the years ended December 31, 2008 and 2007, our adjusted income (loss) from operations was \$31,032 and (\$327,410), respectively. Adjusted income (loss) from operations was favorably impacted by the \$741,926 increase in revenues, partially offset by the \$383,484 increase in expenses included in adjusted income (loss) from operations, both of which were favorably impacted by the inclusion of the operating results of XM in the amount of \$82,863.

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Unaudited Actual Results of Operations. Set forth below are our actual results of operations for the three months ended December 31, 2009, 2008 and 2007. See footnote 20 (pages 61 to 62) for a reconciliation of net income (loss) to adjusted income (loss) from operations for the three months ended December 31, 2009, 2008 and 2007. See footnote 25 (page 63) for a reconciliation of net income (loss) to adjusted income (loss) from operations for the three years ended December 31, 2009, 2008 and 2007.

<i>(in thousands)</i>	Unaudited		
	For the Three Months Ended December 31,		
	2009	2008	2007
Revenue:			
Subscriber revenue, including effects of rebates	\$ 588,048	\$ 568,523	\$ 227,658
Advertising revenue, net of agency fees	14,467	15,776	9,770
Equipment revenue	19,008	30,712	12,065
Other revenue	54,650	7,172	323
Total revenue	676,173	622,183	249,816
Operating expenses (1):			
Satellite and transmission	24,597	24,481	5,175
Programming and content	77,297	89,214	62,735
Revenue share and royalties	100,355	103,217	56,762
Customer service and billing	58,887	67,818	29,288
Cost of equipment	12,200	18,084	15,886
Sales and marketing	76,308	80,699	56,866
Subscriber acquisition costs	109,733	113,512	100,062
General and administrative	44,601	64,586	37,212
Engineering, design and development	8,056	12,404	7,946
Impairment of goodwill		15,331	
Depreciation and amortization	77,826	82,958	27,638
Restructuring, impairments and related costs	2,640	2,977	
Total operating expenses	592,500	675,281	399,570
Income (loss) from operations	83,673	(53,098)	(149,754)
Other income (expense):			
Interest and investment income	1,043	(90)	4,171
Interest expense, net of amounts capitalized	(66,358)	(61,196)	(19,887)
Loss on extinguishment of debt and credit facilities, net	(3,879)	(98,203)	
Gain (loss) on investments	1,474	(27,418)	
Other income (expense)	851	(5,664)	17
Total other income (expense)	(66,869)	(192,571)	(15,699)
Income (loss) before income taxes	16,804	(245,669)	(165,453)
Income tax expense	(2,637)	(175)	(770)
Net income (loss)	\$ 14,167	\$ (245,844)	\$ (166,223)

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

Satellite and transmission	\$ (276)	\$ 1,349	\$ 364
Programming and content	1,646	4,672	2,786
Customer service and billing		783	165
Sales and marketing	(474)	2,165	539
Subscriber acquisition costs			156
General and administrative	5,493	12,995	10,261
Engineering, design and development	38	2,023	625
Total share-based payment expense	\$ 6,427	\$ 23,987	\$ 14,896

Highlights for the Three Months Ended December 31, 2009. Our revenue grew 9%, or \$53,990, in the three months ended December 31, 2009 compared to 2008. Subscriber revenue increased 3%, or \$19,525, in the three months ended December 31, 2009 compared to 2008. The increase in subscriber revenue was driven by the sale of Best of programming and the rate increases to our multi-subscription and internet packages. Advertising revenue decreased 8%, or \$1,309, in the three months ended December 31, 2009 compared to 2008. The decrease in advertising revenue was driven by the current economic environment. Equipment revenue decreased 38%, or \$11,704, in the three months ended December 31, 2009 compared to 2008. The decrease in equipment revenue was driven by declines in sales through our direct to consumer distribution channel and lower product royalties. Other revenue increased 662%, or \$47,478, in the three months ended December 31, 2009 compared to 2008. The increase in other revenue was driven by the U.S. Music Royalty Fee introduced in the third quarter of 2009. The overall increase in revenue, combined with a decrease of 8%, or \$44,421, in adjusted operating costs (total operating expense excluding restructuring, impairments and related costs, depreciation and amortization and share-based payment expense), resulted in improved adjusted income (loss) from operations of \$170,566 in the three months ended December 31, 2009 compared to \$72,155 in 2008.

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Satellite and transmission costs increased slightly in the three months ended December 31, 2009 compared to 2008 due to non-cash repeater lease charges and an increase in in-orbit insurance expense, partially offset by reductions in repeater maintenance costs and personnel costs. Programming and content costs decreased 13%, or \$11,917, in the three months ended December 31, 2009 compared to 2008, due mainly to reductions in personnel and on-air talent costs as well as savings on certain content agreements. Revenue share and royalties decreased 3%, or \$2,862, in the three months ended December 31, 2009 compared to 2008 primarily due to the impact of purchase accounting adjustments partially offset by increases to revenues and an increase in the statutory royalty rate for the performance of sound recordings. Customer service and billing costs decreased 13%, or \$8,931, in the three months ended December 31, 2009 compared to 2008 primarily due to decreases in personnel costs and customer call center expenses. Cost of equipment decreased 33%, or \$5,884, in the three months ended December 31, 2009 compared to 2008 as a result of a decrease in our direct to customer sales and lower inventory write-downs.

Sales and marketing costs decreased \$4,391, or 5%, in the three months ended December 31, 2009 compared to 2008 due to reduced advertising and cooperative marketing spend as well as reductions to personnel costs and third party distribution support expenses. Subscriber acquisition costs decreased 3%, or \$3,779, in the three months ended December 31, 2009 compared to 2008. The decrease was primarily due to lower OEM subsidies, improved chip set costs and lower aftermarket acquisition costs, partially offset by higher aftermarket inventory related charges. General and administrative costs decreased 31%, or \$19,985, in the three months ended December 31, 2009 compared to 2008 mainly due to the absence of certain legal and regulatory charges incurred in 2008 and lower personnel costs. Engineering, design and development costs decreased 35%, or \$4,348, in the three months ended December 31, 2009 compared to 2008, due to lower costs associated with development, tooling and testing of radios as well as lower personnel costs.

Restructuring, impairments and related costs decreased 11%, or \$337, in the three months ended December 31, 2009 compared to 2008 mainly due to fewer restructuring charges associated with the Merger.

Other expenses decreased 65%, or \$125,702, in the three months ended December 31, 2009 compared to 2008 driven mainly by a decrease in loss on extinguishment of debt and credit facilities of \$94,324 and a decrease of \$28,892 in loss on investments, partially offset by an increase in interest expense of \$5,162.

Highlights for the Three Months Ended December 31, 2008. Our revenue grew 149%, or by \$372,367, in the three months ended December 31, 2008 compared to 2007. The inclusion of XM's results for the fourth quarter of 2008 drove \$315,551 of the increase. Adjusted income (loss) from operations was \$72,155 in the fourth quarter of 2008 quarter compared to (\$107,220) in the fourth quarter of 2007. Total operating expenses, excluding goodwill impairment, restructuring, depreciation and share-based payment expense, increased by 54%, or \$192,992, in the quarter. \$262,908 of the increase was attributable to the Merger.

Satellite and transmission costs increased by 373%, or \$19,306, in the three months ended December 31, 2008 compared to 2007 due to the inclusion of XM's satellite and transmission costs for the fourth quarter of 2008. Programming and content costs increased by 42%, or \$26,479, in the three months ended December 31, 2008 compared to 2007, as a result of the inclusion of XM's programming costs for the fourth quarter of 2008. Revenue share and royalties increased by 82%, or \$46,455, in the three months ended December 31, 2008 compared to 2007, as a result of the inclusion of XM's revenue share and royalties costs. Customer service and billing costs increased 132%, or \$38,530, in the three months ended December 31, 2008 compared to 2007. \$36,002 of the increase was attributable to the Merger.

Sales and marketing cost increased 42%, or \$23,833, in the three months ended December 31, 2008 compared to 2007. The increase was attributable to the merger, partially offset by reduced advertising and cooperative marketing spend. Subscriber acquisition costs increased 13%, or \$13,450, over the prior year's quarter, of which, \$37,343 was attributable to the Merger, partially offset by improved product economics and lower retail and OEM subsidies.

General and administrative costs increased 74%, or \$27,374, over the prior year's quarter, \$24,006 of which was attributable to the Merger. Engineering, design and development costs increased 56%, or \$4,458. The Merger drove \$6,467 of the increase. The offsetting decrease was due lower product development costs and savings at SIRIUS as result of the Merger.

Restructuring, impairments and related costs increased \$2,977 in the three months ended December 31, 2008 compared to 2007 due to restructuring charges associated with the Merger.

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Other expenses increased 1,127%, or \$176,872, in the three months ended December 31, 2008 compared to 2007 driven mainly by an increase in loss on extinguishment of debt and credit facilities of \$98,203, an increase in interest expense of \$41,309, and an increase of \$27,418 in loss on investments due to the inclusion of XM's expenses attributable to the Merger.

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008 and Year Ended December 31, 2008 Compared with Year Ended December 31, 2007 Actual

Total Revenue

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, subscriber revenue was \$2,287,503 and \$1,548,919, respectively, an increase of 48%, or \$738,584. The Merger was responsible for approximately \$670,870 of the increase and the remaining increase was primarily attributable to the sale of Best of programming, increased internet and multi-subscription rates and higher average subscribers.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, subscriber revenue was \$1,548,919 and \$854,933, respectively, an increase of 81%, or \$693,986. The Merger was responsible for approximately \$472,457 of the increase and the remaining increase was primarily attributable to the growth of subscribers to our services.

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

	For the Years Ended December 31,		
	2009	2008	2007
Subscription fees	\$ 2,266,809	\$ 1,529,726	\$ 853,832
Activation fees	21,837	23,025	20,878
Effect of rebates	(1,143)	(3,832)	(19,777)
Total subscriber revenue	\$ 2,287,503	\$ 1,548,919	\$ 854,933

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

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, net advertising revenue was \$51,754 and \$47,190, respectively, which represents an increase of 10%, or \$4,564. The increase was due to the inclusion of XM revenue from the Merger, which was offset by a decrease in ad revenue due to the current economic environment.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, net advertising revenue was \$47,190 and \$34,192, respectively, which represents an increase of 38%, or \$12,998. The Merger was responsible for approximately \$10,010 of the increase and the remaining increase was primarily attributable to an increase in advertisers compared to 2007.

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

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, equipment revenue was \$50,352 and \$56,001, respectively, which represents a decrease of 10%, or \$5,649. The decrease was primarily due to a decrease in sales through our direct to consumer distribution channel and lower product royalties, partially offset by the inclusion of XM revenue for a full year.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, equipment revenue was \$56,001 and \$29,281, respectively, which represents an increase of 91%, or \$26,720. The Merger was responsible for approximately \$18,991 of the increase and the remaining increase was primarily attributable to higher unit sales at higher average prices.

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

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, other revenue was \$83,029 and \$11,882, respectively, which represents an increase of 599%, or \$71,147. The increase was primarily due to the introduction of the U.S. Music Royalty Fee and the inclusion of XM revenue for a full year.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, other revenue was \$11,882 and \$3,660, respectively, which represents an increase of 225%, or \$8,222. The increase was primarily due to the Merger and was partially offset by decreased content licensing fees.

We expect other revenue to increase with a full year of billing of the U.S. Music Royalty Fee and as revenues from affiliates increase.

Operating Expenses

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, satellite and transmission expenses were \$84,033 and \$59,279, respectively, which represents an increase of 42%, or \$24,754. The satellite and transmission increase was primarily due to the inclusion of XM's satellite and transmission expense, partially offset by decreases due to the elimination of contracts, decommissioned repeater sites and decrease in streaming costs.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, satellite and transmission expenses were \$59,279 and \$27,907, respectively, which represents an increase of 112%, or \$31,372 primarily due to the Merger. XM satellite and transmission expense accounted for \$29,852 during the year ended December 31, 2008.

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

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, programming and content expenses were \$308,121 and \$312,189, respectively, which represents a decrease of \$4,068, or 1%. The increase from the inclusion of a full year of XM expense was offset by savings in content agreements, personnel and on-air talent costs.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, programming and content expenses were \$312,189 and \$236,059, respectively, which represents an increase of 32%, or \$76,130 primarily due to the Merger.

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

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, revenue share and royalties were \$397,210 and \$280,852, respectively, which represents an increase of 41%, or \$116,358. The increase was primarily attributable to the inclusion of XM's revenue share and royalty expense as a result of the Merger, an increase in our revenues and an increase in the statutory royalty rate for the performance of sound recordings.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, revenue share and royalties were \$280,852 and \$146,715, respectively, which represents an increase of 91%, or \$134,137. The increase was primarily attributable to an increase in our revenues, the \$91,132 effect of including XM's revenue share and royalty expense as a result of the Merger and an increase in the statutory royalty rate due for the performance of sound recordings.

We expect these costs to increase as our revenues grow, as we expand our distribution of SIRIUS and XM radios through automakers, and as a result of statutory increases in the royalty rate for the performance of sound recordings.

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, customer service and billing expenses were \$234,456 and \$165,036, respectively, which represents an increase of 42%, or \$69,420. The increase was primarily due to the inclusion of XM's customer and billing expense as a result of the Merger and increased bad debt expense due to the current economic environment.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, customer service and billing expenses were \$165,036 and \$93,817, respectively, which represents an increase of 76%, or \$71,219, primarily due to the Merger. XM's customer services and billing expense accounted for \$59,767 during the year ended December 31, 2008. The remaining increase was primarily attributed to higher call center operating costs necessary to accommodate the increase in our subscriber base and higher total transaction fees on the larger customer base.

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

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, cost of equipment was \$40,188 and \$46,091, respectively, which represents a decrease of 13%, or \$5,903. This was mainly due to lower sales volume through our direct to consumer channel, lower inventory related charges and lower product and component sales, partially offset by the inclusion of XM's cost of equipment expense as a result of the Merger.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, cost of equipment was \$46,091 and \$35,817, respectively, which represents an increase of 29%, or \$10,274. The Merger related increase of approximately \$12,299 was partially offset by lower product costs.

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

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, sales and marketing expenses were \$228,956 and \$231,937, respectively, which represents a decrease of 1%, or \$2,981. The decrease was due to reductions in consumer advertising and cooperative marketing, personnel costs and third party distribution support expenses, partially offset by the inclusion of XM's sales and marketing expense.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, sales and marketing expenses were \$231,937 and \$183,213, respectively, which represents an increase of 27%, or \$48,724. The Merger increased sales and marketing expense by \$76,104, which was partially offset by a reduction in consumer advertising.

We expect sales and marketing expenses, excluding share-based payment expense, to increase as we increase our advertising, retention and promotional activities over a larger subscriber base.

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

retailers of SIRIUS and XM radios.

2009 vs. 2008: For the years ended December 31, 2009 and 2008, subscriber acquisition costs were \$340,506 and \$371,343, respectively, which represents a decrease of 8%, or \$30,837. This decrease was primarily a result of lower OEM subsidies and chip set costs, decreases in production of certain radios and lower aftermarket inventory charges in the year ended December 31, 2009 compared to 2008, partially offset by the inclusion of XM's subscriber acquisition costs as a result of the Merger.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, subscriber acquisition costs were \$371,343 and \$407,642, respectively, which represents a decrease of 9%, or \$36,299. This decrease was primarily due to lower retail and OEM subsidies due to better product economics, offset partially by the impact of the Merger. XM's subscriber acquisition costs accounted for \$64,865 during the year ended December 31, 2008.

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

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, general and administrative expenses were \$227,554 and \$213,142, respectively, which represents an increase of 7%, or \$14,412, primarily due to the impact of the Merger, offset by lower costs for certain merger, litigation and regulatory matters.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, general and administrative expenses were \$213,142 and \$155,863, respectively, which represents an increase of 37%, or \$57,279, primarily due to the impact of the Merger. XM's general and administrative expense accounted for \$47,322 during the year ended December 31, 2008. The remaining increase was primarily attributable to higher compensation-related costs to support the growth of our business.

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

Engineering, Design and Development. Engineering, design and development expenses include 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.

2009 vs. 2008: For the years ended December 31, 2009 and 2008, engineering, design and development expenses were \$41,031 and \$40,496, respectively, which represents an increase of 1%, or \$535. This increase was primarily due to the inclusion of XM's engineering, design and development expenses, partially offset by lower costs associated with development, tooling and testing of radios as well as lower personnel costs.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, engineering, design and development expenses were \$40,496 and \$41,343, respectively, which represents a decrease of 2%, or \$847. This decrease was primarily due to reduced OEM and product development costs, offset partially by the impact of the Merger.

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

Other Income (Expense)

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, interest and investment income was \$3,645 and \$9,079, respectively. The decrease of 60%, or \$5,434, was primarily attributable to lower interest rates in 2009 and a lower average cash balance.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, interest and investment income was \$9,079 and \$20,570, respectively. The decrease of 56%, or \$11,491 was primarily attributable to lower interest rates in 2008 and a lower cash balance.

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, interest expense was \$306,420 and \$144,833, respectively, which represents an increase of 112%, or \$161,587. Interest expense increased significantly as a result of the Merger, due to additional debt and higher interest rates. Increases in interest expense were partially offset by the capitalized interest associated with satellite construction and related launch vehicles.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, interest expense was \$144,833 and \$70,328, respectively, which represents an increase of 106%, or \$74,505. Interest expense increased significantly as a result of the Merger, due to additional debt and higher interest rates. Increases in interest expense were partially offset by the capitalized interest associated with satellite construction and related launch vehicle.

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We expect interest expense to increase as a result of changes in the GAAP recognition and reporting requirements for share lending arrangements which were adopted as of January 1, 2010. EITF No. 09-1, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance*, (EITF No. 09-1), will require us to recognize an aggregate increase of \$378,000 in deferred financing costs associated with XM's 7% Exchangeable Senior Subordinated Notes due 2014, which will be amortized to interest expense over the six year life of the notes under the effective interest method.

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, loss on extinguishment of debt and credit facilities, net, was \$267,646 and \$98,203, respectively. During 2009, the loss was incurred on the retirement of the SIRIUS Term Loan and Purchase Money Loan borrowings from Liberty Media, the repurchase of a portion of XM Holdings 10% Convertible Senior Notes due 2009, and the retirement of XM's Amended and Restated Credit Agreement and XM's Second-Lien Credit Agreement.

2008 vs. 2007: For the year ended December 31, 2008 and 2007, loss from redemption of debt was \$98,203 and \$0, respectively.

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, gain (loss) on investment was \$1,931 and (\$30,507), respectively. The decrease in the loss was attributable to payments received from SIRIUS Canada in excess of our carrying value of our investments, decreases in our share of SIRIUS Canada's and XM Canada's net losses and decreases in impairment charges related to our investment in XM Canada for the year ended December 31, 2009 compared to 2008.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, loss on investment was \$30,507 and \$0, respectively.

Income Taxes

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

2009 vs. 2008: We recorded income tax expense of \$5,981 and \$2,476 for the years ended December 31, 2009 and 2008, respectively. The increase was attributed to the inclusion of XM.

2008 vs. 2007: We recorded income tax expense of \$2,476 and \$2,435 for the years ended December 31, 2008 and 2007, respectively.

Liquidity and Capital Resources***Cash Flows for the Year Ended December 31, 2009 Compared with Year Ended December 31, 2008 and Year Ended December 31, 2008 Compared with Year Ended December 31, 2007***

As of December 31, 2009 and 2008, we had \$383,489 and \$380,446, respectively, in cash and cash equivalents. The following table presents a summary of our cash flow activity for the periods set forth below (in thousands):

	For the Years Ended December 31,				
	2009	2008	2007	2009 vs. 2008	2008 vs. 2007
Net cash provided by (used in) operating activities	\$ 433,830	\$ (152,797)	\$ (148,766)	\$ 586,627	\$ (4,031)
Net cash (used in) provided by investing activities	(248,511)	728,425	(54,186)	(976,936)	782,611
Net cash (used in) provided by financing activities	(182,276)	(634,002)	248,351	451,726	(882,353)
Net increase (decrease) in cash and cash equivalents	3,043	(58,374)	45,399	61,417	(103,773)

Cash and cash equivalents at beginning of period	380,446	438,820	393,421	(58,374)	45,399
Cash and cash equivalents at end of period	\$ 383,489	\$ 380,446	\$ 438,820	\$ 3,043	\$ (58,374)

Cash Flows Provided by (Used in) Operating Activities

2009 vs. 2008: Net cash provided by operating activities increased \$586,627 to \$433,830 for the year ended December 31, 2009 from net cash used in operating activities of \$152,797 for the year ended December 31, 2008. The increase was primarily the result of a decreased net loss, net of non-cash operating activities of \$388,435, and an increase in cash provided by working capital of \$198,192.

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2008 vs. 2007: Net cash used in operating activities increased \$4,031 to \$152,797 for the year ended December 31, 2008 from \$148,766 for the year ended December 31, 2007. The increase was primarily the result of a decrease in cash provided by working capital of \$194,376, offset partially by a decrease in net loss, net of non-cash operating activities of \$190,345. The decrease in working capital was primarily due to decreases in cash provided by deferred revenue and accounts payable and accrued expenses.

