

SIRIUS XM RADIO INC.

FORM 8-K (Current report filing)

Filed 05/22/12 for the Period Ending 05/22/12

Address	1221 AVENUE OF THE AMERICAS 36TH FLOOR NEW YORK, NY 10020
Telephone	212-584-5100
CIK	0000908937
Symbol	SIRI
SIC Code	4832 - Radio Broadcasting Stations
Industry	Broadcasting & Cable TV
Sector	Services
Fiscal Year	12/31

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 22, 2012

SIRIUS XM RADIO INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other Jurisdiction
of Incorporation)

001-34295
(Commission File Number)

52-1700207
(I.R.S. Employer
Identification No.)

1221 Avenue of the Americas, 36th Fl., New York, NY
(Address of Principal Executive Offices)

10020
(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 7.01 Regulation FD Disclosure

On May 22, 2012, Mel Karmazin, our Chief Executive Officer, spoke to stockholders at our 2012 Annual Meeting of Stockholders. A copy of the slides used during his presentation to stockholders are attached hereto as Exhibit 99.1 and is incorporated by reference into this Item 7.01.

Pursuant to General Instruction B.2. to Form 8-K, the information set forth in this Item 7.01, including the exhibit attached hereto, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits.

The Exhibit Index attached hereto is incorporated herein.

SIGNATURES

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

SIRIUS XM RADIO INC.

By: /s/ Patrick L. Donnelly
Patrick L. Donnelly
Executive Vice President, General
Counsel and Secretary

Dated: May 22, 2012

EXHIBITS

Exhibit

Description of Exhibit

99.1	Presentation slides dated May 22, 2012 for 2012 Annual Meeting of Stockholders
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Annual Stockholder Meeting

May 22, 2012

Disclaimer on Forward-Looking Statements

The guidance contained herein is based upon a number of assumptions and estimates that, while considered reasonable by us when taken as a whole, is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, the guidance is based upon specific assumptions with respect to future business conditions, some or all of which will change. The guidance, like any forecast, is necessarily speculative in nature and it can be expected that the assumptions upon which the guidance is based will not prove to be valid or will vary from actual results. Actual results will vary from the guidance and the variations may be material. Consequently, the guidance should not be regarded as a representation by us or any other person that the subscribers, revenue, and/or adjusted EBITDA will actually be achieved. You are cautioned not to place undue reliance on this information.

This communication contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, but are not limited to, statements about future financial and operating results, our plans, objectives, expectations and intentions with respect to future operations, products and services; and other statements identified by words such as "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "believe," "intend," "plan," "projection," "outlook" or words of similar meaning. Such forward-looking statements are based upon the current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are difficult to predict and generally beyond our control. Actual results may differ materially from the results anticipated in these forward-looking statements.

Disclaimer on Forward-Looking Statements

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

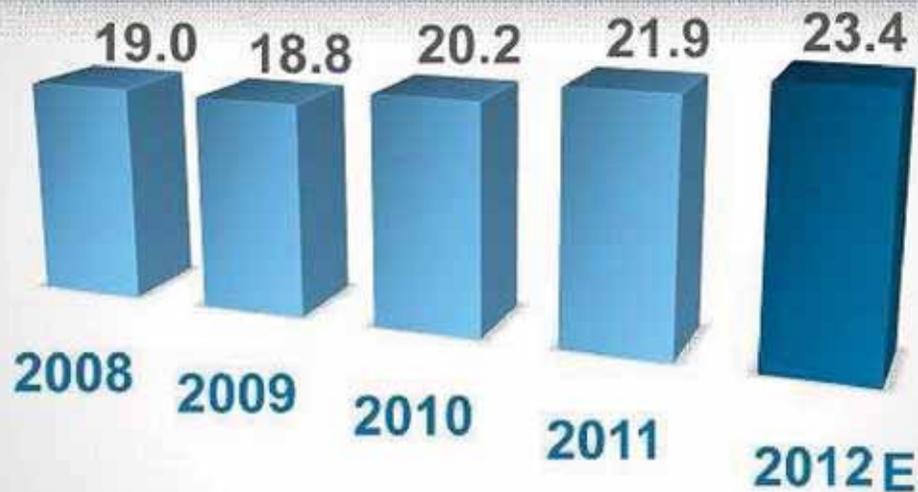
- we face substantial competition and that competition is likely to increase over time;
- our business depends in large part upon automakers;
- general economic conditions can affect our business;
- failure of our satellites would significantly damage our business;
- our ability to attract and retain subscribers at a profitable level in the future is uncertain;
- royalties for music rights may increase;
- failure to comply with FCC requirements could damage our business;
- the unfavorable outcome of pending or future litigation could have a material adverse effect;
- rapid technological and industry changes could adversely impact our services;
- failure of third parties to perform could adversely affect our business;
- changes in consumer protection laws and their enforcement could damage our business;
- interruption or failure of our information technology and communication systems could negatively impact our results and brand;
- if we fail to protect the security of personal information about our customers, we could be subject to costly government enforcement actions or private litigation and our reputation could suffer;
- we may from time to time modify our business plan, and these changes could adversely affect us and our financial condition;
- our substantial indebtedness could adversely affect our operations and could limit our ability to react to changes in the economy or our industry;
- our broadcast studios, terrestrial repeater networks, satellite uplink facilities or other ground facilities could be damaged by natural catastrophes or terrorist activities;
- electromagnetic interference from others could damage our business;
- our business may be impaired by third-party intellectual property rights;
- Liberty Media Corporation has significant influence over our business and affairs and its interest may differ from ours; and
- our net operating loss carryforwards could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code.

Additional factors that could cause our results to differ materially from those described in the forward-looking statements can be found in our reports filed with or furnished to the SEC and available at the SEC's Internet site (<http://www.sec.gov>). The information set forth herein speaks only as of the date hereof, and we disclaim any intention or obligation to update any forward looking statements as a result of developments occurring after the date of this communication.

Management Priorities

- **Continue to innovate**
- **Grow subscribers**
- **Grow revenue**
- **Grow free cash flow**

Continuing Growth Delivers Record Number of Subscribers

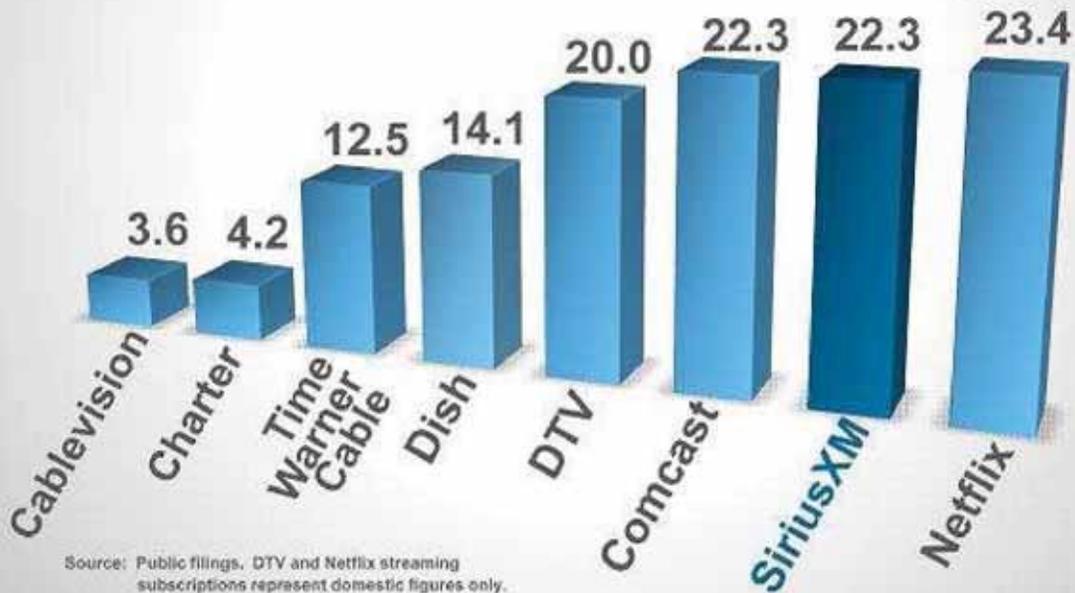


Ending Subscribers 2008-2012E (mm)
Household Penetration: 13% in 2012E

Source: Company filings and estimates

Among Largest U.S. Subscription Media Businesses

1Q12 Total Basic Paid Subscribers (mm)





Recent Developments

NEW Programming

Latidos

LA MEZCLA

VIVO

FLOW NACIÓN

AGUIJA

CRISTINA
RADIO

RUMBÓN

LUNA

CANCIA

LA NUEVA

¡Inspírate!

en VIVO

RadioFórmula
MÉXICO

PLAYBOY
RADIO
en español

NFL

en Español

DEPORTES
EN VIVO

OLYMPIC
BOULEVARD

ROCK AND ROLL
THE HOUSE OF MUSIC

CARLIN'S
CORNER

CLASSIC

CLASSIC
COLLEGE
RADIO

UCR
Radio

TIGSTO'S
CLUB LIFE RADIO

SO

SXM
COMES ALIVE

Dirty
Dog

ROCKBAR

BYURadio

WORLD
VOICES

KRISHNADAS
YOGA RADIO

KOREA
TODAY
WORLD NETWORK

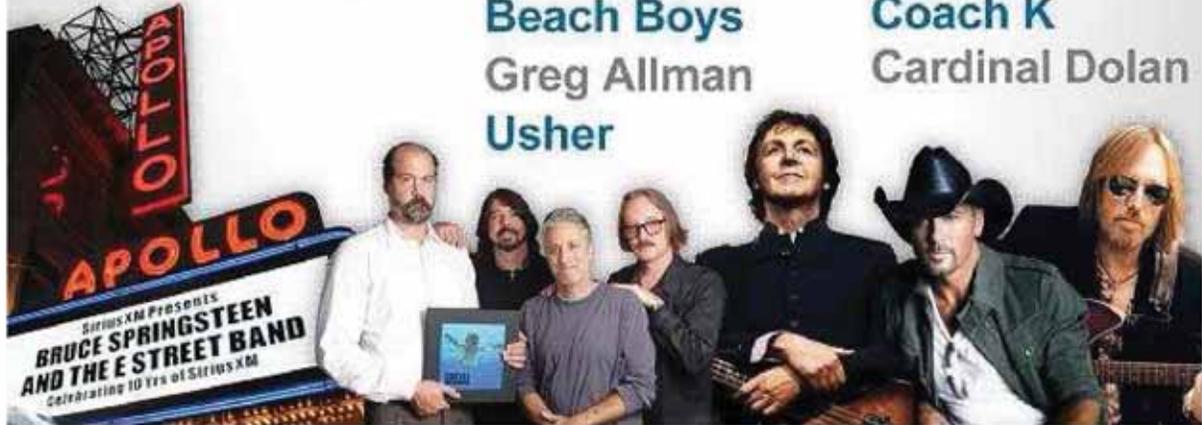
Listening is Just the Beginning

Concerts | Town Halls | Special Events

Bruce Springsteen "One Night Only"
Paul McCartney at Studio 54
Tim McGraw
Foster the People

Opie & Anthony
in Cleveland
Beach Boys
Greg Allman
Usher

Nirvana
Coldplay
Tom Petty
Ringo Starr
Coach K
Cardinal Dolan



Launch of 2.0

- **Future commitments with OEMs for chip installation in 2012 and beyond**
- **New online channels enhance blended satellite and online experience**
- **New features provide more control and convenience**
- **Coming Soon: On Demand and Personalized Radio**



NEW Features

- **Start Now:** Go back up to 5 hours
- **Tune Start:** Start from the beginning
- **Pause:** Pause, rewind and skip
- **Show Alerts:** Be alerted when favorite shows air



Lynx Radio

- **Blended satellite and internet in one radio**
- **More Control**
 - Pause, Rewind and Skip
 - Start shows and songs from the beginning
 - Find, set alerts for your favorite SiriusXM shows
 - Record up to 200 hours of your favorite shows or channels

+ XTRA CHANNELS
INCLUYE MÁS CANALES EN ESPAÑOL



NEW Mobile Apps



- **New apps for Apple and Android add more control, convenience and content**
 - Start shows and songs from the beginning
 - Pause, Rewind and Skip
 - Find and set alerts for favorite shows
- **New Android App adds support for tablets**



NEW Media Player

- **Redesigned User Interface**
- **More Control**
 - Start Now
 - TuneStart
 - Pause, Rewind and Skip
 - Show alerts
- **More Content**



Coming soon: On Demand

- Access thousands of hours On Demand
- Access recently aired and exclusive shows at any time
- Will include a broad mix of SiriusXM content
- Featured and special on demand content
- Growing access to selections from SiriusXM's archives



Key Metrics (\$ in millions)

	1Q11	1Q12	% change
Churn rate	2.0%	1.9%	-10 bp
Subscribers	20.6 mm	22.3 mm	+8%
Revenue	\$724	\$805	+11%
Adj. EBITDA	\$181	\$208	+15%
Net Income	\$78	\$108	+38%
FCF	(\$17)	\$15	-

Pre-Owned Vehicle Market

- Certified Pre-Owned Program (CPO): Launched with nearly all major automakers
- Additional Used Car Efforts: 5,000 franchised dealers supporting our non-CPO used car initiative
- OEM revenue sharing creates strong arrangements
- Expecting approximately 1 million gross activations in 2012 from used cars



1Q12 Revenue Selected Companies



Source: Pandora based on Wall St. research estimates and company guidance



SiriusXM Market

Radio Revenue

	2001	2011
Terrestrial Radio: CCU, CBS, Citadel, ETM, CMLS, etc.	\$18 b (100%)	\$15.1 b (78%)
IP Radio: Last.fm, Slacker, Pandora, Rhapsody, MOG, etc.	nil	~\$1.2 b (6%)
Satellite Radio: SiriusXM	nil	\$3.0 b (16%)
TOTAL	<u>\$18.0 b</u>	<u>~\$19.3 b</u>

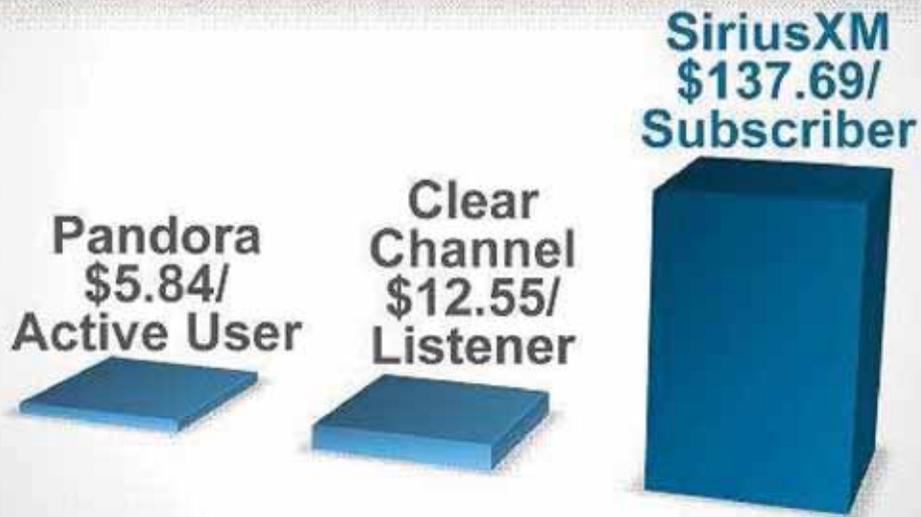
Source: Analyst estimates and industry reports

2012E Revenue Projections Selected Companies



Source: Based on Wall St. research estimates and company guidance; Pandora fiscal year ending 1/2013

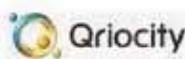
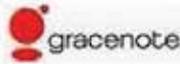
SiriusXM's Superior Revenue Model



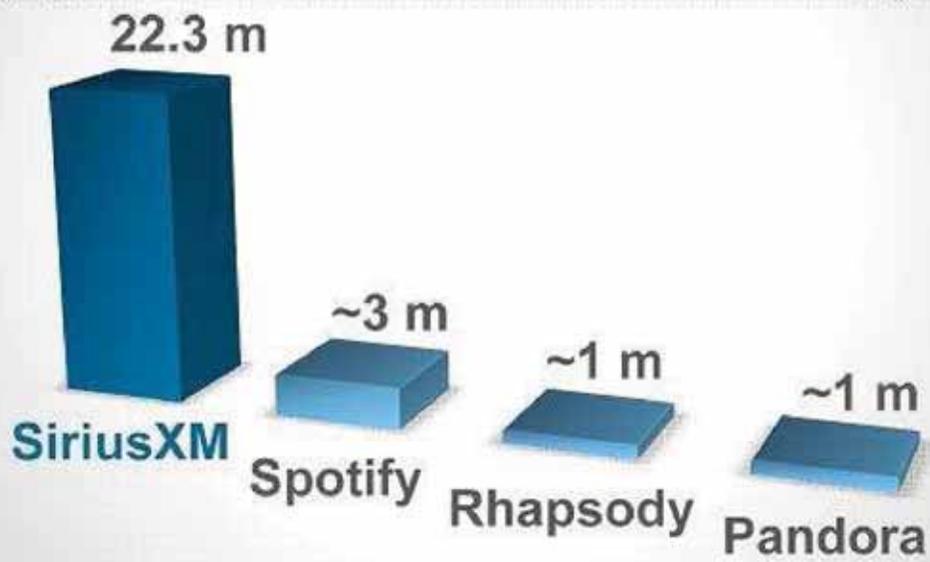
Based on 2011 Revenue

Source: Based on company filings. Pandora fiscal year ending 1/2012

The Digital Music Ecosystem: Complicated and Crowded



Paying Subscribers Digital Music Services



NOTE: Pandora and Spotify numbers based on Wall St. research estimates

Competitive Advantages

- **Satellite delivery system with seamless continental U.S. coverage**
- **Over 135 channels of curated content**
- **Long term OEM agreements**
- **Approximately \$7.8 billion of gross NOL's**
- **Subscription model**
- **Focused, pure-play satellite radio company**



SiriusXM Businesses

SiriusXM's Superior Content is a Significant Competitive Advantage

Commercial-Free Music



Live Coverage of Every Major Sport

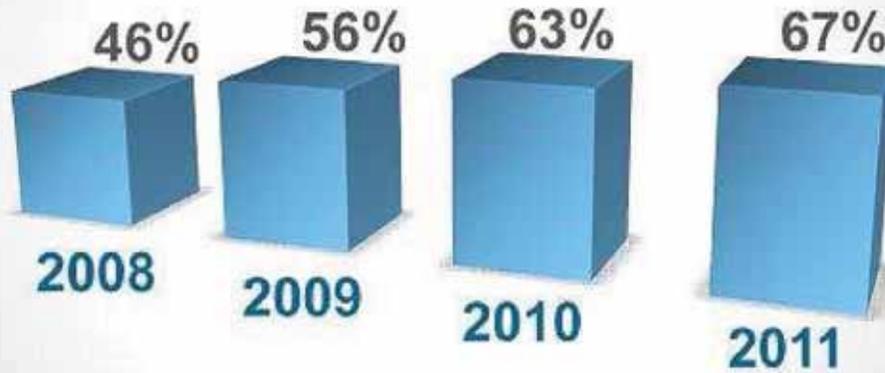


The Best in News, Talk and Entertainment



Penetration Gains at Automakers

OEM penetration as a percentage of U.S. auto sales

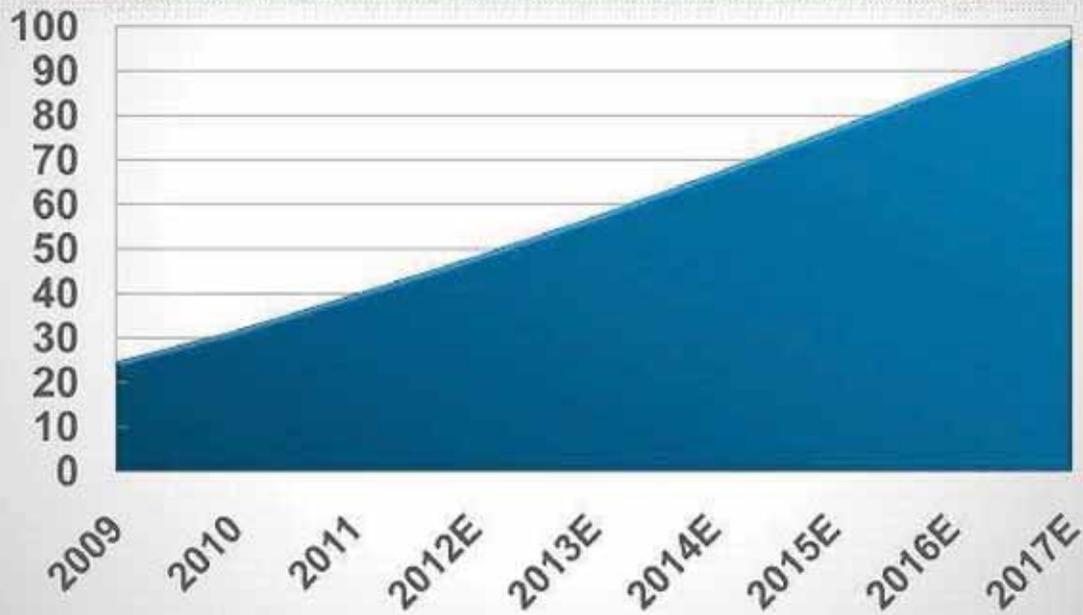


Mercedes-Benz



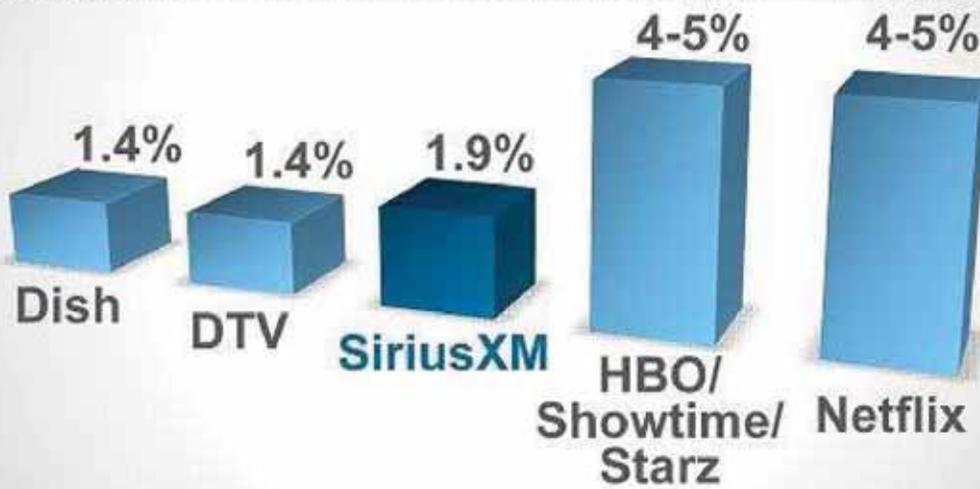
Source: Total US light vehicle sales per Global Insight and company estimates of SiriusXM enabled sales; Represents factory and port installs only.

Factory-Enabled Vehicles in Operation to Increase Dramatically (millions)



Source: Company estimates based on external industry estimates of 2012-17 automotive sales

Focus on Subscriber Retention Yields Results



1Q12 Comparative Monthly Churn Rates

Source: Public filings and industry estimate

Multi-Year Revenue Growth (billions)



2008 figure is adjusted for the merger of Sirius and XM

Significant Adj. EBITDA Growth (millions)



2008 figure is adjusted for the merger of Sirius and XM.

Strong FCF Growth (millions)



2008 figure is adjusted for the merger of Sirius and XM

Growth Statistics and Improvements Since Merger (\$ in millions)

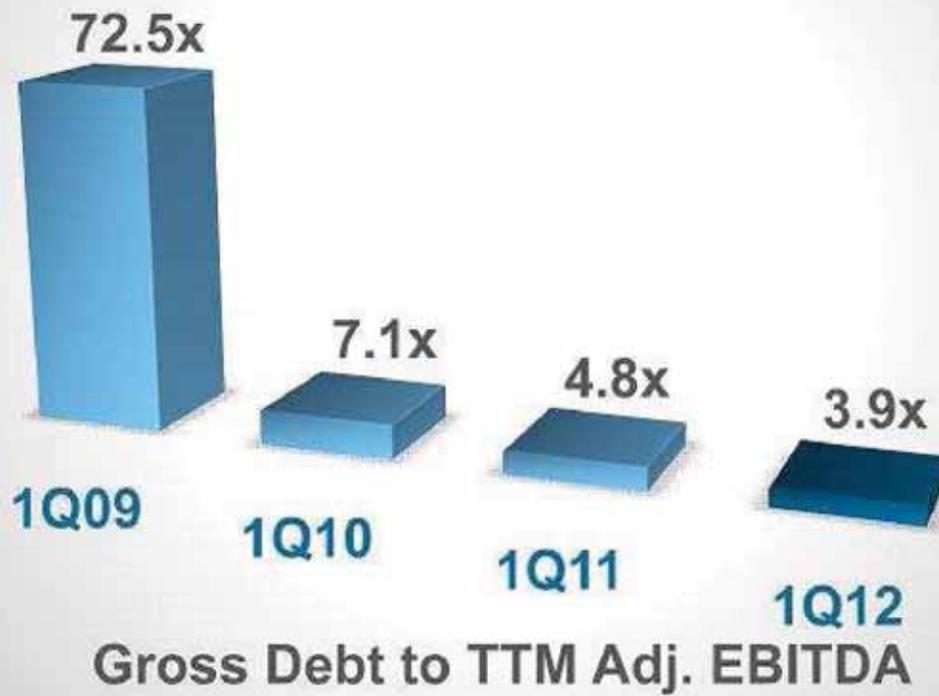
	1Q09	1Q10	1Q11	1Q12
Subscribers	18.6 mm	18.9 mm	20.6 mm	22.3 mm
Revenue	\$587	\$664	\$724	\$805
Adj. EBITDA	\$109	\$158	\$181	\$208
FCF	(\$4)	(\$127)	(\$17)	\$15

2012 Outlook

2012 guidance:

- Revenue of approx. \$3.3 billion
- Adj. EBITDA of approx. \$875 million
- FCF of approx. \$700 million
- 1.5 million net subscriber additions

Reduced Leverage Ratios



Investment Thesis: **Significantly Improved Borrowing Costs**

February 2009	15% secured (REPAID)
June 2009	11.25% secured (REPAID)
August 2009	9.75% secured
March 2010	8.75% <u>unsecured</u>
October 2010	7.625% <u>unsecured</u>

Trading @ 5.69% Yield

Note: Secured transactions in June and August 2009 also included OID.
February 2009 transaction also included fees and equity issuance.

Investment Thesis: Operational Leverage Drives EBITDA

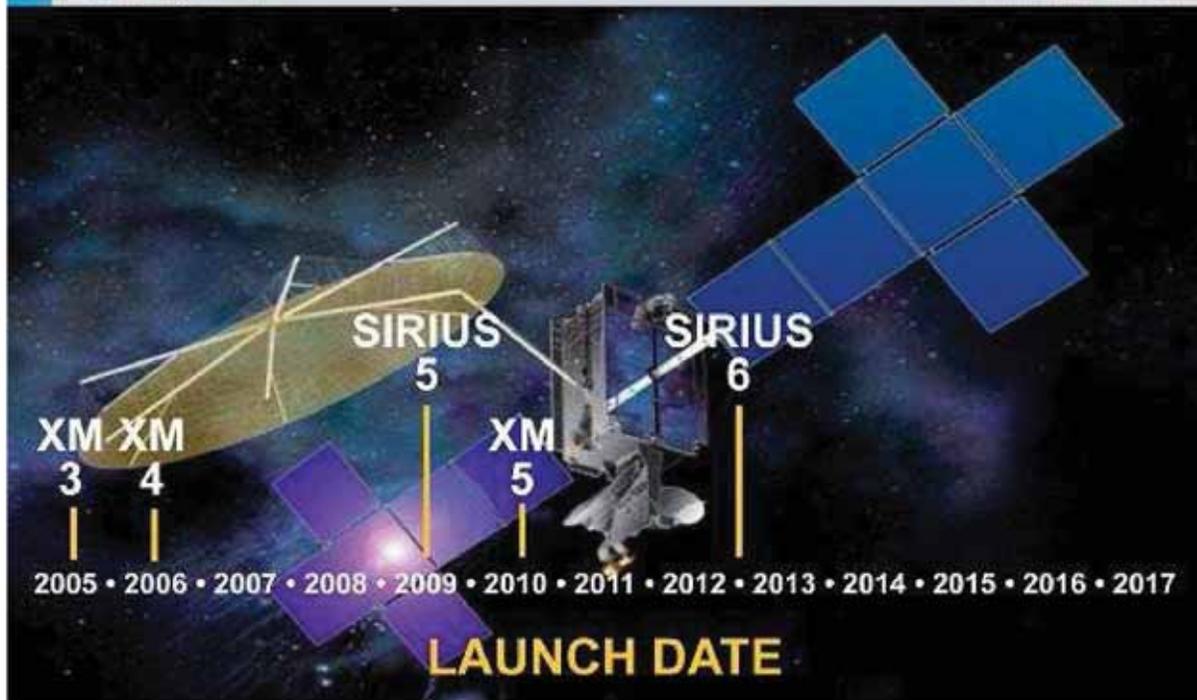
Contribution margin of approximately 70%

- EBITDA margin improves dramatically as we scale subscribers and revenue

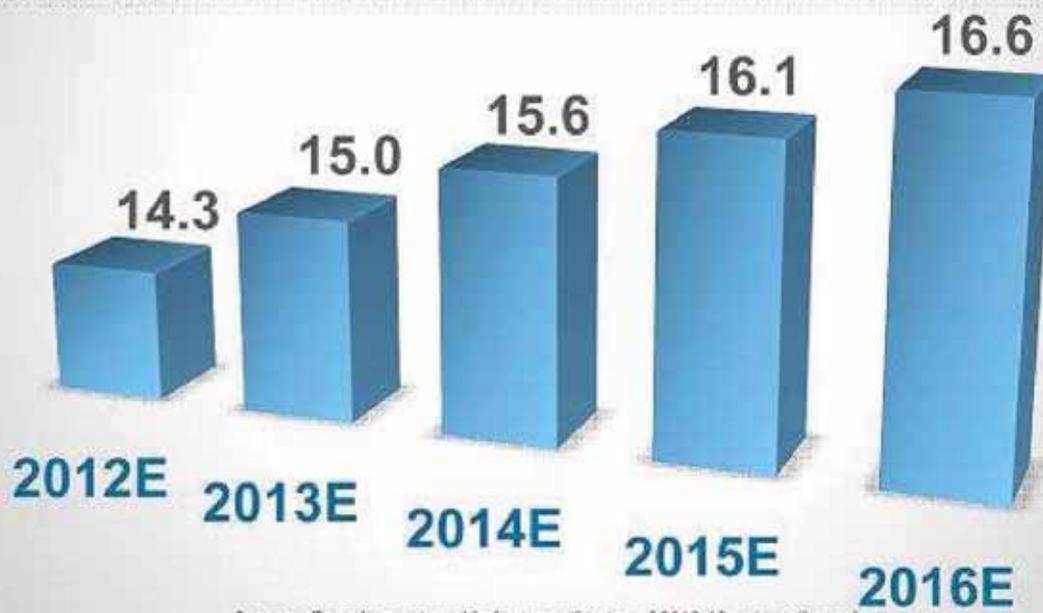
Adjusted EBITDA Margins

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>At Maturity</u>
(6%)	18%	22%	24%	40%+

Investment Thesis: Completion of Satellite Build Translates to More FCF



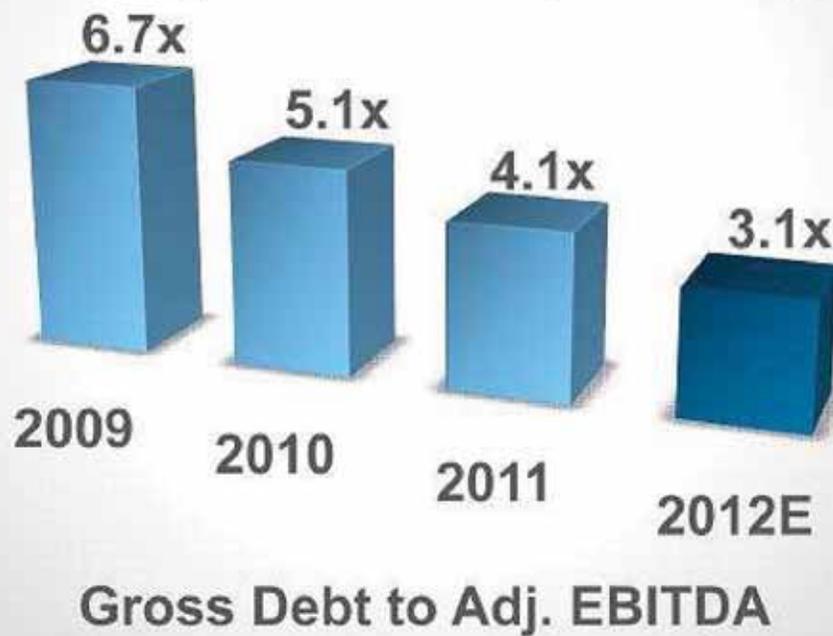
Auto Sales Forecast (millions)



Source: Based on external industry estimates of 2012-16 automotive sales

Lower Annual Leverage Ratios

Approaching our 3.0x target leverage ratio



Investment Thesis: Free Cash Flow

- + Subscriber Growth
 - + Revenue Growth
 - + Lower Interest Expense
 - + Lower Capital Expenditures
 - + Cash Savings from NOL Use
-
- = Free Cash Flow Growth

Excess Cash Presents Opportunities (\$ in millions)

	<u>2010</u>	<u>2011</u>	<u>2012E</u>
Beginning Cash	\$383	\$587	\$774
Free Cash Flow	\$210	\$416	\$700
Net Debt Repayments	<u>nil</u>	<u>(\$240)</u>	<u>(\$382)</u>
Ending Cash	\$587	\$774	\$1,092

Note: Figures are simplified and approximate. Forward estimates exclude other financing activities, such as the proceeds from stock option exercises. Net debt repayments include premiums and assumes that the remaining 9.75% notes are called on September 1, 2012.

