



**PROXY STATEMENT
AND
2010 ANNUAL REPORT**

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April 2011



Dear Fellow Stockholders,

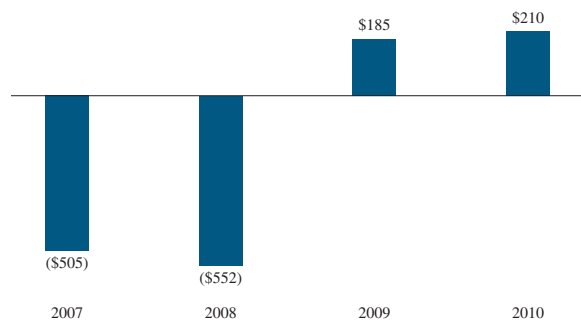
The past year was a record breaking one for SiriusXM.

- Subscribers grew to a record number, with more than 20 million at the end of 2010.
- Free cash flow reached new heights of \$210 million.
- Revenue hit \$2.82 billion, up 14% over 2009.
- Adjusted EBITDA was \$626 million, up 35% over 2009.

We surpassed our guidance on every measure in 2010.

At the beginning of 2010, we told investors that we would grow our subscriber base by 500,000 and we blew that out of the water, delivering 1.4 million new subscribers in 2010. Our free cash flow also exceeded our annual expectations, which is even more significant given that as recently as 2008, free cash flow was *negative* \$552 million. As many of you know, I view free cash flow as the most important measure of a company's performance. It's free cash flow that enables a company to pay down debt, make acquisitions, or return capital to stockholders.

Growing Free Cash Flow (\$ mm)



These results are impressive viewed through any lens, but when you think about how far we have come and the competitive and economic landscape in which we operate, what we have accomplished is truly remarkable. With disciplined execution and clear direction, we successfully navigated a fragile economic environment, an auto industry that is only now beginning to recover and a transformed media landscape with

new competitors emerging almost daily, challenges that have left many other companies on the sidelines.

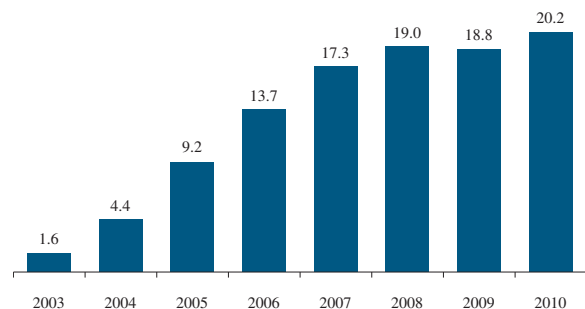
The future has never looked brighter for SiriusXM.

We have the best radio on radio and the quality of our programming keeps getting better, with over 135 channels of commercial-free music, premier sports, news, talk, entertainment, traffic, weather, and data services. We have set a new standard in programming with special events, such as our exclusive Paul McCartney concert in December. We have the best sports programming on radio with content that now covers every major league and event of interest to our subscribers from action in the dug-outs at spring training to the pits at the Daytona 500. In the last year, we also have successfully re-signed every major contract that has come up for renewal, including Howard Stern and the NFL, both of which we have secured through 2015.

Our exceptional programming is clearly paying off as we are continuing to draw listeners.

At the end of 2010, there were a record 20.2 million SiriusXM subscribers.

Increasing Subscribers (mm)



On a net basis, we added 1.4 million new subscribers, representing a year-over-year growth rate of nearly 8%. This is impressive growth for a business that had already scaled to be one of the largest subscriber businesses in this country by the end of 2009. In the last year, our conversion rate moving consumers on trials to self-pay subscribers continued to improve and our self-pay churn declined. We grew our self-pay

subscriber base alone by nearly 1 million subscribers in 2010. Six times as many new customers chose to pay for our service in 2010 than in 2009.

At the same time, we remain focused on customer service and are continuing to study ways to improve and enhance our customer service experience. Early this year, we added improvements to our website to allow customers to more easily manage their accounts online. We expect to continue to look for ways to make purchasing a subscription to our service, managing subscribers' accounts and even finding answers to questions, quick and easy.

We continue to find new and better ways for subscribers to access SiriusXM.

Today SiriusXM is available through every major automaker as factory or dealer-installed equipment in new cars. Our factory penetration across vehicles sold in the U.S. market is up to 62% last year from 56% in 2009. Our entrance into the pre-owned vehicle market is also starting to bear fruit and is developing along the lines we expected. We are also encouraged by the return of consumer confidence in the auto industry. In addition, sales of our radios at retail locations nationwide and through our websites continue to be important distribution outlets for us.

While the car is often our first point of entry with a subscriber, we are increasingly expanding the platforms through which we are offering our content. Consumers demand mobility and with SiriusXM they have it. We have fully penetrated the smartphone market with increasingly popular apps for the iPhone, iPad, iPod touch, Blackberry and Android platforms. We are also offering more and more content through our mobile apps and are pleased that our new agreements with Howard Stern and the NFL provide for them to be available on smartphones to our subscribers.

As consumers have shown in their demand for access through mobile devices, our subscribers want more control over when, where and what they are listening to. With this in mind, we are working to bring SiriusXM 2.0 into the marketplace later in 2011. We expect that SiriusXM 2.0 will increase both content and functionality for our subscribers. We are planning to expand our audio content lineup by a significant number of channels. We are also improving and expanding functionality. Subscribers will be able to buy music from their radio. We will also have DVR-like capabilities that consumers have become accustomed to with pause and replay, as well as record and playback. We are very excited about this advanced

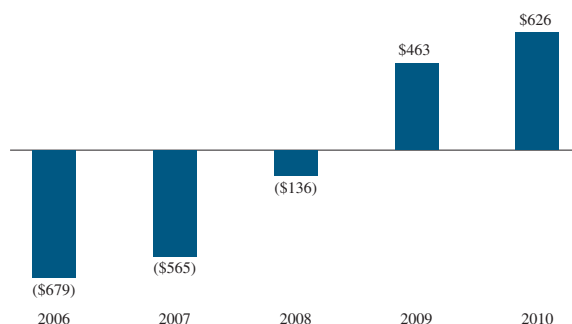
listening platform and believe our subscribers will be as well.

We are also excited about our satellite radio services in Canada. We own a minority stake in both SIRIUS Canada and Canadian Satellite Radio Holdings, also known as XM Canada. Both companies offer over 120 channels of music, news, sports, talk and entertainment programming, and have over 1.7 million subscribers on a combined basis. In November 2010, the two companies announced a definitive agreement to combine in a stock-for-stock transaction. The transaction is subject to regulatory review and approvals, but we expect that this merger will pave the way for our service to continue to grow and flourish in Canada. Upon completion of the merger, we will have a 37.1% economic interest in the combined Canadian entity.

Our financial strength and flexibility has never been better.

As of December 31, 2010, we had only \$198 million of debt maturing before 2013. In the first two months of 2011, we further reduced that to \$104 million. In addition, our overall debt levels compared to our revenue and adjusted EBITDA is manageable, reasonable and, most importantly, declining. In 2010, we moved quickly to take advantage of favorable debt markets to extend maturities and reduce the interest rate on our outstanding debt. As we go forward, we plan to be opportunistic and search for ways to improve our balance sheet for the benefit of our stockholders.

Improving Adjusted EBITDA (\$ mm)



Our capital expenditures are decreasing and this is a positive for us. We successfully placed a new satellite into orbit at the end of 2010. In the fourth quarter of 2011, we will complete our satellite replacement cycle. We expect our satellite capital expenditures to decline by nearly \$90 million in 2011, and by another \$100 million in 2012 to nearly zero. We do not expect to begin construction of another satellite before late 2016 or 2017.

SiriusXM continues to offer a compelling investor rationale.

We have improving EBITDA, declining satellite capital expenditures, reduced interest payments, and, thanks to our legacy net operating losses, the prospect of no meaningful income taxes for years to come, all of which will contribute to our free cash flow growth. We believe we have the assets, financial flexibility, and the business savvy to achieve our growth expectations and we expect to continue to be a leader in the audio entertainment industry in the years ahead.

As we look for the best ways to put our increasing cash position to work, it is important to note that we are closing in on our target leverage ratio of three times adjusted EBITDA. We are always looking for opportunities that may provide a long-term strategic advantage for our stockholders, but have yet to see a new technology or a company that we believe offers this. The Board will be continuing to review opportunities to put any excess cash to work, and I would expect that we may return capital to stockholders over time.

At December 31, 2010, SiriusXM had an equity capitalization of over \$10 billion. Our equity capitalization at December 31, 2010 was greater than approximately 95% of the companies listed on The NASDAQ Global Select Market. Our common stock is one of the most liquid securities on NASDAQ in terms of average daily volume and total volume, and the stock is owned by substantial institutional investors. In

2010, our common stock was also added to the NASDAQ Q-50 Index, an index designed to track the performance of the fifty securities that are next in line to replace the securities currently included in the NASDAQ-100 Index.

We have an outstanding team of employees who are focused on increasing revenue, managing costs, delivering profits and innovating. Everyone recognizes that our success starts by improving the subscriber experience — whether through new programming, expanded access or improved customer service. The media industry is rife with competition, but we are confident in our services. We will continue to push ourselves to offer listeners the best radio on radio everywhere and anywhere they want to listen.

It is an honor to serve the Company and a thrill to think about what we can accomplish moving forward. Thank you for your confidence and support.

Sincerely,

A handwritten signature in black ink that reads "Mel Karmazin". The signature is fluid and cursive, with a horizontal line extending from the end of the name.

MEL KARMAZIN
Chief Executive Officer
SiriusXM

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NOTICE OF 2011 ANNUAL MEETING OF STOCKHOLDERS

- Time and Date:** 9:00 a.m., New York City time, on Wednesday, May 25, 2011
- Place:** The Auditorium
The Equitable Center
787 Seventh Avenue
New York, New York 10019
- Items of Business:**
1. To elect the eight directors listed herein;
 2. To ratify the appointment of KPMG LLP as our independent registered public accountants for 2011;
 3. To approve, in a non-binding, advisory vote, the compensation paid to our named executive officers;
 4. To determine, in a non-binding, advisory vote, whether a stockholder vote to approve the compensation paid to our named executive officers should occur every one, two or three years; and
 5. To transact any other business properly coming before the annual meeting and any adjournments thereof.
- Who may Vote:** Stockholders of record at the close of business on April 5, 2011.
- Important Notice Regarding the Date of Availability of Proxy Materials for the Stockholder Meeting to be Held on Wednesday, May 25, 2011:** We are pleased to be using the Securities and Exchange Commission's rules that allow companies to furnish proxy materials to their stockholders over the Internet. In accordance with these rules, we sent stockholders of record at the close of business on April 5, 2011, a Notice of Internet Availability of Proxy Materials (Notice) or a full set of proxy materials on or about April 15, 2011. The Notice contains instructions on how to access our Proxy Statement and Annual Report for the year ended December 31, 2010 via the Internet and how to vote.

Whether or not you expect to attend in person, we urge you to vote your shares via the Internet, by phone, or by signing, dating, and returning a proxy card at your earliest convenience.

Voting over the Internet or by telephone is fast and convenient, and your vote is immediately confirmed and tabulated. By using the Internet or telephone, you help us reduce postage, printing and proxy tabulation costs. If you received a paper copy of the proxy materials, please do not return the enclosed paper ballot if you are voting over the Internet or by telephone.

By Order of the Board of Directors,

PATRICK L. DONNELLY
Executive Vice President, General Counsel and Secretary

New York, New York
April 12, 2011

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1221 Avenue of the Americas
36th Floor
New York, New York 10020

PROXY STATEMENT

This proxy statement contains information related to the annual meeting of stockholders of Sirius XM Radio Inc. to be held on Wednesday, May 25, 2011, beginning at 9:00 a.m., New York City time, in The Auditorium at The Equitable Center, 787 Seventh Avenue, New York, New York 10019, and at any postponements or adjournments thereof. This proxy statement is being distributed or made available, as the case may be, to stockholders on or about April 15, 2011.

ABOUT THE MEETING

What is the purpose of the annual meeting?

At our annual meeting, stockholders will act upon the matters outlined in the Notice of 2011 Annual Meeting of Stockholders, including:

- the election of eight directors (the “Common Stock Directors”) to our board (Joan L. Amble, Leon D. Black, Lawrence F. Gilberti, Eddy W. Hartenstein, James P. Holden, Mel Karmazin, James F. Mooney and Jack Shaw — these eight nominees are referred to as the “Common Stock Director Nominees”), which will be voted upon by the holders of our common stock;
- the ratification of the appointment of KPMG LLP as our independent registered public accountants, which will be voted upon by the holders of our common stock and our Series B-1 Preferred Stock, voting together as a single class;
- the approval, in a non-binding, advisory vote, of the compensation paid to our named executive officers, which will be voted upon by the holders of our common stock and our Series B-1 Preferred Stock, voting together as a single class;
- the determination, in a non-binding, advisory vote, of the frequency of future advisory votes on the compensation paid to our named executive officers, which will be voted upon by the holders of our common stock and our Series B-1 Preferred Stock, voting together as a single class; and
- such other business that may properly be conducted at the annual meeting or any adjournment or postponement thereof.

An affiliate of Liberty Media Corporation owns all of the outstanding shares of our Series B-1 Preferred Stock. That holder of the Series B-1 Preferred Stock does not have the right to vote with the holders of our common stock to elect the Common Stock Directors at the annual meeting. Instead, the Series B-1 Preferred Stock is entitled to designate and elect members of our board of directors proportional to its interest in the company (the “Preferred Stock Directors”). John C. Malone, Gregory B. Maffei and David J.A. Flowers were first elected to our board of directors in 2009 as Preferred Stock Directors. Vanessa A. Wittman and Carl E. Vogel were elected to our board of directors in April 2011 as Preferred Stock Directors.

At the annual meeting, management will also report on our performance and respond to appropriate questions from stockholders.

What are the voting rights of the holders of our common stock and our preferred stock?

Each holder of our common stock is entitled to one vote per share of common stock on all matters to be acted upon at the annual meeting.

The holder of our Series B-1 Preferred Stock does not have the right to vote with the holders of our common stock to elect the Common Stock Directors at the annual meeting. On all other matters submitted to a vote of the holders of our common stock, the holder of our Series B-1 Preferred Stock is entitled to slightly less than 207 votes per share of Series B-1 Preferred Stock, voting together with the holders of our common stock as a single class. On the Record Date, 3,943,147,483 shares of our common stock were outstanding. In addition, 12,500,000 shares of our Series B-1 Preferred Stock, representing aggregate voting power of 2,586,976,762 shares of common stock, were outstanding.

As of the Record Date, holders of our common stock held approximately 60% of the general voting power, and holders of our Series B-1 Preferred Stock held approximately 40% of the general voting power. General voting power refers to all securities entitled to vote at the annual meeting. With respect to an individual proposal, voting power refers to all securities entitled to vote on that proposal.

What vote is required to approve each item?

Assuming the presence of a quorum, Common Stock Directors will be elected by the holders of a plurality of the voting power of our common stock present in person or represented by proxy and entitled to vote. This means that the eight Common Stock Director Nominees who receive the most votes cast by the holders of shares of our common stock will be elected. Abstentions and broker non-votes will have no effect on the outcome of the election of the Common Stock Directors. You may vote "For" or "Withhold" with respect to each Common Stock Director Nominee.

The affirmative vote of the holders of a majority of the voting power of our common stock and our Series B-1 Preferred Stock, voting together as a single class, present in person or represented by proxy, and entitled to vote on the matter is required for any other proposal, including the ratification of the appointment of KPMG LLP as our independent registered public accountants, the proposal relating to the advisory vote on executive compensation and the proposal relating to the advisory vote on the frequency of future votes on executive compensation. You may vote "For," "Against" or "Abstain" with respect to the ratification of the appointment of KPMG LLP as our independent registered public accountants and the advisory vote on the compensation paid to our named executive officers. With respect to the advisory vote on the frequency of future advisory votes on executive compensation, you may vote for every "One Year," "Two Years," "Three Years" or "Abstain."

For all of these proposals, other than the election of directors, any "Abstain" vote will have the same effect as a vote against the proposal, and a broker non-vote will have no effect in determining whether the proposal relating to the advisory vote on executive compensation and the proposal relating to the advisory vote on the frequency of future votes on executive compensation are approved because the shares subject to the broker non-vote will not be deemed "present and entitled to vote" on the proposals.

When will voting results be available?

We will announce preliminary voting results at the annual meeting. We will report final results in a Current Report on Form 8-K filed with the SEC shortly after the annual meeting.

Who can attend the annual meeting?

Subject to space availability, all stockholders as of April 5, 2011 (the "Record Date"), or their duly appointed proxies, may attend the meeting. Since seating is limited, admission to the meeting will be on a first-come, first-served basis. Registration and seating will begin at 8:30 a.m., New York City time.

What constitutes a quorum?

The presence, in person or by proxy, of the holders of a majority of the aggregate voting power of the issued and outstanding shares of our common stock and our Series B-1 Preferred Stock entitled to vote at the annual meeting is necessary to constitute a quorum to transact business at the annual meeting. If a quorum is not present or represented at the annual meeting, the stockholders entitled to vote thereat, present in person or represented by proxy, may adjourn the annual meeting from time to time without notice or other announcement until a quorum is present or represented. Abstentions and broker non-votes are counted as present for purposes of determining a quorum.

What is a broker non-vote?

Brokers who hold shares on behalf of their customers have the authority to vote on certain proposals when they have not received instructions from beneficial owners. A broker is entitled to vote shares held for a beneficial holder on routine matters, such as the ratification of the appointment of KPMG as our independent registered public accountants, without instructions from the beneficial holder of those shares. On the other hand, absent instructions from the beneficial holders of such shares, a broker will not be entitled to vote shares held for a beneficial holder on certain non-routine items, such as the other proposals to be considered at the annual meeting. **It is therefore important that you provide instructions to your broker if your shares are held by a broker so that your vote with respect to Item 1 (election of the eight directors listed herein) and Items 3 and 4 (relating to advisory votes on executive compensation) are counted.**

What if I don't return my proxy card and don't attend the annual meeting?

If you are a holder of record (that is, your shares are registered in your own name with our transfer agent) and you don't vote your shares, your shares will not be voted.

If you are a beneficial owner (that is you hold your shares through your broker, bank or other nominee) and you do not provide voting instructions to your broker, bank or other nominee with respect to Item 1 (election of directors) and Items 3 and 4 (relating to advisory votes on executive compensation), the votes will be considered "broker non-votes" and will not be counted in determining the outcome of the vote. "Broker non-votes" will be counted as present for purposes of determining whether enough votes are present to hold the annual meeting.

How do I vote?

Stockholders of record can vote as follows:

- *By Internet:* Stockholders may vote through the Internet at www.proxyvoting.com/siri by following the instructions included on your Notice or proxy card. You will need the 12-digit Control Number included on the Notice or proxy card to obtain your records and to create an electronic voting instruction form.
- *By Telephone:* Stockholders may vote by telephone 1-866-540-5760 by following the instructions included with your proxy card. You will need the 12-digit Control Number included on the proxy card in order to vote by telephone.
- *By Mail:* Stockholders who received a proxy card along with a proxy statement from us or requested a proxy card from us, may sign, date and return their proxy cards in the pre-addressed, postage-paid envelope that is provided.
- *At the Meeting:* If you attend the annual meeting, you may vote in person by ballot, even if you have previously returned a proxy card or otherwise voted.

If your shares are held in "street name," you may also submit voting instructions to your bank, broker or other nominee. In most instances, you will be able to do this over the Internet, by telephone or by mail. Please refer to information from your bank, broker or other nominee on how to submit voting instructions. The deadline for voting by telephone or electronically is 11:59 p.m., New York City time, on Tuesday, May 24,

2011. Mailed proxy cards with respect to shares held of record or in street name must be received no later than May 24, 2011. "Street name" stockholders who wish to vote in person at the meeting will need to obtain a proxy form from the institution that holds their shares.

What is householding?

As permitted by the Securities Exchange Act of 1934, as amended (the "Exchange Act"), only one copy of this proxy statement and annual report is being delivered to stockholders residing at the same address, unless the stockholders have notified us of their desire to receive multiple copies of our proxy statement. This is known as householding.

We will promptly deliver, upon oral or written request, a separate copy of this proxy statement and annual report to any stockholder residing at an address to which only one copy was mailed. Requests for additional copies for this year's or future years' proxy materials should be directed to: Sirius XM Radio Inc., Attention: Corporate Secretary, 1221 Avenue of the Americas, 36th Floor, New York, New York 10020.

Stockholders of record residing at the same address and currently receiving multiple copies of this proxy statement may contact our Corporate Secretary to request that only a single copy of our proxy statement be mailed in the future.

Can I change my vote or revoke my proxy?

Yes. If you are a stockholder of record, you may change your vote or revoke your proxy at any time before your shares are voted at the annual meeting by:

- Notifying our Corporate Secretary in writing at Sirius XM Radio Inc., 1221 Avenue of the Americas, 36th Floor, New York, New York 10020 that you are revoking your proxy;
- Executing and delivering a later dated proxy card or submitting a later dated vote by telephone or the Internet; or
- Attending the annual meeting, revoking your proxy and voting in person.

If you hold your shares in street name, you may submit new voting instructions by contacting your bank, broker or other nominee. You may also change your vote or revoke your proxy in person at the annual meeting if you obtain a signed proxy from the record holder (broker, bank or other nominee) giving you the right to vote the shares.

Who will count the votes?

A representative of BNY Mellon Shareowner Services will tabulate the votes and act as inspector of elections.

What is a proxy?

A proxy is a person you appoint to vote on your behalf. We are soliciting your vote so that all shares of our common stock may be voted at the annual meeting.

Whom am I designating as my proxy?

You will be designating Patrick L. Donnelly, our Executive Vice President, General Counsel and Secretary, and Ruth A. Ziegler, our Senior Vice President and Deputy General Counsel, as your proxies. However, you may appoint a person (who need not be a stockholder) other than Patrick L. Donnelly and Ruth A. Ziegler to represent you at the meeting by completing another proper proxy.

How will my proxy vote my shares?

Your proxy will vote according to your instructions. If you complete your proxy card but do not indicate how you would like your shares voted, your proxy will vote in accordance with the recommendation of our board of directors.

Who is soliciting my proxy, and who will pay the costs of the solicitation?

SIRIUS XM is soliciting your proxy. The cost of soliciting proxies will be borne by SIRIUS XM, which has engaged MacKenzie Partners, Inc. to assist in the distribution and solicitation of proxies. We have agreed to pay MacKenzie \$10,000 and reimburse the firm for its reasonable out-of-pocket expenses. We will also reimburse brokerage firms, banks and other custodians for their reasonable out-of-pocket expenses for forwarding these proxy materials to you. Our directors, officers and employees may solicit proxies on our behalf by telephone or in writing.

When, and how, do I submit a proposal for next year's annual meeting of stockholders?

Under the SEC's rules and regulations, any stockholder desiring to submit a proposal to be included in our 2012 proxy statement must submit such proposal to us in writing at our principal executive offices located at: 1221 Avenue of the Americas, 36th Floor, New York, New York 10020, to the attention of the Corporate Secretary, no later than the close of business on December 30, 2011.

Our By-laws provide for advance notice provisions. The By-laws require the timely notice of certain information to be provided by any stockholder who proposes director nominations or any other business for consideration at a stockholders' meeting. Failure to deliver a proposal in accordance with the procedures discussed above and in the By-laws may result in the proposal not being deemed timely received. To be timely, notice of a director nomination or any other business for consideration at a stockholders' meeting must be received by our Corporate Secretary at our principal executive offices not less than 70 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting. Therefore, to be presented at our 2012 Annual Meeting of Stockholders, such a proposal must be received by the Corporate Secretary on or after February 25, 2012 but no later than March 16, 2012. In the event that the date of the 2012 Annual Meeting is advanced by more than 20 days, or delayed by more than 70 days, from the anniversary date of the 2011 Annual Meeting of Stockholders, notice must be received no earlier than the 90th day prior to such annual meeting and not later than the 70th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of the 2012 Annual Meeting of Stockholders is first made. In addition, the date for timely notice specified in this paragraph shall be the earlier of the date calculated above or the date specified in paragraph (c)(1) of Rule 14a-4 of the Exchange Act.

ELECTION OF COMMON STOCK DIRECTORS

(Item 1 on Proxy Card)

Eight Common Stock Directors will be elected at the annual meeting. Currently, there are thirteen members of our board of directors — eight Common Stock Directors and five Preferred Stock Directors. John C. Malone, Gregory B. Maffei, David J.A. Flowers, Vanessa A. Wittman and Carl E. Vogel have been elected as Preferred Stock Directors. The Nominating and Corporate Governance Committee of our board of directors has nominated the eight Common Stock Director Nominees after consideration of such individual's qualifications, contributions to the company and other reasons discussed in this proxy statement.

The Nominating and Corporate Governance Committee believes that a well functioning board includes a diverse group of individuals that bring a variety of complementary skills and experiences. Although the board of directors does not have a formal policy with regard to the consideration of diversity in identifying directors, diversity is one of the factors that the Nominating and Corporate Governance Committee may, pursuant to its charter, take into account in identifying director candidates. The Nominating and Corporate Governance Committee generally considers each Common Stock Director Nominee in the broad context of the overall composition of our board of directors with a view toward constituting a board that, as a body, possesses the appropriate mix of skills and experience to oversee our business. The experience, qualifications, attributes, or skills that led the Nominating and Corporate Governance Committee to conclude that our Common Stock Director Nominees should serve on the board are generally described in the biographical information below. The experience, qualifications, attributes or skills of the Preferred Stock Directors are also described below.

Set forth below are the eight Common Stock Director Nominees to be elected by the holders of our common stock to serve until the next annual meeting of stockholders or until their respective successors have been duly elected and qualified and the five Preferred Stock Directors that will serve until their respective successors have been duly elected and qualified pursuant to the Certificate of Designations for the Series B-1 Preferred Stock.

To be elected as a director, each Common Stock Director Nominee must receive a plurality of the votes cast by the holders of our common stock.

Should any Common Stock Director Nominee become unable or unwilling to accept election, the proxy holders may vote the proxies for the election, in his or her stead, of any other person our board of directors may nominate or designate. Each Common Stock Director Nominee has expressed his or her intention to serve.

Biographical information about this year's nominees:

Common Stock Director Nominees

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
Joan L. Amble	57	<p>Ms. Amble has been a director since July 2008. From December 2006 until the closing of our merger with XM Satellite Radio Holdings Inc. ("XM") in July 2008, Ms. Amble served as a director of XM. Ms. Amble is the Executive Vice President and Corporate Comptroller for American Express Company and has served in that position since December 2003. Prior to joining American Express, Ms. Amble served as chief operating officer and chief financial officer of GE Capital Markets, a service business within GE Capital Services, Inc., overseeing securitizations, debt placement and syndication, as well as structured equity transactions. From 1994 to March 2003, Ms. Amble served as vice president and controller for GE Capital. Ms. Amble also serves as a member of the board of directors of Broadcom, Inc.</p> <p><i>Key Attributes, Experience and Skills:</i></p> <p>Ms. Amble has extensive experience in financial accounting and systems, including experience in consumer oriented subscription businesses, such as American Express.</p>

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
Leon D. Black	59	<p>Mr. Black is the Chairman of the Board, Chief Executive Officer and a Director of Apollo Global Management, LLC and a Managing Partner of Apollo Management, L.P. which he founded in 1990 to manage investment capital on behalf of a group of institutional investors, focusing on corporate restructuring, leveraged buyouts, and taking minority positions in growth oriented companies. From 1977 to 1990, Mr. Black worked at Drexel Burnham Lambert Incorporated, where he served as Managing Director, head of the Mergers & Acquisitions Group and co-head of the Corporate Finance Department. He serves on the boards of directors of Apollo Global Management, LLC and the general partner of AP Alternative Assets. Mr. Black is a trustee of Dartmouth College, The Museum of Modern Art, Mt. Sinai Hospital, The Metropolitan Museum of Art, Prep for Prep, and The Asia Society. He is also a member of The Council on Foreign Relations and The Partnership for New York City. Mr. Black is also a member of the boards of FasterCures and the Port Authority Task Force. During the last five years, Mr. Black served as a director of United Rentals, AMC Entertainment, Wyndham International and Allied Waste, and was a member of the National Advisory Board of JPMorganChase.</p> <p><i>Key Attributes, Experience and Skills:</i></p> <p>Mr. Black's experience in corporate finance is well renowned. He has extensive experience in arranging and structuring financings for enterprises worldwide, particularly enterprises with credit profiles similar to ours. In addition, Mr. Black's experience in the private equity industry adds a long-term strategic perspective to the board's deliberations.</p>

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
Lawrence F. Gilberti . .	60	<p>Mr. Gilberti has been a director since September 1993. Since June 2000, Mr. Gilberti has been a partner in the law firm of Reed Smith LLP.</p> <p><i>Key Attributes, Experience and Skills:</i></p> <p>Mr. Gilberti has served on our board since 1993, shortly after our founding. He brings a range of institutional knowledge and experience to the board in evaluating business proposals, assessing risks, and critiquing alternatives that the Nominating and Corporate Governance Committee believes is valuable.</p>

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
Eddy W. Hartenstein. .	60	<p>Mr. Hartenstein has been a director since July 2008 and has served as the chairman of our board since November 2009. From May 2005 until the closing of the merger with XM in July 2008, Mr. Hartenstein served as a director of XM. Mr. Hartenstein is the Publisher and CEO of the Los Angeles Times and has served in that position since August 2008. He is also Co-President of the Tribune Company, a position he has held since October 2010. Mr. Hartenstein was the Vice Chairman and a member of the board of directors of The DIRECTV Group, Inc. (formerly Hughes Electronics Corporation) from December 2003 until his retirement in December 2004. Mr. Hartenstein served as Chairman and CEO of DIRECTV, Inc. from late 2001 to 2004 and as President of DIRECTV, Inc. from its inception in 1990 to 2001. Prior to 1990, Mr. Hartenstein served in various capacities for Hughes Communications, Inc. and Equatorial Communications Services Company. Mr. Hartenstein also serves as a member of the board of directors of SanDisk Corporation, The City of Hope and Broadcom, Inc. Mr. Hartenstein also served as a director at Thomson Multimedia during the last five years.</p> <p><i>Key Attributes, Experience and Skills:</i></p> <p>As the former Chief Executive Officer of DIRECTV, Mr. Hartenstein has extensive experience in building, managing, marketing and operating a satellite service. He brings direct and highly relevant expertise to the board in such areas as: the construction and procurement of satellites, managing a large consumer subscriber base, consumer marketing, and the design and implementation of systems necessary to support a growing and dynamic consumer-oriented business.</p>

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
James P. Holden	59	<p>Mr. Holden has been a director since August 2001. From October 1999 until November 2000, Mr. Holden was the President and Chief Executive Officer of DaimlerChrysler Corporation, one of the world's largest automakers. Prior to being appointed President in 1999, Mr. Holden held numerous senior positions within Chrysler Corporation during his 19-year career at the company. Mr. Holden is a director of Speedway MotorSports, Inc., Motors Liquidation Corporation and the Lead Director of Snap-On Incorporated. Mr. Holden has also served as a director at Meridian Automotive and SMOBILE Systems during the last five years.</p> <p><i>Key Attributes, Experience and Skills:</i></p> <p>Mr. Holden has spent his career in the automotive business which is a key market for our services. Mr. Holden's perspective on and knowledge of the workings, business and product planning processes, and individuals in the automotive industry are significant assets to the board and its deliberations.</p>

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
Mel Karmazin	67	<p>Mr. Karmazin has served as our Chief Executive Officer and a member of our board of directors since November 2004. Prior to joining us, Mr. Karmazin was President and Chief Operating Officer and a member of the board of directors of Viacom Inc. from May 2000 until June 2004. Prior to joining Viacom, Mr. Karmazin was President and Chief Executive Officer of CBS Corporation from January 1999 and a director of CBS Corporation from 1997 until its merger with Viacom in May 2000. He was President and Chief Operating Officer of CBS Corporation from April 1998 through December 1998. Mr. Karmazin joined CBS Corporation in December 1996 as Chairman and Chief Executive Officer of CBS Radio and served as Chairman and Chief Executive Officer of the CBS Station Group (Radio and Television) from May 1997 to April 1998. Prior to joining CBS Corporation, Mr. Karmazin served as President and Chief Executive Officer of Infinity Broadcasting Corporation.</p> <p><i>Key Attributes, Experience and Skills:</i></p> <p>Mr. Karmazin has spent his career in the media and entertainment industry, with particularly relevant experience in radio. Mr. Karmazin's expertise in general management, finance and strategic planning is extremely valuable; in particular, his radio experience and his skills in the areas of revenue maximization, cost control, music and talk programming as well as government, public and investor relations position him uniquely to serve as a director. As our Chief Executive Officer, Mr. Karmazin provides the board not only with knowledge of our daily workings, but also with the essential experience, insight and expertise that can be provided only by a person who is intimately involved in running our business.</p>

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
James F. Mooney . . .	56	<p>Mr. Mooney has been a director since July 2003. Mr. Mooney is a director and chairman of the board of directors of Virgin Media Inc., a U.K. entertainment and communications business, and has served in that role since March 2003. From December 2004 to December 2007, Mr. Mooney was the chairman of the board of directors of RCN Corporation, a provider of bundled telephone, cable and high speed internet services. From April 2001 to September 2002, Mr. Mooney was the Executive Vice President and Chief Operating Officer of Nextel Communications Inc., a provider of wireless communications services. From January 2000 to January 2001, Mr. Mooney was the Chief Executive Officer and Chief Operating Officer of Tradeout Inc., an asset management firm owned jointly by General Electric Capital, Ebay Inc. and Benchmark Capital. From March 1999 to January 2000, Mr. Mooney was the Chief Financial Officer/Chief Operating Officer at Baan Company, a business management software provider. From 1980 until 1999, Mr. Mooney held a number of positions with IBM Corporation, including Chief Financial Officer of the Americas.</p> <p><i>Key Attributes, Experience and Skills:</i></p> <p>Mr. Mooney has had a varied career in industries ranging from computer products to telecommunications. His diverse experience is very useful in our business and budget planning process, in analyzing subscriber growth and its trends and subscriber churn, assessing marketing opportunities, evaluating personnel and compensation, assessing financing alternatives, and assessing and evaluating our long-term business plans.</p>

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
Jack Shaw	72	Mr. Shaw has been a director since July 2008. From May 1997 until the closing of the merger with XM in July 2008, Mr. Shaw served as a director of XM. Mr. Shaw served as Chief Executive Officer of Hughes Electronics Corporation from January 2000 until his retirement in December 2003 and served as Chief Executive Officer and Chairman of Hughes Network Systems, Inc. from 1987 and 1988, respectively, through January 2000. Previously, Mr. Shaw held senior management positions with companies including ITT Space Communications, Inc., Digital Communications Corporation and M/A-Com Telecommunications, Inc., which was acquired by Hughes Electronics Corporation in 1987. Mr. Shaw is a member of the Board of Directors of Globecom Systems, Inc.