Cash Flows (Used in) Provided by Investing Activities

2009 vs. 2008: Net cash used in investing activities increased \$976,936 to \$248,511 for the year ended December 31, 2009 from net cash provided by investing activities of \$728,425 for the year ended December 31, 2008. The increase was primarily the result of a decrease of \$819,521 in net cash acquired from XM in the Merger, a decrease of \$65,869 from the sale of restricted and other investments and an increase in capital expenditures of \$117,960 associated with our satellite construction and launch vehicle, partially offset by a decrease of \$23,519 in Merger-related costs.

2008 vs. 2007: Net cash provided by investing activities was \$728,425 for the year ended December 31, 2008 compared with net cash used in investing activities of \$54,186 for the year ended December 31, 2007. The \$782,611 increase was primarily due to the inclusion of \$819,521 in net cash acquired from XM in the Merger offset partially by increased capital expenditures of \$65,287 associated with our satellite construction and launch vehicle.

We will incur significant capital expenditures to construct and launch our new satellites and improve our terrestrial repeater network and broadcast and administrative infrastructure. These capital expenditures will support our growth and the resiliency of our operations, and will also support the delivery of future new revenue streams.

Cash Flows (Used in) Provided by Financing Activities

2009 vs. 2008: Net cash used in financing activities decreased \$451,726 to \$182,276 for the year ended December 31, 2009 from \$634,002 for the year ended December 31, 2008. The decrease in cash used in financing activities was primarily due to an increase of \$413,462 in net proceeds from our agreement with Liberty Media and issuance of XM's 11.25% Senior Secured Notes due 2013 and SIRIUS' 9.75% Senior Secured Notes due 2015 during the year ended December 31, 2009 compared to proceeds from XM's 7% Exchangeable Senior Subordinated Notes due 2014 during the year ended December 31, 2008 and a decrease of \$61,880 in payments to a noncontrolling interest; partially offset by a decrease in debt payment of \$21,051, principally to holders of SIRIUS' 2% Convertible Notes due 2009, XM's Amended and Restated Credit Agreement due 2011 and SIRIUS' Term Loan and Purchase Money Loan borrowings from Liberty Media during the year ended December 31, 2009 compared to debt payments to holders of XM's 9.75% Senior Notes due 2014, XM's Senior Floating Rate Notes due 2013 and XM's Debt of Consolidated Variable Interest Entity during the year ended December 31, 2008.

2008 vs. 2007: Net cash used in financing activities increased \$882,353 to \$634,002 for the year ended December 31, 2008 from net cash provided by financing activities of \$248,351 for the year ended December 31, 2007. Significant financing activities for the year ended December 31, 2008 included \$550,000 in cash proceeds from the issuance of XM's 7% Exchangeable Senior Subordinated Notes due 2014; \$613,400 in cash used to extinguish 99% of the principal and accrued interest on XM's 9.75% Senior Notes due 2014; \$203,500 in cash used to extinguish 100% of the principal, accrued interest and prepayment premiums on XM's Senior Floating Rate Notes due 2013; and \$309,400 for transponder repurchase obligation, from both debt and equity holders of a consolidated variable interest entity, including a prepayment premium and interest accrued through the date of extinguishment.

Financings and Capital Requirements

We have historically financed our operations through the sale of debt and equity securities. The Certificate of Designations for our Series B Preferred Stock provides that so long as Liberty beneficially owns at least half of its initial equity investment, we need the consent of Liberty for certain actions, including the grant or issuance of our equity securities and the incurrence of debt (other than, in general, debt incurred to refinance existing debt) in amounts greater than a stated threshold.

Future Liquidity and Capital Resource Requirements

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

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

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

Off-Balance Sheet Arrangements

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

We do not have any significant off-balance sheet arrangements other than those disclosed in Note 15 to our consolidated financial statements in Item 8 of this Form 10-K 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 December 31, 2009, approximately 274,425,000 shares of common stock were available for future grant under the 2009 Plan.

Other Plans

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

Contractual Cash Commitments

For a discussion of our Contractual Cash Commitments refer to Note 15 to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Related Party Transactions

For a discussion of Related Party Transactions refer to Note 9 to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods. Accounting estimates require the use of significant management assumptions and judgments as to future events, and the effect of those events cannot be

predicted with certainty. The accounting estimates will change as new events occur, more experience is acquired and more information is obtained. We evaluate and update our assumptions and estimates on an ongoing basis and use outside experts to assist in that evaluation when we deem necessary. We have disclosed all significant accounting policies in Note 3 to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K. We have identified the following policies, which were discussed with the audit committee of our board of directors, as critical to our business and understanding our results of operations.

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Fair Value of XM Assets Acquired and Liabilities Assumed. On July 28, 2008, our wholly owned subsidiary Vernon Merger Corporation merged with and into XM Satellite Radio Holdings Inc., with XM Holdings becoming our wholly-owned subsidiary. The application of purchase accounting resulted in the transaction being valued at \$5,836,363 and our recording of goodwill acquired totaling \$6,601,046.

Long-Lived Assets. We carry our long-lived assets at cost less accumulated depreciation. We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset is not recoverable. At the time an impairment in value of a long-lived asset is identified, the impairment is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. To determine fair value, we employ an expected present value technique, which utilizes multiple cash flow scenarios that reflect the range of possible outcomes and an appropriate discount rate.

We evaluate our indefinite life intangible assets for impairment on an annual basis. During the year ended December 31, 2008, we recorded \$4,766,190 of goodwill impairment. At December 31, 2009, our intangible assets with indefinite lives totaled \$2,333,654, and the remaining unamortized total basis of our intangible assets with definite lives was \$361,461.

Useful Life of Broadcast/Transmission System. Our satellite system includes the costs of our satellite construction, launch vehicles, launch insurance, capitalized interest, spare satellite, terrestrial repeater network and satellite uplink facility. We monitor our satellites for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset is not recoverable. The expected useful lives of our four in-orbit SIRIUS satellites were originally 15 years from the date they were placed into orbit. In June 2006, we adjusted the useful lives of two of our in-orbit SIRIUS satellites to 13 years to reflect the unanticipated loss of power from the solar array and the way we operate the constellation. We currently expect our first three in-orbit SIRIUS satellites to operate effectively through 2015 and are evaluating the impact of current satellite operational data on the expected useful lives. XM Holdings operates four in-orbit satellites, two of which function as in-orbit spares. The two in-orbit spare satellites were launched in 2001 while the other two satellites were launched in 2005 and 2006. We estimate that the XM-3 and XM-4 satellites will meet their 15 year predicted useful lives, and that XM-1 and XM-2 satellite s useful lives will end in 2011. XM Holdings is constructing an additional XM satellite which is in storage awaiting its launch. Certain of our in-orbit satellites have experienced circuit failures on their solar arrays. We continue to monitor the operating condition of our in-orbit satellites. If events or circumstances indicate that the useful lives of our in-orbit satellites have changed, we will modify the depreciable life accordingly. If we were to revise our estimates, our depreciation expense would change, for example, a 10% decrease in the expected useful lives of satellites and spacecraft control facilities during 2009 would have resulted in approximately \$19,432 of additional depreciation expense.

Revenue Recognition. We derive revenue primarily from subscribers, advertising and direct sales of merchandise. Revenue from subscribers consists of subscription fees; revenue derived from our agreements with daily rental fleet programs; non-refundable activation and other fees; and the effects of rebates. Revenue is recognized as it is realized or realizable and earned.

We recognize subscription fees as our services are provided. Prepaid subscription fees are recorded as deferred revenue and amortized to revenue ratably over the term of the applicable subscription plan.

At the time of sale, vehicle owners purchasing or leasing a vehicle with a subscription to our service typically receive between a three-month and twelve-month prepaid subscription. Prepaid subscription fees received from certain automakers are recorded as deferred revenue and amortized to revenue ratably over the service period which commences upon retail sale and activation. We reimburse automakers for certain costs associated with the satellite radio installed in the applicable vehicle at the time the vehicle is manufactured. The associated payments to the automakers are included in Subscriber acquisition costs. These payments are included in Subscriber acquisition costs because we are responsible for providing the service to the customers, including being obligated to the customers in the case of an interruption of service.

Activation fees are recognized ratably over the estimated term of a subscriber relationship, estimated to be approximately 3.5 years during 2009. The estimated term of a subscriber relationship is based on historical experience. If we were to revise our estimate our recognition of activation fees would change, for example, a 10%

decrease to the estimated term of a subscriber relationship during 2009 would have resulted in approximately \$7,585 of additional activation fees.

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We record an estimate of rebates that are paid by us to subscribers as a reduction to revenue in the period the subscriber activates service. For certain rebate promotions, a subscriber must remain active for a specified period of time to be considered eligible. In those instances, the estimate is recorded as a reduction to revenue over the required activation period. We estimate the effects of mail-in rebates based on actual take-rates for rebate incentives offered in prior periods, adjusted as deemed necessary based on take-rate data available at the time. In subsequent periods, estimates are adjusted when necessary. For instant rebate promotions, we record the consideration paid to the consumer as a reduction to revenue in the period the customer participates in the promotion.

We recognize revenue from the sale of advertising as the advertising is broadcast. Agency fees are calculated based on a stated percentage applied to gross billing revenue for our advertising inventory and are reported as a reduction of advertising revenue. We pay certain third parties a percentage of advertising revenue. Advertising revenue is recorded gross of such revenue share payments as we are the primary obligor in the transaction. Advertising revenue share payments are recorded to revenue share and royalties during the period in which the advertising is broadcast.

Equipment revenue and royalties from the sale of satellite radios, components and accessories is recognized upon shipment, net of discounts and rebates. Shipping and handling costs billed to customers are recorded as revenue. Shipping and handling costs associated with shipping goods to customers are reported as a component of cost of equipment.

Revenue arrangements with multiple deliverables are divided into separate units of accounting when the products and services meet certain criteria and consideration is allocated among the separate units of accounting based on their relative fair values.

Share-based Payment. We recognize all share-based compensation payments in the financial statements based on fair value using the Black-Scholes-Merton option-pricing model to value stock option awards and we treat awards with graded vesting as a single award. Forfeitures are estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from initial estimates.

Fair value as determined using Black-Scholes-Merton model varies based on assumptions used for the expected life, expected stock price volatility and risk-free interest rates. We estimate the fair value of awards granted using the hybrid approach for volatility, which weights observable historical volatility and implied volatility of qualifying actively traded options on our common stock. The expected life assumption represents the weighted-average period stock-based awards are expected to remain outstanding. These expected life assumptions are established through a review of historical exercise behavior of stock-based award grants with similar vesting periods. Where historical patterns do not exist, contractual terms are used. The risk-free interest rate represents the daily treasury yield curve rate at the grant date based on the closing market bid yields on actively traded U.S. treasury securities in the over-the-counter market for the expected term. Our assumptions may change in future periods.

Equity instruments granted to non-employees are recognized in earnings at the estimated fair value, which is remeasured during the performance commitment period. The final measurement date for the fair value of equity instruments is the date that each performance commitment for such equity instrument is satisfied or there is a significant disincentive for non-performance.

Stock-based awards granted to employees, non-employees and members of our board of directors include warrants, stock options, restricted stock and restricted stock units.

Income Taxes. Deferred income taxes are recognized for the tax consequences related to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes at each year-end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is recognized when, based on the weight of all available evidence, it is considered more likely than not that all, or some portion, of the deferred tax assets will not be realized. Income tax expense is the sum of current income tax plus the change in deferred tax assets and liabilities.

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Footnotes to Results of Operations

- (1) Average self-pay monthly churn represents the monthly average of self-pay deactivations by the quarter divided by the average self-pay subscriber balance for the quarter.

- (2) We measure the percentage of vehicle owners and lessees that receive our service and convert to self-paying after the initial promotion period. We refer to this as the conversion rate. At the time of sale, vehicle owners and lessees generally receive between three and twelve month trial subscriptions. Promotional periods generally include the period of trial service plus 30 days to handle the receipt and processing of payments. We measure conversion rate three months

after the period in which the trial service ends.

Based on our experience it may take up to 90 days after the trial service ends for vehicle owners and lessees to respond to our marketing communications and become self-paying subscribers.

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

	Unaudited Pro Forma		
	For the Three Months Ended December 31,		
	2009	2008	2007
Subscriber revenue	\$ 593,841	\$ 588,622	\$ 501,595
Net advertising revenue	14,467	15,776	20,571
Total subscriber and net advertising revenue	\$ 608,308	\$ 604,398	\$ 522,166
Daily weighted average number of subscribers	18,576,151	18,910,689	16,629,079
ARPU	\$ 10.92	\$ 10.65	\$ 10.47

- (4) SAC, as adjusted, per gross subscriber addition is derived from subscriber acquisition costs and margins from the direct sale of radios and accessories, excluding share-based payment expense, divided by the number of gross subscriber additions for the period. SAC, as adjusted, per gross subscriber addition is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited Pro Forma		
	For the Three Months Ended December 31,		
	2009	2008	2007
Subscriber acquisition cost	\$ 127,588	\$ 132,731	\$ 190,090
Less: share-based payment expense granted to third parties and employees			(9,323)
(Less) Add: margin from direct sales of radios and accessories	(6,808)	(12,628)	12,201
SAC, as adjusted	\$ 120,780	\$ 120,103	\$ 192,968
Gross subscriber additions	1,882,950	1,713,210	2,336,640
SAC, as adjusted, per gross subscriber addition	\$ 64	\$ 70	\$ 83

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

	Unaudited Pro Forma		
	For the Three Months Ended December 31,		
	2009	2008	2007
Customer service and billing expenses	\$ 58,981	\$ 67,906	\$ 65,991
Less: share-based payment expense	(94)	(870)	(985)
Customer service and billing expenses, as adjusted	\$ 58,887	\$ 67,036	\$ 65,006

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Daily weighted average number of subscribers	18,576,151	18,910,689	16,629,079
Customer service and billing expenses, as adjusted, per average subscriber	\$ 1.06	\$ 1.18	\$ 1.30

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

	Unaudited Pro Forma		
	For the Three Months Ended December 31,		
	2009	2008	2007
Net cash provided by operating activities	\$ 180,723	\$ 64,195	\$ 30,957
Additions to property and equipment	(31,176)	(27,846)	(18,954)
Merger related costs		(10,472)	(6,680)
Restricted and other investment activity			82
Free cash flow	\$ 149,547	\$ 25,877	\$ 5,405

(7) Average self-pay monthly churn; conversion rate; ARPU; SAC, as adjusted, per gross subscriber addition; customer service and billing expenses, as adjusted, per average subscriber; and free cash flow are not measures of financial performance under U.S. GAAP. We believe these non-GAAP financial measures provide meaningful supplemental information regarding our operating performance and are used by us for budgetary and

planning purposes; when publicly providing our business outlook; as a means to evaluate period-to-period comparisons; and to compare our performance to that of our competitors. We believe that investors also use our current and projected metrics to monitor the performance of our business and to make investment decisions.

We believe the exclusion of share-based payment expense in our calculations of SAC, as adjusted, per gross subscriber addition and customer service and billing expenses, as adjusted, per average subscriber is useful given the significant variation in expense that can result from changes in the fair market value of our common stock, the effect of which is unrelated to the

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

These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with GAAP. These non-GAAP financial measures may be susceptible to varying calculations; may not be comparable to other similarly titled measures of

other companies; and should not be considered in isolation, as a substitute for, or superior to measures of financial performance prepared in accordance with GAAP.

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

income
(loss) from
operations is a
useful measure of
our operating
performance. We
use adjusted
income
(loss) from
operations for
budgetary and
planning
purposes; to
assess the relative
profitability and
on-going
performance of
our consolidated
operations; to
compare our
performance
from
period-to-period;
and to compare
our performance
to that of our
competitors. We
also believe
adjusted income
(loss) from
operations is
useful to
investors to
compare our
operating
performance to
the performance
of other
communications,
entertainment and
media
companies. We
believe that
investors use
current and
projected
adjusted income
(loss) from
operations to
estimate our
current or

prospective
enterprise value
and to make
investment
decisions.

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Because we fund and build-out our satellite radio system through the periodic raising and expenditure of large amounts of capital, our results of operations reflect significant charges for interest and depreciation expense. We believe adjusted income (loss) from operations provides useful information about the operating performance of our business apart from the costs associated with our capital structure and physical plant. The exclusion of interest and depreciation and amortization expense is useful given fluctuations in interest rates and significant variation in depreciation and amortization expense that can result from the amount and timing of capital expenditures and potential variations in estimated useful lives, all of which can vary widely across different

industries or among companies within the same industry. We believe the exclusion of taxes is appropriate for comparability purposes as the tax positions of companies can vary because of their differing abilities to take advantage of tax benefits and because of the tax policies of the various jurisdictions in which they operate. We believe the exclusion of restructuring, impairments and related costs is useful given the non-recurring nature of these expenses. We also believe the exclusion of share-based payment expense is useful given the significant variation in expense that can result from changes in the fair market value of our common stock. To compensate for the exclusion of taxes, other expense (income), depreciation and amortization and share-based

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

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

statements of operations. Since adjusted income (loss) from operations is a non-GAAP financial measure, our calculation of adjusted income (loss) from operations may be susceptible to varying calculations; may not be comparable to other similarly titled measures of other companies; and should not be considered in isolation, as a substitute for, or superior to measures of financial performance prepared in accordance with GAAP.

The reconciliation of the pro forma unadjusted net income (loss) to the pro forma adjusted income (loss) from operations is calculated as follows (see footnotes for reconciliation of the pro forma amounts to their respective GAAP amounts) (in thousands):

Unaudited Pro Forma
For the Three Months Ended December 31,
2009 2008 2007

Reconciliation of Net loss to Adjusted income (loss) from operations:

Net loss	\$ (25,243)	\$ (248,468)	\$ (405,041)
Add back Net loss items excluded from Adjusted income (loss) from operations:			
Interest and investment income	(1,043)	90	(6,978)
Interest expense, net of amounts capitalized	69,765	71,274	48,703
Income tax expense	2,637	175	901
Loss on extinguishment of debt and credit facilities, net	3,879	98,203	728
(Gain) loss on investments	(1,474)	27,418	3,768
Other (income) expense	(851)	5,664	5,834
Income (loss) from operations	47,670	(45,644)	(352,085)
Restructuring, impairments and related costs	2,640	2,977	
Depreciation and amortization	57,549	49,519	75,045
Share-based payment expense	7,480	24,945	52,897
Adjusted income (loss) from operations	\$ 115,339	\$ 31,797	\$ (224,143)

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

affecting the business than GAAP results alone. Investors that wish to compare and evaluate our operating results after giving effect for these costs, should refer to results of operations as disclosed in our consolidated statements of operations. Since pro forma unadjusted results of operations is a non-GAAP financial measure, our calculations may not be comparable to other similarly titled measures of other companies; and should not be considered in isolation, as a substitute for, or superior to measures of financial performance prepared in accordance with GAAP.