Acquisitions and Returns of Capital

- **Free Cash Flow creates opportunities to enhance the business or return capital to stockholders**
 - **Acquisitions**
 - **Dividends**
 - **Stock buybacks**

Reconciliation for SiriusXM

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	FY2011	FY2011	FY2012	FY2012	FY2013	FY2013	FY 2011
As Reported Total Revenue	723,639	744,337	762,560	793,738	804,722	242,245	637,235	922,666	1,663,902	2,472,638	2,616,992	3,014,524
Predecessor Financial Information	-	-	-	-	-	550,256	103,417	1,136,942	731,194	-	-	-
Purchase Price Accounting Adjustments	3,722	2,938	2,252	1,958	1,580	-	-	41,594	54,055	21,505	10,910	-
Adjusted Total Revenue	727,361	747,275	764,812	795,696	806,302	800,511	1,670,652	2,058,606	2,439,146	2,526,703	2,638,896	3,025,434
As Reported Total Operating Expenses	595,607	571,415	575,062	628,253	605,484	1,071,385	1,704,959	1,430,156	5,700,741	2,244,312	2,351,575	2,338,407
Predecessor Financial Information	-	-	-	-	-	1,113,801	1,305,515	1,647,979	961,683	-	-	-
Purchase Price Accounting Adjustments	67,373	58,623	68,578	71,735	74,024	-	-	(4,561,812)	240,891	251,632	277,258	-
Adjusted Total Operating Expenses	627,630	640,038	646,542	701,048	679,568	2,185,186	3,041,474	3,083,136	3,000,592	2,465,203	2,613,410	2,615,665
As Reported Income (Loss) from Operations	164,172	172,862	184,488	154,475	199,238	(820,148)	(1,067,724)	(513,090)	(5,036,749)	228,326	465,414	676,117
Predecessor Financial Information	-	-	-	-	-	(555,326)	(463,098)	(511,437)	(230,489)	-	-	-
Purchase Price Accounting Adjustments	(84,250)	(55,630)	(69,586)	(59,827)	(72,144)	-	-	4,793,366	(180,826)	(235,935)	(260,348)	-
Adjusted Income (Loss) from Operations	95,672	107,297	117,902	94,648	127,094	(1,384,675)	(1,470,822)	(1,024,627)	(560,652)	41,500	225,489	406,769
As Reported Depreciation and Amortization	68,400	67,052	65,403	67,015	66,117	98,555	105,749	100,780	203,752	306,450	273,091	267,880
Predecessor Financial Information	-	-	-	-	-	145,870	165,880	187,156	85,740	-	-	-
Adjusted Depreciation and Amortization	68,400	67,052	65,403	67,015	66,117	244,425	271,629	289,936	289,501	306,450	273,091	267,880
As Reported Share-based Payment Expense	12,896	10,735	13,983	15,614	14,961	163,078	437,318	79,930	87,495	79,981	60,437	53,188
Predecessor Financial Information	-	-	-	-	-	5,955	65,240	66,199	34,485	-	-	-
Purchase Price Accounting Adjustments	181	-	-	-	-	-	-	-	2,729	4,901	2,872	181
Adjusted Share-based Payment Expense	13,077	10,735	13,983	15,614	14,961	169,044	502,558	146,099	124,619	79,782	63,309	53,369

Reconciliation for SiriusXM

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY 2011
As Reported Restructuring, Impairments and Related Costs	-	-	-	-	-	-	10,917	-	10,434	32,807	63,800	-
Predecessor Financial Information	-	-	-	-	-	-	-	-	-	-	-	-
Purchase Price Accounting Adjustments	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted Restructuring, Impairments and Related Costs	-	-	-	-	-	-	10,917	-	10,434	32,807	63,800	-
As Reported Impairment Goodwill	-	-	-	-	-	-	-	-	4,705,190	-	-	-
Predecessor Financial Information	-	-	-	-	-	-	-	-	-	-	-	-
Purchase Price Accounting Adjustments	-	-	-	-	-	-	-	-	(4,705,190)	-	-	-
Adjusted Impairment of Goodwill	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted Total Operating Expenses	627,678	642,035	645,940	701,040	679,508	2,185,195	3,041,474	3,653,135	3,000,562	2,485,200	2,613,410	2,815,065
Less Adjusted:												
Depreciation and Amortization	68,400	67,062	65,403	67,015	66,117	244,425	274,629	293,975	292,501	309,450	273,691	267,880
Share-based Payment Expense	13,037	10,735	13,503	15,614	14,951	169,044	505,964	165,099	124,019	78,782	63,309	53,369
Restructuring, Impairments and Related Costs	-	-	-	-	-	-	10,917	-	10,434	32,807	63,800	-
Impairment of Goodwill	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted Cash Operating Expenses	546,202	562,241	567,564	618,419	598,440	1,771,717	2,249,954	2,624,060	2,573,038	2,064,954	2,212,610	2,284,416
Adjusted Income (Loss) from Operations	98,922	107,297	117,502	84,648	127,054	(1,304,675)	(1,470,822)	(1,024,527)	(563,852)	41,500	325,486	405,799
Add back Adjusted:												
Depreciation and Amortization	68,400	67,062	65,403	67,015	66,117	244,425	274,629	293,975	292,501	309,450	273,691	267,880
Share-based Payment Expense	13,037	10,735	13,503	15,614	14,951	169,044	505,964	165,099	124,019	78,782	63,309	53,369
Restructuring, Impairments and Related Costs	-	-	-	-	-	-	10,917	-	10,434	32,807	63,800	-
Impairment of Goodwill	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted EBITDA	181,359	185,094	197,288	167,277	208,162	(971,205)	(679,312)	(565,452)	(136,258)	462,530	628,286	731,018

Reconciliation for SiriusXM

ARPU is derived from total earned subscriber revenue, net advertising revenue and other subscription-related revenue, net of purchase price accounting adjustments, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. Other subscription-related revenue includes the U.S. Music Royalty Fee. Purchase price accounting adjustments include the recognition of deferred subscriber revenues not recognized in purchase price accounting associated with the Merger. ARPU is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited	
	For the Three Months Ended March 31,	
	2012	2011
Subscriber revenue (GAAP)	\$700,242	\$622,437
Net advertising revenue (GAAP)	18,670	16,558
Other subscription-related revenue (GAAP)	57,721	58,531
Purchase price accounting adjustments	67	1,909
	<u>\$776,700</u>	<u>\$699,435</u>
Daily weighted average number of subscribers	21,990,863	20,233,144
ARPU	\$11.77	\$11.52

Reconciliation for SiriusXM

	For the Years Ended December 31,		
	2011	2010	2009
Cash Flow information			
Net cash provided by operating activities	\$543,630	\$512,895	\$433,830
Net cash used in investing activities	(127,888)	(302,414)	(248,511)
Net cash used in financing activities	(228,443)	(7,279)	(182,276)
Free Cash Flow			
Net cash provided by operating activities	\$543,630	\$512,895	\$433,830
Additions to property and equipment	(137,429)	(311,868)	(248,511)
Restricted and other investment activity	9,541	9,454	0
Free cash flow	\$415,742	\$210,481	\$185,319



SIRIUS XM RADIO INC.

FORM 8-K (Current report filing)

Filed 05/01/12 for the Period Ending 05/01/12

Address	1221 AVENUE OF THE AMERICAS 36TH FLOOR NEW YORK, NY 10020
Telephone	212-584-5100
CIK	0000908937
Symbol	SIRI
SIC Code	4832 - Radio Broadcasting Stations
Industry	Broadcasting & Cable TV
Sector	Services
Fiscal Year	12/31

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 1, 2012

SIRIUS XM RADIO INC.

(Exact Name of Registrant as Specified in Charter)

Delaware
(State or other Jurisdiction
of Incorporation)

001-34295
(Commission File Number)

52-1700207
(I.R.S. Employer
Identification No.)

1221 Avenue of the Americas, 36th Fl., New York, NY
(Address of Principal Executive Offices)

10020
(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-
-

Item 2.02 Results of Operations and Financial Condition

On May 1, 2012, we reported our financial and operating results for the three months ended March 31, 2012. These results are discussed in the press release attached hereto as Exhibit 99.1, which is incorporated by reference in its entirety.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits.

The Exhibit Index attached hereto is incorporated herein.

SIGNATURES

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

SIRIUS XM RADIO INC.

By: /s/ Patrick L. Donnelly
Patrick L. Donnelly
Executive Vice President, General
Counsel and Secretary

Dated: May 1, 2012

EXHIBITS

<u>Exhibit</u>	<u>Description of Exhibit</u>
99.1	Press Release dated May 1, 2012



SiriusXM Reports First Quarter 2012 Results

- **Subscribers Grow by 405,000 to a Record 22.3 Million**
- **Record Quarterly Revenue of \$805 Million, Up 11%**
- **First Quarter 2012 Net Income of \$108 Million, Up 38%**
- **Adjusted EBITDA Reaches \$208 Million, Up 15%**
- **Company Raises Subscriber Guidance**

NEW YORK – May 1, 2012 – Sirius XM Radio (NASDAQ: SIRI) today announced first quarter 2012 financial and operating results, including revenue of \$805 million, up 11% over first quarter 2011 revenue of \$724 million. Net income for the first quarters of 2012 and 2011 were \$108 million and \$78 million, respectively, or \$0.02 and \$0.01 per diluted share, respectively.

Adjusted EBITDA for the first quarter of 2012 was \$208 million, up 15% from \$181 million in the first quarter of 2011.

"SiriusXM is starting the year with tremendous operational momentum. We grew subscribers faster than any first quarter since our 2008 merger of Sirius and XM, and we improved our self-pay monthly churn rate to 1.9% despite implementing a price increase at the beginning of the year. Rising auto sales and our strong execution should enable us to exceed our prior 2012 subscriber growth guidance of 1.3 million, which today we are raising to 1.5 million," noted Mel Karmazin, Chief Executive Officer, SiriusXM.

"In 2012, we continue to expect record revenue, adjusted EBITDA, and free cash flow, and our subscriber base will also finish this year at another all-time record high," said Karmazin. "Our number one focus is on delivering the best possible content to our subscribers – we are rolling out more satellite channels via factory-installed 2.0 radios, and we are improving our online offering by delivering even more live sports coverage, updated apps with enhanced features, and later this year, on-demand content and personalized radio. There has never been a better time to be a SiriusXM subscriber, and we think our unparalleled audio product will produce strong operating and financial performance for our company in the years to come, which should result in great value to our stockholders."

Additional highlights from the first quarter include:

- **Subscriber growth accelerates.** Self-pay net subscriber additions improved by 148% to 299,348 and the subscriber base rose to an all-time high of 22.3 million subscribers. Strong auto sales helped lift total paid and unpaid trial inventory by more than 200,000 from year end to 5.7 million.
- **Churn improves.** Self-pay monthly churn was 1.9% in the first quarter of 2012, an improvement from 2.0% in the first quarter of 2011. New vehicle consumer conversion rate was 45% in the first quarter of 2012, in-line with the first quarter of 2011.
- **Free cash flow grows.** Free cash flow was \$15 million in the first quarter of 2012, an improvement from the (\$17) million recorded in the first quarter of 2011, and represented the first time SiriusXM has shown positive free cash flow in the first quarter of a year.

"We ended the first quarter with \$747 million of cash, after the repurchase of approximately \$57 million in aggregate principal amount of our debt during the first quarter. Our leverage at the end of the first quarter improved to 3.9 times our adjusted EBITDA on a gross basis and 2.9 times our adjusted EBITDA on a net basis," said David Frear, SiriusXM's Executive Vice President and Chief Financial Officer. "Our growing cash flow is reducing our leverage substantially, and this improving credit profile should benefit stockholders as we refinance or pay down more than \$1 billion of high coupon debt over the next 15 months."

2012 GUIDANCE

"With auto sales in the first quarter exceeding expectations and better than expected churn, we now expect to grow our net new subscribers by 1.5 million in 2012," said Karmazin. The Company reiterates its existing 2012 revenue, adjusted EBITDA and free cash flow guidance:

- Revenue of approximately \$3.3 billion,
- Adjusted EBITDA of approximately \$875 million, and
- Free cash flow of approximately \$700 million.

FIRST QUARTER 2012 RESULTS

SIRIUS XM RADIO INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Three Months Ended March 31,	
<i>(in thousands, except per share data)</i>	2012	2011
Revenue:		
Subscriber revenue	\$ 700,242	\$ 622,437
Advertising revenue, net of agency fees	18,670	16,558
Equipment revenue	16,953	15,867
Other revenue	68,857	68,977
	804,722	723,839
Operating expenses:		
Cost of services:		
Revenue share and royalties	132,111	106,929
Programming and content	70,095	72,959
Customer service and billing	66,187	65,836
Satellite and transmission	18,110	18,560
Cost of equipment	5,806	6,405
Subscriber acquisition costs	116,121	105,270
Sales and marketing	58,361	47,819
Engineering, design and development	12,690	11,135
General and administrative	59,886	56,354
Depreciation and amortization	66,117	68,400
	605,484	559,667
Total operating expenses		
Income from operations	199,238	164,172
Other income (expense):		
Interest expense, net of amounts capitalized	(76,971)	(78,218)
Loss on extinguishment of debt and credit facilities, net	(9,971)	(5,994)
Interest and investment loss	(1,142)	(1,884)
Other (loss) income	(578)	1,617
	(88,662)	(84,479)
Total other expense		
Income before income taxes	110,576	79,693
Income tax expense	(2,802)	(1,572)
	107,774	78,121
Net income	\$	\$
	107,774	78,121
Foreign currency translation adjustment, net of tax	(56)	67
	107,718	78,188
Comprehensive income	\$	\$
	107,718	78,188
Net income per common share:		
Basic	\$ 0.03	\$ 0.02
Diluted	\$ 0.02	\$ 0.01
Weighted average common shares outstanding:		
Basic	3,767,443	3,735,136
Diluted	6,537,728	6,481,384

SIRIUS XM RADIO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	March 31, 2012	December 31, 2011
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 746,576	\$ 773,990
Accounts receivable, net	108,335	101,705
Receivables from distributors	96,037	84,817
Inventory, net	36,791	36,711
Prepaid expenses	177,515	125,967
Related party current assets	6,503	14,702
Deferred tax asset	144,798	132,727
Other current assets	20,539	6,335
Total current assets	1,337,094	1,276,954
Property and equipment, net	1,645,610	1,673,919
Long-term restricted investments	3,973	3,973
Deferred financing fees, net	38,848	42,046
Intangible assets, net	2,559,712	2,573,638
Goodwill	1,834,856	1,834,856
Related party long-term assets	54,229	54,953
Other long-term assets	27,402	35,657
Total assets	\$ 7,501,724	\$ 7,495,996
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 454,748	\$ 543,193
Accrued interest	77,562	70,405
Current portion of deferred revenue	1,404,919	1,333,965
Current portion of deferred credit on executory contracts	281,270	284,108
Current maturities of long-term debt	1,540	1,623
Related party current liabilities	16,541	14,302
Total current liabilities	2,236,580	2,247,596
Deferred revenue	183,430	198,135
Deferred credit on executory contracts	147,012	218,199
Long-term debt	2,625,533	2,683,563
Long-term related party debt	329,576	328,788
Deferred tax liability	1,024,734	1,011,084
Related party long-term liabilities	21,048	21,741
Other long-term liabilities	84,232	82,745
Total liabilities	6,652,145	6,791,851
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.001; 50,000,000 authorized at March 31, 2012 and December 31, 2011:		
Series A convertible preferred stock; no shares issued and outstanding at March 31, 2012 and December 31, 2011	—	—
Convertible perpetual preferred stock, series B-1 (liquidation preference of \$0.001 at March 31, 2012 and December 31, 2011); 12,500,000 shares issued and outstanding at March 31, 2012 and December 31, 2011	13	13
Common stock, par value \$0.001; 9,000,000,000 shares authorized at March 31, 2012 and December 31, 2011; 3,788,755,725 and 3,753,201,929 shares issued and outstanding at March 31, 2012 and December 31, 2011	3,789	3,753
Accumulated other comprehensive income, net of tax	15	71
Additional paid-in capital	10,522,080	10,484,400
Accumulated deficit	(9,676,318)	(9,784,092)
Total stockholders' equity	849,579	704,145

Total liabilities and stockholders' equity

\$ 7,501,724

\$ 7,495,996

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

	For the Three Months Ended March 31,	
<i>(in thousands)</i>	2012	2011
Cash flows from operating activities:		
Net income	\$ 107,774	\$ 78,121
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	66,117	68,400
Non-cash interest expense, net of amortization of premium	10,647	9,573
Provision for doubtful accounts	6,208	9,623
Amortization of deferred income related to equity method investment	(694)	(694)
Loss on extinguishment of debt and credit facilities, net	9,971	5,994
Loss on unconsolidated entity investments, net	422	2,350
Loss on disposal of assets	—	266
Share-based payment expense	14,951	12,856
Deferred income taxes	1,572	1,111
Other non-cash purchase price adjustments	(73,956)	(66,743)
Changes in operating assets and liabilities:		
Accounts receivable	(12,838)	11,291
Receivables from distributors	(11,220)	(8,982)
Inventory	(80)	(7,330)
Related party assets	8,347	(3,686)
Prepaid expenses and other current assets	(65,753)	(39,232)
Other long-term assets	8,256	7,617
Accounts payable and accrued expenses	(96,859)	(110,400)
Accrued interest	7,157	8,124
Deferred revenue	56,182	39,225
Related party liabilities	2,239	738
Other long-term liabilities	1,505	(113)
Net cash provided by operating activities	39,948	18,109
Cash flows from investing activities:		
Additions to property and equipment	(25,187)	(34,983)
Net cash used in investing activities	(25,187)	(34,983)
Cash flows from financing activities:		
Proceeds from exercise of stock options	22,765	1,072
Payment of premiums on redemption of debt	(6,602)	(4,094)
Repayment of long-term borrowings	(58,338)	(133,100)
Net cash used in financing activities	(42,175)	(136,122)
Net decrease in cash and cash equivalents	(27,414)	(152,996)
Cash and cash equivalents at beginning of period	773,990	586,691
Cash and cash equivalents at end of period	\$ 746,576	\$ 433,695

Subscriber Data and Operating Metrics

The following table contains subscriber data and key operating metrics for the three months ended March 31, 2012 and 2011, respectively:

	Unaudited	
	For the Three Months Ended March 31,	
	2012	2011
Beginning subscribers	21,892,824	20,190,964
Gross subscriber additions	2,161,693	2,052,367
Deactivated subscribers	(1,757,097)	(1,679,303)
Net additions	404,596	373,064
Ending subscribers	22,297,420	20,564,028
Self-pay	18,208,090	16,807,643
Paid promotional	4,089,330	3,756,385
Ending subscribers	22,297,420	20,564,028
Self-pay	299,348	120,844
Paid promotional	105,248	252,220
Net additions	404,596	373,064
Daily weighted average number of subscribers	21,990,863	20,233,144
Average self-pay monthly churn	1.9%	2.0%
New Vehicle Consumer Conversion rate	45%	45%
ARPU	\$ 11.77	\$ 11.52
SAC, per gross subscriber addition	\$ 60	\$ 57

Subscribers. The improvement was due to the 5% increase in gross subscriber additions, primarily resulting from higher new vehicle shipments and light vehicle sales, as well as an increase in conversions from unpaid promotional trials and returning subscriber activations inclusive of previously owned vehicles. This increase in gross additions was partially offset by the 5% increase in deactivations. The increase in deactivations was primarily due to an increase in paid promotional trial deactivations stemming from the increase in volume of paid trials, along with growth in our subscriber base, partially offset by a decline in the self-pay churn rate.

Average Self-pay Monthly Churn for the three months ended March 31, 2012 and 2011 was 1.9% and 2.0%, respectively. The decrease in the churn rate was driven by a reduction in the non-pay cancellation rate, as well as a favorable shift in the subscriber mix towards automotive vehicles, which churn at lower rates in comparison to aftermarket products.

New Vehicle Consumer Conversion Rate for the three months ended March 31, 2012 and 2011 was 45%.

ARPU increased primarily due to the increase in certain of our subscription rates beginning in January 2012, an increase in sales of premium services, including Premier packages, data services and streaming, partially offset by an increase in subscriber retention programs and in the number of subscribers on promotional plans and a decrease in the revenue from the U.S. Music Royalty Fee due to the December 2010 reduction in the rate from 15.3% to 10.8%.

SAC, *Per Gross Subscriber Addition*, increased in the three months ended March 31, 2012 primarily due to higher subsidies related to increased OEM installations occurring in advance of acquiring the subscriber, partially offset by improved OEM subsidy rates per vehicle compared to the three months ended March 31, 2011.

Glossary

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

the Black-Scholes-Merton model which varies based on assumptions used for the expected life, expected stock price volatility and risk-free interest rates.

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

	Unaudited	
	For the Three Months Ended March 31,	
	2012	2011
Net income (GAAP):	\$ 107,774	\$ 78,121
Add back items excluded from Adjusted EBITDA:		
Purchase price accounting adjustments:		
Revenues	1,880	3,722
Operating expenses	(74,024)	(67,972)
Share-based payment expense, net of purchase price accounting adjustments	14,951	13,037
Depreciation and amortization (GAAP)	66,117	68,400
Interest expense, net of amounts capitalized (GAAP)	76,971	78,218
Loss on extinguishment of debt and credit facilities, net (GAAP)	9,971	5,994
Interest and investment loss (GAAP)	1,142	1,884
Other (income) loss (GAAP)	578	(1,617)
Income tax expense (GAAP)	2,802	1,572
Adjusted EBITDA	<u>\$ 208,162</u>	<u>\$ 181,359</u>

Adjusted Operating Expenses - We define this Non-GAAP financial measure as our actual operating expenses adjusted to exclude the impact of certain purchase price accounting adjustments and share-based payment expense. We use this Non-GAAP financial measure to manage our business, set operational goals and as a basis for determining performance-based compensation for our employees. The following tables reconcile our actual operating expenses to our adjusted operating expenses for the three months ended March 31, 2012 and 2011:

Unaudited For the Three Months Ended March 31, 2012

(in thousands)

	As Reported	Purchase Price Accounting Adjustments	Allocation of Share-based Payment Expense	Adjusted
Operating expenses				
Cost of services:				
Revenue share and royalties	132,111	34,846	—	166,957
Programming and content	70,095	11,702	(1,374)	80,423
Customer service and billing	66,187	—	(427)	65,760
Satellite and transmission	18,110	—	(785)	17,325
Cost of equipment	5,806	—	—	5,806
Subscriber acquisition costs	116,121	24,085	—	140,206
Sales and marketing	58,361	3,391	(2,360)	59,392
Engineering, design and development	12,690	—	(1,432)	11,258
General and administrative	59,886	—	(8,573)	51,313
Depreciation and amortization (a)	66,117	—	—	66,117
Share-based payment expense	—	—	14,951	14,951
Total operating expenses	\$ 605,484	\$ 74,024	\$ —	\$ 679,508

(a) Purchase price accounting adjustments included above exclude the incremental depreciation and amortization associated with the \$785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the three months ended March 31, 2012 was \$14,000.

Unaudited For the Three Months Ended March 31, 2011

(in thousands)

	As Reported	Purchase Price Accounting Adjustments	Allocation of Share-based Payment Expense	Adjusted
Operating expenses				
Cost of services:				
Revenue share and royalties	106,929	29,933	—	136,862
Programming and content	72,959	12,824	(2,510)	83,273
Customer service and billing	65,836	18	(367)	65,487
Satellite and transmission	18,560	239	(567)	18,232
Cost of equipment	6,405	—	—	6,405
Subscriber acquisition costs	105,270	21,656	—	126,926
Sales and marketing	47,819	3,212	(1,875)	49,156
Engineering, design and development	11,135	31	(1,142)	10,024
General and administrative	56,354	59	(6,576)	49,837
Depreciation and amortization (a)	68,400	—	—	68,400
Share-based payment expense (b)	—	—	13,037	13,037
Total operating expenses	\$ 559,667	\$ 67,972	\$ —	\$ 627,639

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

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

Programming and content	\$ 2,483	\$ 27	\$ —	\$ 2,510
Customer service and billing	349	18	—	367
Satellite and transmission	548	19	—	567
Sales and marketing	1,848	27	—	1,875
Engineering, design and development	1,111	31	—	1,142
General and administrative	6,517	59	—	6,576
Total share-based payment expense	\$ 12,856	\$ 181	\$ —	\$ 13,037

ARPU - is derived from total earned subscriber revenue, net advertising revenue and other subscription-related revenue, net of purchase price accounting adjustments, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. Other subscription-related revenue includes the U.S. Music Royalty Fee. Purchase price accounting adjustments include the recognition of deferred subscriber revenues not recognized in purchase price accounting associated with the Merger. ARPU is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited	
	For the Three Months Ended March 31,	
	2012	2011
Subscriber revenue (GAAP)	\$ 700,242	\$ 622,437
Add: net advertising revenue (GAAP)	18,670	16,558
Add: other subscription-related revenue (GAAP)	57,721	58,531
Add: purchase price accounting adjustments	67	1,909
	<u>\$ 776,700</u>	<u>\$ 699,435</u>
Daily weighted average number of subscribers	<u>21,990,863</u>	<u>20,233,144</u>
ARPU	<u>\$ 11.77</u>	<u>\$ 11.52</u>

Free cash flow - is derived from cash flow provided by operating activities, capital expenditures and restricted and other investment activity. Free cash flow is calculated as follows (in thousands):

	Unaudited	
	For the Three Months Ended March 31,	
	2012	2011
Cash Flow information		
Net cash provided by operating activities	\$ 39,948	\$ 18,109
Net cash used in investing activities	(25,187)	(34,983)
Net cash used in financing activities	(42,175)	(136,122)
Free Cash Flow		
Net cash provided by operating activities	\$ 39,948	\$ 18,109
Additions to property and equipment	(25,187)	(34,983)
Free cash flow	<u>\$ 14,761</u>	<u>\$ (16,874)</u>

Subscriber acquisition cost, per gross subscriber addition - or SAC, per gross subscriber addition, is derived from subscriber acquisition costs and margins from the 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 Three Months Ended March 31,	
	2012	2011
Subscriber acquisition costs (GAAP)	\$ 116,121	\$ 105,270
Less: margin from direct sales of radios and accessories (GAAP)	(11,147)	(9,462)
Add: purchase price accounting adjustments	24,085	21,656
	<u>\$ 129,059</u>	<u>\$ 117,464</u>
Gross subscriber additions	<u>2,161,693</u>	<u>2,052,367</u>
SAC, per gross subscriber addition	<u>\$ 60</u>	<u>\$ 57</u>

About Sirius XM Radio

Sirius XM Radio is America's satellite radio company. SiriusXM broadcasts more than 135 satellite radio channels of commercial-free music, and premier sports, news, talk, entertainment, traffic, weather, and data services to over 22 million subscribers. SiriusXM offers an array of content from many of the biggest names in entertainment, as well as from professional sports leagues, major colleges, and national news and talk providers.

SiriusXM programming is available on more than 800 devices, including pre-installed and after-market radios in cars, trucks, boats and aircraft, smartphones and mobile devices, and consumer electronics products for homes and offices. SiriusXM programming is also available at siriusxm.com, and on Apple, BlackBerry and Android-powered mobile devices.

SiriusXM has arrangements with every major automaker and its radio products are available for sale at shop.siriusxm.com as well as retail locations nationwide.

This communication contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, but are not limited to, statements about future financial and operating results, our plans, objectives, expectations and intentions with respect to future operations, products and services; and other statements identified by words such as "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "believe," "intend," "plan," "projection," "outlook" or words of similar meaning. Such forward-looking statements are based upon the current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are difficult to predict and generally beyond our control. Actual results may differ materially from the results anticipated in these forward-looking statements.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements: our competitive position versus other forms of audio entertainment; our dependence upon automakers; general economic conditions; failure of our satellites, which, in most cases, are not insured; our ability to attract and retain subscribers at a profitable level; royalties we pay for music rights; the unfavorable outcome of pending or future litigation; failure of third parties to perform; and our substantial indebtedness. Additional factors that could cause our results to differ materially from those described in the forward-looking statements can be found in our Annual Report on Form 10-K for the year ended December 31, 2011, which is filed with the Securities and Exchange Commission (the "SEC") and available at the SEC's Internet site (<http://www.sec.gov>). The information set forth herein speaks only as of the date hereof, and we disclaim any intention or obligation to update any forward looking statements as a result of developments occurring after the date of this communication.

 Follow SiriusXM on Twitter or  like the SiriusXM page on Facebook.

E - SIRI

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Company Name: Sirius XM Radio Inc
 Company Ticker: SIRI US
 Date: 2011-03-08
 Event Description: Credit Suisse Global Media and
 Communications Convergence Conference

Market Cap: 7,100.87
 Current PX: 1.805
 YTD Change(\$): +.1749
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Bloomberg Estimates - EPS
 Current Quarter: 0.006
 Current Year: 0.034
 Bloomberg Estimates - Sales
 Current Quarter: 732.857
 Current Year: 3098.091

Credit Suisse Global Media and Communications Convergence Conference

Company Participants

- Analyst, Credit Suisse
- David J. Frear, Executive Vice President and Chief Financial Officer

MANAGEMENT DISCUSSION SECTION

Analyst, Credit Suisse

Okay, good morning, everyone. Thank you all for joining us. It's my pleasure to introduce David Frear, CFO of Sirius XM Satellite Radio. David, I think you're going to perhaps start out with a brief introduction, and then I have some questions for you. And then we'll have, no doubt, Q&A from the audience, as well. David, welcome.