Key Attributes, Experience and Skills:

As the retired Chief Executive Officer of Hughes Electronics, Mr. Shaw has broad experience in satellite systems and telecommunications infrastructures. This experience, together with his general management expertise, assists the board in evaluating satellite procurement programs, satellite insurance and redundancy proposals, and long-term network planning projects.

Preferred Stock Director Designees

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
John C. Malone	70	Mr. Malone has been a director since April 2009. Mr. Malone has served as the Chairman of the Board and a director of Liberty Media Corporation or its predecessor (as applicable, “Liberty Media”) since Liberty Media’s inception in 1994. Mr. Malone also served as Liberty Media’s Chief Executive Officer from August 2005 to February 2006. Mr. Malone served as Chairman of the Board of Tele-Communications, Inc. (“TCI”), a cable television company that was Liberty Media’s former parent company, from November 1996 until March 1999, when TCI was acquired by AT&T, and as Chief Executive Officer of TCI from January 1994 to March 1997. Mr. Malone has served as Chairman of the Board of Liberty Global, Inc. (“LGI”) since June 2005, and served as Chairman of the Board of LGI’s predecessor, Liberty Media International, Inc., from March 2004 to June 2005. Mr. Malone served as a director of UnitedGlobalCom, Inc., now a subsidiary of LGI, from January 2002 to June 2005. Mr. Malone served as Chairman of the Board of DIRECTV from November 2009 to June 2010 and as Chairman of the Board of DIRECTV’s predecessor, The DIRECTV Group, Inc. (“DTV”), from February 2008 to November 2009. Mr. Malone has served as a director of Discovery Communications, Inc. since September 2008 and served as Chairman of the Board of its predecessor, Discovery Holding Company (“DHC”), from March 2005 to September 2008, and as a director of DHC from May 2005 to September 2008. Mr. Malone has served as a director of (i) Expedia, Inc. since August 2005, and (ii) Ascent Media Corporation since January 2010. Mr. Malone served as a director of (i) Live Nation Entertainment, Inc. from January 2010 to February 2011, (ii) InterActiveCorp from May 2006 to June 2010, (iii) The Bank of New York Company, Inc. from June 2005 to April 2007 and (iv) Cablevision Systems Corp. from March 2005 to June 2005.

Key Attributes, Experience and Skills:

Mr. Malone co-founded Liberty Media and is considered by many to be one of the preeminent figures in the media and telecommunications industry. He is well known for his sophisticated problem solving and risk assessment skills.

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
Gregory B. Maffei . . .	50	<p>Mr. Maffei has been a director since March 2009. Mr. Maffei has served as a director Liberty Media since November 2005, and as its Chief Executive Officer and President since February 2006. He also served as Liberty Media’s CEO-Elect from November 2005 through February 2006. Prior to joining Liberty Media, Mr. Maffei served as President and Chief Financial Officer of Oracle Corporation during 2005 and as Chairman and Chief Executive Officer of 360networks Corporation from 2000 until 2005. Previously, Mr. Maffei was the Chief Financial Officer of Microsoft Corporation from 1997 to 2000. Mr. Maffei has served as a director of Electronic Arts, Inc. since June 2003. Mr. Maffei served as a director of DIRECTV from November 2009 to June 2010 and as a director of its predecessor, DTVG, from February 2008 to November 2009. Mr. Maffei served as a director of Expedia, Inc. from 1999 to 2003, and as a director of Starbucks Corporation from 1999 to 2006. Mr. Maffei was also Chairman of the Board of Expedia, Inc. from 1999 to 2002.</p> <p><i>Key Attributes, Experience and Skills:</i></p> <p>Mr. Maffei brings to the board significant financial and operational experience based on his senior policy making positions at Liberty Media, Oracle, 360networks and Microsoft and his other public company experience.</p>

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
David J.A. Flowers . . .	56	<p>Mr. Flowers has been a director since April 2009. Mr. Flowers has served as a Senior Vice President of Liberty Media since October 2000 and the Treasurer of Liberty Media since April 1997. He was a Vice President of Liberty Media from June 1995 to October 2000. Mr. Flowers has served as a director of Interval Leisure Group, Inc. since August 2008.</p> <p><i>Key Attributes, Experience and Skills:</i></p> <p>Mr. Flowers brings to the board significant financial, investment and public company experience as a senior finance executive of a large public company.</p>

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
Vanessa A. Wittman . . .	43	<p>Ms. Wittman has been a director since April 2011. Ms. Wittman is Executive Vice President and Chief Financial Officer of Marsh & McLennan Companies, Inc. (“MMC”), a professional services company providing advice and solutions in the areas of risk, strategy, and human capital. Prior to joining MMC in September 2008, Ms. Wittman was Chief Financial Officer and Executive Vice President of Adelphia Communications Corp., a cable television company, from 2003 to 2007. Prior to Adelphia, Ms. Wittman served as Chief Financial Officer of 360networks, a wholesale provider of telecommunications services. She also has held positions with Microsoft, Metricom Inc. and Morgan Stanley & Co. Incorporated. Ms. Wittman serves as a director of kgb, an independent provider of directory assistance and enhanced information services. Ms. Wittman also served on the board of directors of Infospace, an internet search services company, from January 2003 to January 2008.</p> <p><i>Key Attributes, Experience and Skills:</i></p> <p>Ms Wittman has been the Chief Financial Officer of various public companies since 1997. She has held senior positions in multi-national companies throughout her career. She also has been a director at several companies, including serving as audit committee chair for a public company.</p>

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
Carl E. Vogel	53	<p>Mr. Vogel has been a director since April 2011. Mr. Vogel is currently a member of the board of directors of Dish Network Corporation, a satellite television provider, and a senior advisor to its Chairman, CEO and President. He served as President of Dish Network Corporation from September 2006 until February 2008 and served as Vice Chairman from June 2005 until March 2009. From October 2007 until March 2009, Mr. Vogel served as the Vice Chairman of the board of directors of, and as a Senior Advisor to, EchoStar Communications Corporation. From 2001 until 2005, Mr. Vogel served as the President and CEO of Charter Communications Inc., a cable television and broadband services provider. Prior to joining Charter, Mr. Vogel worked as an executive officer in various capacities for companies affiliated with Liberty Media. Mr. Vogel is a member of the boards of directors and audit committees of Shaw Communications, Inc., a diversified communications company providing broadband cable and direct-to-home satellite services in Canada, Universal Electronics, Inc., a provider of wireless control technology for connected homes, NextWave Wireless Inc., a wireless technology company that develops, produces, and markets mobile multimedia and consumer electronic solutions, and is a member of the board of directors, audit committee and executive committee of Ascent Media Corporation.</p> <p><i>Key Attributes, Experience and Skills:</i></p> <p>Mr. Vogel brings executive level leadership experience in the communications industry as a result of his high level executive roles at Dish Network Corporation, Charter Communications Inc., and Liberty Media. Mr. Vogel also has extensive experience in reviewing financial statements as a result of his background as a certified public accountant and his role as a chief executive and senior finance executive of public companies.</p>

What are the responsibilities of the board of directors?

The business and affairs of our company are managed by or under the direction of our board of directors. Our board oversees senior management selection and compensation, monitors overall corporate performance and ensures the integrity of our financial controls. Our board of directors also oversees our strategic and business planning processes.

How are nominees for the board of directors selected?

Our Nominating and Corporate Governance Committee reviews possible candidates to be Common Stock Directors and is responsible for overseeing matters of corporate governance, including the evaluation of performance and practices of the board of directors, the board’s committees, management succession plans and executive resources. The Nominating and Corporate Governance Committee considers suggestions from many sources, including stockholders, for possible Common Stock Directors. Such suggestions, together with appropriate biographical and other information required pursuant to our By-laws, should be submitted to our Corporate Secretary, Sirius XM Radio Inc., 1221 Avenue of the Americas, 36th Floor, New York, New York 10020. Candidates who are suggested by our stockholders are evaluated by the Nominating and Corporate Governance Committee in the same manner as are other possible candidates to be Common Stock Directors. During 2010, our board of directors did not retain any third parties to assist in the process of identifying and evaluating potential nominees to be Common Stock Directors.

In its assessment of each potential candidate, including those recommended by stockholders, the Nominating and Corporate Governance Committee takes into account all factors it considers appropriate, which may include (a) ensuring that the board of directors, as a whole, is diverse and consists of individuals with various and relevant career experience, relevant technical skills, industry knowledge and experience, financial expertise (including expertise that could qualify a director as a “financial expert,” as that term is defined by the rules of the SEC), local or community ties, and (b) minimum individual qualifications,

including strength of character, mature judgment, familiarity with our business and related industries, independence of thought and an ability to work collegially. The Nominating and Corporate Governance Committee also may consider the extent to which a candidate would fill a present need on the board of directors. After conducting an initial evaluation of a candidate, the Nominating and Corporate Governance Committee will interview that candidate if it believes the candidate might be qualified to be a Common Stock Director and may ask the candidate to meet with other directors and management. If the Nominating and Corporate Governance Committee believes a candidate would be a valuable addition to the board of directors, it will recommend to the board that candidate's nomination as a Common Stock Director.

Who is the board's chairman?

In November 2009, Eddy W. Hartenstein was elected the Chairman of the Board of Directors. The chairman of our board organizes the work of the board and ensures that the board has access to sufficient information to enable the board to carry out its functions, including monitoring our performance and the performance of management. The chairman, among other things, presides over meetings of the board of directors, establishes the agenda for each meeting of the board in consultation with our Chief Executive Officer, oversees the distribution of information to directors, and performs other duties or assignments as agreed with either the board of directors or our Chief Executive Officer. The board of directors has determined that it is currently in our best interests to separate the chairman of the board position and the Chief Executive Officer position because it allows the Chief Executive Officer to focus on our day-to-day business, including risk management, while allowing the chairman of the board to lead the board and assist the board in its fundamental role of providing advice to and independent oversight of management. Further, the board recognizes that the Chief Executive Officer position requires a significant dedication of time, effort, and energy in the current business environment. Our *Corporate Governance Guidelines* (the "*Guidelines*") do not establish this approach as a policy, but as a matter that is considered from time-to-time.

How does the board determine which directors are considered independent?

Our board reviews the independence of our directors annually. The provisions of our *Guidelines* regarding director independence meet, and in some areas exceed, the listing standards of The NASDAQ Global Select Market ("NASDAQ"). A copy of the *Guidelines* is available on our website at <http://investor.siriusxm.com>.

The Nominating and Corporate Governance Committee undertook a review of director independence in April 2011. As part of this review, the committee reviewed written questionnaires submitted by directors. The questionnaires disclose transactions and relationships between each director or members of his immediate family, on one hand, and SIRIUS XM, other directors, members of our senior management and our affiliates, on the other hand.

As a result of this review, the Nominating and Corporate Governance Committee determined that all of our directors and nominees are independent under the standards set forth in our *Guidelines* and applicable NASDAQ listing standards, with the exception of Mel Karmazin, our Chief Executive Officer, and John C. Malone, Gregory B. Maffei and David J.A. Flowers, each of whom is an employee of Liberty Media Corporation. With respect to Joan L. Amble, the board evaluated ordinary course transactions during the last three fiscal years between us and the American Express Company, for which she serves as an executive officer, and found that the amount paid by us to American Express was less than 5% of American Express' consolidated gross revenues during its last three fiscal years. Similarly, with respect to Vanessa A. Wittman, the board evaluated an ordinary course transaction that occurred during 2010 and 2011 between us and an indirect wholly owned subsidiary of Marsh & McLennan Companies, Inc. ("MMC"). Ms. Wittman serves as an executive officer of MMC. The board found that the amount we paid to this MMC subsidiary was less than one tenth of one percent of MMC's reported consolidated revenues in each of these years.

The board has also determined that all of the members of the Audit Committee are financially literate and meet the independence requirements mandated by the applicable NASDAQ listing standards, Section 10A(m)(3) of the Exchange Act and our *Guidelines*. The board has determined that all of the members of the Compensation Committee meet the independence requirements mandated by the applicable NASDAQ listing standards and our *Guidelines* and qualify as "non-employee directors" for purposes of Rule 16b-3 of the Exchange Act and as "outside directors" for purposes of Section 162(m) of the Internal Revenue Code of

1986, as amended. The board has determined that all of the members of the Nominating and Corporate Governance Committee meet the independence requirements mandated by the NASDAQ listing standards applicable to serving on the Nominating and Corporate Governance Committee and our *Guidelines*.

Our independent directors meet regularly in executive sessions.

What are the current standing committees of the board of directors and who are the members of these committees?

Our board of directors has three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee.

Copies of the charters for the Audit Committee and the Nominating and Corporate Governance Committee are available on our website at <http://investor.siriusxm.com>. The Compensation Committee has not adopted a charter.

The number of committee meetings held during 2010 is as follows: seven Audit Committee meetings, four Compensation Committee meetings and three Nominating and Corporate Governance Committee meetings.

The following table shows the current members and chair of each committee and the principal functions performed by each committee:

<u>Committee</u>	<u>Functions</u>
Audit	
Members:	
Joan L. Amble*	• Selects our independent registered public accounting firm
Eddy W. Hartenstein	• Reviews reports of our independent registered public accounting firm
James P. Holden	• Reviews and approves the scope and cost of all services, including all non-audit services, provided by the firm selected to conduct the audit
James F. Mooney	• Monitors the effectiveness of the audit process
	• Reviews adequacy of financial and operating controls
	• Monitors corporate compliance program
Compensation	
Members:	
Lawrence F. Gilberti*	• Reviews our executive compensation policies and strategies
James P. Holden	• Oversees and evaluates our overall compensation structure and programs
Jack Shaw	
Nominating and Corporate Governance	
Members:	
Lawrence F. Gilberti	• Develops and implements policies and practices relating to corporate governance
James F. Mooney*	• Reviews and monitors implementation of our policies and procedures
Jack Shaw	• Assists in developing criteria for open positions as Common Stock Directors on the board of directors
	• Reviews background information on potential candidates for Common Stock Directors and makes recommendations to the board of directors
	• Makes recommendations to the board of directors with respect to committee assignments

* Chair

How often did the board meet during 2010?

During 2010, there were seven meetings of our board of directors and the directors acted by written consent in lieu of a meeting once. Each director, other than Leon Black, attended more than 75% of the total number of meetings of the board and meetings held by committees on which he or she served. Mr. Black has regularly advised our directors and executive offices on various matters of significance, including financings

and strategic transactions. Mr. Black has also made arrangements to have a colleague observe board meetings he has been unable to attend personally and brief him on the proceedings of the board.

Directors are also encouraged to attend the annual meeting of stockholders. Messrs. Flowers, Maffei, Shaw and Karmazin attended our 2010 annual meeting of stockholders.

How can stockholders communicate with the board of directors?

Stockholders may communicate directly with our board of directors, or specified individual directors, according to the procedures described on our website at <http://investor.siriusxm.com> under “Corporate Governance — Contact our Board”.

Our Corporate Secretary reviews all correspondence to our directors and forwards to the board a summary and/or copies of any such correspondence that, in the opinion of the Corporate Secretary, deals with the functions of the board or committees thereof or that he otherwise determines requires their attention. Directors may at any time review all correspondence received by us that is addressed to members of our board.

In addition, the Audit Committee has established procedures for the receipt, retention and treatment, on a confidential basis, of complaints received by us, our board of directors and the Audit Committee regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters. These procedures are available upon written request to our Corporate Secretary.

Director Compensation Table for 2010

The following table provides compensation information for the year ended December 31, 2010 for each of our non-employee directors. Directors who are our employees do not receive compensation for their services as directors.

Name(1)	Fee Earned or Paid in Cash (\$)	Stock Awards(2) (\$)	Option Awards(3)(4) (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value of Non-Qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Joan L. Amble	80,000	—	70,000	—	—	—	150,000
Leon D. Black	—	—	70,000	—	—	—	70,000
David J.A. Flowers	50,000	—	70,000	—	—	—	120,000
Lawrence F. Gilberti	70,000	—	70,000	—	—	—	140,000
Eddy W. Hartenstein	100,000	—	70,000	—	—	—	170,000
James P. Holden	50,000	—	70,000	—	—	—	120,000
Gregory B. Maffei	50,000	—	70,000	—	—	—	120,000
John C. Malone	50,000	—	70,000	—	—	—	120,000
James F. Mooney	60,000	—	70,000	—	—	—	130,000
Jack Shaw	50,000	—	70,000	—	—	—	120,000

(1) Vanessa A. Wittman and Carl E. Vogel were elected to our board of directors in April 2011, did not receive any compensation from us in 2010 and are therefore not included in the table.

(2) Non-employee directors were not awarded restricted stock units in 2010. At December 31, 2010, the aggregate number of unvested restricted stock units outstanding for each director was as follows: Ms. Amble — 0; Mr. Black — 47,425; Mr. Flowers — 0; Mr. Gilberti — 140,672; Mr. Hartenstein — 0; Mr. Holden — 140,672; Mr. Maffei — 0; Mr. Malone — 0; Mr. Mooney — 92,070; and Mr. Shaw — 0. The directors acquired the restricted stock units held by them as part of our former director compensation program. These restricted stock units will vest on the first anniversary of the date the person ceases to be a director.

- (3) The aggregate grant date fair values of stock option awards were computed in accordance with FASB ASC Topic 718 (excluding estimated forfeitures). The assumptions used in the valuation are discussed in Note 13 to our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010.
- (4) In 2010, non-employee directors were each awarded 102,015 options at an exercise price of \$0.9994 per share with a grant date fair value of \$70,000. At December 31, 2010, the aggregate number of option awards outstanding for each non-employee director was as follows: Ms. Amble — 1,312,462; Mr. Black — 1,319,875; Mr. Flowers — 370,225; Mr. Gilberti — 1,063,757; Mr. Hartenstein — 1,358,462; Mr. Holden — 1,359,875; Mr. Maffei — 370,225; Mr. Malone — 370,225; Mr. Mooney — 1,319,875; and Mr. Shaw — 1,404,462.

As chairman of the board of directors, Mr. Hartenstein receives an annual cash retainer of \$100,000. The other members of our board of directors each receive an annual cash retainer of \$50,000. In addition, each member receives \$70,000 in the form of options to purchase our common stock which are granted annually on the next business day following that year’s annual meeting of stockholders. All options to purchase our common stock awarded to our non-employee directors vest over a four-year period, with 25% vesting on each anniversary of the date of grant; provided that no options vest in a given year if, in the prior calendar year, the director failed to attend at least 75% of the meetings of the board.

Each director who serves as chair of a committee of the board of directors receives an additional annual cash retainer as follows: the audit committee chairwoman receives \$30,000; the compensation committee chairman receives \$20,000; and the nominating and corporate governance chairman receives \$10,000.

Any director who fails to attend at least 75% of the meetings of the board of directors in any given year forfeits 25% of his or her compensation that is payable in cash. During 2010, all of our directors, other than Mr. Black, attended over 75% of the meetings of our board of directors.

We also pay reasonable travel and accommodation expenses of directors in connection with their participation in meetings of the board of directors.

STOCK OWNERSHIP

Who are the principal owners of SIRIUS XM’s stock?

The following table sets forth information regarding beneficial ownership of our common stock as of February 28, 2011 by each person known by us to be the beneficial owner of more than 5% of our outstanding common stock. In general, “beneficial ownership” includes those shares a person has or shares the power to vote or transfer, and options to acquire our common stock that are exercisable currently or become exercisable within 60 days. We believe that the beneficial owner of the common stock listed below, based on information furnished by this owner, has sole investment and voting power with respect to these shares.

<u>Name and Address of Beneficial Owner of Common Stock</u>	<u>Shares Beneficially Owned as of February 28, 2011</u>	
	<u>Number</u>	<u>Percent</u>
Liberty Media Corporation(1) 12300 Liberty Boulevard Englewood, CO 80112	2,586,976,762	40%

- (1) Liberty Radio LLC, an affiliate of Liberty Media Corporation, owns 12,500,000 shares of our Series B-1 Preferred Stock. Each share of our Series B-1 Preferred Stock is convertible into 206.9581409 shares of our common stock. The number of shares shown in the table above reflects the aggregate number of shares of our common stock into which shares of our Series B-1 Preferred Stock is convertible.

How much stock do the directors and executive officers of SIRIUS XM own?

The following table shows the number of shares of common stock beneficially owned by each of our directors, each of our named executive officers and all of our directors and executive officers as a group as of February 28, 2011.

<u>Name of Beneficial Owner</u>	<u>Number of Shares of Common Stock Beneficially Owned(1)</u>	<u>Percent of Class</u>
Joan L. Amble	584,170	*
Leon D. Black(2)	627,517	*
David J.A. Flowers(3)	67,052	*
Lawrence F. Gilberti	1,320,921	*
Eddy W. Hartenstein	630,170	*
James P. Holden	760,764	*
Gregory B. Maffei(3)	67,052	*
John C. Malone(3)	67,052	*
James F. Mooney(4)	681,262	*
Jack Shaw	676,170	*
Mel Karmazin	38,806,020	*
Scott A. Greenstein	4,606,303	*
James E. Meyer	5,865,793	*
Dara F. Altman	1,330,903	*
Patrick L. Donnelly	7,734,098	*
David J. Frear(5)	4,756,405	*
All Executive Officers and Directors as a Group (16 persons)	68,581,652	1.7%

* Less than 1% of our outstanding shares of common stock.

- (1) These amounts include shares of common stock, restricted shares of common stock and restricted stock units that the individuals hold. Also included are the shares of common stock acquired under and held in our 401(k) savings plan as of February 28, 2011: Mr. Karmazin — 306,020 shares; Mr. Greenstein — 79,092 shares; Mr. Meyer — 83,995 shares; Ms. Altman — 44,349; Mr. Donnelly — 9,499 shares; and Mr. Frear — 77,718 shares.
- (2) Mr. Black is the founding partner of Apollo Management, L.P., an affiliate of Apollo Investment Fund IV, L.P. and Apollo Overseas Partners IV, L.P. (the “Apollo Funds”). The number of shares shown in the table are shares that Mr. Black owns directly and does not include any shares held by the Apollo Funds. Mr. Black disclaims beneficial ownership of any shares owned by the Apollo Funds.
- (3) Messrs. Flowers, Maffei and Malone are employees of Liberty Media Corporation, which beneficially owns 12,500,000 shares of our Series B-1 Preferred Stock, and they disclaim beneficial ownership of the shares owned by an affiliate of Liberty Media Corporation.
- (4) Includes 9,100 shares held as custodian for a child.
- (5) Includes 1,900 shares held by Mr. Frear’s spouse.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of reports filed pursuant to Section 16(a) of the Exchange Act and written representations furnished to us during our most recent fiscal year, we know of no director, executive officer or beneficial owner of more than ten percent of our common stock who failed to file on a timely basis reports of beneficial ownership of our common stock as required by Section 16(a) of the Exchange Act, as amended, except that David Frear, our Executive Vice President and Chief Financial Officer, did not timely file a Form 4 in July 2008 to disclose the conversion of 2,000 shares of common stock he held in XM Satellite Radio Holdings Inc. into 9,200 shares of our common stock upon consummation of the merger with XM.

GOVERNANCE OF THE COMPANY

How does the board of directors oversee our risk management process?

The board executes its oversight responsibility for risk management directly and through its committees, as follows:

- The Audit Committee has primary responsibility for monitoring our internal audit, corporate, financial and risk management processes and overseeing our system of internal controls and financial reporting. The Audit Committee discusses specific risk areas throughout the year, including those that may arise from time to time and the measures taken by management to monitor and limit risk.
- The Audit Committee receives regular reports throughout the year on matters related to risk management. At each regularly scheduled meeting, the Audit Committee receives reports from our (i) external auditor on the status of audit activities and findings and (ii) our executive in charge of internal audit (who reports directly to the Audit Committee) on the status of the internal audit plan, audit results and any corrective action taken in response to internal audit findings.
- We have a Compliance Officer who is in charge of our compliance with FCC related laws and regulations and training and monitoring compliance with those laws and regulations. Our Executive Vice President, General Counsel and Secretary reports to the Audit Committee throughout the year on calls to our compliance hotline and any changes or developments in compliance matters. Each quarter, our Chief Financial Officer reports to the board of directors on our performance and discusses how actual performance compares to our business plan and budget. Our executive officers report regularly to the board about the risks and exposures related to our business.
- The other committees of the board of directors oversee risks associated with their respective areas of responsibility. For example, the Compensation Committee assesses risks associated with our compensation policies and programs for executives as well as employees generally.
- The committees report to the board of directors at every regular board meeting on the topics discussed and actions taken at the most recent committee meeting. Our board of directors discusses the risks and exposures, if any, involved in the matters or recommendations of the committees, as necessary.
- Our board of directors also considers specific risk topics throughout the year, including risks associated with our business plan, operational efficiency, government regulation, physical facilities, information technology infrastructure and capital structure, among many others. The board is informed about and regularly discusses our risk profile, including legal, regulatory and operational risks to our business.

What are our policies and procedures for related party transactions?

We have adopted a written policy and written procedures for the review, approval and monitoring of transactions involving the company and “related persons.” For the purposes of the policy, “related persons” include executive officers, directors and director nominees or their immediate family members, or stockholders owning five percent or greater of our common stock.

Our related person transaction policy requires:

- that any transaction in which a related person has a material direct or indirect interest and which exceeds \$120,000 (such transaction referred to as a “related person” transaction) and any material amendment or modification to a related person transaction, be reviewed and approved or ratified by a committee of the board composed solely of independent directors who are disinterested or by the disinterested members of the board; and
- that any employment relationship or transaction involving an executive officer and any related compensation must be approved by the Compensation Committee of the board or recommended by the Compensation Committee to the board for its approval.

In connection with the review and approval or ratification of a related person transaction, management must:

- disclose to the committee or disinterested directors, as applicable, the material terms of the related person transaction, including the approximate dollar value of the amount involved in the transaction, and all the material facts as to the related person's direct or indirect interest in, or relationship to, the related person transaction;
- advise the committee or disinterested directors, as applicable, as to whether the related person transaction complies with the terms of our agreements governing our material outstanding indebtedness that limit or restrict our ability to enter into a related person transaction;
- advise the committee or disinterested directors, as applicable, as to whether the related person transaction will be required to be disclosed in our SEC filings. To the extent required to be disclosed, management must ensure that the related person transaction is disclosed in accordance with SEC rules; and
- advise the committee or disinterested directors, as applicable, as to whether the related person transaction constitutes a "personal loan" for purposes of Section 402 of the Sarbanes-Oxley Act of 2002.

In addition, the related person transaction policy provides that the Compensation Committee, in connection with any approval or ratification of a related person transaction involving a non-employee director or director nominee, should consider whether such transaction would compromise the director or director nominee's status as an "independent," "outside," or "non-employee" director, as applicable, under the rules and regulations of the SEC, NASDAQ and Internal Revenue Code.

In 2010, there were no related party transactions that are required to be disclosed pursuant to the SEC rules and regulations.

Relationship with Liberty Media

In February and March 2009, we entered into several transactions to borrow up to \$530 million from Liberty Media Corporation and its affiliates. All of the loans made were repaid during 2009 in cash from the proceeds of notes issued by us and XM.

As part of the transactions with Liberty Media, on February 17, 2009, we entered into an investment agreement (the "Investment Agreement") with Liberty Radio, LLC, an indirect wholly-owned subsidiary of Liberty Media Corporation. Pursuant to the Investment Agreement, we agreed to issue to Liberty Radio, LLC 12,500,000 shares of convertible preferred stock with a liquidation preference of \$0.001 per share in partial consideration for the loan investments described herein. The preferred stock was issued on March 6, 2009, as described below. See "Relationship with Liberty Media — Issuance of the Preferred Stock".

The preferred stock is convertible into approximately 40% of our outstanding shares of common stock (after giving effect to such conversion). Liberty Radio, LLC has agreed not to acquire more than 49.9% of our outstanding common stock for three years from the date the preferred stock was issued, except that Liberty Radio, LLC may acquire more than 49.9% of our outstanding common stock at any time after the second anniversary of such date pursuant to any cash tender offer for all of the outstanding shares of our common stock that are not beneficially owned by Liberty Radio, LLC or its affiliates at a price per share greater than the closing price of the common stock on the trading day preceding the earlier of the public announcement or commencement of such tender offer. The Investment Agreement also provides for certain other standstill provisions during such three year period.

The rights, preferences and privileges of the preferred stock are set forth in the Certificate of Designations of Convertible Perpetual Preferred Stock, Series B-1 (the "Certificate of Designations"), filed with the Secretary of State of the State of Delaware. The holder of our preferred stock is entitled to appoint a proportionate number of our board of directors based on its ownership levels from time to time. The Certificate of Designations also provides that so long as at least 6,250,000 shares of Series B-1 Preferred

Stock are outstanding, we need the consent of the holder of the Series B-1 Preferred Stock for certain actions, including:

- the grant or issuance of our equity securities;
- any merger or consolidation, or any sale of all or substantially all of our assets;
- any acquisition or disposition of assets other than in the ordinary course of business above certain thresholds;
- the incurrence of debt in amounts greater than a stated threshold;
- engaging in a business different than the business currently conducted by us; and
- amending our certificate of incorporation or by-laws in a manner that materially adversely affects the holders of the preferred stock.

The preferred stock, with respect to dividend rights, ranks on parity with our common stock, and with respect to rights on liquidation, winding-up and dissolution, ranks senior to our common stock. Dividends on the preferred stock are payable, on a non-cumulative basis, as and if declared on our common stock, in cash, on an as-converted basis.

Issuance of the Preferred Stock

On March 6, 2009, we issued 1,000,000 shares of our Series B-1 Preferred Stock and 11,500,000 nonvoting shares of Convertible Perpetual Preferred Stock, Series B-2 (the “Series B-2 Preferred Stock”) as provided in the Investment Agreement referred to above. All of the shares of our Series B-2 Preferred Stock were converted into 11,500,000 shares of Series B-1 Preferred Stock on April 21, 2009. The rights, preferences and privileges of the preferred stock are described in the Certificate of Designations. A summary of the terms of the Certificate of Designations is described above. The foregoing description of the Certificate of Designations does not purport to be a complete description of all of the terms of such Certificate of Designations and is qualified in its entirety by reference to the Certificate of Designations, a copy of which is filed as Exhibit 3.1 to the Current Report on Form 8-K dated March 6, 2009 filed with the Securities and Exchange Commission.

Does SIRIUS XM have corporate governance guidelines and a code of ethics?

Our board of directors adopted the *Guidelines* which set forth a flexible framework within which the board, assisted by its committees, directs our affairs. The *Guidelines* cover, among other things, the composition and functions of our board of directors, director independence, management succession and review, committee assignments and selection of new members of our board of directors.

Our board of directors has also adopted a *Code of Ethics*, which is applicable to all our directors and employees, including our chief executive officer, principal financial officer and principal accounting officer.

