

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

**Table of Contents**

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

**FORM 10-Q**

**☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011  
OR**

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

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

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

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

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

**10020  
(Zip Code)**

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

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

**(Class)**

**(Outstanding as of October 31, 2011)**

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

**3,750,481,308 SHARES**

---

**SIRIUS XM RADIO INC. AND SUBSIDIARIES  
INDEX TO FORM 10-Q**

<b>Item No.</b>	<b>Description</b>	
<b><u>PART I Financial Information</u></b>		
<u>Item 1.</u>	<u>Financial Statements:</u>	
	<u>Unaudited Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010</u>	1
	<u>Consolidated Balance Sheets as of September 30, 2011 (Unaudited) and December 31, 2010</u>	2
	<u>Unaudited Consolidated Statements of Stockholders' Equity as of September 30, 2011 and Comprehensive Income for the nine months ended September 30, 2011</u>	3
	<u>Unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010</u>	4
	<u>Notes to Unaudited Consolidated Financial Statements</u>	6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Material Risk</u>	45
<u>Item 4.</u>	<u>Controls and Procedures</u>	45
<b><u>PART II Other Information</u></b>		
<u>Item 1.</u>	<u>Legal Proceedings</u>	45
<u>Item 1A.</u>	<u>Risk Factors</u>	46
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	46
<u>Item 4.</u>	<u>(Removed and Reserved)</u>	46
<u>Item 5.</u>	<u>Other Information</u>	46
<u>Item 6.</u>	<u>Exhibits</u>	46
	<u>Signatures</u>	47
<u>EX-31.1</u>		

EX-31.2

EX-32.1

EX-32.2

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

---

**Table of Contents**

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

<i>(in thousands, except per share data)</i>	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Revenue:				
Subscriber revenue	\$ 660,837	\$ 612,119	\$ 1,922,917	\$ 1,793,258
Advertising revenue, net of agency fees	18,810	15,973	53,595	46,296
Equipment revenue	15,504	17,823	48,392	50,625
Other revenue	67,399	71,633	205,882	190,914
<b>Total revenue</b>	<b>762,550</b>	<b>717,548</b>	<b>2,230,786</b>	<b>2,081,093</b>
Operating expenses:				
Cost of services:				
Revenue share and royalties	117,043	114,482	340,713	320,567
Programming and content	70,509	78,143	210,867	228,595
Customer service and billing	64,239	60,613	192,667	175,238
Satellite and transmission	19,681	20,844	57,238	60,944
Cost of equipment	5,888	6,463	19,894	22,187
Subscriber acquisition costs	107,279	105,984	317,711	305,745
Sales and marketing	55,210	51,519	154,471	156,813
Engineering, design and development	14,175	12,526	39,249	35,209
General and administrative	58,635	54,188	175,469	170,935
Depreciation and amortization	65,403	67,450	200,865	206,945
Restructuring, impairments and related costs		2,267		4,071
<b>Total operating expenses</b>	<b>578,062</b>	<b>574,479</b>	<b>1,709,144</b>	<b>1,687,249</b>
<b>Income from operations</b>	<b>184,488</b>	<b>143,069</b>	<b>521,642</b>	<b>393,844</b>
Other income (expense):				
Interest expense, net of amounts capitalized	(75,316)	(68,559)	(229,730)	(223,230)
Loss on extinguishment of debt and credit facilities, net		(256)	(7,206)	(34,695)
Interest and investment income (loss)	292	(4,305)	78,590	(7,197)
Other income	435	1,108	2,235	1,837
<b>Total other expense</b>	<b>(74,589)</b>	<b>(72,012)</b>	<b>(156,111)</b>	<b>(263,285)</b>
<b>Income before income taxes</b>	<b>109,899</b>	<b>71,057</b>	<b>365,531</b>	<b>130,559</b>
Income tax expense	(5,714)	(3,428)	(9,907)	(6,060)
<b>Net income</b>	<b>\$ 104,185</b>	<b>\$ 67,629</b>	<b>\$ 355,624</b>	<b>\$ 124,499</b>
Net income per common share:				

Edgar Filing: SIRIUS XM RADIO INC. - Form 10-Q

Basic	\$	0.03	\$	0.02	\$	0.10	\$	0.03
Diluted	\$	0.02	\$	0.01	\$	0.05	\$	0.02
Weighted average common shares outstanding:								
Basic		3,747,381		3,689,245		3,742,309		3,686,312
Diluted		6,507,370		6,369,831		6,500,819		6,361,090

See accompanying notes to the unaudited consolidated financial statements.

1

---

**Table of Contents**

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

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
<i>(in thousands, except share and per share data)</i>		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 604,592	\$ 586,691
Accounts receivable, net	96,905	121,658
Receivables from distributors	79,934	67,576
Inventory, net	36,196	21,918
Prepaid expenses	146,946	134,994
Related party current assets	5,228	6,719
Deferred tax asset	58,493	44,787
Other current assets	4,908	7,432
<b>Total current assets</b>	<b>1,033,202</b>	<b>991,775</b>
Property and equipment, net	1,702,566	1,761,274
Long-term restricted investments	3,146	3,396
Deferred financing fees, net	45,093	54,135
Intangible assets, net	2,587,855	2,632,688
Goodwill	1,834,856	1,834,856
Related party long-term assets	69,943	33,475
Other long-term assets	48,176	71,487
<b>Total assets</b>	<b>\$ 7,324,837</b>	<b>\$ 7,383,086</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 473,472	\$ 593,174
Accrued interest	78,925	72,453
Current portion of deferred revenue	1,276,996	1,201,346
Current portion of deferred credit on executory contracts	286,056	271,076
Current maturities of long-term debt	25,588	195,815
Related party current liabilities	16,541	15,845
<b>Total current liabilities</b>	<b>2,157,578</b>	<b>2,349,709</b>
Deferred revenue	219,344	273,973
Deferred credit on executory contracts	288,036	508,012
Long-term debt	2,677,550	2,695,856
Long-term related party debt	328,029	325,907
Deferred tax liability	935,805	914,637
Related party long-term liabilities	22,435	24,517
Other long-term liabilities	81,048	82,839
<b>Total liabilities</b>	<b>6,709,825</b>	<b>7,175,450</b>
Commitments and contingencies (Note 14)		



## Stockholders' equity:

Preferred stock, par value \$0.001; 50,000,000 authorized at  
September 30, 2011 and December 31, 2010:

Series A convertible preferred stock; no shares issued and outstanding at  
September 30, 2011 and December 31, 2010

Convertible perpetual preferred stock, series B-1 (liquidation preference  
of \$0.001 per share at September 30, 2011 and December 31, 2010);  
12,500,000 shares issued and outstanding at September 30, 2011 and  
December 31, 2010

13

13

Convertible preferred stock, series C junior; no shares issued and  
outstanding at September 30, 2011 and December 31, 2010

Common stock, par value \$0.001; 9,000,000,000 shares authorized at  
September 30, 2011 and December 31, 2010; 3,951,945,992 and  
3,933,195,112 shares issued and outstanding at September 30, 2011 and  
December 31, 2010, respectively

3,952

3,933

Accumulated other comprehensive income (loss), net of tax

398

(5,861)

Additional paid-in capital

10,466,078

10,420,604

Accumulated deficit

(9,855,429)

(10,211,053)

Total stockholders' equity

615,012

207,636

Total liabilities and stockholders' equity

\$ 7,324,837

\$ 7,383,086

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

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

	Series A Convertible Preferred Stock		Convertible Perpetual Preferred Stock, Series B-1		Common Stock		Accumulated								
	Shares	Amount	Shares	Amount	Shares	Amount	Other Comprehensive Income (loss)	Additional Paid-in Capital	Accumulated Deficit						
at December 31, 2010	\$	12,500,000	\$	13	3,933,195,112	\$	3,933	\$	(5,861)	\$	10,420,604	\$	(10,211,053)	\$	355,624
Comprehensive income:															
Loss on XM Canada investment foreign translation adjustment									6,072						
Currency translation adjustment, net of									187						
Comprehensive income															
of common stock to employees and benefit plans, net of forfeitures					1,562,496		2				2,805				
ed payment expense											33,641				
of options and vesting of restricted					10,065,433		10				9,035				
s															
stock issuance upon exercise of					7,122,951		7				(7)				
at September 30, 2011	\$	12,500,000	\$	13	3,951,945,992	\$	3,952	\$	398	\$	10,466,078	\$	(9,855,429)	\$	

See accompanying notes to the unaudited consolidated financial statements.

**Table of Contents**

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

<i>(in thousands)</i>	<b>For the Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Cash flows from operating activities:		
Net income	\$ 355,624	\$ 124,499
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	200,865	206,945
Non-cash interest expense, net of amortization of premium	29,211	32,983
Provision for doubtful accounts	26,209	23,300
Restructuring, impairments and related costs		4,071
Amortization of deferred income related to equity method investment	(2,082)	(2,081)
Loss on extinguishment of debt and credit facilities, net	7,206	34,695
Gain on merger of unconsolidated entities	(84,855)	
Loss on unconsolidated entity investments, net	10,259	8,990
Loss on disposal of assets	269	927
Share-based payment expense	37,574	50,944
Deferred income taxes	7,214	6,060
Other non-cash purchase price adjustments	(203,630)	(184,703)
Distribution from investment in unconsolidated entity	4,849	
Changes in operating assets and liabilities:		
Accounts receivable	(1,456)	(18,890)
Receivables from distributors	(12,358)	(22,430)
Inventory	(14,278)	(1,843)
Related party assets	30,300	(2,654)
Prepaid expenses and other current assets	(11,028)	41,794
Other long-term assets	23,969	11,765
Accounts payable and accrued expenses	(100,502)	(69,629)
Accrued interest	6,472	5,244
Deferred revenue	19,653	92,864
Related party liabilities	696	(50,940)
Other long-term liabilities	(1,547)	(865)
Net cash provided by operating activities	328,634	291,046
Cash flows from investing activities:		
Additions to property and equipment	(115,065)	(257,374)
Sale of restricted and other investments		9,454
Release of restricted investments	250	
Return of capital from investment in unconsolidated entity	10,117	
Net cash used in investing activities	(104,698)	(247,920)
Cash flows from financing activities:		

Edgar Filing: SIRIUS XM RADIO INC. - Form 10-Q

Proceeds from exercise of stock options	9,045	4,906
Long-term borrowings, net of costs		637,406
Related party long-term borrowings, net of costs		147,094
Payment of premiums on redemption of debt	(5,020)	(24,321)
Repayment of long-term borrowings	(210,060)	(820,224)
Repayment of related party long-term borrowings		(55,221)
Net cash used in financing activities	(206,035)	(110,360)
Net increase (decrease) in cash and cash equivalents	17,901	(67,234)
Cash and cash equivalents at beginning of period	586,691	383,489
Cash and cash equivalents at end of period	\$ 604,592	\$ 316,255

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

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

<i>(in thousands)</i>	<b>For the Nine Months Ended September</b>	
	<b>2011</b>	<b>2010</b>
Supplemental Disclosure of Cash and Non-Cash Flow Information		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$ 235,096	\$ 172,417
Non-cash investing and financing activities:		
Sale-leaseback of equipment	\$	\$ 5,305
Common stock issuance upon exercise of warrants	\$ 7	\$
Conversion of Series A preferred stock to common stock	\$	\$ 25

See accompanying notes to the unaudited consolidated financial statements.

**Table of Contents**

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

**(1) Business**

We broadcast our music, sports, news, talk, entertainment, traffic and weather channels in the United States on a subscription fee basis through our two proprietary satellite radio systems. Subscribers can also receive certain of our music and other channels over the Internet, including through applications for Apple, Blackberry and Android-powered mobile devices.

In October 2011, we launched an expanded channel lineup, including new music, sports, comedy channels as well as Sirius XM Latino, a suite of Latin channels. These channels, available online and over certain new radios, are the first phase of Sirius XM 2.0, an upgrade and evolution of our satellite and Internet delivered service that will ultimately span hardware, software, audio, and data services. This new technology effectively delivers 25% more bandwidth capacity, which will allow us to expand our audio and data services without affecting the broadcast quality of existing channels.

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

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

In July 2008, our wholly owned subsidiary, Vernon Merger Corporation, merged (the Merger ) with and into XM Satellite Radio Holdings Inc. In January 2011, XM Satellite Radio Inc., our wholly-owned subsidiary, merged with and into us. All outstanding debt instruments held by XM Satellite Radio Inc. were assumed by us in the merger.

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

***Principles of Consolidation***

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

***Basis of Presentation***

In the opinion of management, all normal recurring adjustments necessary for the fair presentation of our unaudited consolidated financial statements as of September 30, 2011 and for the three and nine months ended September 30, 2011 and 2010 have been made.

Interim results are not necessarily indicative of the results that may be expected for a full year. This Quarterly Report on Form 10-Q should be read together with our Annual Report on Form 10-K for the year ended December 31, 2010, which was filed with the SEC on February 16, 2011.

We have evaluated events subsequent to the balance sheet date and prior to the filing of this Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2011 and have determined that no events have occurred that would require adjustment to our unaudited consolidated financial statements.

**Table of Contents**

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

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

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

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

*Recent Accounting Pronouncements*

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820) Fair Value Measurement* (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. The amendments are not expected to have a significant impact on companies that apply U.S. GAAP. This standard is effective for interim and annual periods beginning after December 15, 2011 and will be applied prospectively. The impact of our pending adoption of ASU 2011-04 will not be material to our consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income* (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. The standard does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. This standard is effective for interim and annual periods beginning after December 15, 2011 and will be applied retrospectively. ASU 2011-05 affects financial statement presentation only and will have no impact on our results of operations.