David J. Frear, Executive Vice President and Chief Financial Officer

Okay. Thank you, Tom. Thanks for taking the time this morning. Hopefully, many of you have been following this story. You know that satellite radio has had a great run, that we have faced intense competition in the nine years since we launched the business.

iPod was launched at the same time we were. Broadband has blown through the substantial majority of TV households in the country, bringing the plethora of Internet radio options to the public. Smartphones have taken the world by storm in the last couple of years. There are now over 60 million, I think, in the U.S. alone. And those, of course, are just incredibly powerful mobile computing devices that allow people to get virtually any form of entertainment they want anywhere.

So all this should sound like terrible news for Sirius XM Radio, except that we, through all this competition, managed to grow from zero to over 20 million subscribers. We've managed to get to the point where this year we expect to generate \$3 billion in revenue and over \$700 million in EBITDA, that we have an incredibly strong outlook for free cash flow, that we think growth prospects for the next several years are quite good, as the pool of enabled vehicles on the road should grow from maybe 33 million today to over 70 million in a few years. And our satellite capital expenditures are dropping like a stone, that will shed about \$200 million in capital expenditure requirements from 2010 to 2012, and won't really begin spending on satellites again until probably late 2016 or 2017.

So growing EBITDA, already strong free cash flow that was a couple hundred million last year, guidance is for something approaching \$300 million this year, the CapEx dropping, the interest costs dropping, and no taxes to be paid for quite some period of time, that you're looking at a great blueprint for rapidly expanding free cash flow. We did talk in our year-end call about maintaining roughly 3 times leverage in the balance sheet, and when you put it all together in the models, what that inevitably gets to is substantial returns of capital to shareholders over the course of the next several years.

So with that, Tom, why don't I turn it over to you.

Analyst, Credit Suisse



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Great. Thank you, David. So it seems like there's clearly a tremendous amount of momentum in the business. I think you did about 1.4 million net adds this year, and I think your original guidance for 2010 started out at closer to 500,000. What sort of changed throughout the year? Where did this surge in subscribers come from?

David J. Frear, Executive Vice President and Chief Financial Officer

Everywhere. Everything got better than our expectations. Automotive sales were better than we thought. Self-pay churn was better than we thought. The conversion rate from the automotive trial to a self-based subscription was better than we thought. And returning activations, radios that had been on at some point in the past and came back on in the course of the year, that was stronger. Probably an important thing to think about when you look at that outperformance relative to guidance is what happened with self-pay subscribers last year because part of you could think, well, okay, Sirius is really tied to the automotive business, automotive sales go up, so you just got a lot of new trial subscriptions. And the fact is, is our self-pay subscriptions grew by over 1 million last year. The self-pay growth was probably the biggest part of the excess over guidance.

Analyst, Credit Suisse

Okay. And so how are those trends continuing into 2011? It seems like guidance is calling for sort of flat net adds year-over-year, and they were obviously at a very high level in 2010, but what sort of drove that guidance? Is there upside there, or is that conservatism?

David J. Frear, Executive Vice President and Chief Financial Officer

Well, we're still fairly cautious about the economic environment and the consumer. Things are definitely getting better, and the comparison was so dire when you look to the past, so you would expect some improvement. How much how fast is anybody's guess. There is a really wide range of estimates out there on what's going to happen with North American automotive sales, that you've got some people in the 12.7 million range for 2011. You've got some as high as 14 million. And with it only being a one-year look forward, that just strikes me as a range with a lot of volatility in it. Look, we're hopeful the 14 million would come true, and if it did, that would certainly give us an upside in our numbers.

But the underlying consumer health is still something that we worry about a little bit. And so I think that we've provided guidance on self-pay churn and conversion rates that is stable, that we expect to be able to maintain last year's performance in those. And so I think, with that, that sort of gets you to a number that's, from a net adds perspective, flattish. Now, net adds might be flat, but it's still 7% growth in subscribers.

Analyst, Credit Suisse

Okay. Maybe talk a little bit about the addressable market. What percentage of new cars have a Sirius XM radio?

David J. Frear, Executive Vice President and Chief Financial Officer

So OEM penetration is a little over 60% today, probably 62%. It's been rising pretty steadily really since launch, that it was just a few years ago that OEM penetration was only in the 20% range. And to me, the most interesting thing about watching those statistics is what's happened with the conversion rate as we've taken the penetration rate up.

So conversion rates, when the penetration rate was in the 20% range, conversion rates were over 50% there, 55% or so. So if you looked at conversion time penetration as an indicator of what consumer demand, underlying demand might be, you'd take a 20% number, multiply it by 55, and say, geez, 11% of the new car-buying public would like to have a



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satellite radio. Now that we're up at 62%, that number – the conversion rate looks more like 45%. And so you run the math on that, and you're coming out with the perspective that maybe 27% of people buying new cars have an interest in a self-pay subscription to satellite radio. So, again, you extrapolate that out across the total car population in the country, and it's a very encouraging indicator for future growth.

Now, one other step there is somebody's going to say, well, wait a minute. Not everybody owns a car out there, owns a new car, and you're only talking about new car buyers. One of the things that we've found particularly interesting in the last couple years is – well, two things. One is that the awareness of the product among used car buyers, the awareness that it's in the car is substantially higher than I would have thought it was, but we ran a survey last fall and we found that 75% of buyers of a car that had a satellite radio in it knew the satellite radio was in the car. And that's not something I would have expected at this point in our development, so it's an encouraging sign.

And the second thing is, as we track the conversion rates on those, that for used car buyers who were able to get the name and address and get them into a trial, that the conversion rates on them, while they're not as good as the new car buyer conversion rates, they're also not that far behind them. So there's, I think, good early indications through the awareness, as well as the conversion rates, as to what the demand for the product will be among used car buyers.

Analyst, Credit Suisse

On the conversion rates, I believe conversion came out at about 46% in 2010. It was about an 80 basis points improvement. But maybe that slipped a little bit in the fourth quarter. Is that correct? And what sort of drove that?

David J. Frear, Executive Vice President and Chief Financial Officer

You know, mostly mix issues, right? And so as the – for the most part, what you're seeing is a pretty consistent trend of either sustaining or slightly improving conversion rates across models and manufacturers. And so what tends to be causing the conversion rate to move – the reported conversion rate – is mix, right? So if you end up with brands gaining share that have a lower conversion rate, then our reported conversion rate will come down, but it's not because fewer people are actually taking it brand by brand. It's just a mix issue.

Analyst, Credit Suisse

Okay, I guess switching gears to sort of the financial guidance from the subscriber side of things, you're guiding to \$3 billion in revenue, as you said earlier. That's about 7% year-over-year growth, which is sort of a case-up from the 14% you saw in 2010. Again, is that just conservatism, or is there some kind of headwind there that maybe we need to think about?

David J. Frear, Executive Vice President and Chief Financial Officer

Well, not so much headwind, but maybe a little less tailwind, right? In 2009 – August of 2009, we introduced the U.S. music recovery fee, right? In the spring of 2009, we began increasing price for second radios, and we also began charging for free streaming, so that, as you rolled those out, the full-year effect really vested in 2010, so you had a big increase in revenues to go along with the ARPU increase in the year. So we're not expecting price actions of that magnitude this year, and so your revenue increase is going to look a lot more like your underlying subscriber increase.

Analyst, Credit Suisse

Okay. So I got the impression that potentially there was room for a price hike sometime in the next year or so. Is that possible? Or is there a potential upside to revenue from maybe some new product offerings that you have?



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David J. Frear, Executive Vice President and Chief Financial Officer

So price hikes are – they're always possible. As I think most people know, the FCC merger order put some constraints on us in terms of what we can do. Now the merger order is set to expire in late July, right around August 1st, and the FCC does have a notice of inquiry out and has asked for comments on whether or not they should extend the merger order. We filed a document with the FCC that said that we don't think that the merger order should be extended, that our voluntary commitments on pricing did not include a voluntary commitment that contemplated the prices going beyond three years. The FCC has acknowledged that that's the case, that we did not voluntarily commit to do that. And so, in essence, the commission would have to decide that it has the legislative authority to regulate satellite radio prices, which we don't believe they have.

There have been a bunch of comments that have been filed, most generally supportive of the FCC not seeking to regulate business. The only comment that I can think of offhand that was filed in support of extending the price increase was actually filed by a law firm that's seeking to sue us on antitrust matters, so they've got pending litigation, and they filed something in front of the commission to support their point in litigation.

I do expect the merger order to expire, according to its terms, in the summer. That would give us the opportunity, if we chose to, to increase prices, whether it's later this year or next year or the year after. We did reduce the music recovery fee in December, right, so it was something that didn't seem to get picked up by many people. But we had to make sure that we didn't over-recover the fee. There are rules in the merger order on what we can do in recovering royalty costs, and so we had to make an adjustment to the fee in December to make sure we didn't charge too much through. So that's affecting ARPU a little adversely this year.

Now, we are selling more data services, right? So the satellite platform is just a digital platform. It's 0s and 1s, and we can carve up the bits any way that we think is appropriate for the business. So far, we believe that allocating most of those bits to audio program is what's going to generate the greatest amount of revenue and I think we've seen good results in that. But all that being said, there are a lot of value-added services that you can draw on top of that for very little cost, so offering traffic services, offering sort of information services like sports scores or, honestly, weather mapping. There are a lot of ancillary services to offer through allocating some of those bits to digital, and that should help enhance revenues a little bit.

We have a push going on to continue to get more people to take the \$2.99 streaming password. With the plethora of IP connected devices that are in the market now that will continue to come into the market in coming years, whether it's a smartphone, your television set, or your toaster, all of those things – if they can take a speaker connection or a way to listen to satellite radio – what we have always – we've been streaming online for, I think, almost seven years now, and the idea is really Sirius everywhere. We're relatively agnostic in terms of transmission platform. What we sell is Sirius XM branded programming for \$12.95 a month, and for an additional fee, you have the convenience of being able to listen to it anywhere you want. And so selling traffic services, Internet services, more best of programming should help with ARPU.

Analyst, Credit Suisse

Talk a little bit more about your content. I think recently you re-upped with the NFL and Howard Stern. How important are these content agreements to the business? And perhaps you could describe any other important content agreements that are coming up for renewal.

David J. Frear, Executive Vice President and Chief Financial Officer

So [inaudible], you've got entertainment product content's incredibly important, right? And it's all about what you hear when you turn on the radio. It's not really about the gadget or the technology. So our music program is important, and



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our top programming is important, as well. But I know, for me, slowly but surely I've come to love the fact that I can listen to CNBC when I get in the car. I don't stop listening to it when I leave the house in the morning. And the same thing can be said with many channels on the service.

So we want to offer a broad-based platform of content that we believe, from a radio perspective, that our content is unparalleled. We don't think there's anyone in North America that offers as good a value proposition as we do for content. There's been a lot of talk about the Internet radio competition. There's a lot of buzz going on with what the auto companies are doing with Pandora, with the Toyota announcement with Pandora today. MOG is going to be included in, I think, the Mini line of BMW. And it's important to remember – and I'm sure you're going to have a question later on this, but it's important to remember when you're looking at that, is that those are, today, music services. That's great. They're great for what they are.

We are radio, and so as you think about what you've known to be radio through your lives, you'll roll your way through the AM and FM dial, and you're deciding whether you want to listen to traffic, weather, sports, talk, one form of music or another. And satellite radio is the same thing. It's just got a lot more of all of those than anybody else.

Analyst, Credit Suisse

Okay. Maybe talking about sort of expenses a little bit more broadly, you've taken a substantial amount of fixed costs out of the business since 2008. Can you walk us through some of those kind of cost reduction initiatives? And have you fully harvested the synergies from the XM merger at this point?

David J. Frear, Executive Vice President and Chief Financial Officer

So I'm going to spare you some of this. The last time I was asked this question, it was in the deposition. I gave a six-hour response to it that constituted over 300 pages of testimony. There isn't a single part of the business where there weren't synergies to be garnered from the merger. And it was actually getting the synergies wasn't very difficult, that we got a merger approved, we picked the managers, and then we said, hey, it's August. Go do your budget. Here's where you are today. Tell us where you're going to be at the end of the year. Then tell us where you're going to be in another 12 months, and that's our integration plan.

And every single contract was – as it came up, because a deal's a deal, so what comes up, it's a deal. But as every contract came up – it doesn't matter whether it was content or buying printing supplies or legal services or accountants – every single one got done as if it were new, and we banged our way through it. There is still some left to do. So it took a couple of years to get the subscriber management systems integrated, and that took place just in November, so now we have the opportunity to shed extra servers, storage arrays, maintenance agreements, software license agreements, rack and co-lo space for those things, developers who had to maintain two different sets of code. We still have, to your earlier question, content arrangements that are coming up in two, three years. NASCAR is in its final season, so in November, the current deal is over, and I'm very hopeful that we'll find the right balance of value with NASCAR to continue the programming when the season starts again next year in February.

The year after that – well, really middle of '13, the Fox News contracts come up for renewal. Same thing, Fox has obviously great programming. They do a fine job, and we're hopeful again of finding the right balance of value. The NHL and baseball aren't up until 2015, long way out in some ways, but certainly in our planning horizon, and we look forward to finding a good balance of value with those two leagues.

And another one worth noting is the GM agreement that has actually already been renegotiated. We renegotiated the GM agreement Christmas of '08. There were some changes in economics that started in January of '09, but really the restructuring of the economic relationship between GM and Sirius XM goes into effect October of 2013. And so, again, as things come up – there are other auto agreements that come up from time to time or new services that we start to launch that aren't covered by the existing agreements, which gives us the opportunity to open them back up and seek to optimize the economics.



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Analyst, Credit Suisse

Okay. So it seems like you're going to grow revenues in sort of a healthy way this year, and maybe there's still some expense synergies to be garnered, and you're guiding to a little over \$700 million in EBITDA for this year. Do you think there's opportunity for upside there? How would you describe your confidence in hitting those targets?

David J. Frear, Executive Vice President and Chief Financial Officer

Well, you know, the guidance is the guidance. So we gave guidance for \$715 million in EBITDA, and that's what we expect to do. We also have said that the 22% EBITDA margins that you saw in 2010 should grow to over 40% at maturity. We haven't said when maturity comes, but part of getting there is not only continuing to grow the revenues, perhaps continuing to improve the ARPU, but also continuing to go back through, and as all these different contracts come up, continuing to bang away on them in the next few years in the same way that we have in the last few years.

Analyst, Credit Suisse

Okay. Switching gears a little bit here to your satellite fleet, what does the entire Sirius and XM fleet look like today? How many satellites do you have in total, and maybe can you describe the Sirius satellite development roadmap going forward?

David J. Frear, Executive Vice President and Chief Financial Officer

So we have two platforms, the XM platform and the Sirius platform. And for the moment, radios built for one platform cannot hear the signals from the other platform. So the XM fleet has two operating satellites and a recently launched spare, and then also has the original two XM satellites that have a few years of life on them that effectively function as spares, as well. The Sirius constellation is currently – it started with three satellites that are, as opposed to geosynchronous, sitting on the equator, which any of you who follow satellites are familiar with, but the original three Sirius satellites actually operate in a figure eight orbit that's running north-south from basically the horn of South America up to the Hudson Bay. And we are replacing that constellation. We believe those satellites will function just fine through at least 2015. But we launched SIRIUS 5 as a geosynchronous satellite about a year-and-a-half ago, and we will launch SIRIUS 6 as another geosynchronous satellite in the fourth quarter of this year.

The XM-5 satellite that was launched a few months ago actually has the ability to serve as a backup for both constellations. So, long term, what you should expect to see is two XM satellites, two Sirius satellites, and one spare that can cover either side. With the launch of SIRIUS 6 in the fourth quarter of this year, we aren't expecting to spend any additional money building satellites until about 2017, when we will begin to plan for the replacement of XM-3. And right now, XM-3 probably needs to be replaced around 2020.

Analyst, Credit Suisse

Okay, and so where does CapEx decline to? What is sort of the right way to think about maintenance CapEx following this last satellite launch?

David J. Frear, Executive Vice President and Chief Financial Officer

So maintenance CapEx, you should think of around \$60 million a year. And it should be in that range for 2012.



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Analyst, Credit Suisse

Okay. I guess switching gears to new products, can you talk a little bit about SIRIUS XM 2.0 and just explain what this is and what are some of the new features that subscribers will be able to access?

David J. Frear, Executive Vice President and Chief Financial Officer

Well, in SIRIUS XM 2.0, we'll put up more programming, right, that we can – we'll add some channels. We think in adding these channels, we'll be able to address in markets that we have not done as good a job addressing in the past. So, for instance, the Hispanic marketplace is a tremendous opportunity in the U.S., so we'll improve and increase our Hispanic programming. We'll also offer more features and functionality for both IP subscribers as well as satellite subscribers, the enhancements of pause, rewind, and record functionality, electronic programming guides, the opportunity to have TiVo-like functionality in the device where you can schedule what it is you'd like to record and listen to. And so we should have more to say on that as we come into the fourth quarter.

Analyst, Credit Suisse

Okay. Okay. I guess you touched on this topic earlier, but there's been some press recently about the threat from Pandora. How do you folks view that? It's obviously not an incremental positive out there, but do you consider it a serious threat, and if not Pandora, what – how do you think about the competitive landscape?

David J. Frear, Executive Vice President and Chief Financial Officer

So it's definitely a threat, right? We believe that we operate in an intensely competitive market, and we don't believe anything's changed about that in the nine years that we've been in business. Terrestrial radio is a dominant position in audio entertainment. There are 235 million people that listen to it every week. That's a lot of people, and it's a lot of brand loyalty. Now, we've managed to carve out sort of 35 million, 40 million people who are regularly listening to satellite radio, and we think we've done a good job at that. But Internet radio has been around since the mid-90s.

Now, you could argue that in the early days, that, geez, it really wasn't very well distributed, it was hard to get to, there were technological reasons why people couldn't get to it. Well, all those are gone now. So broadband has been very well penetrated in American households for a few years now. And smartphones are up to, as I said before, 60 million in the U.S. and growing rapidly. So there's plenty of opportunity for people to listen to Internet radio.

It's interesting to look at Pandora, which is the biggest brand in that sector, this is what they're choosing to do, so they've moved away from simply – from a couple things. One, they seem to be moving away from a subscription-based product, right, so when you read their documents, listen to their statements, that they believe that advertising is their future. Okay. So that puts them – we're a subscription-based product – so that puts them squarely in the realm of competing for the terrestrial radio ad dollar, right? So I get that. It makes a lot of sense.

They've moved away from just the music recommendation engine, and they are offering genre-type channels, and in fact the Toyota announcement that's been out on that in their Legends & Icons marketing effort is all about linking up cars to genre channels. Well, okay. So genre channels with ads, sounds kind of like terrestrial radio. And we've done pretty well competing against a free ad-based curated content music service, right, which is what terrestrial radio is. So it looks to me like Pandora's business plan is taking them closer to terrestrial radio, and if we're going to compete against that, I feel pretty good about it.

I wonder, though, as I look at a lot of the other services that are coming out, where this is really going. And it may be that it's going to just compete against radio. But more and more of these services, to me, are beginning to look like things that are going to compete with music sales, and so your personal music library, that a lot of what I see going on, seems to me it's where's it going to be stored. Instead of it being stored on the device in your pocket, is it going to be



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stored in the cloud? And I don't think you care. I think what you care about is when you turn it on, you can hear what you want hear. And as long as that functionality is provided to you, that you're going to be happy with it.

A lot of the new services that are being launched seem to be pushing that way. They seem to be business plans going towards music in the cloud. And, again, radio has competed against personal music collections for decades – 50, 60, 70 years. And we certainly have competed against personal music collections, in probably the most intensive change in personal music habits, with the launch of iPod. It launched in 2001, and so did we. So we worry about it all the time, serious issue, but I like our chances.

Analyst, Credit Suisse

Okay. I'll open it up for questions from the audience in just a second, but maybe, David, could you talk a little bit about leverage? And you're at about \$2.5 billion in net debt right now. You're roughly four times levered. You stated your long-term target is about three times. EBITDA is growing. So is the right way to think about it you're basically going to grow into your leverage target?

David J. Frear, Executive Vice President and Chief Financial Officer

I think that's right. So we had \$715 million in guidance. And I think if you look at most people's models for debt and where the cash would be, that you kind of get to that target of three times by either the end of this year or early next year. And so we'll definitely grow into it and grow into it pretty rapidly. And then, from then on, the question is, is well, what are you going to do? Now you're at your target. Are you going to use your cash flow to retire debt, or? And it's probably going to be the "or," that we'll keep the debt and we'll work on distributions to shareholders.

Analyst, Credit Suisse

Do you want to expand on that just a little bit? And are you thinking about that in terms of a dividend or a share repurchase, or any thought on that philosophy there?

David J. Frear, Executive Vice President and Chief Financial Officer

The board hasn't had that discussion. We'll certainly have it. I think that there's – at least in the near term, it's likely to be more efficient for shareholders if we do it through repurchases, but we haven't had the discussions.

Analyst, Credit Suisse

Okay, great. If anyone has a question, please go ahead. Yeah.

Q&A

<Q>: I know at the end of the day it doesn't mean anything, but do you guys think about reverse splits, that \$5 rule or whatever it is with brokers, that sort of thing?

<A - David J. Frear, Executive Vice President and Chief Financial Officer>: I might be bound by my history. I've had this job for eight years, and people have been asking me about it for eight years, and I can't come up with a good reason to do it. I know it gets me a higher stock price. It doesn't really improve my liquidity. It doesn't really improve my access to the markets. I don't think it's going to broaden demand from institutional holders. And so when you think about the risk of – we have 900,000 stockholders, and if a bunch of retail shareholders decided they didn't like owning fewer shares, there's risk with them just trading off the stock for something that – you're right. It doesn't matter. So I



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can't come up with a good reason to do it, and so we probably won't.

<Q>: [Question Inaudible]?

<A - David J. Frear, Executive Vice President and Chief Financial Officer>: You know, I'm just not hearing that it's an impediment to interest in the stock, and so – there are lots of rules. There are the House rules that say institutions can't buy sub-\$5 stocks, and yet every institution I ask says no, we waive that rule all the time. So at the margin, there's got to be an inefficiency, but in general, I just can't come up with enough of a positive to justify taking a risk.

<Q>: Anyone else? Yeah, go ahead.

<Q>: Does the \$60 million in annual maintenance CapEx include a deferred number – is that the cash number, or that includes a deferred number for the licensed satellites?

<A - David J. Frear, Executive Vice President and Chief Financial Officer>: That's a cash number. Now, there are some continuing in-orbit incentives, and this is what you might be talking with, with satellites is that the satellite contracts frequently put – a big part of the profit margin from the manufacturer is based on whether or not the satellite performs according to specifications in orbit. So I think \$60 million is a pretty good number overall. And in any given year, depending on the projects we initiate, we might be a little over or a little under once you include the satellite incentives, as well.

<Q>: Can you list the top five most popular channels?

<A - David J. Frear, Executive Vice President and Chief Financial Officer>: Well, let's see. I think it pretty much follows what you would expect to find, that the listening tastes of our subscribers are not materially different from the general public listening to the terrestrial radio. So Power is a very popular channel. Your Top 40 channel is a very popular channel, right? And so if you were to look at listening, I think it would largely break down along the same lines as terrestrial radio. Different question is to what drives subscription, right? And frequently, subscription is driven by how people think they might use the product as opposed to how they actually use it.

Analyst, Credit Suisse

Anyone else? Okay, great. David, thank you so much for joining us today. That was terrific.

David J. Frear, Executive Vice President and Chief Financial Officer

Thank you.

Analyst, Credit Suisse

Thanks a lot.

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Company Ticker: SIRI US
Date: 2011-12-05
Event Description: UBS Global Media & Communications Conference

Market Cap: 6,788.37
Current PX: 1.81
YTD Change(\$): +.1799
YTD Change(%): +11.036

Bloomberg Estimates - EPS
Current Quarter: 0.004
Current Year: 0.040
Bloomberg Estimates - Sales
Current Quarter: 788.500
Current Year: 3024.364

UBS Global Media & Communications Conference

Company Participants

- John Janedis
- David J. Frear

MANAGEMENT DISCUSSION SECTION

John Janedis

Good morning. Welcome to 39th Annual UBS Media and Telecommunications Conference, the longest-running conference in Wall Street. To kick us off, please welcome David Frear, Executive Vice President and Chief Financial Officer of Sirius XM. David?

David J. Frear

Good morning, everybody. Thanks for taking the time to come in. I know many of you have seen this story before, but I'd like to do – hopefully, you won't find it as too much of a remedial exercise but I think it's important to put some perspective on where the company is and what we've come through. We see ourselves as being in an intensely competitive environment and it's been that way for a long period of time that as you can see from the slide, that Internet streaming is actually much older than satellite radio is.

And as we have gone through sort of a real incredible 10 years, especially the last 10 years since satellite radio began, iPods were introduced, HD radio came out, that MP3 connectivity came to vehicles, smartphones – nearly 100 million on the road in the United States today becomes an enabling technology for Internet radio. And it's just an incredibly competitive environment.

And the slide leaves off AM and FM radio, right? AM and FM, free service, in 235 million cars on the road today, so really an incredibly competitive environment. But we seem to have thrived in that environment. That in the 10 years since launching service, we've managed to carve out about 15% of the radio revenue market for ourselves and we think that's very, very good performance.

As we sit here just as an individual company, this year, we're sort of neck-and-neck with Clear Channel for being the largest radio company by revenues in America. I'm optimistic that next year that we will, in fact, be the largest radio company in terms of revenues in the country.

Part of what gets us there is we think we have a better revenue model, that most of the radio business plans that you see are advertising based. We have an advertising component to what we do but we are really driven by a subscription-based service and we've done a fantastic job of monetizing the listening that we get. And as you'll see, as I run through the presentation, that monetization just doesn't occur at the top line, it drops all the way down to free cash flow.

Just looking at subscription radio, we've found a way to attract subscribers in a scale that nobody else has matched. There's a lot of versions of subscription radio among the Internet services in particular. None of them seem to have found broad-base customer acceptance that they're mostly music listening services. And generally, what's really working for the guys in Internet radio is a premium model, the 21.3 million subscribers that we have amassed through radio listening provides us, we think, with an incredible competitive advantage going forward.

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SX Ex. 215-RP

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The success we've had in amassing scale and in monetizing is driven 100% by the content. We've put up an incredible array of music, talk, news and sports. It's not a music listening service. It is radio as we've all known radio to be. And we've just done a better job by virtue of having these subscriptions, having our advertising that we've done a better job of putting up a compelling line-up that's available to everybody in the country who wants it.

Now, we've had that program and it hasn't changed a lot over the course of the last several years. But what's gotten us to where we are isn't necessarily going to be enough to keep us going forward. So we continue to invest in what we bring to subscribers from a programming perspective as well as a technology perspective.

So the programming side of things that we've recently introduced a suite of Latin channels to better address the large and growing Hispanic marketplace in the country. We continue to improve our online offering. We actually have been offering service online for about seven years now. And that previous slide where you saw the subscriptions compared to other offerings, if you were to look at just Internet radio subscriptions in the United States, I believe we're far and away the largest player in that market although it's a fairly small market from a revenue perspective.

We've expanded the functionality that we provide to our subscribers through the smartphones as well as tablets. That what we find overwhelmingly is that consumers don't necessarily want a separate online streaming service that they're going to pay a subscription for. They love the premium versions, lots of listeners but generally very difficult to monetize. What smartphones represent for our subscribers, an extension of functionality. They come to us for the programming. They overwhelmingly come to us for satellite radio subscriptions and then we find that many of those subscribers are interested in extending their listening environment beyond the car or beyond a radio they might have at home and they use it on IP-based devices in the office, at home, as well as when they're out on the street.

With the launch of 2.0, we'll continue to expand the programming features and functionalities that we offer to subscribers. The new channels that I showed you a few minutes ago are part of that, that expanding the online content is part of that, offering additional functionality including access to on-demand content will be part of the future for our subscribers as well.

Where we brought the company to over the course of the last 10 years is now one of the largest subscription media companies in the country; only Comcast and Netflix are managing more subscription relationships everyday than Sirius XM is. We've seen a lot of consistency in the behavior of our subscribers over time. They love the service. The churn is very low that at 1.9% per month, it rivals the satellite TV guys and significantly better than other premium content services that people are familiar with.

All of this adds up to a really consistent record of demonstrating growth. And through all sorts of economic environments that we've all lived through 2008 and '09 and yet through the extended recession, that we continued to grow our base, the decline in subscribers from 2008 to '09 is solely related to the inventory of trials related to new car sales. If you were to look at the self-pay subscribers underpinning these numbers, you would see that we grew self-pay subscribers from 2007 to 2008 to 2009, they continue to grow today.

Driving subscription growth is something that drives revenue growth in the six years since 2006 and running through the guidance we've provided. Next year, we will more than double sales as you can see from this chart, that \$1.7 billion added to our annual revenues from 2006 to 2012. And honestly, a great job running cost-effective growth is actually delivered nearly that much in terms of EBITDA improvement, that the \$1.7 billion of revenue growth has turned into \$1.5 billion of EBITDA growth.

The merger of the two companies was certainly very helpful in terms of being able to squeeze out cost efficiencies. We continue to deliver on those efficiencies today. But I often get asked, "Where are you at synergies?" and while most of them are already in the numbers, there's still a few left to go. That the General Motors contract, which was renegotiated shortly after the merger, the original GM contract ended in the fourth quarter of 2013 but we renegotiated that contract back at Christmas of '08, new terms go into effect in October of 2014. While it's confidential, I can't talk about the terms of any of the automotive agreements, you should think about the change in terms as being something that's material to the continued EBITDA growth of the company.



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We still have additional programming synergies that we'll be able to explore with our programming partners over the course in the next few years. This year, we had a new contract with – Howard Stern was in place for the full year. Howard will be here for another four years. He's been a fantastic component of our business. We have new agreements with the NFL who's been another great partner, that the new NFL contract went into effect with the season in August. And most recently, we extended our agreement with NASCAR, which ended when the season ended just a couple of weeks ago and we're in a new multiyear agreement with NASCAR.

As you look to the future, we've got a couple other contracts from the premerger days with Fox News. We'll have an opportunity to talk to Fox about those contracts in mid-2013. And then the baseball and hockey agreements which are the last of the premerger agreements. They're still a few years to go but we'll have an opportunity to talk to both of the leagues in 2015 after their seasons are up about continuing relationship with both of those and with programming that our subscribers love.

We've taken this EBITDA growth and we have dropped it down to the free cash flow line as well. Now here, you can see that with declining capital expenditures, that \$1.7 million (sic) [billion] of revenue growth from 2006 to 2012 has turned into \$1.9 billion of free cash flow improvement. The free cash flow story is probably nearest and dearest to our hearts, we think it's what really drives shareholder value. That we've got a nice confluence of events going that we still have healthy growth in subscribers and revenue.

We're doing a good job at cost control. And as I'll show you in a moment that leverage is coming down, interest cost will be coming down. Capital expenditures are declining that we're near the end of the satellite replacement cycle for the company, that in January I believe it is – we're still trying to work out the final launch date with International Launch Services – but we'll launch the Sirius 6 satellite, that is the last of the replacement Constellation satellites. And we'll have a bit of a holiday on satellite capital expenditures until probably late 2016. The replacement cycle for the XM satellites will be roughly 2019, 2020. For the Sirius satellites, it will be in sort of the 2023 to 2024 timeframe from a launch perspective.

So what it gives you is about four years of very little in the way of satellite capital expenditures. And with the growing EBITDA, declining capital expenditures, improving interest cost, it really foreshadows great growth in free cash flow and additionally, no taxes. All right? So we probably won't absorb all of our NOLs until the very late part of the decade and so you can think of the next several years as having no taxes.