Our *Guidelines* and the *Code of Ethics* are available on our website at <http://investor.siriusxm.com> under “Corporate Governance” and in print to any stockholder who provides a written request for either document to our Corporate Secretary. If we amend or waive any provision of the *Code of Ethics* with respect to our directors, chief executive officer, principal financial officer or principal accounting officer, we will post the amendment or waiver at this location on our website.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Introduction

This Compensation Discussion and Analysis, or “CD&A,” describes and analyzes our executive compensation program for our Chief Executive Officer, our Chief Financial Officer and the four other officers named in our Summary Compensation Table for 2011. We refer to these six officers throughout the CD&A and the accompanying tables as our “named executive officers.”

Executive Summary

Our compensation program for our named executive officers is designed to (1) recruit and retain highly qualified and effective executive talent with the skills and experience necessary to enhance stockholder value, (2) provide incentives to our executives to support our corporate strategy and business by rewarding performance that meets our key business objectives, and (3) align the interests of our executives with the interests of our stockholders.

We achieve these objectives through an executive compensation program consisting primarily of three elements: base salary; performance-based annual bonus and long-term equity compensation. We believe that these three elements, when taken together, provide an optimum mix of fixed compensation and short- and long-term incentives, and therefore serve as the most effective means of attracting, retaining and motivating executives with the skills and experience necessary to achieve our business goals and enhance stockholder value.

Fiscal Year 2010 Performance Summary

We had a very successful year in 2010 in light of ongoing challenges raised by the U.S. and global economy and we continued to invest in infrastructure, high-quality programming and our brand. In the face of the prevailing economic conditions, our performance was exceptional.

Our financial results exceeded our projections and were reflected in a 172% increase in our year-over-year stock price. These results are highlighted by the following:

- achieving adjusted EBITDA growth of 35% to over \$626 million in 2010;
- increasing our 2010 revenue by 13.9% over 2009;
- growing average monthly revenue per user (“ARPU”) by 7% as compared to 2009; and
- increasing free cash flow by 14% to \$210 million despite capital expenditures in 2010 that were \$63 million above 2009 levels.

In addition, 2010 was marked by key subscriber and content-based achievements and other measures that contributed to our continued growth and success, including:

- increasing our net subscriber additions by over 1.4 million as compared to a loss of approximately 230,000 subscribers in 2009;
- reducing our average monthly subscriber churn to 1.9%, down from 2.0% in 2009;
- increasing our conversion rate, 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, to 46.2% as compared to 45.4% in 2009;
- negotiating new long-term programming agreements with Howard Stern and the NFL;
- adding compelling content to our service while reducing programming expenses; and
- successfully constructing, launching and commissioning of our XM-5 satellite.

In this CD&A, we use 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: adjusted EBITDA; average monthly revenue per subscriber (“ARPU”); and free cash flow. We also use in this CD&A subscriber churn and conversion rate, two performance metrics which management uses in measuring our business. We use these Non-GAAP financial measures and other performance metrics to manage our business, set operational goals and, in certain cases, as a basis for determining compensation for our employees. Please refer to the footnotes contained in our Annual Report for the year ended December 31, 2010 which accompanies this proxy statement for a discussion of such Non-GAAP financial measures and reconciliations to the most directly comparable GAAP measure and a discussion of these other performance metrics.

Fiscal Year 2010 Pay Implications

Performance-Based Discretionary Annual Bonuses. None of our named executive officers or employees is entitled to a guaranteed bonus. Following the end of 2010, the Compensation Committee met to determine whether to exercise its discretion to pay bonuses to our named executive officers with respect to 2010. In making this determination, the Compensation Committee carefully reviewed our performance against various key metrics included in our budget and business plan for 2010, including our efforts to increase subscribers, revenue, adjusted EBITDA, free cash flow and OEM conversion rate and to control subscriber churn and operating expenses.

Following its review of our 2010 performance, which the Compensation Committee determined to be exceptional, the Compensation Committee exercised its discretion and approved a cash bonus pool to be divided among our employees, other than the named executive officers, and approved the individual amounts to be granted to our named executive officers. The actual amount of the bonus paid to each named executive officer was based on a combination of factors, including our 2010 corporate performance, his or her individual contributions and performance in his or her functional areas of responsibility and, with respect to all named executive officers other than himself, upon recommendations made by Mr. Karmazin, our Chief Executive Officer. The amount of Mr. Karmazin’s bonus was approved by the board of directors following a recommendation from the Compensation Committee. The amount of the bonus paid to each named executive officer, and the specific factors taken into consideration in determining such amounts, is set forth below under the heading “Executive Compensation Elements”.

Long-Term Equity Grants. We made a broad-based grant of stock options to our employees in 2010, including Ms. Altman and Mr. Frear, who received options to purchase 1,052,300 shares and 2,244,800 shares, respectively. The specific number of options granted to each of these named executive officers was determined by the Compensation Committee with the assistance of our Chief Executive Officer, as further described under “— Long-Term Incentive Compensation — Process”. In addition, we granted options to purchase 13,163,495 shares to Mr. Donnelly in connection with his entering into an extended employment agreement with us in 2010. There were no other long-term equity grants to any of our other named executive officers in 2010.

Base Salary Increases. Mr. Donnelly’s base salary was increased in connection with his entering into an extended employment agreement in 2010, as described below. In 2010, Mr. Greenstein’s base salary increased from \$850,000 to \$925,000, and Mr. Meyer’s base salary increased from \$950,000 to \$1,100,000. These salary increases were negotiated with Messrs. Greenstein and Meyer in 2009 as part of the execution of new employment agreements with each of them. There were no other contractual base salary increases for any of our other named executive officers in 2010.

Employment Agreement with Mr. Donnelly. Consistent with our practice for our other named executive officers, we entered into a new employment agreement with Mr. Donnelly in 2010. The extended agreement, which is described in more detail below under the heading “Potential Payments upon Termination or Change-in-Control — Employment Agreements,” increased Mr. Donnelly’s base salary to \$575,000 from \$525,000 and provided him with a grant of options to purchase 13,163,495 shares of our common stock at an exercise price of \$0.6669 per share (the last sale price of our common stock on the NASDAQ prior to the

execution of the agreement), which vests generally over four years, subject to his continued employment. The Compensation Committee determined that the increase in base salary and grant of options was appropriate in light of Mr. Donnelly's performance and necessary for us to retain and continue to properly incentivize him.

Overall Program Objectives and Processes

Program Objectives

We strive to attract, motivate and retain high-quality executives with the skills and experience necessary to achieve our key business goals and enhance stockholder value by providing total compensation that is largely performance-based and competitive with the various markets and industries in which we compete for talent. We strive to provide incentives to align the interests of our executives with those of our stockholders and deliver levels of compensation that we believe are commensurate with performance.

We achieve these objectives through three primary compensation elements:

- a base salary;
- a performance-based discretionary annual bonus that constitutes the short-term incentive element of our program; and
- grants of stock options that constitute the long-term incentive element of our program.

The Compensation Committee believes that this three-part approach is consistent with programs adopted by companies with which we compete for executive talent and best serves the interests of our stockholders. The approach is an effort to meet the requirements of the competitive environment in which we operate, while ensuring that executive officers are compensated in a manner that advances both the short- and long-term interests of our stockholders.

The Compensation Committee believes that delivering compensation in the form of, or based on the value of, our common stock promotes alignment between executive performance and stockholder interests. Accordingly, the value of our common stock represents a large portion of our executives' long-term compensation, including through grants of stock options and matching contributions in the form of our common stock under our Sirius XM 401(k) Savings Plan. Compensation for our executives also involves a high proportion of pay that is "at risk" — namely, the discretionary annual bonus and the value of equity-based awards. This "at risk" compensation is used to motivate executives to achieve goals and objectives that support our business plan and align executives with the short- and long-term interests of our stockholders.

Total Compensation for Named Executive Officers

The Compensation Committee's goal is to award compensation that incentivizes our named executive officers to enhance value for our stockholders and is reasonable when all elements of potential compensation are considered. In making decisions with respect to any element of a named executive officer's compensation, the Compensation Committee considers the total compensation that may be awarded to the officer, including salary, annual bonus, long-term incentives, perquisites and other benefits. In addition, the Compensation Committee considers the other benefits to which the officer is entitled under his or her employment agreement, including compensation payable upon termination of employment (The named executive officers are employed pursuant to agreements described under "Potential Payments upon Termination or Change-in-Control — Employment Agreements" below.) In making its decisions regarding compensation for 2010, the Compensation Committee reviewed as part of its decision-making process the total compensation potentially payable to, and the benefits accruing to, each named executive officer.

Processes and Compensation Decisions

The Compensation Committee is responsible for developing and maintaining compensation programs for our named executive officers. The Compensation Committee has strived to design these compensation programs with great care, focusing first and foremost on the incentives that the programs promote. The Compensation Committee is keenly aware of the heightened sensitivity that compensation programs have been

subjected to in recent years, particularly with regard to pay packages that could be deemed excessive. In the final analysis, the Compensation Committee believes that our ability to recruit and retain top executive talent is essential to our long-term success. We operate in a highly competitive industry and the competition we face is increasing. Accordingly, the Compensation Committee believes it has successfully balanced the sometimes competing obligations to make decisions which meet the needs of our company against various “one-size-fits-all” legislative, regulatory and “best practice” mandates.

The Compensation Committee regularly reviews our compensation practices to assess — in light of current market conditions, the status of our business and development and our financial condition and prospects — whether our existing compensation structure properly advances the near- and long-term interests of our stockholders. The Compensation Committee did not employ a compensation consultant in 2010, relying instead on the significant experience and informed judgment of its members in making executive compensation-related decisions.

The Compensation Committee does not attempt to set compensation levels for each executive within a particular range related to levels provided by peers. Instead, the Compensation Committee occasionally uses informal market comparisons as one of many factors in making compensation decisions. Other factors considered when making individual executive compensation decisions include individual contribution and performance, reporting structure, historical compensation, internal pay relationship, complexity and importance of roles and responsibilities, leadership and growth potential.

In determining compensation element levels, including the annual grants of stock options, for each named executive officer (other than the Chief Executive Officer); the Compensation Committee also consults with and considers the recommendations and input of our Chief Executive Officer.

The Compensation Committee expects to review our compensation programs in 2011 with a view to ensuring that they continue to provide the correct incentives and are properly sized given the scope and complexity of our business and the competition we face. We have adopted a 2011 bonus program for our named executive officers (other than our Chief Financial Officer) under our 2009 Long-Term Stock Incentive Plan. The awards made under the bonus program are intended to qualify for the performance-based exception under Section 162(m) of the Internal Revenue Code. The bonus program provides for a bonus pool which is based on a percentage of EBITDA, provided that no bonus amount is payable if we do not achieve a specified level of EBITDA. We expect to continue to respond to changes in economic conditions and our business with innovation and flexibility, as needed, to advance our objectives of motivating, attracting and retaining high-quality executives with the skills and experience necessary to achieve our key business objectives and increase stockholder value.

Executive Compensation Elements

Our practices with respect to the primary compensation elements identified above, as well as other elements of compensation, are described below, followed by a discussion of the specific factors considered in determining key compensation elements for the named executive officers for 2010.

Base Salary

Objectives. The objective of base salary is to reflect job responsibilities, value to us, individual performance and market competitiveness. Salaries often are reviewed in connection with the extension of an employment agreement.

Process. Base salaries for named executive officers are determined consistent with their employment agreements. The minimum salaries set forth in the employment agreements and the amount of any increase over these salaries are determined by the Compensation Committee based on a variety of factors, including:

- the nature and responsibility of the position and, to the extent available and deemed relevant, salary norms for persons in similar positions at comparable companies;
- the expertise and past performance of the individual executive;

- the executive's salary history and his or her total compensation, including other cash bonus and stock based awards;
- the competitiveness of the market for the executive's services; and
- the recommendations of our Chief Executive Officer (except as to his own compensation).

In setting base salaries, the Compensation Committee also considers the importance of linking a high proportion of each executive officer's compensation to performance in the form of the discretionary annual bonus as well as long-term stock-based compensation, which is tied to our stock price performance.

2010 Base Salary Decisions. During 2010, our Compensation Committee approved an increase in the base salary of Mr. Donnelly beginning in January 2010 from \$525,000 to \$575,000 as part of an agreement to extend his employment. The Compensation Committee believed this increase was appropriate given the competitive market for his services and his individual performance. In 2010, Mr. Greenstein's base salary increased from \$850,000 to \$925,000 and Mr. Meyer's base salary increased from \$950,000 to \$1,100,000. These salary increases were negotiated with Messrs. Greenstein and Meyer in 2009 as part of the execution of new employment agreements with each of them.

In 2010, Messrs. Meyer and Donnelly waived the increase in their base salaries that each would have been entitled to in 2011 under their employment agreements. We did not solicit those waivers; rather Messrs. Meyer and Donnelly approached us regarding the contractually required increases in their salaries after weighing factors important to each of them. We understand that Messrs. Meyer and Donnelly waived their increases in base salaries principally as a demonstration of leadership and a signal to our employees that any increase in their compensation would be based on our performance in the form of bonuses and increases in the value of their stock options. In January 2011, Mr. Greenstein's base salary increased from \$925,000 to \$1,000,000 as required by the terms of his employment agreement.

Annual Bonus

Objectives. The Compensation Committee may award any annual bonuses in cash, restricted stock, restricted stock units or a combination thereof. The Compensation Committee believes that discretionary bonuses, as opposed to formula-based bonuses, provide the best means of incentivizing our named executive officers to enhance stockholder value. Our bonus approach allows the Compensation Committee to take into consideration all factors relevant to an executive's performance without being limited by specified financial or operational metrics.

The bonuses approved by the Compensation Committee for 2010 were intended to achieve two principal objectives:

- to link compensation with performance that enhances stockholder value, as measured at the company and individual levels; and
- to reward our named executive officers based on individual performance and contributions to the company.

Process. Although our annual bonus awards are discretionary, the Compensation Committee employed the process described below to assist in shaping its decision and assist in evaluating whether it was appropriate to award bonuses to our named executive officers with respect to 2010. The Compensation Committee may not employ the same process, or may adopt a modified or wholly different process, in making future bonus decisions.

After the end of the year, the Compensation Committee evaluated our actual performance against a variety of operating metrics to determine the appropriate funding of a bonus pool for all employees, other than our named executive officers. As part of such evaluation, the Compensation Committee considered our increase in subscribers, revenue, adjusted EBITDA, free cash flow and conversion rate and results in controlling subscriber churn and operating expenses, additional accomplishments and other factors the Compensation Committee deemed relevant. For named executive officers (other than himself), our Chief

Executive Officer recommended to the Compensation Committee individual bonus amounts, taking into account the responsibilities and contributions of each individual during the year and our performance. These amounts were reviewed and discussed with the Compensation Committee by our Chief Executive Officer and, following consideration by the Compensation Committee, the amounts were approved or modified. For the Chief Executive Officer, the Compensation Committee reviewed his performance for the year, determined that he should receive a bonus and determined the bonus amount, which amount was then reviewed and approved by the board of directors. The Compensation Committee determined that the bonuses to our named executive officers would be paid in cash. The bonus awards to our named executive officers are described below and are reflected in the Summary Compensation Table.

Payment of Discretionary Bonuses for 2010. The annual bonus for Mr. Karmazin is discussed below under “Related Policies and Considerations — Compensation of our Chief Executive Officer.”

Mr. Greenstein was awarded a bonus for his contributions during the year, including his role in the continued enhancement of our programming, such as the negotiation of a new agreement with the NFL; securing and creating additional compelling and exclusive content, such as Rosie Radio, Dr. Laura Schlesinger and our Fantasy Sports channel; reducing the costs of certain programming and streamlining and introducing efficiencies into our programming operations; reducing our churn; the sale of advertisements on our non-music channels and contribution to our sale of “best of” programming packages; refining our brand awareness; and understanding and analyzing customer satisfaction levels as they relate to our programming and content offerings.

Mr. Meyer was awarded a bonus for his contributions during the year, including his role in our addition of over 1.4 million net subscribers in 2010; generating \$210 million in free cash flow; reducing subscriber churn and introducing systems and processes to assist in understanding overall subscriber churn; increasing monthly average revenue per user; increasing our self-pay conversion rate; reducing subscriber acquisition costs; introducing and marketing new data services; overseeing the development of our transmission and radio technology; building our business in pre-owned vehicles, including establishing agreements with automakers for certified pre-owned programs; and the continuing integration of our legacy operations.

Mr. Donnelly was awarded a bonus for his contributions during the year, including his regular on-going contributions as our general counsel, such as the management of complex legal and regulatory issues; his role in managing and attempting to reduce our legal expenses in face of the increasing complexity of our business; assisting in the negotiation and execution of various agreements with programming providers and other essential third parties; and his efforts in the continued integration of our legacy operations, including the continuing integration and rationalization of our legal staff to meet our current and future needs.

Mr. Frear was awarded a bonus for his contributions during the year, including his regular on-going contributions as our chief financial officer and his role in increasing our adjusted EBITDA by 35%; increasing our free cash flow by 14% to \$210 million; successfully managing balance sheet opportunities to replace certain high cost debt with more attractive financing; managing the construction, launch and commissioning of our XM-5 satellite; overseeing our investments in XM Canada and SIRIUS Canada and negotiating the pending combination of those companies; and his efforts in the continued integration of our legacy operations, particularly in the areas of information technology and financial planning and reporting.

Ms. Altman was awarded a bonus for her contributions during the year, including her regular on-going contributions as our chief administrative officer and her role in managing our human resources function, and facilities and security operations; supervising the evaluation, management and consolidation of our real estate holdings; overseeing our DC-based operations; and her role in the continued integration of our legacy operations.

Based on the foregoing, the Compensation Committee approved the specific bonus amount set forth in the Summary Compensation Table for each of the above named executive officers.

2011 Considerations. In 2011, the Compensation Committee intends to determine the overall bonus funding for our employees (other than the named executive officers) by evaluating our performance against our 2011 business plan as approved by our board of directors, including operating metrics such as total

subscribers, cash, revenue, adjusted EBITDA, subscriber acquisition costs per gross addition, churn, operating expense growth, and other factors that it determines are appropriate. The Compensation Committee intends to adopt a similar process for determining our named executive officers' bonuses for 2011 as it has done in the past.

Long-term Incentive Compensation

Objectives. The Compensation Committee grants long-term incentive awards in the form of stock options to directly align compensation for our executive officers over a multi-year period with the interests of our stockholders by motivating and rewarding actions that create or increase long-term stockholder value. The Compensation Committee determines the level of long-term incentive compensation based on an evaluation of competitive factors in conjunction with total compensation provided to named executive officers and the objectives of the compensation program described above.

Process. Our Compensation Committee grants long-term incentive compensation in the form of stock options because our Compensation Committee believes that our stock option program properly balances the goals of incentivizing our executives to create and sustain long-term stockholder value and retaining our executives in a competitive labor environment. Stock options have an exercise price equal to the market price on the date of grant, and therefore provide value to the executives if the executives create value for our stockholders. In addition, stock options generally vest over a period of four years, generally subject to the executive's continued employment, which incentivizes the executives to sustain increases in stockholder value over extended periods of time. The specific number of options granted to each of Ms. Altman and Mr. Frear was determined by the Compensation Committee with the assistance of our Chief Executive Officer and by using their informed judgement, taking into account the executive's role and responsibilities within the company and the overall performance of the company and our common stock, and was not based on any specific quantitative or qualitative factors. As part of that process, the Compensation Committee considered the value and structure of the awards, which vest over a four year period, as a retention tool. With respect to Mr. Donnelly, the number of options granted to him was based on negotiations between us and Mr. Donnelly as part of the execution of his new employment agreement.

2010 Stock Option Grants. In 2010, we granted long-term incentive compensation, in the form of stock options, to each of Messrs. Donnelly and Frear and Ms. Altman. The stock options awarded by the Compensation Committee in 2010 to these three named executive officers are identified in the Grants of Plan-Based Awards Table for 2010. The option grant to Mr. Donnelly was made in accordance with our practice of making option grants to named executive officers upon entering into extended employment agreements with us, and the option grant to each of Ms. Altman and Mr. Frear was made as part of a broad-based option grant to our employees. The Compensation Committee did not grant any option awards to Messrs. Karmazin, Greenstein and Meyer in 2010 because they each received grants of options awards as part of entering into new employment arrangements with us in 2009, and those options are expected to be their primary long-term incentive compensation during the term of their employment agreements. Messrs. Karmazin, Greenstein, Meyer and Donnelly did not participate in our broad-based stock option grants in 2010.

The stock options granted to our named executive officers in 2010 vest in equal installments over four years, generally subject to the officer's continued employment through the vesting period, which enhances the retention value of the award and incentivizes the officers to create and sustain long-term value for our stockholders.

Retirement and Other Employee Benefits

We maintain broad-based benefits for all employees, including health and dental insurance, life and disability insurance and a 401(k) plan, including the matching component of that plan. Our named executive officers are eligible to participate in all of our employee benefit plans on the same basis as other employees. We do not sponsor or maintain any other retirement or deferred compensation plans for any of our employees in addition to our Sirius XM 401(k) plan.

Perquisites and Other Benefits for Named Executive Officers

The Compensation Committee supports providing other benefits to named executive officers that, except as to Mr. Meyer, are substantially the same as those offered to our other full time employees and are provided to similarly situated executives at companies with which we compete for executive talent.

Mr. Meyer's principal residence is in Indianapolis, Indiana. We reimburse Mr. Meyer for the reasonable costs of an apartment in the New York metropolitan area and other incidental living expenses, up to a maximum of \$5,000 per month for rent. We also reimburse Mr. Meyer for the reasonable costs of coach class air-fare from his home in Indianapolis, Indiana, to our offices in New York City. We also pay Mr. Meyer an additional amount to hold him harmless as a result of any federal, state or New York City income taxes imputed in respect of the expenses we reimburse him for.

Payments to Named Executive Officers Upon Termination or Change-in-Control

The employment agreements with our named executive officers provide for severance payments and, in connection with a severance that occurs after a change-in-control, additional payments (including tax "gross-up" payments to protect the named executive officers from so-called "golden parachute" excise taxes that could arise in such circumstances). These arrangements vary from executive to executive due to individual negotiations based on each executive's history and individual circumstances.

We believe that these change-in-control arrangements mitigate some of the risk that exists for executives working in our industry. These arrangements are intended to attract and retain qualified executives who could have other job alternatives that may appear to them, in the absence of these arrangements, to be less risky.

There is a possibility that we could be acquired in the future. We believe that severance payments in connection with a change-in-control transaction are necessary to enable key executives to evaluate objectively the benefits to our stockholders of a proposed transaction, notwithstanding its potential effects on their own job security.

Related Policies and Considerations

Compensation of our Chief Executive Officer

In November 2004, our board of directors negotiated, and we entered into, a five-year employment agreement with Mel Karmazin to serve as our Chief Executive Officer. In June 2009, Mr. Karmazin's employment agreement was extended through the end of 2012. The material terms of Mr. Karmazin's employment agreement are described below under "Potential Payments Upon Termination and Change-in-Control — Employment Agreements — Mel Karmazin."

The terms of Mr. Karmazin's employment were established by negotiations between Mr. Karmazin and the Compensation Committee. The Compensation Committee did not retain an independent compensation consultant to advise them in the negotiation of Mr. Karmazin's compensation arrangements or to assess the reasonableness of the compensation arrangements. The Compensation Committee concluded that, in its business judgment, Mr. Karmazin's qualifications and experience as chief executive officer, particularly in radio, were uniquely suited to our needs, and that the compensation, including the base salary and stock option components of his compensation, was, taken as a whole, appropriate under the circumstances.

Mr. Karmazin did not receive a bonus in respect of the year ended December 31, 2008. In February 2010, with respect to his performance in 2009, the Compensation Committee awarded a cash bonus to Mr. Karmazin of \$7,000,000 in recognition of his performance and our corporate performance. In February 2011, the Compensation Committee awarded a cash bonus to Mr. Karmazin of \$8,400,000 in recognition of his performance and our corporate performance in 2010, including:

- increasing our net subscribers additions by over 1.4 million, an increase of over 1.6 million net subscriber additions over 2009;
- achieving adjusted EBITDA growth of 35% to over \$626 million in 2010;

- increasing our 2010 revenue by 13.9% over 2009 levels;
- growing ARPU by 7% as compared to 2009;
- increasing free cash flow by 14% to \$210 million despite capital expenditures in 2010 that were \$63 million over 2009 levels;
- reducing our monthly average churn;
- negotiating new programming agreements;
- overseeing the successful construction, launch and commission of our XM-5 satellite;
- creating a corporate culture that fosters quality, creativity and innovation to differentiate our content and services;
- adding compelling content to our services while reducing programming expenses; and
- establishing Sirius XM as the second largest subscription-based media company in the United States.

Policy with Respect to Internal Revenue Code Section 162(m)

In developing the compensation packages for the named executive officers, the Compensation Committee considered the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code. Section 162(m) generally disallows a tax deduction for compensation that we pay to our Chief Executive Officer or any of the next three most highly compensated executive officers (other than our Chief Financial Officer) to the extent that the compensation for any such individual exceeds \$1 million in any taxable year. However, this deduction limitation does not apply to compensation that is “performance-based” under Section 162(m).

In 2011, the Compensation Committee adopted a plan applicable to annual bonuses for our Chief Executive Officer and the four most highly compensated executive officers, other than our Chief Financial Officer. The Committee anticipates that this plan will result in tax deductibility for any compensation we pay to such executive officers that exceeds \$1 million in any taxable year. However, the Compensation Committee may from time to time approve compensation that is not deductible under Section 162(m) if it determines that it is in our best interest to do so.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based on such review and discussion, we recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference into our annual report on Form 10-K for the year ended December 31, 2010.

Compensation Committee

LAWRENCE F. GILBERTI, *Chairman*

JAMES P. HOLDEN

JACK SHAW

Summary Compensation Table

The following table provides information concerning total compensation earned or paid to our Chief Executive Officer, our Chief Financial Officer and our four other most highly compensated executive officers who served in such capacities as of December 31, 2010 for services rendered to us during each of the past three fiscal years. These six officers are referred to herein as the named executive officers.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary</u> <u>\$</u>	<u>Bonus(2)</u> <u>\$</u>	<u>Stock</u> <u>Awards(3)</u> <u>\$</u>	<u>Option</u> <u>Awards(3)</u> <u>\$</u>	<u>All Other</u> <u>Compensation(4)</u> <u>\$</u>	<u>Total(5)</u> <u>\$</u>
Mel Karmazin	2010	1,500,000	8,400,000	—	—	7,350	9,907,350
Chief Executive Officer	2009	1,250,000	7,000,000	—	35,209,440	7,350	43,466,790
	2008	1,250,000	—	—	—	6,900	1,256,900
Scott A. Greenstein	2010	925,000	1,150,000	—	—	7,350	2,082,350
President and Chief	2009	850,000	1,000,000	850,035	7,986,116	27,134	10,713,285
Content Officer	2008	845,834	—	440,003	1,123,873	6,900	2,416,610
James E. Meyer	2010	1,100,000	1,500,000	—	—	159,888	2,759,888
President, Operations and Sales	2009	950,000	1,250,000	1,000,022	11,500,278	176,632	14,876,932
	2008	945,834	—	512,502	1,309,025	152,967	2,920,328
Dara F. Altman(1)	2010	446,332	700,000	—	750,046	7,350	1,903,728
Executive Vice President and	2009	446,332	600,000	500,029	750,139	19,006	2,315,506
Chief Administrative Officer	2008	92,986	—	—	—	—	92,986
Patrick L. Donnelly	2010	573,301	900,000	—	6,000,000	7,350	7,480,651
Executive Vice President,	2009	525,000	750,000	600,020	1,000,336	21,328	2,896,684
General Counsel and Secretary	2008	522,917	—	300,001	—	6,900	829,818
David J. Frear	2010	750,000	1,000,000	—	1,600,022	7,350	3,357,372
Executive Vice President	2009	750,000	850,000	700,012	1,000,336	23,650	3,323,998
and Chief Financial Officer	2008	631,251	—	1,292,002	3,897,033	6,900	5,827,186

- (1) Information for Ms. Altman is included for the period after September 26, 2008, the date she became an employee.
- (2) No bonuses were paid for 2008.
- (3) The aggregate grant date fair value of restricted stock unit and stock option awards was computed in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) Topic 718 (excluding estimated forfeitures). The assumptions used in the valuation are discussed in Note 13 to our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010. Mr. Karmazin did not receive equity-based awards in 2008 or 2010.
- (4) For each named executive officer in 2010, the amount in the “All Other Compensation” column reflects \$7,350 of matching contributions by us under our 401(k) savings plan paid in the form of shares of our common stock. “All Other Compensation” for Mr. Meyer also includes amounts reimbursed for temporary living and travel expenses, all of which are reimbursed based upon receipts. In 2010, Mr. Meyer was paid \$50,000 for rent, \$30,397 for travel, \$3,105 for utilities. Travel-related expenses include airfare, taxi/car services, and other incidental travel-related costs. In addition, “All Other Compensation” for Mr. Meyer includes \$69,036 for reimbursement of taxes associated with these expenditures in accordance with his employment agreement.
- (5) The amount of compensation reported for federal tax purposes for Mr. Karmazin in 2009 was \$1,620,316. We are providing this information to highlight the difference between compensation reported under the SEC rules and compensation amounts realized and reported as taxable income on Mr. Karmazin’s Form W-2. The amount reported on Mr. Karmazin’s W-2 includes, among other items: (1) total cash wages and bonuses paid to Mr. Karmazin in 2009, less amounts deferred under our 401(k) plan and (2) the value of restricted stock awards that vested during 2009.

Grants of Plan-Based Awards in 2010

The following table provides information with respect to equity grants made during fiscal year 2010 to the named executive officers.

<u>Name</u>	<u>Grant Date</u>	<u>All Other Option Awards: Number of Securities Underlying Options (#)(1)</u>	<u>Exercise or Base Price of Option Awards (\$/Sh)(2)</u>	<u>Grant Date Fair Value of Stock and Option Awards \$(3)</u>
Mel Karmazin	—	—	—	—
Scott A. Greenstein	—	—	—	—
James E. Meyer	—	—	—	—
Dara F. Altman	8/9/2010	1,052,300	1.0400	750,046
Patrick L. Donnelly	1/14/2010	13,163,495	0.6669	6,000,000
David J. Frear	8/9/2010	2,244,800	1.0400	1,600,022

- (1) All grants were made under the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan. The stock option awards granted on August 9, 2010 vest in equal annual installments over four years from the date of grant and have a term of ten years. The option award granted on January 14, 2010 to Mr. Donnelly in connection with the extension of his employment agreement vests in four equal annual installments beginning on January 14, 2011 and has a term of ten years.
- (2) The exercise price of the options granted on August 9, 2010 are equal to the closing price of our common stock on the date of grant. The exercise price of the options granted to Mr. Donnelly on January 14, 2010 is equal to the last sale price of our common stock prior to the execution on January 14, 2010 of the employment agreement with Mr. Donnelly.
- (3) The aggregate grant date fair value of stock option awards was computed in accordance with FASB ASC Topic 718 (excluding estimated forfeitures). The assumptions used in the valuation are discussed in Note 13 to our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010.

Outstanding Equity Awards at Fiscal Year-End 2010

The following table provides information with respect to the status at December 31, 2010 of all unexercised options and unvested restricted stock and restricted stock units awarded to each of the named executive officers.