*Earnings per Share ( EPS )*

Basic net income per common share is calculated using the weighted average common shares outstanding during each reporting period. Diluted net income per common share adjusts the weighted average common shares outstanding for the potential dilution that could occur if common stock equivalents (convertible debt and preferred stock, warrants, stock options, restricted stock and restricted stock units) were exercised or converted into common stock, calculated using the treasury stock method. Common stock equivalents of approximately 417,427,000 and 727,496,000 for the three months ended September 30, 2011 and 2010, respectively, and 407,649,000 and 735,091,000 for the nine months ended September 30, 2011 and 2010, respectively, were excluded from the calculation of diluted net income per common share as the effect would have been anti-dilutive.

	<b>For the Three Months</b>		<b>For the Nine Months</b>	
	<b>Ended September 30,</b>		<b>Ended September 30,</b>	
<i>(in thousands, except per share data)</i>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net income available to common stockholders	\$ 104,185	\$ 67,629	\$ 355,624	\$ 124,499
Effect of assumed conversions				
Net income available to common stockholders and assumed conversions	\$ 104,185	\$ 67,629	\$ 355,624	\$ 124,499

Edgar Filing: SIRIUS XM RADIO INC. - Form 10-Q

Average common shares outstanding-basic	3,747,381	3,689,245	3,742,309	3,686,312
Dilutive effect of equity instruments	2,759,989	2,680,586	2,758,510	2,674,778
Average common shares outstanding-diluted	6,507,370	6,369,831	6,500,819	6,361,090
Net income per common share				
Basic	\$ 0.03	\$ 0.02	\$ 0.10	\$ 0.03
Diluted	\$ 0.02	\$ 0.01	\$ 0.05	\$ 0.02

7

---



**Table of Contents**

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

***Accounts Receivable***

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

Accounts receivable, net, consists of the following:

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Gross accounts receivable	\$ 111,562	\$ 131,880
Allowance for doubtful accounts	(14,657)	(10,222)
Total accounts receivable, net	\$ 96,905	\$ 121,658

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

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Billed	\$ 42,095	\$ 30,456
Unbilled	37,839	37,120
Total	\$ 79,934	\$ 67,576

***Inventory***

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

Inventory, net, consists of the following:

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Raw materials	\$ 26,198	\$ 18,181
Finished goods	31,276	24,492
Allowance for obsolescence	(21,278)	(20,755)
Total inventory, net	\$ 36,196	\$ 21,918

***Fair Value of Financial Instruments***

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants to sell the asset or transfer the liability. As of September 30, 2011 and December 31, 2010, the carrying amounts of cash and cash equivalents, accounts and other receivables, and accounts payable approximated fair value due to the short-term nature of these instruments.

The fair value for publicly traded instruments is determined using quoted market prices while the fair value for non-publicly traded instruments is based upon estimates from a market maker and brokerage firm. As of September 30, 2011 and December 31, 2010, the carrying value of our debt was \$3,031,167 and \$3,217,578, respectively; and the fair value approximated \$3,409,272 and \$3,722,905, respectively.

**Table of Contents**

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

**Reclassifications**

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

**(4) Goodwill**

Goodwill represents the excess of the purchase price over the estimated fair value of net tangible and identifiable intangible assets acquired in business combinations. Our annual impairment assessment is performed as of October 1<sup>st</sup> of each year, and an assessment is performed at other times if events or circumstances indicate it is more likely than not that the asset is impaired. During the three and nine months ended September 30, 2011 and 2010, there were no indicators of impairment and no impairment loss was recorded to our goodwill.

**(5) Intangible Assets**

Intangible assets consist of the following:

	Weighted Average Useful Lives	September 30, 2011			December 31, 2010		
		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	(179,976)	200,024	380,000	(144,325)	235,675
Licensing agreements	9.1 years	78,897	(31,641)	47,256	78,897	(24,130)	54,767
Proprietary software	6 years	16,552	(11,073)	5,479	16,552	(9,566)	6,986
Developed technology	10 years	2,000	(633)	1,367	2,000	(483)	1,517
Leasehold interests	7.4 years	132	(57)	75	132	(43)	89
Total intangible assets		\$ 2,811,235	\$ (223,380)	\$ 2,587,855	\$ 2,811,235	\$ (178,547)	\$ 2,632,688

**Indefinite Life Intangible Assets**

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

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

<b>FCC license</b>	<b>Expiration year</b>
SIRIUS FM-1 satellite	2017
SIRIUS FM-2 satellite	2017
SIRIUS FM-3 satellite	2017
SIRIUS FM-4 satellite <sup>(1)</sup>	2017
SIRIUS FM-5 satellite	2017
SIRIUS FM-6 satellite	(2)
XM-1 satellite	2014
XM-2 satellite	2014
XM-3 satellite	2013
XM-4 satellite	2014
XM-5 satellite	2018

(1) In 2010, we retired our FM-4 ground spare satellite. We still maintain the FCC license for this satellite.

(2) We hold an FCC license for our FM-6 satellite, which will expire eight years from launch of this satellite.

**Table of Contents**

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

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

In connection with the Merger, \$250,000 of the purchase price was allocated to the XM trademark. As of September 30, 2011, there were no legal, regulatory or contractual limitations associated with the XM trademark.

Our annual impairment assessment of our indefinite intangible assets is performed as of October 1st of each year. An assessment is made at other times if events or changes in circumstances indicate that it is more likely than not that the assets have been impaired. As of September 30, 2011, there were no indicators of impairment and no impairment loss was recorded for intangible assets with indefinite lives during the three and nine months ended September 30, 2011 and 2010.

*Definite Life Intangible Assets*

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

Amortization expense for definite life intangible assets was \$14,570 and \$16,228 for the three months ended September 30, 2011 and 2010, respectively, and \$44,833 and \$50,342 for the nine months ended September 30, 2011 and 2010, respectively. Expected amortization expense for the remaining period in 2011, each of the years 2012 through 2015 and for periods thereafter is as follows:

<b>Year ending December 31,</b>	<b>Amount</b>
Remaining 2011	\$ 14,232
2012	53,680
2013	47,357
2014	38,879
2015	37,553
Thereafter	62,500
 Total definite life intangibles assets, net	 \$ 254,201

**(6) Subscriber Revenue**

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

Subscriber revenue consists of the following:

	<b>For the Three Months</b>		<b>For the Nine Months</b>	
	<b>Ended September 30,</b>		<b>Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Subscription fees	\$ 657,245	\$ 607,738	\$ 1,912,787	\$ 1,780,557
Activation fees	3,592	4,381	10,130	12,701
 Total subscriber revenue	 \$ 660,837	 \$ 612,119	 \$ 1,922,917	 \$ 1,793,258

**Table of Contents**

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

**(7) Interest Costs**

We capitalized a portion of the interest on funds borrowed to finance the construction costs of our satellites and related launch vehicles for our FM-6 satellite in 2011 and for our FM-6 and XM-5 satellites in 2010. We also incur interest costs on all of our debt instruments and certain contingent incentive payments due pursuant to our satellite construction agreements. The following is a summary of our interest costs:

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Interest costs charged to expense	\$ 75,316	\$ 68,559	\$ 229,730	\$ 223,230
Interest costs capitalized	8,906	19,040	24,224	49,470
Total interest costs incurred	\$ 84,222	\$ 87,599	\$ 253,954	\$ 272,700

Included in interest costs incurred is non-cash interest expense, consisting of amortization related to original issue discounts, premiums and deferred financing fees, of \$9,977 and \$10,689 for the three months ended September 30, 2011 and 2010, respectively, and \$29,211 and \$32,983 for the nine months ended September 30, 2011 and 2010, respectively.

**(8) Property and Equipment**

Property and equipment, net, consists of the following:

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Satellite system	\$ 1,943,537	\$ 1,943,537
Terrestrial repeater network	111,880	109,582
Leasehold improvements	43,392	43,567
Broadcast studio equipment	52,554	51,985
Capitalized software and hardware	181,712	163,689
Satellite telemetry, tracking and control facilities	57,917	57,665
Furniture, fixtures, equipment and other	64,673	63,265
Land	38,411	38,411
Building	56,952	56,685
Construction in progress	365,827	297,771
Total property and equipment	2,916,855	2,826,157
Accumulated depreciation and amortization	(1,214,289)	(1,064,883)
Property and equipment, net	\$ 1,702,566	\$ 1,761,274

Construction in progress consists of the following:

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Satellite system	\$ 330,320	\$ 262,744
Terrestrial repeater network	19,306	19,239

Other		16,201		15,788
Construction in progress		\$ 365,827	\$	297,771

Depreciation and amortization expense on property and equipment was \$50,833 and \$51,222 for the three months ended September 30, 2011 and 2010, respectively, and \$156,032 and \$156,603 for the nine months ended September 30, 2011 and 2010, respectively.

***Satellites***

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

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

**Table of Contents**

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

During the three and nine months ended September 30, 2011, we capitalized expenditures, including interest, of \$16,875 and \$67,576, respectively, related to the construction of our FM-6 satellite and related launch vehicle. In the three and nine months ended September 30, 2010, we capitalized \$38,397 and \$161,851, respectively, of expenditures, including interest, which also related to our FM-6 and XM-5 satellites.

**(9) Related Party Transactions**

We had the following related party transaction balances at September 30, 2011 and December 31, 2010:

	Related party current assets		Related party long-term assets		Related party current liabilities		Related party long-term liabilities		Related party long-term debt	
	September 30, 2011*	December 31, 2010	September 30, 2011*	December 31, 2010	September 30, 2011*	December 31, 2010	September 30, 2011*	December 31, 2010	September 30, 2011*	December 31, 2010
Liberty Media	\$	\$	\$ 1,300	\$ 1,571	\$ 10,461	\$ 9,765	\$	\$	\$ 328,029	\$ 325,907
Sirius XM Canada	5,228		68,643		6,080		22,435			
SIRIUS Canada		5,613				1,805				
XM Canada		1,106		31,904		4,275		24,517		
<b>Total</b>	<b>\$ 5,228</b>	<b>\$ 6,719</b>	<b>\$ 69,943</b>	<b>\$ 33,475</b>	<b>\$ 16,541</b>	<b>\$ 15,845</b>	<b>\$ 22,435</b>	<b>\$ 24,517</b>	<b>\$ 328,029</b>	<b>\$ 325,907</b>

\* SIRIUS Canada and XM Canada combined in June 2011. The combined entity now operates as Sirius XM Canada.

**Liberty Media**

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

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

Liberty Media has advised us that as of September 30, 2011 and December 31, 2010 it owned the following amounts of our debt securities:

	September 30, 2011	December 31, 2010
8.75% Senior Notes due 2015	\$ 150,000	\$ 150,000
9.75% Senior Secured Notes due 2015	50,000	50,000
13% Senior Notes due 2013	76,000	76,000
7% Exchangeable Senior Subordinated Notes due 2014	11,000	11,000



7.625% Senior Notes due 2018	50,000	50,000
Total principal debt	337,000	337,000
Less: discounts	8,971	11,093
Total carrying value debt	\$ 328,029	\$ 325,907

As of September 30, 2011 and December 31, 2010, we recorded \$10,461 and \$9,765, respectively, related to accrued interest with Liberty Media to Related party current liabilities and \$1,300 and \$1,571, respectively, related to deferred financing costs with Liberty Media to Related party long-term assets. We recognized Interest expense associated with debt held by Liberty Media of \$8,934 and \$10,574 for the three months ended September 30, 2011 and 2010, respectively, and \$26,718 and \$30,538 for the nine months ended September 30, 2011 and 2010, respectively.

**Table of Contents**

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

***Sirius XM Canada***

In June 2011, Canadian Satellite Radio Holdings Inc. ( CSR ), the parent company of XM Canada, and SIRIUS Canada completed a transaction to combine their operations ( the Canada Merger ). As a result of the Canada Merger, SIRIUS Canada became a wholly-owned subsidiary of CSR. The combined company operates as Sirius XM Canada. In connection with the transaction, we received:

approximately 46,700,000 Class A shares of CSR, representing a 38.0% equity interest and a 25.0% voting interest;

\$53,781 in cash as repayment of the XM Canada credit facility (\$38,815) and consideration for our preferred stock in SIRIUS Canada (\$10,117 as a return of capital and \$4,849 in dividends, net of foreign withholding taxes); and

\$5,207 in non-interest bearing notes of CSR, which primarily have a two year term.

Our interest in Sirius XM Canada is accounted for under the equity method. The transaction was accounted for as a reverse acquisition whereby SIRIUS Canada was deemed to be the acquirer of CSR. As a result of the transaction, we recognized an \$84,855 gain in Interest and investment income during the nine months ended September 30, 2011.

The excess of the cost of our ownership interest in the equity of Sirius XM Canada over our share of the net assets is recognized as goodwill and intangible assets and is included in the carrying amount of our investment. Equity method goodwill is not amortized. We will periodically evaluate this investment to determine if there has been an other than temporary decline below carrying value. Equity method intangible assets are amortized over their respective useful lives, which is recorded in Interest and investment income. As of September 30, 2011, our investment balance in Sirius XM Canada was approximately \$50,728, \$30,000 of which represents equity method goodwill and intangible assets, and was recorded in Related party long-term assets. Sirius XM Canada is still evaluating the fair value allocation between goodwill and intangible assets; the final purchase price allocation is not expected to have a material effect on our financial statements.

We provide Sirius XM Canada with chipsets and other services and we are reimbursed for these costs. As of September 30, 2011, amounts due for these costs totaled \$5,228 and is reported as Related party current assets.

As of September 30, 2011, amounts due from Sirius XM Canada also included \$9,263 attributable to deferred programming costs and accrued interest, all of which is reported as Related party long-term assets.