Now, as you think about future growth, we think it's important that you bear in mind what we've been able to do with the automakers. That we're the only company that we know of that has been successful in going out and integrating a consumer electronics product in the dashboard of every vehicle manufacturer in the country. That six years ago, we were penetrated 20% into new car sales, that has grown to about 65% at this point.

We don't anticipate significant increases in the penetration rate from here, we're happy with where it is. It may bounce around a little bit with the mix of sales among the automakers, that the U.S., European, Korean manufacturers tend to be higher penetrated in production than the Japanese manufacturers. So as you watch market share move around a little bit, you may see this fluctuate slightly, but it should stay right about where it is.

Now, I think it's a pretty good thing being in nearly two-thirds of automobile production. I don't have any great insight into what car sales are going to be next year. We follow 21 people who put out estimates of car sales. We can tell you that since June that 12 of those 21 have updated their estimates, they have all updated their estimates and revised downward their outlook for 2012 sales.

One initiated, the University of Michigan I believe it was, at 13.5 million for next year. One Wall Street firm has constantly reissued its 2012 forecast at a constant 13.9 million and seven people, mostly automakers, haven't updated since June, they're generally in the 14.3 million range. My betting is that when they do update, they'll probably update downward from what their current estimates are.

The overall average of everybody out there is right now around 13.6 million, 13.7 million. Where it's going to come out I really don't know, we'll see in the next month. I thought November sales were great, that being up over last year at – where was it? About 13.4%, 13.6%, I think, is great. But most notably, consumer sales were up 18% year-on-year,



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which is a number that we tend to look at that spikes or fall off in fleet volume doesn't have much of an impact satellite radio subscribers but growing consumer sales is a very good sign for us.

Depending on what you think the shape of the curve is for the automotive recovery, where you think U.S. auto sales will ultimately get to, you can run the math and get a pretty good sense as to where our enabled universe is headed. So, one of the ways to think about us might that we're still in a build-out phase. When we launched satellites while we might have been able to cover all of the 48 states with [ph] 3-9 (16:37) service availability that we really didn't cover any cars because none of the cars had radios in them.

So we had a launch service through the aftermarket at Best Buy, Radio Shack, Circuit City, get somebody to go out, buy a radio, install it. It sits on the dashboard. You got wires and things like that. It was great, a great product, a lot people really liked it. We did well on it but it's not very easy, is it? It's a lot easier when you buy that new car, you open the door, you turn on the radio or you turn on the car and you push a button and it's playing.

And so where we are today is there are about maybe just a little less than 40 million cars that have been manufactured with a factory-installed satellite radio. There's probably 3 million of those that are still sitting on lots, waiting to get sold, just normal inventory in automotive. So you've got 37 million on the road today.

Well, if you take that 65% of automotive sales and just kind of run the math for whatever you think automotive sales are going to settle out at – if you think you're going to be 14 million a year, 15 million a year, we'll have our 65%. You're going to run through the next within about three years or so that the enabled universe of cars with the satellite radio on them will exceed 70 million. By the time you get to the end of the decade, there will be 100 million cars on the road with a factory-installed satellite radio.

To me, that reminds me a little bit of cable back in the mid-80's. When they're still building out neighborhoods, they were still the analyst following, we're talking about homes past and what the penetration of homes past was. So as we head towards 100 million cars on the road that we think there's a great opportunity for long-term subscriber growth here.

As you think about the competitive environment, I want you to bear a couple of things in mind – that there are already 235 million cars on the road with an AM and FM radio. That's going to continue to be an intensely competitive environment. There are 95 million smartphones on the road today. In many of the cars on the road today, not all yet, but many of them have an aux-in jack in the car. It's pretty easy today to take your smartphone into the car, plug it in, and use your Internet radio service if that's what you want to do. As it turns out that we still seem to compete very well against both of those products, the AM and FM radio, as well as Internet-radio-enabled smartphones despite the fact that we only have 37 million cars on the road.

Now there is a firm IHSI supplier global that came out with an estimate of connected car, I can tell you connected car is coming, right? So we know it. We think it's great. We think there are a lot of service opportunities for us in connected car. Connected car will – according to IHSI and I think it's a pretty good estimate – that by 2018, somewhere around 28 million cars on the road will be connected. They'll have easy IP connectivity available on a built-in product. So when you're coming out towards the end of the decade, you'll have 235 billion AM and FM radios on the road. You'll have 100 million satellite radios on the road and there'll probably be solidly over 30 million cars on the road that are connected and are capable of receiving IP services.

I like our competitive positioning. I think we've done well competing against these technologies so far. I like the industrialization that's going on for us and the opportunity it gives us to continue to sell into the new vehicle market. And increasingly, we're going to find that used car sales are a great opportunity for growth for us. That when you look at car transactions in the country, there are 50 million cars sold roughly in the United States every year. Only 13 million, 14 million of those are new cars, the rest is used. So as these 37 million cars that we have today move out of first car ownership and into the used car market, we're going to have an opportunity to acquire additional subscribers in a way that isn't reflected in our numbers today.

All right. So along with all this growth comes improving leverage, all right? So you can see from this and over the last few years that we've gone from being something in excess of seven times levered, brought it down pretty quickly to



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less than half of that at the end of the third quarter based on the guidance that we've provided to the market that we will be about two times leveraged in terms of net debt to adjusted EBITDA by the end of next year.

And that opens up lots of opportunities for us. That would tell you that we have a lot of strategic flexibility that's generating a lot of cash flow. It's an opportunity to perhaps be more acquisitive if we can find something interesting out there, looks like a good value, adds to our value proposition in some way. It's an opportunity to return capital to shareholders and that certainly provides us with a great cushion for when things go wrong in a world we all know that that happens from time to time.

We've really driven down borrowing cost rapidly in the course of the last few years. But you can see it from the slide that on the depths of the recession, February '09, 15% secured debt with a huge equity component that – you're welcome, Mr. Malone and Mr. Maffei – that we've cut that in half the – our long bonds are now trading below 7%. And I think that there's an opportunity for us to continue to narrow the credit spread, implicit in those numbers as people see us realize the growth, realize the free cash flow and realize the reduced leverage.

When you kind of add all this up, all right, and you have good solid consistent long-term subscriber growth. You have the same thing coming through the revenue. The management team has shown you an ability to manage cost well so it comes down to EBITDA. Interest expense will be coming down, capital expenditures are dropping significantly that, again, in the absence of the satellite spending for the next four years, you'll probably see them in the range of \$70 million. No taxes to pay, one of the nice benefits of having NOLs, and what you get is a great free cash flow growth story for quite some time.

We liked the way we stack up from a competition perspective. We understand the world is a competitive market. We think it's a great thing, great for consumers. We think our satellite delivery system, despite connected car, despite 3G networks, is a great competitive advantage.

Listening to the radio on your smartphone is probably not one of the most innovative uses of your smartphone, all right. There's a lot of things we can do with a smartphone beyond listening to radio. While listening to radio is fun, that we think broadcast spectrum and broadcast technologies have a lot of meaning in a world where data plans are becoming the norm, and data plans, by their nature, by the cost structures of the industry, should be variable. The more you consume, the more you should pay. And from that perspective, broadcast becomes an incredibly efficient way to offload applications that are very heavy on network utilization.

Curated content is not going away, the idea that everybody wants to always find the one thing that they want to do, with no help from anybody else, doesn't make any sense. That none of us, live our lives that way. Our newspaper is curated content, it doesn't matter whether you get it online, or whether you get it in print. Yahoo, MSN, they are – AOL, are all homepages that are curated content. The Huffington Post is curated content. The broadcast networks are curated content, your cable system, you satellite television system, it's all curated content.

So we believe that it is a consumer convenience, and consumers value organizing content whether it's organizing music, organizing news, organizing talk, sports, whether you organize the programs during the day by what shows at what hour, or whether you simply tell them what channel it's on and what's on that channel at what time. It's all a way of adding value to subscribers and we just don't see that going away.

Our agreements with the automotive companies are all long-term agreements that we have new chipset technologies that the auto companies will be adopting over the course of the next couple of years. That great relationships there and long-term OEM agreements are a very strong asset of the company. The \$8 billion of NOLs we have will clearly benefit shareholders. The subscription model we think is a great way of doing business, we saw how it protects the downside associated with revenue and operating performance in the midst of one of the world's worst recessions any of us have ever seen. And it will continue to pay benefits in the future.

And at the end of the day, we're doing one thing: we're all about satellite radio, all about what you hear when you turn on that radio. There are additional features, functionalities, services that we add to enrich that subscription experience. But in fact, the team is focused on delivering the very best that we can out of satellite radio, and that's what we think is going to drive returns for shareholders in the long term.



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So with that, let me flip through the mouse print, disclaimers. And everything you could possibly want is on the radio so it should all run out and get one right now. Thank you. Questions?

Q&A

<Q - John Janedis>: As you think about questions, let me ask you – is that a question? Okay. David, can you talk a little about your pricing strategy and implications on subscriber growth, churn, other metrics?

<A - David J. Frear>: Sure. So when you raise prices, you're going to suppress demand. Some people argue that that's not true. I'm happy to have the debate with them, but I actually really believe it's true, that if you raise prices, you suppress demand. That being said, what we are looking to do is maximize the revenues and free cash flow of the company.

So we have a price increase going into effect on January 1 that if – I often get asked "What's the effect of that going to be?" Well, I would expect that we're going to, with the price increase, have lower conversion than of new car sales into subscriptions than we would if we didn't increase the price. I would think that we're going to have higher self-pay churn with the price increase than we would if we didn't increase the price. But at the end of it, I think we're going to end up with more subscribers, more revenue and more free cash flow after doing the price increase than what we have today. So it's a good thing for the business.

It's tough to gauge. I get asked, "Well, how much churn is it going to generate?" It's almost impossible to know the answer to that question. That we've got thoughts on what it might do, that one of the things that we know for sure is that it's much easier to keep a subscriber that you have already converted than it is to convert a subscriber. So we'll work hard to retain every subscriber that we have today including through managing through a reaction to increased prices. We've begun notifying our customers now of the price increase. That the notifications go out based on renewal dates so the monthly subscribers have been notified. That the subscribers whose quarterly, semiannual, annual, two-year, three-year plans that rollover in January, that they've been notified.

We haven't seen so far a much of a response to the increase. We haven't seen a significant upswing in complaint calls or anything like that but it hasn't hit the credit cards yet, right. So some of the billing statements are out but 80% of the self-pay subscriber base is on credit card or debit card and we'll probably see the reaction come more after it hits the cards than in advance. But so far, early returns are good.

In terms of long-term pricing strategy, one of the things that we have to bear in mind is that because most of our subscribers pay us in advance and not just monthly in advance, they're paying us a year or more in advance, over half of the self-pay base is a year or longer in terms of advanced payments that when you change prices, it actually takes a while to work through the base. In fact, it takes about 18 months for price changes to work their way fully through the base of a company.

And so while we haven't made any decisions on it when every price increase takes 18 months to roll through, it's kind of hard. We've often been asked, "Would you do annual price increases?" Well, it's sort of hard to do annual price increases if it takes 18 months to roll through and think about it especially, for many of our subscribers, about 20% of them have a second, third, fourth radio. So and they don't necessarily renew at the same time. So if you have one radio that renews in December, you have another one that renews in June and then if we're increasing prices annually, we're constantly sending you letters, notifying you of price increases. So while we haven't addressed it in terms of any firm policy, that kind of cadence of communications with our subscribers will probably help inform our pricing decisions going forward.

This is the first base price increase that goes across the board since we launched service 10 years ago. There's been a lot of programming that's been added, a lot of features and functionality added to our subscribers. Generally, I think if you look across the media landscape, you'd find a significant level of price increases over the course of the last 10 years, so we do believe that this will go through, it'll do well with our subscribers and then we'll consider price increase strategies in the future.



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<Q - John Janedis>: Thank you. Any questions from the audience?

<Q>: I was just wondering as far as what's the status, when you expect to have 2.0 fully rolled out and what the status of Links is at this point, I wasn't sure if Best Buy or if it's actually out at retail at this...

<A - David J. Frear>: Sorry, the status of what?

<Q>: Of the Links, the new hardware product?

<A - David J. Frear>: 2.0 is a sort of a serial rollout, all right? There are multiple components to in and it's in part programming, it's in part features and functionality from on the IP product set, it's in part changes in chipset technology, features and functionality on the satellite radio part of the service.

So I think as you look at it, the 2.0 chips will go into their first car in the middle of next year with model year 2013 that'll bring it to the OEM market. We'll have a retail product out shortly that has the 2.0 functionality in it. The release of our – released it on the IP platform also should come shortly. But then what you should expect is that there'll be sort of an initial launch of it and then we'll continue to roll our more and more features with it.

So, for instance, the availability of on-demand content that the – how much is available to bring down will continue to expand over time. So some of the 2.0 is already out there, all right, the Hispanic channels are out there that the – we have a product at retail now that picks that up as we – it'll be a little while before that chipset gets rolled out into automotive production, but you should think of it as an evolutionary introduction into the markets.

<Q>: As you go through contract negotiations with the content providers, what's the risk that you don't come to an agreement on a certain content package? And what's the possibility that the content providers, say the NFL, could decide just to offer their content directly to consumers through the smartphones and the Internet?

<A - David J. Frear>: Well, the content arrangements we have now with all of the what we call the third-party programming providers, are not exclusive to wireless service today, so that they are free to go out and cut deals with the wireless carriers, they're free to go out and offer their programming online. That we're just in the satellite radio business, we understand that we compete against a lot of other stuff and that's okay.

One of the things that's changed a little bit is that when we were negotiating a lot of these contracts, six and seven years ago, and we were streaming our service online, we said to a lot of these programming providers, "Hey, let us incorporate the audio feeds that we're providing across the satellite system into our online offering as well, so that our subscribers can enjoy the same Sirius XM-branded programming package online that they get in vehicle."

Generally, several years ago, the reaction was, no way. That's tremendous value to us, we have our own plan, we're going to make huge sums of money doing this. That's what they learned over the course of the last several years, is that they can still pursue their own online initiatives, which continue to change as everybody continues to learn more about consumer behavior on the Internet. But that, incorporating it into the Sirius XM-branded programming lineup doesn't really compete with what they do at all. So in the new contract with the NFL, for instance, the play-by-play of all the games is available on our Internet service now.

Now, not everybody has the same view, all right. So we go out, we ask for that, so most of the – I'm not sure if it's all, but certainly most of the new services realize that we don't really compete with what they're doing online. We're not showing video, all right. So the new services allowed us to incorporate it in a few years ago, the sports leagues are beginning to roll in. And I think it's one of these things that as each year goes by, we'll be more and more successful at making it virtually indistinguishable to a consumer whether they're listening online or via satellite.

<Q>: Two related questions, is it technologically possible for you guys to feed Internet-enabled radio services through the satellite infrastructure. And then a follow up to that, if so, have you guys entertained or considered or at least evaluated what a commercial arrangement might look like for these Web radio services which are trying to get in the cars? And as you said, if there are only going to be at 30 million cars at the end of the decade, there might be some guys out there that want to accelerate that. And to the extent that Sirius can get some of those services onto their platform, that might be content that costs you nothing because they're able to monetize through their ads or however



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Event Description: UBS Global Media &
Communications Conference

Market Cap: 6,788.37
Current PX: 1.81
YTD Change(\$): +.1799
YTD Change(%): +11.036

Bloomberg Estimates - EPS
Current Quarter: 0.004
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else they do it.

<A - David J. Frear>: Is it technologically possible? It is, though I don't know why you'd do it that way, right. So you can use satellites as a way of getting two points of presence on the Internet and although for the most part, while it's technically possible, it doesn't seem that there's any real reason to do it that the Internet is basically a bunch of servers and communications lines that – and the routes between them are largely logical routes as opposed to physical routes. They operate on something called Open Shortest Path First for the most part.

And there's incredible redundancy, right. So as you send the packet, if it runs into a busy router, it bounces and goes on a different path. So the further beauty of the Internet is its resiliency. All right it's kind of completely agnostic as to whether or not the best way to get from this room to the next room next door is through a router that might be two blocks away from here, or whether it bounces down to Miami back up to Washington and then ends up in the room next door.

So I think that one of things that we're doing is trying to make it largely transparent to our customers, as to whether they are getting the signal across the satellite system, a terrestrial repeater or whether it's coming in across the Internet. For the most part they don't really care, all right, they just want to listen to what they want to listen to and we want to give it to them.

So we've been streaming online for seven years, precisely because we believe in an IP-connected world definitely coming. And so why not offer your subscribers the opportunity to listen to the same thing when they're online that they can hear when they're in the vehicle. They don't really need to know, in fact in the vehicle that – does it really matter whether it's coming in across our satellite spectrum, our terrestrial radio spectrum or the spectrum that a 3G network is routing with an IP service? I mean, to the consumer they don't really care.

So, what we're looking to do is position ourselves from a rights perspective, as well as in terms of enabling technologies in the radios with the ability for the service to be received from any of the above. Sure.

<Q>: Sorry, just a follow-up [indiscernible] Pandora creep (41:11) through Sirius XM satellites and, if that was even possible, is there any sort of Web service arrangement that you might consider in the future? Do you know what I mean? The other half coming through Sirius effectively.

<A - David J. Frear>: Yes so – it wouldn't make – in my mind, I can't speak for Pandora, because I'm not them, right? If I were over there managing that company, I wouldn't spend any time figuring out how I could get off the Internet and get on to satellite. Pandora today, none of the Internet radio – it doesn't matter whether it's Pandora, Spotify, MOG, RDO, pick anyone – none of them make any investment in anything other than the servers that send their service out to content distribution networks.

They don't make radios. They don't make smartphones, they don't make computers. So the listening devices that those services use are not made nor is their architecture influenced in any way by those service providers. They've got other challenges in their business, it's probably best if they focus their efforts on those challenges and not on infrastructure that probably isn't really going to change demand for their service very much.

<Q>: David, two follow-up questions on that. Do you think there is any difference in the competitive environment for streaming 4G versus 3G? The first question. And the second related question, do you think it's important for you guys to own your own 4G pipe or let just somebody else – the connected car concept, let somebody else figure it out and you'll figure out what services to provide around that?

<A - David J. Frear>: So, first of all, right, we all know that 4G versus 3G are marketing terms, right? They don't necessarily mean that any change has taken place in underlying network technology. But as the network technologies improve, which is really what the question is about, there's no doubt that data networks in the wireless industry are going to get more and more capable, right? You're going to deliver faster speeds, but they're going to figure out things like streaming applications and what they do to network capacity.

Streaming applications are a nightmare for wireless network operators, but they're smart guys, eventually they'll figure out how they can manipulate them in a way and maybe its caching technologies. I mean storage is cheap. And so



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maybe if you drip down a lot of content, leave it stored on the device that'll help offload the network.

At the end of the day, you're still going to have usage driving the cost. And it may be we'll get to a point where the pricing plans to consumers that the amount they use is largely invisible to them and they'll be completely insensitive to the applications and how much data they're using. I suspect that many people in the country will continue to manage their wallets and if they can offload services that they will.

All that being said, our plan is to make our service available on all platforms. So to the extent that the IP platform improves, to the extent that streaming applications are engineered to work better across wireless networks, I think we'll benefit from that as well.

<Q>: Thank you.

<Q>: Thank you. I believe that Liberty has the opportunity to move to a greater than 50% stake in March. What's your expectation on whether they would do that? And how much would they actually have to own in order to be able to take advantage of some of the NOLs that your company has?

<A - David J. Frear>: Okay. So in terms of using the NOLs, the tax code provides they need to go to 80%, right, in order to tax consolidate. So that would be the answer to that. If Liberty wants to use the Sirius XM NOLs directly they'd have to take their position up to about 80%. In terms of what are their intentions with respect to going north of 50%, I really don't know, you'd have to ask Greg.

<Q>: Just two follow-up questions. Just curious, as far as Sirius 6 goes when that's in place and I assume maybe operational in the second quarter or something like that, what will you use that additional capacity for? Is that going to be part of the Sirius Constellation? I'm assuming so. And I was just trying to get a little idea of what you'll use the additional capacity for.

<A - David J. Frear>: Sorry. The question started with SMH or...

<Q>: No, no. I'm sorry, for Sirius 6, the new satellite. I'm just trying to get an idea what you'll use the additional capacity for.

<A - David J. Frear>: Yeah. Sirius 6, it's not an expansion of capacity. It's effectively getting ahead of the end of life for the existing constellation, right. So the Sirius 5 was the first replacement satellites that we launched that, I think about two years ago. And Sirius 6 will be the second of the replacement satellites for the Sirius Constellation. The original HIEO satellites now have an end-of-service life that is in roughly 2015 that in the satellite business, you tend to want to get your replacements up a few years in advance of when your current generation's going to die. You never know, bad things happen sometimes with rockets. And so if you were to have a launch failure, or if a satellite successfully launched in the function as intended, when it got to its on-orbit position, you still need time in the schedule to be able to get a replacement up, so you tend to go up a couple of years early.

<Q>: Hi, could you talk a little bit about conversion, range of conversion rates between different automakers, what's the low, what's the high? And long-term, I mean, you could – I have a hypothesis that it's going to decline over time. Do you agree with that? Do you think longer-term, you're going to see conversion falling and where do you think it stabilizes, if you do?

<A - David J. Frear>: I don't necessarily see it falling, but it certainly fell as we increased penetration, all right. So when you went from being in 20% of the cars or maybe converting 50% or so of the opportunities, and now that we're in 65% of the cars, you're converting 46%, so it comes down somewhat. But I don't see it coming down in the long-term. Now, if you were to go to standard, then yeah, I would think that it would probably come down, if we went into 100% of the cars, I think it would be less than it would be today.

The range, really varies, and it tends to move consistent with the price of the car, which is it tends to be consistent with the incomes, all right? And so very high-end cars are going to convert at better rates than low-end cars. So for instance, if we have some models that convert north of 70%, we have other models that convert below 30%. I think that on the low end of the conversion, that it's not all explained by income differential. That we find that with some of the lower



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converting cars, that there are actually executional issues with those auto makers, all right, or there's something about the car itself.

So there was a time when one of the auto makers, go unnamed, that put satellite radio into hearses okay. So the hearses didn't really convert all that well. The work trucks in West Texas, right. They tended not to convert so well. They tend to be pretty stripped down cabs, very few kind of features and niceties and so we found that some of those didn't convert so well.

Sometimes it has to do with cadences of customer communication. So one of the things that we've worked very hard on with the automotive companies is getting the IT systems integrated. I can't tell you how important it is to get a welcome kit to a subscriber when the car still has a new car smell in it. You get a big difference in conversion rate if you get the customer name and address and you start marketing to them within a couple of weeks of purchasing the car as opposed to a month or so later. We've just found and the great thing about having 21 million subscribers and all these transactions is that you get statistically significant samples of almost everything.

And so from a numbers perspective, there's been remarkable, statistical consistency. I joined the company, there are 120,000 subscribers. There's 21 million now. And we've just seen remarkable, statistical consistency across the years.

And so, for instance, in this area of conversion – if an OEM, I want to call it forgets, but if they forget to send us a sale record, it's going to convert lower when we finally get it. We just know it will. And so going through the protocols of establishing good supply chain hand-off between the auto company and Sirius XM has been a big deal. We've seen major automakers improve their conversion rates by 4 or 5 percentage points just by virtue of getting files daily instead of weekly.

Any other questions? We got a couple of minutes left. Sure.

<Q>: I was just curious, do you break down at all on your subscriber numbers? How many are, or do you have any way of knowing how many are used car owners versus new car owners?

<A - David J. Frear>: I have estimates that we use internally that we haven't gone public with them yet. In large part, because it's not as easy as you might think to figure out whether or not a car has changed hands, right. So a good example that if a radio goes from my name to my daughter's name that it may show up as a used car, right. So we're still working through the matching protocols to make sure that we know what a second owner is.

It's easy when it comes through a used car trial, right. And so when we get a sale reported to us from one of the dealers out there that says, "Hey, I just sold a used car," that's great. But at this point in time, the majority of our reactivations, the overwhelming majority, just come back as opposed to being associated with a used car trial program. They just come back.

That's something I think is good news for long-term subscriber growth. That when you look at the awareness among – unaided awareness among new car buyers, it's over 90%. Over 90% of the people buying a new car know there's a satellite radio in the car. I was very surprised when we ran a survey two years ago to find that they're pleased to find that unaided awareness among used car buyers was over 70%. And so, we're in the early stages now of rolling out information exchange programs throughout the auto dealerships. We have them with the OEMs. So anything centrally coordinated, we get that information.

New car sales, we get it. Certified pre-owned vehicles, we get that because those are centrally-coordinated programs. But the vast majority, probably 95% of used car sales either take place in privately-negotiated transactions or they take place by franchise and independent dealers outside of an OEM-sponsored program and then the dealers are on their own. They manage that information on their own. So we have a third-party provider that is working with us to sign these dealers up on information exchange programs.

What does the dealer get for it? Well, the dealer gets a 90-day subscription free for the consumer, you can market as part of the value associated with that car. What we get is the customer name and address information and that gives us the opportunity to market directly to those potential new subscribers.



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David J. Frear

So, thank you for your time today. We really appreciate it.

John Janedis

Thank you, David.

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Company Name: Liberty Media Capital
 Company Ticker: LCAPA US
 Date: 2011-11-17
 Event Description: Investor Meeting

Market Cap: 6,397.44
 Current PX: 78.40
 YTD Change(\$): +15.84
 YTD Change(%): +25.320

Bloomberg Estimates - EPS
 Current Quarter: -0.110
 Current Year: 3.136
 Bloomberg Estimates - Sales
 Current Quarter: 117.250
 Current Year: 964.600

Investor Meeting

Company Participants

- Courtnee Chun Ulrich
- Gregory B. Maffei
- Christopher W. Shean
- Chris Albrecht
- Mel Karmazin
- William J. Lynch, Jr.
- Michael Rapino
- Unverified Participant
- John C. Malone
- William D. Myers

MANAGEMENT DISCUSSION SECTION

Courtnee Chun Ulrich

Hi. Good morning. Welcome to Liberty Media's Investor Meeting. I'm Courtnee Ulrich, VP of Investor Relations. As you all saw, we had some announcements this morning, and we'll talk about more – talk more about those shortly. We have a great day planned for you. We've got presentations from Liberty, from Sirius, from Starz, from Barnes & Noble and from Live Nation.

As you can see outside, we have the shopping experience again this year. Please make sure you check it out. These deals will be good through Sunday, so please go ahead and buy something. And one other logistical thing, when you walk in and you checked in, you should have gotten a ticket for your gift bag for this year. If you go up to the second floor balcony, you can pick that up. And please try and do that before 1 p.m. today.

So with that, I'd like to introduce Greg Maffei, Liberty's President and CEO.

Gregory B. Maffei

Thank you, Courtnee. Well thank you all for joining us today. And in continuing the music theme we've had is about Coming Together...Right Now. So we announced this morning that we were combining Liberty Starz and Liberty Capital, conversion ratio of 0.88 shares of LCAP for each LSTZ share. Some of you have – may seen that we're creating a new ticker, LMC, and there'll be LMCA and LMCA for Liberty Media Corporation. And we expect that deal to close in about 10 days.

In addition, we announced we raised \$1.5 billion of debt, \$1 billion under revolving credit facility, of which we actually only drew \$5 million to make sure it worked and \$500 million under a term loan. Chris Shean, our new CFO, is going to talk more about the terms of that debt. And we increased our repurchase authorization. We had a authorization at Starz; we had an authorization at Capital. Together, they were around \$900 million. We went up to \$1.25 billion between the two, the newly created LMCA and B.

Why we are doing it? And why now? First, we think it was an excellent time to raise capital. We liked the spreads that we could raise the money at, and we liked the fact we could raise money. Despite the fact that the European banks largely didn't show up for our credit-raising opportunity, we still were able to be quite successful and then raised the money that, we think, are very attractive at terms. Kudos to our new Treasurer, Neal Dermer. So we thought it was a



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good time to raise money.

That having been said, we have been seeking attractive investment opportunities, consistent with the Starz mission – Liberty Starz mission – since we spun and created Liberty Starz. And we really haven't been able to find those opportunities. We do, however, have a host of opportunities as Liberty Capital. And we've talked – will talk more about some of those today.

And by creating the right balance sheet for Liberty Starz, Starz being, in our judgment, under-levered at no leverage, now having theoretically up to about three times leverage, we only exacerbated that problem; created more cash that Liberty Starz could not invest, in our judgment, wisely.

So this combination made sense in terms of who could raise capital, how to best capitalize Starz and then who would be able to utilize that capital to the benefit of both sets of shareholders? We created greater flexibility for future restructurings or spins. Some people asked, gosh, where was the Starz spin? Where was the this? Where's the Sirius spin? Who knows what our future holds. Liberty has been an evolving animal since well before I got here, and we've continued to evolve while I'm here. And I suspect we will continue to evolve after I'm here. But that flexibility increases with this transaction.

The asset-backed security LMC we hope will trade better. We have increased liquidity perhaps because – merging the two pools of liquidity. And we will have simplified reporting and less costs by putting the two entities together.

Even before today, we've been busy. We completed the split-off from Capital and Starz from Interactive. We increased our stake in Live Nation Entertainment to almost 21%. We made a strategic investment in Barnes & Noble, and a convertible preferred has a 7.75% dividend; converts at \$17 a share and to 16.6% of the company. I'll talk more about both those companies in a minute.

We made share repurchases at Capital. We made share repurchases at Starz. We sold our TV station in Green Bay, despite the fact that they were 8 and 0 and 9 and 0. And we eliminated that really great name, CapStarz. Mostly, it's worked. We've had great out performance against our peers in the market, both longer term and more recently. And this is looking at the new LCAP, which is really the new LMCA. We hadn't quite got the ticker when we did the slides.

What's the model that we've tried to pursue and will pursue going forward? First is building value at Starz. And you'll hear a lot more from Chris Albrecht today, but compelling original programming; you saw some highlights of that. A stronger brand. What is the identity of Starz, which has been relatively muffled, I think, is becoming crisper and will become crisper over the next several years.

We seek to improve relations with some of our traditional distributors, many of whom were not thrilled with some of our actions over the last few years but, I think, have been improving and opportunities abound. And lastly, we believe there are opportunities to add compatible, incremental digital distributions that are compatible with both our partners on the content side, our partners on the distribution side and compatible with our long-term aspirations and placement of our brand and our service.

We want to ride the growth path of SiriusXM. It's been a great growth path and, in our judgment, it still goes on. And you'll hear more from Mel about that. We want to capitalize on our strategic investments. Live Nation has a great future; Barnes & Noble's got a tiger by the tail. Both of those are opportunities for us, potentially, to do interesting things, including add more capital.

We want to rationalize some of our non-core assets. We have investments which are wonderful. I like getting the dividend on the CenturyLink stock. But the reality is, CenturyLink is not a strategic asset for Liberty. And if we had alternative use for the cash, which we will, I suspect, over time, we would redeploy.

We have still – and Chris will talk about this more – Chris Shean – we still have balance sheet strength; opportunities to leverage Starz more by drawing that revolving credit facility. Do other things so we could raise more capital, if we found the right opportunity. And, lastly, there still remains a discount in our stock. It's tightened, but there's still opportunities there and we'll capitalize on that.



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One of the key things that we do at Liberty is live in a world that is being massively disrupted by the digital changes. No business, perhaps, has been as disrupted as the Media business, with new ways to consume media from – and [ph] random acts (7:40), that's device independence, mobility, Internet, satellite, tablets. New distribution models have been created, some of which we've participated with and some of which scare us.

There're traditional distribution forms that are challenged. How do they leverage their audience? What rate do they decay at? There's new content out there, which is finding ways to be exploited, but also trying to rise above the clutter. The new payment models. Social's a big factor, and the market reaction; all those. What we spend a lot of time doing is trying to figure out all of those trends, what is it going to do to some of the companies we're invested in? And what is it going to do to some of the companies we might want to invest in? And trying to sort through that alternatives, those changes, those implications, is critical to building value at Liberty Media.