Name	Option Awards				Number of Shares or Units of Stock that have not Vested (#)	Market Value of Shares or Units of Stock that have not Vested (\$)(7)
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date		
	Mel Karmazin(1)	30,000,000	90,000,000	0.43		
Scott A. Greenstein(2)	1,000,000	—	3.14	5/5/2014	—	—
	1,250,000	—	6.6020	8/8/2015	—	—
	326,250	108,750	3.70	2/1/2017	—	—
	303,500	303,500	2.87	1/23/2018	—	—
	—	20,826,102	0.43	7/27/2019	—	—
James E. Meyer(3)	50,000	—	6.75	12/14/2011	—	—
	66,666	—	1.04	8/11/2013	—	—
	1,350,000	—	5.54	2/2/2016	—	—
	384,000	128,000	3.70	2/1/2017	—	—
	353,500	353,500	2.87	1/23/2018	—	—
	—	2,491,500	0.6735	8/31/2019	—	—
	2,126,746	18,888,738	0.5752	10/14/2019	—	—
Dara F. Altman(4)	415,250	1,245,750	0.6735	8/31/2019	85,866	139,962
	—	1,052,300	1.04	8/9/2020	—	—
Patrick L. Donnelly(5)	400,000	—	7.50	5/1/2011	—	—
	100,000	—	7.61	5/1/2011	—	—
	16,666	—	1.04	8/11/2013	—	—
	120,000	—	5.71	2/1/2016	—	—
	192,000	64,000	3.70	2/1/2017	—	—
	1,450,000	—	2.72	5/17/2017	—	—
	553,750	1,661,250	0.6735	8/31/2019	—	—
	—	13,163,495	0.6669	1/14/2020	—	—
David J. Frear(6)	1,150,000	—	1.85	8/11/2013	100,000	163,000
	700,000	—	6.61	8/10/2015	—	—
	230,250	76,750	3.70	2/1/2017	—	—
	241,500	241,500	2.87	1/23/2018	—	—
	1,000,000	500,000	3.10	2/12/2018	—	—
	553,750	1,661,250	0.6735	8/31/2019	—	—
	—	2,244,800	1.04	8/9/2020	—	—

- (1) Outstanding equity awards for Mr. Karmazin vest in four equal installments on December 31, 2010, December 31, 2011, June 30, 2012 and December 31, 2012.
- (2) Outstanding equity awards for Mr. Greenstein vest as follows: options granted at an exercise price of \$3.14 vested immediately on the date of grant on May 5, 2004; options granted at an exercise price of \$6.60 vested in three equal annual installments from the date of grant on August 8, 2005; options granted at an exercise price of \$3.70 vested in four equal annual installments from the date of grant on February 1, 2007; options granted at an exercise price of \$2.87 vest in four equal annual installments from the date of grant on January 23, 2008; and options granted at an exercise price of \$0.43 vest in four equal annual installments commencing on July 26, 2010.
- (3) Outstanding equity awards for Mr. Meyer vest as follows: options granted at an exercise price of \$6.75 vested 50% on the date of grant on December 14, 2001 and 25% per year thereafter; options granted at an exercise price of \$1.04 vested in three equal annual installments on July 1, 2004, July 1, 2005 and July 1, 2006; options granted at an exercise price of \$5.54 vested in four equal annual installments from the date of grant on February 2, 2006; options granted at an exercise price of \$3.70 vested in four equal annual installments from the date of grant on February 1, 2007; options granted at an exercise price of \$2.87 vest

in four equal annual installments from the date of grant on January 23, 2008; options granted at an exercise price of \$0.6735 vest in four equal annual installments from the date of grant on August 31, 2009; and options granted at an exercise price of \$0.5752 vest in four equal annual installments from the date of grant on October 14, 2009.

- (4) Outstanding equity awards for Ms. Altman vest as follows: options granted at an exercise price of \$0.6735 vest in four equal annual installments from the date of grant on August 31, 2009; options granted at an exercise price of \$1.04 vest in four equal annual installments from the date of grant on August 9, 2010; and 85,866 shares of restricted stock vested on February 1, 2011.
- (5) Outstanding equity awards for Mr. Donnelly vest as follows: options granted at an exercise price of \$7.50 vested 41.25% on the date of grant on May 1, 2001, 19.75% on October 15, 2001, 19.5% on April 15, 2002 and 19.5% on October 15, 2002; options granted at an exercise price of \$7.61 vested immediately on the date of grant on May 1, 2001; options granted at an exercise price of \$1.04 vested in three equal annual installments on July 1, 2004, July 1, 2005 and July 1, 2006; options granted at an exercise price of \$5.71 vested in four equal annual installments from the date of grant on February 1, 2006; options granted at an exercise price of \$3.70 vested in four equal annual installments from the date of grant on February 1, 2007; options granted at an exercise price of \$2.72 vested in three equal annual installments from the date of grant on May 17, 2007; options granted at an exercise price of \$0.6735 vest in four equal annual installments from the date of grant on August 31, 2009; and options granted at an exercise price of \$0.6669 vest in four equal annual installments from the date of grant on January 14, 2010.
- (6) Outstanding equity awards for Mr. Frear vest as follows: options granted at an exercise price of \$1.85 vested either (i) in three equal annual installments on July 1, 2004, July 1, 2005, and July 1, 2006, (ii) on March 15, 2004 as a result of the satisfaction of performance targets for the year ended December 31, 2003, or (iii) on March 15, 2005 as a result of the satisfaction of performance targets for the year ended December 31, 2004; options granted at an exercise price of \$6.61 vested in three equal annual installments from the date of grant on August 10, 2005; options granted at an exercise price of \$3.70 vested in four equal annual installments from the date of grant on February 1, 2007; options granted at an exercise price of \$2.87 vested in four equal annual installments from the date of grant on January 23, 2008; options granted at an exercise price of \$3.10 vested in three equal annual installments from the date of grant on February 12, 2008; options granted at an exercise price of \$0.6735 vest in four equal annual installments from the date of grant on August 31, 2009; options granted at an exercise price of \$1.04 vest in four equal annual installments from the date of grant on August 9, 2010; and 100,000 restricted stock units vested on February 18, 2011.
- (7) Amount is based on the closing price on the NASDAQ Global Select Market of our common stock of \$1.63 on December 31, 2010.

Option Exercises and Stock Vested in 2010

The following table provides information with respect to option exercises and restricted stock and restricted stock units that vested during 2010.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)(1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(2)
Mel Karmazin	—	—	—	—
Scott A. Greenstein	6,942,034	4,128,209	—	—
James E. Meyer	5,000,000	4,708,362	—	—
Dara F. Altman	—	—	193,200	180,681
Patrick L. Donnelly	—	—	91,668	98,085
David J. Frear	—	—	100,000	93,400

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- (1) Value realized on exercise is based on the gain, if any, equal to the difference between the closing prices on the NASDAQ Global Select Market of the stock being acquired upon exercise on the exercise date less the exercise prices, multiplied by the number of options being exercised.
 - (2) Value realized on vesting is based on the closing price on the NASDAQ Global Select Marketing of our common stock on the date of vesting.

Non-Qualified Deferred Compensation and Pension Benefits

We do not offer non-qualified deferred compensation or pension benefits to our named executive officers.

Potential Payments or Benefits Upon Termination or Change-in-Control

Employment Agreements

We have entered into an employment agreement with each of our named executive officers that contains provisions regarding payments or benefits upon a termination of employment or change of control.

Mel Karmazin

In November 2004, we entered into a five year term employment agreement with Mel Karmazin to serve as our Chief Executive Officer. In June 2009, we amended our employment agreement with Mr. Karmazin to (i) extend the term of his employment agreement through December 31, 2012, (ii) increase his base salary from \$1,250,000 per year to \$1,500,000 per year beginning on January 1, 2010, and (iii) provide for a grant of an option to purchase 120,000,000 shares of our common stock, at an exercise price of \$0.430 per share (the closing price of our common stock on the date of the amendment). Mr. Karmazin is also entitled under his employment agreement to an annual cash bonus as determined by the Compensation Committee.

The options granted to Mr. Karmazin in connection with the amending of his employment agreement vest in equal installments on each of December 31, 2010, December 31, 2011, June 30, 2012 and December 31, 2012, with potential accelerated vesting upon the termination of Mr. Karmazin's employment by us without cause, by him for good reason, upon his death or disability and in the event of a change of control. These options will generally expire no later than December 31, 2014; *provided* that if the parties subsequently agree to extend the term of his employment agreement through December 31, 2013 or later, then the term of these options will automatically extend until the later of (i) December 31, 2015 and (ii) the date that is one year following the date that such new employment agreement expires, but no later than the 10th anniversary of the date of grant.

In the event Mr. Karmazin's employment is terminated by us without cause or by Mr. Karmazin for good reason, his unvested stock options will vest and become exercisable, and we will be obligated to pay Mr. Karmazin upon termination, in a lump sum, his current base salary through December 31, 2012, any earned but unpaid annual bonus, a pro rata portion of his target bonus for the year in which the termination occurs (if established) and to continue his health and life insurance benefits through December 31, 2012.

In the event Mr. Karmazin's employment is terminated as a result of his death or by us as a result of his disability, subject to Mr. Karmazin (or his beneficiary or his estate, as applicable) executing a release of claims, the vesting of his unvested stock options will accelerate and become exercisable.

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

Scott A. Greenstein

In July 2009, we entered into a new employment agreement with Scott A. Greenstein to continue to serve as our President and Chief Content Officer through July 27, 2013. The employment agreement provides for an

initial annual base salary of \$850,000 and specified increases to no less than \$925,000 in January 2010, \$1,000,000 in January 2011, \$1,100,000 in January 2012, and \$1,250,000 in January 2013. Mr. Greenstein is also entitled to participate in any bonus plans generally offered to our executive officers.

In connection with the execution of the employment agreement, we granted Mr. Greenstein an option to purchase 27,768,136 shares of our common stock at an exercise price of \$0.43 per share (the closing price of our common stock on the date of the employment agreement). These options vest in four equal installments on each of July 26, 2010, July 26, 2011, July 26, 2012 and July 26, 2013, with potential accelerated vesting upon the termination of Mr. Greenstein's employment by us without cause, by him for good reason, and upon his death or disability. These options will generally expire no later than July 27, 2019, subject to earlier termination following Mr. Greenstein's termination of employment.

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

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

James E. Meyer

In October 2009, we entered into a new employment agreement with James E. Meyer to continue to serve as our President, Operations and Sales, through May 1, 2013. The employment agreement provides for an initial base salary of \$950,000 with specified increases to \$1,100,000 in January 2010, \$1,200,000 in May 2011, and \$1,300,000 in June 2012. In 2010, Mr. Meyer waived the increase in his base salary that was scheduled to take effect in May 2011 under his employment agreement. In February 2011, we entered into an amendment to our employment agreement with Mr. Meyer. The amendment changed the date that Mr. Meyer may elect to retire from April 2011 to May 2012, delayed a previously scheduled increase in Mr. Meyer's base salary from May 1, 2012 to June 1, 2012 and eliminated our obligation to offer Mr. Meyer a one-year consulting agreement upon expiration of his employment agreement or upon his retirement.

In connection with the execution of the employment agreement, we granted Mr. Meyer an option to purchase 25,184,984 shares of our common stock at an exercise price of \$0.5752 per share (the closing price of our common stock on date of the employment agreement). The options generally vest in four equal annual installments on each of October 14, 2010, October 14, 2011, October 14, 2012 and October 14, 2013, and expire on October 14, 2019, with potential accelerated vesting upon the termination of Mr. Meyer's employment agreement by us without cause or by him for good reason. If Mr. Meyer's employment is terminated due to his death or by us as a result of his disability, the vesting of the portion of his option award that otherwise would have become vested within 12 months following the date of such termination will accelerate.

If Mr. Meyer's employment is terminated without cause or he terminates his employment for good reason, subject to his execution of a release of claims and his compliance with certain restrictive covenants, we are obligated to continue his health benefits for 18 months and his life insurance benefits for one year and pay him a lump sum payment within 60 days, equal to Mr. Meyer's annual base salary plus the greater of (x) a bonus equal to 60% of his then annual base salary or (y) the prior year's bonus actually paid to him (the "Designated Amount"). In the event Mr. Meyer elects to retire in May 2012, subject to his execution of a release of claims and his compliance with certain restrictive covenants and generally in lieu of any other payments under his employment agreement, we are obligated to continue his health benefits for two years and pay him a lump sum within 60 days equal to two times the Designated Amount.

In the event that any payment we make, or benefit we provide, to Mr. Meyer would require him to pay an excise tax under Section 280G of the Internal Revenue Code, we have agreed to pay Mr. Meyer the amount of

such tax and such additional amount as may be necessary to place him in the exact same financial position that he would have been in if the excise tax was not imposed.

Dara F. Altman

In September 2008, we entered into a three year employment agreement with Dara F. Altman to serve as our Executive Vice President and Chief Administrative Officer through September 25, 2011. This employment agreement provides for an annual base salary of \$446,332, subject to approved increases.

If Ms. Altman's employment is terminated without cause or she terminates her employment for good reason, subject to her execution of a release of claims, we are obligated to continue her medical, dental and life insurance benefits for 24 months following her termination and pay her a lump sum severance payment, in cash equal to two times the sum of (1) her base salary as in effect immediately prior to the termination date or, if higher, in effect immediately prior to the first occurrence of an event or circumstance constituting good reason, and (2) the higher of (a) the last annual bonus actually paid to her and (b) 55% of her base salary as in effect immediately prior to the termination date or, if higher, in effect immediately prior to the first occurrence of an event or circumstance constituting good reason, and a cash amount equal to the sum of (1) a pro rata cash bonus award for the uncompleted plan year in which the termination occurs and (2) any unpaid incentive compensation that is contingent only upon the continued employment of Ms. Altman and that was allocated or awarded to Ms. Altman for the completed fiscal year or other measuring period preceding the date of termination. We are also obligated to pay outplacement services for a period up to two years or until Ms. Altman accepts an offer of employment. In addition, all options to purchase our common stock, restricted stock units or restricted shares of common stock issued by us to her during the term that are held by her on the termination date shall immediately vest. Any such vested but unexercised stock options shall expire 90 days following the termination.

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

Patrick L. Donnelly

In January 2010, we entered into a new employment agreement with Patrick L. Donnelly to continue to serve as our Executive Vice President, General Counsel and Secretary, through January 13, 2014. The employment agreement provides for an annual base salary in 2010 of \$575,000, subject to specified increases to no less than \$625,000 in January 2011, \$675,000 in January 2012, and \$725,000 in January 2013. In 2010, Mr. Donnelly waived the increase in his base salary that he would have been entitled to in 2011 under his employment agreement.

In connection with the execution of the employment agreement, we granted Mr. Donnelly an option to purchase 13,163,495 shares of our common stock at an exercise price of \$0.6669 per share (the last sale price of our common stock on The NASDAQ Global Select Market prior to the execution of the employment agreement). The option will generally vest in four equal annual installments on each of January 14, 2011, January 14, 2012, January 14, 2013 and January 14, 2014, and expires on January 14, 2020, with potential accelerated vesting upon the termination of Mr. Donnelly's employment agreement by us without cause, by him for good reason, due to his death or by us as a result of disability.

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

In the event that any payment we make, or benefit we provide, to Mr. Donnelly would require him to pay an excise tax under Section 280G of the Internal Revenue Code, we have agreed to pay Mr. Donnelly the

amount of such tax and any additional amount as may be necessary to place him in the exact same financial position that he would have been in if the excise tax was not imposed.

David J. Frear

In June 2003, we entered into an employment agreement with David A. Frear to serve as our Executive Vice President and Chief Financial Officer. The employment agreement was amended in August 2005 and February 2008, and is effective through July 31, 2011. The employment agreement, as amended, provides for an annual base salary of \$750,000, subject to approved increases.

If Mr. Frear's employment is terminated without cause or he terminates his employment for good reason, subject to his execution of a release of claims, we are obligated to pay him a lump sum equal to his annual salary as of the date of the termination and the last annual bonus actually paid to him and to continue his health and life insurance benefits for one year.

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

2003 Long-Term Stock Incentive Plan

Messrs. Greenstein, Meyer, Donnelley and Frear also have outstanding options or restricted stock units as of December 31, 2010 that were granted under the 2003 Long-Term Stock Incentive Plan. Under the 2003 Long-Term Stock Incentive Plan, the outstanding equity awards granted to these named executive officers are subject to potential accelerated vesting upon a change of control. In addition, Mr. Frear's award agreements relating to options and restricted stock units granted to him in February 2008 under the 2003 plan provide that such equity awards are subject to potential accelerated vesting upon his death and disability. All of the outstanding options granted under the 2003 plan held by the named executive officers were "out-of-the-money" as of December 31, 2010, and, therefore, are not included in the table of potential payments and benefits below.

2009 Long-Term Stock Incentive Plan

All of our named executive officers have outstanding equity awards as of December 31, 2010 that were granted under the 2009 Long-Term Stock Incentive Plan. Under the terms of the 2009 plan, the outstanding equity awards granted to the named executive officers are subject to potential accelerated vesting upon termination without cause by the company or termination by the executive for good reason during a two year period following a change of control, to the extent outstanding awards granted under the plan are either assumed, converted or replaced by the resulting entity in the event of a change of control.

Potential Payments and Benefits

The following table describes the potential payments and benefits under the named executive officers' agreements and our stock incentive plans to which they would have been entitled if a termination of employment or change-in-control had occurred as of December 31, 2010:

<u>Name</u>	<u>Triggering Event</u>	<u>Lump Sum Severance Payment (\$)</u>	<u>Accelerated Equity Vesting(1) (\$)</u>	<u>Continuation of Insurance Benefits(2) (\$)</u>	<u>Excise Tax Gross-Up (\$)</u>	<u>Total (\$)</u>
Mel Karmazin	Change-in-control	—	108,000,000	—	7,123,771	115,123,771
	Termination due to death or disability	—	108,000,000	—	—	108,000,000
	Termination without cause or for good reason	3,000,000	108,000,000	32,487	—	111,032,487
	Termination without cause or for good reason following change-in-control	3,000,000	108,000,000	32,487	8,731,686	119,764,173
Scott A. Greenstein	Termination due to death or disability	—	24,991,322	—	—	24,991,322
	Termination without cause or for good reason	1,925,000	24,991,322	18,679	—	26,935,001
	Termination without cause or for good reason following change-in-control	1,925,000	24,991,322	18,679	—	26,935,011
James E. Meyer	Termination due to death or disability	—	6,641,280	—	—	6,641,280
	Termination without cause or for good reason	2,350,000	19,923,841	29,629	—	22,303,470
	Termination for scheduled retirement(3)	4,700,000	—	49,781	—	4,749,781
	Termination without cause or for good reason following change-in-control	2,350,000	22,306,961	29,629	—	24,686,590
Dara F. Altman	Termination without cause or for good reason	2,092,663	1,952,378	51,928	—	4,096,969
	Termination without cause or for good reason following change-in-control	2,092,663	1,952,378	51,928	—	4,096,969
Patrick L. Donnelly	Termination due to death or disability	—	12,677,762	—	—	12,677,762
	Termination without cause or for good reason	1,325,000	12,677,762	20,153	—	14,022,915
	Termination without cause or for good reason following change-in-control	1,325,000	14,266,748	20,153	—	15,611,901
David J. Frear	Change-in-control	—	163,000	—	—	163,000
	Termination due to death or disability	—	163,000	—	—	163,000
	Termination without cause or for good reason	1,600,000	—	18,679	—	1,618,679
	Termination without cause or for good reason following a change-in-control	1,600,000	3,076,418	18,679	—	4,695,097

(1) Amounts were calculated based on the closing price on the NASDAQ Global Select Market of our common stock on December 31, 2010 of \$1.63. The accelerated vesting of options is valued at (a) the difference between the closing price and the exercise price of the options multiplied by (b) the number of shares of common stock underlying the options. The accelerated vesting of restricted stock and restricted stock units is valued at the closing price times the number of shares of restricted stock and restricted stock units.

- (2) Assumes that medical and dental benefits would be continued under COBRA for up to 18 months at current rates; thereafter assumes rate of two times current employer costs, unless otherwise indicated in the employment agreement. Assumes that life insurance would be continued at rate of two times current employer cost. For Ms. Altman, also includes the present value of up to two years of outplacement services upon termination without cause or for good reason pursuant to the terms of her employment agreement.
- (3) Refers to scheduled retirement in May 2012 pursuant to the terms of Mr. Meyer's employment agreement.

Ratification of Independent Registered Public Accountants

(Item 2 on Proxy Card)

The Audit Committee has selected KPMG LLP (“KPMG”) as our independent registered public accountants for 2011. As such, KPMG will audit and report on our financial statements for the year ending December 31, 2011. KPMG has served as our independent registered public accountants since September 2008. The Audit Committee and the board are requesting, as a matter of policy, that stockholders ratify the selection of KPMG. The Audit Committee and the board are not required to take any action as a result of the outcome of the vote on this proposal.

Representatives of KPMG are expected to be present at the annual meeting. They will have an opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

The board of directors unanimously recommends a vote “FOR” the ratification of KPMG LLP as our independent registered public accountants for 2011.

Principal Accountant Fees and Services

The following table sets forth the fees billed to us by KPMG as of and for the years ended December 31, 2010 and 2009:

	For the Year Ended December 31,	
	2010	2009
Audit fees(1)	\$1,872,327	\$2,175,458
Audit-related fees(2)	98,350	183,725
Tax fees(3)	22,969	—
All other fees(4)	—	22,187
	<u>\$1,993,646</u>	<u>\$2,381,370</u>

- (1) Audit fees billed by KPMG related to the audits of our annual consolidated financial statements and internal control over financial reporting; the review of our interim consolidated financial statements; review of documents filed with the SEC, including comfort letters, consents and registration statements; and reimbursement for direct out-of-pocket expenses.
- (2) Audit-related fees billed by KPMG related to audits of employee benefit plans.
- (3) Fees billed for state and local tax consulting services.
- (4) Fees billed for all other services rendered to us for state and local tax compliance and consulting services related to engagements originating prior to KPMG’s appointment as our independent auditor.

Pre-Approval Policy for Services of Independent Auditor

It is the Audit Committee’s responsibility to review and consider, and ultimately pre-approve, all audit and permitted non-audit services to be performed by our independent registered public accounting firm. In accordance with its charter, the Audit Committee’s pre-approval policies with respect to audit and permitted non-audit services to be provided by our independent registered public accounting firm are as follows:

- The independent registered public accounting firm is not permitted to perform consulting, legal, book-keeping, valuation, internal audit, management functions, or other prohibited services, under any circumstances;
- The engagement of our independent registered public accounting firm, including related fees, with respect to the annual audits and quarterly reviews of our consolidated financial statements is specifically approved by the Audit Committee on an annual basis;

- The Audit Committee reviews and pre-approves a detailed list of other audit and audit-related services annually or more frequently, if required. Such services generally include services performed under the audit and attestation standards established by regulatory authorities or standard setting bodies and include services related to SEC filings, employee benefit plan audits and subsidiary audits;
- The Audit Committee reviews and pre-approves a detailed list of permitted non-audit services annually or more frequently, if required; and
- The Audit Committee pre-approves each proposed engagement to provide services not previously included in the approved list of audit and non-audit services and for fees in excess of amounts previously pre-approved.

The Audit Committee has delegated to the chair of the Audit Committee the authority to approve permitted services by the independent registered public accounting firm so long as he or she reports decisions to the Audit Committee at its next meeting.

All of the services covered under the captions “Audit Fees” and “Audit-Related Fees” were pre-approved by the Audit Committee.

Who is the Audit Committee’s financial expert?

Our board of directors has determined that Joan L. Amble, the chairwoman of the Audit Committee and an independent director, is qualified as an “audit committee financial expert” within the meaning of SEC regulations, and she has accounting and related financial management expertise within the meaning of the NASDAQ listing standards.

REPORT OF THE AUDIT COMMITTEE

As described more fully in its charter, the purpose of the Audit Committee is to assist our board of directors in its general oversight of our financial reporting, internal control and audit functions. Management is responsible for the preparation, presentation and integrity of our consolidated financial statements; accounting and financial reporting principles; and internal controls and procedures designed to ensure compliance with accounting standards, applicable laws and regulations. KPMG LLP, our independent registered public accounting firm, is responsible for performing an independent audit of our consolidated financial statements in accordance with auditing standards generally accepted in the United States.

In the performance of its oversight function, the Audit Committee reviewed and discussed our audited financial statements with management and with our independent registered public accounting firm. The Audit Committee also discussed with the independent registered public accounting firm the matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU section 380). In addition, the Audit Committee received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm’s communications with the Audit Committee concerning independence, and discussed with the independent registered public accounting firm their independence.

Based upon the review and discussions described in the preceding paragraph, the Audit Committee recommended to the board of directors that our audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC.

Audit Committee

JOAN L. AMBLE, CHAIRWOMAN
EDDY W. HARTENSTEIN
JAMES P. HOLDEN
JAMES F. MOONEY

Advisory Vote on Executive Compensation

(Item 3 on Proxy Card)

In accordance with the requirements of Section 14A of the Exchange Act (which was added by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”)) and the related rules of the SEC, we are including in this proxy statement a separate resolution subject to stockholder vote to approve, in a non-binding, advisory vote, the compensation paid to our named executive officers. While the results of the vote are non-binding and advisory in nature, the board of directors intends to consider the results of this vote.

The language of the resolution is as follows:

“RESOLVED, that the compensation paid to the company’s named executive officers, as disclosed in this proxy statement pursuant to the rules of the SEC, including the Compensation Discussion and Analysis, compensation tables and any related narrative discussion is hereby APPROVED.”

This vote is not intended to address any specific item of compensation, but rather our executive compensation as disclosed in this proxy statement. Accordingly, your vote will not directly affect or otherwise limit any existing compensation or award arrangement of any of our named executive officers.

The board of directors recommends that stockholders vote “FOR” this proposal.

What is the advisory vote on the “say-on-pay” proposal?

You are voting on a proposal, commonly known as a “say-on-pay” proposal, which gives stockholders the opportunity to approve or disapprove, in a non-binding vote, of our executive compensation.

What factors should I consider in voting on this proposal?

We urge you to consider the various factors regarding compensation matters as discussed in the Compensation Discussion and Analysis, beginning on page 21 of this proxy statement.

As discussed at length in the Compensation Discussion and Analysis, we believe that our executive compensation program is reasonable, competitive and strongly focused on performance. Through equity-based incentives, we also align the interests of our named executive officers with those of our stockholders and the long-term interests of SIRIUS XM. Our executive compensation policies have enabled us to attract and retain talented and experienced senior executives. We believe that the 2010 compensation of our named executive officers was appropriate and aligned with our 2010 results and position us for continued strong performance in future years.

Advisory Vote on the Frequency of Future Advisory Votes on Executive Compensation

(Item 4 on Proxy Card)

In accordance with the requirements of Section 14A of the Exchange Act (which was added by the Dodd-Frank Act) and the related rules of the SEC, we are submitting for stockholder consideration a separate resolution to determine, in a non-binding, advisory vote, whether a stockholder vote to approve the compensation paid to our named executive officers should occur every one, two or three years. While the results of the vote are non-binding and advisory in nature, the board of directors intends to consider the results of this vote.

After consideration, the board of directors has determined that an advisory vote on executive compensation that occurs every three years (triennially) is the most appropriate policy for us. Our reasons include:

- We value consistency and we do not expect our executive compensation program to change significantly from year to year;
- In our view, our executive compensation program does not contain any significant risks that might be of concern to our stockholders;
- A longer frequency is generally consistent with our long-term compensation objectives; and
- Our executive compensation program is designed to reward and incentivize long-term performance and a triennial vote corresponds more closely with our long-term incentive awards, which typically vest over a three or four year period.

We encourage our stockholders to evaluate our executive compensation program over a multi-year horizon and to review our named executive officers' compensation over the past three fiscal years as reported in the Summary Compensation Table. We believe that a triennial advisory vote on executive compensation reflects the appropriate time frame for our board of directors and Compensation Committee to evaluate the results of the most recent advisory vote on executive compensation, to discuss the implications of that vote with stockholders to the extent needed, to develop and implement any adjustments to our executive compensation program that may be appropriate in light of a past advisory vote on executive compensation, and for stockholders to see and evaluate the compensation committee's actions in context. Because the advisory vote on executive compensation occurs after we have already implemented our executive compensation program for the current year, and because the different elements of compensation are designed to operate in an integrated manner and to complement one another, in certain cases it may not be appropriate or feasible to fully address and respond to any one year's advisory vote on executive compensation by the time of the following year's annual meeting of stockholders.

We have in the past been, and will in the future continue to be, engaged with our stockholders on a number of topics and in a number of forums. We view the advisory vote on executive compensation as an additional, but not exclusive, opportunity for our stockholders to communicate with us regarding their views on executive compensation. In addition, because our executive compensation program has not typically changed materially year-to-year and is designed to operate over the long-term and to enhance long-term performance, an annual advisory vote on executive compensation could lead to a near-term perspective inappropriately bearing on our executive compensation programs. We believe that holding an advisory vote on executive compensation every three years will reflect the right balance of considerations in the normal course, but we intend to periodically reassess that view and can provide for an advisory vote on executive compensation on a more frequent basis if changes in our compensation program or other circumstances suggest that such a vote would be appropriate.

Stockholders will be able to specify one of four choices for this proposal on the proxy card: three years, two years, one year or abstain. Stockholders are not voting to approve or disapprove the board's recommendation. This advisory vote on the frequency of future advisory votes on executive compensation is non-binding on the board of directors. Notwithstanding the board's recommendation and the outcome of the stockholder vote, the board may in the future decide to conduct advisory votes on a more or less frequent basis and may vary its practice based on factors such as discussions with stockholders and the adoption of material changes to compensation programs.

The board of directors recommends that stockholders vote "THREE YEARS" with respect to the frequency with which stockholders are provided an advisory vote on the compensation paid to our named executive officers.

OTHER MATTERS

Our board of directors does not intend to present, or have any reason to believe others will present, any other items of business. If other matters are properly brought before the annual meeting, the persons named in the accompanying proxy will vote the shares represented by it in accordance with the recommendation of our board of directors.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 25, 2011

This proxy statement and our annual report for the year ended December 31, 2010 are available for you to view online at <http://bnymellon.mobular.net/bnymellon/siri>.

By Order of the Board of Directors,



Patrick L. Donnelly
*Executive Vice President,
General Counsel and Secretary*

New York, New York
April 12, 2011

We make available, free of charge on our website, all of our filings that are made electronically with the SEC, including Forms 10-K, 10-Q and 8-K. To access these filings, go to our website, www.siriusxm.com, and click on “Reports & Filings” and then on “SEC Filings” under the “Investor Relations” heading. Copies of our Annual Report on Form 10-K for the year ended December 31, 2010, including financial statements and schedules thereto, are also available without charge to stockholders upon written request addressed to:

**Investor Relations
Sirius XM Radio Inc.
1221 Avenue of the Americas
36th Floor
New York, New York 10020**



2010 ANNUAL REPORT

Special Note Regarding Forward-Looking Statements

The following cautionary statements identify important factors that could cause our actual results to differ materially from those projected in forward-looking statements made in this Annual Report on Form 10-K and in other reports and documents published by us from time to time. Any statements about our beliefs, plans, objectives, expectations, assumptions, future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimated,” “intend,” “plan,” “projection” and “outlook.” Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Annual Report on Form 10-K and in other reports and documents published by us from time to time.

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;
- 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.

Management’s Discussion and Analysis of Financial Condition and Results of Operations

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

Executive Summary

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

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

As of December 31, 2010, we had 20,190,964 subscribers. Our subscriber totals include subscribers under our regular pricing plans; discounted pricing plans; subscribers that have prepaid, including payments either made or due from automakers and dealers for subscriptions included in the sale or lease price of a vehicle; activated radios in daily rental fleet vehicles; certain subscribers to our Internet services; and certain subscribers to our weather, traffic, data and video services.

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

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

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

Actual Results of Operations

Set forth below are our results of operations for the year ended December 31, 2010 compared with the year ended December 31, 2009 and the year ended December 31, 2009 compared with the year ended December 31, 2008.

	For the Years Ended December 31,			2010 vs 2009 Change		2009 vs 2008 Change	
	2010	2009	2008	Amount	%	Amount	%
Revenue:							
Subscriber revenue, including effects of rebates	\$2,414,174	\$2,287,503	\$ 1,548,919	\$126,671	6%	\$ 738,584	48%
Advertising revenue, net of agency fees	64,517	51,754	47,190	12,763	25%	4,564	10%
Equipment revenue	71,355	50,352	56,001	21,003	42%	(5,649)	(10)%
Other revenue	266,946	83,029	11,882	183,917	222%	71,147	599%
Total revenue	2,816,992	2,472,638	1,663,992	344,354	14%	808,646	49%
Operating expenses:							
Revenue share and royalties	435,410	397,210	280,852	38,200	10%	116,358	41%
Programming and content	305,914	308,121	312,189	(2,207)	(1)%	(4,068)	(1)%
Customer service and billing	241,680	234,456	165,036	7,224	3%	69,420	42%
Satellite and transmission	80,947	84,033	59,279	(3,086)	(4)%	24,754	42%
Cost of equipment	35,281	40,188	46,091	(4,907)	(12)%	(5,903)	(13)%
Subscriber acquisition costs	413,041	340,506	371,343	72,535	21%	(30,837)	(8)%
Sales and marketing	215,454	228,956	231,937	(13,502)	(6)%	(2,981)	(1)%
Engineering, design and development	45,390	41,031	40,496	4,359	11%	535	1%
General and administrative	240,970	227,554	213,142	13,416	6%	14,412	7%
Impairment of goodwill	—	—	4,766,190	—	0%	(4,766,190)	nm
Depreciation and amortization	273,691	309,450	203,752	(35,759)	(12)%	105,698	52%
Restructuring, impairments and related costs	63,800	32,807	10,434	30,993	94%	22,373	214%
Total operating expenses	2,351,578	2,244,312	6,700,741	107,266	5%	(4,456,429)	(67)%
Income (loss) from operations	465,414	228,326	(5,036,749)	237,088	104%	5,265,075	105%
Other income (expense):							
Interest expense, net of amounts capitalized	(295,643)	(315,668)	(148,455)	20,025	6%	(167,213)	(113)%
Loss on extinguishment of debt and credit facilities, net	(120,120)	(267,646)	(98,203)	147,526	55%	(169,443)	(173)%
Interest and investment (loss) income	(5,375)	5,576	(21,428)	(10,951)	(196)%	27,004	126%
Other income	3,399	3,355	(9,599)	44	1%	12,954	135%
Total other expense	(417,739)	(574,383)	(277,685)	156,644	27%	(296,698)	(107)%

	For the Years Ended December 31,			2010 vs 2009 Change		2009 vs 2008 Change	
	2010	2009	2008	Amount	%	Amount	%
Income (loss) before income taxes	47,675	(346,057)	(5,314,434)	393,732	114%	4,968,377	93%
Income tax expense	(4,620)	(5,981)	(2,476)	1,361	23%	(3,505)	(142)%
Net income (loss)	43,055	(352,038)	(5,316,910)	395,093	112%	4,964,872	93%
Preferred stock beneficial conversion feature	—	(186,188)	—	186,188	nm	(186,188)	nm
Net income (loss) attributable to common stockholders	<u>\$ 43,055</u>	<u>\$ (538,226)</u>	<u>\$(5,316,910)</u>	<u>\$581,281</u>	108%	<u>\$ 4,778,684</u>	90%

nm — not meaningful

Total Revenue

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

- **2010 vs. 2009:** For the years ended December 31, 2010 and 2009, subscriber revenue was \$2,414,174 and \$2,287,503, respectively, an increase of 6%, or \$126,671. The increase was primarily attributable to a 5% increase in daily weighted average subscribers, an increase in the sale of “Best of” programming, decreases in discounts on multi-subscription and internet packages and a \$32,159 decrease in the impact of purchase price accounting adjustments attributable to acquired deferred subscriber revenues, partially offset by an increase in the number of subscribers on promotional plans.
- **2009 vs. 2008:** For the years ended December 31, 2009 and 2008, subscriber revenue was \$2,287,503 and \$1,548,919, respectively, an increase of 48%, or \$738,584. The Merger was responsible for approximately \$670,870 of the increase and the remaining increase was primarily attributable to the sale of “Best of” programming, decreases in discounts on multi-subscription packages, increased sales of internet packages and higher average subscribers.