We hold an investment in Cdn\$4,000 face value of 8% convertible unsecured subordinated debentures issued by CSR, for which the embedded conversion feature is bifurcated from the host contract. The host contract is accounted for at fair value as an available-for-sale security with changes in fair value recorded to Accumulated other comprehensive loss, net of tax. The embedded conversion feature is accounted for at fair value as a derivative with changes in fair value recorded in earnings as Interest and investment income (loss). As of September 30, 2011, the carrying values of the host contract and embedded derivative related to our investment in the debentures was \$3,445 and \$0, respectively. As of December 31, 2010, the carrying values of the host contract and embedded derivative related to our investment in the debentures was \$3,302 and \$11, respectively. The carrying values of the host contract and embedded derivative are recorded in Related party long-term assets.

As of September 30, 2011, amounts due to Sirius XM Canada totaled \$1,804 and is reported as Related party current liabilities.

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

**For the Three and Nine  
Months  
Ended September 30,  
2011\***

Edgar Filing: SIRIUS XM RADIO INC. - Form 10-Q

Royalty income	\$	6,468
Amortization of Sirius XM Canada deferred income		694
Licensing fee revenue		1,500
Advertising reimbursements		
Total revenue from Sirius XM Canada	\$	8,662

\* Sirius XM Canada commenced operations on June 2011.

Our share of net earnings or losses of Sirius XM Canada are recorded to Interest and investment income (loss) in our unaudited consolidated statements of operations on a one month lag. Our share of Sirius XM Canada's net loss was \$4,214 for the three and nine months ended September 30, 2011.

**Table of Contents**

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

***SIRIUS Canada***

We had an equity interest of 49.9% in SIRIUS Canada until June 21, 2011 when the transaction between XM Canada and SIRIUS Canada closed. Our investment balance was zero as of December 31, 2010 as our investment balance was absorbed by our share of net losses generated by SIRIUS Canada.

In 2005, we entered into a license and services agreement with SIRIUS Canada. Pursuant to such agreement, we are reimbursed for certain costs incurred to provide SIRIUS Canada service, including certain costs incurred for the production and distribution of radios, as well as information technology support costs. In consideration for the rights granted pursuant to this license and services agreement, we have the right to receive a royalty equal to a percentage of SIRIUS Canada's gross revenues based on subscriber levels (ranging between 5% to 15%) and the number of Canadian-specific channels made available to SIRIUS Canada.

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

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2011*</b>	<b>2010</b>	<b>2011*</b>	<b>2010</b>
Royalty income	\$	\$ 3,163	\$ 9,945	\$ 6,603
Dividend income		232	460	689
Total revenue from SIRIUS Canada	\$	\$ 3,395	\$ 10,405	\$ 7,292

\* SIRIUS Canada combined with XM Canada in June 2011.

Receivables from royalty and dividend income were utilized to absorb a portion of our share of net losses generated by SIRIUS Canada. Total costs that have been or will be reimbursed by SIRIUS Canada for the three months ended September 30, 2010 were \$2,498 and for the nine months ended September 30, 2011 and 2010 were \$5,253 and \$7,333, respectively.

Our share of net earnings or losses of SIRIUS Canada is recorded to Interest and investment income (loss) in our unaudited consolidated statements of operations on a one month lag. Our share of SIRIUS Canada's net loss was \$3,361 for the three months ended September 30, 2010 and \$9,717 and \$6,579 for the nine months ended September 30, 2011 and 2010, respectively. The payments received from SIRIUS Canada in excess of carrying value was \$546 for the three months ended September 30, 2010 and \$6,748 and \$4,256 for the nine months ended September 30, 2011 and 2010, respectively.

***XM Canada***

We had an equity interest of 21.5% in XM Canada until June 21, 2011 when the transaction between XM Canada and SIRIUS Canada closed. Our investment balance was zero as of December 31, 2010 as our investment balance was absorbed by our share of net losses generated by XM Canada.

In 2005, XM entered into agreements to provide XM Canada with the right to offer XM satellite radio service in Canada. The agreements have an initial ten year term and XM Canada has the unilateral option to extend the agreements for an additional five year term. We receive a 15% royalty for all subscriber fees earned by XM Canada each month for its basic service and an activation fee for each gross activation of an XM Canada subscriber on XM's system. Sirius XM Canada is obligated to pay us a total of \$70,300 for the rights to broadcast and market National Hockey League (NHL) games for a ten year term. We recognize these payments on a gross basis as a principal obligor pursuant to the provisions of ASC 605, *Revenue Recognition*. The estimated fair value of deferred revenue from XM Canada as of the Merger date was approximately \$34,000, which is amortized on a straight-line basis through 2020, the end of the expected term of the agreements. As of September 30, 2011 and December 31, 2010, the carrying value

of deferred revenue related to this agreement was \$26,711 and \$28,792, respectively.

The Cdn\$45,000 standby credit facility we extended to XM Canada was paid and terminated as a result of the Canada Merger. We received \$38,815 in cash upon payment of this facility. As a result of the repayment of the credit facility and completion of the Canada Merger, we released a \$15,649 valuation allowance related to the absorption of our share of the net loss from our investment in XM Canada as of June 21, 2011.

As of December 31, 2010, amounts due from XM Canada also included \$7,201 attributable to deferred programming costs and accrued interest, all of which is reported as Related party long-term assets.

**Table of Contents**

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

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

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2011*</b>	<b>2010</b>	<b>2011*</b>	<b>2010</b>
Amortization of XM Canada deferred income	\$	\$ 693	\$ 1,388	\$ 2,081
Subscriber and activation fee royalties		2,594	5,483	7,599
Licensing fee revenue		750	3,000	3,000
Advertising reimbursements			833	667
Total revenue from XM Canada	\$	\$ 4,037	\$ 10,704	\$ 13,347

\* XM Canada combined with SIRIUS Canada in June 2011.

Our share of net earnings or losses of XM Canada is recorded to Interest and investment income (loss) in our unaudited consolidated statements of operations on a one month lag. Our share of XM Canada's net loss was \$2,926 for the three months ended September 30, 2010 and \$6,045 and \$9,416 for the nine months ended September 30, 2011 and 2010, respectively.

***General Motors and American Honda***

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

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

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

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

**For the Nine  
Months**

	<b>Ended September 30, 2010*</b>
GM	\$ 12,759
American Honda	4,990
<b>Total</b>	<b>\$ 17,749</b>

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

**Table of Contents**

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

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

	<b>For the Nine Months Ended September 30, 2010*</b>	
	<b>GM</b>	<b>American Honda</b>
Sales and marketing	\$ 13,374	\$
Revenue share and royalties	15,823	3,167
Subscriber acquisition costs	17,514	1,969
Customer service and billing	125	
Interest expense, net of amounts capitalized	1,421	
<b>Total</b>	<b>\$ 48,257</b>	<b>\$ 5,136</b>

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

**(10) Investments*****Auction Rate Certificates***

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

***Restricted Investments***

Restricted investments relate to reimbursement obligations under letters of credit issued for the benefit of lessors of office space. As of September 30, 2011 and December 31, 2010, our Long-term restricted investments were \$3,146 and \$3,396, respectively. During the nine months ended September 30, 2011, \$250 of obligations relating to these letters of credit was terminated.

**(11) Debt**

Our debt consists of the following:

	<b>Conversion Price (per share)</b>	<b>September 30, 2011</b>	<b>December 31, 2010</b>
		<b>\$</b>	<b>\$</b>
3.25% Convertible Notes due 2011 (a)	\$ 5.30	\$ 23,866	\$ 191,979
Less: discount		(3)	(515)
8.75% Senior Notes due 2015 (b)	N/A	800,000	800,000
Less: discount		(10,389)	(12,213)
9.75% Senior Secured Notes due 2015 (c)	N/A	257,000	257,000
Less: discount		(8,814)	(10,116)
11.25% Senior Secured Notes due 2013 (d)	N/A		36,685
Less: discount			(1,705)
13% Senior Notes due 2013 (e)	N/A	778,500	778,500
Less: discount		(44,843)	(59,592)
7% Exchangeable Senior Subordinated Notes due 2014 (f)	\$ 1.875	550,000	550,000
Less: discount		(6,388)	(7,620)



Edgar Filing: SIRIUS XM RADIO INC. - Form 10-Q

7.625% Senior Notes due 2018 (g)	N/A	700,000	700,000
Less: discount		(11,196)	(12,054)
Other debt:			
Capital leases	N/A	3,434	7,229
Total debt		3,031,167	3,217,578
Less: total current maturities non-related party		25,588	195,815
Total long-term		3,005,579	3,021,763
Less: related party		328,029	325,907
Total long-term, excluding related party		\$ 2,677,550	\$ 2,695,856

**Table of Contents**

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

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

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

In 2011, we purchased \$168,113 of the outstanding 3.25% Notes at prices between 100.75% and 101% of the principal amount plus accrued interest. We recognized a loss on extinguishment of debt for the 3.25% Notes of \$2,291 for the nine months ended September 30, 2011, which consists primarily of cash premiums paid, unamortized discount and deferred financing fees. The remaining \$23,866 in principal amount of the 3.25% Notes was paid in October 2011 upon maturity.

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

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

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

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

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

In June 2009, we issued \$525,750 aggregate principal amount of 11.25% Senior Secured Notes due 2013 (the 11.25% Notes). The 11.25% Notes were issued for \$488,398, resulting in an aggregate original issuance discount of \$37,352.

In October 2010, we purchased \$489,065 in aggregate principal amount of the 11.25% Notes. The aggregate purchase price for the 11.25% Notes was \$567,927. We recorded an aggregate loss on extinguishment of the 11.25% Notes of \$85,216, consisting primarily of unamortized discount, deferred financing fees and repayment premium to Loss on extinguishment of debt and credit facilities, net, in our 2010 consolidated statement of operations. The remainder of the 11.25% Notes of \$36,685 was purchased in January 2011 for an aggregate purchase price of \$40,376. A loss from extinguishment of debt of \$4,915 associated with this purchase was recorded during the nine months ended September 30, 2011.

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

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

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

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

Interest is payable semi-annually in arrears on June 1 and December 1 of each year at a rate of 7% per annum. The Exchangeable Notes mature on December 1, 2014. The Exchangeable Notes are exchangeable at any time at the option of the holder into shares of our common stock at an initial exchange rate of 533.3333 shares of common stock per \$1,000 principal amount of Exchangeable Notes, which is equivalent to an approximate exchange price of \$1.875 per share of common stock. During the second quarter of 2011, the common stock reserved for exchange in connection with the Exchangeable Notes were considered to be dilutive in our calculation of diluted net income per common share since our stock price was greater than the exchange price. Our stock price

**Table of Contents**

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

as of September 30, 2011 was below the exchange price and therefore these shares were excluded from the calculation of diluted net income per common share for the three and nine months ended September 30, 2011 as the effect would have been anti-dilutive.

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

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

**Covenants and Restrictions**

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

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

At September 30, 2011, we were in compliance with our debt covenants.

**(12) Stockholders Equity****Common Stock, par value \$0.001 per share**

We were authorized to issue up to 9,000,000,000 shares of common stock as of September 30, 2011 and December 31, 2010. There were 3,951,945,992 and 3,933,195,112 shares of common stock issued and outstanding as of September 30, 2011 and December 31, 2010, respectively.

As of September 30, 2011, approximately 3,354,649,000 shares of common stock were reserved for issuance in connection with outstanding convertible debt, preferred stock, warrants, incentive stock awards and common stock to be granted to third parties upon satisfaction of performance targets.

To facilitate the offering of the Exchangeable Notes, we entered into share lending agreements with Morgan Stanley Capital Services Inc. ( MS ) and UBS AG London Branch ( UBS ) in July 2008, under which we loaned MS and UBS an aggregate of 262,400,000 shares of our common stock in exchange for a fee of \$0.001 per share. During the third quarter of 2009, MS returned to us 60,000,000 shares of our common stock borrowed in July 2008, which were retired upon receipt. As of September 30, 2011, there were 202,400,000 shares loaned under the facilities. In October 2011, MS and UBS returned the remaining 202,400,000 shares loaned. The returned shares were retired upon receipt and will be removed from outstanding common stock in the fourth quarter of 2011.

Once borrowed shares are returned to us, they may not be re-borrowed under the share lending agreements.

The shares we loaned to the share borrowers were issued and outstanding for corporate law purposes through October 2011, and holders of borrowed shares (other than the share borrowers) had the same rights under those shares as holders of any of our other outstanding common shares. Under GAAP, the borrowed shares were not considered outstanding for the purpose of computing and reporting our net income (loss) per common share.

We recorded interest expense related to the amortization of the costs associated with the share-lending arrangement and other issuance costs of \$1,276 and \$2,555, respectively, for the three months ended September 30, 2011 and 2010 and \$6,727 and \$7,473, respectively, for the nine months ended September 30, 2011 and 2010. As of September 30, 2011, the unamortized balance of the debt issuance costs was \$42,961, with \$42,101 recorded in

deferred financing fees, net, and \$859 recorded in long-term related party assets. As of December 31, 2010, the unamortized balance of the debt issuance costs was \$51,243, with \$50,218 recorded in deferred financing fees, net, and \$1,025 recorded in long-term related party assets. As of September 30, 2011 and December 31, 2010, the

**Table of Contents**

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

estimated fair value of the remaining 202,400,000 loaned shares was approximately \$305,624 and \$329,912, respectively. These costs will continue to be amortized until the debt is terminated.

In January 2004, SIRIUS signed a seven-year agreement with a sports programming provider which expired in February 2011. Upon execution of this agreement, SIRIUS delivered 15,173,070 shares of common stock valued at \$40,967 to that programming provider. These shares of common stock were subject to transfer restrictions which lapsed over time. We recognized share-based payment expense associated with these shares of \$0 and \$1,641 in the three months ended September 30, 2011 and 2010, respectively, and \$1,568 and \$3,501 in the nine months ended September 30, 2011 and 2010, respectively. As of September 30, 2011 and December 31, 2010, there was \$0 and \$1,568 remaining balance of common stock value included in other current assets, respectively.