And if you look, in some cases, we've just said, the digital handwriting is going to condemn these businesses. And we've made some timely sales. We've got a – On Command, we sold the business for 90% cash and 10% stock. The stock ran a little on the merger. We hedged the 10%, and the hedge ended up being worth more than the combined total of the companies. So the acquirer and On Command were worth less than our hedge. So we felt very good about getting out of the way of the freight train of Internet access that was overrunning that. Now, maybe LodeNet will rebuild the business, but we – it's a timely sale.

OpenTV was another example where, as the world was changing, we saw that digital distribution, that digital changes were not going to be great for this. And we had a timely sale on OpenTV. And there are others.

Sometimes, our bet has been the other way. The market or elements of the market or the seller has bet that digital is going to crush the business or – at various times. And that hasn't been the only case, but they were surely some who thought lack of a high-speed data connection was going to take DIRECTV down. We saw the value of exclusive content, of focus on video, of HD, of Latin America and stuck with it; made it swap out of our News Corp. stock for DIRECTV, which was very profitable.

SiriusXM. When we invested, there were lots of fears. But among them was – and there still is out there – this looming idea that Internet radio was going to run this business over. Not our belief. Our believe is, lots of opportunities still to go.

And Starz. What is going to happen to Starz in a digital distribution world? What opportunities are created? How does that play out? We think there's lots to be done, still, and lots of positive stuff to be done.

And, in some cases, that transition, even within industries which are being chewed up, has created new opportunities. Live Nation has been a beneficiary of the fact that artists really don't have a way to make much money through the traditional album, which was sort of an artificial concept, anyway. And touring has become a much larger piece of the pie. Concert promotion, ticketing, management, the e-commerce and sponsorship opportunities that are around – that are about that have become hugely valuable. And we'd like to think we're riding that trend with our investment in Live Nation and Barnes & Noble.

Digital distribution is going to change dramatically the bookseller business – is changing the bookseller business. But Barnes & Noble has been very smart, in our judgment, about competing in the tablet space and the eReader space through the strength of its service and interplay with its physical assets – its stores – in a great way. And we'd like to think we made the right bet in somebody who's going to be able to leverage the digital distribution changes.

So one of our goals is to work through each of our businesses. What can we do to protect it? What can we do to be on the right side of these changes, or if we can't get out of them? And when we deploy new capital, we think about what we can do going forward.

Starz has had great momentum, and Chris is going to talk about it more – Chris Albrecht. Growth in subscriber accounts; good growth in OIBDA. And if you look at the OIBDA trend at Starz, this asset, which is some – maybe it was challenged in the marketplaces. Trade is what's challenged. It's risen from the mid-100s to nearly \$400 last year to, analyst expectations, mid-400s this years. It's had a great growth trend. That momentum has continued, particularly at



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the channels, very strong. And we believe the future's only better with compelling, original content: Boss, Torchwood: Miracle Day, Camelot, Spartacus. And new – our original programming, our own IP coming in Spartacus: Vengeance, Magic City, the next season of Boss. To further that, we obviously did a partnership with BBC Worldwide. We've talked about for a while trying to do project Turbo, which was really off-balance sheet financing to reduce our risk and increase our opportunities around original programming. We did that with BBC, and we announced our first series, Da Vinci's Demons.

We put in new distribution agreements with Moviecity and FOX Latin America. And we stabilized Starz Media from an asset which was bleeding to one which has a lot of strategic value and is profitable for Starz. Yet, somehow, while we continue to grow subscribers, we don't get the valuation that we believe is merited. Opportunity for us, to better tell the story, but another opportunity for us to say, okay. If you're not going to give it to us, we'll take the stock in ourselves.

Switching to Sirius. That has been a tremendous investment. Even though the stock is down a bunch from its high, in the old LCAPA basis, we have \$52 of share value. Obviously, because of how we issue the shares of the new LMC, it'll be less per LMC share, but still an important part of the valuation of the new LMC. We've had incredible returns there, both on the equity side but also money we pocketed from being in the bonds and the bank debt. And their guidance, we think, is very positive for 2012. And Mel has been very good at making sure his guidance is an achievable target. And we still love it.

We think there's strong consumer acceptance and demand for the product. We think that the price increase is a great opportunity. There's potential for more. They're going to leverage their content and distribution costs. They have been, and they can do more. Margins will expand. There're a bunch of innovations around the new launch of Sirius 2.0 which are fascinating and, I think, has great consumer acceptance. They're continuing to reduce their financial leverage; expect to be about three times by year-end.

The opportunity to increase the car market to grow, outside of our control, but it's sort of an upside. The opportunity in telematics. They have a great little telematics business today, already, for planes and for boats. The opportunity to do more on the car set. All that's going to lead to rising cash flow with reduced expenditures around satellites, protected by a great tax shield and the opportunity to return capital. Lots of good things that we like; our kind of business.

Live Nation. It's doing a great job executing on its strategy. The things that were outlined when we made – when we first got there, we made our incremental investment, are coming to pass. Growing international, both in the venues and promotion, and the opportunity to improve ticketing efficiency through greater investments in technology – frankly, have been underinvested in. They're doing it right now. We think there's a great opportunity under Nathan Hubbard and what Michael Rapino's going to talk about.

Realizing on the merger savings and benefits, capitalizing on e-commerce traffic, it has one of the largest e-commerce sites around. Hasn't historically capitalized on that; is capitalizing on now, and more to come. Utilizing social, driving innovations, dynamic pricing and mobile, and a great concert line-up for 2012.

Barnes & Noble, great story. Profiting from the demise of Borders. Doing much to drive the bookstore side – college bookstore side and get value, obviously, we think has a great interplay between the physical stores, the eBook service, the eReader and the tablets, and has done a really masterful job. Where many have failed in the tablet side, they've had great success. It's early, but we like what we see.

I've talked about the terms already of our investment. And some of these details, which William Lynch will go into a lot more, gained 27% of the eBook and eReader market. Realize, that's a greater share of the marketplace than they have the physical book market. So one of the few guys who's been able to take their share in physical and make it greater – and a bricks-and-mortar guy – make it greater in the e-space.

Lots of good stuff on the new tablet and lots of good stuff on the new eReader upgrade and lots of applications out there. It's a complicated story in some ways. And it's one that we're working to simplify because, like Herman Cain, Liberty is all about simplicity. So we have a 9-9-9 plan. 9 tickers, 9 original series, \$9.99 for an eBook, the '90s on 9 on SiriusXM. And, if you're still inclined, you can go get this NOOK book; 999 brilliantly thought-out ways to make



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money. It's our required reading at Liberty Media.

So with that, let me turn it over to our new CFO, Chris Shean. And if you were here for the Liberty Interactive presentation, you know he was challenged to give three slides. As a test, he was so good, we're going to let him give five slides this time.

Christopher W. Shean

That's great. Thanks, Greg. So, as we announced this morning, our Starz financing just got completed. What does this do for us? Well it gives us access to \$1.5 billion of capital at what we believe to be very good terms; a five-year maturity, very reasonable rates, modest covenants. So we're quite pleased with that. Look forward to applying that capital. What does it do for our balance sheet? Well if you look at this on a pro forma basis with the two tracking stocks combined, we would have cash on the balance sheet of \$2.7 billion, with an additional \$1 billion or roughly \$1 billion of capacity under the storage credit facility. As well as have access to excess public securities, above and beyond what's already pledged in our share borrowing arrangements, of \$1.1 billion.

So this gives us up to \$5 billion of capital in which to do things. And obviously, as Greg has mentioned, some of the things that we may do increase our positions in some of our already-strategic investments. We may look for new, opportunistic things to invest in, much like we just did with Barnes & Noble, and take advantage of these weak markets to repurchase our stock. So we're excited about the opportunities to deploy this capital.

This is a little different view of the balance sheet, very summarized, but it depicts these strong metrics that I was just going through. I will point out that in the current liabilities are the short against-the-boxes obligation as well as the debt related to our little leveraged bond fund, both of which will be satisfied eventually with long-term assets. So that isn't as dire as one might think. So pretty strong liquidity position.

And when we look at ourselves, this is just a view of the sum-of-the-parts snapshot of our assets and what we think they could be worth compared to our trading value. And you can see that, depending on your tax assumption, we seem to be missing quite a lot of value out there from a trading perspective. And I think you're likely to see us use this fire power that we have to take advantage of this disconnect in the market.

So that's all I had. I guess with this, I will turn it over to Chris Albrecht, who's going to go in to Starz in more depth.

Chris Albrecht

[Video Presentation]

Good morning. I have to say I'm still in shock. I walked in here this morning and found out I now – I no longer have my own ticker. I mean, okay, it was a tracker ticker, but it was still a ticker and it was my ticker. And it was such a great conversation starter. I guess it's not quite as important now since I recently got married. But I have a feeling my wife knew something because I sensed she was treating me with a little less respect as I was getting ready to come over here.

I also – I want to apologize because I have a head cold, although in my head, it feels like I'm channeling Brenda Vaccaro. John and I probably are the only people here that remember Brenda Vaccaro. But actually, in truth, I lost my voice last night at dinner, shouting down Rich Greenfield, and he was sitting next to me, okay. So we're going to talk to you about Starz, which is part of Liberty Media, as I just learned.

So since meeting with you last year, our business has grown; I'm going to talk to you about that. We scaled our subscriber base levels, which are going to allow us to do a lot of things, including grow our business. And we've solidified our standing as a full-fledged player in the original programming space, which [ph] eventual (23:32) originals. We've got access – long-term access, key phrase – to some of Hollywood's finest theatricals. And we're in a great place now to refine and expand our product offering to distributors.



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I do want to tell you that timing is important. And one of the things that we are working on, the year has its end and it's nice – fits nicely into a calendar but doesn't always fit nicely into the way that things happen.

So given some of the things of the past – and we'll talk about those in little bit – one of the things that we're going to – that we are focusing on right now – we need to focus on the next few months – is continuing to restore our relationships with some of our key distributors. And we're in the process of doing that. And I'm very confident that we're on the right track. They want to do it. We want to do it. And it will get done.

At the same time, we need to renew our efforts with those distributors to hopefully continue to provide them with new products and new packaging offerings; something that we've been very successful at and very aggressive at, and something that they seem to want. And, at the same time, we're going to review all of the potential new opportunities that are out there. Every time I pick up the paper, there seems to be new people looking to enter this space in some form or another.

As I said before, we talk to every legitimate distributor for our product. And we will be prudently aggressive as we go forward and examine and review all of these opportunities. So I think that will probably impact some of the trajectory that we have going into 2012, since nothing in dealing with any of these deals is as quick as, certainly, we might like it to be. I think we're on a very good track, and we're going to talk more about that as we go forward.

So just to kind of give you a little bit of a snapshot, Starz and Encore, flagship channels, have had consistent growth in both consignment and our fixed affiliates. And that's even in this tough economic climate. I mean, you see the years at the bottom of some of those – I'm looking down here; looking up there – see the years at the bottom of some of those stacks. That's a pretty good accomplishment.

And to put it into number sakes, just go a little more on that, the five-year growth spurt, we've been able to do that on the back of a differentiated content offering. As I said before, we have a lot of flexibility in how we distribute our services. And this gives our – just core distributors a lot of options, hopefully, to utilize these things in increasingly interesting packages of advantage; us, them and the customer. And, obviously, it also gives us an opportunity with that flexibility to work with new distributors.

We heard recently – I think we talked about – a little bit about this on our call the other day – that our distributors are realizing – some of them, clearly – that they need to put more emphasis on growing the premium category. Premium category has historically been a great category for the television business. It's pulled through lot of technologies. It's helped establish a lot of distributors. It's helped grow a lot of channels. And it has a premium feel. It has a premium quality to it. And it's important that all of the premium brands work together to make sure that this very important category gets focused on by these distributors because it is a win-win.

And we're going to talk about growth and grow, we well; grow, we must. And one of the ways that we're going to get to do that is on the back of our originals. Greg showed you some of the slides. I showed you a little bit of slides, but we're going to show you a couple of clips in a couple minutes. But originals are really the key to how we're going to differentiate ourselves. When I started doing original programming in the premium category, there were four broadcast networks doing it. Now there's 40 channels, at least – I don't know – I haven't counted them – doing original programming; all of them differentiated; all of them doing – not all of them, but a lot of them doing a really good job. And many of them spending real money on getting those shows on the air.

And for Starz, it's very important that in our category and just in television, in general, we differentiate ourselves because that is the way our brand becomes something that gets to the on the top of the mind of the distributors, subscribers and potential subscribers.

So originals has clearly become one of the best ways to do that. We're scaling up to 50 hours a week. It's a number that we plan to stay at. We have got a lot of theatrical movies, which we'll talk about in a second – 50 hours of high quality – I'll talk about – a little bit more about what our brand is in another slide – is where we think the number needs to be. We plan to get there by 2014. Obviously, in this fractured media environment, these are the things that say the most about who we are. And we're putting a lot of time and effort into that. And we'll talk about how we're going to get to fund those.



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What this also does is it gives us the opportunity to retain rights. Opportunistically, it gives us the opportunity to retain downstream rights, which works with some of our other Starz' companies, which allows us to expand our brand to potential distributors through DVDs, get into relationships with companies outside of the U.S. And there's a very good forward-looking way for us to find new ways to grow our business.

We get to monetize these rights when we retain them, and we have a portfolio of how we do these, through Anchor Bay, through Starz Worldwide Distribution and through Starz Digital. So these are obviously very important assets, and something that we are concentrating on and is at the forefront of – one of the major reasons why we think we have such a good growth story ahead.

To talk a little bit about the ethos of our original programming, here we've got basic cable channels out there spending \$2.5 million, \$3 million an hour. And you've got – you got other pay channels doing everything, doing very a specific thing. We need to work quickly, and we need to work specifically. And the direction that we're going is to create original programming that has a kind of theatrical experience and scope. Things that seem like they're going to fit in the middle of the big picture in movies: the big Disney movies; the big Marvel movies; a lot of the big movies that come from Sony.

Things that are going to feel different; that are going to feel different just as soon as they pop on your TV screen. That's going to take money – again, we'll talk about that. One of the things that I hope that they will be is entertaining in the world and on television. There's lots of things called entertainment. I'm not sure a lot of them are entertaining. And this is something that we plan to instill in our shows. Larger than life. There's so much reality television on. There's much 24-hour news. There's so many blogs that we can read about what's going on in the world. Larger than life is something that's kind of classic in storytelling. It's one of the things that brings people back to great stories. And I think it's one of the hallmarks of the American entertainment business from the beginning. It's just those great, iconic characters that you want to follow through and watch over and over again.

And, also, we think that the shows need to have broad appeal. Obviously, appeal in a pay television audience; it's great to have teenagers watching the show. They can talk to their friends, but they're not pay TV customers. They're usually figuring out a way to look at something for free on their computer.

The audience that we go for is probably 25 and above. The economy is in a very interesting place right now. There's obviously people, like a lot of us or probably all of us in the room who can afford the video stack. There's lots of people that are challenged in their ability to keep all of their programming in their home, on their budget. We think programming with broad appeal is good for our brand, fits with the theatricals that we're licensing on a long-term basis and will be ones that will make the Starz brand that much more valuable to the subscribers.

So with that, let's take a look at some of the [indiscernible] (33:02) because it's always fun to watch a couple of clips. First one up is Boss. Show premiered in September. Hopefully, some of you have seen it. It was one of those things where it's really not on the brand that I think we will eventually get to. But I kind of had a throw-back to what I learned in looking at TV shows. And I read this script and I just thought, this is a really great script. And I sat with this guy, and he really knew what he wanted to talk about. This is a show that's not about politics, but it's set in the world of politics. But it is not about policy.

Kelsey has such a take on it. Farad has had had such a take on where he wanted to go that I thought, you know what? Let's – and there were other networks chasing it – but it's time for Starz to show that we're a real player. Let's step up. Let's give a series order. Let's put this thing on the air. I knew it deserved critical acclaim. It has gotten a lot of critical acclaim. It's attracted terrific talent. Gus Van Sant, who I have the pleasure of working with two films on in a previous job I had, is a classic, independent-minded filmmaker. He's brought such a great look to this.

When we launched it, we had record interest from our affiliates to sample the first episode. We've had strong, overall performance; over 4 million views on the first episode. And there's still plenty of on-demand watching numbers that'll still come in. And, as probably many of you know, we're proud to have already renewed it for a second season. For those of you who have seen it, for those of you who haven't, here's a little clip of Boss.



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[Video Presentation]

I got to tell you that, in my opinion, I've had an opportunity to be associated with a lot of terrific shows, Kelsey Grammer is as good in this as anybody has ever been in anything that I've been associated with. And when people say, why'd you pick it up? Why'd you pick it up? You know what one of the simple reasons is? When I finally read the last episode, I thought, I want to know what happens next season. So I'm hoping that you'll get a chance to look at the show, and we're very proud of it.

Next one we want to talk to you about is our most successful worldwide franchise Spartacus. The second season premieres in January. As many of you know, Spartacus had a really unusual story. We premiered the first season. Now that our star, Andy Whitfield, was ill, hoping for his recovery, we did a prequel, try to keep it alive. As most of you probably know, Andy was not able to recover. And so we made a decision that is unprecedented, as far as I know, to replace the title character – not just the lead character – the title character – in a successful series.

And, fortunately for us – and I'm sure it'll be fortunate for him, we chose a guy in Liam McIntyre, who is terrific in the role. We retain all the intellectual property on Spartacus, which means we get to sell it all around the world. And whatever happens here in the U.S. after its run on of Starz. We've already ordered a third season. And one of the side benefits of being involved with a lot of these series is that you establish a relationship with talent. Steven DeKnight, Executive Producer of Spartacus, is a huge talent. We've made it exclusive two-year deal with him. And the show that he's now creating for us is going to be really difficult to execute. But if we get it right, it's going to be a terrific show. Let's take a look at Spartacus: Vengeance.

[Video Presentation]

You know, this show has expanded a lot from a production point of view. This season, you see horses. And just for fun, it's sometimes important to remind people that this show is shot completely inside a warehouse in New Zealand. And these guys do a fantastic job. They're getting better every year. I can't wait to see what they're going to do with Spartacus Season 3. And I love parts of this look for the overall Starz brand. And all the things that we're talking about have some of this. I don't mean the glory and the violence, but some of this – this is the way they make theatrical movies now. They're making movies inside sound stages.

When you're looking at Batman and you're looking at Superman and you're looking at these shows, yeah. They'll do some stuff, occasionally, outside. But they're making stuff inside. And, as we look to some of the big franchises, Da Vinci and things like that, Da Vinci, which will not be at all this – and it would be the historical story of Leonardo in historical story. But the magical realism, which is a term that we've coined for what the show will actually look like from a creative point of view, it's just so exciting what's going on in the production space.

And I do think our premium television, these higher budgets – you just can't see this kind of stuff on television anywhere else. And there's great storytelling. But we can elevate the production levels to this and really be able to provide the assets for – the great artists whose faces don't appear on stage, you really have a chance to get something great. Anyway, that's my \$0.02.

Magic City, again, a fantastic script when I read it; written by Mitch Glazer. It's set in the '50s in a hotel in Miami Beach, much like the Fountain Blue. It's not Mad Men meet Sopranos. It could be Casino meets Godfather. That might be hoping for a lot. But I think in terms of what the show's about, that, for me, is more. Says right here in front of me, it's stylish, and it certainly is, as you'll see from this clip. Jeffrey Dean Morgan, Olga Kurylenko, Danny Huston are just three members of a fantastic cast.

We ordered eight episodes. We're not doing pilots, as I said; they're real expensive. We just sort of taking the lead, learning as we go. We think eight episodes – we actually had originally ordered 10, cut down. I think in a world of short gangplanks, eight episodes is about the right number for a first season. As well as with Spartacus, on Magic City, we retain all intellectual property rights. And we'll be leveraging those around the world. Here's a clip of Magic City.

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The lobby of that hotel, all that under-water – that bar under water, all those things, all on a set we built in an old boat manufacturing plant in Miami. Largest set ever built in the State of Florida. We actually ran out of plywood and then, of course, had the worst season for rain in a long time in Florida. But it is a show I'm very excited that – to be involved in it. And I can't wait for you all to take a look at it.

Obviously, this stuff costs money. We always get asked on our calls, how you're going to fund this? Are you guys going to go over, or is there going to be big increases to get more money? What are you going to do with it? So let's talk about that, okay?

We've diversified the funding of our original programming in a few ways. One of the things that we haven't talked about before but I think it's important to mention now is, we have these long-term movie deals. But the reason that they're so long is because there's actually, the end of old deals is the beginning of new. And starting next year, we have decreased cost in our movie output deals; decreased because of the amount of money we're paying for the movies, and also decreased by the amount of output that the studios are providing us with. So that money is money that will be reinvested in original programming, shifted from the theatrical studio deals. What we've also done is go out, as Greg mentioned, to find a partner to share the funding to offload the risk. We chose BBC Worldwide for a lot of reasons. They're a terrific company. They're an A-List international distributor. They're a fantastic production company.

When Jane Tranter was at BBC, I got to work with her a lot. She's a sensational executive. We already did Torchwood with them. They're doing Da Vinci's Demons.

We're keeping, in our deal with them, English speaking, home video, Canada, which allows us to use Anchor Bay to continue to keep track and manage our brand in the place that obviously means the most to us right now, which is the U.S. And it also provides us with one partner to deal with who we've offloaded our rights to so that, there hopefully are other opportunities for these rights in the future, and to be able to deal with BBC Worldwide. They're also a terrific company, and I would certainly not be surprised to see other forms of alliances or partnerships come out of this relationship.

And then, we financed some things ourselves, like we do with Spartacus and like we do with Magic City and like we'll do with some shows because we want to retain those rights. Extend the brand leverage and utilize the platforms that we've built; Anchor Bay, Starz Worldwide, and also because it is the way that you start to establish your brand overseas. And we need to have an international strategy, and the first way that you do that is to have your own product that you're selling to end users around the world. And there's a great market for a premium television product. And so we want to make sure that we retain the rights to those.

And then, as in the case with Boss, the age-old, most traditional way, when it makes sense, is just get a license from a third party; in this case, Lionsgate. We don't have many rights. Very inexpensive way for us to buy the show. And for all of these ways, re-purposing preexisting money that was allocated for programming spend, along with the portfolio approach of fully funding, partnering or licensing; that is how we're going to manage this. And just to be very direct, 50 hours is where we're going. We're going to be able to do this without significantly increasing our overall programming spend.

If there are tremendous opportunities downstream where, all of a sudden, we see great top line growth, we'll, of course, look at how we allocate that – those funds. And we think original programming is one of the first places that we would look. But, for the time being, I certainly didn't come to make here to make original programming. I came here to try to make Starz as successful as well as can. And we have our eye very focused on that.

The bedrock of premium television, unless you're Showtime, is still theatrical movies. HBO has more studios than anybody; Showtime has none; Starz is right there, hammocked in what we think is a great place. It's a great place because of the two studios we have, and it's a great place for – because of how long we have the exclusive theatrical supply. We got the Disney movies to 2016; we got the Sony movies through 2017. That's a long time. And everybody keeps talking about, are we going to be able to continue these relationships? Well, first of all, Starz has had these relations for a long time. I've had these relationships for a long time. Greg and John have had these relationships for a long time.



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Pay TV checks are good checks. They clear the bank. They're really good. If you're a studio and you got other problems, the DVD world; you're still trying to figure out digital. It's really nice to know that, that window is taken care of. And we talk to these partners all the time. There's not a deal that gets made one year, and six years later you're back there talking to them again. There're adjustments that have to be made in these deals all the time because there are things that happen that both of us have to respond to.

So going forward, original theatrical product – first-run theatrical product – will be a part of Starz' lineup. Whether we're one studio or two studios, I don't know, but I'm real confident that the amount of first-run theatricals that Starz is going to need to be a real growth player in our space, which is expanding all the time, is something that is very, very, very achievable. I have no doubt of that. And on top of the long-term output deals, we're also one of the top five purchasers of library content from all the major and minor studios, all the independent studios, some personal friends. And what that allows us to do is create a lot of depth and diversity to all of our channels and services.

So let's talk about IP. Some of you may have heard of it. As we said here last year, I think almost for the first time, it was something that was the answer to a question. Our guiding principle is, Wholesale Pricing & Packaging consistency. This is not just about how much someone pays, which is obviously what we can control, is the wholesale price. What we also can control is what tier – what package we allow these distributors to put us in.

And let me – well, the rights that we have, the flexible rights that we have with our movies, put us in a great position to calibrate and to help promote opportunities with our traditional MVPD customers. And they're looking at ways to compete; they're looking at way to grow their business. And they're always coming back to us. And, like I said, these long-term, flexible rights that we have allow us to leverage our existing products and to create new products. And then, of course, there's OVD. So let me talk for a second about the Netflix decision because it was literally, as you can imagine, a large part of the conversation last night.

Starz made the absolute right choice for its medium and long-term success with the decision to not renew with Netflix. This was not a money issue; this was a pricing and packaging issue. But I can tell you that, had we made Netflix deal, here are some of the things that would happened immediately: The cost of movies would have gone up. We would have eroded quickly and in big chunks our core business, which we have shown grows and which we are certain will continue to grow.

And we would have made it almost impossible for anyone else to come into this space because one else would have been able to follow into that space with that model. And I firmly believe that there is a business that other people will follow into. I mean appropriate distributors come along, and we are talking to everybody. And there are people that – we have – we are in very active discussions. And we're going to align this up the right way, and I'm not saying we're going to close any deals. But all of these things are possible because of the decision that we made on Netflix.

Within two or three years, the Netflix deal would have been a drag on Starz' earnings. And I think it's just really important to state that we made that choice; it with a big-boy choice; it was a grown-up choice. And every day, I'm more certain – and I think Greg and John are as well – all of us at Starz – Bill Myers – that we made the right choice. I have tremendous respect for those guys; wish them well. They have their business model, and it just did not line up with ours.

One of the things that has become really clear to us – and I'm sure to you as you look forward – is the idea of having your own authenticated platform. And so guess this is in a form of a kind of announcement. In 2012, Starz will be launching its own authenticated platform, and that will have tremendous use in making our service more available to our subscribers in more places, reducing churn, certainly, hoping – hopefully, getting us in front of younger eyeballs and making our product as compelling as anything is in the premium space.

So lot of growth comes from – all growth comes from new distribution; distribution of our channels, distribution of our original programming. And the real robust growth is going to come from new distribution opportunity. So we have a little lift that – sort of the categories of those opportunities and how Starz lines up against them. But first, it's something we've talked about already; it's just affordable, flexible and bundling with our core distributors. Starz has a tremendous amount of products. Comcast has every one that we offer, and – this is not a secret – they would like more. We have



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these great rights. We've established ourselves as a company who's willing to be flexible. There is a lot more business to do, as we need to make this product more affordable; bundle in ways that are not just keeping the subscribers but going to be able to attract new ones. As I just said, there's TV everyone, authenticated play; extremely important to reduce churn; extremely important in our relationships with our distributors. Again, gives us a lot of flexibility in how we can take advantage of opportunities that are out there.

Out-of-footprint MVPD offerings. Lot of chat about it. We have the rights. We are willing to engage in the conversations. Someone will do it. And Starz is positioned to take advantage of that, should it be the right and appropriate situation, take into account our premium pricing, premium packaging; take into account our relationship with our core distributors. All the things that we need to do to protect our business while we're growing it.

HSD-only premium packages. This is an idea that we love. Like I said before, most of us in the room probably have the whole stack. Hopefully, we're not in danger of not being able to afford that stack. But if people are threatened economically and they want to keep their television from their MVPD provider, the first thing that pops up off the top is premium television. But maybe they decide to, you know what? To like cancel their whole package because what they really wanted was movies. And the only place they can go get movies is you know who.

If we were able to create packages where premium television is on top of high speed, we would be able to keep people in the category. We'd be able to bring new people in the category. There are millions – millions – not 2 or 3 million – millions of high-speed subscribers who do not get a video package from their high-speed provider. And if they're looking for video, they're going outside of their provider's company.

So, again, a lot of talk about it. We're all for it. I think this is a great opportunity for the industry. The operators always talk about how this is their highest-margin business. I think this is a great way to cement it in for them and build a new subscriber potential for us. And then, of course, there's the old OVD products. And as I've talked about before, every day, you read about someone new who's coming into the space in some way, whether it's Xbox or PlayStation or whether it's Amazon or whether it's Hulu or ones that have called me that I haven't seen press releases about.

And we are – we've already proved that we're willing to operate in that space. We have guidelines now that we think are defensible, are respectful and make sense for our short- and long-term – and our long-term gain. And those are the things that we're going to be guided for. So across where we think the new opportunities lie, Starz checks off in every category.

And then something that we don't talk a lot – not a big part of our business but important strategically – Starz is a TV content studio. As I said, it allows us to monetize our originals through Anchor Bay, Starz Worldwide, Digital. And not as high-margin business, but is something that helps us to leverage the platform, the infrastructure that we already have in Anchor Bay. We've also gone off and made deals to distribute third-party product, most notably, the Weinstein product through Anchor Bay, and the very successful launch of AMC's Walking Dead through Anchor Bay.

We're going to continue to look for more of those things because we have lot more capacity on that platform. And Bill Myers, who's here in the room, and Gene George and Bill Clark are actively out there looking for quality product. And they're doing a terrific job on both the Weinstein movies and on Walking Dead. I know AMC's very pleased with the job that they've done. And all this works to not just help those companies, but gives us a great portfolio when we're walking into Walmart or Best Buy or whoever. And the boxed sets of premium television – the season series – are holding up better than anything else in the DVD space.

So 2012, our focus. Next wave of originals; very excited about that. Improve our positioning with our core distributors. Explore new opportunities with existing and potential distributors and, of course, maintain that financial discipline, as you've come to expect, from Liberty and from Starz. And now I've learned it, too.

And with that, I will turn it over to Mcl. Fantastic. Always wanted to do that. Thank you.

Courtnee Chun Ulrich



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Thanks, Chris. Next up is Mel Karmazin, CEO of SiriusXM.

Mel Karmazin

Hi, everybody. Good afternoon. John, Greg, thanks for giving me the opportunity to be here and to present to you – this goes. Okay. So a few of these dates, okay, because I think it's important to take a look at where we are today in the context of what has been going on. So streaming is getting talked about an awful lot, appropriately, but it's been around from the days when I was in terrestrial radio in 1994. So it's really not new; SiriusXM has built up its company to where it is today, competing with streaming.

We also – so we began our service in 2001. We got our first subscriber in 2001. Interestingly, iPods were created and started being sold in 2001. So – and the iPod is the quintessential product for personalization. Every song that you have on your iPod you have put there; either you bought it or you put it there some other way, but it's stuff that you wanted to hear. And again, since – in the last 10 years or so, we've built up our company, competing with the iPod. And the only thing that's also equally important was that in 2005, they started to install the connectivity with the car. So that you can very easily bring your iPod into the car, plug it in and you can get this great content that's coming through your speakers and navigating that way. And, again, that's been around for that long.

And the other dates that I wanted to highlight is this year, where there are going to be over 90 million smartphones in the United States. And what we look upon that as a terrific opportunity for us because, obviously, we believe most of our subscribers also have a smartphone. So it gives us an opportunity to bring our content to more and more people that way.

Talk a little bit about the industry that we're in. Spent a lot of time with the Department of Justice and the FCC, talking about how competitive the business is that we are in because if, in fact, the premise was that we were in the satellite radio business, then there's no way that the government would have said that two companies becoming one is a good thing.

So we're competing in the terrestrial radio business. If you look at it to where it was 10 years ago, the whole radio business was just terrestrial radio. There was no revenues being generated by satellite radio. We hadn't gotten our first subscriber, nor was there really any revenue coming from the streaming side.