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

	Unaudited For the Three Months Ended December 31, 2009			
	As	Purchase	Allocation of	
	Reported	Price	Share-	
<i>(in thousands)</i>		Accounting	based Payment	Pro Forma
		Adjustments	Expense	
Revenue:				
Subscriber revenue, including effects of rebates	\$ 588,048	\$ 5,793	\$	\$ 593,841
Advertising revenue, net of agency fees	14,467			14,467
Equipment revenue	19,008			19,008
Other revenue	54,650	1,813		56,463
Total revenue	676,173	7,606		683,779
Operating expenses (depreciation and amortization shown separately below) (1)				
Cost of services:				
Satellite and transmission	24,597	327	170	25,094
Programming and content	77,297	17,361	(1,801)	92,857
Revenue share and royalties	100,355	24,172		124,527
Customer service and billing	58,887	94	(94)	58,887
Cost of equipment	12,200			12,200
Sales and marketing	76,308	3,522	331	80,161
Subscriber acquisition costs	109,733	17,855		127,588
General and administrative	44,601	350	(5,843)	39,108
Engineering, design and development	8,056	205	(243)	8,018
Depreciation and amortization	77,826	(20,277)		57,549
Restructuring, impairments and related costs	2,640			2,640
Share-based payment expense			7,480	7,480
Total operating expenses	592,500	43,609		636,109
Income (loss) from operations	83,673	(36,003)		47,670
Other income (expense)				
Interest and investment income	1,043			1,043

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Interest expense, net of amounts capitalized	(66,358)	(3,407)	(69,765)
Loss on extinguishment of debt and credit facilities, net	(3,879)		(3,879)
Gain on investments	1,474		1,474
Other income	851		851
Total other expense	(66,869)	(3,407)	(70,276)
Income (loss) before income taxes	16,804	(39,410)	(22,606)
Income tax expense	(2,637)		(2,637)
Net income (loss)	\$ 14,167	\$ (39,410)	\$ (25,243)

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

Satellite and transmission	\$ (276)	\$ 106	\$ (170)
Programming and content	1,646	155	1,801
Customer service and billing		94	94
Sales and marketing	(474)	143	(331)
Subscriber acquisition costs			
General and administrative	5,493	350	5,843
Engineering, design and development	38	205	243
Total share-based payment expense	\$ 6,427	\$ 1,053	\$ 7,480

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	Unaudited For the Three Months Ended December 31, 2008			
	As Reported	Purchase Price Accounting Adjustments (a)	Allocation of Share- based Payment Expense	Pro Forma
<i>(in thousands)</i>				
Revenue:				
Subscriber revenue, including effects of rebates	\$ 568,523	\$ 20,099	\$	\$ 588,622
Advertising revenue, net of agency fees	15,776			15,776
Equipment revenue	30,712			30,712
Other revenue	7,172	1,826		8,998
Total revenue	622,183	21,925		644,108
Operating expenses (depreciation and amortization shown separately below) (1)				
Cost of services:				
Satellite and transmission	24,481	(214)	(1,416)	22,851
Programming and content	89,214	20,755	(4,754)	105,215
Revenue share and royalties	103,217	19,494		122,711
Customer service and billing	67,818	88	(870)	67,036
Cost of equipment	18,084			18,084
Sales and marketing	80,699	3,312	(2,299)	81,712
Subscriber acquisition costs	113,512	19,219		132,731
General and administrative	64,586	306	(13,301)	51,591
Engineering, design and development	12,404	281	(2,305)	10,380
Impairment of goodwill	15,331	(15,331)		
Depreciation and amortization	82,958	(33,439)		49,519
Restructuring, impairments and related costs	2,977			2,977
Share-based payment expense			24,945	24,945
Total operating expenses	675,281	14,471		689,752
(Loss) income from operations	(53,098)	7,454		(45,644)
Other income (expense)				
Interest and investment income	(90)			(90)
Interest expense, net of amounts capitalized	(61,196)	(10,078)		(71,274)
Loss on extinguishment of debt and credit facilities, net	(98,203)			(98,203)
Loss on investments	(27,418)			(27,418)
Other expense	(5,664)			(5,664)
Total other expense	(192,571)	(10,078)		(202,649)
Loss before income taxes	(245,669)	(2,624)		(248,293)

Income tax expense	(175)			(175)
Net loss	\$ (245,844)	\$	(2,624)	\$ (248,468)

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

Satellite and transmission	\$ 1,349	\$	67	\$	1,416
Programming and content	4,672		82		4,754
Customer service and billing	783		87		870
Sales and marketing	2,165		134		2,299
General and administrative	12,995		306		13,301
Engineering, design and development	2,023		282		2,305
Total share-based payment expense	\$ 23,987	\$	958	\$	24,945

(a) Includes impairment of goodwill.

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	Unaudited For the Three Months Ended December 31, 2007			
	As	Predecessor	Allocation of	
<i>(in thousands)</i>	Reported	Financial	Share-based	Pro Forma
		Information	Payment	
			Expense	
Revenue:				
Subscriber revenue, including effects of rebates	\$ 227,658	\$ 273,937	\$	\$ 501,595
Advertising revenue, net of agency fees	9,770	10,801		20,571
Equipment revenue	12,065	13,068		25,133
Other revenue	323	9,893		10,216
Total revenue	249,816	307,699		557,515
Operating expenses (depreciation and amortization shown separately below) (1)				
Cost of services:				
Satellite and transmission	5,175	20,304	(1,782)	23,697
Programming and content	62,735	51,297	(4,956)	109,076
Revenue share and royalties	56,762	106,779		163,541
Customer service and billing	29,288	36,703	(985)	65,006
Cost of equipment	15,886	21,448		37,334
Sales and marketing	56,866	83,693	(16,848)	123,711
Subscriber acquisition costs	100,062	90,028	(9,323)	180,767
General and administrative	37,212	43,106	(16,095)	64,223
Engineering, design and development	7,946	9,265	(2,908)	14,303
Depreciation and amortization	27,638	47,407		75,045
Share-based payment expense			52,897	52,897
Total operating expenses	399,570	510,030		909,600
Loss from operations	(149,754)	(202,331)		(352,085)
Other income (expense)				
Interest and investment income	4,171	2,807		6,978
Interest expense, net of amounts capitalized	(19,887)	(28,816)		(48,703)
Loss on extinguishment of debt and credit facilities, net		(728)		(728)
Loss on investments		(3,768)		(3,768)
Other income (expense)	17	(5,851)		(5,834)
Total other expense	(15,699)	(36,356)		(52,055)
Loss before income taxes	(165,453)	(238,687)		(404,140)
Income tax expense	(770)	(131)		(901)
Net loss	\$ (166,223)	\$ (238,818)	\$	\$ (405,041)

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

Satellite and transmission	\$ 364	\$ 1,418	\$ 1,782
Programming and content	2,786	2,170	4,956
Customer service and billing	165	820	985
Sales and marketing	539	16,309	16,848
Subscriber acquisition costs	156	9,167	9,323
General and administrative	10,261	5,834	16,095
Engineering, design and development	625	2,283	2,908
Total share-based payment expense	\$ 14,896	\$ 38,001	\$ 52,897

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(10) ARPU is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited Pro Forma		
	For the Years Ended December 31,		
	2009	2008	2007
Subscriber revenue	\$ 2,334,317	\$ 2,258,322	\$ 1,888,709
Net advertising revenue	51,754	69,933	73,340
Total subscriber and net advertising revenue	\$ 2,386,071	\$ 2,328,255	\$ 1,962,049
Daily weighted average number of subscribers	18,529,696	18,373,274	15,342,041
ARPU	\$ 10.73	\$ 10.56	\$ 10.66

(11) SAC, as adjusted, per gross subscriber addition is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited Pro Forma		
	For the Years Ended December 31,		
	2009	2008	2007
Subscriber acquisition cost	\$ 401,670	\$ 577,140	\$ 666,785
Less: share-based payment expense granted to third parties and employees		(14)	(12,010)
(Less) Add: margin from direct sales of radios and accessories	(10,164)	(3,294)	40,206
SAC, as adjusted	\$ 391,506	\$ 573,832	\$ 694,981
Gross subscriber additions	6,208,482	7,710,306	8,077,674
SAC, as adjusted, per gross subscriber addition	\$ 63	\$ 74	\$ 86

(12) Customer service and billing

expenses, as adjusted, per average subscriber is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited Pro Forma		
	For the Years Ended December 31,		
	2009	2008	2007
Customer service and billing expenses	\$ 234,909	\$ 248,176	\$ 220,593
Less: share-based payment expense	(2,504)	(3,981)	(3,191)
Customer service and billing expenses, as adjusted	\$ 232,405	\$ 244,195	\$ 217,402
Daily weighted average number of subscribers	18,529,696	18,373,274	15,342,041
Customer service and billing expenses, as adjusted, per average subscriber	\$ 1.05	\$ 1.11	\$ 1.18

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

	Unaudited Pro Forma		
	For the Years Ended December 31,		
	2009	2008	2007
Net cash provided by (used in) operating activities	\$ 433,830	\$ (403,883)	\$ (303,496)
Additions to property and equipment	(248,511)	(161,394)	(198,602)
Merger related costs		(23,519)	(29,444)
Restricted and other investment activity		37,025	26,673
Free cash flow	\$ 185,319	\$ (551,771)	\$ (504,869)

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

	Unaudited Pro Forma		
	For the Years Ended December 31,		
	2009	2008	2007
Reconciliation of Net loss to Adjusted income (loss) from operations:			
Net loss	\$ (441,333)	\$ (902,335)	\$ (1,247,633)
Add back Net loss items excluded from Adjusted income (loss) from operations:			
Interest and investment income	(3,645)	(12,092)	(34,654)
Interest expense, net of amounts capitalized	324,442	235,655	186,933
Income tax expense	5,981	3,988	1,496
Loss on extinguishment of debt and credit facilities, net	267,646	98,203	3,693
(Gain) loss on investments	(1,931)	43,517	56,156
Other (income) expense	(3,355)	16,142	9,482
Income (loss) from operations	147,805	(516,922)	(1,024,527)
Restructuring, impairments and related costs	32,807	10,434	
Depreciation and amortization	203,145	245,571	293,976
Share-based payment expense	78,782	124,619	165,099
Adjusted income (loss) from operations	\$ 462,539	\$ (136,298)	\$ (565,452)

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

Unaudited For the Year Ended December 31, 2009

<i>(in thousands)</i>	As Reported	Purchase Price Accounting Adjustments	Allocation of Share-based Payment Expense	Pro Forma
Revenue:				
Subscriber revenue, including effects of rebates	\$ 2,287,503	\$ 46,814	\$	\$ 2,334,317
Advertising revenue, net of agency fees	51,754			51,754
Equipment revenue	50,352			50,352
Other revenue	83,029	7,251		90,280
Total revenue	2,472,638	54,065		2,526,703
Operating expenses (depreciation and amortization shown separately below) (1)				
Cost of services:				
Satellite and transmission	84,033	1,339	(3,202)	82,170
Programming and content	308,121	72,069	(9,720)	370,470
Revenue share and royalties	397,210	89,780		486,990
Customer service and billing	234,456	453	(2,504)	232,405
Cost of equipment	40,188			40,188
Sales and marketing	228,956	13,507	(10,264)	232,199
Subscriber acquisition costs	340,506	61,164		401,670
General and administrative	227,554	1,602	(47,236)	181,920
Engineering, design and development	41,031	977	(5,856)	36,152
Depreciation and amortization	309,450	(106,305)		203,145
Restructuring, impairments and related costs	32,807			32,807
Share-based payment expense			78,782	78,782
Total operating expenses	2,244,312	134,586		2,378,898
Income (loss) from operations	228,326	(80,521)		147,805
Other income (expense)				
Interest and investment income	3,645			3,645
Interest expense, net of amounts capitalized	(306,420)	(18,022)		(324,442)

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Loss on extinguishment of debt and credit facilities, net	(267,646)			(267,646)
Gain on investments	1,931			1,931
Other income	3,355			3,355
Total other expense	(565,135)	(18,022)		(583,157)
Loss before income taxes	(336,809)	(98,543)		(435,352)
Income tax expense	(5,981)			(5,981)
Net loss	\$ (342,790)	\$ (98,543)	\$	\$ (441,333)

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

Satellite and transmission	\$ 2,745	\$ 457	\$	\$ 3,202
Programming and content	9,064	656		9,720
Customer service and billing	2,051	453		2,504
Sales and marketing	9,608	656		10,264
Subscriber acquisition costs				
General and administrative	45,634	1,602		47,236
Engineering, design and development	4,879	977		5,856
Total share-based payment expense	\$ 73,981	\$ 4,801	\$	\$ 78,782

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<i>(in thousands)</i>	Unaudited For the Year Ended December 31, 2008				Pro Forma
	As Reported	Predecessor Financial Information	Purchase Price Accounting Adjustments (a)	Allocation of Share-based Payment Expense	
Revenue:					
Subscriber revenue, including effects of rebates	\$ 1,548,919	\$ 670,870	\$ 38,533	\$	\$ 2,258,322
Advertising revenue, net of agency fees	47,190	22,743			69,933
Equipment revenue	56,001	13,397			69,398
Other revenue	11,882	24,184	3,021		39,087
Total revenue	1,663,992	731,194	41,554		2,436,740
Operating expenses (depreciation and amortization shown separately below) (1)					
Cost of services:					
Satellite and transmission	59,279	46,566	424	(7,084)	99,185
Programming and content	312,189	117,156	34,667	(17,374)	446,638
Revenue share and royalties	280,852	166,606	30,504		477,962
Customer service and billing	165,036	82,947	193	(3,981)	244,195
Cost of equipment	46,091	20,013			66,104
Sales and marketing	231,937	126,054	5,393	(21,088)	342,296
Subscriber acquisition costs	371,343	174,083	31,714	(14)	577,126
General and administrative	213,142	116,444	1,083	(63,637)	267,032
Engineering, design and development	40,496	23,045	400	(11,441)	52,500
Impairment of goodwill	4,766,190		(4,766,190)		
Depreciation and amortization	203,752	88,749	(46,930)		245,571
Restructuring, impairments and related costs	10,434				10,434
Share-based payment expense				124,619	124,619
Total operating expenses	6,700,741	961,663	(4,708,742)		2,953,662
(Loss) income from operations	(5,036,749)	(230,469)	4,750,296		(516,922)
Other income (expense)					
Interest and investment income	9,079	3,013			12,092
Interest expense, net of amounts capitalized	(144,833) (98,203)	(73,937)	(16,885)		(235,655) (98,203)

Loss on extinguishment of debt and credit facilities, net				
Loss on investments	(30,507)	(13,010)		(43,517)
Other expense	(9,599)	(6,543)		(16,142)
Total other expense	(274,063)	(90,477)	(16,885)	(381,425)
(Loss) income before income taxes	(5,310,812)	(320,946)	4,733,411	(898,347)
Income tax expense	(2,476)	(1,512)		(3,988)
Net (loss) income	\$ (5,313,288)	\$ (322,458)	\$ 4,733,411	\$ (902,335)

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

Satellite and transmission	\$ 4,236	\$ 2,745	\$ 103	\$ 7,084
Programming and content	12,148	4,949	277	17,374
Customer service and billing	1,920	1,869	192	3,981
Sales and marketing	13,541	7,047	500	21,088
Subscriber acquisition costs	14			14
General and administrative	49,354	13,200	1,083	63,637
Engineering, design and development	6,192	4,675	574	11,441
Total share-based payment expense	\$ 87,405	\$ 34,485	\$ 2,729	\$ 124,619

(a) Includes impairment of goodwill.

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	Unaudited For the Year Ended December 31, 2007			
	As	Predecessor	Allocation of	
<i>(in thousands)</i>	Reported	Financial	Share-based	Pro Forma
		Information	Payment	
			Expense	
Revenue:				
Subscriber revenue, including effects of rebates	\$ 854,933	\$ 1,033,776	\$	\$ 1,888,709
Advertising revenue, net of agency fees	34,192	39,148		73,340
Equipment revenue	29,281	28,333		57,614
Other revenue	3,660	35,285		38,945
Total revenue	922,066	1,136,542		2,058,608
Operating expenses (depreciation and amortization shown separately below) (1)				
Cost of services:				
Satellite and transmission	27,907	81,036	(7,222)	101,721
Programming and content	236,059	183,900	(18,498)	401,461
Revenue share and royalties	146,715	256,344		403,059
Customer service and billing	93,817	126,776	(3,191)	217,402
Cost of equipment	35,817	62,003		97,820
Sales and marketing	183,213	269,930	(40,059)	413,084
Subscriber acquisition costs	407,642	259,143	(12,010)	654,775
General and administrative	155,863	188,574	(72,606)	271,831
Engineering, design and development	41,343	33,077	(11,513)	62,907
Depreciation and amortization	106,780	187,196		293,976
Share-based payment expense			165,099	165,099
Total operating expenses	1,435,156	1,647,979		3,083,135
Loss from operations	(513,090)	(511,437)		(1,024,527)
Other income (expense)				
Interest and investment income	20,570	14,084		34,654
Interest expense, net of amounts capitalized	(70,328)	(116,605)		(186,933)
Loss on extinguishment of debt and credit facilities, net		(3,693)		(3,693)
Loss on investments		(56,156)		(56,156)
Other income (expense)	31	(9,513)		(9,482)
Total other expense	(49,727)	(171,883)		(221,610)
Loss before income taxes	(562,817)	(683,320)		(1,246,137)
Income tax expense	(2,435)	939		(1,496)
Net loss	\$ (565,252)	\$ (682,381)	\$	\$ (1,247,633)

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

Satellite and transmission	\$ 2,198	\$ 5,024	\$ 7,222
Programming and content	9,643	8,855	18,498
Customer service and billing	708	2,483	3,191
Sales and marketing	15,607	24,452	40,059
Subscriber acquisition costs	2,843	9,167	12,010
General and administrative	44,317	28,289	72,606
Engineering, design and development	3,584	7,929	11,513
Total share-based payment expense	\$ 78,900	\$ 86,199	\$ 165,099

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(16) ARPU is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited Actual		
	For the Three Months Ended December 31,		
	2009	2008	2007
Subscriber revenue	\$ 588,048	\$ 568,523	\$ 227,658
Net advertising revenue	14,467	15,776	9,770
Total subscriber and net advertising revenue	\$ 602,515	\$ 584,299	\$ 237,428
Daily weighted average number of subscribers	18,576,151	18,910,689	7,878,574
ARPU	\$ 10.81	\$ 10.30	\$ 10.05

(17) SAC, as adjusted, per gross subscriber addition is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited Actual		
	For the Three Months Ended December 31,		
	2009	2008	2007
Subscriber acquisition cost	\$ 109,733	\$ 113,512	\$ 100,062
Less: share-based payment expense granted to third parties and employees			(156)
(Less) Add: margin from direct sales of radios and accessories	(6,808)	(12,628)	3,821
SAC, as adjusted	\$ 102,925	\$ 100,884	\$ 103,727
Gross subscriber additions	1,882,950	1,713,210	1,194,014
SAC, as adjusted, per gross subscriber addition	\$ 55	\$ 59	\$ 87

(18) Customer service and billing

expenses, as adjusted, per average subscriber is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited Actual		
	For the Three Months Ended December 31,		
	2009	2008	2007
Customer service and billing expenses	\$ 58,887	\$ 67,818	\$ 29,288
Less: share-based payment expense		(783)	(165)
Customer service and billing expenses, as adjusted	\$ 58,887	\$ 67,035	\$ 29,123
Daily weighted average number of subscribers	18,576,151	18,910,689	7,878,574
Customer service and billing expenses, as adjusted, per average subscriber	\$ 1.06	\$ 1.18	\$ 1.23

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

	Unaudited Actual		
	For the Three Months Ended December 31,		
	2009	2008	2007
Net cash provided by operating activities	\$ 180,723	\$ 64,195	\$ 89,818
Additions to property and equipment	(31,176)	(27,846)	(7,377)
Merger related costs		(10,472)	(6,680)
Restricted and other investment activity			160
Free cash flow	\$ 149,547	\$ 25,877	\$ 75,921

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

	Unaudited Actual		
	For the Three Months Ended December 31,		
	2009	2008	2007
Reconciliation of Net loss to Adjusted income (loss) from operations:			
Net loss	\$ 14,167	\$ (245,844)	\$ (166,223)
Add back Net loss items excluded from Adjusted income (loss) from operations:			
Interest and investment income	(1,043)	90	(4,171)
Interest expense, net of amounts capitalized	66,358	61,196	19,887
Income tax expense	2,637	175	770
Loss on extinguishment of debt and credit facilities, net	3,879	98,203	
(Gain) loss on investments	(1,474)	27,418	
Other (income) expense	(851)	5,664	(17)
Income (loss) from operations	83,673	(53,098)	(149,754)
Restructuring, impairments and related costs	2,640	2,977	
Impairment of goodwill		15,331	
Depreciation and amortization	77,826	82,958	27,638
Share-based payment expense	6,427	23,987	14,896
Adjusted income (loss) from operations	\$ 170,566	\$ 72,155	\$ (107,220)

(21) ARPU is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited Actual		
	For the Years Ended December 31,		
	2009	2008	2007
Subscriber revenue	\$ 2,287,503	\$ 1,548,919	\$ 854,933
Net advertising revenue	51,754	47,190	34,192
Total subscriber and net advertising revenue	\$ 2,339,257	\$ 1,596,109	\$ 889,125

Daily weighted average number of subscribers	18,529,696	13,378,035	7,082,927
ARPU	\$ 10.52	\$ 9.94	\$ 10.46

(22) SAC, as adjusted, per gross subscriber addition is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited Actual		
	For the Years Ended December 31,		
	2009	2008	2007
Subscriber acquisition cost	\$ 340,506	\$ 371,343	\$ 407,642
Less: share-based payment expense granted to third parties and employees		(14)	(2,843)
(Less) Add: margin from direct sales of radios and accessories	(10,164)	(9,910)	6,536
SAC, as adjusted	\$ 330,342	\$ 361,419	\$ 411,335
Gross subscriber additions	6,208,482	5,238,042	4,183,901
SAC, as adjusted, per gross subscriber addition	\$ 53	\$ 69	\$ 98

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(23) Customer service and billing expenses, as adjusted, per average subscriber is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited Actual		
	For the Years Ended December 31,		
	2009	2008	2007
Customer service and billing expenses	\$ 234,456	\$ 165,036	\$ 93,817
Less: share-based payment expense	(2,051)	(1,920)	(708)
Customer service and billing expenses, as adjusted	\$ 232,405	\$ 163,116	\$ 93,109
Daily weighted average number of subscribers	18,529,696	13,378,035	7,082,927
Customer service and billing expenses, as adjusted, per average subscriber	\$ 1.05	\$ 1.02	\$ 1.10

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

	Unaudited Actual		
	For the Years Ended December 31,		
	2009	2008	2007
Net cash provided by (used in) operating activities	\$ 433,830	\$ (152,797)	\$ (148,766)
Additions to property and equipment	(248,511)	(130,551)	(65,264)
Merger related costs		(23,519)	(29,444)
Restricted and other investment activity		62,400	24,850
Free cash flow	\$ 185,319	\$ (244,467)	\$ (218,624)

(25) Adjusted income (loss) from operations is calculated as

follows (in
thousands):

	Unaudited Actual		
	For the Years Ended December 31,		
	2009	2008	2007
Reconciliation of Net loss to Adjusted income (loss) from operations:			
Net loss	\$ (342,790)	\$ (5,313,288)	\$ (565,252)
Add back Net loss items excluded from Adjusted income (loss) from operations:			
Interest and investment income	(3,645)	(9,079)	(20,570)
Interest expense, net of amounts capitalized	306,420	144,833	70,328
Income tax expense	5,981	2,476	2,435
Loss on extinguishment of debt and credit facilities, net	267,646	98,203	
(Gain) loss on investments	(1,931)	30,507	
Other (income) expense	(3,355)	9,599	(31)
Income (loss) from operations	228,326	(5,036,749)	(513,090)
Restructuring, impairments and related costs	32,807	10,434	
Impairment of goodwill		4,766,190	
Depreciation and amortization	309,450	203,752	106,780
Share-based payment expense	73,981	87,405	78,900
Adjusted income (loss) from operations	\$ 644,564	\$ 31,032	\$ (327,410)

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

As of December 31, 2009, we did not have any derivative financial instruments. We do not hold or issue any free-standing derivatives. We hold investments in marketable securities, which consist of certificates of deposit, auction rate certificates and investments in debt and equity securities of other entities. We classify our marketable securities as available-for-sale. We hold an investment in auction rate certificates which are classified as available-for-sale. These securities are consistent with the investment objectives contained within our investment policy. The basic objectives of our investment policy are the preservation of capital, maintaining sufficient liquidity to meet operating requirements and maximizing yield.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements contained in Item 15 herein.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Controls and Procedures

As of December 31, 2009, an evaluation was performed under the supervision and with the participation of our management, including Mel Karmazin, our Chief Executive Officer, and David J. Frear, our Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of December 31, 2009. There has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting during the quarter ended December 31, 2009.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. We have performed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our internal control over financial reporting. Our management used the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations to perform this evaluation. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our internal control over financial reporting was effective as of December 31, 2009.