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

We were authorized to issue up to 50,000,000 shares of undesignated preferred stock as of September 30, 2011 and December 31, 2010.

There were no shares of Series A Convertible Preferred Stock ( Series A Preferred Stock ) issued and outstanding as of September 30, 2011 and December 31, 2010.

There were 12,500,000 shares of Series B Preferred Stock issued and outstanding as of September 30, 2011 and December 31, 2010. The Series B Preferred Stock is convertible into shares of our common stock at the rate of 206.9581409 shares of common stock for each share of Series B Preferred Stock, representing approximately 40% of our outstanding shares of common stock (after giving effect to such conversion). As the holder of the Series B Preferred Stock, Liberty Radio LLC is entitled to a number of votes equal to the number of shares of our common stock into which such shares of Series B Preferred Stock are convertible. Liberty Radio LLC will also receive dividends and distributions ratably with our common stock, on an as-converted basis. With respect to dividend rights, the Series B Preferred Stock ranks evenly with our common stock and each other class or series of our equity securities not expressly provided as ranking senior to the Series B Preferred Stock. With respect to liquidation rights, the Series B Preferred Stock ranks evenly with each other class or series of our equity securities not expressly provided as ranking senior to the Series B Preferred Stock, and will rank senior to our common stock.

There were no shares of Preferred Stock, Series C Junior (the Series C Junior Preferred Stock ), issued and outstanding as of September 30, 2011 and December 31, 2010. In 2009, our board of directors created and reserved for issuance in accordance with the Rights Plan (as described below) 9,000 shares of the Series C Junior Preferred Stock. The shares of Series C Junior Preferred Stock are not redeemable and rank, with respect to the payment of dividends and the distribution of assets, junior to all other series of our preferred stock, unless the terms of such series shall so provide. The Rights Plan expired on August 1, 2011.

***Warrants***

We have issued warrants to purchase shares of common stock in connection with distribution, programming and satellite purchase agreements and certain debt issuances. As of September 30, 2011, approximately 24,346,000 warrants to acquire an equal number of shares of common stock with an average exercise price of \$2.96 per share were outstanding and fully vested and expire at various times through 2015. During the nine months ended September 30, 2011, 1,575,000 of these warrants expired.

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

***Rights Plan***

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

**(13) Benefits Plans**

We recognized share-based payment expense of \$13,983 and \$16,220 for the three months ended September 30, 2011 and 2010, respectively, and \$36,006 and \$47,443 for the nine months ended September 30, 2011 and 2010, respectively. We did not realize any income tax benefits from share-based benefits plans during the three and nine months ended September 30, 2011 and 2010 as a result of the full valuation allowance that is maintained for substantially all net deferred tax assets.

**Table of Contents**

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

**2009 Long-Term Stock Incentive Plan**

In May 2009, our stockholders approved the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan (the 2009 Plan ). Employees, consultants and members of our board of directors are eligible to receive awards under the 2009 Plan. The 2009 Plan provides for the grant of stock options, restricted stock, restricted stock units and other stock-based awards that the compensation committee of our board of directors may deem appropriate. Vesting and other terms of stock-based awards are set forth in the agreements with the individuals receiving the awards. Stock-based awards granted under the 2009 Plan are generally subject to a vesting requirement. Stock-based awards generally expire ten years from the date of grant. Each restricted stock unit entitles the holder to receive one share of common stock upon vesting. As of September 30, 2011, approximately 196,121,000 shares of common stock were available for future grants under the 2009 Plan.

**Other Plans**

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

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

	<b>For the Three Months</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>Ended September 30,</b>		<b>30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Risk-free interest rate	1.1%	1.5%	1.1%	1.7%
Expected life of options years	5.27	5.33	5.27	5.28
Expected stock price volatility	68%	85%	68%	85%
Expected dividend yield	0%	0%	0%	0%

There were no options granted to third parties during the three and nine months ended September 30, 2011 and 2010.

We estimate 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. In 2010, due to the lack of qualifying actively traded options on our common stock, we utilized a 100% weighting to observable historical volatility.

The following table summarizes stock option activity under our share-based payment plans for the nine months ended September 30, 2011 (shares in thousands):

	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding, December 31, 2010	401,870	\$ 1.32		
Granted	77,451	\$ 1.80		
Exercised	(9,965)	\$ 0.91		
Forfeited, cancelled or expired	(24,288)	\$ 4.32		
Outstanding, September 30, 2011	445,068	\$ 1.25	6.60	\$278,467



Exercisable, September 30, 2011	145,867	\$ 1.89	5.49	\$ 81,314
---------------------------------	---------	---------	------	-----------

The weighted average grant date fair value of options granted during the nine months ended September 30, 2011 and 2010 was \$1.04 and \$0.66, respectively. The total intrinsic value of stock options exercised during the nine months ended September 30, 2011 and 2010 was \$10,011 and \$5,611, respectively.

We recognized share-based payment expense associated with stock options of \$13,201 and \$11,679 for the three months ended September 30, 2011 and 2010, respectively, and \$33,098 and \$32,459 for the nine months ended September 30, 2011 and 2010, respectively.

**Table of Contents**

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

The following table summarizes the nonvested restricted stock and restricted stock unit activity under our share-based payment plans for the nine months ended September 30, 2011 (shares in thousands):

	<b>Shares</b>	<b>Weighted-Average Grant Date Fair Value</b>
Nonvested, December 31, 2010	2,397	\$ 2.57
Granted		\$
Vested restricted stock awards	(1,854)	\$ 3.30
Vested restricted stock units	(101)	\$ 3.08
Forfeited	(21)	\$ 3.05
Nonvested, September 30, 2011	421	\$ 1.46

There were no restricted stock awards or restricted stock units granted during the nine months ended September 30, 2011 and 2010. The total intrinsic value of restricted stock and restricted stock units that vested during the nine months ended September 30, 2011 and 2010 was \$3,178 and \$3,923, respectively.

We recognized share-based payment expense associated with restricted stock units and shares of restricted stock of \$0 and \$1,385 for the three months ended September 30, 2011 and 2010, respectively, and \$543 and \$6,059 for the nine months ended September 30, 2011 and 2010, respectively.

Total unrecognized compensation costs related to unvested share-based payment awards for stock options and restricted stock units and shares granted to employees and members of our board of directors at September 30, 2011 and December 31, 2010, net of estimated forfeitures, was \$145,460 and \$108,170, respectively. The weighted-average period over which the compensation expense for these awards is expected to be recognized is three years as of September 30, 2011.

**401(k) Savings Plan**

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

The Sirius XM Plan allows eligible employees to voluntarily contribute from 1% to 50% of their pre-tax eligible earnings, subject to certain defined limits. We match 50% of an employee's voluntary contributions, up to 6% of an employee's pre-tax salary, in the form of shares of common stock. Employer matching contributions under the Sirius XM Plan vest at a rate of 33<sup>1</sup>/<sub>3</sub>% for each year of employment and are fully vested after three years of employment for all current and future contributions. Share-based payment expense resulting from the matching contribution to the Sirius XM Plan was \$782 and \$724 for the three months ended September 30, 2011 and 2010, respectively, and \$2,365 and \$2,649 for the nine months ended September 30, 2011 and 2010, respectively.

We may also elect to contribute to the profit sharing portion of the Sirius XM Plan based upon the total eligible compensation of eligible participants. These additional contributions in the form of shares of common stock are determined by the compensation committee of our board of directors. Employees are only eligible to receive profit-sharing contributions during any year in which they are employed on the last day of the year. We currently do not anticipate contributing to the profit sharing portion of the Sirius XM Plan in 2011. Profit-sharing contribution expense was \$0 and \$2,432 for the three months ended September 30, 2011 and 2010, respectively, and \$0 and \$6,276 for the nine months ended September 30, 2011 and 2010, respectively.

**Table of Contents**

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

**(14) Commitments and Contingencies**

The following table summarizes our expected contractual cash commitments as of September 30, 2011:

	<b>Remaining 2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Thereafter</b>	<b>Total</b>
Long-term debt obligations <sup>(1)</sup>	\$ 24,363	\$ 1,623	\$ 779,636	\$ 550,178	\$ 1,057,000	\$ 700,000	\$ 3,112,800
Cash interest payments <sup>(1)</sup>	81,399	288,338	288,208	186,935	113,433	160,128	1,118,441
Satellite and transmission	9,760	55,680	4,782	13,250	13,156	22,093	118,721
Programming and content	47,561	227,048	178,953	151,931	145,531	3,750	754,774
Marketing and distribution	28,570	25,070	17,725	12,816	11,644	11,809	107,634
Satellite incentive payments	2,826	11,608	12,693	12,901	12,049	87,601	139,678
Operating lease obligations	8,522	32,819	28,335	21,973	13,851	5,428	110,928
Other	15,119	25,921	9,883	659	268	182	52,032
<b>Total <sup>(2)</sup></b>	<b>\$ 218,120</b>	<b>\$ 668,107</b>	<b>\$ 1,320,215</b>	<b>\$ 950,643</b>	<b>\$ 1,366,932</b>	<b>\$ 990,991</b>	<b>\$ 5,515,008</b>

(1) Includes capital lease obligations.

(2) The table does not include our reserve for uncertain tax positions, which at September 30, 2011 totaled \$1,496, as the specific timing of any cash payments relating to this obligation cannot be projected with reasonable certainty.

*Long-term debt obligations.* Long-term debt obligations include principal payments on outstanding debt and capital lease obligations. We paid \$23,866 of the 2011 remaining obligations of \$24,363 in October 2011 upon the maturity of the 3.25% Notes.

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

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

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

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

*Marketing and distribution.* We have entered into various marketing, sponsorship and distribution agreements to promote our brand and are obligated to make payments to sponsors, retailers, automakers and radio manufacturers under these agreements. Certain programming and content agreements also require us to purchase advertising on properties owned or controlled by the licensors. We also reimburse automakers for certain engineering and development costs associated with the incorporation of satellite radios into vehicles they manufacture. In addition, in

the event certain new products are not shipped by a distributor to its customers within 90 days of the distributor's receipt of goods, we have agreed to purchase and take title to the product.

*Satellite incentive payments.* Boeing Satellite Systems International, Inc., the manufacturer of four of XM's in-orbit satellites, may be entitled to future in-orbit performance payments with respect to two of our satellites. As of September 30, 2011, we have accrued \$28,498 related to contingent in-orbit performance payments for XM-3 and XM-4 based on expected operating performance over their fifteen year design life. Boeing may also be entitled to an additional \$10,000 if XM-4 continues to operate above baseline specifications during the five years beyond the satellite's fifteen-year design life.

Space Systems/Loral may be entitled to future in-orbit performance payments. As of September 30, 2011, we have accrued \$11,190 and \$21,450 related to contingent performance payments for our FM-5 and XM-5 satellites, respectively, based on expected operating performance over their fifteen-year design life.

*Operating lease obligations.* We have entered into cancelable and non-cancelable operating leases for office space, equipment and terrestrial repeaters. These leases provide for minimum lease payments, additional operating expense charges, leasehold improvements and rent escalations that have initial terms ranging from one to fifteen years, and certain leases that have options to

**Table of Contents**

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

renew. The effect of the rent holidays and rent concessions are recognized on a straight-line basis over the lease term, including reasonably assured renewal periods.

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

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

***Legal Proceedings***

In the ordinary course of business, we are a defendant in various lawsuits and arbitration proceedings, including derivative actions; actions filed by subscribers, both on behalf of themselves and on a class action basis; former employees; parties to contracts or leases; and owners of patents, trademarks, copyrights or other intellectual property. Our significant legal proceedings are discussed under Item 1, Legal Proceedings in Part II, Other Information.

**Table of Contents**

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

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

**Special Note Regarding Forward-Looking Statements**

The following cautionary statements identify important factors that could cause our actual results to differ materially from those projected in forward-looking statements made in this Quarterly Report on Form 10-Q and in other reports and documents published by us from time to time. Any statements about our beliefs, plans, objectives, expectations, assumptions, future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "intend," "plan," "projection" and "outlook." Any forward-looking statement qualified in their entirety by reference to the factors discussed throughout this Quarterly Report on Form 10-Q and in other reports and documents published by us from time to time, particularly the risk factors described under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein and in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2010.

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

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

our ability to retain subscribers and maintain our average monthly revenue per subscriber;

our dependence upon automakers and other third parties, such as manufacturers and distributors of satellite radios, retailers and programming providers;

potential economic recessionary trends and uncertain economic outlook;

our substantial indebtedness; and

the useful life of our satellites, which, in most cases, are not insured.

Because the risk factors referred to above could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us or on our behalf, you should not place undue reliance on any of these forward-looking statements. In addition, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which the statement is made, to reflect the occurrence of unanticipated events or otherwise. New factors emerge from time to time, and it is not possible for us to predict which will arise or to assess with any precision the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. For purposes of this document, we limited forward-looking statements to the next four consecutive quarters.

**Executive Summary**

We broadcast our music, sports, news, talk, entertainment, traffic and weather channels in the United States on a subscription fee basis through two proprietary satellite radio systems. Subscribers can also receive certain of our music and other channels over the Internet, including through an application on Apple, Blackberry and Android-powered mobile devices.

In October 2011, we launched an expanded channel lineup, including new music, sports, comedy channels as well as Sirius XM Latino, a suite of Latin channels. These channels, available online and over certain new radios, are the first phase of Sirius XM 2.0, an upgrade and evolution of our satellite and Internet delivered service that will ultimately span hardware, software, audio, and data services. This new technology effectively delivers 25% more

bandwidth capacity, which will allow us to expand our audio and data services without affecting the broadcast quality of existing channels.