Looking at 2010, you'll see that terrestrial radio is still the 600-pound gorilla. There's over 90% of all of the people in the United States are still listening to terrestrial radio in the course of a week; that they have \$15 billion. Aggregate all of the streaming; there's hundreds of companies that are streaming, the largest probably being Pandora, and they're generating less than \$1 billion. And in 2010, we generated \$2.8 billion. And we have 15% of the total audio/radio pie.

That 15% is going to be growing in the years ahead. That 5% on IP is going to be growing in the years ahead. And the 80% is going to drop. And that's not a shot at them. That's just a function that there's just a lot more competition than there used to be and they're not able to demonstrate an ability to show great top line revenue growth.

These are the three largest companies that are in each of those spaces. Pandora started in 2000. Clear Channel, in 2012, will celebrate its 40th anniversary from the time they got their first listener from a radio station in San Antonio to where today they have 110 million people who are listening to the Clear Channel radio stations in the course of a week. We have come to where we are slightly bigger than they are – both numbers round to \$3 billion, but we have a little bit more – and we're growing a whole lot faster. So, again, long terms these companies have been around. We've been around for 10 years, and it's really quite dramatic as to how we've increased our revenue to be the largest company today in the radio, worldwide.

The other thing is that those companies have chosen an advertising model, principally. Our business model is a subscription model. So if you look at Pandora, most of the revenue that Pandora is generating today is coming from advertising, which is the same thing as most of the revenue that Clear Channel is. So Pandora sounds an awful lot like Clear Channel from a business model point of view, though, obviously, the personalization and bandwidth and stuff makes it better.



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So what we've done is we've taken the number of their active user – this isn't the total number of people who have ever tried it. These are the number of people who used Pandora in the last month. And we related it to the revenue that they generated last year. Or, in this case, we're using consensus estimates for this year. And when you get to \$5.80 per year is how they monetize their listeners, their users.

In the case of Clear Channel, I mention that they have 110 million people who listen every week. They generate \$3 billion, and the average revenue per listener, per year is a little over \$12. We're in the subscription business. We have these \$2.8 billion of revenue. We have an ARPU that's around \$11 or \$12 a month, and we're generating \$138. So when we talk to talent, when we talk to the music industry, when you have to pick between where you want to go – do you want to go the IP world, do you want to go to the terrestrial radio world, or do you want to go the satellite radio world, we have a tremendous advantage in our ability to pay for content, to be able to keep spending money and investing in content and creating the best radio that ever has existed.

So paying customers. I believe that if, in fact, you were to aggregate all of the companies in the world that are paying for radio, we would still have more subscribers than all of them together. And it's a position that we feel very strongly about. 98% of our revenues are subscription revenues. We have a second revenue stream in advertising that continues to grow. It's a good business. It's a very profitable business. But, again, we're not going to do anything to jeopardize our subscription business because it is so strong.

We had a terrific third quarter. We increased our penetration rate. Penetration rate is the percentage of the vehicles that are made for sale in the United States that contain factory-installed radio. We think we're at the sweet spot now. We don't want to be in 100% of all the cars made. We don't want to be in police cars. We don't want to be in fleets where they're not going to be converting to paying subscribers. We don't want to be in rental cars, unless they're coming to us to get the rental fee. And we have deals with Hertz and Avis. We don't want to be in hearses. So that the 65% – I think it was 67% in the last month was a high.

We have been constrained for the cost of the FCC order of ramping our application, which says that we could not raise our basic price for three years. So we're very pleased that we've managed to grow our revenue with that constraint by 7%. And, obviously, controlled operating expenses and generated a 17% growth rate in EBITDA and had margin expansion. We've announced that in January, we are going to be increasing our base rate. We are going from \$12.95 to \$13.49 – \$14.49. And what we have done in this period of time is we have spent a good deal of time communicating to our subscribers – we've seen what happened when you don't do it the right way. And, again, we think that the reaction has been understandable.

We have not had a price increase for 10 years at Sirius, and we have expanded our content. And we believe that subscribers will react as positively as they can to a price increase, since it is really – amount to about \$0.05 a day. But we really had a terrific third quarter.

What drives our business is our content. If you take a look at Los Angeles radio, which is the biggest radio revenue market, or New York radio, any one company can have up to eight radio stations. We have 135 channels in every single market in the country for people to be able to hear. About half of our content is music, and the other half of our content are the non-music content. We invest a great deal in our content. We have the best radio – on radio in New York City. There are no country music radio stations at all on terrestrial radio – we have five country music stations that are available.

So our content continues to drive it. Our business model allows us to continue to invest in it. We've managed to continue to keep, since the merger, all of the content. There was not one major or minor piece of content that we have lost since the merger, even though the economics have become the market when there's one satellite radio company as compared to the market when they were two satellite radio companies.

We are very pleased and very proud that we are expanding with SiriusXM 2.0. The basic idea of 2.0 and the way you should think about it, particularly in the cars, is that we're going to be using a combination of satellite and IP. And that combination of satellite and IP is going to give us tremendous advantages. There is one car company that has agreed that, starting in model year 2013, which means starting next year, that they are going to roll out 2.0 into the vehicle.



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And every single car company that we have met with has been interested in doing that.

And what 2.0 really means for the consumer is a whole lot more programming, a whole lot more choices than they've had before and a great deal more of functionality. So if you think about what the cable and satellite television people are doing with functionality and how that has helped their stickiness in building it, that we have that same opportunity in satellite radio.

Looking at the subscription business, we're pretty substantial. Again, 10 years of operation, and we have over 21 million subscribers and growing. And it's only Comcast and Netflix that have more subscribers than we are. And, again, our growth rate is continuing quite dramatically.

Churn. Anybody that follows the subscription business, single most important metric, in my opinion, is how well you're doing keeping your subscribers. It's a lot cheaper to be able to keep your subscriber than it is to have the sack connected with adding it. And our churn has been quite good. If you take other products where the consumers really love the product and these are quality products, in the pay TV numbers, the numbers that we have are that it's between 4% and 5%.

Netflix has experienced some difficulty lately. But if you take the churn at Netflix before they announced the changes that they were doing, it was about 4%. So our 1.9% compared to DIRECTV and DISH and other people, we think, is an indication of how strong people feel about our product.

I mentioned this penetration rate. It takes a long time to get into all of these vehicles. The car companies work three years in advance. So if you look at the penetration rate that we had over these years and factor in that we pay the car companies to put satellite radio in the car, our business model includes revenue share to them. It took a long time to go from 20%, okay, to where we are today. So there's an awful lot of talk about – there was a story in today's New York Times about [indiscernible] (1:12:14) doing a rollout with BMW. Before any of these companies get to where they have any meaningful penetration in the cars, it's going to be many years from now.

I believe that if you were to think about what's going to happen in the next five years or just talk about five years from now, there's still going to be – every car company is still going to put an AM radio in the car, all right, in spite what has gone on technologically. So there'll be the AM radio in the car; there'll be the FM radio in the car; there'll be the satellite radio in the car. And there'll be the ability to pick up the assortment of Internet companies that are there. Don't know where Google is going to be; don't know where Amazon's going to be; don't know where the Pandoras – I mean, there's a lot of companies out there.

And a lot of these car companies are putting in apps that they can switch. So that if, in fact, somebody is making a decision for company X and the new, pretty girl on the block is company Y, they'll have the ability to switch. But this penetration level is very important and very significant. So that means that today, we have over 40 million vehicles that are on the road today that have satellite radio. Obviously, some of the people haven't subscribed, right, in that conversion rate, and some have churned. So that presents a terrific opportunity. And that 40 million grows to 75 million in 2015.

How we decide to monetize that, to be determined. But the one thing we do know is that the used car market is a great opportunity. And the more vehicles that are produced today that will be sold in four or five years from now that will find their way into the used car market presents an opportunity for us to get new subscribers. And we have deals with every one of the certified, pre-owned companies, every one of the major franchise dealers, for us to offer a three-month trial. We buy your vehicle. It comes with a three-month trial. We market you, and then we try to convert you into self-pay subscriber.

The early indications on conversion in the used car market is very gratifying. So where our conversion, you should think about, is 45% to 46% would be our normal conversion rate in new cars, our normal conversion rate right now in the used cars are in the mid- to high-30s. So that looks and that models really good for us.

There's also the opportunity for us, if we wanted to – and I get asked this question all the time – is, we can light up these radios. So we have all of these radios where somebody's not subscribing. And we can light them up, and we could



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put a service on that's a commercial service available throughout the United States. Let's assume we wanted to, tomorrow, have 10 or 15 radio stations that would be free, supported by advertising, that would be on every – all of these cars everywhere in the United States. Remember, the other guys only can have up to eight radio stations.

So there's all kinds of business opportunities that – having that out there, and the sack is done because those radios are already in the car. So our number of subscribers grow – I don't think I can go back, but let me just tell you the point that I'd like to make is, if you took a look at what happened to our business in 2009, when this 2008 financial crisis happened, we lost 200,000 subscribers; that we did not get a big hit. The good news about that is the fact that there will be other recessions in this country. And we saw how well our company has performed during that recession period. And the slide on the screen now shows about what our revenue was in this very difficult time.

So we feel very good about it. Our revenue will accelerate next year because of the price increase and our subscriber growth as well. The full rollout of our price increase will not take place until – into 2012 and 2013, so that's a couple good years of that. So this is sort of like, if we would have come to you and showed you a business model that says, here's what we think is going to happen, you'll say that – yeah – no way.

Well, in fact, that is the model that we showed to Liberty Media when we talked to Greg and John about making their investment in us. This is dramatic. There was a never a question that once the merger took place that we were going to have a very, very profitable business. Unfortunately, there was the liquidity issue and the Lehman thing that stood in the way, but our business model is absolutely delivering. And that's going to continue to deliver beyond where it is today. But that's extraordinary.

And more importantly for me, the most important metric – and I see a lot of familiar faces in the room that I've known for many years, it's the same message, right. Bill Clinton got elected. It's, the economy's stupid. And I said, it's the free cash flow is stupid. And we've been – we went from \$552 million of negative free cash flow to, next year, we're going to have \$700 million of free cash flow. And that metric is extraordinary. That free cash flow is growing dramatically, and that's what I believe it's all about. So we – our balance sheet as well.

So one of the reasons that John Malone is such a big fan of big government is that big government really screwed us by having our merger take 17 months to complete because had the government approved our merger in, let's say, a year, how long does it take? You got two satellite radio companies. Do you want one or you don't? We think that, that decision could conceivably be made in a year. But because of the fact that it took so long, we wound up having to deal with the Lehman issue; had to deal with financing. We had to refinance the \$530 million worth of debt.

Warren Buffet is lending money to Goldman Sachs at 10% plus warrant. Warren Buffet is lending money to GE at 10%. What would we be able to borrow money at? Well, that's what it cost. It cost us 15% and warrants in the company. In about three months after we got the money, we prepaid with Liberty, we paid off that debt. We have also managed to pay off a lot of other debt. Our bonds today are trading. Those bonds that we did most recently are now trading with a handle of 6%. Bankers have told us that if we wanted to go into the market today, we could borrow money in this area of 6%.

We have gotten six rating agency upgrades from S&P since the time we merged the company and we got this financing. We are two notches below investment grade. We have no desire as a company to run the company to be an investment-grade company. We may get there, just naturally, because of the amount of cash we're generating. But the fact is that our business is really looking good, and our balance sheet is another thing that's going to come into play and be an advantage to us.

We've said publicly that the leverage that we're comfortable with is somewhere around three times total debt to EBITDA. And that's an area that we will very clearly accomplish in 2012. Again, we believe that taking – having a certain amount of debt is a great advantage to our shareholders. And that is our current thinking, and that will probably be our thinking next year. We will have a board discussion as to what we should do because we're generating so much free cash flow and because of the fact that our business appears to be very predictable, that there's an opportunity for us to think about what we'd do with it.



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And what you do with the free cash flow is like you decide to pay down your debt, [ph] well, we've (1:20:59) at this three times. Or you could sit there and pay a dividend. You could sit there, you could make an acquisition. You could buy back your stock. And, again, if there ever was an acquisition that we believe was accretive, that was in our core competency and we would generate more free cash flow with it, we would absolutely consider that.

Those things are very, very hard to find. So the more likely scenario is that when we get to this three times is that we will certainly consider returning capital to shareholders in some way that makes a whole lot of sense, tax-wise, for them.

Our strength is that we have the satellite delivery system; that our network is perfect to 99.9%. We like our delivery better than over the 3G. I still get calls dropped. I'm not sure that my experience is so good. That will improve. But the fact that we have this interface in the car and the fact that we have this 99.9% penetration is an advantage. And in 2.0, when you combine that with certain aspects of IP, it really works. The 135 channels of content, we're constantly torn on what to put on them. There's so much good content that we could be doing. And we think that we have, again, the best content in radio.

Our OEM agreements are advantages. Prior to the merger, somebody might say, gee, that's a disadvantage because some of these were very costly. But, again, we rationalized – after the merger the same way as we rationalized our programming expense, we rationalize our OEM expense. And those two today are important assets. And many of our deals include revenue share. And we like that idea because the car companies are working with us on getting the extensions, getting the renewals and also dealing with the used car aspect.

We have a great asset, that these companies didn't start cheaply. Before we started making money, we've lost \$8 billion. And now – so it sucked then. But, on the other hand, now that we're here, we now have this \$8 billion to use to shelter a whole lot of the money that we're going to making in the future. And that's a great advantage. We talked about the subscription model. And the fact that we're a pure-play company that's focused, I think, is a real asset. I know that, that story is very easy to understand, and we like that story.

And the last slide I have – and I'll get out of the way – is this is what's going to happen. You're going to see subscriber growth from our company. You're going to see revenue growth from our company. You're going to see our interest expense dropping. You're going to see the benefits of the NOL. And I think you're then going to see this free cash flow.

I think that the free cash flow is, again, the most important message. I think it's the absolute amount of the free cash flow. It's the growth rate of the free cash flow, and it's what management does with the free cash flow that's important. And I think that our investors are going to be very, very pleased with it.

So we're feeling very good about the rest of the year. We announced what we thought – what our subscriber number would be by year end. And we said that would be 1.6 million, up from 1.4 million. We're on target for that number. The fourth quarter, for – subscriber additions are going to be the highest fourth quarter in the – since the merger took place.

So our business is very good, it's very strong and we're looking forward to a very strong 2012. And thank you very much for your time. And I will turn it over to – there we go. Leave that there?

Courtnee Chun Ulrich

Yes, you can leave it up there. Thanks, Mel. Next, we have William Lynch, Barnes & Noble's CEO.

William J. Lynch, Jr.

First of all, I'd like to thank Liberty, John, Greg, Mark, the rest of the group for having us here today. Obviously, I think we're one of the more, if not, the most recent addition in their portfolio. I'm going to focus less today on financials and more on strategy because I think we haven't gone out, necessarily, recently, and articulated our strategy. But I'll tell you a little bit about what we're focused on and our priorities today.



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So, really, our strategy is based on three key pillars. We went out on an investor day two years ago when I first took over and Len, myself, a few of the others were talking about what we wanted to do. And at that point, the investment thesis for Barnes & Noble was really this stable, legendary, specialty retail business paying a big dividend. But we saw this historic opportunity that was coming and emerging in digital content. And what we said was, this business that is great business, mature, stable cash flows, paying huge dividends; we're actually going to invest more and chase what we see as an opportunity with eBooks, digital newsstand and other forms of digital content and turn us into a growth company.

So I'll give you a little preview on how we've done. But it's really based on what's going on with eBooks and the newsstand market. [ph] Verona Schuller (1:26:36) just came out with a projection that says, eBooks in the U.S., alone will be \$7 billion by 2015. They were \$1 billion last year, to give you some sense. So you're talking about a CAGR for the next four years of over 100%.

We launched our eBook store in August of '09. There were a lot of questions about whether we could compete in this technology area. No one has grown share faster in this exploding and meteoric eBook market than Barnes & Noble. We currently have 27% share in eBooks, and that's primarily due to because of what we've done with NOOK.

Second plank in our strategy is to gain share of the physical book business. While that business will contract as eBooks and digital grow, it still is a very large business in the U.S. It's projected to be \$14 billion in 2015. Our biggest competitor in the bookstore chain area, Borders, went out this year. I'll tell you a little more about that. But we've also seen other non-book retailers that sell lots of books, the mass merchants, Walmarts, et cetera of the world, pulling back. So we expect and are gaining significant share in this retail area.

And the last thing we said we were going to do is we were going to expand into other categories. We have some of the most valuable customers coming through our stores every single day; in fact, tens of millions a month. These are high-income customers. Many of them are readers. A lot of them are parents. So we looked at, what are the other types of merchandise we could sell them? So I'm going to tell you about our progress there, particularly in toys and games.

Let's start first with eBook area. So what have we done to monetize content? This eBook business for us has been explosive. It's been the fastest growing part of our business. I said it'll be \$7 billion by 2015. If you look at what we've done and how this has grown, it's on a 200% year-on-year growth rate. No company has gained share faster in this area than Barnes & Noble.

The other area, which is just now emerging is digital newsstand. If you look, eBooks, clearly, has gotten a lot of press. But the next big area of content that you'll see accelerate in digital will be newsstand, primarily because it's been too expensive for these publishers to produce their workflows, quality digital publication. I don't know if some of you have seen the first Wired magazine, which was touted as the future of the magazine. That cost \$225,000 for that issue to produce. Obviously, that's not scalable when you're a People Magazine and producing every week.

The publishers have gotten their workflows down and now it costs, on average, \$15,000 per issue to put out a digital magazine. So what we're seeing is this explosion of content, but we are also seeing a proliferation of mobile tablets that are optimizing around digital newsstand, NOOK Color being the first that did it. So we've got the – NOOK has the number one share of digital newsstand to date. And we see this just growing with the explosion of more content and more devices out there.

Next is apps. Pardon me. I'm just getting over a cold. Next is apps. And with our apps business, we launched this in March of this year and, literally, overnight, it became a \$10 million business for us on agency margins, which are 30% fixed margins. And this is one of our fastest growing business. You might recognize this first – this'll give you an illustration of how fast this area is growing. This first icon is Angry Birds. If you don't play it, your wives, husbands or children do. Angry Birds is founded by a gentleman named [ph] Peter Kay (1:30:21), who is a friend, the Mighty Eagle, and they will sell \$550 million downloads of Angry Birds worldwide this year, making it a bigger brand than Coke and this was a brand that did not exist two years ago. So this is an explosive area for us.

And then lastly, this area of Publ!. Let me explain what Publ! is. Traditionally, for – thank you very much. Traditionally, if an author wanted to get their book published, they had to hire an agent and funnel through, find a



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Bloomberg Estimates - EPS
 Current Quarter: -0.110
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publisher and then go through traditional distribution models. There are two companies that have disrupted this idea of independent authors and small publishers and it's us and Amazon.

We have two small publishing platforms. Ours is called PubIt! and it's allowed small authors with quality work to upload their digital content, click through a click-through agreement with us and post it for sale to the millions of installed base of Nokia users who are shopping for content online. This is the fastest-growing area of our business, digital business in both catalogue as well as in sales volume.

Just to give you some sense of that, last week, we added over 4,000 new titles to our digital repository alone in PubIt! and we developed relationships with over 225 independent authors to resell their digital copyright catalogue. So what you will see is this bifurcation that's happening in the world of books between the front list best sellers, you will have the John Grishams, you will have the Pattersons, those will be signed with big advances by the big publishing houses. And then you will have this proliferation of content that is direct to consumer through the two dominant platforms, and we have one of those platforms in PubIt!.

Okay. Moving on, so I mentioned our share. Again, we launched in August of '09 and based on industry statistics, we have 27% share of the eBook market. This is a meteoric market, going to \$7 billion. We feel very good about our ability to maintain or grow that share and I'll tell you how we're going to do that shortly. This is a quote from Brian Murray, one of our key partners at HarperCollins, about our success. Then in digital newsstand, we currently got about 30%. We see that business going to \$3 billion in the U.S. and we feel even better about our ability to gain share in the digital newsstand market, maintain and grow share. I'll tell you how we're not only doing that through mobile devices, but also in the stores.

So what does this mean? Between our share gains and the rapid growth of these digital markets, what we've developed here is a big and rapidly growing digital business. In 2010, this is our fiscal year I should note, so – in August of '09, I mentioned this was a PowerPoint slide for us. We had no business in digital content. And in that year, that fiscal year, we ended up with \$123 million in revenues. Last fiscal year, which ended in May, we did \$880 million. This year, we will – we're projecting to do \$1.8 billion and this is in digital content, hardware sales and to a much lesser extent, accessories and warranties, ancillary revenue stream. So we feel great about this growth. And the way we've done it really is through products, to start.

We have developed, in my view and in others' view, the best and most innovative product in the eReader category, the last three. This is NOOK Simple Touch. You might have seen the review that Katie did, Walt's partner, yesterday in the Wall Street Journal. She did a review of this product versus the Kindle, new Kindle Touch, saying that she's still hooked on the NOOK and rating this as the number one pure-play eReader. Consumer Reports has this product as the number one eReader and you can see some other quotes here.

This is our entry level device. We just marked it down to \$99. In a world that's very much about share gain, this is our match play to get in and control those lockers. And so this will be a lynchpin product in our overall portfolio.

The next product really was probably our most pioneering product. This has NOOK Color where we invented a new category of product. To date, eReaders looked a lot like Simple Touch. These black and white screens primarily associated with the Kindle who came out with the first real widely adopted. We said, well there is a lot more content out there, children's books, digital newsstand, comics, et cetera. So we launched NOOK Color and this has been our most popular product. We've sold millions and it's really facilitated our share gains in what I'll call the non-fiction categories, the kids' books, the digital newsstand.

And then the big news that we announced two weeks ago is NOOK Tablet. We sent a press release out yesterday. This is available in stores today. In that press release, we talked about this product exceeding our expectation. It really is, I believe, the best product in the 7-inch portable class. And what it's meant to do is take our leadership in digital reading, build on that.

We've added a comic store, we've added more graphic novels, cookbooks, but then we've also added the best in HD entertainment. We did a deal with Netflix and Reed, who is providing great support. No product has a deeper Netflix integration than NOOK Tablet. It's a very powerful product. It's designed for ultimate portability.



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It's got the world's most superior display. We invented this display, it's called the VividView, with our partner, LG, and there is a lot of technical things we did, but it is the hands-down best display for viewing and reading content and that includes the iPad, because it's got anti-glare in it and if you look at viewing angles, we've optimized the viewing angles.

People ask all the time, how are you going to compete with Apple and the iPad. We don't really, in the sense that when we're designing products, we're designing for a much different consumer. If you look at the customer we've been accumulating with NOOK, it's mostly women and it mirrors very closely what we have in our stores. So, these women are the ones who buy books and magazines in this country. 60% of that content is bought by women.

So, when we're designing these products, we talk about portability, we're designing them primarily – men, of course, but women too, that take can take them in purses and bring them around. So, this product is under a pound. It's designed for portability and battery life is another innovation here, where it's got the longest battery life of any tablet on the market.

So, I want to show you how we're going to support this product by playing you an ad. We have our largest marketing campaign ever against this breakthrough NOOK Tablet and we've enrolled one of our favorite friends at Barnes & Noble, big author, big celebrity Jane Lynch. She has extremely high Q scores with our primary female target. And so, I'll show you the ad now.

[Video Presentation]

So, Liberty graciously gave us some real estate outside and we've got demonstrations of our NOOK Tablet and I invite you all after to take a demo of that. We would love to get you to know the product a little better.

The second plank after product that has allowed us to be successful in the digital area is these bookstores. Consumers who want to touch and feel gadgets. If they're going to make an investment, they want to understand what's – what the options are in the marketplace and they'd like to try things before they make those investments.

No one has the reach we do to service those customers, with our 700 neighborhood locations. So, this will only become more important as you cross the chasm from early adopters, who are more fluent and comfortable with technology, into early majority and the mass market. That's where we are right now in eReading and this tablet market. We are just getting to the end of the early adopters and getting into the early majority.

So, we've really focused on this. We have the most highly trained, friendly, and well-versed booksellers and NOOK sellers in the U.S. So the other thing I would invite you to do is go into even a Best Buy, who in my view, probably does the best job of educating their sales force, go into them and buy an eReader. Go into a Walmart, Target, et cetera, these are all partners of ours and they do a nice job. But there is a totally different level of service you will get when you walk into Barnes & Noble. We know this is the big part of our competitive advantage and we focus a lot on it.

And, in fact, one of the things we have done is we've blown out the footprint we've dedicated to our in-store service and I'll show you in a just a moment something called the digital shop that we've rolled out into 40 of our top locations. The digital shop is meant to be the preeminent place for consumers to learn about eBooks, get their newsstand subscriptions, learn about new types of content that are coming down the pipe and learn about our NOOK products. So we've got it in 40 stores starting this holiday and we'll roll it out to hundreds more and I'd like to show it to you now.

So those stores aren't just about showcasing NOOK, they are also about getting people to subscribe to our ecosystem. We know that once we get someone to buy 11 books, they are going to be with us and their retention rate and I'll use the word churn, which I know is a familiar term, our churn is much lower. They also buy more content, but that's where we can get them to subscribe to magazine, lucrative newsstand subscriptions. A Wall Street Journal is \$20 a month, in digital, we get a significant portion to that.

So, this is about the content as much as it is about devices and so we are exploiting this advantage we have more than anybody else, in fact, so much so that we've created an ad with Jane Lynch about it. Just one last data point, when we went out and pulled consumers at the end of last holiday in January and February and said, why did you buy NOOK over Kindle, which are the primary two leading brands in this market at this point, the number two reason they cited for



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buying NOOK is our in-store support. So we said let's commit to that, let's invest in the training, but let's also market that benefit. Here's a good example of how we're doing it.

[Video Presentation]

So the audio is a little weird here, but you see what we are doing. And we tested this with our customers and they loved it. They obviously love Jane, but it also brings to life how we're there for people. In addition to our own stores, more and more, our NOOKs are being sold on third parties as awareness of the product grows. The world's best retailers have come to us and we've struck deals. We'll be in over 12,000 doors with NOOK this holiday, including Best Buy, Walmart, Target and others. And again, that's becoming a bigger share of how many NOOKs we're selling.

So here is the strategic slide of what's going in the overall book market. What you see is the \$22 billion U.S. consumer market, we've had about 17% of that, Amazon with an equivalent share. What's happening is with orders going out and the market consolidation, there is, if you will click through the next slide, there is \$2 billion up for grab in this first holiday season.

We've said publicly and I've said in our last earnings call, we will pick up \$300 to \$400 million in annualized sales lift just from Borders going out. We feel very good about that number at this point. Our traffic is trending well up from what we thought previous to their liquidation. But importantly and meaningfully, there is a whole other \$10 billion here that will consolidate as well.

What you are seeing is and speaking to a lot of the publisher CEOs, their mass market business is down, their drug is down. A lot of these stores, the Targets, Walmarts of the world, even drug, carry books. As category shrink, they all look at their business and they shrink the footprint or get divested of the category altogether. We are increasingly becoming the only place to buy a large selection of books, but to get books in general. And so we will definitely benefit from this consolidation that's occurring.

So, what does this mean strategically for us? We are vital to the publishers. The publishers understand this; we understand it. Again, to give you a data point on this, we carry about 95,000 ISBNs in our stores and ISBN is a SKU. And most of the profits from – these publishers reap from their backlist, from that long tail business here. Only 5% of what Barnes & Noble sells is best sellers. We are critical to the profitability and cash flow to these publishers. And so as these various other retailers divest of the category, we benefit and only become more important. Just to give you another sense of that, we carry around 95,000 ISBNs. The next biggest assortment is Walmart at 2,500. We are literally the only showroom for these books in the country, giving us a very important partnership for them and enormous leverage of scale.

Secondly, from the retail standpoint, we are an anchor tenant in a lot of these properties. With Borders going out, there is no bookstore to put in these projects. We are able to go in and negotiate very favorable leases. As we've said, two-thirds of our leases are up in the next 2.5 years with these landlords. And they want that high income consumer, they want that bookstore bringing in traffic. So, from a cost perspective, we expect big yields and savings to either negotiate a more favorable lease or move a project into a more favorable location.

So this is the current market share and size of the various businesses. Here, you've got the pBook market. In 2010, this was \$21 billion, the eBook market, \$1 billion. We had 17% of the physical book market, 25% of the eBook market. Here is what's going to happen and here is our view in 2015. You've got a \$14 billion pBook market with a 20%-plus share. We're already reaping these share gains now and then you've got this explosive eBook market in \$7 billion in the U.S. and we feel very good about our ability to hold or even gain share in that market. So we will be selling more books in 2015 and we view this as a great opportunity.

Lastly, when you look at new categories we've entered, toys and games is a massive market. The trade book market in the US, \$22 billion to \$23 billion. Toys and games is \$22 billion and so we went out to our customers and said what else could we sell you, and toys and games was the number two category they told us they wanted to buy from Barnes and Noble.



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But as you'll see in the next few slides, we are taking a very different tack. We are not trying to compete with Walmart and Target in this plush area of toys and this highly promotional Tickle Me Elmo, that sort of assortment. We've got a curated assortment and really are working on developing the world's best educational toy and game destination. So moms and parents can go into a Barnes & Noble, the way they've always had and feel good when they pick up a gift for their son, granddaughter, or a birthday that they are going to get something that is good and nurturing for the child.

This assortment and this new rollout of these sections, you can see for those of you in New York in Union Square, but we've rolled them out to over 500 locations for Barnes & Noble this holiday. So we just completed that. These are 1,000 square foot assortments. You'll see some photos we've got here. Let's skip through the games and puzzles.

You'll see some of the photos we've got here and we've partnered with these development brands who helped invest in some of these pictures, like Lego, like PLAYMOBIL, et cetera. So a very different environment than you're going to find this holiday at other toy stores and we think the consumer will respond. It's worth mentioning prior to the launch of this, our toys and games business was up 53% year-on-year. So we only expect this to increase.

So that's really what we're focused on. We see and really, I've never seen an opportunity the size of what this disruption in digital content creates. We think in the U.S. alone, it's \$10 billion by 2015. We've been able to gain share extremely quickly. We feel good about our strategy and our assets to continue to gain share and then it's just riding the natural growth curve of that business and certainly, we're doing that with great products in our stores.

Secondly, in the physical book side, we think no one is better positioned to capture certainly in the physical, the physical book business that's going to come to us and we're already seeing that now. Our traffic has been as high as it was six years ago with Borders going out. So this holiday, we expect big traffic gains.

And then lastly, we started going big into other categories where we can use all that traffic coming into the stores, like toys and games, to sell more merchandise. These are typically higher ring transactions at favorable margins and we're just starting to get into that in a big way and this holiday will be informative for us. I should mention, you all have a bag that we've given you for Barnes & Noble. In that is a 50% discount for toys and games. Everyone knows a child. We hope you take advantage of that this holiday and I would encourage you to go take a look at the new NOOK tablet. I think it's one of the real breakthrough products for this holiday and thanks a lot for your time.

Courtnee Chun Ulrich

Thanks, William. Next, we have Michael Rapino, Live Nation President and CEO.

[Video Presentation]

Michael Rapino

Thank you. I knew Albrecht would be showing off these fancy new shows, so we had to something. And I have to thank Albrecht, because – and Greg Maffei, because my stock's up 7% in anticipation of what we're going to do with that \$1.5 billion and how I'm going to get some of it. So, I thank you. So we're going to take you through Live Nation. We've had a fabulous year. It's been the second year of our coming out of the merger and getting through the first year jitters and getting the organization ready for our mission.

So I'll take you quickly through, what is Live Nation, how are we positioned and how are we going to grow? So Live Nation, one of the questions I get often over the last year is, where does the concert fit in the consumer spend? Are they going to less shows, are they spending more time on the computer? Is there any erosion in that kind of love for the show? All this data you can see up here will tell you that the show still holds a very high spot in the consumers' got-to-get-to that year. The average consumer goes to two shows a year.