Audit Report of the Independent Registered Public Accounting Firm

The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their audit report appearing on page F-3 of this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this item for executive officers is set forth under the heading Executive Officers of the Registrant in Part I, Item 1, of this report.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is included in our definitive proxy statement for our 2010 annual meeting of stockholders scheduled to be held on Thursday, May 27, 2010, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is included in our definitive proxy statement for our 2010 annual meeting of stockholders scheduled to be held on Thursday, May 27, 2010, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is included in our definitive proxy statement for our 2010 annual meeting of stockholders scheduled to be held on Thursday, May 27, 2010, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is included in our definitive proxy statement for our 2010 annual meeting of stockholders scheduled to be held on Thursday, May 27, 2010, and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements, Financial Statement Schedules and Exhibits

(1) Financial Statements. See Index to Consolidated Financial Statements appearing on page F-1.

(2) Financial Statement Schedules. See Index to Consolidated Financial Statements appearing on page F-1.

(3) Exhibits.

See Exhibit Index appearing on pages E-1 through E-6 for a list of exhibits filed or incorporated by reference as part of this Annual Report on Form 10-K.

Table of Contents**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 25th day of February 2010.

SIRIUS XM RADIO INC.

By: /s/ David J. Frear

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Eddy W. Hartenstein (Eddy W. Hartenstein)	Chairman of the Board of Directors and Director	February 25, 2010
/s/ Mel Karmazin (Mel Karmazin)	Chief Executive Officer and Director (Principal Executive Officer)	February 25, 2010
/s/ David J. Frear (David J. Frear)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 25, 2010
/s/ Thomas D. Barry (Thomas D. Barry)	Senior Vice President and Controller (Principal Accounting Officer)	February 25, 2010
/s/ Joan L. Amble (Joan L. Amble)	Director	February 25, 2010
/s/ Leon D. Black (Leon D. Black)	Director	February 25, 2010
/s/ David A. Flowers (David A. Flowers)	Director	February 25, 2010
/s/ Lawrence F. Gilberti (Lawrence F. Gilberti)	Director	February 25, 2010

/s/ James P. Holden	Director	February 25, 2010
(James P. Holden)		
/s/ Chester A. Huber, Jr.	Director	February 25, 2010
(Chester A. Huber, Jr.)		
/s/ Gregory B. Maffei	Director	February 25, 2010
(Gregory B. Maffei)		
/s/ John C. Malone	Director	February 25, 2010
(John C. Malone)		
/s/ John W. Mendel	Director	February 25, 2010
(John W. Mendel)		
/s/ James F. Mooney	Director	February 25, 2010
(James F. Mooney)		
/s/ Jack Shaw	Director	February 25, 2010
(Jack Shaw)		

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

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<u>Consolidated Balance Sheets as of December 31, 2009 and 2008</u>	F-6
<u>Consolidated Statements of Stockholders' Equity (Deficit) and Comprehensive Loss for the years ended December 31, 2009, 2008 and 2007</u>	F-7
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008 and 2007</u>	F-9
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<u>Schedule II - Schedule of Valuation and Qualifying Accounts</u>	F-48

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Sirius XM Radio Inc. and subsidiaries:

We have audited the accompanying consolidated balance sheets of Sirius XM Radio Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity (deficit) and comprehensive loss, and cash flows for each of the years then ended. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule listed in Item 15(a)(2). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sirius XM Radio Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years then ended, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sirius XM Radio Inc. and subsidiaries' internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 25, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

New York, New York

February 25, 2010

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Sirius XM Radio Inc. and subsidiaries:

We have audited Sirius XM Radio Inc. and subsidiaries' internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Sirius XM Radio Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Sirius XM Radio Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sirius XM Radio Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity (deficit) and comprehensive loss, and cash flows for each of the years then ended, and our report dated February 25, 2010 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York

February 25, 2010

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Sirius XM Radio Inc. (formerly Sirius Satellite Radio Inc.) and Subsidiaries:

We have audited the accompanying consolidated statements of operations, stockholders' equity (deficit) and comprehensive loss, and cash flows of Sirius XM Radio Inc. and Subsidiaries for the year ended December 31, 2007. Our audit also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of Sirius XM Radio Inc. and Subsidiaries for the year ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ ERNST & YOUNG LLP

New York, NY

February 29, 2008,

except Note 17 related to the 2007 financial information, as to which the date is March 10, 2009.

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SIRIUS XM RADIO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

<i>(in thousands, except per share data)</i>	For the Years Ended December 31,		
	2009	2008	2007
Revenue:			
Subscriber revenue, including effects of rebates	\$ 2,287,503	\$ 1,548,919	\$ 854,933
Advertising revenue, net of agency fees	51,754	47,190	34,192
Equipment revenue	50,352	56,001	29,281
Other revenue	83,029	11,882	3,660
Total revenue	2,472,638	1,663,992	922,066
Operating expenses (depreciation and amortization shown separately below) (1):			
Cost of services:			
Satellite and transmission	84,033	59,279	27,907
Programming and content	308,121	312,189	236,059
Revenue share and royalties	397,210	280,852	146,715
Customer service and billing	234,456	165,036	93,817
Cost of equipment	40,188	46,091	35,817
Sales and marketing	228,956	231,937	183,213
Subscriber acquisition costs	340,506	371,343	407,642
General and administrative	227,554	213,142	155,863
Engineering, design and development	41,031	40,496	41,343
Impairment of goodwill		4,766,190	
Depreciation and amortization	309,450	203,752	106,780
Restructuring, impairments and related costs	32,807	10,434	
Total operating expenses	2,244,312	6,700,741	1,435,156
Income (loss) from operations	228,326	(5,036,749)	(513,090)
Other income (expense):			
Interest and investment income	3,645	9,079	20,570
Interest expense, net of amounts capitalized	(306,420)	(144,833)	(70,328)
Loss on extinguishment of debt and credit facilities, net	(267,646)	(98,203)	
Gain (loss) on investments	1,931	(30,507)	
Other income (expense)	3,355	(9,599)	31
Total other expense	(565,135)	(274,063)	(49,727)
Loss before income taxes	(336,809)	(5,310,812)	(562,817)
Income tax expense	(5,981)	(2,476)	(2,435)
Net loss	(342,790)	(5,313,288)	(565,252)
Preferred stock beneficial conversion feature	(186,188)		
Net loss attributable to common stockholders	\$ (528,978)	\$ (5,313,288)	\$ (565,252)

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Net loss per common share (basic and diluted)	\$ (0.15)	\$ (2.45)	\$ (0.39)
Weighted average common shares outstanding (basic and diluted)	3,585,864	2,169,489	1,462,967

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

Satellite and transmission	\$ 2,745	\$ 4,236	\$ 2,198
Programming and content	9,064	12,148	9,643
Customer service and billing	2,051	1,920	708
Sales and marketing	9,608	13,541	15,607
Subscriber acquisition costs		14	2,843
General and administrative	45,634	49,354	44,317
Engineering, design and development	4,879	6,192	3,584
Total share-based payment expense	\$ 73,981	\$ 87,405	\$ 78,900

See accompanying Notes to the consolidated financial statements.

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

<i>(in thousands, except share and per share data)</i>	As of December 31,	
	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 383,489	\$ 380,446
Accounts receivable, net	113,580	102,024
Receivables from distributors	48,738	45,950
Inventory, net	16,193	24,462
Prepaid expenses	100,273	67,203
Related party current assets	106,247	110,427
Deferred tax asset	72,640	31,270
Other current assets	18,620	27,474
Total current assets	859,780	789,256
Property and equipment, net	1,711,003	1,703,476
FCC licenses	2,083,654	2,083,654
Restricted investments	3,400	141,250
Deferred financing fees, net	8,902	9,197
Intangible assets, net	611,461	688,671
Goodwill	1,834,856	1,834,856
Related party long-term assets	110,594	128,357
Other long-term assets	39,878	81,019
Total assets	\$ 7,263,528	\$ 7,459,736
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 543,686	\$ 625,264
Accrued interest	74,566	76,463
Current portion of deferred revenue	1,086,205	1,002,736
Current portion of deferred credit on executory contracts	252,831	234,774
Current maturities of long-term debt	13,882	399,726
Related party current liabilities	105,471	68,373
Total current liabilities	2,076,641	2,407,336
Deferred revenue	283,942	247,889
Deferred credit on executory contracts	784,078	1,037,190
Long-term debt	2,799,127	2,820,781
Long-term related party debt	263,566	
Deferred tax liability	940,182	894,453
Related party long-term liabilities	17,508	
Other long-term liabilities	61,052	43,550
Total liabilities	7,226,096	7,451,199

Commitments and contingencies (Note 15)

Stockholders' equity:

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

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

25 25

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

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

Common stock, par value \$0.001; 9,000,000,000 and 8,000,000,000 shares authorized at December 31, 2009 and 2008, respectively; 3,882,659,087 and 3,651,765,837 shares issued and outstanding at December 31, 2009 and 2008, respectively

3,882 3,652

Accumulated other comprehensive loss, net of tax

(6,581) (7,871)

Additional paid-in capital

10,281,331 9,724,991

Accumulated deficit

(10,241,238) (9,712,260)

Total stockholders' equity

37,432 8,537

Total liabilities and stockholders' equity

\$ 7,263,528 \$ 7,459,736

See accompanying Notes to the consolidated financial statements.

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SIRIUS XM RADIO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) AND COMPREHENSIVE LOSS

<i>(Shares, except share and per share data)</i>	Series A Convertible Preferred Shares	Series B Convertible Preferred Shares	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
January 1, 2007		\$	\$	1,434,635,501	\$ 1,435	\$ 3,443,214	\$ (3,833,720)	\$
Comprehensive income:						(565,252)		
Comprehensive loss								
Issuance of common stock to employees and benefit plans			4,279,097	4	19,242			
Issuance of common stock to third parties			22,058,824	22	82,919			
Issuance of common stock in connection with the issuance of restricted stock awards					52,683			
Exercise of options, \$2.79 to \$4.16 per share			2,859,232	3	3,529			
Exercise of warrants, \$1.04 to \$2.39 per share			4,988,726	5	(5)			
Issuance of 3 1/2% Convertible Notes due 2008, accrued interest			2,321,737	2	3,180			
Issuance of 2 1/2% Convertible Notes due 2009, accrued interest			453		2			
December 31, 2007		\$	\$	1,471,143,570	\$ 1,471	\$ 3,604,764	\$ (4,398,972)	\$
Comprehensive loss:						(5,313,288)		(5)
Realized loss on available-for-sale securities							(1,040)	
Foreign currency translation adjustment							(6,831)	
Comprehensive loss								(5)
Issuance of common stock issued to XM Satellite Radio stockholders			1,440,858,219	1,441	5,459,412			5
Issuance of common stock issued to XM Satellite Radio advisors stockholders			29,739,201	30	66,598			
Issuance of common stock to employees and benefit plans, net of forfeitures			5,091,274	5	10,841			
			262,399,983	262				

of common stock under share borrow				
ns				
convertible preferred stock issued to				
ite Radio Holdings stockholders	24,808,959	25		47,070
tion in connection with the issuance of				
nd awards				83,610
n of XM Satellite Radio Holdings				
ek-based awards				94,616
n of XM Satellite Radio Holdings				
g warrants				115,784
f options, \$1.45 to \$3.36 per share			117,442	208
f warrants, \$2.392 per share			899,836	1
f XM Satellite Radio Holdings				(1)
g warrants			17,173,644	17
of 3 ¹ / ₂ % Convertible Notes due 2008,				(17)
accrued interest			24,131,155	24
of 2 ¹ / ₂ % Convertible Notes due 2009,				33,478
accrued interest			400,211,513	401
shares withheld for taxes upon vesting				208,712
				(84)
December 31, 2008	24,808,959	\$ 25	\$ 3,651,765,837	\$ 3,652
				\$ 9,724,991
				\$ (9,712,260)
				\$ (7,871)
				\$

See accompanying Notes to the consolidated financial statements.

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**SIRIUS XM RADIO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) AND COMPREHENSIVE
LOSS**

<i>(except share and per share data)</i>	Series A Convertible Preferred Stock Shares	Series B Convertible Preferred Stock Shares	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss		
						(342,790)			
Comprehensive loss:									
Gain on available-for-sale securities							4		
Translation adjustment							8		
Comprehensive loss									
Preferred stock - related party, net of									
		12,500,000	13		410,179	(186,188)			
Common stock to employees and									
incentive plans, net of forfeitures				8,511,009	8	2,622			
in 10% Senior PIK Secured				59,178,819	59	5,859			
management expense						71,388			
incurred under share borrow agreements				(60,000,000)	(60)	60			
restricted stock units in satisfaction				83,803,422	84	31,207			
of 10% Convertible Notes due 2009,				139,400,000	139	35,025			
and interest									
December 31, 2009	24,808,959	\$ 25	12,500,000	\$ 13	3,882,659,087	\$ 3,882	\$ 10,281,331	\$ (10,241,238)	\$ (6,542,818)

See accompanying Notes to the consolidated financial statements.

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

<i>(in thousands)</i>	For the Years Ended December 31,		
	2009	2008	2007
Cash flows from operating activities:			
Net loss	\$ (342,790)	\$ (5,313,288)	\$ (565,252)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	309,450	203,752	106,780
Impairment of goodwill		4,766,190	
Non-cash interest expense, net of amortization of premium	33,818	(6,311)	4,269
Provision for doubtful accounts	30,602	21,589	9,002
Amortization of deferred income related to equity method investment	(2,776)	(1,156)	
Loss on extinguishment of debt and credit facilities, net	267,646	98,203	
Restructuring, impairments and related costs	26,964		
Loss (gain) on disposal of assets		4,879	(428)
Loss on investments	13,664	28,999	
Share-based payment expense	73,981	87,405	78,900
Deferred income taxes	5,981	2,476	2,435
Other non-cash purchase price adjustments	(202,054)	(68,330)	
Other		1,643	
Changes in operating assets and liabilities:			
Accounts receivable	(42,158)	(32,121)	(28,881)
Inventory	8,269	8,291	4,965
Receivables from distributors	(2,788)	14,401	(13,179)
Related party assets	15,305	(22,249)	(1,241)
Prepaid expenses and other current assets	10,027	(19,953)	11,118
Other long-term assets	86,674	(5,490)	13,691
Accounts payable and accrued expenses	(46,645)	(83,037)	52,492
Accrued interest	2,429	23,081	(8,920)
Deferred revenue	89,144	73,334	183,582
Related party liabilities	54,606	34,646	
Other long-term liabilities	44,481	30,249	1,901
Net cash provided by (used in) operating activities	433,830	(152,797)	(148,766)
Cash flows from investing activities:			
Additions to property and equipment	(248,511)	(130,551)	(65,264)
Sales of property and equipment		105	641
Purchases of restricted and other investments		(3,000)	(310)
Acquisition of acquired entity cash		819,521	
Merger related costs		(23,519)	(29,444)
Sale of restricted and other investments		65,869	40,191
Net cash (used in) provided by investing activities	(248,511)	728,425	(54,186)

Cash flows from financing activities:			
Proceeds from exercise of warrants and stock options		471	4,097
Preferred stock issuance costs, net of costs	(3,712)		
Long-term borrowings, net of costs	582,612	531,743	244,879
Related party long-term borrowings, net of costs	362,593		
Payment of premiums on redemption of debt	(17,075)	(18,693)	
Payments to noncontrolling interest		(61,880)	
Repayment of long-term borrowings	(755,447)	(1,085,643)	(625)
Repayment of related party long-term borrowings	(351,247)		
Net cash (used in) provided by financing activities	(182,276)	(634,002)	248,351
Net increase (decrease) in cash and cash equivalents	3,043	(58,374)	45,399
Cash and cash equivalents at beginning of period	380,446	438,820	393,421
Cash and cash equivalents at end of period	\$ 383,489	\$ 380,446	\$ 438,820

See accompanying Notes to the consolidated financial statements.

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

<i>(in thousands)</i>	For the Years Ended December 31,		
	2009	2008	2007
Supplemental Disclosure of Cash and Non-Cash Flow Information			
Cash paid during the period for:			
Interest, net of amounts capitalized	\$ 257,328	\$ 137,542	\$ 66,266
Non-cash investing and financing activities:			
Share-based payments in satisfaction of accrued compensation	31,291	8,729	7,949
Common stock issued in exchange of 3 ¹ / ₂ % Convertible Notes due 2008, including accrued interest		33,502	3,182
Common stock issued in exchange of 2 ¹ / ₂ % Convertible Notes due 2009, including accrued interest	18,000	209,113	2
Structuring fee on 10% Senior PIK Secured Notes due 2011	5,918		
Preferred stock issued to Liberty Media	227,716		
Release of restricted investments	137,850		
Common stock issued to third parties			82,941
Equity issued in the acquisition of XM		5,784,976	
In-orbit satellite performance incentives	14,905		

See accompanying Notes to the consolidated financial statements.

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

(Dollar amounts in thousands, unless otherwise stated)

(1) Business

We broadcast our music, sports, news, talk, entertainment, traffic and weather channels in the United States for a subscription fee through our proprietary satellite radio systems – the SIRIUS system and the XM system. In July 2008, our wholly owned subsidiary, Vernon Merger Corporation, merged (the Merger) with and into XM Satellite Radio Holdings Inc. and, as a result, XM Satellite Radio Holdings Inc. is now our wholly owned subsidiary. The SIRIUS system consists of four in-orbit satellites, over 125 terrestrial repeaters that receive and retransmit signals, satellite uplink facilities and studios. The XM system consists of four in-orbit satellites, over 650 terrestrial repeaters that receive and retransmit signals, satellite uplink facilities and studios. Subscribers can also receive certain of our music and other channels over the Internet.

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

Our primary source of revenue is subscription fees, with most of our customers subscribing to an annual, semi-annual, quarterly or monthly plan. 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 Backseat TV, data and weather services.

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

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

Unless otherwise indicated,

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

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

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

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

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

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

The accompanying consolidated financial statements of Sirius XM Radio Inc. and subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). All significant intercompany transactions have been eliminated in consolidation.

Basis of Presentation

The results of XM Holdings operations have been included in the accompanying consolidated financial statements of Sirius XM Radio Inc. from the date of the Merger. Although the effective date of the Merger was July 28, 2008, due to the immateriality of the results of operations for the period between July 28 and July 31, 2008, we have accounted for the Merger as if it had occurred on July 31, 2008 with the results and balances of XM Holdings included as of July 31, 2008. We accounted for the Merger as an acquisition of XM Holdings under the purchase method of accounting for business combinations. The acquisition cost approximated \$5,836,363, including transaction cost, and was allocated to the underlying net assets acquired, based on the respective estimated fair values. This allocation included intangible assets, such as FCC licenses, customer relationships, license agreements and trademarks. The excess of the purchase price over the estimated fair values of the net assets acquired was recorded as goodwill.

Because the Merger was consummated on July 28, 2008, the accompanying financial statements and notes for periods prior to that date reflect only the financial results of Sirius Satellite Radio Inc., as predecessor to Sirius XM Radio Inc, and are therefore not comparable to our financial results for 2009 and the fourth quarter of 2008.