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

As of September 30, 2011, we had 21,349,858 subscribers. Our subscriber totals include subscribers under our regular pricing plans; discounted pricing plans; subscribers that have prepaid, including payments either made or due from automakers and dealers for subscriptions included in the sale or lease price of a vehicle; activated radios in daily rental fleet vehicles; certain subscribers to our Internet services; and certain subscribers to our weather, traffic, data and video services.

**Table of Contents**

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

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

We also have an interest in the satellite radio services offered in Canada. In June 2011, Canadian Satellite Radio Holdings Inc. ( CSR ), the parent company of XM Canada, and SIRIUS Canada completed a transaction to combine their operations ( the Canada Merger ). Following the Canada Merger, we own approximately 38% of the equity of CSR, which operates as Sirius XM Canada.

**Actual Results of Operations**

Set forth below are our results of operations for the three and nine months ended September 30, 2011 compared with the three and nine months ended September 30, 2010.

	Unaudited				2011 vs 2010 Change		2011 vs 2010 Change	
	For the Three Months Ended September 30, 2011		For the Nine Months Ended September 30, 2011		Three Months		Nine Months	
	2011	2010	2011	2010	Amount	%	Amount	%
Revenue:								
Subscriber revenue	\$ 660,837	\$ 612,119	\$ 1,922,917	\$ 1,793,258	\$ 48,718	8%	\$ 129,659	7%
Advertising revenue, net of agency fees	18,810	15,973	53,595	46,296	2,837	18%	7,299	16%
Equipment revenue	15,504	17,823	48,392	50,625	(2,319)	(13%)	(2,233)	(4%)
Other revenue	67,399	71,633	205,882	190,914	(4,234)	(6%)	14,968	8%
Total revenue	762,550	717,548	2,230,786	2,081,093	45,002	6%	149,693	7%
Operating expenses:								
Revenue share and royalties	117,043	114,482	340,713	320,567	2,561	2%	20,146	6%
Programming and content	70,509	78,143	210,867	228,595	(7,634)	(10%)	(17,728)	(8%)
Customer service and billing	64,239	60,613	192,667	175,238	3,626	6%	17,429	10%
Satellite and transmission	19,681	20,844	57,238	60,944	(1,163)	(6%)	(3,706)	(6%)
Cost of equipment	5,888	6,463	19,894	22,187	(575)	(9%)	(2,293)	(10%)
Subscriber acquisition costs	107,279	105,984	317,711	305,745	1,295	1%	11,966	4%



Edgar Filing: SIRIUS XM RADIO INC. - Form 10-Q

Sales and marketing	55,210	51,519	154,471	156,813	3,691	7%	(2,342)	(1%)
Engineering, design and development	14,175	12,526	39,249	35,209	1,649	13%	4,040	11%
General and administrative	58,635	54,188	175,469	170,935	4,447	8%	4,534	3%
Depreciation and amortization	65,403	67,450	200,865	206,945	(2,047)	(3%)	(6,080)	(3%)
Restructuring, impairments and related costs		2,267		4,071	(2,267)	(100%)	(4,071)	(100%)
Total operating expenses	578,062	574,479	1,709,144	1,687,249	3,583	1%	21,895	1%
Income from operations	184,488	143,069	521,642	393,844	41,419	29%	127,798	32%
Other income (expense):								
Interest expense, net of amounts capitalized	(75,316)	(68,559)	(229,730)	(223,230)	(6,757)	(10%)	(6,500)	(3%)
Loss on extinguishment of debt and credit facilities, net		(256)	(7,206)	(34,695)	256	100%	27,489	79%
Interest and investment income (loss)	292	(4,305)	78,590	(7,197)	4,597	107%	85,787	nm
Other income	435	1,108	2,235	1,837	(673)	(61%)	398	22%
Total other expense	(74,589)	(72,012)	(156,111)	(263,285)	(2,577)	(4%)	107,174	41%
Income before income taxes	109,899	71,057	365,531	130,559	38,842	55%	234,972	180%
Income tax expense	(5,714)	(3,428)	(9,907)	(6,060)	(2,286)	(67%)	(3,847)	(63%)
Net income	\$ 104,185	\$ 67,629	\$ 355,624	\$ 124,499	\$ 36,556	54%	\$ 231,125	186%

nm- not meaningful

**Total Revenue**

*Subscriber Revenue* includes subscription fees, activation and other fees.

*Three Months:* For the three months ended September 30, 2011 and 2010, subscriber revenue was \$660,837 and \$612,119, respectively, an increase of 8%, or \$48,718. The increase was primarily attributable to an increase of 8% in daily weighted average subscribers and an increase in sales of premium services, including Premier packages, data services and streaming, partially offset by the impact of subscription discounts offered through customer acquisition and retention programs.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, subscriber revenue was \$1,922,917 and \$1,793,258, respectively, an increase of 7%, or \$129,659. The increase was primarily attributable to an increase of 8% in daily weighted average subscribers and an increase in sales of premium services, including Premier packages, data services and streaming, partially offset by the impact of subscription discounts offered through customer acquisition and retention programs.

**Table of Contents**

The growth of future subscriber revenue will be dependent upon the growth of our subscriber base, conversion and churn rates, promotions, rebates offered to subscribers and corresponding take-rates, plan mix, subscription prices and the identification of additional revenue streams from subscribers. In September 2011, we announced an increase in certain of our subscription rates beginning January 2012.

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

*Three Months:* For the three months ended September 30, 2011 and 2010, advertising revenue was \$18,810 and \$15,973, respectively, an increase of 18%, or \$2,837. The increase was primarily due to more effective sales efforts and greater demand for audio advertising resulting in increases in the number of advertising spots sold as well as the rate charged per spot.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, advertising revenue was \$53,595 and \$46,296, respectively, an increase of 16%, or \$7,299. The increase was primarily due to more effective sales efforts and greater demand for audio advertising resulting in increases in the number of advertising spots sold as well as the rate charged per spot.

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

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

*Three Months:* For the three months ended September 30, 2011 and 2010, equipment revenue was \$15,504 and \$17,823 respectively, a decrease of 13%, or \$2,319. The decrease was driven by a reduction in aftermarket hardware subsidies earned.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, equipment revenue was \$48,392 and \$50,625, respectively, a decrease of 4%, or \$2,233. The decrease was driven by a reduction in aftermarket hardware subsidies earned, partially offset by increased OEM production.

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

*Other Revenue* primarily includes amounts collected from subscribers for the U.S. Music Royalty Fee, revenue from our Canadian affiliate and ancillary revenues.

*Three Months:* For the three months ended September 30, 2011 and 2010, other revenue was \$67,399 and \$71,633, respectively, a decrease of 6%, or \$4,234. The decrease was primarily due to a reduction in the U.S. Music Royalty Fee rate, which was partially offset by increased royalty revenue from Sirius XM Canada and an increase in subscribers subject to the U.S. Music Royalty Fee.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, other revenue was \$205,882 and \$190,914, respectively, an increase of 8%, or \$14,968. The increase was primarily due to an increase in subscribers subject to the U.S. Music Royalty Fee, which was partially offset by a rate reduction to that fee and increased royalty revenue from Sirius XM Canada.

Other revenues are dependent upon the amount of the U.S. Music Royalty Fee and revenues from our Canadian affiliate. We expect other revenue will grow as our subscribers subject to the U.S. Music Royalty Fee grow and as our Canadian affiliate grows.

***Operating Expenses***

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

*Three Months:* For the three months ended September 30, 2011 and 2010, revenue share and royalties were \$117,043 and \$114,482, respectively, an increase of 2%, or \$2,561 but decreased as a percentage of total revenue. The increase was primarily attributable to a 12% increase in our revenues subject to royalty

and/or revenue sharing arrangements and a 7% increase in the statutory royalty rate for the performance of sound recordings, partially offset by a \$4,794 increase in the

26

---

**Table of Contents**

benefit to earnings from the amortization of deferred credits on executory contracts initially recognized in purchase price accounting associated with the Merger.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, revenue share and royalties were \$340,713 and \$320,567, respectively, an increase of 6%, or \$20,146 and remained flat as a percentage of total revenue. The increase was primarily attributable to a 16% increase in our revenues subject to royalty and/or revenue sharing arrangements and a 7% increase in the statutory royalty rate for the performance of sound recordings, partially offset by a \$14,088 increase in the benefit to earnings from the amortization of deferred credits on executory contracts initially recognized in purchase price accounting associated with the Merger.

We expect our revenue share and royalty costs to increase as our revenues grow and as a result of statutory increases in the royalty rate for the performance of sound recordings. Under the terms of the Copyright Royalty Board's decision, we paid royalties of 7.5% and 7.0% of gross revenues, subject to certain exclusions, for the nine months ended September 30, 2011 and 2010, respectively, and will pay royalties of 8.0% for 2012. The deferred credits on executory contracts initially recognized in purchase price accounting associated with the Merger are expected to provide increasing benefits to revenue share and royalties through the expiration of the acquired executory contracts, principally in 2012 and 2013.

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

*Three Months:* For the three months ended September 30, 2011 and 2010, programming and content expenses were \$70,509 and \$78,143, respectively, a decrease of 10%, or \$7,634, and decreased as a percentage of total revenue. The decrease was primarily due to savings in content agreements and general operating costs, partially offset by increases in personnel costs and a \$1,921 reduction in the benefit to earnings from purchase price accounting adjustments associated with the Merger attributable to the amortization of the deferred credit on acquired programming executory contracts.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, programming and content expenses were \$210,867 and \$228,595, respectively, a decrease of 8%, or \$17,728, and decreased as a percentage of total revenue. The decrease was primarily due to savings in content agreements and general operating costs, partially offset by increases in personnel costs and a \$6,160 reduction in the benefit to earnings from purchase price accounting adjustments associated with the Merger attributable to the amortization of the deferred credit on acquired programming executory contracts.

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

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

*Three Months:* For the three months ended September 30, 2011 and 2010, customer service and billing expenses were \$64,239 and \$60,613, respectively, an increase of 6%, or \$3,626, and remained flat as a percentage of total revenue. The increase was primarily attributable to an 8% increase in daily weighted average subscribers which drove higher call volume, billing and collection costs, and transaction fees, as well as increased agent rates and personnel costs, partially offset by lower general operating costs.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, customer service and billing expenses were \$192,667 and \$175,238, respectively, an increase of 10%, or \$17,429 and remained flat as

a percentage of total revenue. The increase was primarily attributable to an 8% increase in daily weighted average subscribers which drove higher call volume, billing and collection costs, and transaction fees, as well as increased handle time per call and personnel costs, partially offset by lower agent rates and general operating costs.

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

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

**Table of Contents**

*Three Months:* For the three months ended September 30, 2011 and 2010, satellite and transmission expenses were \$19,681 and \$20,844, respectively, a decrease of 6%, or \$1,163, and decreased as a percentage of total revenue. The decrease was primarily due to savings in repeater expenses from site reductions and favorable lease renewals, as well as savings in personnel costs.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, satellite and transmission expenses were \$57,238 and \$60,944, respectively, a decrease of 6%, or \$3,706, and decreased as a percentage of total revenue. The decrease was primarily due to savings in repeater expenses from site reductions and favorable lease renewals, as well as savings in personnel costs.

We expect overall satellite and transmission expenses to increase from costs associated with our enhanced internet-based features and functionality, while costs associated with our in-orbit satellite fleet and terrestrial repeater network remain relatively flat.

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

*Three Months:* For the three months ended September 30, 2011 and 2010, cost of equipment was \$5,888 and \$6,463, respectively, a decrease of 9%, or \$575, and remained flat as a percentage of total revenue. The decrease was primarily due to lower volume of direct to consumer sales.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, cost of equipment was \$19,894 and \$22,187, respectively, a decrease of 10%, or \$2,293, and remained flat as a percentage of total revenue. The decrease was primarily due to lower inventory write-downs and reduced costs to produce aftermarket radios.

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

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

*Three Months:* For the three months ended September 30, 2011 and 2010, subscriber acquisition costs were \$107,279 and \$105,984, respectively, an increase of 1%, or \$1,295, but decreased as a percentage of total revenue. The increase was primarily a result of the 10% increase in gross subscriber additions, higher subsidies related to increased OEM installations occurring in advance of acquiring the subscriber, partially offset by improved OEM subsidy rates per vehicle.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, subscriber acquisition costs were \$317,711 and \$305,745, respectively, an increase of 4%, or \$11,966, but decreased as a percentage of total revenue. The increase was primarily a result of the 12% increase in gross subscriber additions and higher subsidies related to increased OEM installations occurring in advance of acquiring the subscriber, partially offset by improved OEM subsidy rates per vehicle and a \$5,231 increase in the benefit to earnings from the amortization of the deferred credit for acquired executory contracts recognized in purchase price accounting associated with the Merger.

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

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

*Three Months:* For the three months ended September 30, 2011 and 2010, sales and marketing expenses were \$55,210 and \$51,519, respectively, an increase of 7%, or \$3,691, and remained flat as a percentage of total revenue. The increase



**Table of Contents**

was primarily due to increased subscriber communications and retention programs as well as increased cooperative marketing in our OEM channel associated with a greater number of subscribers and promotional trials, partially offset by reductions in consumer advertising and event marketing.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, sales and marketing expenses were \$154,471 and \$156,813, respectively, a decrease of 1%, or \$2,342, and decreased as a percentage of total revenue. The decrease was primarily due to reductions in consumer advertising and event marketing, partially offset by increased subscriber communications and retention programs as well as increased cooperative marketing in our OEM channel associated with a greater number of subscribers and promotional trials.

Sales and marketing expenses may fluctuate on a quarterly basis as we launch seasonal advertising and promotional initiatives to attract new subscribers in existing and new distribution channels, and launch and expand programs to retain our existing subscribers and win-back former subscribers.