We did some of the research in the last two months with our consumers' casual and heavy users, said to them, next year, are you going to go to the same amount of shows, are you going to go to more or less? 85% of them said they are



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going to the same or more shows. So, going to a show is a Kodak moment around the world. That consumer, no matter what kind of bracket you're in, you are saving enough to go take your son to the Taylor Swift show, or your daughter to the Taylor Swift show, I hope. Your AC/DC reunion with the college buddies. So it's a magic moment. It stands strong and it's only getting stronger around the world, as emerging markets are getting their taste of Lady Gaga.

How is this business – how does this business do? I like to remind people we're not in the music business and I say that only because we don't have any of the challenges that the record labels do. We're not trying to figure out the digital revolution with the CD. The concert business has had 20 years of strong growth. 2010 was the first year in 20 years where the consumer pulled back slightly. We predicted that in 2011, the business would rebound. But it is a healthy business. And as you can see from these numbers, great growth over the years, and we expect with the emerging market and the international markets, that this line will continue to grow.

People are always surprised at kind of the scale we have. When you look at how many people went to a Live Nation concert, it's more than the NBA, NHL combined. If you look at the amount of tickets that we sell at Ticketmaster, it's number one in the world in terms of any kind of metric you can do against sports.

So we consider Live Nation kind of a league in itself. It's the closest thing you have to the NBA of the concert business. It's kind of the credible global brand that connects with sponsors and is the number one content supplier.

In our business, we really do two things. On one side of the business, we are a content company. We need to go out there and acquire the show, work with artists and get those tours on the road. And on the other side of the equation we got to sell to the consumer. The unique part we have is we figured out four or five years ago that we didn't want to follow the record labels, was we could not outsource the front door. We couldn't just be the middleman. And one of the challenges the labels had is they didn't figure out how to become the iTunes. And I give you great credit, Barnes & Noble. That's the first time I have seen that presentation. You've stepped out in front to make sure you're not just selling iTunes. The labels didn't do that. That was their core challenge.

We knew from day one that we had to be on both sides of the equation. We had to be the best B2B business in the world acquiring and putting on shows, but we had to own those 200 million consumers that are coming through our door. We had to know their names. We had to have a relationship with them and we had to become a great B2C supplier.

So on both sides of the equation, this is what we do in our business every day. How do we do on the content side? We're number one in the world by far. On the concert promotion side, we're larger than every other promoter in the world combined and growing. And on Irving Azoff's side, again, there is no real public data on his competitors, but there would be no one close to his scale in terms of what he has consolidated on the management front. So number one in growing on content.

And on the eCommerce side, it's always a surprise when I say to people that Ticketmaster is one of the largest eCommerce sites in the world, number three, incredible stat. As Greg referred to, probably historically, Ticketmaster didn't kind of embrace that and didn't build up that consumer experience or harness that data. But we're hot on that trail right now and as you can see from ticket distribution, there's nobody close to us in terms of selling the tickets.

And in terms of how we've done over time, you can see both sides of the equation, 13,000 shows to 22,000 shows a year, 10,000 venues to 12,000 venues signed on the Ticketmaster side at about a 95% renewal rate. So both sides of the business have been growing historically and attracting more customers.

When you look at our business, how do you grow this business? When you are that big and scalable on both sides, how we're going to grow the bottom line of this business? There's three things we're going to do. We've started this year and had great progress and three things are going to grow our bottom line. We're just going to do more shows around the world. We get a whole bunch of untapped markets to capture. So number one is do more what we're already doing.

Number two is, we have an incredible advertising business, great opportunity there. We think it's one of our biggest. And number three is, sell more tickets. This has been a business that has been fairly unsophisticated, historically. You press the button at Ticketmaster, you read a print or a radio spot. We have a massive opportunity to engage these



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consumers. We have one of the most passionate fans in the world. There isn't another business where I don't have to spend \$1 trying to figure out how to get consumers that like music. They love Lady Gaga, they can't wait to get that Lady Gaga t-shirt, get to that show and have a good seat. But we have 200 million passionate fans that we've got to have a better relationship with.

You go to ticketmaster.com right now, if you bought 12 tickets yesterday and you came back today, I treat you the same way as I treat the guy that comes once a year. Great opportunity to take that consumer, build loyalty programs. The number one way we sell more tickets is when the consumer tells three of his friends and bring them. The social experience. So if you can empower that person that's buying two tickets, give him an incentive to bring his friend, your business starts to grow in leaps and bounds. So, we've got a great opportunity with that consumer base.

As far as how we are going to grow the international, it's a huge business. The superstar in music is one of the greatest exports and imports out there. If you look at a Lady Gaga or we just finished U2. We did 100 dates with U2. 10 or 15 years ago, all those dates would have been basically in the UK, a little bit of in Germany, and the U.S. We just finished this tour, we went from Cape Town to Dubai to South America to Colombia. This business now is global. You can walk into any market, I don't have any of the challenges that the rest of the most businesses do. I don't have to build a factory. I have no regulations. I can walk in and just announce today that we've expanded into Portugal. I can walk into Portugal, hire two of the best local promoters, put my Live Nation flag in the ground and start giving them U2 and Lady Gaga shows, fill the sponsorship based around it, ticketing, and you can instantly start building markets.

There are, as you can see from this slide, we are large, but we've got a long way to go. It's a \$12 billion business. We earn about \$4 billion right now in revenue and you can see where the markets we want to get to. Most of these markets are emerging. Most of these markets, you've seen some of the Brazilian T4Fun data. These are 20%, 25% a year of growth businesses where that mass of 19-year-old to 29-year-old consumer now has disposable income, is on Facebook, so knows who Lady Gaga is, knows who the hottest stars of the day and is dying to see that show. So we have a great landscape ahead of us.

If you look at what we – when we travel the world and you talk about where this business is going, this is going to be a global business. Over the next ten years, the rest of the world, you look at Brazil, you look at India, you look at our Russian business, our Eastern Europe business and into China, these businesses are building venues ever day. Every city in the world right now has a new venue. Everyone we meet with, every government, every city official from Singapore to Dubai, all they want to talk to me about is, can you bring shows here? Can you bring Lady Gaga, can you bring U2? We've got the infrastructure, we're investing. We want to be a global destination.

So we have an incredible hot commodity called that content, that show. That show has now more buyers than it does shows. We had 100 live – we had 100 U2 shows and we had thousands of venues around the world that said, I want that show and I'm going to pay you to have it. So that's where we're going to continue to build our business.

You see what we've been doing over the last few years. This isn't a kind of a wish and a dream that one day, we'll figure out international. We are international. We've been building over the years, at Live Nation, over 50% of our business is international. We just added Portugal to that today and we'll continue to develop our international business. We have the scale, we have the credibility and we have the content that we can walk into any market and set up a Live Nation office overnight and start building the business.

Second way we talked about is sponsorship. Again, we really are the NBA of this business. We have over 700 corporate brands that work with us. We have a department of over 300 or 400, if you counted global, salespeople waking up every day, talking to CMOs and talking to local managing directors about, how could you use live entertainment to better your brand, whether it's an image platform, whether it's a signage opportunity or an access. But, huge opportunity. There is about a \$2.5 billion global business that is spent at Corporate America on music sponsorship. That's over \$30 billion, \$40 billion when you add sports.

My slice of the pie is \$2.5 billion. We're playing at about \$162 million right now. So it's a huge opportunity to match our market share against that \$2.5 billion. There are not a lot of others out there that are offering anywhere near our platform. We have the right skill set now and we think this business continues to grow and doubles over time.



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And, online advertising, again, it was never looked at, at Ticketmaster. We didn't have a staff doing it. We've kind of gone from zero to \$40 million overnight. We have a really unique opportunity at Ticketmaster. On online advertising, which we all know is growing like crazy, most online advertising is all about the social experience. Most e-commerce sites don't get advertising.

As great as Amazon is, Coke's not dying to do an image campaign there. We have that unique spot, where we are the third largest e-commerce site, but we have all that image and sexiness of rock and roll on that page. So, we are getting RFPs weekly and we're in that place, if you're a hot commodity, if you're Coca Cola, you're Red Bull and you have an image campaign that you're selling, you want to be at ticketmaster.com or livenation.com, because we're reaching the customer in a unique way. So, again, we think this business is our biggest growth opportunity.

And our third is, how do you sell more tickets? What are we trying to solve here to sell? Two great facts that show you where the pies are, number one, 31% of fans said, they would have went to the show, but they didn't know about it. Again, not a great, sophisticated, historic way to talk about shows, just a radio spot and a print ad.

If we can drive some awareness, if we can now start talking to that guy that went to the Jimmy Buffett show every year, I don't need to do a print ad to talk to them. We're going to do Jimmy Buffett in New York again next summer. We have all their emails. We have their addresses. We can talk to them tomorrow. We can incentivize them tomorrow to bring two friends. So, if we can drive awareness by entering the digital era, we can drive awareness. If we drive 10% awareness, we sell more tickets and drop \$100 million to the bottom line.

And on the secondary market, we really haven't played in it in a big way. We've sat on the sidelines. We have a company called TicketsNow, but we're going to show you how we're going to start attacking that segment, not straight on, but how we're going to get more of the gross from those high ticket prices.

And the first thing we did over the last few year is we reorganized. We brought in great executives and technology people from the Amazons and the Apples and the iTunes. We built a great skill set internally. We've started this year doing all the obvious. At Ticketmaster, we needed some new channels. We've got to make sure that we also are reaching people on a daily basis that were not kind of in the sphere of the music advertising. Groupon, we've talked about. It's been a great success to sell on a very targeted basis. So that show in Baltimore that's not working, we can mail those people directly and we've sold over 1.2 million tickets. We think that's somewhere in the 60% to 70% incremental and not a lot of cannibalization in that business to the new consumers.

And Walmart, we have rolled out kiosks and really successful there, Middle America selling the Def Leppard show, it's hitting that sweet spot that we don't always get to. Over on the social, we're really proud about this. We have spent a lot of time with Facebook, a lot of time with Twitter. We're by far the most advanced in this business.

We've rolled out our concert calendar, we've rolled out our Facebook integration. It's obviously a huge priority at Facebook. We've been in deep meetings with them. because if you're in the social business right now, you know that concerts are a sweet spot for you. And figuring out how to monetize that, Facebook looks at the concert business similar to the gaming business. If they can provide a platform that we can engage in and make money on, they've got another story about how their platform makes money.

You look at what we've done on the Facebook side, when you buy a ticket at Ticketmaster, you press RSVP. It goes to your Facebook page. Every time we do that, \$5 in incremental sales, because your sphere of friends, they all want to go, too. We've just launched an integrated concert calendar and an integrated seat map. So now you can go to ticketmaster.com, you can see where all your friends are sitting at the show, where they're going to buy, you can sit beside them. So the more social, the more engaging we make the show using Twitter, Facebook, any of these social platforms, we know we're going to drive attendance.

And finally, we needed to catch up. We were behind, but we are there now. We've launched our app, over a million downloaded and we had to get our mobile sites ready for transaction. Both TM.com and LN.com now, up and running, sold over 1 million tickets over the last few months. So again, driving mobile for us is important.



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In Europe, we're a little bit more advanced where we're already doing the – get your barcode, come to the venue, scan it at the door, but any way we can make that purchase instant on the mobile that you share it with your friends, e-mail your friends, invite your friends. We've got a whole initiative around that and we'll continue to explore that. So these three channels this year have helped take us to new territories and we're going to keep going hard, driving awareness through there.

Second is what we call Pricemaster. Our goal is this, there is a secondary business that's \$4 billion and StubHub has had a good share of it. What we really want to do, though, is, we don't want to really be in the StubHub business. We want to be in the business taking that \$4 billion and putting it back on the right side of the column where the artist or the teams participate. We are in business with most sports teams through Ticketmaster, and most artists.

Content does not want a \$700 ticket being sold at StubHub. They want the \$700 ticket being sold on their side of the column. Our job is to figure out how to start pricing the shows better and participate in that \$4 billion and artists today are overnight buying into this strategy. They go on site, they see what the tickets are being sold for, they see those \$3,000 tickets, \$2,000 tickets at other sites. They understand that.

So, we launched this with a great company called MarketShare. We have launched a software program that can be easily used now by any artist, manager, any sports team. It takes all of the data that's out there. So, if we're going to price a show, we've just done some tests on concerts. We did a show in Miami. Put a show in Miami, what are we going to price it historically, three price points. If it's in the computer, data – takes all of this data from the marketplace and says this is what you should price it at. Here is the 11 or 12 price categories that you should price it at. It continually changes hourly and daily, based on all the market data. While you are doing that, it's spitting out the difference between if you price at this way or this way, you are going to get this revenue.

We've tested it on concerts. Every time we've tested it so far, we got a 20% increase in sales and a 20% increase in revenue, 10% increase to our revenue bottom line to us. Huge tool. Our job is to find a way to build a simple application that we can get adoption by artists and teams, so they can get control of that ticket, understand that they can price their show better, and it's a simple philosophy. You can price the front more because it lets you price the back of the house less. So the way you fill that house is maximize that front row revenue, so you can charge \$10 on the last row and get a full house and increase your total net and your sales.

We think this is a game changer. We're going to work real hard this year to get it adopted throughout our business. We'll use it at our amphitheaters this summer and it's our number one way we'll go with that \$4 billion and start putting it on the right side of the content column.

So, how have we done since we've merged? We're very proud, we've had a very strong 2011. We think we now have the right team in place. We've upgraded our staff, built up some divisions, we've got the best team in the world thinking about our business.

We've got an incredible; I would say, simplistic vision now, if you wake up in any one of our visions, you're either thinking about how you're getting more shows and how you're expanding that or how you're selling more tickets and engaging the consumer. So, as you can see the numbers are headed in the right direction. We're very proud of what we've done for the first nine months. We've hit every metric that we wanted. We've grown both, obviously, the revenue, the AOI, free cash-flow and our margin. Across our three core businesses, same story. We are very proud that we've kind of turned around the concert division, headed in the right way, growing the AOI, ticketing, Artist Nation and also the margins on the core two businesses.

Everyone asks me every day, how are ticket sales today? We don't get as consumed as the analysts do on, how are ticket sales this week or this month? We're more interested in how is the trend looking for the year. We kind of run on a baseball season. Most consumers are – or most bands are thinking about next summer and how did you do?

So, if you look at our business, we tried our best here to give you precise data up to today. I know there was some concern on, oh, what's going to happen in this quarter? What's happening with Europe? What's happening with the NBA? I would say to you that we are very happy that year-over-year, Ticketmaster is somewhere in the 10% growth year-over-year on ticket sales and Live Nation is somewhere in the 6% overall ticket sales. And now how do we do it in



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October and November because there was concern on, okay, great, you made it through the summer but is it starting? We're not sensing any of that. We put 31 shows on sale Monday for Roger Waters, higher ticket price, stadiums to arenas, we're 88% sold out for the first day.

Consumers are going to concerts. You've got the right show at the right price; your business is going to be fine. As you can see in November, up 7%, 2%, 4%. We're going to finish this year as we've predicted. The business has stabilized. We had a strong start to the year. We expect with the lineup we have right now, we have no doubt that we have a very strong lineup for next year. We will not have any challenges on, do you have world tours? Do you have enough shows to fill the pipes? The shows are there. And we believe that now that the business has gotten a little smarter, every artist and team has figured out, they better spend an extra couple days figuring out the pricing strategy. We think that shows will be priced better, and we predict next year we'll continue to grow this business.

Overall, we think those three core opportunities, there's a whole bunch of money in that international business we're going to go get, use some of [indiscernible] (2:13:55) \$1.5 billion. We're going to sell more tickets everywhere around the world because we now are going to spend more time engaging that consumer and building loyalty programs. And the more shows I have and the more consumers I have, our overall sponsorship business grows; my CPMs grow. Thank you.

Unverified Participant

[indiscernible] (2:14:24)

Michael Rapino

Your stock's up [ph] 70% (2:14:00) before you walk on. He owns it all. Your stock goes down after your speech or about...

Unverified Participant

Yeah. I was going to tell you, your stock's up 8.5%. Congrats.

Michael Rapino

All right. Perfect. Thank you.

Unverified Participant

But the real question I had, I think at least for every man in the audience is, could you break out the 24% of preferred concerts by gender? Is that 48 and 0? Is it...

Michael Rapino

Right. Right. I have say, the smartest thing I did is we had a Liberty board meeting two weeks ago. And Chris Albrecht was upset because I upstaged them when I bought Shakira to meet John and Greg. So I figured that would be the smartest sales strategy.

Unverified Participant



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Thank you.

Unverified Participant

Thank you, really, to all of the presenters. They were very good. Thank you.

Courtnee Chun Ulrich

All right. So we are open for Q&A. There is mics in the audience, and go ahead.

Q&A

<A - Gregory B. Maffei>: Rich. You're trying to get back at Albrecht for taking a shot – no.

<A>: So, simplicity, I guess, is probably the question everyone is thinking about.

<A - Gregory B. Maffei>: 9, 9 – no.

<Q>: So you have a whole group of investors in this room. Some own Liberty Capital, some own Liberty Starz, some own both. But I think if you look at the distinct groups for a second, the Liberty Starz investors certainly owned it because they saw a very inexpensive stock, maybe not rapid growth, but certainly an inexpensive stock with a lot of strategic opportunities. They own Liberty Capital because they saw a stock that they either liked Sirius or they saw a dramatic discount to NAV, and they saw that gap being closed through a number of transactions or rapid share repurchase.

Now you've muddled the pot, so to speak, for the moment. And while you've simplified into one company versus two trackers, the individual audiences in this room owned each of those companies for different reasons. Should we believe that there is steps two and three to come in the next 12 months or do you think that investors have to adjust to a new structure of Liberty?

<A - Gregory B. Maffei>: Well, I think a couple of things. First is, the investors, at least by appearance, seem to be appreciative of our move because both stocks are actually up in a down market. So even though one might question, rightly, did Starz investors focus on this and capital on that. I think people are willing to give us the benefit of the doubt for the – lot of the actions we took raising the capital, looking at the opportunities, eliminating some of the tracker discounts, are positive moves.

Steps to come. Look, we believe, obviously, we're long-term shareholders. Nobody's a longer-term shareholder than John, and we're in this for the long haul. And we believe these are the right steps. What will come over those steps, whether there are other spins, whether there are other things we buy, we can't predict. You saw a bunch of the portfolio companies that we are invested in today present, not only ones that are 100% owned, like Starz, but obviously I thought, personally, incredibly strong performances and discussions of great stories by Mel, by William, by Michael. And so, are those places where we'll put more capital? Are there other companies out there? We'll see.

We have no plans – no announcement to make about spinning Starz, spinning Siri. But I can't tell you those aren't potentials down the road as well. Want to add anything, John?

<A - John C. Malone>: No. I think Greg's – when he started, the flexibility that putting them together gives you in terms of allocation of capital, [ph] have caused (2:17:00) some great opportunities. And the ability to put leverage on businesses that – where the ROE is going to be enhanced by leverage, I think, says it all. We'll get as complicated as we need to get to highlight value, or as simple as reality allows us to become. I mean, it's nice to be simple here for at least this window of time.

<A - Gregory B. Maffei>: We just wish 9-9-9 were all the answers.



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<A - **John C. Malone**>: Yeah. We haven't got into the international questions, which may make life more complicated for Mr. Cain over here, but...

<A - **Gregory B. Maffei**>: Next question. Yeah. Matt.

<Q>: I thought the Barnes & Noble presentation was really intriguing. I was just curious, when you look at the digital newsstand sales, I know it's early, behaviorally, but if you look at the composition of the new subscribers, does that pretty much mirror a routine, new subscriber to The Wall Street Journal or whatever? Or is there really evidence that you're getting a different category of customer in there? I guess the other observation I'll make is all William has to do is get Barnes & Noble's market cap to \$850 billion for it to be as good as your Sirius investment.

<A - **Gregory B. Maffei**>: Well, I'll let William answer, but I think it's an evolving trend. One of the things, as you roll out these different products, you're opening up Barnes & Noble to a broader class, including – I think that one of pushes has been, is – and I think William is fully on board, that low end NOOK – I don't know about you – my eight-year-old grabs that thing and says, oh, my gosh, it's fun to read, more fun to read on this device. And there is certainly an adoption of younger-end consumers, I think, is going to be enormous. My bet is next Christmas, when the pink one and the purple one and at \$79, every kid in America's going to want one. But, William, why don't you give the real answers?

<A - **William J. Lynch, Jr.**>: Well, on the newsstand point, I mean, it's a key point for us, which is, we've always sold a lot of magazines. A lot of you are in New York, but if you go into your respective Barnes & Noble newsstand, it has always been a big part of what we've sold. In fact, not a lot of people know this, we're the number two seller of magazines in the country at retail, behind, I think it's – we're number two or three behind Walmart and Kroger.

But what we've been selling traditionally is The Economist, more specialty-type magazines. Now we're playing offense. Our number one magazine right now is People Magazine and Us Weekly. And so what we're able to do is get into businesses which we weren't in in a big way before with digital.

Another example of that is in romance – in the romance category in books. Most of the romance in books is sold on the spinner racks. If you've ever picked up a prescription at a drugstore, if you turn around while you're waiting for your prescription, you'll get assaulted with Fabio and the bodice and lace stuff. But that's a big category, and we are 26% of the romance market in digital, where we'd never been in physical.

So, yes, absolutely. We're seeing – yes, we sell a lot of the digital magazines we've sold in physical, but it's also allowing us to play a lot of offense in categories we didn't sell a lot in physical.

<Q>: You're seeing some evidence, then, that some people are taking People in the digital forum that they wouldn't have subscribed to in – as physical?

<A - **William J. Lynch, Jr.**>: With us, at least.

<Q>: Okay.

<A - **William J. Lynch, Jr.**>: I can't speak to the broader market. But what I'm saying is, we are playing in content types, genres and flavors in digital where we have an infinitely bigger share than we've had in physical over the years in our bookstores.

<A - **Gregory B. Maffei**>: In the back there on stage right and audience left. James.

<Q>: Thank you. Can you talk a little about, it seems like a big part of the rationale for combining the two trackers was making additional capital available at LCAPA. And the rationale for combining the two trackers rather than, say, borrowing at the Liberty level and attributing the borrowing from the cash at LCAP or having Starz loan money to LCAP? Thanks.

<A - **Gregory B. Maffei**>: Well, I think that would not have been fair to utilize the leverage capacity that was available at Starz and have it be loaned across through Liberty for the benefit of the Liberty Capital shareholders. The opportunities that we believe exist should benefit both sets of shareholders. And the reality is, is not to put [ph] too fine

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a point (2:22:00), there were more opportunities at Liberty Capital, and there was more capital to be raised at Liberty Starz. And it seemed like a good match. Gordon.

<Q>: So thank you. I thought I'd go a bit closer so you could actually see me to call me into the question. So I was wondering about, now that the focus is really on the capital deployment at the combined media, if you could rank your view of the most attractive places to put that capital, based on what you see today, between your stock, yeah...

<A - Gregory B. Maffei>: Well, we have a purchase order in for X number of shares of – no.

<Q>: Yeah.

<A - Gregory B. Maffei>: Look. I think all of these businesses are really very attractive. That's why we put money in them. I mean, we have, in the last several years, incrementally put money in these companies. So we think they're all attractive. What day we put what money in at what price, I think we'll wait and see how that goes and whether there are opportunities. And, frankly, some of these have timing issues in evolving.

William's business, Barnes & Noble, is – Len and William's business, is going through an amazing transition, and – but it's just at the beginning of that transition, so we get an opportunity to have a toehold and take a look. We'll see how that evolves and whether that makes sense for us to be deeper in it or whether there are other things that happen. I mean, we like all these stories. The exact timing of where we'll put the capital, I'll leave to the – when we announce it.

<A>: Well, and when you buy back the holding company stock, you're basically buying a composite position at a discount. So, in a sense, that's a hedge for the company to shrink its equity because we think the portfolio is collectively attractive and trades at a discount to net asset value.

<A - Gregory B. Maffei>: Good point.

<Q>: Okay. And then I also wanted to ask a question about the business at Starz, which is probably less relevant now that it's in the larger company. But can you give us some sense of, you do see programming costs not rising materially from here, but you are making some other investments in new Internet distribution. You are losing a [ph] Netflix B (2:24:23), much smaller than the \$300 million or so that was rumored to potentially be on your plate, but are losing that. How should we think about the trends in profitability in Starz's expenses and revenues? How do you see that netting out...

<A - Gregory B. Maffei>: Well, I think you're touching on a good point, which is that Starz is having great run. And I think I'd pointed out, EBITDA bottomed out at \$175 million or \$150-ish million, has gone up steadily and will be up dramatically again this year. I think next year is a breather, in a lot of ways, on profitability, because, in part, you don't have Netflix, at least – or not for the bulk of the year. You don't have – no, we may come up with an incremental digital distribution deal, but we don't have one we've announced today. And you do have pressure from some traditional distributors who we're renewing with. And you do have a case where other factors which, like CPI and things that might be positive revenue kicks, aren't occurring. You are investing more in original programming, and you aren't really getting the benefit of some of the new contracts' price declines, which might be more advantageous and helpful later.

So those are all the headwinds you're going against, which is why I don't think you'll see the kind of growth in '12 over '11 that you've seen in '11 over '10, '10 over '09, '09 over '08, et cetera. So you're right.

That having being said, I think the longer-term trend, when some of those factors do come in, I think we are a believer that we'll get a digital distribution deal. We are a believer that some of our future contracts are going to be more attractive as our original program gets stronger. We are a believer and know that some of the digital – the existing content deals have clauses which kick in and get more favorable over time. So I feel if the shape looks like this to '11, this to '12, '13/'14 look a lot better, just as a general proposition. I don't know if you want to add anything to that, Chris or Bill. Bill Myers is the President and Chairman of Starz...

<A - William D. Myers>: Just look at equity returns. If you're sitting there as I am, as Greg is, as all you – many of you are as a stockholder in Starz, you were looking at essentially a balance sheet with no leverage, full tax load on the



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margin and probably two-thirds of the capital deployed with no return. What kind of a return on equity you think that's going to project to be long-term? And, perhaps, if you think about that, you'll understand why we put them together.

<A - Gregory B. Maffei>: Next question. Right here.

<Q>: As you look at the future of cable, over-the-top services and your portfolio, how are you thinking about QVC and perhaps Barnes & Noble, because it seems to me like they're on the cusp of being over-the-top-services in and of themselves and would benefit from many of these trends?

<A - Gregory B. Maffei>: Well, I think you're right on both. I mean, you've got – QVC is a content producer and a distributor of other people's content. It is – operate that in a traditional linear world, but we talked earlier today about how Internet continues to be a bigger part; mobile continues to be a bigger part; there's an enormous opportunity I think around tablets, shows very well; and we talked about streaming of QVC, increasingly. Barnes & Noble is doing exactly the same thing.

I think if you look at that tablet it has, if there's a distribution channel for them to be a seller, just the way that their physical stores were. And it opens them up to new kinds of distribution because it's not only the physical book or the physical magazine, but the potential to be selling applications, selling services, Netflix is one of the pre-loaded apps, I think, that is particularly compelling on the NOOK tablet. So I think there's a lot of great stories about how we do in effect become over-the-top driving those digital trends. Other questions.

<Q>: Sorry, asking a few too many questions. But when you look at...

<A - Gregory B. Maffei>: Just like we lost all our market share in trackers, you're taking a big share in questions. I like it.

<Q>: When you look at it – I guess it's premature, obviously, to compare Spartacus to any of the HBO series, but when you look at the normal multiplier on the ancillary revenues and the benefits of owning the content, what's the upside in that? Where would that index historically for a real hit series? And how much of a – I mean, obviously, you're just out of the starting blocks, effectively, but where do you think that would be right about now for Starz?

<A - Gregory B. Maffei>: Well, I'm going to let Chris add, but I'm going to tell you that Chris has a real problem that I am sympathetic to. Chris already did the two best original series that any premium channel's ever going to get because – just because of the way it works. No one will ever make as much money as they did on some of his – and I believe it was Band of Brothers and Sopranos were the two biggest ever?

<A - Christopher W. Shean>: Band of Brothers and Sex and the City.

<A - Gregory B. Maffei>: Sex and the City. Not Sopranos – excuse me. Band of Brothers and Sex and the City were the two biggest. And just because of the nature of the beast and DVD distribution and the like, I don't think you'll ever see that again. Never. You can defray a lot of costs, but you'll never see it again. And unfortunately, I [ph] will (2:29:41) feel that way sometimes a little bit about SiriusXM. We'll never see another one again, so I'm sympathetic. Chris, do you want anything?

<A - Christopher W. Shean>: Yeah. Pay television, how you account for the revenue is unique when it comes to the television business because often there's a first window of revenue that doesn't exist in the pay TV business. I mean, for the purposes of private participants, we have an imputed license fee. But there isn't really any revenue that comes against that. So when you're doing the ultimate of what kind of revenue a show brings in, it's very hard to quantify accurately that revenue.

Having said that, Spartacus is on track to actually return all of the money that was invested in it, from dollar one, and have a profit on top of that. It's too early to tell you how many. But based on what we're seeing for Season One, it will be one of the unique kinds of shows. And based on that and based on our viewing of that, it's one of the reasons why we're targeting this theatrical type of programming because we believe that it will have the best opportunity to match up against those shows and become truly profitable in the definition sense of the world. So I think Spartacus will – I'm sure Spartacus will end up being one of those unique and good stories in the original programming series space.



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DVD's being down, obviously, the international marketplace becomes even that much more important. But, as I said before, the DVDs seems to be holding up pretty well in these boxed sets for the premium series.

<A - William D. Myers>: I would say, generally, don't define value creation too narrowly. If in fact Spartacus is a successful series and it causes us to renew an affiliation agreement with a major distributor at a premium, you capitalize that. If Ted Turner could get Sunday Night Football and launch TNT and create a network because of it, you have to look at value creation in that sense. And probably one of the biggest problems in the movie industry over the years is people make good movies and bad movies, and their market value goes up and down. And they don't, at the end of the day, create much of an asset.

On the other hand, if they can create a network that has momentum and subscription revenue that's projectable out into the future, you put a big multiple on that. So, to a very large degree, the success of Starz and creating original series has to be capitalized into a long-term present value of future cash flows that are driven because the consumer identifies with the brand, the distributor identifies with the consumer wanting the brand and you are able to sustain a long-term business. So I think you have to look at it in that context.

<A - Gregory B. Maffei>: It's pretty rare to find content assets that are truly enduring. But content can be a great leverage to create a channel, a distribution form that really has long-term value. That's been the Liberty experience, primarily. Maybe one last question. Over here.

<Q>: Thanks. As we think about Sirius and your ownership of Sirius, I think we all know from things you've done in the past, there might be some benefits to getting those shares out of Liberty directly into the hands of shareholders in a tax-efficient manner. What do you think of – I mean, from the counterpoint, are there benefits to Liberty, Liberty shareholders or Sirius from Sirius remaining within the Liberty family in the corporate structure?

<A - Gregory B. Maffei>: We outlined today how we have a lot of capital to put to work. I don't know whether we'll end up – how we'll end up deploying it. But I have to tell you, you look at it and say, how many businesses are as attractively positioned as Sirius? We don't find it easy to buy shares in a stock, a few shares, let alone have a control position or negative control position the way we do in Siri, to have a business like that which has the tailwind that it has. There are few businesses in America that I have as much as confidence in are going to dramatically increase their cash flow over the next three to five years. One can rightly say, what goes on past that? Is it the right valuation? But, boy, it's got a heck of a tailwind behind it right now. So one of the benefits is, find me another place where we can put our capital that's so attractive, and we can hold it for the long term.

Maybe one last question – we're short on – we have little time left.