We have evaluated events subsequent to the balance sheet date and prior to filing of this Annual Report on Form 10-K for the year ended December 31, 2009 through February 25, 2010 and determined there have not been any events that have occurred that would require adjustment to our consolidated financial statements.

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

In presenting consolidated financial statements, management makes estimates and assumptions that affect the amounts reported and accompanying notes. Additionally, estimates were used when recording the fair values of assets acquired and liabilities assumed in the Merger. Estimates, by their nature, are based on judgment and available information. Actual results could differ materially from those estimates.

Significant estimates inherent in the preparation of the accompanying consolidated financial statements include revenue recognition, asset impairment, useful lives of our satellites, share-based payment expense, and valuation allowances against deferred tax assets. The economic conditions in the United States have impacted our business.

Such conditions could have a material impact to our accounting estimates.

Recent Accounting Pronouncements

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

In July 2009, the FASB proposed an update to ASC 470 to incorporate the previously ratified EITF No. 09-1, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance*, into the ASC. This proposed standard would require share-lending arrangements in an entity s own shares to be initially measured at fair value and treated as an issuance cost, excluded from basic and diluted earnings per share, and recognize a charge to earnings if it becomes probable the counterparty will default on the arrangement. This guidance was adopted as of January 1, 2010, as required, on a retrospective basis for all arrangements outstanding as of that date. We will recognize an aggregate increase in the deferred financing costs associated with XM S 7% Exchangeable Senior Subordinated Notes due 2014 of approximately \$378,000 as of the Merger date, offset by approximately \$30,000 of accumulated amortization through December 31, 2009.

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

(Dollar amounts in thousands, unless otherwise stated)

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

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

Revenue Recognition

We derive revenue primarily from subscribers, advertising and direct sales of merchandise. Revenue from subscribers consists of subscription fees; revenue derived from our agreements with daily rental fleet programs; non-refundable activation and other fees; and the effects of rebates. Revenue is recognized as it is realized or realizable and earned. We recognize subscription fees as our services are provided. Prepaid subscription fees are recorded as deferred revenue and amortized to revenue ratably over the term of the applicable subscription plan.

At the time of sale, vehicle owners purchasing or leasing a vehicle with a subscription to our service typically receive between a three-month and twelve-month prepaid subscription. Prepaid subscription fees received from certain automakers are recorded as deferred revenue and amortized to revenue ratably over the service period which commences upon retail sale and activation. We reimburse automakers for certain costs associated with the satellite radio installed in the applicable vehicle at the time the vehicle is manufactured. The associated payments to the automakers are included in Subscriber acquisition costs. These payments are included in Subscriber acquisition costs because we are responsible for providing the service to the customers, including being obligated to the customers in the case of an interruption of service.

Activation fees are recognized ratably over the estimated term of a subscriber relationship, estimated to be approximately 3.5 years during 2009. The estimated term of a subscriber relationship is based on historical experience.

We record an estimate of rebates that are paid by us to subscribers as a reduction to revenue in the period the subscriber activates service. For certain rebate promotions, a subscriber must remain active for a specified period of time to be considered eligible. In those instances, the estimate is recorded as a reduction to revenue over the required activation period. We estimate the effects of mail-in rebates based on actual take-rates for rebate incentives offered in prior periods, adjusted as deemed necessary based on take-rate data available at the time. In subsequent periods, estimates are adjusted when necessary. For instant rebate promotions, we record the consideration paid to the consumer as a reduction to revenue in the period the customer participates in the promotion.

We recognize revenue from the sale of advertising as the advertising is broadcast. Agency fees are calculated based on a stated percentage applied to gross billing revenue for our advertising inventory and are reported as a reduction of Advertising revenue. We pay certain third parties a percentage of Advertising revenue. Advertising revenue is recorded gross of such revenue share payments as we are the primary obligor in the transaction. Advertising revenue share payments are recorded to Revenue share and royalties during the period in which the advertising is broadcast. Equipment revenue and royalties from the sale of satellite radios, components and accessories is recognized upon shipment, net of discounts and rebates. Shipping and handling costs billed to customers are recorded as revenue. Shipping and handling costs associated with shipping goods to customers are reported as a component of Cost of equipment.

ASC 605, *Revenue Recognition*, provides guidance on how and when to recognize revenues for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. Revenue arrangements with multiple deliverables are required to be divided into separate units of accounting if the deliverables in the arrangement meet certain criteria. Arrangement consideration must be allocated among the separate units of accounting based on their relative fair values.

Programming Costs

Programming costs which are for a specified number of events are amortized on an event-by-event basis; programming costs which are for a specified season or period are amortized over the season or period on a straight-line basis. We allocate a portion of certain programming costs which are related to sponsorship and marketing activities to sales and marketing expenses on a straight-line basis over the term of the agreement.

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

Advertising Costs

Media is expensed when aired and advertising production costs are expensed as incurred. Market development funds are fixed and variable payments to reimburse retailers for the cost of advertising and other product awareness activities. Fixed market development funds are expensed over the periods specified in the applicable agreement; variable costs are expensed at the time a subscriber is activated. During the years ended December 31, 2009, 2008 and 2007, we recorded advertising costs of \$128,784, \$109,253 and \$107,485, respectively. These costs are reflected in Sales and marketing expense in our consolidated statements of operations.

Stock-Based Compensation

We account for equity instruments granted to employees in accordance with ASC 718, *Compensation - Stock Compensation*. ASC 718 requires all share-based compensation payments to be recognized in the financial statements based on fair value using an option pricing model. ASC 718 requires forfeitures to be estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from initial estimates. We use the Black-Scholes-Merton option-pricing model to value stock option awards and have elected to treat awards with graded vesting as a single award.

Fair value as determined using Black-Scholes-Merton model varies based on assumptions used for the expected life, expected stock price volatility and risk-free interest rates. We estimate the fair value of awards granted using the hybrid approach for volatility, which weights observable historical volatility and implied volatility of qualifying actively traded options on our common stock. The expected life assumption represents the weighted-average period stock-based awards are expected to remain outstanding. These expected life assumptions are established through a review of historical exercise behavior of stock-based award grants with similar vesting periods. Where historical patterns do not exist, contractual terms are used. The risk-free interest rate represents the daily treasury yield curve rate at the grant date based on the closing market bid yields on actively traded U.S. treasury securities in the over-the-counter market for the expected term. Our assumptions may change in future periods.

Equity instruments granted to non-employees are accounted for in accordance with ASC 505, *Equity*. The final measurement date for the fair value of equity instruments with performance criteria is the date that each performance commitment for such equity instrument is satisfied or there is a significant disincentive for non-performance. Stock-based awards granted to employees, non-employees and members of our board of directors include warrants, stock options, restricted stock and restricted stock units.

Subscriber Acquisition Costs

Subscriber acquisition costs consist of costs incurred to acquire new subscribers and include hardware subsidies paid to radio manufacturers, distributors and automakers, including subsidies paid to automakers who include a satellite radio and a prepaid subscription to our service in the sale or lease price of a new vehicle; subsidies paid for chip sets and certain other components used in manufacturing radios; device royalties for certain radios; commissions paid to retailers and automakers as incentives to purchase, install and activate radios; product warranty obligations; and provisions for inventory allowance. Subscriber acquisition costs do not include advertising, loyalty payments to distributors and dealers of radios and revenue share payments to automakers and retailers of radios.

Subsidies paid to radio manufacturers and automakers are expensed upon installation, shipment, receipt of product or activation. Commissions paid to retailers and automakers are expensed upon either the sale or activation of radios. Chip sets that are shipped to radio manufacturers and held on consignment are recorded as inventory and expensed as Subscriber acquisition costs when placed into production by radio manufacturers. Costs for chip sets not held on consignment are expensed as Subscriber acquisition costs when the automaker confirms receipt.

We record product warranty obligations in accordance with ASC 460, *Guarantees*, which requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee. We warrant that certain products sold through our retail and direct to consumer distribution channels will perform in all material respects in accordance with specifications in effect at the time of the purchase of the products by the customer. As of April 2008, SIRIUS changed its product warranty period on some of its products from twelve

months to 90 days from the purchase date for repair or replacement of components and/or products that contain defects of material or workmanship. Products manufactured prior to April 2008 contained a warranty period of 12 months from the purchase date. Customers may exchange products directly to the retailer within 30 days of purchase. We recorded a liability for costs that we expect to incur under our warranty obligations when the product is shipped from the manufacturer. Factors affecting the warranty liability include the number of units sold and historical and anticipated rates of claims and costs per claim. We periodically assess the adequacy of our warranty liability based on changes in these factors.

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Research & Development Costs

Research and development costs are expensed as incurred and primarily include the cost of new product development, chip set design, software development and engineering. During the years ended December 31, 2009, 2008 and 2007, we recorded research and development costs of \$38,852, \$41,362 and \$38,082, respectively. These costs are reported as a component of Engineering, design and development expense in our consolidated statements of operations.

Income Taxes

Deferred income taxes are recognized for the tax consequences related to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes at each year-end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is recognized when, based on the weight of all available evidence, it is considered more likely than not that all, or some portion, of the deferred tax assets will not be realized. Income tax expense is the sum of current income tax plus the change in deferred tax assets and liabilities.

ASC 740, *Income Taxes*, requires a company to first determine whether it is more-likely-than-not (defined as a likelihood of more than fifty percent) that a tax position will be sustained based on its technical merits as of the reporting date, assuming that taxing authorities will examine the position and have full knowledge of all relevant information. A tax position that meets this more-likely-than-not threshold is then measured and recognized at the largest amount of benefit that is greater than fifty percent likely to be realized upon effective settlement with a taxing authority.

We report revenues net of any tax assessed by a governmental authority that is both imposed on, and concurrent with, a specific revenue-producing transaction between a seller and a customer in our consolidated statements of operations.

Net (Loss) Income per Common Share

Basic net (loss) income per common share is calculated using the weighted average common shares outstanding during each reporting period. Diluted net (loss) 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 and restricted stock shares and units) were exercised or converted into common stock. Common stock equivalents of approximately 3,381,905,000, 787,000,000 and 165,000,000 for the years ended December 31, 2009, 2008 and 2007, respectively, were not included in the calculation of diluted net loss per common share as the effect would have been anti-dilutive.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, money market funds, certificates of deposit, in-transit credit card receipts and highly liquid investments with an original maturity of three months or less when purchased. Cash and cash equivalents are stated at fair market value.

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 debtor's ability to pay.

Accounts receivable, net, consists of the following:

	December 31,	
	2009	2008
Gross accounts receivable	\$ 122,247	\$ 112,884
Allowance for doubtful accounts	(8,667)	(10,860)
Total accounts receivable, net	\$ 113,580	\$ 102,024

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Receivables from Distributors

Receivables from distributors are amounts due from OEMs and others for prepaid subscriptions.

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 and obsolete or whose carrying value is in excess of net realizable value. The provision related to products purchased for our direct to consumer distribution channel is reported as a component of Cost of equipment in our consolidated statements of operations. The remaining provision is reported as a component of Subscriber acquisition costs in our consolidated statements of operations.

Inventory, net, consists of the following:

	December 31,	
	2009	2008
Raw materials	\$ 17,370	\$ 11,648
Finished goods	19,704	38,323
Allowance for obsolescence	(20,881)	(25,509)
Total inventory, net	\$ 16,193	\$ 24,462

Investments

Marketable Securities Marketable securities consist of certificates of deposit, auction rate certificates and investments in debt and equity securities of other entities. Our investment policy objectives are the preservation of capital, maintenance of liquidity to meet operating requirements and yield maximization. Marketable securities are classified as available-for-sale securities and carried at fair market value. Unrealized gains and losses on available-for-sale securities are included in Accumulated other comprehensive (loss) income, net of tax, as a separate component of Stockholders' equity (deficit). Realized gains and losses, dividends and interest income, including amortization of the premium or discount arising at purchase, are included in Interest and investment income. The specific-identification method is used to determine the cost of all securities and the basis by which amounts are reclassified from Accumulated other comprehensive (loss) income into earnings.

We received proceeds from the sale or maturity of marketable securities of \$0, \$5,469 and \$15,031 for the years ended December 31, 2009, 2008 and 2007, respectively. We recorded \$473 of net unrealized gains on marketable securities for the year ended December 31, 2009 and \$1,040 of net unrealized losses on marketable securities for the year ended December 31, 2008.

Restricted Investments We have certificates of deposit, money market funds and interest-bearing accounts which are restricted as to their withdrawal. We received proceeds from the release of restricted investments of \$0, \$60,400 and \$25,160 for the years ended December 31, 2009, 2008 and 2007, respectively.

Equity Method Investments Investments in which we have the ability to exercise significant influence but not control are accounted for pursuant to the equity method of accounting. We recognize our proportionate share of earnings or losses of our affiliates as they occur as a component of Other (expense) income in our consolidated statements of operations. We evaluate our equity method investments for impairment whenever events, or changes in circumstances, indicate that the carrying amounts of such investments may not be recoverable. The difference between the carrying value and the estimated fair values of our equity method investments is recognized as an impairment loss when the loss is deemed to be other than temporary.

Cost Method Investments Investments in equity securities that do not have readily determinable fair values and in which we do not have a controlling interest or are unable to exert significant influence are recorded at cost. ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy for input into valuation techniques as follows: i) Level 1 input unadjusted quoted prices in active markets for identical instrument; ii) Level 2 input observable market data for the same or similar instrument but not Level 1; and iii) Level 3 input unobservable inputs developed using management's assumptions about the inputs used for pricing the asset or liability. We use Level 3 inputs to fair value our investments in auction rate certificates issued by student loan trusts and the 8% convertible unsecured subordinated debentures issued by XM Canada. These investments are not material to our consolidated results of operations or financial position.

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(Dollar amounts in thousands, unless otherwise stated)

Investments are periodically reviewed for impairment and a write down is recorded whenever declines in fair value below carrying value are determined to be other than temporary. In making this determination, we consider, among other factors, the severity and duration of the decline as well as the likelihood of a recovery within a reasonable timeframe.

Property and Equipment

Property and equipment, including satellites, are stated at cost less accumulated depreciation and amortization. Equipment under capital leases is stated at the present value of minimum lease payments. Depreciation and amortization are calculated using the straight-line method over the following estimated useful lives:

Satellite system	2	15 years
Terrestrial repeater network	5	15 years
Broadcast studio equipment	3	15 years
Capitalized software and hardware	3	7 years
Satellite telemetry, tracking and control facilities	3	17.5 years
Furniture, fixtures, equipment and other	2	7 years
Building	20 or	30 years
Leasehold improvements		Lesser of useful life or remaining lease term

We review long-lived assets, such as property and equipment, and purchased intangibles subject to amortization for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds the estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the fair value of the asset.

Goodwill and Other Intangible Assets

Goodwill represents the purchase price in excess of the net amount assigned to identifiable assets acquired and liabilities assumed in the Merger. We perform an impairment test annually in early October, or more frequently if indicators of impairment exist. The fair value of the entity is compared to its carrying value and if the fair value exceeds its carrying value, goodwill is not impaired. If the carrying value exceeds the fair value, the implied fair value of goodwill is compared to the carrying value of goodwill. If the implied fair value exceeds the carrying value then goodwill is not impaired; otherwise, an impairment loss will be recorded by the amount the carrying value exceeds the implied fair value.

Other intangible assets with indefinite lives are tested for impairment at least annually or more frequently if indicators of impairment exist.

Other intangible assets with finite lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment under the provisions of ASC 360-10-35, *Property, Plant and Equipment/Overall/Subsequent Measurement*.

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 December 31, 2009 and 2008, 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 and, for non-publicly traded instruments, fair value is based upon estimates from a market maker and brokerage firm. As of December 31, 2009 and 2008, the carrying value of our long-term debt was \$3,076,575 and \$3,220,507, respectively; and the fair value approximated \$3,195,375 and \$1,211,613, respectively.

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Reclassifications

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

(4) Goodwill

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

(5) Intangible Assets

Intangible assets consisted of the following:

	Weighted Average Useful Lives	December 31, 2009			December 31, 2008		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Indefinite life intangible assets							
FCC licenses	Indefinite	\$ 2,083,654	\$	\$ 2,083,654	\$ 2,083,654	\$	\$ 2,083,654
Trademark	Indefinite	250,000		250,000	250,000		250,000
Definite life intangible assets							
Subscriber relationships	9 years	\$ 380,000	\$ (91,186)	\$ 288,814	\$ 380,000	\$ (29,226)	\$ 350,774
Proprietary software	6 years	16,552	(6,823)	9,729	16,552	(2,285)	14,267
Developed technology	10 years	2,000	(283)	1,717	2,000	(83)	1,917
Licensing agreements	9.1 years	75,000	(13,906)	61,094	75,000	(4,090)	70,910
Leasehold interests	7.4 years	132	(25)	107	908	(105)	803
Total intangible assets		\$ 2,807,338	\$ (112,223)	\$ 2,695,115	\$ 2,808,114	\$ (35,789)	\$ 2,772,325

Indefinite Life Intangible Assets

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

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

FCC license	Expiration year
SIRIUS FM-1 satellite	2017
SIRIUS FM-2 satellite	2017
SIRIUS FM-3 satellite	2017
SIRIUS FM-4 ground spare satellite	2017
SIRIUS FM-5 satellite	2017
XM-1 satellite	2014
XM-2 satellite	2014
XM-3 satellite	2013
XM-4 satellite	2014

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

In connection with the Merger, \$250,000 of the purchase price was allocated to the XM trademark. As of December 31, 2009, there are no legal, regulatory or contractual limitations associated with the XM trademark.

We evaluate our indefinite life intangible assets for impairment on an annual basis. During the year ended December 31, 2009, no impairment loss was recorded for intangible assets with indefinite lives.

Definite Life Intangible Assets

Definite life intangible assets consist primarily of subscriber relationships of \$380,000 that were acquired as a result of the Merger. Subscriber relationships are amortized on an accelerated basis over 9 years, which reflects the estimated pattern in which the economic benefits will be consumed. Other definite life intangible assets include certain licensing agreements of \$75,000, which are being amortized over a weighted average useful life of 9.1 years on a straight-line basis.

Amortization expense was \$76,587, \$35,789 and \$0 for the years ended December 31, 2009, 2008 and 2007, respectively. Expected amortization expense for each of the fiscal years through December 31, 2014 and for periods thereafter is as follows:

Year ending December 31,	Amount
2010	\$ 65,916
2011	58,850
2012	53,420
2013	47,097
2014	38,619
Thereafter	97,559
 Total definite life intangibles, net	 \$ 361,461

(6) Subscriber Revenue

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

Subscriber revenue consists of the following:

	For the Years Ended December 31,		
	2009	2008	2007
Subscription fees	\$ 2,266,809	\$ 1,529,726	\$ 853,832
Activation fees	21,837	23,025	20,878
Effect of rebates	(1,143)	(3,832)	(19,777)
 Total subscriber revenue	 \$ 2,287,503	 \$ 1,548,919	 \$ 854,933

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SIRIUS XM RADIO INC. AND SUBSIDIARIES
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(7) Interest Costs

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

	For the Years Ended December 31,		
	2009	2008	2007
Interest costs charged to expense	\$ 306,420	\$ 144,833	\$ 70,328
Interest costs capitalized	61,201	20,872	8,914
Total interest costs incurred	\$ 367,621	\$ 165,705	\$ 79,242

Included in interest costs incurred is non-cash interest expense, consisting of amortization related to original issue discounts, premiums and deferred financing fees. This non-cash interest was \$33,818, (\$6,311) and \$4,269 for the years ended December 31, 2009, 2008 and 2007, respectively.

(8) Property and Equipment

Property and equipment, net, consists of the following:

	December 31,	
	2009	2008
Satellite system	\$ 1,680,732	\$ 1,414,625
Terrestrial repeater network	108,841	109,228
Leasehold improvements	43,480	42,878
Broadcast studio equipment	49,965	49,186
Capitalized software and hardware	146,035	132,555
Satellite telemetry, tracking and control facilities	55,965	56,217
Furniture, fixtures, equipment and other	57,536	57,995
Land	38,411	38,411
Building	56,424	56,392
Construction in progress	430,543	474,716
Total property and equipment	2,667,932	2,432,203
Accumulated depreciation and amortization	(956,929)	(728,727)
Property and equipment, net	\$ 1,711,003	\$ 1,703,476

Construction in progress consists of the following:

	December 31,	
	2009	2008
Satellite system	\$ 398,425	\$ 449,129
Terrestrial repeater network	19,396	19,070
Other	12,722	6,517

Construction in progress \$ 430,543 \$ 474,716

Depreciation and amortization expense on property and equipment was \$232,863, \$167,963 and \$106,780 for the years ended December 31, 2009, 2008 and 2007, respectively.

Satellites

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

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

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XM owns four orbiting satellites; two of which, XM-3 and XM-4, currently transmit the XM signal and two of which, XM-1 and XM-2, serve as in-orbit spares. The XM satellites were launched in March 2001, May 2001, February 2005 and October 2006.