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

*Three Months:* For the three months ended September 30, 2011 and 2010, engineering, design and development expenses were \$14,175 and \$12,526, respectively, an increase of 13%, or \$1,649, and remained flat as a percentage of total revenue. The increase was primarily due to higher aftermarket product development costs and costs related to enhanced subscriber features and functionality, partially offset by lower share-based payment expenses.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, engineering, design and development expenses were \$39,249 and \$35,209, respectively, an increase of 11%, or \$4,040, and remained flat as a percentage of total revenue. The increase was primarily due to higher aftermarket product development costs and costs related to enhanced subscriber features and functionality, partially offset by lower share-based payment expenses.

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

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

*Three Months:* For the three months ended September 30, 2011 and 2010, general and administrative expenses were \$58,635 and \$54,188, respectively, an increase of 8%, or \$4,447, and remained flat as a percentage of total revenue. The increase was primarily due to an insurance recovery related to legal costs in the third quarter of 2010 with no such amounts in 2011, partially offset by lower legal expense.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, general and administrative expenses were \$175,469 and \$170,935, respectively, an increase of 3%, or \$4,534, and decreased as a percentage of total revenue. The increase was primarily due to an insurance recovery related to legal costs in the third quarter of 2010 with no such amounts in 2011, partially offset by lower share-based payment expense.

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

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

*Three Months:* For the three months ended September 30, 2011 and 2010, depreciation and amortization expense was \$65,403 and \$67,450, respectively, a decrease of 3%, or \$2,047, and decreased as a percentage of total revenue. The decrease was primarily due to a reduction in the amortization of

subscriber relationships, partially offset by depreciation recognized on additional assets placed in service.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, depreciation and amortization expense was \$200,865 and \$206,945, respectively, a decrease of 3%, or \$6,080, and decreased as a percentage of total revenue. The decrease was primarily due to a reduction in the amortization of subscriber relationships, partially offset by depreciation recognized on additional assets placed in service.

We expect depreciation expenses to increase in future periods as we recognize depreciation expense on our recently launched satellite, XM-5, and complete the construction and launch of our FM-6 satellite, which will be partially offset by reduced amortization

**Table of Contents**

associated with the stepped-up basis in assets acquired in the Merger (including intangible assets, satellites, property and equipment) through the end of their estimated service lives, principally through 2017.

*Restructuring, Impairments and Related Costs* represents charges related to the re-organization of our staff and restructuring of contracts principally following the Merger.

In 2011, we have not had any restructuring, impairments and related costs. For the three and nine months ended September 30, 2010, we reported \$2,267 and \$4,071, respectively, for charges related to the restructuring of certain contracts and the re-organization of our staff principally following the Merger.

***Other Income (Expense)***

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

*Three Months:* For the three months ended September 30, 2011 and 2010, interest expense was \$75,316 and \$68,559, respectively, an increase of 10%, or \$6,757. The increase was primarily due to lower capitalized interest directly related to the construction of our satellites and related launch vehicles, partially offset by the mix of outstanding debt with lower interest rates.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, interest expense was \$229,730 and \$223,230, respectively, an increase of 3%, or \$6,500. The increase was primarily due to lower capitalized interest directly related to the construction of our satellites and related launch vehicles, partially offset by the mix of outstanding debt with lower interest rates.

Following the launch of our FM-6 satellite, which is anticipated during the first quarter of 2012, the capitalization of interest expense related to the construction of our satellites and related launch vehicles will be eliminated. As a result, we expect interest expense to increase, as the impact of capitalized interest related to the construction of our satellites and related launch vehicles is eliminated, offset partially as debt outstanding declines due to retirements at maturity, redemption call dates or through debt repurchases.

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

*Three Months:* For the three months ended September 30, 2010, loss on extinguishment of debt and credit facilities, net, was \$256, resulting from the repayment of our 9.75% Senior Secured Notes due 2015.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, loss on extinguishment of debt and credit facilities, net, was \$7,206 and \$34,695, respectively, a decrease of 79%, or \$27,489. During the nine months ended September 30, 2011, the loss was incurred on the repayment of our 11.25% Senior Secured Notes due 2013 and the partial repayment of our 3.25% Convertible Notes due 2011. During the nine months ended September 30, 2010, the loss was incurred on the repayment of SIRIUS Senior Secured Term Loan due 2012 and 9.625% Senior Notes due 2013 and XM's 10% Senior PIK Secured Notes due 2011 and 9.75% Senior Notes due 2014.

*Interest and Investment Income (Loss)* includes realized gains and losses, dividends, interest income, our share of SIRIUS Canada's and XM Canada's pre-merger net losses, our share of the income (loss) of Sirius XM Canada and gains related to the Canada Merger.

*Three Months:* For the three months ended September 30, 2011 and 2010, interest and investment income (loss) was \$292 and (\$4,305), respectively, an increase of \$4,597. The increase was attributable to income from our interests in Sirius XM Canada compared to net losses incurred by Sirius Canada and XM Canada in the third quarter of 2010.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, interest and investment income (loss) was \$78,590 and (\$7,197), respectively, an increase of \$85,787. The increase was attributable to a net gain realized as a result of the Canada Merger. This transaction resulted in the recognition of an \$84,855 gain recorded in interest and investment income. The gain was partially offset by our share of net losses at XM Canada and Sirius Canada.



**Table of Contents****Income Taxes**

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

*Three Months:* For the three months ended September 30, 2011 and 2010, income tax expense was \$5,714 and \$3,428, respectively, an increase of 67%, or \$2,286. The increase was primarily due to an increase in the applicable state effective tax rate and foreign withholding taxes on royalty income.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, income tax expense was \$9,907 and \$6,060, respectively, an increase of 63%, or \$3,847. The increase was primarily due to an increase in the applicable state effective tax rate and foreign withholding taxes on royalty income.

We have previously disclosed the details of our deferred tax assets, including the amount of our net tax loss carry forwards, the expiration dates thereof and the valuation allowance related to our deferred tax assets. (See Note 14, *Income Taxes*, to the Consolidated Financial Statements in our Form 10-K for the year ended December 31, 2010 for further details regarding our deferred tax assets). In assessing the recoverability of our deferred tax assets, management regularly considers whether some portion or all of the deferred tax assets will not be realized based on the recognition threshold and measurement of a tax position in accordance with the Income Tax Topic of the FASB Accounting Standards Codification (the *Income Taxes Topic*). The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected taxable income and tax planning strategies in making this assessment. In accordance with the *Income Taxes Topic*, based upon the level of historical taxable losses, we have maintained a deferred tax valuation allowance against our deferred tax assets through September 30, 2011. In 2010, we had our first full year of pre-tax earnings yet continued to generate taxable losses. The first nine months of 2011 has continued with positive earnings and has generated taxable income. If such earnings trends continue, we may realize the benefits of all or a significant portion of our net deferred tax assets in 2012 through a reduction in our deferred tax valuation allowance. This would result in an income tax benefit that would be reflected in net income. As of December 31, 2010, we had \$3.5 billion of valuation allowances established against the deferred tax assets.

**Subscriber Data**

The following table contains actual subscriber data for the three and nine months ended September 30, 2011 and 2010, respectively:

	<b>For the Three Months</b>		<b>Unaudited</b>	
	<b>Ended September 30,</b>		<b>For the Nine Months Ended</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Beginning subscribers	21,016,175	19,527,448	20,190,964	18,772,758
Gross subscriber additions	2,138,131	1,952,054	6,369,846	5,693,409
Deactivated subscribers	(1,804,448)	(1,617,327)	(5,210,952)	(4,603,992)
Net additions	333,683	334,727	1,158,894	1,089,417
Ending subscribers	21,349,858	19,862,175	21,349,858	19,862,175
Self-pay	17,534,310	16,335,819	17,534,310	16,335,819
Paid promotional	3,815,548	3,526,356	3,815,548	3,526,356
Ending subscribers	21,349,858	19,862,175	21,349,858	19,862,175

Edgar Filing: SIRIUS XM RADIO INC. - Form 10-Q

Self-pay	364,004	258,105	847,511	631,887
Paid promotional	(30,321)	76,622	311,383	457,530
Net additions	333,683	334,727	1,158,894	1,089,417
Daily weighted average number of subscribers	21,107,540	19,610,837	20,688,641	19,181,040
Average self-pay monthly churn (1)	1.9%	1.9%	1.9%	1.9%
Conversion rate (2)	44.4%	48.1%	44.7%	46.6%

Note: See pages 38 through 44 for footnotes.

*Subscribers.* At September 30, 2011 and 2010, subscribers were 21,349,858 and 19,862,175, an increase of 7%, or 1,487,683. Self-pay subscribers were 17,534,310 and 16,335,819, respectively, an increase of 7%, or 1,198,491. Paid promotional subscribers

**Table of Contents**

were 3,815,548 and 3,526,356, respectively, an increase of 8%, or 289,192. These improvements were primarily driven by an increase in U.S. light vehicles sales, new vehicle penetration and returning activations.

*Average Self-pay Monthly Churn* is derived by dividing the monthly average of self-pay deactivations for the quarter by the average self-pay subscriber balance for the quarter. (See accompanying footnotes on pages 38 through 44 for more details.)

For the three and nine months ended September 30, 2011 and 2010, our average self-pay monthly churn rate was 1.9%.

*Conversion Rate* is the percentage of owners and lessees of new vehicles that receive our service and convert to become self-paying subscribers after an initial promotional period. (See accompanying footnotes on pages 38 through 44 for more details.)

*Three Months:* For the three months ended September 30, 2011 and 2010, our conversion rate was 44.4% and 48.1%, respectively. The decrease was primarily due to the changing mix of sales among OEMs and operational issues impacting the timing of the receipt of customer information and prompt marketing communications with buyers and lessees of vehicles.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, our conversion rate was 44.7% and 46.6%, respectively. The decrease was primarily due to the changing mix of sales among OEMs and operational issues impacting the timing of the receipt of customer information and prompt marketing communications with buyers and lessees of vehicles.

**Adjusted Results of Operations**

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

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

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

Free cash flow is a metric that our management and Board of Directors use to evaluate the cash generated by our operations, net of capital expenditures and other investment activity. In a capital intensive business, with significant historical and current investments in satellites, we look at our operating cash flow, net of these investing cash outflows, to determine cash available for future subscriber acquisition and capital expenditures, to repurchase or retire debt, to acquire other companies and to evaluate our ability to return capital to stockholders. We believe free cash flow is an indicator of the long-term financial stability of our business. Free cash flow, which is reconciled to Net cash provided by (used in) operating activities, is a financial measure that is not calculated and presented in accordance with generally accepted accounting principles in the United States of America. This measure can be calculated by deducting amounts under the captions Additions to property and equipment and deducting or adding Restricted and other investment activity from Net cash provided by (used in) operating activities from the consolidated statements of cash flows. Free cash flow should be used in conjunction with other GAAP financial performance measures and may not be comparable to free cash flow measures presented by other companies. Free

cash flow should be viewed as a supplemental measure rather than an alternative measure of cash flows from operating activities, as determined in accordance with GAAP. Free cash flow is limited and does not represent remaining cash flows available for discretionary expenditures due to the fact that the measure does not deduct the payments required for debt maturities. We believe free cash flow provides useful supplemental information to investors regarding our current and projected cash flow, along with other GAAP measures (such as cash flows from operating and investing activities), to determine our financial condition and, to compare our operating performance to other communications, entertainment and media companies.

We believe these Non-GAAP financial measures provide useful information to investors regarding our financial condition and results of operations. We believe investors find these Non-GAAP financial performance measures useful in evaluating our core trends



**Table of Contents**

because it provides a direct view of our underlying contractual costs. We believe investors use our current and projected adjusted EBITDA to estimate our current or prospective enterprise value and to make investment decisions. By providing these Non-GAAP financial measures, together with the reconciliations to the most directly comparable GAAP measure, we believe we are enhancing investors' understanding of our business and our results of operations. These Non-GAAP financial measures should be viewed in addition to, and not as an alternative for or superior to, our reported results prepared in accordance with GAAP. Please refer to the footnotes (pages 38 through 44) for a further discussion of such Non-GAAP financial measures and reconciliations to the most directly comparable GAAP measure.

The following table contains our key operating metrics based on our unaudited adjusted results of operations for the three and nine months ended September 30, 2011 and 2010, respectively:

<i>(in thousands, except for per subscriber amounts)</i>	<b>Unaudited</b>			
	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
ARPU (3)	\$ 11.66	\$ 11.81	\$ 11.57	\$ 11.70
SAC, per gross subscriber addition (4)	\$ 55	\$ 59	\$ 55	\$ 59
Customer service and billing expenses, per average subscriber (5)	\$ 1.01	\$ 1.02	\$ 1.03	\$ 1.00
Free cash flow (6)	\$ 75,377	\$ 61,998	\$ 223,936	\$ 43,126
Adjusted total revenue (8)	\$ 764,842	\$ 722,537	\$ 2,239,737	\$ 2,098,659
Adjusted EBITDA (7)	\$ 197,288	\$ 169,727	\$ 563,741	\$ 481,799

Note: See pages 38 through 44 for footnotes.

*ARPU* is derived from total earned subscriber revenue, net advertising revenue and other subscription-related revenue, net of purchase price accounting adjustments, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. (See accompanying footnotes on pages 38 through 44 for more details.)

*Three Months:* For the three months ended September 30, 2011 and 2010, ARPU was \$11.66 and \$11.81, respectively. The decrease was driven primarily by an increase in subscription discounts offered through customer acquisition and retention programs, the number of subscribers on OEM paid promotional plans and the decrease in the U.S. Music Royalty Fee, partially offset by an increase in sales of our premium services, including Premier packages, data services and streaming.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, ARPU was \$11.57 and \$11.70, respectively. The decrease was driven primarily by an increase in subscription discounts offered through customer acquisition and retention programs and the decrease in the U.S. Music Royalty Fee, partially offset by an increase in sales of our premium services, including Premier packages, data services and streaming.