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

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

- **2010 vs. 2009:** For the years ended December 31, 2010 and 2009, advertising revenue was \$64,517 and \$51,754, respectively, an increase of 25%, or \$12,763. The increase was primarily due to more effective sales efforts and improvements in the national market for advertising.
- **2009 vs. 2008:** For the years ended December 31, 2009 and 2008, net advertising revenue was \$51,754 and \$47,190, respectively, an increase of 10%, or \$4,564. The increase was due to the inclusion of XM revenue from the Merger, which was offset by a decrease in advertising revenue due to the economic environment in 2009.

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

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

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, equipment revenue was \$71,355 and \$50,352, respectively, an increase of 42%, or \$21,003. The increase was driven by royalties from increased OEM installations and aftermarket radios and accessories.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, equipment revenue was \$50,352 and \$56,001, respectively, a decrease of 10%, or \$5,649. The decrease was primarily due to a decline in sales through our direct to consumer distribution channel and lower product royalties, partially offset by the inclusion of XM revenue for a full year.

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

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

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, other revenue was \$266,946 and \$83,029, respectively. The \$183,917 increase was primarily due to the full year impact of the U.S. Music Royalty Fee introduced in the third quarter of 2009.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, other revenue was \$83,029 and \$11,882, respectively, an increase of 599%, or \$71,147. The increase was primarily due to the introduction of the U.S. Music Royalty Fee in the third quarter of 2009 and the inclusion of XM revenue for a full year.

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

Operating Expenses

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

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, revenue share and royalties were \$435,410 and \$397,210, respectively, an increase of 10%, or \$38,200. For the year ended December 31, 2010, revenue share and royalties 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 an 8% increase in the statutory royalty rate for the performance of sound recordings, partially offset by a decrease in the revenue sharing rate with an automaker and a \$18,187 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.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, revenue share and royalties were \$397,210 and \$280,852, respectively, an increase of 41%, or \$116,358. The increase was primarily attributable to the inclusion of XM's revenue share and royalty expense as a result of the Merger and an 8% increase in the statutory royalty rate for the performance of sound recordings.

We expect our revenue sharing and royalty costs to increase as our revenues grow, as we expand our distribution of satellite radios through automakers, and as a result of statutory increases in the royalty rate for the performance of sound recordings. Under the terms of the Copyright Royalty Board's decision, we paid royalties of 6.0%, 6.5% and 7.0% of gross revenues, subject to certain exclusions, for 2008, 2009 and 2010, respectively, and will pay royalties of 7.5% and 8.0% for 2011 and 2012, respectively. Our next rate setting proceeding before the Copyright Royalty Board commenced in January 2011 and the results of that proceeding may have an impact on our results of operations. The deferred credits on executory contracts initially recognized in purchase price accounting

associated with the Merger are expected to provide increasing benefits to revenue share and royalties through the expiration of the acquired executory contracts, principally in 2012 and 2013.

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

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, programming and content expenses were \$305,914 and \$308,121, respectively, a decrease of 1%, or \$2,207 and decreased as a percentage of total revenue. The decrease was primarily due to savings in content agreements and production costs, partially offset by increases in personnel costs, general operating expenses and a \$14,503 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.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, programming and content expenses were \$308,121 and \$312,189, respectively, a decrease of \$4,068, or 1% and decreased as a percentage of total revenue. The increase from the inclusion of a full year of XM expense was offset by savings in content agreements, personnel and on-air talent costs.

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

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

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, customer service and billing expenses were \$241,680 and \$234,456, respectively, an increase of 3%, or \$7,224 but decreased as a percentage of total revenue. The increase was primarily due to higher call volume, partially offset by lower call center expenses as a result of moving calls to lower cost locations.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, customer service and billing expenses were \$234,456 and \$165,036, respectively, an increase of 42%, or \$69,420 but decreased as a percentage of total revenue. The increase was primarily due to the inclusion of XM's customer and billing expense as a result of the Merger and increased bad debt expense due to the economic environment during 2009.

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

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

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, satellite and transmission expenses were \$80,947 and \$84,033, respectively, a decrease of 4%, or \$3,086 but decreased as a percentage of total revenue. The decrease was primarily due to savings in repeater expenses, partially offset by increased satellite insurance costs related to our FM-5 satellite.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, satellite and transmission expenses were \$84,033 and \$59,279, respectively, an increase of 42%, or \$24,754 but decreased as a percentage of total revenue. The increase was primarily due to the inclusion of XM's satellite and transmission expense, partially offset by decreases due to the elimination of contracts, decommissioned repeater sites and a decrease in streaming costs.

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

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

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, cost of equipment was \$35,281 and \$40,188, respectively, a decrease of 12%, or \$4,907 and decreased as a percentage of total revenue. The decrease was primarily due to lower inventory write-downs, lower sales through distributors and reduced costs to produce aftermarket radios.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, cost of equipment was \$40,188 and \$46,091, respectively, a decrease of 13%, or \$5,903 and decreased as a percentage of total revenue. The decrease was primarily due to lower sales volume through our direct to consumer channel, lower inventory related charges and lower product and component sales, partially offset by the inclusion of XM's cost of equipment expense as a result of the Merger.

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 or certified pre-owned vehicle; subsidies paid for chip sets and certain other components used in manufacturing radios; device royalties for certain radios; commissions paid to retailers and automakers as incentives to purchase, install and activate satellite radios; product warranty obligations; and provisions for inventory allowances attributable to inventory consumed in our OEM and retail distribution channels. The majority of subscriber acquisition costs are incurred and expensed in advance of, or concurrent with, acquiring a subscriber. Subscriber acquisition costs do not include advertising, loyalty payments to distributors and dealers of satellite radios and revenue share payments to automakers and retailers of satellite radios.

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, subscriber acquisition costs were \$413,041 and \$340,506, respectively, an increase of 21%, or \$72,535 and increased as a percentage of total revenue. The increase was primarily a result of the 25% increase in gross subscriber additions and higher subsidies related to the 49% increase in OEM installations, partially offset by lower OEM subsidies per vehicle and an \$18,275 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.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, subscriber acquisition costs were \$340,506 and \$371,343, respectively, a decrease of 8%, or \$30,837 and decreased as a percentage of total revenue. The decrease was primarily a result of lower OEM subsidies and chip set costs, decreases in production of certain radios and lower aftermarket inventory charges in the year ended December 31, 2009 compared to the year ended December 31, 2008, partially offset by the inclusion of XM's subscriber acquisition costs as a result of the Merger.

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

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.

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, sales and marketing expenses were \$215,454 and \$228,956, respectively, a decrease of 6%, or \$13,502 and decreased as a percentage of total

revenue. The decrease was primarily due to reductions in consumer advertising, event marketing and third party distribution support expenses, partially offset by additional cooperative marketing and personnel costs.

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

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

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

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, engineering, design and development expenses were \$45,390 and \$41,031, respectively, an increase of 11%, or \$4,359 but remained flat as a percentage of total revenue. The increase was primarily due to higher personnel, overhead and aftermarket product development costs.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, engineering, design and development expenses were \$41,031 and \$40,496, respectively, an increase of 1%, or \$535 but decreased as a percentage of total revenue. The increase was primarily due to the inclusion of XM's engineering, design and development expenses, partially offset by lower costs associated with development, tooling and testing of radios as well as lower personnel costs.

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

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

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, general and administrative expenses were \$240,970 and \$227,554, respectively, an increase of 6%, or \$13,416 but decreased as a percentage of total revenue. The increase was primarily due to increased personnel and legal costs, partially offset by lower share-based payment expense.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, general and administrative expenses were \$227,554 and \$213,142, respectively, an increase of 7%, or \$14,412 but decreased as a percentage of total revenue. The increase was primarily due to the impact of the Merger, offset by lower costs for certain merger, litigation and regulatory matters.

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.

Impairment of Goodwill is recorded when the carrying value of goodwill exceeds the implied fair value of goodwill.

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, we did not record any impairment of goodwill.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, impairment of goodwill was \$0 and \$4,766,190, respectively.

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.

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, depreciation and amortization expense was \$273,691 and \$309,450, respectively, a decrease of 12%, or \$35,759 and decreased as a percentage of total revenue. The decrease was primarily due to a \$38,136 reduction in the depreciation of acquired satellite constellation and amortization of subscriber relationships, partially offset by depreciation recognized on additional assets placed in-service.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, depreciation and amortization expense was \$309,450 and \$203,752, respectively, an increase of 52%, or \$105,698 and increased as a percentage of total revenue. The increase was primarily due to the impact of the Merger.

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

Restructuring, Impairments and Related Costs represents charges related to the re-organization of our staff and restructuring of contracts, as well as charges related to the impairment of assets when those costs are deemed to provide no future benefit.

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, restructuring, impairments and related costs was \$63,800 and \$32,807, respectively, an increase of 94%, or \$30,993. The increase was primarily due to the impairment of our FM-4 satellite, due to the launch of XM-5 in the fourth quarter of 2010, and contract termination costs in the year ended December 31, 2010 compared to losses incurred on capitalized installment payments which were expected to provide no future benefit due to the counterparty's bankruptcy filing in the year ended December 31, 2009.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, restructuring, impairments and related costs was \$32,807 and \$10,434, respectively, an increase of 214%, or \$22,373. The increase was primarily due to losses incurred on capitalized installment payments which were expected to provide no future benefit due to the counterparty's bankruptcy filing in the year ended December 31, 2009 compared to Merger related restructuring charges in the year ended December 31, 2008.

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.

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, interest expense was \$295,643 and \$315,668, respectively, a decrease of 6%, or \$20,025. The decrease was primarily due to decreases in the weighted average interest rate on our outstanding debt in the year ended December 31, 2010 compared to the year ended December 31, 2009 and the redemption of XM's 10% Senior PIK Secured Notes due 2011 on June 1, 2010.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, interest expense was \$315,668 and \$148,455, respectively, an increase of 113%, or \$167,213. Interest expense increased significantly as a result of the Merger, due to additional debt and higher interest rates. Increases in interest expense were partially offset by the capitalized interest associated with satellite construction and related launch vehicles.

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

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, loss on extinguishment of debt and credit facilities, net, was \$120,120 and \$267,646, respectively, a decrease of 55%, or \$147,526. During the year ended December 31, 2010, the loss was incurred on the repayment of our 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, as well as the partial repayment of XM's 11.25% Senior Secured Notes due 2013 and our 3.25% Convertible Notes due 2011. During the year ended December 31, 2009, the loss

was incurred on the retirement of our 2.5% Convertible Notes due 2009, the extinguishment of our Term Loan and Purchase Money Loan with Liberty Media, the repayment of the XM's Amended and Restated Credit Agreement due 2011, the partial repayment of XM's 10% Convertible Senior Notes due 2009 and the termination of XM's Second Lien Credit Agreement.

- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, loss on extinguishment of debt and credit facilities, net, was \$267,646 and \$98,203, respectively, an increase of 173%, or \$169,443. During the year ended December 31, 2009, the loss was incurred on the retirement of our 2.5% Convertible Notes due 2009, the extinguishment of our Term Loan and Purchase Money Loan with Liberty Media, the repayment of XM's Amended and Restated Credit Agreement due 2011, the partial repayment of XM's 10% Convertible Senior Notes due 2009 and the termination of XM's Second Lien Credit Agreement. During the year ended December 31, 2008, the loss was incurred on the partial induced conversion of our 2.5% Convertible Notes due 2009.

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

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, interest and investment (loss) income was (\$5,375) and \$5,576, respectively, a decrease of 196%, or \$10,951. The decrease in income was primarily attributable to higher net losses at XM Canada and SIRIUS Canada and a decrease in payments received from SIRIUS Canada in excess of the carrying value of our investments, partially offset by the gain on sale of auction rate securities during the year ended December 31, 2010. In addition, we recorded an impairment charge on our investment in XM Canada during the year ended December 31, 2009.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, interest and investment (loss) income was \$5,576 and (\$21,428), respectively, an increase of 126%, or \$27,004. The increase was attributable to payments received from SIRIUS Canada in excess of the carrying value of our investment, decreases in our share of XM Canada's net loss and decreases in impairment charges related to our investment in XM Canada for the year ended December 31, 2009 compared to the year ended December 31, 2008, partially offset by increases in our share of SIRIUS Canada's net loss, lower interest rates in 2009 and a lower average cash balance.

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.

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, income tax expense was \$4,620 and \$5,981, respectively, a decrease of 23%, or \$1,361 primarily related to a decrease in the applicable tax rate and foreign withholding taxes on royalty income.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, income tax expense was \$5,981 and \$2,476, respectively, an increase of 142%, or \$3,505 primarily related to the inclusion of XM.

Subscriber Data

The following table contains actual subscriber data for the years ended December 31, 2010 and 2009, respectively, and adjusted subscriber data for the year ended December 31, 2008. The subscriber data for the year ended December 31, 2008 has been adjusted to include XM results:

	Unaudited		
	For the Years Ended December 31,		
	2010	2009	2008
	(Actual)	(Actual)	(Adjusted)
Beginning subscribers	18,772,758	19,003,856	17,348,622
Gross subscriber additions	7,768,827	6,208,482	7,710,306
Deactivated subscribers	(6,350,621)	(6,439,580)	(6,055,072)
Net additions	<u>1,418,206</u>	<u>(231,098)</u>	<u>1,655,234</u>
Ending subscribers	<u>20,190,964</u>	<u>18,772,758</u>	<u>19,003,856</u>
Retail	6,947,830	7,725,750	8,905,087
OEM	13,104,972	10,930,952	9,995,953
Rental	<u>138,162</u>	<u>116,056</u>	<u>102,816</u>
Ending subscribers	<u>20,190,964</u>	<u>18,772,758</u>	<u>19,003,856</u>
Self-pay	16,686,799	15,703,932	15,549,657
Paid promotional	<u>3,504,165</u>	<u>3,068,826</u>	<u>3,454,199</u>
Ending subscribers	<u>20,190,964</u>	<u>18,772,758</u>	<u>19,003,856</u>
Retail	(777,920)	(1,179,452)	(333,628)
OEM	2,174,020	935,114	1,962,685
Rental	<u>22,106</u>	<u>13,240</u>	<u>26,177</u>
Net additions	<u>1,418,206</u>	<u>(231,098)</u>	<u>1,655,234</u>
Self-pay	982,867	154,275	1,676,311
Paid promotional	<u>435,339</u>	<u>(385,373)</u>	<u>(21,077)</u>
Net additions	<u>1,418,206</u>	<u>(231,098)</u>	<u>1,655,234</u>
Daily weighted average number of subscribers	<u>19,385,055</u>	<u>18,529,696</u>	<u>18,373,274</u>
Average self-pay monthly churn(1)	<u>1.9%</u>	<u>2.0%</u>	<u>1.8%</u>
Conversion rate(2)	<u>46.2%</u>	<u>45.4%</u>	<u>47.5%</u>

Note: See pages 22 through 29 for footnotes.

Subscribers. At December 31, 2010, we had 20,190,964 subscribers, an increase of 1,418,206 subscribers, or 8%, from the 18,772,758 subscribers as of December 31, 2009.

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, net additions were 1,418,206 and (231,098), respectively, an increase in net additions of 1,649,304. The improvement was due to the 25% increase in gross subscriber additions, primarily resulting from an increase in U.S. light vehicle sales, new vehicle penetration and returning activations.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, net additions were (231,098) and 1,655,234, respectively, a decrease in net additions of 1,886,332. The decline was due to a decrease in gross subscriber additions of 19% and an increase in deactivated subscribers of 6%, both of which were impacted by the economic environment during 2009. The decrease in net additions was primarily attributable to fewer

paid promotional trials due to the decline in North American auto sales and an increase in the average self-pay monthly churn rate from 1.8% in 2008 to 2.0% in 2009.

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 22 through 29 for more details.)

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, our average self-pay monthly churn rate was 1.9% and 2.0%, respectively. The decrease was due to an improving economy, the success of retention and win-back programs and reductions in non-pay cancellation rates.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, our average self-pay monthly churn rate was 2.0% and 1.8%, respectively. The increase was due to the economic environment during 2009 which drove reductions in consumer discretionary spending, combined with subscriber response to our decreases in discounts on multi-subscription and internet packages, channel line-up changes in 2008 and the introduction of the U.S. Music Royalty Fee in the third quarter of 2009.

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 22 through 29 for more details.)

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, our conversion rate was 46.2% and 45.4%, respectively. The increase was primarily due to marketing to promotional period subscribers and an improving economy.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, our conversion rate was 45.4% and 47.5%, respectively. The decrease was primarily due to a reduction in consumer discretionary spending resulting from the economic environment during 2009.

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

Adjusted Results of Operations

In this 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 include the historical results of operations of XM and exclude the impact of certain purchase price accounting adjustments. We use these Non-GAAP financial measures to manage our business, set operational goals and as a basis for determining performance-based compensation for our employees.

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

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

We believe these Non-GAAP financial measures provide useful information to investors regarding our financial condition and results of operations. We believe investors find these Non-GAAP financial performance measures useful in evaluating our core trends because it provides a direct view of our underlying contractual costs.

We believe investors use our current and projected adjusted EBITDA to estimate our current or prospective enterprise value and to make investment decisions. By providing these Non-GAAP financial measures, together with the reconciliations to the most directly comparable GAAP measure, we believe we are enhancing investors understanding of our business and our results of operations. These Non-GAAP financial measures should be viewed in addition to, and not as an alternative for or superior to, our reported results prepared in accordance with GAAP. Please refer to the footnotes (pages 22 through 29) 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 years ended December 31, 2010, 2009 and 2008, respectively:

	Unaudited Adjusted		
	For the Years Ended December 31,		
	2010	2009	2008
<i>(In thousands, except for per subscriber amounts)</i>			
ARPU(3)	\$ 11.73	\$ 10.95	\$ 10.56
SAC, per gross subscriber addition(4)	\$ 59	\$ 63	\$ 74
Customer service and billing expenses, per average subscriber(5)	\$ 1.03	\$ 1.05	\$ 1.11
Free cash flow(6)	\$ 210,481	\$ 185,319	\$ (551,771)
Adjusted total revenue(8)	\$2,838,898	\$2,526,703	\$2,436,740
Adjusted EBITDA(7)	\$ 626,288	\$ 462,539	\$ (136,298)

Note: See pages 22 through 29 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 22 through 29 for more details.)

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, ARPU was \$11.73 and \$10.95, respectively. The increase was driven primarily by the full year impact of the U.S. Music Royalty Fee introduced in the third quarter of 2009, increased revenues from the sale of “Best of” programming, decreases in discounts on multi-subscription and internet packages, and increased net advertising revenue, partially offset by an increase in the number of subscribers on promotional plans.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, ARPU was \$10.95 and \$10.56, respectively. The increase in subscriber revenue was driven mainly by the introduction of the U.S. Music Royalty Fee in the third quarter of 2009, the sale of “Best of” programming, decreases in discounts on multi-subscription and internet packages, partially offset by lower advertising revenue.

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 22 through 29 for more details.)

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, SAC, per gross subscriber addition was \$59 and \$63, respectively. The decrease was primarily due to lower per radio subsidy rates for certain OEMs and growth in subscriber reactivations and royalties from radio manufacturers compared to the year ended December 31, 2009, partially offset by a 49% increase in OEM production with factory-installed satellite radios.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, SAC, per gross subscriber addition was \$63 and \$74, respectively. The decrease was primarily driven by lower OEM subsidies, fewer OEM installations relative to gross subscriber additions and lower aftermarket inventory charges in the year ended December 31, 2009 compared to the year ended December 31, 2008.

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 22 through 29 for more details.)

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, customer service and billing expenses, per average subscriber was \$1.03 and \$1.05, respectively. The decrease was primarily due to lower call center expenses as a result of moving calls to lower cost locations, partially offset by higher call volume.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, customer service and billing expenses, per average subscriber was \$1.05 and \$1.11, respectively. The decrease was primarily due to decreases in personnel costs and customer call center expenses.

Free Cash Flow includes the net cash provided by (used in) operations, additions to property and equipment, merger related costs and restricted and other investment activity. (See accompanying footnotes on pages 22 through 29 for more details.)

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, free cash flow was \$210,481 and \$185,319, respectively, an increase of \$25,162. Net cash provided by operating activities increased \$79,065 to \$512,895 for the year ended December 31, 2010 compared to the \$433,830 provided by operations for the year ended December 31, 2009. Capital expenditures for property and equipment for the year ended December 31, 2010 increased \$63,357 to \$311,868 compared to \$248,511 for the year ended December 31, 2009. The increase in net cash provided by operating activities was primarily the result of growth in deferred revenue and changes in net assets. The increase in capital expenditures for the year ended December 31, 2010 was primarily the result of satellite construction and launch expenditures for our XM-5 and FM-6 satellites.
- *2009 vs. 2008:* For the years ended December 31, 2009 and 2008, free cash flow was \$185,319 and (\$551,771), respectively, an increase of \$737,090. Net cash provided by (used in) operating activities increased \$837,713 to \$433,830 for the year ended December 31, 2009 compared to the (\$403,883) used in operations for the year ended December 31, 2008. Capital expenditures for property and equipment, merger related costs, and restricted and other investment activity for the year ended December 31, 2009 increased \$100,623 to \$248,511 compared to \$147,888 for the year ended December 31, 2008. The increase in net cash provided by operating activities was primarily the result of growth in deferred revenue and changes in net assets. The increase in capital expenditures for the year ended December 31, 2009 was primarily the result of satellite construction and launch expenditures for our FM-4 and XM-5 satellites.

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 the accompanying footnotes on pages 22 through 29 for more details.)

	Unaudited		
	For the Years Ended December 31,		
	2010	2009	2008
Revenue:			
Subscriber revenue, including effects of rebates	\$2,414,174	\$2,287,503	\$1,548,919
Advertising revenue, net of agency fees	64,517	51,754	47,190
Equipment revenue	71,355	50,352	56,001
Other revenue	266,946	83,029	11,882
Predecessor financial information:			
Subscriber revenue, including effects of rebates	—	—	670,870
Advertising revenue, net of agency fees	—	—	22,743
Equipment revenue	—	—	13,397
Other revenue	—	—	24,184
Purchase price accounting adjustments:			
Subscriber revenue, including effects of rebates	14,655	46,814	38,533
Other revenue	<u>7,251</u>	<u>7,251</u>	<u>3,021</u>
Adjusted total revenue	<u>\$2,838,898</u>	<u>\$2,526,703</u>	<u>\$2,436,740</u>

- *2010 vs. 2009:* Our adjusted total revenue increased 12%, or \$312,195, in the year ended December 31, 2010 compared to the year ended December 31, 2009. Subscriber revenue increased 4%, or \$94,512, in the year ended December 31, 2010 compared to the year ended December 31, 2009. The increase in subscriber revenue was driven by the increase in subscribers as well as an increase in the sale of “Best of” programming and the decreases in discounts on multi-subscription and internet packages, partially offset by an increase in the number of subscribers on promotional plans. Advertising revenue increased 25%, or \$12,763, in the year ended December 31, 2010 compared to the year ended December 31, 2009. The increase in advertising revenue was driven by more effective sales efforts and improvements in the national market for advertising. Equipment revenue increased 42%, or \$21,003, in the year ended December 31, 2010 compared to the year ended December 31, 2009. The increase in equipment revenue was driven by royalties from increased OEM installations. Other revenue increased \$183,917 in the year ended December 31, 2010 compared to the year ended December 31, 2009. The increase in other revenue was driven by the introduction of the U.S. Music Royalty Fee in the third quarter of 2009.
- *2009 vs. 2008:* Our adjusted total revenue increased 4%, or \$89,963, in the year ended December 31, 2009 compared to the year ended December 31, 2008. Subscriber revenue increased 3%, or \$75,995, in the year ended December 31, 2009 compared to the year ended December 31, 2008. The increase in subscriber revenue was driven by the sale of “Best of” programming, decreases in discounts on multi-subscription packages, increased sales of internet packages and higher average subscribers. Advertising revenue decreased 26%, or \$18,179, in the year ended December 31, 2009 compared to the year ended December 31, 2008. The decrease in advertising revenue was driven by the economic environment. Equipment revenue decreased 27%, or \$19,046, in the year ended December 31, 2009 compared to the year ended December 31, 2008. The decrease in equipment revenue was driven by declines in sales through our direct to consumer distribution channel and lower product and component sales offset by higher product royalties. Other revenue increased 131%, or \$51,193, in the year ended December 31, 2009 compared to the year ended December 31, 2008. The increase in other revenue was driven by the introduction of the U.S. Music Royalty Fee in the third quarter of 2009.

Adjusted EBITDA. EBITDA is defined as net income (loss) before interest and investment income (loss); interest expense, net of amounts capitalized; income tax expense and depreciation and amortization. Adjusted EBITDA 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 the accompanying footnotes on pages 22 through 29 for more details):

	Unaudited		
	For the Years Ended December 31,		
	2010	2009	2008
Adjusted EBITDA	<u>\$626,288</u>	<u>\$462,539</u>	<u>\$(136,298)</u>

- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, adjusted EBITDA was \$626,288 and \$462,539, respectively, an increase of 35%, or \$163,749. The increase was primarily due to an increase of 12%, or \$312,195, in revenues, partially offset by an increase of 7%, or \$148,446, in expenses included in adjusted EBITDA. The increase in revenue was primarily due to the increase in our subscriber base and the introduction of the U.S. Music Royalty Fee in the third quarter of 2009, as well as increased advertising and equipment revenue, decreases in discounts on multi-subscription and internet packages, and an increase in the sale of “Best of” programming, partially offset by an increase in the number of subscribers on promotional plans. The increase in expenses was primarily driven by higher subscriber acquisition costs related to the 25% increase in gross additions and higher revenue share and royalties expenses associated with growth in revenues subject to revenue sharing and royalty arrangements.
- *2009 vs. 2008:* For the years ended December 31, 2010 and 2009, adjusted EBITDA was \$462,539 and \$(136,298), respectively, an increase of 439%, or \$598,837. The increase was primarily due to an increase of 4%, or \$89,963, in revenues and a decrease of 20%, or \$508,874, in expenses included in adjusted EBITDA. The increase in revenue was primarily due to an increase in weighted average subscribers as well as decreases in discounts on multi-subscription and internet packages, the introduction of the U.S. Music Royalty Fee in the third quarter of 2009 and the sale of “Best of” programming, partially offset by decreased equipment revenue. The decreases in expenses were primarily driven by lower subscriber acquisition costs, lower sales and marketing discretionary spend, savings in programming and content expenses, and lower legal and consulting costs in general and administrative expenses.

Liquidity and Capital Resources

Cash Flows for the Year Ended December 31, 2010 Compared with the Year Ended December 31, 2009 and Year Ended December 31, 2009 Compared with the Year Ended December 31, 2008

As of December 31, 2010 and 2009, we had \$586,691 and \$383,489, respectively, in cash and cash equivalents. The following table presents a summary of our cash flow activity for the periods set forth below:

	<u>For the Years Ended December 31,</u>			<u>2010 vs. 2009</u>	<u>2009 vs. 2008</u>
	<u>2010</u>	<u>2009</u>	<u>2008</u>		
Net cash provided by (used in)					
operating activities	\$ 512,895	\$ 433,830	\$(152,797)	\$ 79,065	\$ 586,627
Net cash (used in) provided by					
investing activities	(302,414)	(248,511)	728,425	(53,903)	(976,936)
Net cash used in financing					
activities	<u>(7,279)</u>	<u>(182,276)</u>	<u>(634,002)</u>	<u>174,997</u>	<u>451,726</u>
Net increase (decrease) in cash and					
cash equivalents	203,202	3,043	(58,374)	200,159	61,417
Cash and cash equivalents at					
beginning of period	<u>383,489</u>	<u>380,446</u>	<u>438,820</u>	<u>3,043</u>	<u>(58,374)</u>
Cash and cash equivalents at end of					
period	<u>\$ 586,691</u>	<u>\$ 383,489</u>	<u>\$ 380,446</u>	<u>\$203,202</u>	<u>\$ 3,043</u>

Cash Flows Provided by (Used in) Operating Activities

Cash provided by operating activities increased by \$79,065, or 18%, to \$512,895 for the year ended December 31, 2010 from \$433,830 for the year ended December 31, 2009. Cash provided by operating activities increased by \$586,627, or 384%, to \$433,830 for the year ended December 31, 2009 from cash used in operating activities of \$152,797 for the year ended December 31, 2008. The primary drivers of our operating cash flow growth have been improvements in profitability and changes in operating assets and liabilities.

- Our net income (loss) was \$43,055, (\$352,038) and (\$5,316,910) for the years ended December 31, 2010, 2009 and 2008, respectively. Our revenue growth has been primarily due to growth in our subscriber revenues which increased by \$126,671, or 6%, and \$738,584, or 48% (including the impact of the Merger), for the years ended December 31, 2010 and 2009, respectively. Included in the net loss for 2008 was a \$4,766,190 charge related to the impairment of goodwill.
- Net non-cash adjustments to net income (loss) were \$357,743, \$566,524 and \$5,142,961 for the years ended December 31, 2010, 2009 and 2008, respectively. Significant components of non-cash expenses, and their impact on cash flows from operating activities, include the following:

	<u>For the Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Depreciation and amortization	\$ 273,691	\$ 309,450	\$ 203,752
Impairment of goodwill	—	—	4,766,190
Restructuring, impairments and related costs	66,731	26,964	—
Loss on extinguishment of debt and credit facilities, net	120,120	267,646	98,203
Share-based payment expense	60,437	73,981	87,405
Other non-cash purchase price adjustments	(250,727)	(202,054)	(68,330)

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.

During 2008, we recorded a goodwill impairment charge of \$4,766,190, which reduced the carrying value of goodwill from \$6,601,046 to \$1,834,856. There were no impairment charges recorded in 2010 and 2009.

Included in restructuring, impairments and related costs for the year ended December 31, 2010 are contract termination costs of \$7,361 and a loss on the full impairment of our FM-4 satellite of \$56,100.

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

Share-based payment expense is expected to increase in future periods as we grant equity awards to our employees and directors. Compensation expense for share-based awards is recorded in the financial statements based on the fair value. The fair value of stock option awards are determined using the Black-Scholes-Merton option-pricing model which is subject to various assumptions including the market price of our stock, estimated forfeiture rates of awards and the volatility of our stock price. The fair value of restricted shares and restricted stock units is based on the market price 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 contributed \$112,097, \$219,344 and \$21,152 to operating cash flows for the years ended December 31, 2010, 2009 and 2008, respectively. Significant changes in operating assets and liabilities include the growth in deferred revenue, the timing of collections from our customers and distributors 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) Provided by Investing Activities

Cash used for investing activities consists primarily of capital expenditures for property and equipment. Capital expenditures have increased as we have continued to invest in the construction of our satellites and related launch vehicles and improvements in infrastructure to support the growth of our business. We will continue to incur significant costs to construct and launch our new satellites and improve our terrestrial repeater network and broadcast and administrative infrastructure. We have entered into various agreements to design, construct, and launch our satellites in the normal course of business.