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

(9) Related Party Transactions

We had the following related party balances at December 31, 2009 and 2008:

	Related party current assets		Related party long-term assets		Related party current liabilities		Related party long-term liabilities		Related party long-term debt	
	December 31, 2009	2008	December 31, 2009	2008	December 31, 2009	2008	December 31, 2009	2008	December 31, 2009	2008
Liberty Media	\$	\$	\$ 801	\$	\$ 8,523	\$	\$	\$	\$ 263,566	\$
SIRIUS Canada	2,327	1,814				1,160				
XM Canada	1,011	1,844	24,429	12,061						
General Motors	99,995	104,575	85,364	116,296	93,107	63,023	17,508			
American Honda	2,914	2,194			3,841	4,190				
Total	\$ 106,247	\$ 110,427	\$ 110,594	\$ 128,357	\$ 105,471	\$ 68,373	\$ 17,508	\$	\$ 263,566	\$

Liberty Media

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

Investment Agreement

On February 17, 2009, we entered into an Investment Agreement (the Investment Agreement) with Liberty Media. Pursuant to the Investment Agreement, in March 2009 we issued to Liberty Radio, LLC 12,500,000 shares of Series B Preferred Stock with a liquidation preference of \$0.001 per share in partial consideration for certain loan investments. The Series B Preferred Stock is convertible into approximately 40% of our outstanding shares of common stock (after giving effect to such conversion). Liberty Radio, LLC has agreed not to acquire more than 49.9% of our outstanding common stock for three years from the date the Series B Preferred Stock was issued, except that Liberty Radio, LLC may acquire more than 49.9% of our outstanding common stock at any time after the second anniversary of such date pursuant to any cash tender offer for all of the outstanding shares of our common stock that are not beneficially owned

by Liberty Radio, LLC or its affiliates at a price per share greater than the closing price of the common stock on the trading day preceding the earlier of the public announcement or commencement of such tender offer. The Investment Agreement also provides for certain other standstill provisions during such three year period.

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

Loan Investments

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

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

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

Liberty Media has advised us that as of December 31, 2009 it owned the following principal amounts of our debt:

	December 31,	
	2009	2008
11.25% Senior Secured Notes due 2013	\$ 87,000	\$
13% Senior Notes due 2013	76,000	
7% Exchangeable Senior Subordinated Notes due 2014	11,000	
9 ⁵ / ₈ % Senior Notes due 2013	55,221	
9.75% Senior Secured Notes due 2015	50,000	
Total	\$ 279,221	\$

As of December 31, 2009, we recorded \$8,523 related to accrued interest with Liberty Media to Related party current liabilities. We recognized Interest expense related to Liberty Media of \$79,640 for the year ended December 31, 2009.

SIRIUS Canada

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

We recorded the following revenue from SIRIUS Canada in connection with the agreement above. Royalty income is included in Other revenue and dividend income is included in Interest and investment income in our consolidated statements of operations:

	For the Years Ended December 31,		
	2009	2008	2007
Royalty income	\$ 5,797	\$ 1,309	\$ 1,159
Dividend income	839	199	422
Total revenue from SIRIUS Canada	\$ 6,636	\$ 1,508	\$ 1,581

Receivables recorded relating to royalty income and dividend income were fully utilized to absorb a portion of our share of the losses generated by SIRIUS Canada during the year ended December 31, 2009. Total costs that have been or will be reimbursed by SIRIUS Canada for the years ended December 31, 2009, 2008 and 2007 were \$11,031, \$14,973 and \$7,712, respectively.

XM Canada

In 2005, XM entered into agreements to provide XM Canada with the right to offer XM satellite radio service in Canada. The agreements have an initial term of ten years and XM Canada has the unilateral option to extend the term of the agreements for an additional five years at no additional cost beyond the current financial arrangements. XM Canada has expressed its intent to exercise this option at the end of the initial term of the agreements. XM has the right to receive a 15% royalty for all subscriber fees earned by XM Canada each month for its basic service and a nominal activation fee for each gross activation of an XM Canada subscriber on XM's system. XM Canada is obligated to pay XM a total of \$71,800 for the rights to broadcast and market National Hockey League (NHL) games for the 10-year term of XM's contract with the NHL. We recognize these payments on a gross basis as a principal obligor pursuant to the provisions of ASC 605, *Revenue Recognition*.

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

(Dollar amounts in thousands, unless otherwise stated)

The estimated fair value of deferred revenue from XM Canada as of the Merger date was approximately \$34,000, and is being amortized on a straight-line basis over the remaining expected term of the agreements. As of December 31, 2009 and 2008, the carrying value of Deferred revenue related to XM Canada was \$31,568 and \$36,002, respectively. XM has extended a Cdn\$45,000 standby credit facility to XM Canada which can be utilized to purchase terrestrial repeaters or finance the payment of subscription fees. The facility matures on December 31, 2012 and bears interest at a rate of 17.75% per annum. XM has the right to convert unpaid principal amounts into Class A subordinate voting shares of XM Canada at the price of Cdn\$16.00 per share. As of December 31, 2009 and 2008, amounts drawn by XM Canada on this facility in lieu of payment of subscription fees recorded in Related party long-term assets were \$18,429 and \$8,311, respectively.

As of December 31, 2009 and 2008, amounts due from XM Canada (in addition to the amounts drawn on the standby credit facility) recorded in Related party long-term assets were \$6,000 and \$3,750, respectively.

We recorded the following revenue from XM Canada as Other revenue in our consolidated statements of operations, in connection with the agreements above:

	For the Years Ended December 31,		
	2009	2008	2007
Amortization of XM Canada deferred income	\$ 2,776	\$ 1,156	\$
Subscriber and activation fee royalties	11,603	97	
Licensing fee revenue	6,000	2,500	
Advertising reimbursements	1,067	366	
Total revenue from XM Canada	\$ 21,446	\$ 4,119	\$

General Motors and American Honda

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

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

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

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

(Dollar amounts in thousands, unless otherwise stated)

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

	For the Years Ended December 31,		
	2009	2008	2007
GM	\$ 31,037	\$ 16,803	\$
American Honda	12,254	7,504	
Total	\$ 43,291	\$ 24,307	\$

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

	For the Years Ended December 31,					
	2009		2008		2007	
	GM	American Honda	GM	American Honda	GM	American Honda
Sales and marketing	\$ 31,595	\$ 500	\$ 16,115	\$ 815	\$	\$
Revenue share and royalties	58,992	6,541	36,305	2,051		
Subscriber acquisition costs	34,895	5,397	30,975	3,433		
Customer service and billing	268		119			
Interest expense, net of amounts capitalized	4,644		51			
Total	\$ 130,394	\$ 12,438	\$ 83,565	\$ 6,299	\$	\$

(10) Investments

Investments consist of the following:

	December 31,	
	2009	2008
Investment in SIRIUS Canada	\$	\$
Investment in XM Canada	2,390	8,873
Investment in XM Canada debentures	2,970	2,542
Auction rate certificates	8,556	7,985
Restricted investments	3,400	141,250
Total investments	\$ 17,316	\$ 160,650

Canadian Investments

Our investments in SIRIUS Canada and XM Canada (Canadian Investments) are recorded using the equity method since we have a significant influence, but less than a controlling voting interest in our Canadian Investments. Under this method, our investments in the Canadian Investments, 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 our Canadian Investments. We have a 49.9% economic interest in SIRIUS Canada and a 23.33% economic interest in XM Canada.

Our share of net earnings or losses of our Canadian Investments is recorded to Gain (loss) on investments in our consolidated statements of operations. As it relates to XM Canada, this is done on a one month lag. We evaluate our Canadian Investments periodically and record an impairment charge to Gain (loss) on investments in our 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 Investments in excess of the carrying value of our investments in, advances to and commitments to such entity is recorded to Gain (loss) on investments in our consolidated statements of operations.

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

We recorded the following amounts to Gain (loss) on investments:

	For the Years Ended December 31,		
	2009	2008	2007
Share of SIRIUS Canada net loss	\$ (6,636)	\$ (4,745)	\$
Payments received from SIRIUS Canada in excess of carrying value	13,738		
Release of liability with SIRIUS Canada	1,351		
Share of XM Canada net loss	(2,292)	(9,309)	
Impairment of XM Canada	(4,734)	(16,453)	
Other	504		
Total	\$ 1,931	\$ (30,507)	\$

In addition, during the year ended December 31, 2009, we recorded \$543 as a foreign exchange gain to Accumulated other comprehensive loss, net of tax, related to our investment in XM Canada.

XM Holdings holds an investment in Cdn\$4,000 face value of 8% convertible unsecured subordinated debentures issued by XM Canada for which the embedded conversion feature is bifurcated from the host contract. The host contract is accounted for as an available-for-sale security at fair value with changes in fair value recorded to Accumulated other comprehensive loss, net of tax. The embedded conversion feature is accounted for as a derivative at fair value with changes in fair value recorded in earnings as Interest and investment income. As of December 31, 2009, the carrying values of the host contract and embedded derivative related to our investment in the debentures was \$2,961 and \$9, respectively. As of December 31, 2008, the carrying values of the host contract and embedded derivative related to our investment in the debentures was \$2,540 and \$2, respectively.

Auction Rate Certificates

Auction rate certificates are long-term securities structured to reset their coupon rates by means of an auction. We account for our investment in auction rate certificates as available-for-sale securities. 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 approximately \$900 in the first quarter of 2010.

Restricted Investments

Restricted investments relate to deposits placed into escrow for the benefit of third parties pursuant to programming agreements and reimbursement obligations under letters of credit issued for the benefit of lessors of office space.

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

(11) Debt

Our debt consists of the following:

	Conversion Price (per share)	December 31,	
		2009	2008
SIRIUS Debt			
8 ³ / ₄ % Convertible Subordinated Notes due 2009 (a)	\$ 28.46	\$	\$ 1,744
3 ¹ / ₄ % Convertible Notes due 2011 (b)	\$ 5.30	230,000	230,000
Less: discount		(1,371)	(1,935)
Senior Secured Term Loan due 2012 (c)	N/A	244,375	246,875
9 ⁵ / ₈ % Senior Notes due 2013 (d)	N/A	500,000	500,000
Less: discount		(3,341)	(3,518)
9.75% Senior Secured Notes due 2015 (e)	N/A	257,000	
Less: discount		(11,695)	
2 ¹ / ₂ % Convertible Notes due 2009 (f)	\$ 4.41		189,586
XM and XM Holdings Debt			
10% Convertible Senior Notes due 2009 (g)	\$ 10.87		400,000
Less: discount			(16,449)
10% Senior Secured Discount Convertible Notes due 2009 (h)	\$ 0.69		33,249
Add: premium			34,321
10% Senior PIK Secured Notes due 2011 (i)	N/A	113,685	
Less: discount		(7,325)	
11.25% Senior Secured Notes due 2013 (j)	N/A	525,750	
Less: discount		(32,259)	
13% Senior Notes due 2013 (k)	N/A	778,500	778,500
Less: discount		(76,601)	(90,018)
9.75% Senior Notes due 2014 (l)	N/A	5,260	5,260
7% Exchangeable Senior Subordinated Notes due 2014 (m)	\$ 1.875	550,000	550,000
Less: discount		(9,707)	(10,474)
Senior Secured Term Loan due 2009	N/A		100,000
Senior Secured Revolving Credit Facility due 2009	N/A		250,000
Add: premium			151
Other debt:			
Capital leases	N/A	14,304	23,215
Total debt		3,076,575	3,220,507
Less: current maturities		13,882	399,726
Total long-term		3,062,693	2,820,781
Less: related party		263,566	
Total long-term, excluding related party		\$ 2,799,127	\$ 2,820,781

SIRIUS Debt

(a) 8³/₄% Convertible Subordinated Notes due 2009

In 1999, SIRIUS issued 8³/₄% Convertible Subordinated Notes due 2009 (the 8³/₄% Notes). The remaining balance of the 8³/₄% Notes matured on September 29, 2009 and were repaid in cash.

(b) 3¹/₄% Convertible Notes due 2011

In October 2004, SIRIUS issued \$230,000 in aggregate principal amount of 3¹/₄% Convertible Notes due 2011 (the 3¹/₄% 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. The 3¹/₄% Notes mature on October 15, 2011 and interest is payable semi-annually on April 15 and October 15 of each year. The obligations under the 3¹/₄% Notes are not secured by any of our assets.

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

(Dollar amounts in thousands, unless otherwise stated)

(c) Senior Secured Term Loan due 2012

In June 2007, SIRIUS entered into a term credit agreement with a syndicate of financial institutions. The term credit agreement provides for a senior secured term loan (the Senior Secured Term Loan) of \$250,000, which has been fully drawn. Interest under the Senior Secured Term Loan is based, at our option, on (i) adjusted LIBOR plus 2.25% or (ii) the higher of (a) the prime rate and (b) the Federal Funds Effective Rate plus 1/2 of 1.00%, plus 1.25%. The current interest rate is 2.56%. The Senior Secured Term Loan amortizes in equal quarterly installments of 0.25% of the initial aggregate principal amount for the first four and a half years, with the balance of the loan thereafter being repaid in four equal quarterly installments. The Senior Secured Term Loan matures on December 20, 2012.

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

The Senior Secured Term Loan contains customary affirmative covenants and event of default provisions. The negative covenants contained in the Senior Secured Term Loan are substantially similar to those contained in the indenture governing SIRIUS 9⁵/₈% Senior Notes due 2013.

(d) 9⁵/₈% Senior Notes due 2013

In August 2005, SIRIUS issued \$500,000 in aggregate principal amount of 9⁵/₈% Senior Notes due 2013 (the 9⁵/₈% Notes), which mature on August 1, 2013 with interest payable semi-annually on February 1 and August 1 of each year. The obligations under the 9⁵/₈% Notes are not secured by any of our assets.

(e) 9.75% Senior Secured Notes due 2015

In August 2009, SIRIUS issued \$257,000 aggregate principal amount of 9.75% Senior Secured Notes due 2015 (the 9.75% Notes). Interest is payable semi-annually in arrears on March 1 and September 1 of each year, commencing on March 1, 2010, at a rate of 9.75% per annum. The 9.75% Notes mature on September 1, 2015. The 9.75% Notes were issued for \$244,292, resulting in an aggregate original issuance discount of \$12,708.

The domestic subsidiaries of SIRIUS that guarantee certain of the indebtedness of SIRIUS and its restricted subsidiaries guarantee SIRIUS obligations under the 9.75% Notes. The 9.75% Notes and related guarantees are secured by first-priority liens on substantially all of the assets of SIRIUS and the guarantors other than certain excluded assets (including cash, accounts receivable and certain inventory).

(f) 2¹/₂% Convertible Notes due 2009

In February 2004, SIRIUS issued \$250,000 in aggregate principal amount of 2¹/₂% Convertible Notes due 2009 (the 2¹/₂% Notes). The remaining balance of the 2¹/₂% Notes matured on February 17, 2009, and were paid in cash.

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

XM Holdings issued \$400,000 aggregate principal amount of 10% Convertible Senior Notes due 2009 (the 10% Convertible Notes).

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

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

Interest was payable semi-annually at a rate of 10% per annum. The remaining balance of \$48,450 of the 10% Convertible Notes matured on December 1, 2009 and were paid in cash.

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

(Dollar amounts in thousands, unless otherwise stated)

(h) 10% Senior Secured Discount Convertible Notes due 2009

XM Holdings and XM, as co-obligors, had outstanding \$33,249 aggregate principal amount of 10% Senior Secured Discount Convertible Notes due 2009 (the 10% Discount Convertible Notes). Interest was payable semi-annually at a rate of 10% per annum. The 10% Discount Convertible Notes matured on December 31, 2009 and were paid in cash.

(i) 10% Senior PIK Secured Notes due 2011

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

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

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

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

(j) 11.25% Senior Secured Notes due 2013

In June 2009, XM issued \$525,750 aggregate principal amount of 11.25% Senior Secured Notes due 2013 (the 11.25% Notes). Interest is payable semi-annually in arrears on June 15 and December 15 of each year at a rate of 11.25% per annum. The 11.25% Notes mature on June 15, 2013. The 11.25% Notes were issued for \$488,398, resulting in an aggregate original issuance discount of \$37,352.

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

(k) 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, are unsecured and mature on August 1, 2013.

(l) 9.75% Senior Notes due 2014

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

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

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

(Dollar amounts in thousands, unless otherwise stated)

(m) 7% Exchangeable Senior Subordinated Notes due 2014

41,854

The weighted average amortization period for intangible assets subject to amortization is approximately 7 years.

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Table of Contents**Sally Beauty Holdings, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements (Continued)

Fiscal Years ended September 30, 2010, 2009 and 2008

11. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	September 30,	
	2010	2009
Compensation and benefits	\$ 74,446	\$ 60,811
Interest payable	26,518	28,612
Deferred revenue	13,099	12,392
Rental obligations	11,531	10,708
Property and other taxes	4,511	4,414
Insurance reserves	8,428	6,805
Acquisition related payables	1,077	1,950
Operating accruals and other	27,886	28,470
Total accrued liabilities	\$ 167,496	\$ 154,162

12. Commitments and Contingencies**Lease Commitments**

The Company's principal leases relate to retail stores and warehousing properties. At September 30, 2010, future minimum payments under non-cancelable operating leases, net of sublease income, are as follows (in thousands):

Fiscal Year:

2011	\$ 135,142
2012	113,168
2013	87,223
2014	57,900
2015	33,555
Thereafter	49,158
	\$ 476,146

Certain of the Company's leases require the Company to pay a portion of real estate taxes, insurance, maintenance and special assessments assessed by the lessor. Also, certain of the Company's leases include renewal options and escalation clauses.

Total rental expense for operating leases amounted to \$178.5 million, \$166.3 million and \$163.7 million for the fiscal years 2010, 2009 and 2008, respectively, and is included in selling, general and administrative expenses in our consolidated statements of earnings. These amounts include \$0.5 million, \$0.4 million and \$0.8 million for contingent rents for the fiscal years 2010, 2009 and 2008, respectively.

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Sally Beauty Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Fiscal Years ended September 30, 2010, 2009 and 2008

Contingencies

Legal Proceedings

There were no material legal proceedings pending against the Company or its subsidiaries, as of September 30, 2010. The Company is involved in various claims and lawsuits incidental to the conduct of its business in the ordinary course. The Company does not believe that the ultimate resolution of these matters will have a material adverse impact on its consolidated financial position, statements of earnings or cash flows.

On February 25, 2008, we disclosed in a Current Report on Form 8-K that on February 21, 2008, L'Oreal filed a lawsuit in the Superior Court of the State of California in and for the County of San Diego Central Division naming, among others, SD Hair, Ltd. and Hair of Nevada, LLC (collectively, "SD Hair"), franchisees of our subsidiary Armstrong McCall division ("AMLP") of our BSG business unit, as defendants. The suit alleged, among other things, that SD Hair breached its franchise agreement with AMLP by diverting (selling) Matrix branded products to unauthorized buyers, and that L'Oreal is entitled to make claims against SD Hair under the franchise agreement as a third-party beneficiary of that agreement. On March 24, 2008, SD Hair filed a cross-complaint in the same case naming AMLP and BSG as cross-defendants, seeking, among other things, i) declaratory relief from BSG and AMLP in the form of a judicial finding that SD Hair is not in breach of its franchise agreement and that L'Oreal has no rights as a third-party beneficiary to SD Hair's franchise agreement, and ii) injunctive relief in the form of a judicial order compelling AMLP and BSG to take appropriate legal action against L'Oreal to enforce SD Hair's claimed rights under AMLP's Matrix distribution agreement. We have answered the cross-complaint.

On July 30, 2009, we disclosed in a Current Report on Form 8-K that L'Oreal filed a Second Amended Complaint in connection with the previously disclosed lawsuit described above. The Second Amended Complaint alleges, among other things, that AMLP, certain of its employees and others were involved in selling Matrix branded products to unauthorized buyers and that certain of its employees (and others) engaged in improper business transactions for personal benefit during 2005 through 2007. L'Oreal seeks money damages, certain injunctive relief and a declaration that L'Oreal is entitled to terminate the 1981 Matrix Distributor Agreement now in effect between L'Oreal and AMLP. None of the employees involved in the allegations are executive officers of the Company. Substantially all of these allegations were made known by L'Oreal to the Company prior to the filing of the Second Amended Complaint. L'Oreal also provided the Company with documents allegedly supporting the allegations.

As a result of these allegations made by L'Oreal, many of which are incorporated into the Second Amended Complaint, the Audit Committee of the Board of Directors of the Company engaged independent special counsel to investigate whether certain employees engaged in improper business transactions for personal benefit. After extensive review, the Audit Committee and independent special counsel found insufficient evidence to support a conclusion that Company employees entered into improper transactions for personal benefit.

On September 8, 2009, AMLP and BSG filed a cross-complaint against L'Oreal. In the cross-complaint, AMLP and BSG allege that L'Oreal does not have a genuine interest in stopping diversion, and that L'Oreal's anti-diversion policies have been discriminatorily applied to AMLP and BSG. AMLP further alleges that L'Oreal is using diversion as a pretext to attempt to terminate the 1981 Matrix Distributor Agreement. L'Oreal has answered the cross-complaint and the matter is currently set for jury trial on February 18, 2011.