*SAC, Per Gross Subscriber Addition* is derived from subscriber acquisition costs and margins from the direct sale of radios and accessories, excluding share-based payment expense and purchase price accounting adjustments, divided by the number of gross subscriber additions for the period. (See accompanying footnotes on pages 38 through 44 for more details.)

*Three Months:* For the three months ended September 30, 2011 and 2010, SAC, per gross subscriber addition was \$55 and \$59, respectively. The decrease was primarily due to lower per radio subsidy rates for certain OEMs and growth in subscriber reactivations and royalties from radio manufacturers, partially offset by an increase in OEM production with factory-installed satellite radios compared to the three months ended September 30, 2010.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, SAC, per gross subscriber addition was \$55 and \$59, respectively. The decrease was primarily due to lower per radio subsidy rates for certain OEMs and growth in subscriber reactivations and royalties from radio manufacturers.

*Customer Service and Billing Expenses, Per Average Subscriber* is derived from total customer service and billing expenses, excluding share-based payment expense and purchase price accounting adjustments, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. (See accompanying footnotes on pages 38 through 44 for more details.)

*Three Months:* For the three months ended September 30, 2011 and 2010, customer service and billing expenses, per average subscriber was \$1.01 and \$1.02, respectively. The decrease was primarily due to

**Table of Contents**

lower general operating costs, partially offset by higher call volume, handle time per call, increased agent rates and personnel costs associated with the 8% growth in daily weighted average subscribers.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, customer service and billing expenses, per average subscriber was \$1.03 and \$1.00, respectively. The increase was primarily due to higher call volume, handle time per call and personnel costs, partially offset by lower agent rates, general operating costs and the 8% growth in daily weighted average subscribers.

*Free Cash Flow* includes the net cash provided by operations, additions to property and equipment, merger related costs and restricted and other investment activity. (See accompanying footnotes on pages 38 through 44 for more details.)

*Three Months:* For the three months ended September 30, 2011 and 2010, free cash flow was \$75,377 and \$61,998, respectively, an increase of \$13,379. Net cash provided by operating activities decreased \$34,915 to \$115,144 for the three months ended September 30, 2011 compared to the \$150,059 provided by operations for the three months ended September 30, 2010. Capital expenditures for property and equipment for the three months ended September 30, 2011 decreased \$48,294 to \$39,767 compared to \$88,061 for the three months ended September 30, 2010. The decrease in net cash provided by operating activities was primarily the result of the timing of prepayments made to content providers, partially offset by improved operating performance driving higher adjusted EBITDA. The decrease in capital expenditures for the three months ended September 30, 2011 was primarily the result of decreased satellite construction and launch expenditures due to the launch in the fourth quarter of 2010 of our XM-5 satellite.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, free cash flow was \$223,936 and \$43,126, respectively, an increase of \$180,810. Net cash provided by operating activities increased \$37,588 to \$328,634 for the nine months ended September 30, 2011 compared to the \$291,046 provided by operations for the nine months ended September 30, 2010. Capital expenditures for property and equipment for the nine months ended September 30, 2011 decreased \$142,309 to \$115,065 compared to \$257,374 for the nine months ended September 30, 2010. Cash provided by restricted and other investing activities increased \$913 for the nine months ended September 30, 2011. The increase in net cash provided by operating activities was primarily the result of improved operating performance driving higher adjusted EBITDA, cash received from the Canada Merger, higher collections from subscribers and distributors, and the repayment in the first quarter of 2010 of liabilities deferred in 2009. The decrease in capital expenditures for the nine months ended September 30, 2011 was primarily the result of decreased satellite construction and launch expenditures due to the launch in the fourth quarter of 2010 of our XM-5 satellite. The increase in restricted and other investment activities was driven by the return of capital resulting from the Canada Merger, partially offset by proceeds from the sale of investment securities in the nine months ended September 30, 2010.

*Adjusted Total Revenue.* Our adjusted total revenue includes the recognition of deferred subscriber revenues acquired in the Merger that are not recognized in our results under purchase price accounting and the elimination of the benefit in earnings from deferred revenue associated with our investment in XM Canada acquired in the Merger. (See accompanying footnotes on pages 38 through 44 for more details.)

<i>(in thousands)</i>	<b>For the Three Months Ended September 30,</b>		<b>Unaudited For the Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Revenue:				
Subscriber revenue	\$ 660,837	\$ 612,119	\$ 1,922,917	\$ 1,793,258
Advertising revenue, net of agency fees	18,810	15,973	53,595	46,296
Equipment revenue	15,504	17,823	48,392	50,625
Other revenue	67,399	71,633	205,882	190,914

Purchase price accounting  
adjustments:

Subscriber revenue	479	3,176	3,513	12,128
Other revenue	1,813	1,813	5,438	5,438
Adjusted total revenue	\$ 764,842	\$ 722,537	\$ 2,239,737	\$ 2,098,659

*Adjusted EBITDA.* EBITDA is defined as net income (loss) before interest and investment income (loss); interest expense, net of amounts capitalized; income tax expense and depreciation and amortization. Adjusted EBITDA removes the impact of other income and expense, losses on extinguishment of debt as well as certain other charges, such as goodwill impairment; restructuring, impairments and related costs; certain purchase price accounting adjustments and share-based payment expense. (See accompanying footnotes on pages 38 through 44 for more details):

*Three Months:* For the three months ended September 30, 2011 and 2010, adjusted EBITDA was \$197,288 and \$169,727, respectively, an increase of 16%, or \$27,561. The increase was primarily due to an increase of 6%, or \$42,305, in adjusted

**Table of Contents**

revenues, partially offset by an increase of 3%, or \$14,744, in expenses included in adjusted EBITDA. The increase in adjusted revenues was primarily due to the increase in our subscriber base. The increase in expenses was primarily driven by higher revenue share and royalties expenses associated with growth in revenues and increased customer service and billing expenses associated with subscriber growth, partially offset by lower programming and content costs.

*Nine Months:* For the nine months ended September 30, 2011 and 2010, adjusted EBITDA was \$563,741 and \$481,799, respectively, an increase of 17%, or \$81,942. The increase was primarily due to an increase of 7%, or \$141,078, in adjusted revenues, partially offset by an increase of 4%, or \$59,136, in expenses included in adjusted EBITDA. The increase in adjusted revenues was primarily due to the increase in our subscriber base and the additional subscribers subject to the U.S. Music Royalty Fee. The increase in expenses was primarily driven by higher revenue share and royalties expenses associated with growth in revenues, increased customer service and billing expenses associated with subscriber growth and higher subscriber acquisition costs related to the 12% increase in gross additions, partially offset by lower programming and content costs.

**Liquidity and Capital Resources*****Cash Flows for the Nine Months Ended September 30, 2011 Compared with the Nine Months Ended September 30, 2010***

As of September 30, 2011 and December 31, 2010, we had \$604,592 and \$586,691, respectively, of cash and cash equivalents. The following table presents a summary of our cash flow activity for the periods set forth below:

	<b>For the Nine Months Ended September 30,</b>		
	<b>2011</b>	<b>2010</b>	<b>2011 vs. 2010</b>
Net cash provided by operating activities	\$ 328,634	\$ 291,046	\$ 37,588
Net cash used in investing activities	(104,698)	(247,920)	143,222
Net cash used in financing activities	(206,035)	(110,360)	(95,675)
Net increase (decrease) in cash and cash equivalents	17,901	(67,234)	85,135
Cash and cash equivalents at beginning of period	586,691	383,489	203,202
Cash and cash equivalents at end of period	\$ 604,592	\$ 316,255	\$ 288,337

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

Cash provided by operating activities increased by \$37,588, or 13%, to \$328,634 for the nine months ended September 30, 2011 from cash provided by operating activities of \$291,046 for the nine months ended September 30, 2010. The primary drivers of our operating cash flow growth have been improvements in profitability and changes in operating assets and liabilities.

Our net income was \$355,624 and \$124,499 for the nine months ended September 30, 2011 and 2010, respectively. The increase in net income was primarily due to an increase in our subscriber revenues of \$129,659, or 7%, for the nine months ended September 30, 2011.

Adjustments to net income were \$33,089 and \$182,131 for the nine months ended September 30, 2011 and 2010, respectively. Significant components of adjustments to net income, and their impact on cash flows from operating activities, include the following:

	<b>For the Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Depreciation and amortization	\$ 200,865	\$ 206,945

Edgar Filing: SIRIUS XM RADIO INC. - Form 10-Q

Loss on extinguishment of debt and credit facilities, net	7,206	34,695
Gain on merger of unconsolidated entities	(84,855)	
Share-based payment expense	37,574	50,944
Other non-cash purchase price adjustments	(203,630)	(184,703)

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

**Table of Contents**

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

Gain on merger of unconsolidated entities represents the gain on the Canada Merger which closed in June 2011.

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

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

Changes in operating assets and liabilities reduced operating cash flows for the nine months ended September 30, 2011 and 2010, by (\$60,079) and (\$15,584), respectively. Significant changes in operating assets and liabilities include the timing of collections from our customers, the repayment of the XM Canada credit facility and the timing of payments to vendors and related parties. As we continue to grow our subscriber and revenue base, we expect that deferred revenue and amounts due from customers and distributors will continue to increase. Amounts payable to vendors are also expected to increase as our business grows. The timing of payments to vendors and related parties are based on both contractual commitments and the terms and conditions of each of our vendors.

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

Cash used for investing activities consists primarily of capital expenditures for property and equipment. We will continue to incur significant costs to improve our terrestrial repeater network and broadcast and administrative infrastructure. In addition, we will continue to incur capital expenditures associated with our FM-6 satellite, which is scheduled for launch early next year. After the launch of our FM-6 satellite, we anticipate no satellite capital expenditures for several years until it becomes necessary to replace satellites in our fleet.

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

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

***Financings and Capital Requirements***

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

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

As disclosed in Note 14 to our unaudited consolidated financial statements, as of September 30, 2011, we are contractually obligated to incur capital expenditures of approximately \$9,760 and \$55,680 in 2011 and 2012, respectively, the majority of which is attributable to the construction and launch of our FM-6 satellite and related launch vehicle.

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

Our ability to meet our debt and other obligations depends on our future operating performance and on economic, financial, competitive and other factors. We continually review our operations for opportunities to adjust the timing of

expenditures to ensure



**Table of Contents**

that sufficient resources are maintained. Our financial projections are based on assumptions, which we believe are reasonable but contain significant uncertainties.

We regularly evaluate our business plans and strategy. These evaluations often result in changes to our business plans and strategy, some of which may be material and significantly change our cash requirements. These changes in our business plans or strategy may include: the acquisition of unique or compelling programming; the introduction of new features or services; significant new or enhanced distribution arrangements; investments in infrastructure, such as satellites, equipment or radio spectrum; and acquisitions, including acquisitions that are not directly related to our satellite radio business.

***Debt Covenants***

The indentures governing our debt include restrictive covenants. As of September 30, 2011, we were in compliance with our debt covenants.

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

***Off-Balance Sheet Arrangements***

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

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

In May 2009, our stockholders approved the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan (the 2009 Plan). Employees, consultants and members of our board of directors are eligible to receive awards under the 2009 Plan, which provides for the grant of stock options, restricted stock, restricted stock units and other stock-based awards that the compensation committee of our board of directors may deem appropriate. Vesting and other terms of stock-based awards are set forth in the agreements with the individuals receiving the awards. Stock-based awards granted under the 2009 Plan are generally subject to a vesting requirement. Stock-based awards generally expire ten years from the date of grant. Each restricted stock unit entitles the holder to receive one share of common stock upon vesting. As of September 30, 2011, approximately 196,121,000 shares of common stock were available for future grants under the 2009 Plan.