Cash Flows Used in Financing Activities

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

Financings and Capital Requirements

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

Future Liquidity and Capital Resource Requirements

We have entered into various agreements to design, construct, and launch our satellites in the normal course of business. As disclosed in Note 15 in our consolidated financial statements, as of December 31, 2010, we expect to incur capital expenditures of approximately \$120,444 and \$5,481 in 2011 and 2012, respectively, and an additional

\$55,610 over the next five years, the majority of which is attributable to the construction and launch of our FM-6 satellite and related launch vehicle.

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

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

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

Debt Covenants

The indentures governing our debt include restrictive covenants. As of December 31, 2010, we were in compliance with our debt covenants.

For a discussion of our “Debt Covenants”, refer to Note 11 to our consolidated financial statements in this Annual Report.

Off-Balance Sheet Arrangements

We do not have any significant off-balance sheet arrangements other than those disclosed in Note 15 to our consolidated financial statements in this Annual Report that are reasonably likely to have a material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

2009 Long-Term Stock Incentive Plan

In May 2009, our stockholders approved the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan (the “2009 Plan”). Employees, consultants and members of our board of directors are eligible to receive awards under the 2009 Plan, which provides for the grant of stock options, restricted stock, restricted stock units and other stock-based awards that the compensation committee of our board of directors may deem appropriate. Vesting and other terms of stock-based awards are set forth in the agreements with the individuals receiving the awards. Stock-based awards granted under the 2009 Plan are generally subject to a vesting requirement. Stock-based awards generally expire ten years from the date of grant. Each restricted stock unit entitles the holder to receive one share of common stock upon vesting. As of December 31, 2010, approximately 268,255,000 shares of common stock were available for future grants under the 2009 Plan.

Other Plans

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

Contractual Cash Commitments

For a discussion of our “Contractual Cash Commitments,” refer to Note 15 to our consolidated financial statements in this Annual Report.

Related Party Transactions

For a discussion of “Related Party Transactions,” refer to Note 9 to our consolidated financial statements in this Annual Report.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods. Accounting estimates require the use of significant management assumptions and judgments as to future events, and the effect of those events cannot be predicted with certainty. The accounting estimates will change as new events occur, more experience is acquired and more information is obtained. We evaluate and update our assumptions and estimates on an ongoing basis and use outside experts to assist in that evaluation when we deem necessary. We have disclosed all significant accounting policies in Note 3 to our consolidated financial statements in this Annual Report. We have identified the following policies, which were discussed with the audit committee of our board of directors, as critical to our business and understanding of our results of operations.

Fair Value of XM Assets Acquired and Liabilities Assumed. On July 28, 2008, our wholly-owned subsidiary, Vernon Merger Corporation, merged with and into XM Satellite Radio Holdings Inc., with XM Holdings becoming our wholly-owned subsidiary. The application of purchase accounting resulted in the transaction being valued at \$5,836,363 and our recording of goodwill acquired totaling \$6,601,046. During 2008, we recorded an impairment charge of \$4,766,190, which resulted in a carrying value of goodwill of \$1,834,856.

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 of our single reporting unit is performed as of October 1st 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. Step one of the impairment assessment compares the fair value of the entity to its carrying value and if the fair value exceeds its carrying value, goodwill is not impaired. If the carrying value exceeds the fair value, the implied fair value of goodwill is compared to the carrying value of goodwill. If the implied fair value exceeds the carrying value then goodwill is not impaired; otherwise, an impairment loss will be recorded by the amount the carrying value exceeds the implied fair value. At October 1, 2010 and December 31, 2010, the fair value of our single reporting unit substantially exceeded its carrying value and therefore was not at risk of failing step one of ASC 350-20, *Goodwill* (“ASC 350-20”). As a result, there were no changes in the carrying value of our goodwill during the years ended December 31, 2010 and 2009.

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

Our annual impairment assessment of our FCC licenses is performed as of October 1st of each year and an assessment is made at other times if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. At October 1, 2010 and December 31, 2010, the fair value of our FCC licenses substantially exceeded the carrying value and therefore was not at risk of impairment.

We use independent appraisals to assist in determining the fair value of our FCC licenses. The income approach, which is commonly called the “Jefferson Pilot Method” or the “Greenfield Method”, has been consistently used to estimate the fair value. This method attempts to isolate the income that is properly attributable

to the license alone (that is, apart from tangible and intangible assets and goodwill). It is based upon modeling a hypothetical "Greenfield" build-up to a normalized enterprise that, by design, lacks inherent goodwill and has essentially purchased (or added) all other assets as part of the build-up process. The methodology assumes that, rather than acquiring such an operation as a going concern, the buyer would hypothetically obtain a license at nominal cost and build a new operation with similar attributes from inception. The significant assumption was that the hypothetical start up entity would begin its network build out phase at the impairment testing date and revenues and variable costs would not be generated until the satellite network was operational, approximately five years from inception.

There were no changes in the carrying value of our indefinite life intangible assets during the years ended December 31, 2010 and 2009.

Useful Life of Broadcast/Transmission System. Our satellite system includes the costs of our satellite construction, launch vehicles, launch insurance, capitalized interest, spare satellite, terrestrial repeater network and satellite uplink facility. We monitor our satellites for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset is not recoverable. The expected useful lives of our four in-orbit SIRIUS satellites were originally 15 years from the date they were placed into orbit. In June 2006, we adjusted the useful lives of two of our in-orbit SIRIUS satellites to 13 years to reflect the unanticipated loss of power from the solar array and the way we operate the constellation. We currently expect our first two in-orbit SIRIUS satellites to operate effectively through 2013, FM-3 to operate effectively through 2015, FM-5 to operate effectively through 2024 and will continue to evaluate the impact of current satellite operational data on the expected useful lives. In December 2010, we recorded an other than temporary charge for FM-4, the ground spare held in storage since 2002. We operate five in-orbit XM satellites, three of which function as in-orbit spares. The three in-orbit spare satellites were launched in 2001 and 2010 while the other two satellites were launched in 2005 and 2006. We estimate that the XM-3, XM-4 and XM-5 satellites will meet their 15 year predicted useful lives, and that the useful lives of XM-1 and XM-2 will end in 2013.

Certain of our in-orbit satellites have experienced circuit failures on their solar arrays. We continue to monitor the operating condition of our in-orbit satellites. If events or circumstances indicate that the useful lives of our in-orbit satellites have changed, we will modify the depreciable life accordingly. If we were to revise our estimates, our depreciation expense would change, for example, a 10% decrease in the expected useful lives of satellites and spacecraft control facilities during 2010 would have resulted in approximately \$23,028 of additional depreciation expense.

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

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

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

Activation fees are recognized ratably over the estimated term of a subscriber relationship, estimated to be approximately 3.5 years during 2010. The estimated term of a subscriber relationship is based on historical experience. If we were to revise our estimate our recognition of activation fees would change, for example, a 10% decrease to the estimated term of a subscriber relationship during 2010 would have resulted in approximately \$1,781 of additional activation fees.

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

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

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

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

Share-based Payment. We account for equity instruments granted to employees in accordance with ASC 718, *Compensation — Stock Compensation*. ASC 718 requires all share-based compensation payments to be recognized in the financial statements based on fair value. ASC 718 requires forfeitures to be estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from initial estimates. We use the Black-Scholes-Merton option-pricing model to value stock option awards and have elected to treat awards with graded vesting as a single award. Share-based compensation expense is recognized ratably over the requisite service period, which is generally the vesting period, net of forfeitures. We measure non-vested stock awards using the fair market value of restricted shares of common stock on the day the award is granted.

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

Equity instruments granted to non-employees are accounted for in accordance with ASC 505, *Equity*. The final measurement date for the fair value of equity instruments with performance criteria is the date that each performance commitment for such equity instrument is satisfied or there is a significant disincentive for non-performance.

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

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

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. Average self-pay churn for the year is the average of the quarterly average self-pay churn.
- (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, which was initially charged to subscribers in the third quarter of 2009. Purchase price accounting adjustments include the recognition of deferred subscriber revenues not recognized in purchase price accounting associated with the Merger. ARPU is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited		
	For the Years Ended December 31,		
	2010	2009	2008
Subscriber revenue:			
GAAP	\$ 2,414,174	\$ 2,287,503	\$ 1,548,919
Predecessor financial information	—	—	670,870
Net advertising revenue:			
GAAP	64,517	51,754	47,190
Predecessor financial information	—	—	22,743
Other subscription-related revenue (GAAP)	234,148	48,679	—
Purchase price accounting adjustments	14,655	46,814	38,533
	<u>\$ 2,727,494</u>	<u>\$ 2,434,750</u>	<u>\$ 2,328,255</u>
Daily weighted average number of subscribers	<u>19,385,055</u>	<u>18,529,696</u>	<u>18,373,274</u>
ARPU	<u>\$ 11.73</u>	<u>\$ 10.95</u>	<u>\$ 10.56</u>

- (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 share-based payment expense and 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):

	Unaudited		
	For the Years Ended December 31,		
	2010	2009	2008
Subscriber acquisition costs:			
GAAP	\$ 413,041	\$ 340,506	\$ 371,343
Predecessor financial information	—	—	174,083
Less: margin from direct sales of radios and accessories:			
GAAP	(36,074)	(10,164)	(9,910)
Predecessor financial information	—	—	6,616
Less: share-based payment expense granted to third parties and employees (GAAP)	—	—	(14)
Add: purchase price accounting adjustments	79,439	61,164	31,714
	<u>\$ 456,406</u>	<u>\$ 391,506</u>	<u>\$ 573,832</u>
Gross subscriber additions	<u>7,768,827</u>	<u>6,208,482</u>	<u>7,710,306</u>
SAC, per gross subscriber addition	<u>\$ 59</u>	<u>\$ 63</u>	<u>\$ 74</u>

- (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):

	Unaudited		
	For the Years Ended December 31,		
	2010	2009	2008
Customer service and billing expenses:			
GAAP	\$ 241,680	\$ 234,456	\$ 165,036
Predecessor financial information	—	—	82,947
Less: share-based payment expense, net of purchase price accounting adjustments:			
GAAP	(2,207)	(2,504)	(2,112)
Predecessor financial information	—	—	(1,869)
Add: purchase price accounting adjustments	281	453	193
	<u>\$ 239,754</u>	<u>\$ 232,405</u>	<u>\$ 244,195</u>
Daily weighted average number of subscribers	<u>19,385,055</u>	<u>18,529,696</u>	<u>18,373,274</u>
Customer service and billing expenses, per average subscriber	<u>\$ 1.03</u>	<u>\$ 1.05</u>	<u>\$ 1.11</u>

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

	Unaudited		
	For The Years Ended December 31,		
	2010	2009	2008
Net cash provided by operating activities:			
GAAP	\$ 512,895	\$ 433,830	\$(152,797)
Predecessor financial information	—	—	(251,086)
Additions to property and equipment:			
GAAP	(311,868)	(248,511)	(130,551)
Predecessor financial information			(30,843)
Merger related costs:			
GAAP	—	—	(23,519)
Predecessor financial information	—	—	—
Restricted and other investment activity:			
GAAP	9,454	—	62,974
Predecessor financial information			(25,949)
Free cash flow	<u>\$ 210,481</u>	<u>\$ 185,319</u>	<u>\$(551,771)</u>

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

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

measure, our calculation of adjusted EBITDA may be susceptible to varying calculations; may not be comparable to other similarly titled measures of other companies; and should not be considered in isolation, as a substitute for, or superior to measures of financial performance prepared in accordance with GAAP. The reconciliation of net income (loss) to the adjusted EBITDA is calculated as follows (in thousands):

	Unaudited		
	For the Years Ended December 31,		
	2010	2009	2008
Net income (loss) (GAAP):	\$ 43,055	\$(352,038)	\$(5,316,910)
Predecessor financial information:			
Revenues (see page 28)	—	—	731,194
Operating expenses (see page 28)	—	—	(961,663)
Add back items excluded from Adjusted EBITDA:			
Purchase price accounting adjustments:			
Revenues (see pages 26-28)	21,906	54,065	41,554
Operating expenses (see pages 26-28)	(261,832)	(240,891)	4,661,812
Share-based payment expense, net of purchase price accounting adjustments:			
GAAP	63,309	78,782	90,134
Predecessor financial information (see page 28)	—	—	34,485
Depreciation and amortization:			
GAAP	273,691	309,450	203,752
Predecessor financial information (see page 28)	—	—	88,749
Restructuring, impairments and related costs (GAAP)	63,800	32,807	10,434
Interest expense, net of amounts capitalized (GAAP)	295,643	315,668	148,455
Loss on extinguishment of debt and credit facilities, net (GAAP)	120,120	267,646	98,203
Interest and investment (income) loss (GAAP)	5,375	(5,576)	21,428
Other (income) loss (GAAP)	(3,399)	(3,355)	9,599
Income tax expense (GAAP)	4,620	5,981	2,476
Adjusted EBITDA	<u>\$ 626,288</u>	<u>\$ 462,539</u>	<u>\$ (136,298)</u>

- (8) The following tables reconcile our actual revenues and operating expenses to our adjusted revenues and operating expenses for the years ended December 31, 2010, 2009 and 2008:

(In thousands)	Unaudited for the Year Ended December 31, 2010			
	As Reported	Purchase Price Accounting Adjustments	Allocation of Share-Based Payment Expense	Adjusted
Revenue:				
Subscriber revenue, including effects of rebates	\$2,414,174	\$ 14,655	\$ —	\$2,428,829
Advertising revenue, net of agency fees	64,517	—	—	64,517
Equipment revenue	71,355	—	—	71,355
Other revenue	266,946	7,251	—	274,197
Total revenue	<u>\$2,816,992</u>	<u>\$ 21,906</u>	<u>\$ —</u>	<u>\$2,838,898</u>
Operating expenses				
Cost of services:				
Revenue share and royalties	435,410	107,967	—	543,377
Programming and content	305,914	57,566	(10,267)	353,213
Customer service and billing	241,680	281	(2,207)	239,754
Satellite and transmission	80,947	1,170	(3,397)	78,720
Cost of equipment	35,281	—	—	35,281
Subscriber acquisition costs	413,041	79,439	—	492,480
Sales and marketing	215,454	13,983	(9,423)	220,014
Engineering, design and development	45,390	520	(5,868)	40,042
General and administrative	240,970	906	(32,147)	209,729
Depreciation and amortization(a)	273,691	—	—	273,691
Restructuring, impairments and related costs	63,800	—	—	63,800
Share-based payment expense(b)	—	—	63,309	63,309
Total operating expenses	<u>\$2,351,578</u>	<u>\$261,832</u>	<u>\$ —</u>	<u>\$2,613,410</u>

(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 year ended December 31, 2010 was \$68,000.

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

Programming and content	\$ 9,817	\$ 450	\$—	\$10,267
Customer service and billing	1,926	281	—	2,207
Satellite and transmission	3,109	288	—	3,397
Sales and marketing	8,996	427	—	9,423
Engineering, design and development	5,348	520	—	5,868
General and administrative	31,241	906	—	32,147
Total share-based payment expense	<u>\$60,437</u>	<u>\$2,872</u>	<u>\$—</u>	<u>\$63,309</u>

Unaudited for the Year Ended December 31, 2009

(In thousands)	<u>As Reported</u>	<u>Purchase Price Accounting Adjustments</u>	<u>Allocation of Share-Based Payment Expense</u>	<u>Adjusted</u>
Revenue:				
Subscriber revenue, including effects of rebates	\$2,287,503	\$ 46,814	\$ —	\$2,334,317
Advertising revenue, net of agency fees	51,754	—	—	51,754
Equipment revenue	50,352	—	—	50,352
Other revenue	83,029	7,251	—	90,280
Total revenue	<u><u>\$2,472,638</u></u>	<u><u>\$ 54,065</u></u>	<u><u>\$ —</u></u>	<u><u>\$2,526,703</u></u>
Operating expenses				
Cost of services:				
Revenue share and royalties	397,210	89,780	—	486,990
Programming and content	308,121	72,069	(9,720)	370,470
Customer service and billing	234,456	453	(2,504)	232,405
Satellite and transmission	84,033	1,339	(3,202)	82,170
Cost of equipment	40,188	—	—	40,188
Subscriber acquisition costs	340,506	61,164	—	401,670
Sales and marketing	228,956	13,507	(10,264)	232,199
Engineering, design and development	41,031	977	(5,856)	36,152
General and administrative	227,554	1,602	(47,236)	181,920
Depreciation and amortization(a)	309,450	—	—	309,450
Restructuring, impairments and related costs	32,807	—	—	32,807
Share-based payment expense(b)	—	—	78,782	78,782
Total operating expenses	<u><u>\$2,244,312</u></u>	<u><u>\$240,891</u></u>	<u><u>\$ —</u></u>	<u><u>\$2,485,203</u></u>

(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 year ended December 31, 2009 was \$106,000.

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

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

Unaudited for the Year Ended December 31, 2008

(In thousands)	As Reported	Predecessor Financial Information	Purchase Price Accounting Adjustments	Allocation of Share-Based Payment Expense	Adjusted
Revenue:					
Subscriber revenue, including effects of rebates	\$1,548,919	\$670,870	\$ 38,533	\$ —	\$2,258,322
Advertising revenue, net of agency fees	47,190	22,743	—	—	69,933
Equipment revenue	56,001	13,397	—	—	69,398
Other revenue	<u>11,882</u>	<u>24,184</u>	<u>3,021</u>	—	<u>39,087</u>
Total revenue	<u>\$1,663,992</u>	<u>\$731,194</u>	<u>\$ 41,554</u>	<u>\$ —</u>	<u>\$2,436,740</u>
Operating expenses					
Cost of services:					
Revenue share and royalties	280,852	166,606	30,504	—	477,962
Programming and content	312,189	117,156	34,667	(17,374)	446,638
Customer service and billing	165,036	82,947	193	(3,981)	244,195
Satellite and transmission	59,279	46,566	424	(7,084)	99,185
Cost of equipment	46,091	20,013	—	—	66,104
Subscriber acquisition costs	371,343	174,083	31,714	(14)	577,126
Sales and marketing	231,937	126,054	5,393	(21,088)	342,296
Engineering, design and development	40,496	23,045	400	(11,441)	52,500
General and administrative	213,142	116,444	1,083	(63,637)	267,032
Impairment of goodwill	4,766,190	—	(4,766,190)	—	—
Depreciation and amortization(a)	203,752	88,749	—	—	292,501
Restructuring, impairments and related costs	10,434	—	—	—	10,434
Share-based payment expense(b)	—	—	—	124,619	124,619
Total operating expenses	<u>\$6,700,741</u>	<u>\$961,663</u>	<u>\$(4,661,812)</u>	<u>\$ —</u>	<u>\$3,000,592</u>

(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 year ended December 31, 2008 was \$47,000.

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

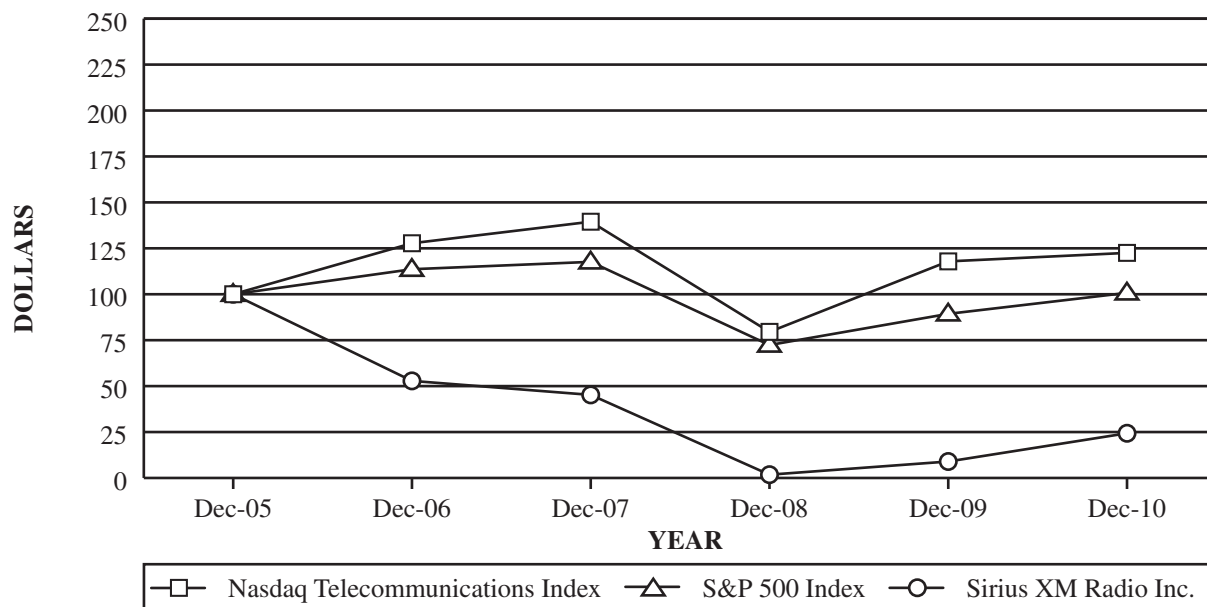
Programming and content	\$12,148	\$ 4,949	\$ 277	\$—	\$ 17,374
Customer service and billing	1,920	1,869	192	—	3,981
Satellite and transmission	4,236	2,745	103	—	7,084
Subscriber acquisition costs	14	—	—	—	14
Sales and marketing	13,541	7,047	500	—	21,088
Engineering, design and development	6,192	4,675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

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

	<u>For the Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net cash provided by operating activities:			
GAAP	\$ 512,895	\$ 433,830	\$(152,797)
Predecessor financial information	—	—	(251,086)
Less: Changes in operating assets and liabilities, net:			
GAAP	(112,097)	(219,344)	(21,152)
Predecessor financial information	<u>—</u>	<u>—</u>	<u>83,513</u>
Net income plus non cash operating activities.	<u>\$ 400,798</u>	<u>\$ 214,486</u>	<u>\$(341,522)</u>

Comparison of Cumulative Total Returns

Set forth below is a graph comparing the cumulative performance of our common stock with the Standard & Poor's Composite-500 Stock Index, or the S&P 500, and the NASDAQ Telecommunications Index from December 31, 2005 to December 31, 2010. The graph assumes that \$100 was invested on December 31, 2005 in each of our common stock, the S&P 500 and the NASDAQ Telecommunications Index. There were no dividends declared during these periods.



Stockholder Return Performance Table

	Nasdaq Telecommunications Index	S&P 500 Index	Sirius XM Radio Inc.
December 31, 2005	\$100.00	\$100.00	\$100.00
December 31, 2006	\$127.76	\$113.62	\$ 52.84
December 31, 2007	\$139.48	\$117.63	\$ 45.22
December 31, 2008	\$ 79.53	\$ 72.36	\$ 1.79
December 31, 2009	\$117.89	\$ 89.33	\$ 8.96
December 31, 2010	\$122.52	\$100.75	\$ 24.33

Equity Compensation Plan Information

<u>Plan Category</u> (Shares in thousands)	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	444,291	\$1.45	268,255
Equity compensation plans not approved by security holders	—	—	—
Total	<u>444,291</u>	<u>\$1.45</u>	<u>268,255</u>

Selected Financial Data

Our selected financial data set forth below with respect to the consolidated statements of operations for the years ended December 31, 2010, 2009 and 2008, and with respect to the consolidated balance sheets at December 31, 2010 and 2009, are derived from our audited consolidated financial statements included in this Annual Report. Our selected financial data set forth below with respect to the consolidated statements of operations for the years ended December 31, 2007 and 2006, and with respect to the consolidated balance sheets at December 31, 2008, 2007 and 2006 are derived from our audited consolidated financial statements, which are not included in this Annual Report. This selected financial data should be read in conjunction with the Consolidated Financial Statements and related notes thereto included in this Annual Report and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

	<u>As of and for the Years Ended December 31,</u>				
	<u>2010</u>	<u>2009(1)</u>	<u>2008(1)(2)</u>	<u>2007</u>	<u>2006</u>
(In thousands, except per share data)					
Statements of Operations Data:					
Total revenue	\$2,816,992	\$2,472,638	\$ 1,663,992	\$ 922,066	\$ 637,235
Net income (loss)	\$ 43,055	\$ (538,226)	\$(5,316,910)	\$ (565,252)	\$(1,104,867)
Net income (loss) per share — basic	\$ 0.01	\$ (0.15)	\$ (2.45)	\$ (0.39)	\$ (0.79)
Net income (loss) per share — diluted	\$ 0.01	\$ (0.15)	\$ (2.45)	\$ (0.39)	\$ (0.79)
Weighted average common shares outstanding — basic	3,693,259	3,585,864	2,169,489	1,462,967	1,402,619
Weighted average common shares outstanding — diluted	6,391,071	3,585,864	2,169,489	1,462,967	1,402,619
Balance Sheet Data:					
Cash and cash equivalents	\$ 586,691	\$ 383,489	\$ 380,446	\$ 438,820	\$ 393,421
Restricted investments	\$ 3,396	\$ 3,400	\$ 141,250	\$ 53,000	\$ 77,850
Total assets	\$7,383,086	\$7,322,206	\$ 7,527,075	\$1,687,231	\$ 1,650,147
Long-term debt, net of current portion	\$3,021,763	\$3,063,281	\$ 2,820,781	\$1,271,699	\$ 1,059,868
Stockholders’ equity (deficit)(3)	\$ 207,636	\$ 95,522	\$ 75,875	\$ (792,737)	\$ (389,071)

- (1) The 2009 and 2008 results and balances reflect the adoption of ASU 2009-15, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing*.
- (2) The 2008 results and balances reflect the results and balances of XM Satellite Radio Holdings Inc. from the date of the Merger and a \$4,766,190 goodwill impairment charge.
- (3) No cash dividends were declared or paid in any of the periods presented.

Quantitative and Qualitative Disclosure About Market Risks

As of December 31, 2010, we did not have any derivative financial instruments. We do not hold or issue any free-standing derivatives. We hold investments in marketable securities consisting of money market funds, and we also hold certificates of deposit and investments in debt and equity securities of other entities. We classify our investments in marketable securities as available-for-sale. These securities are consistent with the investment objectives contained within our investment policy. The basic objectives of our investment policy are the preservation of capital, maintaining sufficient liquidity to meet operating requirements and maximizing yield.

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

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Sirius XM Radio Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity (deficit) and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2010. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule listed in Item 15(2). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sirius XM Radio Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sirius XM Radio Inc. and subsidiaries' internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 16, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

As discussed in Note 3 to the consolidated financial statements, Sirius XM Radio Inc. changed its method of accounting for share lending arrangements on January 1, 2010.

/s/ KPMG LLP

New York, New York
February 16, 2011

Report of Independent Registered Public Accounting Firm

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

We have audited Sirius XM Radio Inc. and subsidiaries' internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Sirius XM Radio Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Sirius XM Radio Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sirius XM Radio Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity (deficit) and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated February 16, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York
February 16, 2011

SIRIUS XM RADIO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,		
	2010	2009	2008
(In thousands, except per share data)			
Revenue:			
Subscriber revenue	\$2,414,174	\$2,287,503	\$ 1,548,919
Advertising revenue, net of agency fees	64,517	51,754	47,190
Equipment revenue	71,355	50,352	56,001
Other revenue	<u>266,946</u>	<u>83,029</u>	<u>11,882</u>
Total revenue	2,816,992	2,472,638	1,663,992
Operating expenses:			
Cost of services:			
Revenue share and royalties	435,410	397,210	280,852
Programming and content	305,914	308,121	312,189
Customer service and billing	241,680	234,456	165,036
Satellite and transmission	80,947	84,033	59,279
Cost of equipment	35,281	40,188	46,091
Subscriber acquisition costs	413,041	340,506	371,343
Sales and marketing	215,454	228,956	231,937
Engineering, design and development	45,390	41,031	40,496
General and administrative	240,970	227,554	213,142
Impairment of goodwill	—	—	4,766,190
Depreciation and amortization	273,691	309,450	203,752
Restructuring, impairments and related costs	<u>63,800</u>	<u>32,807</u>	<u>10,434</u>
Total operating expenses	<u>2,351,578</u>	<u>2,244,312</u>	<u>6,700,741</u>
Income (loss) from operations	465,414	228,326	(5,036,749)
Other income (expense):			
Interest expense, net of amounts capitalized	(295,643)	(315,668)	(148,455)
Loss on extinguishment of debt and credit facilities, net	(120,120)	(267,646)	(98,203)
Interest and investment (loss) income	(5,375)	5,576	(21,428)
Other income (loss)	<u>3,399</u>	<u>3,355</u>	<u>(9,599)</u>
Total other expense	<u>(417,739)</u>	<u>(574,383)</u>	<u>(277,685)</u>
Income (loss) before income taxes	47,675	(346,057)	(5,314,434)
Income tax expense	<u>(4,620)</u>	<u>(5,981)</u>	<u>(2,476)</u>
Net income (loss)	43,055	(352,038)	(5,316,910)
Preferred stock beneficial conversion feature	—	(186,188)	—
Net income (loss) attributable to common stockholders	<u>\$ 43,055</u>	<u>\$ (538,226)</u>	<u>\$ (5,316,910)</u>
Net income (loss) per common share:			
Basic	<u>\$ 0.01</u>	<u>\$ (0.15)</u>	<u>\$ (2.45)</u>
Diluted	<u>\$ 0.01</u>	<u>\$ (0.15)</u>	<u>\$ (2.45)</u>
Weighted average common shares outstanding:			
Basic	<u>3,693,259</u>	<u>3,585,864</u>	<u>2,169,489</u>
Diluted	<u>6,391,071</u>	<u>3,585,864</u>	<u>2,169,489</u>

See accompanying notes to the consolidated financial statements.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2010	2009
(In thousands, except share and per share data)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 586,691	\$ 383,489
Accounts receivable, net	121,658	113,580
Receivables from distributors	67,576	48,738
Inventory, net	21,918	16,193
Prepaid expenses	134,994	100,273
Related party current assets	6,719	106,247
Deferred tax asset	44,787	72,640
Other current assets	7,432	18,620
Total current assets	991,775	859,780
Property and equipment, net	1,761,274	1,711,003
Long-term restricted investments	3,396	3,400
Deferred financing fees, net	54,135	66,407
Intangible assets, net	2,629,200	2,695,115
Goodwill	1,834,856	1,834,856
Related party long-term assets	30,162	111,767
Other long-term assets	78,288	39,878
Total assets	\$ 7,383,086	\$ 7,322,206
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 593,174	\$ 543,686
Accrued interest	72,453	74,566
Current portion of deferred revenue	1,201,346	1,083,430
Current portion of deferred credit on executory contracts	271,076	252,831
Current maturities of long-term debt	195,815	13,882
Related party current liabilities	15,845	108,246
Total current liabilities	2,349,709	2,076,641
Deferred revenue	273,973	255,149
Deferred credit on executory contracts	508,012	784,078
Long-term debt	2,695,856	2,799,702
Long-term related party debt	325,907	263,579
Deferred tax liability	914,637	940,182
Related party long-term liabilities	24,517	46,301
Other long-term liabilities	82,839	61,052
Total liabilities	7,175,450	7,226,684
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, par value \$0.001; 50,000,000 authorized at December 31, 2010 and 2009:		
Series A convertible preferred stock (liquidation preference of \$0 at December 31, 2010 and \$51,370 at December 31, 2009); no shares issued and outstanding at December 31, 2010 and 24,808,959 shares issued and outstanding at December 31, 2009	—	25
Convertible perpetual preferred stock, series B (liquidation preference of \$13 at December 31, 2010 and 2009); 12,500,000 shares issued and outstanding at December 31, 2010 and 2009	13	13
Convertible preferred stock, series C junior; no shares issued and outstanding at December 31, 2010 and 2009, respectively	—	—
Common stock, par value \$0.001; 9,000,000,000 shares authorized at December 31, 2010 and 2009; 3,933,195,112 and 3,882,659,087 shares issued and outstanding at December 31, 2010 and 2009, respectively	3,933	3,882
Accumulated other comprehensive loss, net of tax	(5,861)	(6,581)
Additional paid-in capital	10,420,604	10,352,291
Accumulated deficit	(10,211,053)	(10,254,108)
Total stockholders' equity	207,636	95,522
Total liabilities and stockholders' equity	\$ 7,383,086	\$ 7,322,206

See accompanying notes to the consolidated financial statements.