Table of Contents**Sally Beauty Holdings, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements (Continued)

Fiscal Years ended September 30, 2010, 2009 and 2008

Other Contingencies

The Company provides healthcare benefits to most of its full-time employees. The Company is largely self-funded for the cost of the healthcare plan (including healthcare claims), other than certain fees and out-of-pocket amounts paid by the employees. In addition, the Company retains a substantial portion of the risk related to certain workers' compensation, general liability, and automobile and property insurance. The Company records an estimated liability for the ultimate cost of claims incurred and unpaid as of the balance sheet date. The estimated liability is included in accrued liabilities (current portion) and other liabilities (long-term portion) in our consolidated balance sheets. The Company carries insurance coverage in such amounts in excess of its self-insured retention which management believes to be reasonable.

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. The Company has no significant liabilities for loss contingencies at September 30, 2010 and 2009.

13. Long-Term Debt

Details of long-term debt are as follows (in thousands):

	September 30, 2010	Maturity dates	Interest Rates
ABL facility	\$	Nov. 2011	(i) Prime and up to 0.50% or; (ii) LIBOR(a) plus (1.00% to 1.50%)
Term Loan B	843,856	Nov. 2013	(i) Prime plus (1.25% to 1.50%) or; (ii) LIBOR(a) plus (2.25% to 2.50%)(b)
Other(c)	6,675	2011-2014	4.05% to 6.75%
Total	\$ 850,531		
Senior notes	\$ 430,000	Nov. 2014	9.25%
Senior subordinated notes	275,000	Nov. 2016	10.50%
Total	\$ 705,000		
Capitalized leases and other	\$ 7,105		
Less: current portion	(3,045)		
Total long-term debt	\$ 1,559,591		

(a) London Interbank Offered Rate ("LIBOR").

(b) At September 30, 2010, the interest rate for the Term Loan B was 2.51%.

(c) Represents pre-acquisition debt of Pro-Duo NV ("Pro-Duo") and Sinelco.

In connection with the Separation Transactions in November of 2006, the Company, through its subsidiaries (Sally Investment Holdings LLC and Sally Holdings) incurred \$1,850.0 million of indebtedness by (i) drawing on a \$400.0 million revolving, asset-based lending ("ABL")

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facility in the amount of \$70.0 million, (ii) entering into two senior term loan facilities (term loans A and B) in an aggregate amount of \$1,070.0 million, and (iii) together (jointly and severally) with another of the Company's indirect

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Sally Beauty Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Fiscal Years ended September 30, 2010, 2009 and 2008

subsidiaries, Sally Capital Inc., issuing senior notes in an aggregate amount of \$430.0 million and senior subordinated notes in an aggregate amount of \$280.0 million. The Company incurred approximately \$58.5 million in costs related to the issuance of the debt, which were capitalized and are being amortized to interest expense over the life of the related debt obligations. Proceeds from the initial debt were used primarily to pay the \$25.00 per share special cash dividend to the holders of record of Alberto-Culver's stock and for certain expenses associated with the Separation Transactions.

The ABL facility provides for senior secured revolving loans up to a maximum aggregate principal amount of \$400.0 million, subject to borrowing base limitations. The availability of funds under the ABL facility is subject to a borrowing base calculation, which is based on specified percentages of the value of eligible inventory and eligible accounts receivables, subject to certain reserves and other adjustments and reduced by certain outstanding letters of credit. At September 30, 2010, the Company had \$341.8 million available for borrowing under the ABL facility. Additionally, the Company is required to pay a commitment fee ranging from 0.20% to 0.35% on the unused portion of the ABL facility. At September 30, 2010, the commitment fee rate was 0.20%. In November 2010, Sally Holdings entered into a new agreement with lenders to replace its ABL facility with a new \$400 million, 5-year credit facility (the "new ABL facility"). Please see Note 20 for additional information about the new ABL facility.

The ABL facility contains a covenant requiring Sally Holdings and its subsidiaries to maintain a fixed-charge coverage ratio of at least 1.0 to 1.0 when availability under the ABL facility falls below \$40.0 million. The fixed-charge coverage ratio is defined as the ratio of EBITDA (as defined in the agreement underlying the ABL facility, or Credit Agreement EBITDA) less unfinanced capital expenditures to fixed charges (as included in the definition of the fixed-charge coverage ratio in the agreement governing the ABL facility).

The senior term loan facilities consisted of (i) a \$150.0 million senior term loan A facility and (ii) a \$920.0 million senior term loan B facility. Principal and interest is payable on a quarterly basis. During the fiscal year ended September 30, 2010, the Company prepaid in full its borrowings under the Term Loan A facility.

The senior term loan facilities contain a covenant requiring Sally Holdings and its subsidiaries to meet certain maximum consolidated secured leverage ratio levels, which decline over time. The consolidated secured leverage ratio is a ratio of (A) net consolidated secured debt to (B) Consolidated EBITDA as defined in the agreement underlying the senior term loan facilities. Compliance with the consolidated secured leverage ratio is tested quarterly, with a maximum ratio of 4.00 as of September 30, 2010. Failure to comply with the consolidated secured leverage ratio covenant under the senior term loan facilities would result in a default under such facilities.

The senior term loan facilities and the ABL facility are secured by substantially all of our assets, those of Sally Investment Holdings LLC, a wholly-owned subsidiary of Sally Beauty and the direct parent of Sally Holdings, those of our domestic subsidiaries and, in the case of the ABL facility, those of our Canadian subsidiaries. Borrowings under the senior term loan facilities may be prepaid at the option of Sally Holdings at any time without premium or penalty and are subject to mandatory prepayment in an amount equal to 50% of excess cash flow (as defined in the agreement governing the senior term loan facilities) for any fiscal year unless a specified leverage ratio is met. In January 2010, the Company made a mandatory prepayment on the senior term loan facilities in the amount of \$22.3 million. Amounts paid pursuant to said provision may be applied, at the option of Sally Holdings, against minimum loan repayments otherwise required of it over the twelve-month period following any such payment under the terms of the loan agreements. During the fiscal year ended September 30, 2010, the Company also made optional

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Notes to Consolidated Financial Statements (Continued)

Fiscal Years ended September 30, 2010, 2009 and 2008

prepayments in the aggregate amount of \$102.7 million on its senior term loans. This amount together with the mandatory prepayment discussed above, resulted in the prepayment in full of borrowings under the Term Loan A facility. In connection with the mandatory prepayment and the optional prepayments made during the fiscal year 2010, the Company recorded losses on extinguishment of debt in the aggregate amount of \$1.0 million, which are included in interest expense in the Company's consolidated statements of earnings. Additionally, borrowings under the senior term loan facilities would be subject to mandatory repayment in an amount equal to 100% of the proceeds of specified asset sales that are not reinvested in the business or applied to repay borrowings under the ABL facility. We believe that the Company is currently in compliance with the agreements and instruments governing our debt, including our financial covenants.

The senior notes and senior subordinated notes are unsecured obligations of the issuers and are jointly and severally guaranteed on a senior basis (in the case of the senior notes) and on a senior subordinated basis (in the case of the senior subordinated notes) by each material domestic subsidiary of the Company. The senior notes and the senior subordinated notes carry optional redemption features whereby the Company has the option to redeem the notes before November 15, 2010 and November 15, 2011, respectively, at par plus a premium, plus accrued and unpaid interest, and on or after November 15, 2010 and November 15, 2011, respectively, at par plus a premium declining ratably to par, plus accrued and unpaid interest. Interest on the senior notes and senior subordinated notes is payable semi-annually. Furthermore, the agreements underlying the Company's credit facilities contain terms which significantly restrict the ability of Sally Beauty's subsidiaries to pay dividends or otherwise transfer assets to Sally Beauty.

In the fiscal year 2008, the Company entered into two interest rate swap agreements with an aggregate notional amount of \$300.0 million. The Company uses interest rate swaps, as part of its overall economic risk management strategy, to add stability to the interest payments due in connection with its term loan obligations. Interest payments related to our term loans are impacted by changes in LIBOR. Please see Note 15 for additional information about the Company's interest rate swap agreements.

Maturities of the Company's long-term debt are as follows at September 30, 2010 (in thousands):

Fiscal Year:

2011	\$	2,685
2012		10,278
2013		10,145
2014		827,326
2015		430,097
Thereafter		275,000
	\$	1,555,531
Capital leases and other		7,105
Less: current portion		(3,045)
Total	\$	1,559,591

We are a holding company and do not have any material assets or operations other than ownership of equity interests of our subsidiaries. The agreements and instruments governing the debt of Sally Holdings and its subsidiaries contain material limitations on our subsidiaries' ability to pay dividends and other restricted payments to us which, in turn, constitute material limitations on our ability to pay dividends and other payments to our stockholders.

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Sally Beauty Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Fiscal Years ended September 30, 2010, 2009 and 2008

Under the agreements and indentures governing the term loan facilities and the notes, Sally Holdings may not make certain restricted payments to us if a default then exists under the credit agreement or the indentures or if its consolidated interest coverage ratio is less than 2.0 to 1.0 at the time of the making of such restricted payment. As of September 30, 2010, its consolidated interest coverage ratio exceeded 2.0 to 1.0. Further, the aggregate amount of restricted payments Sally Holdings is able to make is limited pursuant to various baskets as calculated pursuant to the credit agreement and indentures.

The agreements governing our ABL facility generally permit the making of distributions and certain other restricted payments so long as the borrowing availability under the facility equals or exceeds \$60.0 million. If the borrowing availability falls below this amount, Sally Holdings may nevertheless make restricted payments to us in the aggregate since the date of the Separation Transactions, together with the aggregate cash amounts paid in connection with acquisitions since said date, of not greater than \$50.0 million, together with certain other exceptions. As of September 30, 2010, borrowing availability under the ABL facility exceeded \$60.0 million. As of September 30, 2010, the net assets of our consolidated subsidiaries that were unrestricted from transfer under our credit arrangements totaled \$310.1 million, subject to certain adjustments. The agreements governing our ABL facility and the senior term loan facilities, as well as the indentures covering the Company's 9.25% Senior Notes and its 10.5% Senior Subordinated Notes contain customary cross-default and/or cross-acceleration provisions.

At September 30, 2010 and 2009, the Company had no off-balance sheet financing arrangements other than operating leases incurred in the ordinary course of business as disclosed in Note 12, and outstanding letters of credit related to inventory purchases and self-insurance programs which totaled \$14.5 million and \$13.4 million at September 30, 2010 and 2009, respectively.

14. Sally Beauty Holdings, Inc. Stand-Alone Financial Information

Sally Beauty Holdings, Inc. is a holding company and has no material assets or operations other than its ownership interests in its subsidiaries. The Company's operations are conducted almost entirely through its subsidiaries. As such, Sally Beauty depends on its subsidiaries for cash to meet its obligations or to pay dividends.

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Notes to Consolidated Financial Statements (Continued)

Fiscal Years ended September 30, 2010, 2009 and 2008

Sally Investment Holdings LLC, which is a wholly-owned subsidiary of Sally Beauty and the direct parent of Sally Holdings, does not have any assets or operations of any kind. Summary financial data for Sally Beauty Holdings, Inc. on a stand-alone basis as of and for each of the fiscal years ended September 30, 2010 and 2009 is as follows (in thousands):

	2010	2009
Balance Sheet		
Assets:		
Deferred income tax assets	\$ 1,071	\$ 829
Income taxes receivable		3,915
Other	41,479	22,342
Investment in subsidiaries	(497,888)	(642,139)
Total assets	\$ (455,338)	\$ (615,053)
Liabilities:		
Deferred income tax liabilities	\$ 330	\$ 78
Income taxes payable	5,368	
Other	236	320
Total liabilities	5,934	398
Stockholders' deficit:	(461,272)	(615,451)
Total liabilities and stockholders' deficit	\$ (455,338)	\$ (615,053)
Statement of Earnings		
Operating loss	\$ (7,662)	\$ (8,359)
Interest (expense) income	(29)	22
Loss before provision for income taxes	(7,691)	(8,337)
Benefit from income taxes	(2,890)	(2,726)
Net loss	\$ (4,801)	\$ (5,611)
Statement of Cash Flows		
Net cash used by operating activities	\$ (808)	\$ (651)
Net cash used by investing activities:		
Capital expenditures		(3)
Net cash used by investing activities		(3)
Net cash provided by financing activities:		
Proceeds from exercise of stock options	878	687
Purchases of treasury stock	(70)	(33)
Net cash provided by financing activities	808	654
Net change in cash		
Cash and cash equivalents, beginning of year		

Cash and cash equivalents, end of year \$ \$

15. Derivative Instruments and Hedging Activities

Risk Management objectives of Using Derivative Instruments

The Company is exposed to a wide variety of risks, including risks arising from changing economic conditions. The Company manages its exposure to certain economic risks (including liquidity, credit risk, and changes in interest rates and in foreign currency exchange rates) primarily (a) by closely managing its cash flows from operating and investing activities and the amounts and sources of its debt obligations;

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Sally Beauty Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Fiscal Years ended September 30, 2010, 2009 and 2008

(b) by assessing periodically the creditworthiness of its business partners; and (c) through the use of interest rate swaps and foreign currency options and forwards by Sally Holdings.

The Company uses interest rate swaps, as part of its overall economic risk management strategy, to add stability to the interest payments due in connection with its term loan obligations. Interest payments related to our term loans are impacted by changes in LIBOR. Interest rate swap agreements involve the periodic receipt by Sally Holdings of amounts based on a variable rate in exchange for Sally Holdings making payments based on a fixed rate over the term of the interest rate swap agreements, without exchange of the underlying notional amount.

The Company uses foreign currency options and forwards, as part of its overall economic risk management strategy, to fix the amount of certain foreign assets and obligations relative to its functional currency (the U.S. dollar) or to add stability to cash flows resulting from its net investments (including intercompany notes not permanently invested) and earnings denominated in foreign currencies. Such cash flows may be materially affected (favorably or unfavorably) by changes in the exchange rates for the U.S. dollar versus the British pound sterling, Canadian dollar, Euro, Mexican peso and Chilean peso. The Company's foreign currency exposures at times offset each other, providing a natural hedge against its foreign currency risk. The Company uses foreign currency options and forwards to effectively fix the foreign currency exchange rate applicable to specific anticipated foreign currency-denominated cash flows, thus limiting the potential losses resulting from such cash flows.

At September 30, 2010, the Company did not purchase or hold any derivative instruments for trading or speculative purposes.

Designated Cash Flow Hedges

In the fiscal year 2008, Sally Holdings entered into two interest rate swap agreements with an aggregate notional amount of \$300 million (each agreement with a notional amount of \$150 million). These agreements expire in May of 2012 and are designated and qualify as effective cash flow hedges, in accordance with ASC 815. Accordingly, changes in the fair value of these derivative instruments are recorded quarterly, net of income tax, in accumulated other comprehensive (loss) income ("OCI") until the hedged obligation is settled or the swap agreements expire, whichever is earlier. Any hedge ineffectiveness, as this term is used in ASC 815, is recognized in interest expense in our consolidated statements of earnings. No hedge ineffectiveness on cash flow hedges was recognized during the fiscal years 2010, 2009 and 2008.

Amounts reported in OCI related to interest rate swaps are reclassified into interest expense, as a yield adjustment, in the same period in which interest on the Company's variable-rate debt obligations affect earnings. During the fiscal years 2010, 2009 and 2008, interest expense resulting from such reclassifications was \$10.1 million, \$7.9 million and \$1.2 million, respectively. During the twelve-month period ending September 30, 2011, the Company estimates that an additional \$9.7 million, before income tax, of the amount reported in OCI will be reclassified into interest expense.

Non-designated Cash Flow Hedges

The Company may use from time to time derivative instruments (such as interest rate swaps, and foreign currency options and forwards) not designated as hedges, or that do not meet the requirements for hedge accounting, to manage its exposure to interest rate or foreign currency exchange rate movements

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Sally Beauty Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Fiscal Years ended September 30, 2010, 2009 and 2008

In November of 2006, Sally Holdings entered into certain interest rate swap agreements with an aggregate notional amount of \$500 million. These interest rate swap agreements expired on or before November 2009 and were not designated as hedges and, accordingly, the changes in fair value of these interest rate swap agreements (which were adjusted quarterly) were recorded in interest expense in our consolidated statements of earnings. During the fiscal years ended September 30, 2009 and 2008, interest expense of \$7.5 million and \$10.5 million, respectively, resulted from these interest rate swap agreements. In the fiscal year ended September 30, 2010, interest expense resulting from these agreements was less than \$0.1 million.

As a result of our acquisition of Sinelco Group NV ("Sinelco") on December 16, 2009, the Company uses foreign currency options, including, at September 30, 2010, foreign currency put options with an aggregate notional amount of €1.4 million (\$1.9 million, at the September 30, 2010 exchange rate) and foreign currency call options with an aggregate notional amount of €0.8 million (\$1.2 million, at the September 30, 2010 exchange rate), to manage the exposure to certain non-Euro currencies resulting from Sinelco's purchases of merchandise from third-party suppliers. These foreign currency options expire ratably through December 1, 2010. Sinelco's functional currency is the Euro.

In addition, in the fourth quarter of the fiscal year 2010, Sally Holdings entered into four foreign currency forward agreements which expire in January of 2011. These derivative instruments are intended to mitigate our exposure to changes in foreign currency exchange rates in connection with certain intercompany balances not permanently invested. Two foreign currency forward agreements enable Sally Holdings to sell, in the aggregate, approximately €5.2 million (\$7.1 million, at the September 30, 2010 exchange rate) at the weighted average forward exchange rate of 1.3073. The other two foreign currency forward agreements enable Sally Holdings to buy, in the aggregate, approximately \$7.0 million Canadian dollars (\$6.8 million, at the September 30, 2010 exchange rate) at the weighted average forward exchange rate of 1.0277.

The Company's foreign currency option and forward agreements are not designated as hedges and do not currently meet the requirements for hedge accounting. However, these derivative instruments are intended to offset and do offset the Company's exposure to foreign currencies resulting from specific anticipated cash flow transactions. The changes in the fair value of all these derivative instruments (which are adjusted quarterly) are recorded in selling, general and administrative expenses in our consolidated statements of earnings. During the fiscal years ended September 30, 2010, selling general and administrative expenses included \$0.2 million in net gains from all of the Company's foreign currency option and forward agreements (net of non-cash losses of \$0.3 million resulting from our foreign currency forwards). In addition, selling general and administrative expenses included \$0.3 million in net non-cash gains, related to such intercompany balances not permanently invested.

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Notes to Consolidated Financial Statements (Continued)

Fiscal Years ended September 30, 2010, 2009 and 2008

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated balance sheet as of September 30, 2010 (in thousands):

Tabular Disclosure of Fair Values of Derivative Instruments

	Asset Derivatives As of September 30, 2010 Balance Sheet		Liability Derivatives As of September 30, 2010 Balance Sheet	
	Location	Fair Value	Location	Fair Value
Derivatives designated as hedging instruments:				
Interest Rate Swaps	Other assets	\$	Other liabilities	\$ 15,530
Total derivatives designated as hedging instruments		\$		\$ 15,530
Derivatives not designated as hedging instruments:				
Foreign Currency Options and Forwards	Prepaid expenses	\$ 119	Accrued liabilities	\$ 328
Interest Rate Swaps	Prepaid expenses		Accrued liabilities	
Total derivatives not designated as hedging instruments		\$ 119		\$ 328

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated balance sheet as of September 30, 2009 (in thousands):

Tabular Disclosure of Fair Values of Derivative Instruments

	Asset Derivatives As of September 30, 2009 Balance Sheet		Liability Derivatives As of September 30, 2009 Balance Sheet	
	Location	Fair Value	Location	Fair Value
Derivatives designated as hedging instruments:				
Interest Rate Swaps	Other assets	\$	Other liabilities	\$ 15,365
Total derivatives designated as hedging instruments		\$		\$ 15,365
Derivatives not designated as hedging instruments:				
Interest Rate Swaps	Prepaid expenses	\$	Accrued liabilities	\$ 2,356

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Total derivatives not
designated as hedging
instruments

\$

\$

2,356

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Notes to Consolidated Financial Statements (Continued)

Fiscal Years ended September 30, 2010, 2009 and 2008

The table below presents the effect of the Company's derivative financial instruments on the consolidated statements of earnings for the fiscal year ended September 30, 2010 (in thousands):

**Tabular Disclosure of the Effect of Derivative Instruments on the Statement of Earnings
for the Fiscal Year Ended September 30, 2010**

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion), net of tax	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in
					Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest Rate Swaps	\$ (101)	Interest expense	\$ (10,067)	Interest expense	\$

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
Foreign Currency Options and Forwards	Selling, general and administrative expenses	\$ 203
Interest Rate Swaps	Interest expense	(24)
Total derivatives not designated as hedging instruments		\$ 179

The table below presents the effect of the Company's derivative financial instruments on the consolidated statements of earnings for the fiscal year ended September 30, 2009 (in thousands):

**Tabular Disclosure of the Effect of Derivative Instruments on the Statement of Earnings
for the Fiscal Year Ended September 30, 2009**

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and
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	Portion), net of tax		(Effective Portion)		Effectiveness Testing)		Amount Excluded from Effectiveness Testing)
Interest Rate Swaps	\$ (10,196)	Interest expense	\$ (7,935)	Interest expense		\$	

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Notes to Consolidated Financial Statements (Continued)

Fiscal Years ended September 30, 2010, 2009 and 2008

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
Interest Rate Swaps	Interest expense	\$ (7,488)

The table below presents the effect of the Company's derivative financial instruments on the consolidated statements of earnings for the fiscal year ended September 30, 2008 (in thousands):

**Tabular Disclosure of the Effect of Derivative Instruments on the Statement of Earnings
for the Fiscal Year Ended September 30, 2008**

	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion), net of tax	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Derivatives in Cash Flow Hedging Relationships					
Interest Rate Swaps	\$ 793	Interest expense	\$ (1,174)	Interest expense	\$

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
Interest Rate Swaps	Interest expense	\$ (10,481)

Credit-risk-related Contingent Features

The agreements governing the Company's interest rate swaps contain provisions pursuant to which the Company could be declared in default on its interest rate swap obligations in the event the Company defaulted under certain terms of the loan documents governing the Company's ABL facility. As of September 30, 2010, the fair value of interest rate swaps in a liability position related to these agreements was \$15.5 million and the Company was under no obligation to post and had not posted any collateral related to these agreements. If the Company breached any of these provisions, it would be required to settle its obligations under the swap agreements at their termination value of \$15.9 million, including accrued interest and other termination costs.