***Other Plans***

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

***Contractual Cash Commitments***

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

***Related Party Transactions***

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

***Critical Accounting Policies and Estimates***

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

**Table of Contents****Footnotes**

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

	<b>Unaudited</b>			
	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Subscriber revenue (GAAP)	\$ 660,837	\$ 612,119	\$ 1,922,917	\$ 1,793,258
Add: net advertising revenue (GAAP)	18,810	15,973	53,595	46,296
Add: other subscription-related revenue (GAAP)	58,168	63,554	174,341	168,195
Add: purchase price accounting adjustments	479	3,176	3,513	12,128
	<b>\$ 738,294</b>	<b>\$ 694,822</b>	<b>\$ 2,154,366</b>	<b>\$ 2,019,877</b>
Daily weighted average number of subscribers	21,107,540	19,610,837	20,688,641	19,181,040
ARPU	\$ 11.66	\$ 11.81	\$ 11.57	\$ 11.70

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

	<b>Unaudited</b>	
	<b>For the Three Months Ended September 30,</b>	<b>For the Nine Months Ended September 30,</b>

Edgar Filing: SIRIUS XM RADIO INC. - Form 10-Q

	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Subscriber acquisition costs (GAAP)	\$ 107,279	\$ 105,984	\$ 317,711	\$ 305,745
Less: margin from direct sales of radios and accessories (GAAP)	(9,616)	(11,360)	(28,498)	(28,438)
Add: purchase price accounting adjustments	20,620	20,889	64,086	58,855
	\$ 118,283	\$ 115,513	\$ 353,299	\$ 336,162
Gross subscriber additions	2,138,131	1,952,054	6,369,846	5,693,409
SAC, per gross subscriber addition	\$ 55	\$ 59	\$ 55	\$ 59

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

**Table of Contents**

	<b>For the Three Months Ended September 30,</b>		<b>Unaudited For the Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Customer service and billing expenses (GAAP)	\$ 64,239	\$ 60,613	\$ 192,667	\$ 175,238
Less: share-based payment expense, net of purchase price accounting adjustments	(402)	(700)	(1,077)	(2,157)
Add: purchase price accounting adjustments		54	18	226
	\$ 63,837	\$ 59,967	\$ 191,608	\$ 173,307
Daily weighted average number of subscribers	21,107,540	19,610,837	20,688,641	19,181,040
Customer service and billing expenses, per average subscriber	\$ 1.01	\$ 1.02	\$ 1.03	\$ 1.00

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

	<b>For the Three Months Ended September 30,</b>		<b>Unaudited For the Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net cash provided by operating activities	\$ 115,144	\$ 150,059	\$ 328,634	\$ 291,046
Additions to property and equipment	(39,767)	(88,061)	(115,065)	(257,374)
Restricted and other investment activity			10,367	9,454
Free cash flow	\$ 75,377	\$ 61,998	\$ 223,936	\$ 43,126

(7) EBITDA is defined as net income before interest and investment income (loss); interest expense, net of amounts capitalized; income tax expense and depreciation and amortization. We adjust EBITDA to remove the impact of other income and expense, loss on extinguishment of debt as well as certain other charges discussed below. This measure is one of the primary Non-GAAP financial measures on which we (i) evaluate the performance of our businesses, (ii) base our internal budgets and (iii) compensate management. Adjusted EBITDA is a Non-GAAP financial performance measure that excludes (if applicable): (i) certain adjustments as a result of the purchase price accounting for the Merger, (ii) goodwill impairment, (iii) restructuring, impairments, and related costs, (iv) depreciation and amortization and (v) share-based payment expense. The purchase price accounting adjustments include: (i) the elimination of deferred revenue associated with the investment in XM Canada, (ii) recognition of deferred subscriber revenues not recognized in purchase price accounting, and (iii) elimination of the benefit of deferred credits on executory contracts, which are primarily attributable to third party

arrangements with an OEM and programming providers. We believe adjusted EBITDA is a useful measure of the underlying trend of our operating performance, which provides useful information about our business apart from the costs associated with our physical plant, capital structure and purchase price accounting. We believe investors find this Non-GAAP financial measure useful when analyzing our results and comparing our operating performance to the performance of other communications, entertainment and media companies. We believe investors use current and projected adjusted EBITDA to estimate our current and prospective enterprise value and to make investment decisions. Because we fund and build-out our satellite radio system through the periodic raising and expenditure of large amounts of capital, our results of operations reflect significant charges for depreciation expense. The exclusion of depreciation and amortization expense is useful given significant variation in depreciation and amortization expense that can result from the potential variations in estimated useful lives, all of which can vary widely across different industries or among companies within the same industry. We believe the exclusion of restructuring, impairments and related costs is useful given the nature of these expenses. We also believe the exclusion of share-based payment expense is useful given the significant variation in expense that can result from changes in the fair value as determined using the Black-Scholes-Merton model which varies based on assumptions used for the expected life, expected stock price volatility and risk-free interest rates.

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

**Table of Contents**

	<b>For the Three Months Ended September 30,</b>		<b>Unaudited For the Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net income (GAAP):	\$ 104,185	\$ 67,629	\$ 355,624	\$ 124,499
Add back items excluded from Adjusted EBITDA:				
Purchase price accounting adjustments:				
Revenues (see pages 41-44)	2,292	4,989	8,951	17,566
Operating expenses (see pages 41-44)	(68,878)	(66,438)	(205,472)	(193,904)
Share-based payment expense, net of purchase price accounting adjustments	13,983	18,390	37,755	53,277
Depreciation and amortization (GAAP)	65,403	67,450	200,865	206,945
Restructuring, impairments and related costs		2,267		4,071
Interest expense, net of amounts capitalized (GAAP)	75,316	68,559	229,730	223,230
Loss on extinguishment of debt and credit facilities, net (GAAP)		256	7,206	34,695
Interest and investment (income) loss (GAAP)	(292)	4,305	(78,590)	7,197
Other income (GAAP)	(435)	(1,108)	(2,235)	(1,837)
Income tax expense (GAAP)	5,714	3,428	9,907	6,060
Adjusted EBITDA	\$ 197,288	\$ 169,727	\$ 563,741	\$ 481,799

**Table of Contents**

(8) The following tables reconcile our actual revenues and operating expenses to our adjusted revenues and operating expenses for the three and nine months ended September 30, 2011 and 2010:

	<b>Unaudited For the Three Months Ended September 30, 2011</b>			
	<b>As Reported</b>	<b>Purchase Price Accounting Adjustments</b>	<b>Allocation of Share-based Payment Expense</b>	<b>Adjusted</b>
<i>(in thousands)</i>				
Revenue:				
Subscriber revenue	\$ 660,837	\$ 479	\$	\$ 661,316
Advertising revenue, net of agency fees	18,810			18,810
Equipment revenue	15,504			15,504
Other revenue	67,399	1,813		69,212
<b>Total revenue</b>	<b>\$ 762,550</b>	<b>\$ 2,292</b>	<b>\$</b>	<b>\$ 764,842</b>
Operating expenses				
Cost of services:				
Revenue share and royalties	117,043	32,293		149,336
Programming and content	70,509	12,034	(1,275)	81,268
Customer service and billing	64,239		(402)	63,837
Satellite and transmission	19,681		(735)	18,946
Cost of equipment	5,888			5,888
Subscriber acquisition costs	107,279	20,620		127,899
Sales and marketing	55,210	3,931	(2,165)	56,976
Engineering, design and development	14,175		(1,291)	12,884
General and administrative	58,635		(8,115)	50,520
Depreciation and amortization (a)	65,403			65,403
Restructuring, impairments and related costs				
Share-based payment expense (b)			13,983	13,983
<b>Total operating expenses</b>	<b>\$ 578,062</b>	<b>\$ 68,878</b>	<b>\$</b>	<b>\$ 646,940</b>

(a) Purchase price accounting adjustments included above exclude the incremental depreciation and amortization associated with the \$785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the three months ended September 30, 2011 was \$15,000.

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

Programming and content	\$ 1,275	\$	\$	\$ 1,275
Customer service and billing	402			402
Satellite and transmission	735			735
Sales and marketing	2,165			2,165
Engineering, design and development	1,291			1,291
General and administrative	8,115			8,115

Total share-based payment expense	\$ 13,983	\$	\$	\$ 13,983
-----------------------------------	-----------	----	----	-----------

41

---



**Table of Contents**

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

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

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

Programming and content	\$ 3,148	\$ 81	\$	\$ 3,229
Customer service and billing	646	54		700
Satellite and transmission	1,042	51		1,093
Sales and marketing	2,732	80		2,812
Engineering, design and development	1,683	93		1,776
General and administrative	8,610	170		8,780
<b>Total share-based payment expense</b>	<b>\$ 17,861</b>	<b>\$ 529</b>	<b>\$</b>	<b>\$ 18,390</b>



**Table of Contents****Unaudited For the Nine Months Ended September 30, 2011**

<i>(in thousands)</i>	<b>As Reported</b>	<b>Purchase Price Accounting Adjustments</b>	<b>Allocation of Share-based Payment Expense</b>	<b>Adjusted</b>
Revenue:				
Subscriber revenue	\$ 1,922,917	\$ 3,513	\$	\$ 1,926,430
Advertising revenue, net of agency fees	53,595			53,595
Equipment revenue	48,392			48,392
Other revenue	205,882	5,438		211,320
<b>Total revenue</b>	<b>\$ 2,230,786</b>	<b>\$ 8,951</b>	<b>\$</b>	<b>\$ 2,239,737</b>
Operating expenses				
Cost of services:				
Revenue share and royalties	340,713	93,359		434,072
Programming and content	210,867	36,645	(4,745)	242,767
Customer service and billing	192,667	18	(1,077)	191,608
Satellite and transmission	57,238	313	(1,867)	55,684
Cost of equipment	19,894			19,894
Subscriber acquisition costs	317,711	64,086		381,797
Sales and marketing	154,471	10,961	(5,654)	159,778
Engineering, design and development	39,249	31	(3,407)	35,873
General and administrative	175,469	59	(21,005)	154,523
Depreciation and amortization (a)	200,865			200,865
Restructuring, impairments and related costs				
Share-based payment expense (b)			37,755	37,755
<b>Total operating expenses</b>	<b>\$ 1,709,144</b>	<b>\$ 205,472</b>	<b>\$</b>	<b>\$ 1,914,616</b>

(a) Purchase price accounting adjustments included above exclude the incremental depreciation and amortization associated with the \$785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the nine months ended September 30, 2011 was \$45,000.

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

Programming and content	\$ 4,718	\$ 27	\$	\$ 4,745
Customer service and billing	1,059	18		1,077
Satellite and transmission	1,848	19		1,867
Sales and marketing	5,627	27		5,654
Engineering, design and development	3,376	31		3,407
General and administrative	20,946	59		21,005
<b>Total share-based payment expense</b>	<b>\$ 37,574</b>	<b>\$ 181</b>	<b>\$</b>	<b>\$ 37,755</b>



**Table of Contents****Unaudited For the Nine Months Ended September 30, 2010**

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

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

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

Programming and content	\$ 7,760	\$ 369	\$	\$ 8,129
Customer service and billing	1,931	226		2,157
Satellite and transmission	2,960	236		3,196
Sales and marketing	7,930	344		8,274
Engineering, design and development	4,905	427		5,332
General and administrative	25,458	731		26,189
<b>Total share-based payment expense</b>	<b>\$ 50,944</b>	<b>\$ 2,333</b>	<b>\$</b>	<b>\$ 53,277</b>



**Table of Contents**

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

As of September 30, 2011, we did not have any derivative financial instruments. We do not hold or issue any free-standing derivatives. We hold investments in marketable securities consisting of money market funds, and we also hold certificates of deposit and investments in debt and equity securities of other entities. We classify our investments in marketable securities as available-for-sale. These securities are consistent with the objectives in our investment policy. The basic objectives of our investment policy are the preservation of capital, maintaining sufficient liquidity to meet operating requirements and maximizing yield.

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

**ITEM 4. CONTROLS AND PROCEDURES**

***Controls and Procedures***

As of September 30, 2011, an evaluation was performed under the supervision and with the participation of our management, including Mel Karmazin, our Chief Executive Officer, and David J. Frear, our Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as that term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act). Based on that evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of September 30, 2011. There has been no change in our internal control over financial reporting (as that term is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act) during the quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

*State Consumer Investigations.* A Multistate Working Group of 30 State Attorneys General, led by the Attorney General of the State of Ohio, is investigating certain of our consumer practices. The investigation focuses on practices relating to the cancellation of subscriptions; automatic renewal of subscriptions; charging, billing, collecting, and refunding or crediting of payments from consumers; and soliciting customers.

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

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

*Carl Blessing et al. v. Sirius XM Radio Inc.* We have settled the case titled Carl Blessing et al. v. Sirius XM Radio Inc. and the settlement has been approved by the United States District Court for the Southern District of New York.

Carl Blessing, a subscriber, filed a lawsuit against us in the United States District Court for the Southern District of New York. Mr. Blessing and several other plaintiffs purported to represent all subscribers who were subject to: an increase in the price for additional-radio subscriptions from \$6.99 to \$8.99; the imposition of the US Music Royalty Fee; and the elimination of our free streaming internet service. The suit claimed that the pricing changes showed that our merger with XM lessened competition or led to a monopoly in violation of the Clayton Act and that the merger led to monopolization in violation of the Sherman Act. Earlier the Court dismissed the plaintiffs' claims for breach of contract and granted our motion for summary judgment as to various state law claims.

As part of the settlement, we agreed not to: raise the price of our basic satellite radio service, our other programming packages or our internet streaming services; increase our US Music Royalty Fee; or decrease our multi-radio discount. Existing subscribers may also renew their current subscription plans at our current rates prior to December 31, 2011. Former subscribers who terminated their subscriptions after July 29, 2009 are entitled to receive,

at their election, either: one month of our basic satellite radio service or one

45

---



**Table of Contents**

month of our Internet streaming, at no charge. We also paid the costs of providing notice to the plaintiff class and reimbursed counsel for the plaintiffs for \$13 million of their fees and expenses.

Notices of appeal have been filed by 11 individuals seeking to overturn the settlement.

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

We filed a motion for summary judgment on the basis that the 2004 agreement is unambiguous; specifically, that the term Sirius subscribers, as used in the 2004 agreement, does not include subscribers to XM Satellite Radio following the merger and, as a result, One Twelve and Buchwald were not entitled to additional compensation for exceeding projected growth amounts of Sirius subscribers. The Court has heard oral argument on our motion for summary judgment in September 2011.

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

**ITEM 1A. RISK FACTORS**

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

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

Not applicable.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

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

**ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS**

See Exhibit Index attached hereto.

**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 3rd day of November 2011.

SIRIUS XM RADIO INC.

By: /s/ David J. Frear

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

47

---

**Table of Contents**

**EXHIBIT INDEX**

**Exhibit Description**

- 10.1\* Employment Agreement, dated as of July 21, 2011, between the Company and David J. Frear (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 22, 2011).
- 10.2\* Employment Agreement, dated as of August 23, 2011, between the Company and Dara F. Altman (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 24, 2011).
- 31.1 Certificate of Mel Karmazin, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certificate of David J. Frear, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1 Certificate of Mel Karmazin, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.2 Certificate of David J. Frear, Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 101.1\*\* The following financial information from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 formatted in eXtensible Business Reporting Language (XBRL): (i) Unaudited Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010; (ii) Consolidated Balance Sheets as of September 30, 2011 (Unaudited) and December 31, 2010; (iii) Unaudited Consolidated Statements of Stockholder's Equity as of September 30, 2011 and Comprehensive Income for the nine months ended September 30, 2011; (iv) Unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010; and (v) Notes to Unaudited Consolidated Financial Statements.

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

\*\* In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101.1 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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