SIRIUS XM RADIO INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
AND COMPREHENSIVE INCOME (LOSS)**

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Common Stock		Accumulated Other Comprehensive Loss	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount				
(In thousands, except share and per share data)										
Balance at January 1, 2008	—	\$—	—	\$—	1,471,143,570	\$1,471	\$ —	\$ 3,604,764	\$ (4,398,972)	\$ (792,737)
Net loss	—	—	—	—	—	—	—	—	(5,316,910)	(5,316,910)
Other comprehensive loss:										
Unrealized loss on available-for-sale securities	—	—	—	—	—	—	(1,040)	—	—	(1,040)
Foreign currency translation adjustment, net of tax of \$137	—	—	—	—	—	—	(6,831)	—	—	(6,831)
Total comprehensive loss	—	—	—	—	—	—	—	—	—	(5,324,781)
Common stock issued to XM Satellite Radio Holdings stockholders	—	—	—	—	1,440,858,219	1,441	—	5,459,412	—	5,460,853
Restricted common stock issued to XM Satellite Radio Holdings stockholders	—	—	—	—	29,739,201	30	—	66,598	—	66,628
Issuance of common stock to employees and employee benefit plans, net of forfeitures	—	—	—	—	5,091,274	5	—	10,841	—	10,846
Issuance of common stock under share borrow agreements	—	—	—	—	262,399,983	262	—	—	—	262
Series A convertible preferred stock issued to XM Satellite Radio Holdings stockholders	24,808,959	25	—	—	—	—	—	47,070	—	47,095
Compensation in connection with the issuance of stock-based awards	—	—	—	—	—	—	—	83,610	—	83,610
Conversion of XM Satellite Radio Holdings vested stock-based awards	—	—	—	—	—	—	—	94,616	—	94,616
Conversion of XM Satellite Radio Holdings outstanding warrants	—	—	—	—	—	—	—	115,784	—	115,784
Exercise of options	—	—	—	—	117,442	—	—	208	—	208
Exercise of warrants	—	—	—	—	899,836	1	—	(1)	—	—
Exercise of XM Satellite Radio Holdings outstanding warrants	—	—	—	—	17,173,644	17	—	(17)	—	—
Exchange of 3.5% Convertible Notes due 2008, including accrued interest	—	—	—	—	24,131,155	24	—	33,478	—	33,502
Exchange of 2.5% Convertible Notes due 2009, including accrued interest	—	—	—	—	400,211,513	401	—	208,712	—	209,113
Restricted shares withheld for taxes upon vesting	—	—	—	—	—	—	—	(84)	—	(84)
Adoption of ASU 2009-15 (Refer to Note 3)	—	—	—	—	—	—	—	70,960	—	70,960
Balance at December 31, 2008	24,808,959	\$25	—	\$—	3,651,765,837	\$3,652	\$(7,871)	\$ 9,795,951	\$ (9,715,882)	\$ 75,875
Net loss	—	—	—	—	—	—	—	—	(352,038)	(352,038)
Other comprehensive loss:										
Unrealized gain on available-for-sale securities	—	—	—	—	—	—	473	—	—	473
Foreign currency translation adjustment, net of tax of \$110	—	—	—	—	—	—	817	—	—	817
Total comprehensive loss	—	—	—	—	—	—	—	—	—	(350,748)
Issuance of preferred stock — related party, net of issuance costs	—	—	12,500,000	13	—	—	—	410,179	(186,188)	224,004
Issuance of common stock to employees and employee benefit plans, net of forfeitures	—	—	—	—	8,511,009	8	—	2,622	—	2,630
Structuring fee on 10% Senior PIK Secured Notes due 2011	—	—	—	—	59,178,819	59	—	5,859	—	5,918
Share-based payment expense	—	—	—	—	—	—	—	71,388	—	71,388
Returned shares under share borrow agreements	—	—	—	—	(60,000,000)	(60)	—	60	—	—
Issuance of restricted stock units in satisfaction of accrued compensation	—	—	—	—	83,803,422	84	—	31,207	—	31,291
Exchange of 2.5% Convertible Notes due 2009, including accrued interest	—	—	—	—	139,400,000	139	—	35,025	—	35,164
Balance at December 31, 2009	24,808,959	\$25	12,500,000	\$13	3,882,659,087	\$3,882	\$(6,581)	\$10,352,291	\$(10,254,108)	\$ 95,522

See accompanying notes to the consolidated financial statements.

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

	Series A Convertible Preferred Stock		Convertible Perpetual Preferred Stock, Series B		Common Stock		Accumulated Other Comprehensive Loss	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount				
<i>(In thousands, except share and per share data)</i>										
Balance at December 31, 2009	24,808,959	\$ 25	12,500,000	\$13	3,882,659,087	\$3,882	\$(6,581)	\$10,352,291	\$(10,254,108)	\$ 95,522
Net income									43,055	43,055
Other comprehensive income:										
Unrealized gain on available-for-sale securities	—	—	—	—	—	—	469	—	—	469
Foreign currency translation adjustment, net of tax of \$63	—	—	—	—	—	—	251	—	—	251
Total comprehensive income	—	—	—	—	—	—	—	—	—	43,775
Issuance of common stock to employees and employee benefit plans, net of forfeitures	—	—	—	—	6,175,089	6	—	5,265	—	5,271
Share-based payment expense	—	—	—	—	—	—	—	52,229	—	52,229
Exercise of options and vesting of restricted stock units	—	—	—	—	19,551,977	20	—	10,819	—	10,839
Conversion of preferred stock to common stock	(24,808,959)	(25)	—	—	24,808,959	25	—	—	—	—
Balance at December 31, 2010	<u>—</u>	<u>\$ —</u>	<u>12,500,000</u>	<u>\$13</u>	<u>3,933,195,112</u>	<u>\$3,933</u>	<u>\$(5,861)</u>	<u>\$10,420,604</u>	<u>\$(10,211,053)</u>	<u>\$207,636</u>

See accompanying notes to the consolidated financial statements.

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

	For the Years Ended December 31,		
	2010	2009	2008
(In thousands)			
Cash flows from operating activities:			
Net income (loss)	\$ 43,055	\$(352,038)	\$(5,316,910)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	273,691	309,450	203,752
Impairment of goodwill	—	—	4,766,190
Non-cash interest expense, net of amortization of premium	42,841	43,066	(2,689)
Provision for doubtful accounts	32,379	30,602	21,589
Restructuring, impairments and related costs	66,731	26,964	—
Amortization of deferred income related to equity method investment	(2,776)	(2,776)	(1,156)
Loss on extinguishment of debt and credit facilities, net	120,120	267,646	98,203
Loss on investments, net	11,722	13,664	28,999
Loss on disposal of assets	1,017	—	4,879
Share-based payment expense	60,437	73,981	87,405
Deferred income taxes	2,308	5,981	2,476
Other non-cash purchase price adjustments	(250,727)	(202,054)	(68,330)
Other	—	—	1,643
Changes in operating assets and liabilities:			
Accounts receivable	(39,236)	(42,158)	(32,121)
Receivables from distributors	(11,023)	(2,788)	14,401
Inventory	(5,725)	8,269	8,291
Related party assets	(9,803)	15,305	(22,249)
Prepaid expenses and other current assets	75,374	10,027	(19,953)
Other long-term assets	17,671	86,674	(5,490)
Accounts payable and accrued expenses	5,420	(46,645)	(83,037)
Accrued interest	(884)	2,429	23,081
Deferred revenue	133,444	93,578	79,090
Related party liabilities	(53,413)	50,172	28,890
Other long-term liabilities	272	44,481	30,249
Net cash provided by (used in) operating activities	<u>512,895</u>	<u>433,830</u>	<u>(152,797)</u>
Cash flows from investing activities:			
Additions to property and equipment	(311,868)	(248,511)	(130,551)
Sales of property and equipment	—	—	105
Purchases of restricted and other investments	—	—	(3,000)
Acquisition of acquired entity cash	—	—	819,521
Merger related costs	—	—	(23,519)
Sale of restricted and other investments	9,454	—	65,869
Net cash (used in) provided by investing activities	<u>(302,414)</u>	<u>(248,511)</u>	<u>728,425</u>
Cash flows from financing activities:			
Proceeds from exercise of warrants and stock options	10,839	—	471
Preferred stock issuance, net of costs	—	(3,712)	—
Long-term borrowings, net of costs	1,274,707	582,612	531,743
Related party long-term borrowings, net of costs	196,118	362,593	—
Payment of premiums on redemption of debt	(84,326)	(17,075)	(18,693)
Payments to noncontrolling interest	—	—	(61,880)
Repayment of long-term borrowings	(1,262,396)	(755,447)	(1,085,643)
Repayment of related party long-term borrowings	(142,221)	(351,247)	—
Net cash used in financing activities	<u>(7,279)</u>	<u>(182,276)</u>	<u>(634,002)</u>
Net increase (decrease) in cash and cash equivalents	203,202	3,043	(58,374)
Cash and cash equivalents at beginning of period	383,489	380,446	438,820
Cash and cash equivalents at end of period	<u>\$ 586,691</u>	<u>\$ 383,489</u>	<u>\$ 380,446</u>

See accompanying notes to the consolidated financial statements.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	<u>For the Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
(In thousands)			
Supplemental Disclosure of Cash and Non-Cash Flow Information			
Cash paid during the period for:			
Interest, net of amounts capitalized	\$241,160	\$257,328	\$ 137,542
Non-cash investing and financing activities:			
Share-based payments in satisfaction of accrued compensation	—	31,291	8,729
Common stock issued in exchange of 3.5% Convertible Notes due 2008, including accrued interest	—	—	33,502
Common stock issued in exchange of 2.5% Convertible Notes due 2009, including accrued interest	—	18,000	209,113
Structuring fee on 10% Senior PIK Secured Notes due 2011.	—	5,918	—
Preferred stock issued to Liberty Media	—	227,716	—
Release of restricted investments.	—	137,850	—
Equity issued in the acquisition of XM	—	—	5,784,976
In-orbit satellite performance incentives	21,450	14,905	—
Sale-leaseback of equipment	5,305	—	—
Conversion of Series A preferred stock to common stock	25	—	—

See accompanying notes to the consolidated financial statements.

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

(1) Business

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

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

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

(2) Principles of Consolidation and Basis of Presentation

Principles of Consolidation

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

Basis of Presentation

In the opinion of management, all normal recurring adjustments necessary for a fair presentation of our consolidated financial statements as of December 31, 2010 and 2009, and for the years ended December 31, 2010, 2009 and 2008 have been made.

Although the effective date of the Merger was July 28, 2008, due to the immateriality of the results of operations for the period between July 28 and July 31, 2008, we have accounted for the Merger as if it had occurred on July 31, 2008 with the results and balances of XM Holdings included as of July 31, 2008. We accounted for the Merger as an acquisition of XM Holdings under the purchase method of accounting for business combinations. The acquisition cost approximated \$5,836,363, including transaction costs, and was allocated to the underlying net assets acquired, based on the respective estimated fair values. This allocation included intangible assets, such as FCC licenses, customer relationships, license agreements and trademarks. The excess of the purchase price over the estimated fair values of the net assets acquired was recorded as goodwill. Because the Merger was consummated on July 28, 2008, the accompanying financial statements and notes for periods prior to that date reflect only the financial results of Sirius Satellite Radio Inc., as predecessor to Sirius XM Radio Inc., and are therefore not comparable to our financial results for 2010, 2009 and the fourth quarter of 2008.

We have evaluated events subsequent to the balance sheet date and prior to the filing of this Annual Report for the year ended December 31, 2010 and have determined no events have occurred that would require adjustment to our consolidated financial statements. For a discussion of subsequent events refer to Note 16.

Reclassifications

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

SIRIUS XM RADIO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(3) Summary of Significant Accounting Policies

Use of Estimates

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

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

Recent Accounting Pronouncements

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

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

The following table reflects the adoption of ASU 2009-15 on our statement of operations for the years ended December 31, 2009 and 2008:

	<u>For the Year Ended December 31, 2009</u>			<u>For the Year Ended December 31, 2008</u>		
	<u>As Originally Reported</u>	<u>Retrospective Adjustments</u>	<u>As Currently Reported</u>	<u>As Originally Reported</u>	<u>Retrospective Adjustments</u>	<u>As Currently Reported</u>
Statement of Operations Line Item:						
Interest expense, net of amounts capitalized	\$(306,420)	\$(9,248)	\$(315,668)	\$ (144,833)	\$(3,622)	\$ (148,455)
Net loss attributable to common stockholders	(528,978)	(9,248)	(538,226)	(5,313,288)	(3,622)	(5,316,910)

For the year ended December 31, 2010, we recorded \$10,095, in interest expense related to the amortization of the costs associated with the share-lending arrangement and other issuance costs. 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,

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

and \$1,025 recorded in long-term related party assets. As of December 31, 2010 and 2009, the estimated fair value of the remaining 202,400,000 loaned shares was approximately \$329,912 and \$121,440, respectively.

Revenue Recognition

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

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

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

Activation fees are recognized ratably over the estimated term of a subscriber relationship, estimated to be approximately 3.5 years during 2010. The estimated term of a subscriber relationship is based on historical experience.

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

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

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

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

Programming Costs

Programming costs which are for a specified number of events are amortized on an event-by-event basis; programming costs which are for a specified season or period are amortized over the season or period on a straight-

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

line basis. We allocate a portion of certain programming costs which are related to sponsorship and marketing activities to sales and marketing expenses on a straight-line basis over the term of the agreement.

Advertising Costs

Media is expensed when aired and advertising production costs are expensed as incurred. Market development funds consist of fixed and variable payments to reimburse retailers for the cost of advertising and other product awareness activities. Fixed market development funds are expensed over the periods specified in the applicable agreement; variable costs are expensed when aired and production costs are expensed as incurred. During the years ended December 31, 2010, 2009 and 2008, we recorded advertising costs of \$110,050, \$128,784 and \$109,253, respectively. These costs are reflected in Sales and marketing expense in our consolidated statements of operations.

Stock-Based Compensation

We account for equity instruments granted to employees in accordance with ASC 718, *Compensation — Stock Compensation*. ASC 718 requires all share-based compensation payments to be recognized in the financial statements based on fair value. ASC 718 requires forfeitures to be estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from initial estimates. We use the Black-Scholes-Merton option-pricing model to value stock option awards and have elected to treat awards with graded vesting as a single award. Share-based compensation expense is recognized ratably over the requisite service period, which is generally the vesting period, net of forfeitures. We measure non-vested stock awards using the fair market value of restricted shares of common stock on the day the award is granted.

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

Equity instruments granted to non-employees are accounted for in accordance with ASC 505, *Equity*. The final measurement date for the fair value of equity instruments with performance criteria is the date that each performance commitment for such equity instrument is satisfied or there is a significant disincentive for non-performance.

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

Subscriber Acquisition Costs

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

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

We record product warranty obligations in accordance with ASC 460, *Guarantees*, which requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee. We warrant that certain products sold through our retail and direct to consumer distribution channels will perform in all material respects in accordance with specifications in effect at the time of the purchase of the products by the customer. The product warranty period on our products is 90 days from the purchase date for repair or replacement of components and/or products that contain defects of material or workmanship. We record a liability for costs that we expect to incur under our warranty obligations when the product is shipped from the manufacturer. Factors affecting the warranty liability include the number of units sold and historical and anticipated rates of claims and costs per claim. We periodically assess the adequacy of our warranty liability based on changes in these factors.

Research & Development Costs

Research and development costs are expensed as incurred and primarily include the cost of new product development, chip set design, software development and engineering. During the years ended December 31, 2010, 2009 and 2008, we recorded research and development costs of \$40,043, \$38,852 and \$41,362, respectively. These costs are reported as a component of Engineering, design and development expense in our consolidated statements of operations.

Income Taxes

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

ASC 740, *Income Taxes*, requires a company to first determine whether it is more-likely-than-not that a tax position will be sustained based on its technical merits as of the reporting date, assuming that taxing authorities will examine the position and have full knowledge of all relevant information. A tax position that meets this more-likely-than-not threshold is then measured and recognized at the largest amount of benefit that is greater than fifty percent likely to be realized upon effective settlement with a taxing authority. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We record interest and penalties related to uncertain tax positions in income tax expense, net of amounts capitalized, in our consolidated statement of operations.

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

Earnings per Share (“EPS”)

Basic net income (loss) per common share is calculated using the weighted average common shares outstanding during each reporting period. Diluted net income (loss) per common share adjusts the weighted average common shares outstanding for the potential dilution that could occur if common stock equivalents (convertible debt and preferred stock, warrants, stock options, restricted stock and restricted stock units) were

SIRIUS XM RADIO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

exercised or converted into common stock, calculated using the treasury stock method. For the year ended December 31, 2010, common stock equivalents of approximately 689,922,000 were excluded from the calculation of diluted net income per common share as the effect would have been anti-dilutive. Due to the net loss for the years ended December 31, 2009 and 2008, common stock equivalents of approximately 3,381,905,000 and 787,000,000, respectively, were excluded from the calculation of diluted net loss per common share as the effect would have been anti-dilutive.

<i>(In thousands, except per share data)</i>	Years Ended December 31,		
	2010	2009	2008
Net income (loss)	\$ 43,055	\$ (352,038)	\$(5,316,910)
Preferred stock beneficial conversion feature	—	(186,188)	—
Net income (loss) per common share:	<u>\$ 43,055</u>	<u>\$ (538,226)</u>	<u>\$(5,316,910)</u>
Average common shares outstanding-basic	3,693,259	3,585,864	2,169,489
Dilutive effect of equity awards	2,697,812	—	—
Average common shares outstanding-diluted	<u>6,391,071</u>	<u>3,585,864</u>	<u>2,169,489</u>
Net income (loss) per common share			
Basic	<u>\$ 0.01</u>	<u>\$ (0.15)</u>	<u>\$ (2.45)</u>
Diluted	<u>\$ 0.01</u>	<u>\$ (0.15)</u>	<u>\$ (2.45)</u>

Cash and Cash Equivalents

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

Accounts Receivable

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

Accounts receivable, net, consists of the following:

	December 31, 2010	December 31, 2009
Gross accounts receivable	\$131,880	\$122,247
Allowance for doubtful accounts	(10,222)	(8,667)
Total accounts receivable, net	<u>\$121,658</u>	<u>\$113,580</u>

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:

	December 31, 2010	December 31, 2009
Billed	\$30,456	\$25,207
Unbilled	37,120	23,531
Total	<u>\$67,576</u>	<u>\$48,738</u>

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Inventory

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

Inventory, net, consists of the following:

	December 31, 2010	December 31, 2009
Raw materials	\$ 18,181	\$ 17,370
Finished goods	24,492	19,704
Allowance for obsolescence	<u>(20,755)</u>	<u>(20,881)</u>
Total inventory, net.	<u>\$ 21,918</u>	<u>\$ 16,193</u>

Investments

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

We received proceeds from the sale or maturity of marketable securities of \$9,456, \$0 and \$5,469 for the years ended December 31, 2010, 2009 and 2008, respectively. We recorded \$425 of realized gains on marketable securities for the year ended December 31, 2010 and \$473 of net unrealized gains on marketable securities for the year ended December 31, 2009.

Restricted Investments — Restricted investments consist of letters of credit, certificates of deposit, money market funds and interest-bearing accounts which are restricted as to their withdrawal. We received proceeds from the release of restricted investments of \$60,400 for the year ended December 31, 2008.

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

Cost Method Investments — Investments in equity securities that do not have readily determinable fair values and in which we do not have a controlling interest or are unable to exert significant influence are recorded at cost.

SIRIUS XM RADIO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

Property and Equipment

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

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

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

Goodwill and Other Intangible Assets

Goodwill represents the 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 of our single reporting unit is performed as of October 1st 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. Step one of the impairment assessment compares the fair value of the entity to its carrying value and if the fair value exceeds its carrying value, goodwill is not impaired. If the carrying value exceeds the fair value, the implied fair value of goodwill is compared to the carrying value of goodwill. If the implied fair value exceeds the carrying value then goodwill is not impaired; otherwise, an impairment loss will be recorded by the amount the carrying value exceeds the implied fair value.

The impairment test for other intangible assets not subject to amortization consists of a comparison of the fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

SIRIUS XM RADIO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We use independent appraisals to assist in determining the fair value of our FCC licenses. The income approach, which is commonly called the “Jefferson Pilot Method” or the “Greenfield Method”, has been consistently used to estimate the fair value. This method attempts to isolate the income that is properly attributable to the license alone (that is, apart from tangible and intangible assets and goodwill). It is based upon modeling a hypothetical “Greenfield” build-up to a normalized enterprise that, by design, lacks inherent goodwill and has essentially purchased (or added) all other assets as part of the build-up process. The methodology assumes that, rather than acquiring such an operation as a going concern, the buyer would hypothetically obtain a license at nominal cost and build a new operation with similar attributes from inception. The significant assumption was that the hypothetical start up entity would begin its network build out phase at the impairment testing date and revenues and variable costs would not be generated until the satellite network was operational, approximately five years from inception.

Other intangible assets with finite lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment under the provisions of ASC 360-10-35, *Property, Plant and Equipment/Overall/Subsequent Measurement*. We review intangible assets subject to amortization for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected cash flows, undiscounted and without interest, is less than the carrying amount of the asset, an impairment loss is recognized as the amount by which the carrying amount of the asset exceeds its fair value.

Fair Value of Financial Instruments

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

The fair value for publicly traded instruments is determined using quoted market prices while the fair value for non-publicly traded instruments is based upon estimates from a market maker and brokerage firm. As of December 31, 2010 and 2009, the carrying value of our debt was \$3,217,578 and \$3,077,163, respectively; and the fair value approximated \$3,722,905 and \$3,195,375, respectively.

(4) Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of net tangible and identifiable intangible assets acquired in business combinations. Our annual impairment assessment is performed as of October 1st 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. At October 1, 2010 and December 31, 2010, the fair value of our single reporting unit substantially exceeded its carrying value and therefore was not at risk of failing step one of ASC 350-20, *Goodwill* (“ASC 350-20”). As a result, there were no changes in the carrying value of our goodwill during the years ended December 31, 2010 and 2009. During 2008, we recorded goodwill in the amount of \$6,601,046 and we recorded an impairment charge of \$4,766,190.

SIRIUS XM RADIO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(5) Intangible Assets

Intangible assets consisted of the following:

	Weighted Average Useful Lives	December 31, 2010			December 31, 2009		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Indefinite life intangible assets:							
FCC licenses	Indefinite	\$2,083,654	\$ —	\$2,083,654	\$2,083,654	\$ —	\$2,083,654
Trademark	Indefinite	250,000	—	250,000	250,000	—	250,000
Definite life intangible assets:							
Subscriber relationships	9 years	380,000	(144,325)	235,675	380,000	(91,186)	288,814
Licensing agreements	9.1 years	75,000	(23,721)	51,279	75,000	(13,906)	61,094
Proprietary software	6 years	16,552	(9,566)	6,986	16,552	(6,823)	9,729
Developed technology	10 years	2,000	(483)	1,517	2,000	(283)	1,717
Leasehold interests	7.4 years	132	(43)	89	132	(25)	107
Total intangible assets		<u>\$2,807,338</u>	<u>\$(178,138)</u>	<u>\$2,629,200</u>	<u>\$2,807,338</u>	<u>\$(112,223)</u>	<u>\$2,695,115</u>

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:

<u>FCC License</u>	<u>Expiration Year</u>
SIRIUS FM-1 satellite	2017
SIRIUS FM-2 satellite	2017
SIRIUS FM-3 satellite	2017
SIRIUS FM-4 ground spare satellite	2017
SIRIUS FM-5 satellite	2017
XM-1 satellite	2014
XM-2 satellite	2014
XM-3 satellite	2013
XM-4 satellite	2014
XM-5 satellite	2018

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.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In connection with the Merger, \$250,000 of the purchase price was allocated to the XM trademark. As of December 31, 2010, 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. At October 1, 2010 and December 31, 2010, the fair value of our indefinite intangible assets substantially exceeded its carrying value and therefore was not at risk of impairment.

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 \$65,915, \$76,587 and \$35,789 for the years ended December 31, 2010, 2009 and 2008, respectively. Expected amortization expense for each of the fiscal years through December 31, 2015 and for periods thereafter is as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2011	\$ 58,850
2012	53,420
2013	47,097
2014	38,619
2015	37,293
Thereafter	<u>60,267</u>
Total definite life intangibles assets, net	<u><u>\$295,546</u></u>

(6) Subscriber Revenue

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

Subscriber revenue consists of the following:

	<u>For the Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Subscription fees	\$2,398,790	\$2,266,809	\$1,529,726
Activation fees	16,028	21,837	23,025
Effect of rebates	<u>(644)</u>	<u>(1,143)</u>	<u>(3,832)</u>
Total subscriber revenue	<u><u>\$2,414,174</u></u>	<u><u>\$2,287,503</u></u>	<u><u>\$1,548,919</u></u>

SIRIUS XM RADIO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(7) Interest Costs

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

	<u>For the Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Interest costs charged to expense	\$295,643	\$315,668	\$148,455
Interest costs capitalized	<u>63,880</u>	<u>61,201</u>	<u>20,872</u>
Total interest costs incurred	<u>\$359,523</u>	<u>\$376,869</u>	<u>\$169,327</u>

Included in interest costs incurred is non-cash interest expense, consisting of amortization related to original issue discounts, premiums and deferred financing fees of \$42,841, \$43,066 and \$(2,689) for the years ended December 31, 2010, 2009 and 2008, respectively.

(8) Property and Equipment

Property and equipment, net, consists of the following:

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Satellite system	\$ 1,943,537	\$1,680,732
Terrestrial repeater network	109,582	108,841
Leasehold improvements	43,567	43,480
Broadcast studio equipment	51,985	49,965
Capitalized software and hardware	163,689	146,035
Satellite telemetry, tracking and control facilities	57,665	55,965
Furniture, fixtures, equipment and other	63,265	57,536
Land	38,411	38,411
Building	56,685	56,424
Construction in progress	<u>297,771</u>	<u>430,543</u>
Total property and equipment	2,826,157	2,667,932
Accumulated depreciation and amortization	<u>(1,064,883)</u>	<u>(956,929)</u>
Property and equipment, net	<u>\$ 1,761,274</u>	<u>\$1,711,003</u>

Construction in progress consists of the following:

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Satellite system	\$262,744	\$398,425
Terrestrial repeater network	19,239	19,396
Other	<u>15,788</u>	<u>12,722</u>
Construction in progress	<u>\$297,771</u>	<u>\$430,543</u>

Depreciation and amortization expense on property and equipment was \$207,367, \$232,863 and \$167,963 for the years ended December 31, 2010, 2009 and 2008, respectively. We retired property and equipment, which included our SIRIUS FM-4 satellite, with a cost basis of \$155,000 during the year ended December 31, 2010.

SIRIUS XM RADIO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Satellites

We own four orbiting satellites and one spare satellite, FM-4, for use in the SIRIUS system. These satellites are of the Loral FS-1300 model series. Space Systems/Loral is constructing a sixth satellite for use in this system. We have an agreement with International Launch Services to launch this satellite on a Proton rocket.

During the fourth quarter of 2010, we recorded an other than temporary impairment charge of \$56,100 to Restructuring, impairments, and related costs in the statement of operations for FM-4, a ground spare satellite held in storage since 2002. We determined that the probability of launching FM-4 is remote due to the launch of XM-5 in the fourth quarter of 2010 and our business plan.

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

During the year ended December 31, 2010, we capitalized interest of \$63,880 and expenditures of \$184,727 related to the construction of our satellites and related launch vehicles for FM-6 and XM-5.

(9) Related Party Transactions

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

	Related party Current Assets		Related Party Long-Term Assets		Related Party Current Liabilities		Related Party Long-Term Liabilities		Related Party Long-Term Debt	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Liberty Media	\$ —	\$ —	\$ 1,571	\$ 1,974	\$ 9,765	\$ 8,523	\$ —	\$ —	\$325,907	\$263,579
SIRIUS Canada	5,613	2,327	—	—	1,805	—	—	—	—	—
XM Canada	1,106	1,011	28,591	24,429	4,275	2,775	24,517	28,793	—	—
General Motors	—	99,995	—	85,364	—	93,107	—	17,508	—	—
American Honda	—	2,914	—	—	—	3,841	—	—	—	—
Total	<u>\$6,719</u>	<u>\$106,247</u>	<u>\$30,162</u>	<u>\$111,767</u>	<u>\$15,845</u>	<u>\$108,246</u>	<u>\$24,517</u>	<u>\$46,301</u>	<u>\$325,907</u>	<u>\$263,579</u>

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

Liberty Media

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

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

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

Loan Investments

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

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

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

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

	December 31, 2010	December 31, 2009
9.625% Senior Notes due 2013	\$ —	\$ 55,221
8.75% Senior Notes due 2015	150,000	—
9.75% Senior Secured Notes due 2015	50,000	50,000
11.25% Senior Secured Notes due 2013	—	87,000
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	—
Total principal debt	337,000	279,221
Less: discounts	11,093	15,642
Total carrying value debt	\$325,907	\$263,579

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

As of December 31, 2010 and 2009, we recorded \$9,765 and \$8,523, respectively, related to accrued interest with Liberty Media to Related party current liabilities. We recognized Interest expense associated with debt held by Liberty Media of \$40,169 and \$79,640 for the years ended December 31, 2010 and 2009, respectively.

SIRIUS Canada

In 2005, we entered into a license and services agreement with SIRIUS Canada. Pursuant to such agreement, SIRIUS is reimbursed for certain costs incurred to provide SIRIUS Canada service, including certain costs incurred

SIRIUS XM RADIO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

for the production and distribution of radios, as well as information technology support costs. In consideration for the rights granted pursuant to this license and services agreement, we have the right to receive a royalty equal to a percentage of SIRIUS Canada’s gross revenues based on subscriber levels (ranging between 5% to 15%) and the number of Canadian-specific channels made available to SIRIUS Canada. Our investment in SIRIUS Canada is primarily non-voting shares which carry an 8% cumulative dividend.

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

	<u>For the Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Royalty income	\$10,684	\$5,797	\$1,309
Dividend income	<u>926</u>	<u>839</u>	<u>199</u>
Total revenue from SIRIUS Canada	<u>\$11,610</u>	<u>\$6,636</u>	<u>\$1,508</u>

Receivables from royalty and dividend income were utilized to absorb a portion of our share of net losses generated by SIRIUS Canada during the years ended December 31, 2010 and 2009. Total costs that have been or will be reimbursed by SIRIUS Canada for the years ended December 31, 2010, 2009 and 2008 were \$12,185, \$11,031 and \$14,973, respectively.

XM Canada

In 2005, XM entered into agreements to provide XM Canada with the right to offer XM satellite radio service in Canada. The agreements have an initial ten year term and XM Canada has the unilateral option to extend the agreements for an additional five years. We receive a 15% royalty for all subscriber fees earned by XM Canada each month for its basic service and an activation fee for each gross activation of an XM Canada subscriber on XM’s system. XM Canada is obligated to pay us a total of \$70,300 for the rights to broadcast and market National Hockey League (“NHL”) games for a 10-year term. We recognize these payments on a gross basis as a principal obligor pursuant to the provisions of ASC 605, *Revenue Recognition*. The estimated fair value of deferred revenue from XM Canada as of the Merger date was approximately \$34,000, which is amortized on a straight-line basis through 2020, the expected term of the agreements. As of December 31, 2010 and 2009, the carrying value of deferred revenue related to XM Canada was \$28,792 and \$31,568, respectively.

We have extended a Cdn\$45,000 standby credit facility to XM Canada, which can be utilized to purchase terrestrial repeaters or finance royalty and activation fees payable to us. The facility matures on December 31, 2012 and bears interest at 17.75% per annum. We have the right to convert unpaid principal amounts into Class A subordinate voting shares of XM Canada at the price of Cdn\$16.00 per share. As of December 31, 2010 and 2009, amounts drawn by XM Canada on this facility in lieu of payment of fees recorded in Related party long-term assets were \$21,390, net of a \$9,607 valuation allowance, and \$18,429, respectively. The December 31, 2010 valuation allowance of \$9,607 related to the absorption of our share of the net loss from our investment in XM Canada shares.