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At September 30, 2010, the aggregate fair value of all foreign currency option and forward agreements held was a net liability of \$0.2 million, consisting of derivative instruments in a liability position of \$0.3 million and derivative instruments in an asset position of \$0.1 million. The Company was under no obligation to post and had not posted any collateral related to these agreements.

The counterparties to all our derivative instruments are deemed by the Company to be of substantial resources and strong creditworthiness. However, these transactions result in exposure to credit risk in the

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event of default by a counterparty. The recent financial crisis affecting the banking systems and financial markets resulted in many well-known financial institutions becoming less creditworthy or having diminished liquidity, which could expose us to an increased level of counterparty risk. In the event that a counterparty defaults in its obligation under our interest rate swaps and/or foreign currency derivative instruments, we could incur substantial financial losses. However, at the present time, no such losses are deemed probable.

16. 401(k) and Profit Sharing Plan

The Company sponsors the Sally Beauty 401(k) and Profit Sharing Plan (the "401k Plan"), which is a qualified defined contribution plan. The 401k Plan covers employees of the Company who meet certain eligibility requirements and who are not members of a collective bargaining unit. Under the terms of the 401k Plan, employees may contribute a percentage of their annual compensation to the 401k Plan up to certain maximums, as defined by the 401k Plan and by the U.S. Internal Revenue Code. The Company currently matches a portion of employee contributions to the plan. The Company recognized expense of \$4.7 million, \$4.0 million and \$3.8 million in the fiscal years 2010, 2009 and 2008, respectively, related to such employer matching contributions under the plan. These amounts are included in selling, general and administrative expenses.

In addition, pursuant to the 401k Plan, the Company may make profit sharing contributions to the accounts of employees who meet certain eligibility requirements and who are not members of a collective bargaining unit. The Company's profit sharing contributions to the 401k Plan are determined by the Compensation Committee of the Company's Board of Directors. The Company recognized expense of \$2.7 million, \$2.4 million and \$7.1 million in the fiscal years 2010, 2009 and 2008, respectively, related to such profit sharing contributions under the plan. These amounts are included in selling, general and administrative expenses.

17. Income Taxes

The Company and its subsidiaries file consolidated income tax returns in the U.S. federal jurisdiction and most state jurisdictions as well as in various foreign jurisdictions.

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Notes to Consolidated Financial Statements (Continued)

Fiscal Years ended September 30, 2010, 2009 and 2008

The provision for income taxes for the fiscal years 2010, 2009 and 2008 consists of the following (in thousands):

	Year Ended September 30,		
	2010	2009	2008
Current:			
Federal	\$ 69,112	\$ 48,335	\$ 30,613
Foreign	4,432	4,276	8,763
State	11,197	5,507	4,043
Total current portion	84,741	58,118	43,419
Deferred:			
Federal	2,896	8,204	2,250
Foreign	(2,814)	(1,676)	346
State	(703)	1,051	207
Total deferred portion	(621)	7,579	2,803
Total provision for income tax	\$ 84,120	\$ 65,697	\$ 46,222

The difference between the U.S. statutory federal income tax rate and the effective income tax rate is summarized below:

	Year Ended September 30,		
	2010	2009	2008
Statutory tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	2.9	2.8	2.3
Effect of foreign operations	(1.2)	0.8	(2.1)
Other, net	0.2	1.3	2.1
Effective tax rate	36.9%	39.9%	37.3%

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Notes to Consolidated Financial Statements (Continued)

Fiscal Years ended September 30, 2010, 2009 and 2008

The tax effects of temporary differences that give rise to the Company's deferred tax assets and liabilities are as follows (in thousands):

	September 30,	
	2010	2009
Deferred tax assets attributable to:		
Share-based compensation expense	\$ 16,471	\$ 12,422
Accrued liabilities	22,829	18,662
Inventory adjustments	3,303	2,378
Foreign loss carryforwards	16,675	12,593
Long-term liabilities		913
Unrecognized tax benefits	577	1,127
Interest rate swaps	6,026	5,962
Other	2,579	1,294
Total deferred tax assets	68,460	55,351
Valuation allowance	(16,552)	(14,640)
Total deferred tax assets, net	51,908	40,711
Deferred tax liabilities attributable to:		
Depreciation and amortization	70,772	58,759
Total deferred tax liabilities	70,772	58,759
Net deferred tax liability	\$ 18,864	\$ 18,048

Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets, net of the valuation allowance. The Company has recorded a valuation allowance to account for uncertainties regarding recoverability of certain deferred tax assets, primarily foreign loss carryforwards.

Domestic earnings before provision for income taxes were \$215.9 million, \$165.1 million and \$98.7 million in the fiscal years 2010, 2009 and 2008, respectively. Foreign operations had earnings (losses) before provision for income taxes of \$12.0 million, \$(0.3) million and \$25.1 million in the fiscal years 2010, 2009 and 2008, respectively.

Tax reserves are evaluated and adjusted as appropriate, while taking into account the progress of audits by various taxing jurisdictions and other changes in relevant facts and circumstances evident at each balance sheet date. Management does not expect the outcome of tax audits to have a material adverse effect on the Company's financial condition, results of operations or cash flow.

At September 30, 2010, undistributed earnings of the Company's foreign operations are intended to remain permanently invested to finance anticipated future growth and expansion. Accordingly, federal and state income taxes have not been provided on accumulated but undistributed earnings of \$76.5 million and \$56.4 million as of September 30, 2010 and 2009, respectively, as such earnings have been permanently reinvested in the business. The determination of the amount of the unrecognized deferred tax liability related to the undistributed earnings is not practicable.

At September 30, 2010 and 2009, the Company had total operating loss carry-forwards of \$53.3 million and \$40.7 million, of which \$46.1 million and \$39.3 million are subject to a valuation allowance, respectively. At

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Notes to Consolidated Financial Statements (Continued)

Fiscal Years ended September 30, 2010, 2009 and 2008

September 30, 2010, operating loss carry-forwards of \$22.6 million expire between 2012 and 2030 and operating loss carry-forwards of \$30.7 million have no expiration date. At September 30, 2010, the Company had tax credit carryforwards of \$0.8 million, which have no expiration date and of which \$0.4 million are subject to a valuation allowance. There were no net tax credit carry-forwards available to the Company at September 30, 2009.

The transactions separating us from Alberto-Culver were intended to qualify as a reorganization under Section 368(a)(1)(D) of the Internal Revenue Code of 1986, as amended (the "Code") and a distribution eligible for non-recognition under Sections 355(a) and 361(c) of the Code. In connection with the share distribution of Alberto-Culver common stock in the Separation Transactions, we received: (i) a private letter ruling from the IRS; and (ii) an opinion of Sidley Austin LLP, counsel to Alberto-Culver, in each case, to the effect that the transactions qualify as a reorganization under Section 368(a)(1)(D) of the Code and a distribution eligible for non-recognition under Sections 355(a) and 361(c) of the Code.

Certain internal restructurings also occurred at or immediately prior to the Separation Transactions. As a result of the internal restructurings and Separation Transactions, the Company inherited the federal tax identification number of the old Alberto-Culver parent for U.S. federal income tax purposes. In addition, as the successor entity to Alberto-Culver after the Separation Transactions, the Company relies upon the prior year federal income tax returns of Alberto-Culver, and accounting methods established therein, for certain calculations that affect our current U.S. federal income tax liability.

The Company and Alberto-Culver entered into a tax allocation agreement as part of the Separation Transactions. The agreement provides generally that the Company is responsible for its pre-separation income tax liabilities, calculated on a stand-alone basis, and Alberto-Culver is responsible for the remainder. In the event additional U.S. federal income tax liability related to the period prior to the Separation Transactions was determined, the Company will be jointly and severally liable for these taxes, and there can be no assurance that Alberto-Culver would be able to fulfill its indemnification obligations to the Company under the tax allocation agreement if Alberto-Culver was determined to be responsible for these taxes thereunder.

The changes in the amount of unrecognized tax benefits for the fiscal year ended September 30, 2010 and 2009 are as follows (in thousands):

	2010	2009
Balance at beginning of the fiscal year	\$ 14,378	\$ 4,291
Increases related to prior year tax positions	1,895	7,379
Decreases related to prior year tax positions		(1,482)
Increases related to current year tax positions	620	4,722
Settlements	(1,131)	
Lapse of statute	(2,115)	(532)
Balance at end of fiscal year	\$ 13,647	\$ 14,378

If recognized, these positions would affect the Company's effective tax rate.

The Company classifies and recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. The total amount of accrued interest and penalties as of September 30, 2010 and 2009 was \$4.6 million and \$4.0 million, respectively.

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Sally Beauty Holdings, Inc. and Subsidiaries

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Because existing tax positions will continue to generate increased liabilities for unrecognized tax benefits over the next 12 months, and the fact that we are routinely under audit by various taxing authorities, it is reasonably possible that the amount of unrecognized tax benefits will change during the next 12 months. An estimate of the amount or range of such change cannot be made at this time. However, we do not expect the change, if any, to have a material effect on our consolidated financial condition or results of operations within the next 12 months.

The IRS has initiated an examination of the Company's consolidated federal income tax returns for the fiscal years ended September 30, 2008 and 2007. The IRS had previously audited the Company's consolidated federal income tax returns through the tax year ended September 30, 2006, thus our statute remains open from the year ended September 30, 2007 forward. Our foreign subsidiaries are impacted by various statutes of limitations, which are generally open from 2004 forward. Generally, states' statutes in the United States are open for tax reviews from 2005 forward.

18. Acquisitions

On December 16, 2009, the Company acquired Sinelco, a wholesale distributor of professional beauty products based in Ronse, Belgium, for approximately €25.2 million (approximately \$36.6 million). We also assumed €4.0 million (approximately \$5.8 million) of pre-acquisition debt, excluding capital lease obligations, of Sinelco in connection with the acquisition. Sinelco serves over 1,500 customers through a product catalog and website and has sales throughout Europe. Goodwill of \$5.2 million (which is not deductible for tax purposes) and other intangible assets of \$14.0 million were recorded as a result of this acquisition. In addition, during the fiscal year 2010, the Company completed several other individually immaterial acquisitions at an aggregate cost of \$9.0 million and recorded additional goodwill in the amount of \$5.4 million (the majority of which is not deductible for tax purposes) in connection with such acquisitions. The assets acquired and liabilities assumed in connection with all acquisitions completed during the fiscal year 2010 were recorded at fair values at the acquisition date in accordance with ASC 805. We funded these acquisitions with cash from operations and borrowings on our ABL facility. In addition, during the fiscal year 2010, the Company recorded intangible assets subject to amortization in the amount of \$24.9 million and intangible assets with indefinite lives in the amount of \$0.8 million in connection with certain 2009 acquisitions, including the acquisition of Schoeneman. These amounts were previously reported in Goodwill pending completion of the final valuations of the assets acquired and liabilities assumed, as discussed in the following paragraph.

On September 30, 2009, the Company acquired Schoeneman at a cost of approximately \$71.0 million, subject to certain adjustments. The acquisition of Schoeneman, a 43-store beauty supply chain located in the central northeast United States, was pursuant to a merger agreement between Schoeneman, the former stockholders of Schoeneman and a subsidiary of the Company. The Company currently expects to realize approximately \$10 million in present value of future tax savings as a result of anticipated incremental depreciation and amortization tax deductions relating to the assets acquired in this transaction. In the fiscal year 2009, goodwill of approximately \$61.0 million (which is deductible for tax purposes) was initially recorded as a result of this acquisition. In addition, during the fiscal year 2009, the Company completed several other individually immaterial acquisitions at an aggregate cost of \$11.3 million of which a significant portion was allocated to goodwill (the majority of which is deductible for tax purposes). The purchase prices of certain acquisitions completed during the fiscal year 2009 (including the acquisition of Schoeneman) were initially allocated to assets acquired and liabilities assumed based on their preliminary estimated fair values at the date of acquisition. The final valuations of the assets acquired

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and liabilities assumed were completed during the fiscal year 2010. Generally, we funded these acquisitions with cash from operations.

In May of 2008, the Company acquired Pro-Duo, a 40-store beauty supply chain located in Belgium, France and Spain for €19.3 million (approximately \$29.8 million) plus incidental acquisition costs capitalized, subject to certain adjustments. We also assumed €3.0 million (approximately \$4.7 million) of debt, excluding capital lease obligations, of Pro-Duo in connection with the acquisition. Goodwill of \$23.9 million (which is not expected to be deductible for tax purposes) and certain identifiable intangible assets of \$11.4 million were recorded as a result of such acquisition. Of this amount, \$10.2 million was assigned to registered trade names and \$1.2 million to other identifiable intangible assets, which will be amortized over a weighted average life of approximately eight years. In addition, during the fiscal year 2008, the Company completed several other individually immaterial acquisitions at an aggregate cost of \$22.9 million of which a significant portion was allocated to intangible assets and goodwill (the majority of which is not deductible for income tax purposes). The purchase prices of these acquisitions have been allocated to assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The final valuations of the assets and liabilities acquired were completed during the fiscal year 2009. We funded these acquisitions with cash from operations and borrowings on our ABL facility.

These business combinations have been accounted for using the purchase method of accounting and, accordingly, the results of operations of the entities acquired have been included in the Company's consolidated financial statements since their respective dates of acquisition.

19. Business Segments and Geographic Area Information

The Company's business is organized into two separate segments: (i) Sally Beauty Supply, a domestic and international chain of cash and carry retail stores which offers professional beauty supplies to both salon professionals and retail customers in North America and parts of South America and Europe and (ii) BSG (including its franchise-based business, Armstrong McCall), a full service beauty supply distributor which offers professional brands of beauty products directly to salons through its own sales force and professional only stores (including franchise stores) in generally exclusive geographic territories in North America and parts of Europe.

The accounting policies of both of our business segments are the same as described in the summary of significant accounting policies contained in Note 2. Sales between segments, which were eliminated in consolidation, were not material for the fiscal years ended September 30, 2010, 2009 and 2008.

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Notes to Consolidated Financial Statements (Continued)

Fiscal Years ended September 30, 2010, 2009 and 2008

Business Segments Information

Segment data for the fiscal years ended September 30, 2010, 2009 and 2008 is as follows (in thousands):

	Year Ended September 30,		
	2010	2009	2008
Net sales:			
Sally Beauty Supply	\$ 1,834,631	\$ 1,695,652	\$ 1,672,897
BSG	1,081,459	940,948	975,294
Total	\$ 2,916,090	\$ 2,636,600	\$ 2,648,191
Earnings before provision for income taxes:			
Segment operating profit:			
Sally Beauty Supply	\$ 320,456	\$ 283,872	\$ 285,615
BSG	112,495	91,604	80,927
Segment operating profit	432,951	375,476	366,542
Unallocated expenses(a)	(79,203)	(70,022)	(73,385)
Share-based compensation expense	(12,818)	(8,618)	(10,242)
Interest expense	(112,982)	(132,022)	(159,116)
Total	\$ 227,948	\$ 164,814	\$ 123,799
Identifiable assets:			
Sally Beauty Supply	\$ 729,380	\$ 652,184	\$ 696,780
BSG	808,842	792,879	752,029
Sub-total	1,538,222	1,445,063	1,448,809
Shared services	51,190	45,669	78,214
Total	\$ 1,589,412	\$ 1,490,732	\$ 1,527,023
Depreciation and amortization:			
Sally Beauty Supply	\$ 26,426	\$ 24,175	\$ 23,134
BSG	20,081	18,735	20,666
Corporate	4,616	4,156	4,733
Total	\$ 51,123	\$ 47,066	\$ 48,533
Capital expenditures:			
Sally Beauty Supply	\$ 30,366	\$ 23,203	\$ 22,094
BSG	11,252	8,470	18,683
Corporate	7,084	5,647	4,799
Total	\$ 48,702	\$ 37,320	\$ 45,576

- (a) Unallocated expenses consist of corporate and shared costs.

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Notes to Consolidated Financial Statements (Continued)

Fiscal Years ended September 30, 2010, 2009 and 2008

Geographic Area Information

Geographic data for the fiscal years ended September 30, 2010, 2009 and 2008 is as follows (in thousands):

	Year Ended September 30,		
	2010	2009	2008
Net sales:(a)			
United States	\$ 2,402,085	\$ 2,202,218	\$ 2,170,708
Foreign	514,005	434,382	477,483
Total	\$ 2,916,090	\$ 2,636,600	\$ 2,648,191
Identifiable assets:			
United States	\$ 1,133,652	\$ 1,105,026	\$ 1,098,614
Foreign	404,570	340,037	350,195
Shared services	51,190	45,669	78,214
Total	\$ 1,589,412	\$ 1,490,732	\$ 1,527,023

(a)

Net sales are attributable to individual countries based on the location of the customer.

20. Subsequent Events

On October 1, 2010, the Company acquired Aerial Company, Inc. ("Aerial"), an 82-store professional-only beauty supply chain operating in the Midwestern and northwestern United States, for approximately \$79.0 million, subject to certain adjustments. This acquisition will be accounted for using the purchase method of accounting and, accordingly, the results of operations of Aerial will be included in the Company's consolidated financial statements subsequent to the acquisition date. The acquisition was funded with borrowings under our ABL facility in the amount of \$78.0 million and with cash from operations.

In October 2010, the Company also entered into certain foreign currency option agreements, including foreign currency put options with an aggregate notional amount of €4.0 million (\$5.5 million, at the November 12, 2010 exchange rate) and foreign currency call options with an aggregate notional amount of €8.1 million (\$11.1 million, at the November 12, 2010 exchange rate), to manage the exposure to certain non-Euro currencies resulting from Sinelco's purchases of merchandise from third-party suppliers. These foreign currency options expire ratably through September 15, 2011, are not designated as hedges, and do not meet the hedge accounting requirements of ASC 815. Accordingly, the changes in the fair value of these derivative instruments (which will be adjusted quarterly) will be recorded in our consolidated statements of earnings.

In November 2010, Sally Holdings entered into a new agreement with lenders to replace its ABL facility with a new \$400 million, 5-year credit facility (the "new ABL facility"). The new ABL facility contains restrictions and limitations similar to those contained in the prior ABL facility and, similar to the prior ABL facility, borrowings under the new ABL facility are secured by substantially all of our assets. The terms of the new ABL facility include interest rates at Prime plus 1.25% to 1.75% or LIBOR plus 2.25% to 2.75% and a commitment fee of 0.50% on the unused portion of the facility.

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21. Quarterly Financial Data (Unaudited)

Certain unaudited quarterly consolidated statement of earnings information for the fiscal years ended September 30, 2010 and 2009 is summarized below (in thousands, except per share data):

Fiscal Year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2010:				
Net sales	\$ 704,851	\$ 720,467	\$ 742,975	\$ 747,797
Gross profit	\$ 333,214	\$ 344,284	\$ 360,859	\$ 366,016
Net earnings	\$ 26,126	\$ 34,560	\$ 41,116	\$ 42,026
Earnings per common share(a)				
Basic	\$ 0.14	\$ 0.19	\$ 0.23	\$ 0.23
Diluted	\$ 0.14	\$ 0.19	\$ 0.22	\$ 0.23
2009:				
Net sales	\$ 645,576	\$ 641,511	\$ 673,337	\$ 676,176
Gross profit	\$ 303,544	\$ 302,112	\$ 317,845	\$ 319,816
Net earnings	\$ 16,059	\$ 24,595	\$ 31,489	\$ 26,974
Earnings per common share(a)				
Basic	\$ 0.09	\$ 0.14	\$ 0.17	\$ 0.15
Diluted	\$ 0.09	\$ 0.13	\$ 0.17	\$ 0.15

- (a) The sum of the quarterly earnings per share may not equal the full year amount, as the computations of the weighted average number of common shares outstanding for each quarter and for the full year are performed independently.