As of December 31, 2010 and 2009, amounts due from XM Canada also included \$7,201 and \$6,000, respectively, attributable to deferred programming costs and accrued interest (in addition to the amounts drawn on the standby credit facility), all of which is reported as Related party long-term assets.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	For the Years Ended December 31,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Amortization of XM Canada deferred income	\$ 2,776	\$ 2,776	\$1,156
Subscriber and activation fee royalties	10,313	11,603	97
Licensing fee revenue	4,500	6,000	2,500
Advertising reimbursements	<u>1,083</u>	<u>1,067</u>	<u>366</u>
Total revenue from XM Canada	<u>\$18,672</u>	<u>\$21,446</u>	<u>\$4,119</u>

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

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

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

SIRIUS XM RADIO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 Years Ended December 31,		
	2010*	2009	2008
GM	\$12,759	\$31,037	\$16,803
American Honda	<u>4,990</u>	<u>12,254</u>	<u>7,504</u>
Total	<u>\$17,749</u>	<u>\$43,291</u>	<u>\$24,307</u>

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

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

	For the Years Ended December 31,					
	2010*		2009		2008	
	GM	American Honda	GM	American Honda	GM	American Honda
Sales and marketing	\$13,374	\$ —	\$ 31,595	\$ 500	\$16,115	\$ 815
Revenue share and royalties	15,823	3,167	58,992	6,541	36,305	2,051
Subscriber acquisition costs	17,514	1,969	34,895	5,397	30,975	3,433
Customer service and billing	125	—	268	—	119	—
Interest expense, net of amounts capitalized	<u>1,421</u>	<u>—</u>	<u>4,644</u>	<u>—</u>	<u>51</u>	<u>—</u>
Total	<u>\$48,257</u>	<u>\$5,136</u>	<u>\$130,394</u>	<u>\$12,438</u>	<u>\$83,565</u>	<u>\$6,299</u>

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

(10) Investments

Our investments consist of the following:

	December 31, 2010	December 31, 2009
Investment in SIRIUS Canada	\$ —	\$ —
Investment in XM Canada	—	2,390
Investment in XM Canada debentures	3,313	2,970
Auction rate certificates	—	8,556
Restricted investments	<u>3,396</u>	<u>3,400</u>
Total investments	<u>\$6,709</u>	<u>\$17,316</u>

Canadian Entities

Our investments in SIRIUS Canada and XM Canada (the “Canadian Entities”) are recorded using the equity method since we have a significant influence, but do not control the Canadian Entities. Under this method, our investments in the Canadian Entities, originally recorded at cost, are adjusted quarterly to recognize our proportionate share of net earnings or losses as they occur, rather than at the time dividends or other distributions are received, limited to the extent of our investment in, advances to and commitments to fund the Canadian Entities. We have a 49.9% economic interest in SIRIUS Canada and a 21.54% economic interest in XM Canada.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

	<u>For the Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Share of SIRIUS Canada net loss	\$(10,257)	\$ (6,636)	\$ (4,745)
Payments received from SIRIUS Canada in excess of carrying value	10,281	13,738	—
Release of liability with SIRIUS Canada	—	1,351	—
Share of XM Canada net loss	(12,147)	(2,292)	(9,309)
Impairment of XM Canada	—	(4,734)	(16,453)
Realized gain on sale of auction rate certificates	425	—	—
Other	—	504	—
Total	<u>\$(11,698)</u>	<u>\$ 1,931</u>	<u>\$(30,507)</u>

In addition, during the years ended December 31, 2010 and 2009, we recorded \$149 and \$543, respectively, of a foreign exchange gain to Accumulated other comprehensive loss, net of tax, related to our investment in XM Canada.

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

Auction Rate Certificates

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

Restricted Investments

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

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(11) Debt

Our debt consists of the following:

	Conversion Price (per Share)	December 31, 2010	December 31, 2009
3.25% Convertible Notes due 2011(a)	\$ 5.30	\$ 191,979	\$ 230,000
Less: discount		(515)	(1,371)
Senior Secured Term Loan due 2012(b)	N/A	—	244,375
9.625% Senior Notes due 2013(c)	N/A	—	500,000
Less: discount		—	(3,341)
8.75% Senior Notes due 2015(d)	N/A	800,000	—
Less: discount		(12,213)	—
9.75% Senior Secured Notes due 2015(e)	N/A	257,000	257,000
Less: discount		(10,116)	(11,695)
10% Senior PIK Secured Notes due 2011(f)	N/A	—	113,685
Less: discount		—	(7,325)
11.25% Senior Secured Notes due 2013(g)	N/A	36,685	525,750
Less: discount		(1,705)	(32,259)
13% Senior Notes due 2013(h)	N/A	778,500	778,500
Less: discount		(59,592)	(76,601)
9.75% Senior Notes due 2014(i)	N/A	—	5,260
7% Exchangeable Senior Subordinated Notes due 2014(j)	\$1.875	550,000	550,000
Less: discount		(7,620)	(9,119)
7.625% Senior Notes due 2018(k)	N/A	700,000	—
Less: discount		(12,054)	—
Other debt:			
Capital leases	N/A	<u>7,229</u>	<u>14,304</u>
Total debt		3,217,578	3,077,163
Less: total current maturities non-related party		<u>195,815</u>	<u>13,882</u>
Total long-term		3,021,763	3,063,281
Less: related party		<u>325,907</u>	<u>263,579</u>
Total long-term, excluding related party		<u><u>\$2,695,856</u></u>	<u><u>\$2,799,702</u></u>

(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 December 2010, we purchased \$38,021 of the outstanding 3.25% Notes at a price of 100.25% of the principal amount plus accrued interest. We recorded an aggregate loss on extinguishment of the 3.25% Notes of \$209,

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

consisting primarily of unamortized discount, deferred financing fees and repayment of premium to Loss on extinguishment of debt and credit facilities, net, in our consolidated statement of operations.

In February 2011, we purchased \$94,148 of the outstanding 3.25% Notes at a price of 100.75%-100.94% of the principal amount plus accrued interest. We will recognize an aggregate loss on extinguishment of \$1,079 on the 3.25% Notes, which consists primarily of unamortized discount and deferred financing fees in the first quarter of 2011.

(b) Senior Secured Term Loan due 2012

In June 2007, we entered into a term credit agreement with a syndicate of financial institutions. The term credit agreement provided for a senior secured term loan (the "Senior Secured Term Loan") of \$250,000, which was fully drawn. On March 16, 2010, we used net proceeds of \$244,714 from the sale of our 8.75% Senior Notes due 2015 to repay the Senior Secured Term Loan, including accrued and unpaid interest of \$339. We recorded an aggregate loss on extinguishment on the Senior Secured Term Loan of \$2,450, consisting of deferred financing fees to Loss on extinguishment of debt and credit facilities, net, in our consolidated statements of operations.

(c) 9.625% Senior Notes due 2013

In August 2005, we issued \$500,000 in aggregate principal amount of 9.625% Senior Notes due 2013 (the "9.625% Notes"). In April 2010, we used net proceeds of \$534,091 from the issuance of our 8.75% Senior Notes due 2015 to redeem the 9.625% Notes, including accrued and unpaid interest of \$10,026 and a repayment premium of \$24,065. We recorded an aggregate loss on extinguishment on the 9.625% Notes of \$27,705, consisting primarily of unamortized discount, deferred financing fees and repayment premium to Loss on extinguishment of debt and credit facilities, net, in our consolidated statements of operations.

(d) 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.

(e) 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. In connection with the merger of XM Satellite Radio Inc. into us, we entered into a new collateral agreement relating to the 9.75% Notes which secures the 9.75% Notes with a lien on substantially all of our and the guarantors' assets.

(f) 10% Senior PIK Secured Notes due 2011

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

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(g) 11.25% Senior Secured Notes due 2013

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

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

The remainder of the 11.25% Notes of \$36,685 was purchased in January 2011 for an aggregate purchase price of \$40,376. A loss from extinguishment of debt of \$4,891 will be recorded in the first quarter of 2011.

(h) 13% Senior Notes due 2013

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

(i) 9.75% Senior Notes due 2014

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

(j) 7% Exchangeable Senior Subordinated Notes due 2014

In August 2008, XM issued \$550,000 aggregate principal amount of 7% Exchangeable Senior Subordinated Notes due 2014 (the “Exchangeable Notes”). The Exchangeable Notes are senior subordinated obligations 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.

(k) 7.625% Senior Notes due 2018

In October 2010, XM issued \$700,000 aggregate principal amount of 7.625% Senior Notes due 2018 (the “7.625% Senior Notes”). Interest is payable semi-annually in arrears on May 1 and November 1 of each year, commencing on May 1, 2011, at a rate of 7.625% per annum. A majority of the net proceeds were used to purchase

SIRIUS XM RADIO INC. AND SUBSIDIARIES
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\$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.

Expired Credit Arrangements

LM Term Loan and LM Purchase Money Loan

In February 2009, SIRIUS entered into a Credit Agreement (the “LM Credit Agreement”) with Liberty Media Corporation, as administrative agent and collateral agent. The LM Credit Agreement provided for a \$250,000 term loan (“LM Term Loan”) and \$30,000 of purchase money loans (“LM Purchase Money Loan”). Concurrently with entering into the LM Credit Agreement, SIRIUS borrowed \$250,000 under the LM Term Loan. The proceeds of the LM Term Loan were used (i) to repay at maturity our outstanding 2.5% Convertible Notes due February 17, 2009 and (ii) for general corporate purposes, including related transaction costs.

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

Amended and Restated Credit Agreement due 2011

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

In June 2009, XM used net proceeds from the sale of its 11.25% Notes to repay amounts due under and extinguish the Amended and Restated Credit Agreement. XM paid a repayment premium of \$6,500. We recorded an aggregate loss on extinguishment of the Amended and Restated Credit Agreement of \$49,996 consisting primarily of the unamortized discount, deferred financing fees and unaccreted portion of the repayment premium to Loss on extinguishment of debt and credit facilities, net, in our consolidated statements of operations.

Second-Lien Credit Agreement

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

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

Covenants and Restrictions

Our debt generally requires compliance with certain covenants that restrict our ability to, among other things, (i) incur additional indebtedness 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

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

prepayments of certain debt, in each case subject to exceptions. We operated XM as an unrestricted subsidiary for purposes of compliance with the covenants contained in our debt instruments through January 12, 2011.

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 December 31, 2010, 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 December 31, 2010 and 2009. There were 3,933,195,112 and 3,882,659,087 shares of common stock issued and outstanding as of December 31, 2010 and 2009, respectively.

As of December 31, 2010, approximately 3,361,345,000 shares of common stock were reserved for issuance in connection with outstanding convertible debt, preferred stock, warrants, incentive stock awards and common stock to be granted to third parties upon satisfaction of performance targets.

To facilitate the offering of the Exchangeable Notes, we entered into share lending agreements with Morgan Stanley Capital Services Inc. ("MS") and UBS AG London Branch ("UBS") in July 2008, under which we loaned MS and UBS an aggregate of 262,400,000 shares of our common stock in exchange for a fee of \$0.001 per share. The obligations of MS to us under its share lending agreement are guaranteed by its parent company, Morgan Stanley. During the third quarter of 2009, MS returned to us 60,000,000 shares of our common stock borrowed in July 2008, which were retired upon receipt. As of December 31, 2010 and 2009, there were 202,400,000 shares loaned under the facilities.

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

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

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In January 2004, SIRIUS signed a seven-year agreement with a sports programming provider. Upon execution of this agreement, SIRIUS delivered 15,173,070 shares of common stock valued at \$40,967 to that programming provider. These shares of common stock are subject to transfer restrictions which lapse over time. We recognized share-based payment expense associated with these shares of \$5,852 in the years ended December 31, 2010, 2009 and 2008. As of December 31, 2010, there was a \$1,568 remaining balance of common stock value included in other current assets. As of December 31, 2009, there was a \$7,420 remaining balance of common stock value included in other current assets and other long-term assets in the amount of \$5,852 and \$1,568, respectively.

Preferred Stock, par value \$0.001 per share

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

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

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

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

Warrants

We have issued warrants to purchase shares of common stock in connection with distribution and programming agreements, satellite purchase agreements and certain debt issuances. As of December 31, 2010, approximately 42,421,000 warrants to acquire an equal number of shares of common stock with an average exercise price of \$2.66 per share were outstanding and fully vested. Warrants vest over time or upon the achievement of milestones and expire at various times through 2015. We incurred warrant related expense of \$0, \$2,522 and \$1,865 for the years ended December 31, 2010, 2009 and 2008, respectively.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Average Exercise Price	Expiration Date	Number of Warrants Outstanding	
			December 31, 2010	2009
<i>(Warrants in thousands)</i>				
NFL	\$ 2.50	March 2015	16,718	16,718
DaimlerChrysler AG	1.04	May 2012	16,500	16,500
RadioShack	—	December 2010	—	4,000
Ford	3.00	October 2012	4,000	4,000
Lehman Warrants	15.00	March 2011 - April 2011	1,575	2,100
Warrants associated with XM Holdings				
Debt	—	March 2010	—	325
Space Systems/Loral	7.05	December 2011	1,840	1,840
Other distributors and programming providers	3.00	June 2014	<u>1,788</u>	<u>1,788</u>
Total	\$ 2.66		<u>42,421</u>	<u>47,271</u>

Rights Plan

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

(13) Benefits Plans

We recognized share-based payment expense of \$54,585, \$65,607 and \$79,668 for the years ended December 31, 2010, 2009 and 2008, respectively. We did not realize any income tax benefits from share-based benefits plans during the year ended December 31, 2010, 2009 and 2008 as a result of the full valuation allowance that is maintained for substantially all net deferred tax assets.

2009 Long-Term Stock Incentive Plan

In May 2009, our stockholders approved the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan (the “2009 Plan”). Employees, consultants and members of our board of directors are eligible to receive awards under the 2009 Plan. The 2009 Plan provides for the grant of stock options, restricted stock, restricted stock units and other stock-based awards that the compensation committee of our board of directors may deem appropriate. Vesting and other terms of stock-based awards are set forth in the agreements with the individuals receiving the awards. Stock-based awards granted under the 2009 Plan are generally subject to a vesting requirement. Stock-based awards generally expire ten years from the date of grant. Each restricted stock unit entitles the holder to receive one share of common stock upon vesting. As of December 31, 2010, approximately 268,255,000 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

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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:

	For the Years Ended December 31,		
	2010	2009	2008
Risk-free interest rate	1.7%	2.5%	2.3%
Expected life of options — years	5.28	4.68	4.89
Expected stock price volatility	85%	88%	80%
Expected dividend yield	0%	0%	0%

The following table summarizes the range of assumptions used to compute the fair value of options granted to third parties, other than non-employee members of our board of directors:

	For the Years Ended December 31,	
	2009	2008
Risk-free interest rate	0.67-2.69%	0.37-3.34%
Expected life — years	2.33-6.19	1.25-4.08
Expected stock price volatility	83-130%	80%
Expected dividend yield	0%	0%

There were no options granted to third parties, other than non-employee members of our board of directors, during the year ended December 31, 2010.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes stock option activity under our share-based payment plans for the years ended December 31, 2010, 2009 and 2008 (shares in thousands):

	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Term (Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding, January 1, 2008	79,600	\$5.38		
Options exchanged for outstanding XM Holdings options	67,711	\$4.09		
Granted	24,358	\$2.12		
Exercised	(117)	\$1.74		
Forfeited, cancelled or expired	<u>(6,116)</u>	\$4.09		
Outstanding, December 31, 2008	165,436	\$4.42		
Granted	265,761	\$0.53		
Exercised	—	\$ —		
Forfeited, cancelled or expired	<u>(66,405)</u>	\$5.21		
Outstanding, December 31, 2009	364,792	\$1.44		
Granted	71,179	\$0.97		
Exercised	(19,360)	\$0.56		
Forfeited, cancelled or expired	<u>(14,741)</u>	\$3.58		
Outstanding, December 31, 2010	<u>401,870</u>	\$1.32	6.45	\$327,294
Exercisable, December 31, 2010	<u>123,479</u>	\$2.68	4.52	\$ 59,739

The weighted average grant date fair value of options granted during the years ended December 31, 2010, 2009 and 2008 was \$0.67, \$0.36 and \$1.27, respectively. The total intrinsic value of stock options exercised during the years ended December 31, 2010, 2009 and 2008 was \$13,261, \$0 and \$127.

We recognized share-based payment expense associated with stock options of \$44,833, \$46,080 and \$49,148 for the years ended December 31, 2010, 2009 and 2008, respectively.

SIRIUS XM RADIO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes the nonvested restricted stock and restricted stock unit activity under our share-based payment plans for the years ended December 31, 2010, 2009 and 2008 (shares in thousands):

	<u>Shares</u>	<u>Weighted-Average Grant Date Fair Value</u>
Nonvested, January 1, 2008	3,623	\$3.70
Shares exchanged for non-vested XM holdings shares	33,339	\$2.93
Granted	3,208	\$2.87
Vested restricted stock awards	(15,342)	\$2.97
Vested restricted stock units	(2,793)	\$3.55
Forfeited.	<u>(2,104)</u>	\$2.90
Nonvested, December 31, 2008	19,931	\$2.84
Granted	84,851	\$0.37
Vested restricted stock awards	(8,476)	\$2.98
Vested restricted stock units	(87,036)	\$0.46
Forfeited.	<u>(2,351)</u>	\$1.92
Nonvested, December 31, 2009	6,919	\$2.65
Granted	—	\$ —
Vested restricted stock awards	(4,039)	\$2.85
Vested restricted stock units	(192)	\$2.92
Forfeited.	<u>(291)</u>	\$2.72
Nonvested, December 31, 2010	<u>2,397</u>	\$2.57

The weighted average grant date fair value of restricted stock units granted during the years ended December 31, 2010, 2009 and 2008 was \$0, \$0.37 and \$2.87; no restricted stock units were granted during 2010. The total intrinsic value of restricted stock and restricted stock units that vested during the years ended December 31, 2010, 2009 and 2008 was \$3,927, \$45,827 and \$21,451, respectively.

We recognized share-based payment expense associated with restricted stock units and shares of restricted stock of \$7,397, \$16,632 and \$21,813 for the years ended December 31, 2010, 2009 and 2008, 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 December 31, 2010 and 2009, net of estimated forfeitures, was \$108,170 and \$114,068, respectively. The weighted-average period over which the compensation expense for these awards is expected to be recognized is three years as of December 31, 2010.

401(k) Savings Plan

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

The Sirius XM Plan allows eligible employees to voluntarily contribute from 1% to 50% of their pre-tax eligible earnings, subject to certain defined limits. We match 50% of an employee’s voluntary contributions, up to 6% of an employee’s pre-tax salary, in the form of shares of common stock. Employer matching contributions under the Sirius XM Plan vest at a rate of 33⅓% for each year of employment and are fully vested after three years of employment for all current and future contributions. Legacy XM Plan participants are fully vested for all current and future employer contributions. Share-based payment expense resulting from the matching contribution to the plans was \$2,356, \$2,895 and \$2,735 for the years ended December 31, 2010, 2009 and 2008, respectively.

SIRIUS XM RADIO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We may also elect to contribute to the profit sharing portion of the Sirius XM Plan based upon the total eligible compensation of eligible participants. These additional contributions in the form of shares of common stock are determined by the compensation committee of our board of directors. Employees are only eligible to receive profit-sharing contributions during any year in which they are employed on the last day of the year. Profit-sharing contribution expense was \$0, \$0 and \$6,610 for the years ended December 31, 2010, 2009 and 2008, respectively.

(14) Income Taxes

Our income tax expense consisted of the following:

	For the Years Ended December 31,		
	2010	2009	2008
Current taxes:			
Federal	\$ —	\$ —	\$ —
State	942	—	—
Foreign	<u>1,370</u>	<u>1,622</u>	<u>—</u>
Total current taxes	<u>2,312</u>	<u>1,622</u>	<u>—</u>
Deferred taxes:			
Federal	4,163	3,962	2,674
State	<u>(1,855)</u>	<u>397</u>	<u>(198)</u>
Total deferred taxes	<u>2,308</u>	<u>4,359</u>	<u>2,476</u>
Total income tax expense	<u>\$ 4,620</u>	<u>\$ 5,981</u>	<u>\$ 2,476</u>

The following table indicates the significant elements contributing to the difference between the federal tax benefit at the statutory rate and at our effective rate:

	For the Years Ended December 31,		
	2010	2009	2008
Federal tax expense (benefit), at statutory rate	\$ 16,678	\$(117,883)	\$(1,858,784)
State income tax expense (benefit), net of federal benefit . . .	1,620	(11,788)	(185,879)
State rate changes	(2,252)	—	17,307
Non-deductible expenses	4,130	1,849	1,930,650
Other, net	6,193	(4,945)	(477)
Change in valuation allowance	<u>(21,749)</u>	<u>138,748</u>	<u>99,659</u>
Income tax expense	<u>\$ 4,620</u>	<u>\$ 5,981</u>	<u>\$ 2,476</u>

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	December 31,	
	2010	2009
Deferred tax assets:		
Net operating loss carryforwards	\$ 3,091,869	\$ 3,086,067
GM payments and liabilities	308,776	311,235
Deferred revenue	346,221	226,763
Severance accrual	266	1,821
Accrued bonus	16,599	16,130
Expensed costs capitalized for tax	44,149	59,999
Loan financing costs	1,568	17,288
Investments	62,742	61,643
Stock based compensation	118,507	155,754
Other	53,260	49,538
Total deferred tax assets	4,043,957	3,986,238
Deferred tax liabilities:		
Depreciation of property and equipment	(379,180)	(126,240)
FCC license	(773,850)	(771,407)
Other intangible assets	(209,489)	(251,360)
Other	—	(89,441)
Net deferred tax liabilities	(1,362,519)	(1,238,448)
Net deferred tax assets before valuation allowance	2,681,438	2,747,790
Valuation allowance	(3,551,288)	(3,615,332)
Net deferred tax liability	\$ (869,850)	\$ (867,542)

The difference in the net deferred tax liability of \$869,850 and \$867,542 at December 31, 2010 and 2009, respectively, is primarily the result of the amortization of the FCC license which is amortized over 15 years for tax purposes but not amortized for book purposes. This net deferred tax liability cannot be offset against our deferred tax assets under GAAP since it relates to indefinite-lived assets and is not anticipated to reverse in the same period.

At December 31, 2010, we had net operating loss (“NOL”) carryforwards of approximately \$8,052,000 for federal and state income tax purposes available to offset future taxable income. These NOL carryforwards expire on various dates beginning in 2014. We have had several ownership changes under Section 382 of the Internal Revenue Code, which may limit our ability to utilize tax deductions.

As a result of the Merger, both SIRIUS and XM had a Section 382 ownership change. The ownership change does not limit our ability to utilize future tax deductions and so no adjustments were made to gross deferred tax assets as a result of the Merger.

Future changes in our ownership may limit our ability to utilize our deferred tax assets. Realization of our deferred tax assets is dependent upon future earnings; accordingly, a full valuation allowance was recorded against the assets.

As of December 31, 2010 and 2009, we recorded \$942 and \$0, respectively, for uncertain state tax positions in other long term liabilities. We do not currently anticipate that our existing reserves related to uncertain tax positions as of December 31, 2010 will significantly increase or decrease during the twelve-month period ending

SIRIUS XM RADIO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

December 31, 2011; however, various events could cause our current expectations to change in the future. Should our position with respect to the majority of these uncertain tax positions be upheld, the effect would be recorded in the statement of operations as part of the income tax provision.

The impact of temporary differences and tax attributes are considered when calculating interest and penalty accruals associated with the tax reserve. The amount accrued for interest and penalties as of December 31, 2010 and December 31, 2009 was zero for both periods. Our policy is to recognize interest and penalties accrued on uncertain tax positions as part of income tax expense.

(15) Commitments and Contingencies

The following table summarizes our expected contractual cash commitments as of December 31, 2010:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Thereafter</u>	<u>Total</u>
Long-term debt obligations(1)	\$196,332	\$ 1,558	\$ 816,321	\$550,182	\$1,057,000	\$700,000	\$3,321,393
Cash interest payments	299,518	292,463	290,271	186,935	113,433	160,125	1,342,745
Satellite and transmission	120,444	5,481	5,963	14,455	13,997	21,195	181,535
Programming and content	255,463	218,662	174,596	151,581	145,231	3,750	949,283
Marketing and distribution	44,657	20,155	12,956	8,590	7,000	8,000	101,358
Satellite incentive payments	9,767	12,071	12,790	12,632	12,165	86,123	145,548
Operating lease obligations	32,279	28,090	24,256	18,383	10,364	3,101	116,473
Other	<u>30,527</u>	<u>9,679</u>	<u>298</u>	<u>2</u>	—	—	<u>40,506</u>
Total(2)	<u>\$988,987</u>	<u>\$588,159</u>	<u>\$1,337,451</u>	<u>\$942,760</u>	<u>\$1,359,190</u>	<u>\$982,294</u>	<u>\$6,198,841</u>

(1) Includes capital lease obligations.

(2) The table does not include our reserve for uncertain taxes, which at December 31, 2010 totaled \$942, as the specific timing of any cash payments relating to this obligation cannot be projected with reasonable certainty.

Long-term debt obligations. Long-term debt obligations include principal payments on outstanding debt and capital lease obligations. Included in the chart above in 2013 is \$36,685 of the 11.25% Notes, which were repurchased in full in January 2011, for an aggregate purchase price of \$40,376, which includes consent payments and accrued and unpaid interest. Included in the chart above in 2011, is \$94,148 of the 3.25% Notes which was repurchased in February 2011 for a purchase price of \$96,041 which includes accrued and unpaid interest.

Cash interest payments. Cash interest payments include interest due on outstanding debt through maturity. The chart above does not give effect to the purchases of the 11.25% Notes in January 2011 or the 3.25% Notes in February 2011.

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.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
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We have an agreement with Space Systems/Loral to design and construct a sixth 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 XM's satellites. As of December 31, 2010, we have accrued \$28,605 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 December 31, 2010, we have accrued \$12,565 and \$21,450 related to contingent performance payments for FM-5 and XM-5, respectively, based on expected operating performance over their fifteen-year design life.

Operating lease obligations. We have entered into cancelable and non-cancelable operating leases for office space, equipment and terrestrial repeaters. These leases provide for minimum lease payments, additional operating expense charges, leasehold improvements and rent escalations that have initial terms ranging from one to fifteen years, and certain leases that have options to renew. The effect of the rent holidays and rent concessions are recognized on a straight-line basis over the lease term, including reasonably assured renewal periods. Total rent recognized in connection with leases for the years ended December 31, 2010, 2009 and 2008 was \$36,652, \$44,374 and \$40,378, respectively.

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

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

Legal Proceedings

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

A separate investigation into our consumer practices is being conducted by the Attorney General of the State of Florida. In addition, in September 2010, the Attorney General of the State of Missouri commenced an action against us in Missouri Circuit Court, Twenty-Second Judicial Circuit, St. Louis, Missouri, alleging violations of the

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Missouri Telemarketing No-Call List Act. The suit seeks a permanent injunction prohibiting us from making, or causing to be made, telephone solicitations to our subscribers in the State of Missouri who are on Missouri's no-call list, statutory penalties and reimbursement of costs. We believe our telemarketing activities to our subscribers in Missouri fully comply with applicable law.

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

Carl Blessing et al. v. Sirius XM Radio Inc. A subscriber, Carl Blessing, filed a lawsuit against us in the United States District Court for the Southern District of New York. Mr. Blessing's lawsuit has been consolidated with substantially identical lawsuits brought by other subscribers. Mr. Blessing and 23 other plaintiffs purport to represent all subscribers who were subject to: an increase in the price for additional-radio subscriptions from \$6.99 to \$8.99; the imposition of the US Music Royalty Fee; and the elimination of our free streaming internet service. Based on these pricing changes, the suit raises four claims. First, the suit claims the pricing changes show that the Merger lessened competition or led to a monopoly in violation of the Clayton Act. Second, it claims that, for the same reason, the Merger led to monopolization in violation of the Sherman Act. Third, it claims that our subscriber service agreement misrepresents that the US Music Royalty Fee will be used exclusively to defray increases in royalty costs incurred since the filing of the merger application with the FCC (and as permitted by the FCC order) in violation of the consumer protection and unfair trade practice laws of 41 states and the District of Columbia. A fourth claim — that the alleged misrepresentation violates the implied duty of good faith and fair dealing we owe our subscribers under New York contract law — has been dismissed by the court. The complaint seeks monetary damages as well as treble damages under the Clayton Act. Discovery in this matter is substantially complete and a trial has been scheduled for May 2011. We believe that the plaintiffs' claims are without merit and we are vigorously defending ourselves in this litigation.

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

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

(16) Subsequent Events

Merger of XM Satellite Radio Inc. and Sirius XM Radio Inc.

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

Repurchase of 11.25% Notes

The remainder of the 11.25% Notes of \$36,685 was purchased in January 2011, for an aggregate purchase price of \$40,376. A loss from extinguishment of debt of \$4,891 will be recorded in the first quarter of 2011.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Repurchase of 3.25% Notes

In February 2011, \$94,148 of the 3.25% Notes was purchased, for an aggregate purchase price of \$96,041. A loss from extinguishment of debt of \$1,079 will be recorded in the first quarter of 2011.

Canada Merger

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

(17) Quarterly Financial Data — Unaudited

Our quarterly results of operations are summarized below:

	For the Three Months Ended			
	March 31	June 30	September 30	December 31
2010:				
Total revenue	\$ 663,784	\$ 699,761	\$ 717,548	\$ 735,899
Cost of services	\$(260,867)	\$(266,121)	\$(280,545)	\$(291,699)
Income from operations	\$ 125,140	\$ 125,634	\$ 143,069	\$ 71,571
Net income (loss)	\$ 41,598	\$ 15,272	\$ 67,629	\$ (81,444)
Net income (loss) per common share — basic(1)	\$ 0.01	\$ —	\$ 0.02	\$ (0.02)
Net income (loss) per common share — diluted(1)	\$ 0.01	\$ —	\$ 0.01	\$ (0.02)
2009:				
Total revenue	\$ 586,979	\$ 590,829	\$ 618,656	\$ 676,174
Cost of services	\$(268,947)	\$(254,432)	\$(266,888)	\$(273,741)
Income from operations	\$ 41,061	\$ 37,235	\$ 66,355	\$ 83,675
Net (loss) income	\$ (52,648)	\$(159,644)	\$(151,527)	\$ 11,781
Net loss per common share — basic and diluted(1)	\$ (0.07)	\$ (0.04)	\$ (0.04)	\$ —

(1) The sum of the quarterly net loss per share applicable to common stockholders (basic and diluted) does not necessarily agree to the net loss per share for the year due to the timing of our common stock issuances.

SIRIUS XM RADIO INC. AND SUBSIDIARIES

Schedule II — Schedule of Valuation and Qualifying Accounts

<u>Description</u>	<u>Balance January 1,</u>	<u>Charged to Expenses</u>	<u>Write-offs/ Payments/ Other</u>	<u>Balance December 31,</u>
	(In thousands)			
2008				
Allowance for doubtful accounts	\$ 4,608	21,589	(15,337)	\$ 10,860
Deferred tax assets — valuation allowance	\$1,426,092	99,659	1,950,832(1)	\$3,476,583
2009				
Allowance for doubtful accounts	\$ 10,860	30,602	(32,795)	\$ 8,667
Deferred tax assets — valuation allowance	\$3,476,583	138,749	—	\$3,615,332
2010				
Allowance for doubtful accounts	\$ 8,667	32,379	(30,824)	\$ 10,222
Deferred tax assets — valuation allowance	\$3,615,332	(21,749)	(42,295)	\$3,551,288

(1) Adjustments to reflect allocation of the purchase price in connection with the Merger.

Corporate Information

Management

Mel Karmazin
Chief Executive Officer

Scott A. Greenstein
President and Chief Content Officer

James E. Meyer
President, Operations and Sales

Dara F. Altman
Executive Vice President and Chief
Administrative Officer

Patrick L. Donnelly
Executive Vice President, General
Counsel and Secretary

David J. Frear
Executive Vice President and Chief
Financial Officer

Board of Directors

Common Stock Directors

Eddy W. Hartenstein
Chairman of the Board of
Sirius XM Radio Inc.
Publisher and CEO
Los Angeles Times

Joan L. Amble
Director
Executive Vice President and
Corporate Comptroller
American Express Company

Leon D. Black
Director
Founding Partner
Apollo Management, L.P.

Lawrence F. Gilberti
Director
Partner
Reed Smith LLP

James P. Holden
Director
President and CEO (Retired)
Chrysler Corporation

Mel Karmazin
Director
Chief Executive Officer
Sirius XM Radio Inc.

James F. Mooney
Director
Chairman
Virgin Media Inc.

Jack Shaw
Director
Chief Executive Officer (Retired)
Hughes Electronics Corporation

Preferred Stock Directors

John C. Malone
Director
Chairman of the Board
Liberty Media Corporation

Gregory B. Maffei
Director
President and CEO
Liberty Media Corporation

David J.A. Flowers
Director
Senior Vice President and Treasurer
Liberty Media Corporation

Vanessa A. Wittman
Director
Executive Vice President and
Chief Financial Officer
Marsh & McLennan Companies, Inc.

Carl E. Vogel
Director
Senior Advisor
Dish Network Corporation

Executive Offices

Sirius XM Radio Inc.
1221 Avenue of the Americas
36th Floor
New York, New York 10020
212.584.5100
www.siriusxm.com

Stockholder Information

Annual Stockholders Meeting

The annual meeting of Sirius XM stockholders is scheduled for 9:00 a.m., New York City time, on Wednesday, May 25, 2011, in The Auditorium at The Equitable Center, 787 Seventh Avenue, New York, New York 10019

Transfer Agent and Registrar

The transfer agent and registrar for the Company's common stock is:

BNY Mellon

Shareowner Services
P.O. Box 358015
Pittsburgh, PA 15252-8015
1-877-268-1949 (toll free) and
201-680-6685 (international callers)
800-231-5469 (hearing impaired TDD
phone)
www.bnymellon.com/shareowner/isd

Sirius XM common stock is listed on The NASDAQ Global Select Market under the symbol "SIRI".

Independent Registered Public Accounting Firm

KPMG LLP
345 Park Avenue
New York, New York 10154

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