<Q>: Yeah. My question's just on – we were talking about the transition of Barnes & Noble becoming more of a digital media company. It seems like it's going to pretty capital intensive, because on the one hand we have to get the devices into people's hands and the other is how we're going to monetize it once they're there. If you look at past devices, so we look at like the Simple Touch, it was going for \$130; [ph] you were probably (2:34:45) making a reasonable margin, but now it's selling for \$100. So it's unclear whether you're making any money off of that. But we don't get enough guidance in terms of the income per device.

So how do you think about the potential for a negative a gross margin and then income per device if you're only really monetizing eBooks and potentially other app areas? How do we think about the lifetime value of getting each NOOK into each consumer than what we made off of each incremental, and then, obviously, in the context of how much that's going to cost to do?

<A - Gregory B. Maffei>: Well, I think – I'll see how I mangle this, Wayne, let me see if I can give my view, which is, let's say the – Barnes & Noble has done an amazing thing, which is relatively rare. We talked – I mentioned earlier, to have a bricks-and-mortar player become so strong in a technology category. And I think they've done it for a bunch of reasons. One, they've been – had a history of people coming out of places in technology like William and Tom, who understand the physical hardware side and have done a great job and have built a better device than the competition at an attractive price.



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Current Quarter: -0.110
Current Year: 3.136
Bloomberg Estimates - Sales
Current Quarter: 117.250
Current Year: 964.600

But where the real strength also comes is from the service itself, and coming from the service side and its ability to monetize and look at the lifetime value of a consumer. And that device – and I don't think I'm giving away secrets, they're not losing money on the bomb and they are – it's a profitable device. They will feel a lot of pressure, no doubt, from a Seattle-based competitor who is very aggressive in its pricing. But it doesn't come down to just that device. It comes down to their ability to monetize over the lifetime.

And it's quality and the service that they've built and the incremental ways in which they're stretching that service out to games, out to subscriptions, out potentially to other applications, out potentially to video, how that expands and their ability to increase the monetization and touch with that consumer, I think is one of the real opportunities. And I give them credit for having done it in a way where they're not losing their shirt. They've actually been very efficient and very quickly from almost nowhere – remember, Kindle was out way in front of them – from almost nowhere have built a position, which is very impressive.

Gregory B. Maffei

So I think with that we've ran over because we had some good presentations. I want to thank everyone for coming. I want to thank all of our presenters and, hopefully, we'll see you all next year.

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EDITED TRANSCRIPT

SIRI - Q1 2012 Sirius Satellite Radio Earnings Conference Call

EVENT DATE/TIME: MAY 01, 2012 / 12:00PM GMT

OVERVIEW:

SIRI reported 1Q12 total revenue of \$805m and net income of \$107.8m. Expects full-year 2012 revenue to be \$3.3b.



CORPORATE PARTICIPANTS

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Mel Karmazin SIRIUS XM Radio Inc. - CEO

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Barton Crockett Lazard Capital Markets - Analyst

James Ratcliffe Barclays Capital - Analyst

Jason Bazinet Citigroup - Analyst

Ben Swinburne Morgan Stanley - Analyst

David Bank RBC Capital Markets - Analyst

PRESENTATION

Operator

Welcome to SIRIUS XM Radio's first-quarter 2012 earnings conference call. Today's conference is being recorded. A question-and-answer session will be conducted following the presentation.

(Operator Instructions)

At this time, I would like to turn the conference over to Hooper Stevens, Senior Director, Investor Relations and Finance. Mr. Stevens, please go ahead.

Hooper Stevens - SIRIUS XM Radio Inc. - Sr. Director, IR and Finance

Thank you April, and good morning, everyone. Welcome to SIRIUS XM Radio's earnings conference call. Today, Mel Karmazin, our Chief Executive Officer, will be joined by David Frear, our Executive Vice President and Chief Financial Officer. At the conclusion of our prepared remarks, management will be glad to take your questions. Scott Greenstein, President and Chief Content Officer, will also be available for the Q&A portion of the call. Jim Meyer, our President of Operation and Sales, is dialed in and should be available for the Q&A as well.

First I would like to remind everyone that certain statements might be forward-looking statements defined in the Private Securities Litigation Reform Act of 1995. These and all forward-looking statements are based on management's current beliefs and expectations and necessarily depend upon assumptions, data, or methods that may be incorrect or imprecise. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially. For more information about those risks and uncertainties, please view SIRIUS XM's SEC filings. We advise listeners not to rely unduly upon forward-looking statements and disclaim any intent or obligation to update them. As we begin, I would like to advise our listeners that today's results will include discussions about both actual results and adjusted results. All discussions of adjusted operating results exclude the effects of stock-based compensation and certain purchase price accounting adjustments. I will now hand the call over to Mel Karmazin.



Mel Karmazin - SIRIUS XM Radio Inc. - CEO

Thank you for joining us on the SIRIUS XM earnings call to discuss our first-quarter results and updated outlook for the future. Our first quarter results show the power of our high margin business model, that is producing exceptional subscriber and cash flow growth for our investors. SIRIUS XM's first-quarter results demonstrate the best of both worlds – strong subscriber growth and reduced churn. We grew net subscribers by more than 400,000 in the first quarter, an 8% increase from last year's first quarter. Importantly, self-pay net additions of 299,000 grew dramatically by 148% compared to the same quarter last year. Both of these figures represent the strongest first quarter net add performance we have achieved since the combination of SIRIUS and XM in 2008.

Rising US auto sales contributed to our growth and we are also pleased with our lower churn rate and our stable conversion rate. The first quarter annualized [SAR] of 14.5 million was up from 13 million in the first quarter of 2011. Our churn rate improved in the first quarter year-over-year from 2.0% to 1.9%, and our conversion rate held at 45%. Given the approximately 12% base package price increase we implemented in January, this positive churn result and no dip in conversion certainly exceeded our expectations and is an excellent demonstration of the value consumers place on our service. The price increase was the first change in the base price of the SIRIUS service and only the second change in the base price of the XM service so it is prudent that we have conservative expectations around churn and we will continue this practice.

While it is early and we still have much work to do, we have now billed 35% of the self-pay subscriber base at the new higher rate and the reaction to the price increase has clearly exceeded our expectations. No one likes to raise prices especially when competing against free services like AM, FM, and IP radio. But we could not have hoped for a better outcome at this stage than what we have seen so far. These initial results are a clear endorsement of SIRIUS XM's strong value proposition to our customers in spite of the increased competition in the audio entertainment space. And it certainly helps that the economic trends have begun to provide a bit of a tail wind.

On the financial side, we also performed very well in the first quarter. Revenue grew by 11% to \$805 million and adjusted EBITDA grew 15% to \$208 million. Total cash operating expenses were up 9.6%, with most of that attributed to expenses associated with higher revenue and higher SAC to support improved auto sales and future growth. Our revenue and adjusted EBITDA figures were both record highs for SIRIUS XM, the first time revenue passed \$800 million, in a single quarter, and the first time adjusted EBITDA reached \$200 million in a single quarter.

The first-quarter adjusted EBITDA margin, at just over 25.8%, is at the highest level in the history of the Company for a single quarter. Free cash flow improved by \$32 million, year-over-year, to positive \$15 million, in the first quarter, the first time in the history of satellite radio that we delivered positive free cash flow in the first quarter of the year. Revenue-adjusted EBITDA and free cash flow are expected to accelerate throughout the year as the price increase rolls through the subscriber base and additional subscribers join the service. The consensus expectation for full year 2012 auto sales has climbed to about 14.3 million today from 13.7 million when we gave our initial guidance in February. This provides nice momentum for our growth this year and we are also benefiting from our efforts in the used car market. This year, we anticipate adding 1 million self-pay additions to SIRIUS XM from our rapidly growing used car market channel.

In February, we told investors that our subscriber guidance was conservative and but for the uncertainty around the price increase, the forecast would have been higher. While we still have a lot of work to do implementing this price increase and retaining subscribers as we compete against free terrestrial and free online competitors, this strong first quarter performance has made us comfortable in raising our full-year net addition guidance from 1.3 million to 1.5 million. This increased guidance will put our paid subscriber base at 23.4 million by year end, an all time record. And, yes, we continue to be conservative, but are more optimistic than we were three months ago. We are also on track to meet our full-year 2012 revenue guidance of \$3.3 billion, adjusted EBITDA guidance of \$875 million, and free cash flow guidance of \$700 million.

The record free cash flow that we are anticipating this year is after substantial investments we are making in our Company. For example, we are now programming 33 more channels today compared to last year. Many are part of our 2.0 rollout. We are very excited about the new services we are launching later this year to broaden the distribution of our content online and offer more exclusive content. We are investing to make more content available online, particularly in sports programming. SIRIUS XM now offers subscribers live play-by-play, with no blackouts, from the NHL, NFL, MLB, NBA, NASCAR, Formula 1, select college sports, and the English premier league soccer.

Much of this content is hard to find or unavailable elsewhere online and certainly, no other audio company on the internet has a sports line-up remotely approaching our offering, all under one app. For example, SIRIUS XM subscribers can receive every Major League Baseball game on their



smart phone or computer. The only other option to get baseball games on the internet is mlb.com. Period. No other IP destination. Even terrestrial radio does not have the internet rights for the games they broadcast locally. We think sports programming is a perfect example of content that subscribers find valuable and are willing to pay for. And the great thing about our business model is that we are able to add this great sports content at relatively low costs, especially compared to our peers in the video market.

Our on-demand service is anticipated to launch this summer across a variety of IP platforms, such as the web, smart phones, and other connected devices. Late this year, we plan to debut a SIRIUS XM version of personalized music online, allowing subscribers to tailor their favorite SIRIUS XM music channels to their taste. The combination of exclusive online access to sports, proprietary on-demand SIRIUS XM-branded content, and personalized music should drive adoption of our internet tier and all access plans to make our overall service all that more desirable to consumers. Our on-demand and personalized radio programming will have no commercials on our music offerings and will be at no extra charge to those subscribers who have added internet listening to their plans. Free and premium competitors online will have a tough time matching the commercial-free aspect of SIRIUS XM-branded music combined with the unique sports and talk content we offer. Let me remind you, the development of all of this plus the investment in 33 new channels are within the financial result you've seen in the first quarter and the guidance we've given you this year.

We are also excited to see auto makers embrace 2.0 technology, which gives us the ability to add additional channels, new features, and software upgradeability for future enhancements. Our additional 2.0 channels include the suite of Hispanic channels and are now available at no extra charge to subscribers who have a 2.0 capable satellite radio and we have also added these channels to our online package. The 2.0 radios are available now at retail and we just announced our first OEM deployment of 2.0 on select Chrysler vehicles available this summer. More models from Chrysler and additional OEMs will be rolling out 2.0 in the future.

As we've said many times, business models matter. We not only have a lot of users but we have a fantastic model for monetizing this usage through subscription services. Our business model is superior to that of terrestrial radio and the internet radio companies we compete with. The subscription business is a great one. SIRIUS XM has more paying subscribers than all the other companies in the world combined. Also, at a time when more and more content is available, and consumers continue to be time-constrained, as there are still only 24 hours in a day, we believe curated content, SIRIUS XM aggregated curated audio content is more important than ever, and will be even more important in the future as even more content becomes available, especially on the internet.

The first quarter of 2009 was just the second full quarter of combined SIRIUS and XM operations following our merger. In the three years since then, you can easily see the kind of progress we have made in our business. Subscribers are up 20% from 18.6 million, to 22.3 million. The operating metrics have likewise improved over that same period. Self-pay churn of 2.2%, in the first quarter of 2009 has improved to the 1.9% we saw in this year's first quarter. Our conversion rate has been steady at 45%, despite our penetration rate climbing from 52% to 65% over that time period.

On the financial side, revenue is up 37%, from \$587 million to \$805 million; adjusted EBITDA is up 91%, from \$109 million to \$208 million, representing margin growth from 18%, to 25.8%, over that three-year period. But for the growth in SAC, associated with higher auto sales, margin growth would have been even much higher. We believe we have substantial room for additional long-term margin improvement and free cash flow growth by delivering our content to more subscribers while maintaining a tight discipline around costs.

We've used this higher earnings power to reduce our leverage and pay down debt. SIRIUS XM was 72.5 times levered debt-to-EBITDA in the first quarter of 2009 and that improved to 7.1 times at the first quarter of 2010, 4.8 times, first quarter of 2011, and just 3.9 times at the first quarter of 2012. Our cash position has doubled over that time period from \$375 million to almost \$750 million. The Company is remarkably well-positioned to deliver great performance for our investors. We are very bullish on our results for the remainder of the year. Though there are always bumps along the road, the economy, employment, and consumer confidence seem to be heading in the right direction.

Car sales are up with auto makers appearing to be effectively dealing with the resin issue that could threaten the supply chain. Increased competition is certainly out there especially in the internet universe. But today, we can't identify the effect of new competition on our business. SIRIUS XM has more paying subs today than ever before in our history and we are going to keep growing this year to end at another record level. We are focused on accelerating our revenue and adjusted-EBITDA growth and we will obtain new record levels in both of these measures. And our cash flow is now growing this year in to a substantial asset for investors with tremendous potential for long-term growth.



Our capital expenditures will be decreasing as a result of this significant reduction in satellite expenditures after FM-6 is successfully launched with the benefit of our NOLs we will not be paying any significant amount of income taxes for quite a few years. Combining, all of this adds up to our ability to efficiently use the cash generated by our business for the benefit of our shareholders. Our strategy is working. Our execution is strong and we have a fantastic organization capable of meeting our goals. We have started this year with great results, and I believe it's an exciting time to be a shareholder of our Company. Based on everything we know today, we are confident that 2012 will be a great year for us and 2013 will be even better. With that, I will turn it over to David for some additional remarks.

David Frear - SIRIUS XM Radio Inc. - CFO, EVP

Thanks, Mel. This was a great quarter for SIRIUS XM on all fronts. While the macroeconomic picture is a little mixed, auto sales and credit card defaults are improving providing a good backdrop for SIRIUS XM. The first quarter was the best quarter for auto sales in four years. SAR came in at 14.5 million vehicles, rising 12% over 2011's first quarter and consumer purchases of SIRIUS XM-enabled vehicles were up an even more encouraging 16%. Auto analysts have been raising their outlooks for 2012, now averaging about 14.3 million cars. The production/penetration rate remained at 65% for the quarter. As a result, the rise in auto sales produced record levels of sales and installations of satellite radio-enabled vehicles in the quarter. Installations were up 19% from the prior year, record sales of SIRIUS XM-enabled vehicles has driven total trial inventory to record levels as well.

We entered the second quarter with over 5.7 million vehicles in trial. Ending subscribers were up 8% over the year-ago level at 22.3 million subs, the 105,000 unit increase in paid trial inventory in the quarter was complimented by a 148% increase in self-paid subscriber net additions to 299,000, from 121,000 in 2011. Self-pay subscribers exceed 18.2 million. The new car conversion rate was 45% in the quarter matching 2011's first quarter performance. Strong growth in new car conversion volumes was met with strong growth in subsequent owner additions to drive total self-pay gross additions up nearly 20% over the comparable period last year.

We now have more than 5000 dealers to report sales of previously owned vehicles with satellite radios. We continue to work hard to retain every subscriber and that work is clearly paying off. Self-pay churn declined to 1.9% from 2% in 2011, as the improving economy and reduced deactivations for nonpayment clearly helped us overcome some of the early effects of the price increase. As Mel mentioned, with the good start to the year for self-pay additions and the rising expectations for auto sales, we are increasing our guidance for net subscriber additions from 1.3 million, to 1.5 million.

Revenue growth was also strong at 11% bringing total revenue to \$805 million for the quarter as our 8% subscriber growth was aided by 2% RPU growth. The price increase has been rolled out to 35% of our self-pay subs. RPU growth will improve throughout the year as we continue rolling out our new pricing, and as the effect of the music royalty fee rate reduction in December of 2010 subsides in the second half of the year. Ad sales were also up a solid 12.8% continuing our record of outperforming the radio industry. Other revenue was flat year-on-year as growth in Canadian royalties and US subscribers subject to the music royalty fee was offset by the reduction of the MRF rate in December 2010. Revenue share and royalties picked up a little this quarter along with the increase in the statutory royalty rate and the increasing mix of automotive volume.

Contribution margin for the quarter was 70.4%, consistent with the 70.6% recorded for the full year 2011. Subscriber acquisition costs were up 10.5% for the quarter, with a 19% increase in installations, SAC per gross add increased \$3 over the prior year as the increase in installation has not yet been fully reflected in increases in gross additions. Total cash OpEx increased 9.6% over the prior year. However nearly 82% of the increase was associated with costs reflecting our growth, revenue share, royalties, and subscriber acquisition costs. On the other hand fixed operating expenses increased just 4.4% over the prior year.

Programming costs continued declining as did satellite and transmission costs, offsetting increases in engineering, design, and environment and general and administrative costs. Sales and marketing costs increased \$10 million over the prior year due to increased conversion and retention cost associated with our increased subscriber base, and the increased trial pipeline, as well as higher automotive cooperative marketing spending. Adjusted EBITDA crossed the \$200 million mark for the first time this quarter, finishing up nearly 15% at \$208 million. The 25.8% adjusted EBITDA margin for the quarter was the highest in our history.



Interest expense declined slightly in the quarter, and adjusted-EBITDA-to-interest improved to 2.7 times. Net income also increased 38%, to \$107.8 million in the quarter. Free cash flow was \$14.8 million, a nearly \$32 million improvement over 2011's first quarter and marking the first time we have had positive free cash flow in the first quarter of the year. The first quarter is a seasonally slow quarter for free cash flow for us. A large annual payment to a programming partner, year-end bonus payments, fourth quarter marketing, and subscriber acquisition costs historically weighed down first quarter free cash flow relative to other parts of the year.

We finished the quarter with \$747 million in cash, net debt to EBITDA improved to 2.9 times from 3.1 times at year end. Through today, we have repurchased \$130 million face amount of our 9.75% and 13% notes. The 9.75% notes are callable in September and the 13% notes are due in the middle of next summer, that's 2013. We will continue to look for opportunities to either repurchase or refinance debt on favorable terms. The launch of the SIRIUS 6 satellite was delayed from its early March scheduled launch as a result of a slow but ultimately successful deployment of the solar array on the satellite that launched immediately prior to SIRIUS 6's scheduled launch.

The satellite manufacturer continues its review of the available data to determine if any modifications to our satellite are required. We have plenty of room for delay. Our existing in-orbit satellites can provide full service to all of our subscribers for several years. The SIRIUS 6 launch has been rescheduled for the second quarter of 2013 and may go earlier if a launch slot opens up. Our revenue, EBITDA, and free cash flow guidance remain unchanged at \$3.3 billion, \$875 million, and \$700 million, respectively. Higher subscribers also means higher subscriber acquisition costs in the near term. The revenue and adjusted EBITDA benefits of our increased subscriber guidance will clearly benefit 2013 operating results. With that, operator, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John Tinker, Maxim.

John Tinker - Maxim Group - Analyst

Congratulations. Good quarter. Could you just elaborate a little more on the 1 million number you are using for the used car estimate and how that ties in to your 1.5 million guidance number for the full year for all net additions. Thanks.

David Frear - SIRIUS XM Radio Inc. - CFO, EVP

John, the 1 million used car additions you should think of as a gross additions figure and not a net additions figure. So it would be a component of your gross additions forecast for the year.

John Tinker - Maxim Group - Analyst

Right, but at this stage, I'm assuming the gross is pretty close to the net. How is that actually working out at the moment?

David Frear - SIRIUS XM Radio Inc. - CFO, EVP

We have been adding sort of second owner additions for a few years now. While the volumes are clearly ramping up and will continue to ramp up, you do have your normal self-pay churn that goes along with them. For the most part, we haven't found material long-term differences in churn rates on second owners. So we've got the churn roll off from stuff added a year ago, two years ago, as well as in the first quarter of this year will affect the rest of the year.



Operator

Barton Crockett, Lazard Capital Markets.

Barton Crockett - Lazard Capital Markets - Analyst

Thanks for taking the question. I wanted to ask a little bit about the refinancing commentary. You project to refinance over the next several months and you talked about how that would reduce interest expense. What is your view, though, on potential uses of this capacity you are building up for share repurchase. How do you feel about that now as a use of cash, if you were to do it, what would be the timing that it would become a real plausible possibility?

Mel Karmazin - SIRIUS XM Radio Inc. - CEO

As we have said before, that our Board certainly should be in position as our business model continues to work and as these results that we generate continue to add more and more cash to our balance sheet. We believe that a good use of our cash certainly would be to return capital to our shareholders. We've said that before; nothing has changed. We have talked about the fact that acquisitions would be something that we would consider, for our free cash flow. But I can tell you that there is just nothing we are seeing out there that we feel anxious to want to acquire or consider acquiring.

So we will continue to be opportunistic as debt is offered to us, for us to reduce our more expensive debt. As we are sitting with the cash, we are not getting very much interest, obviously, on the cash. By retiring some of the debt as David talked about, makes really good sense for our investors to do. While we continue to buildup cash in a significant way, to consider returning capital to shareholders when the Board makes that decision.

Barton Crockett - Lazard Capital Markets - Analyst

Okay. I wanted to switch a little bit to all of the attention to this SEC license tussle with Liberty. I was wondering if you could just comment on that. Is there anything more going on than just paperwork filings between two companies over FCC licenses? Does the Liberty motion cause any potential problems for SIRIUS if they are successful or could it help Liberty in any way that you can identify?

Mel Karmazin - SIRIUS XM Radio Inc. - CEO

I'm not sure how much noise there really is about it. Liberty has filed a petition at the FCC that says that they are asking the FCC to declare de facto, that they have de facto control. Our Board reviewed that petition, our Board absolutely concluded that they do not have de facto control. The Board of Directors of our Company has control of the Company; there are 13 members of our Board and Liberty has 5 participants of that 13. Liberty's 40% is significant influence, but not controlled. As we said in our filings, 40% is not the new 50%.

We think that Liberty's reasoning on it is what they disclosed, they said they were filing it. They want to keep their options opened. We filed it not to be combative with Liberty, because we are not, but we believe that they do not have de facto control. And we felt that we had a responsibility to file those comments with the FCC. We believe that the FCC will conclude based on their precedent that a 40% shareholder, even one with influence, is not in de facto control and that's how they will rule, but we are waiting to hear from them.

Barton Crockett - Lazard Capital Markets - Analyst

Okay, great. I'll leave it there. Thank you very much.



Operator

James Ratcliffe, Barclays.

James Ratcliffe - *Barclays Capital - Analyst*

Can you talk a little bit about what the programming cost structure of the customized channels that you're launching later this year is likely to look like and how that would affect effectively the incremental margins associated with the business?

Mel Karmazin - *SIRIUS XM Radio Inc. - CEO*

What we said about our programming expenses are, is that we are going to continue to invest in our programming channels. Most of the 2.0 channels that we have invested in, have been relatively low cost channels, but obviously there is an expense to them. You should assume that our programming costs will continue to decline, but for us making a decision to do something, oh wow, in the programming area. We don't see that on the horizon. So you should assume that our programming costs will continue to go down in absolute terms as well as a percentage of our revenue.

Again, we continue to not be only focused on our programming costs going down, but in providing the best service in a competitive environment to our subscribers. If, in fact, we thought that investing in more content is something that will get us more free cash flow and subscriber growth, we would do that. As of right now, what we are guiding you to, this year is that our programming costs for this year will continue to go down. Including our expanding our programming lineup, because we are making significant reductions in some of the other contracts that we had pre-merger as those contracts have rolled over.

James Ratcliffe - *Barclays Capital - Analyst*

Can you unpack a little bit the better churn number in the quarter. How much was that declining retail base and the declining seasonality of that churn versus any boost from the price increase.

David Frear - *SIRIUS XM Radio Inc. - CFO, EVP*

I think that the biggest factor in the churn is obviously the stickiness of the service. Improving economic conditions benefit us. Generally the consumer has gotten healthier. We keep an eye on credit card default rates and delinquencies, that while the sequential improvements from the fourth quarter and those are a little mixed, the year-over-year improvements are pretty significant. That has a big impact on us. One of the things working against us is the continued rollover of cars, right? So that the fleet of enabled vehicles is aging. We have more vehicle-related churn now than we used to have. That has been more than offset by reduced non-pay rates and credit cards as well as just the general improvement in the economy.

Operator

Jason Bazinet, Citi.

Jason Bazinet - *Citigroup - Analyst*

Thanks so much. I think you gave the paid and unpaid trial inventory figure of 5.7 million; do you mind giving us the paid trial component of that. My second question is on the churn, is there any reason to believe, is there any sort of -- other than the car sales dynamic you mentioned -- any reason to believe that the Q1 churn rate won't be the seasonal high for the year? Thanks so much.



Mel Karmazin - SIRIUS XM Radio Inc. - CEO

Let me hit the churn question and then David will handle the other one. We have given some metrics and we basically believe that our churn rate will be somewhere between 1.8 and 2.0. We had thought that the 2.1 might be the result of the price increase; right now that's looking less and less likely. If you take a look at how we performed over a long period of time, the churn rate is somewhere in this 1.8 to 2.0 range just like the conversion rate will move around a little bit. For the most part we think of that as being somewhere around 45%.

David Frear - SIRIUS XM Radio Inc. - CFO, EVP

And the paid promotional trials at the end of the quarter were less than 4.1 million.

Jason Bazinet - Citigroup - Analyst

Thank you so much.

Operator

Ben Swinburne, Morgan Stanley

Ben Swinburne - Morgan Stanley - Analyst

Couple of questions, David, could you help us think through the move from SAR as we see the numbers roll through to gross adds. You gave the build rate, I think was 65%, the conversion rate. But there is other things going on in that number that we probably don't see, particularly channel mix within OEM that might lead to car sales with radios that don't show up in your gross adds number. I wonder if you could add any color there to help us think about that math. And then, related to that, which cost items are impacted by that? In other words, where are you going to book expense without gross adds in the current quarter? I think you mentioned SAC, but I think there are probably some others as well.

David Frear - SIRIUS XM Radio Inc. - CFO, EVP

It's for the most part it's in SAC. On the install side of things that generally that's all subsidies. There are some partners who, when we convert we have a bounty payment that's due that shows up in sales and marketing costs. You also have some pick up, I guess, in both customer service and billing and sales and marketing as it relates to the attempts to convert those unpaid trial subscriptions. For the most part, I think you should think of it as being in SAC.

In terms of the translation from SAR to gross adds, you're right, it gets a little fuzzy. There are a lot of moving parts to it that go to not only shifts and market share among OEMs and which ones are paid trial partners versus unpaid trial partners, but also as you think about the full year that the guidance we provide for net additions is -- based upon an assumed mix and effective inventory of paid trial subscriptions as of December 31. So it's a particular point in time. And, depending on what you assume that fourth quarter pattern of sales is and what the mix is between paid trial partners and unpaid trial partners, you can end up with some variability in what you estimate for gross adds and therefore, net adds for the year.

Ben Swinburne - Morgan Stanley - Analyst

Is it safe to assume that there was a mix towards greater unpaid trial subs this quarter, like a Toyota or other partners where it wouldn't show up in the subs?



David Frear - SIRIUS XM Radio Inc. - CFO, EVP

It's probably a little bit, but you had generally Ford and GM shedding share in favor of Chrysler, which is a push from a subscriber perspective. But the Japanese are picking up and that's especially going to be true in year-on-year comparison as you go through the rest of the year. We know that a year ago, there was a terrible set of circumstances in Japan and then the flooding in Thailand later, both of those events impacting our Asian partners more than the US and European partners. Generally, I think as you look at the SAR increase year-on-year, that all other things being equal --. I don't know what's going to change in the automotive industry, but just relative to last year, you would think the pick up would generally be in unpaid trial partners.

Mel Karmazin - SIRIUS XM Radio Inc. - CEO

It's interesting, this morning, Hyundai announced they were adding a third shift to their factories because demand was increasing so greatly. We think the mix of Asian partners impacted that in the first quarter.

Ben Swinburne - Morgan Stanley - Analyst

That's very helpful. Lastly, Mel, if I could come back and thanks for humoring us on the Liberty discussion. I get the question from a lot of SIRIUS shareholders when they read the Liberty commentary and the petition that the company argues they have already got de facto control because of their position and the way people vote their shares. It's a little bit of a circular argument. It seems to suggest they have already got control, so you might as well give it to them. One of the questions I get is, what are the practical implications of that for SIRIUS shareholders. I don't know if you have spent time on that. I'm sure everyone can sympathize as to why any company would not want the FCC to declare that they are now controlled by another company. But, in terms of the practical implications for SIRIUS shareholders, any comment there as to what you guys think that might be if the FCC rules not in favor of your argument?

Mel Karmazin - SIRIUS XM Radio Inc. - CEO

Again, I need to direct you to Liberty because what Liberty has not in that FCC application indicated anything that they want to do. They just are asking for it. When they get asked, why are you doing it? They have only said we want to keep all of our options open. I think it would be foolish to discuss what Liberty's decision would be and what the impact would be upon our Company. Obviously we are interested in doing what is right for all of our shareholders. When the time comes, if the time ever comes, that Liberty's interests are different than the 60% shareholders then obviously we will do whatever we can do to assure and protect the interest of our 60% shareholders. But we have no reason that our interests are not aligned. Liberty has the right to not tell us what their interest is. They have not told us exactly what their interest is. I can only urge you to ask them and we will listen in on those calls.

Operator

David Bank, RBC Capital Markets.

David Bank - RBC Capital Markets - Analyst

Thanks very much for squeezing me in. Mel, thanks for the detail on the online product that's rolling out to all access. It looks like both a great offensive as well as defensive product. Can you talk a little bit about how you view the ad-supported competition in that -- does your research give you a sense of how many of your current subscriber base are listening to the premium, are there for the premium product versus the jukebox in the sky? Do you guys have research behind that or a sense of what that is?



Mel Karmazin - SIRIUS XM Radio Inc. - CEO

Let me give you some overview. We have a great deal of research about our subscribers and what they like from us and what they may like from others, as well. In general, we don't believe that the IP business for audio content, the radio content business, where the royalty fees are so extraordinarily high, and you are at the mercy of advertising revenue, particularly as the advertising moves towards the smart phone, and the limited opportunities that you have to monetize that through different types of advertising. We are not big fans of it.

On the other hand we are very big fans of giving subscribers what they want, not just in the car. You should think of our 2.0 strategy as being to super serve our subscribers. They get a great product when they are in the car; we want them to get the same great product and even expanded versions of it when they are in a mobile environment or in their home, and that device that they are using is principally a smart phone. Why wouldn't we, where there is no constraint on our bandwidth, be able to expand our offering so that our existing subscribers got this great experience with the user interface in the car and total, no dropouts and able to get the channels no matter where you are in the continental United States.

That experience is phenomenal and we want to give them that same great experience on the internet where the technology has some vulnerability but the one thing that is an asset is the fact that we have more bandwidth and we can put more content out there. So, yes, sometimes that content drops out on the internet. But on the other hand, that's a problem more for our competitors than for us. That's our strategy. It's not that we think it's such a great business to be in the internet radio business, it's because we are doing it to supplement the experience that our subscribers get.

David Bank - RBC Capital Markets - Analyst

Thank you, guys.

Hooper Stevens - SIRIUS XM Radio Inc. - Sr. Director, IR and Finance

Thank you very much, and that concludes our call.

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PRESS RELEASES

CNBC EXCLUSIVE: CNBC TRANSCRIPT: SIRIUS XM RADIO CEO MEL KARMAZIN SPEAKS WITH CNBC'S JIM CRAMER TONIGHT ON "MAD MONEY W/JIM CRAMER"

Published: Friday, 9 Mar 2012 | 8:12 AM ET

Text Size

By: Steffanie Marchese

1 0 0

When: Tonight, Thursday, March 8, 2012

Where: CNBC's "Mad Money w/Jim Cramer"

Following is the unofficial transcript of a CNBC EXCLUSIVE interview with Sirius XM Radio CEO Mel Karmazin tonight, Thursday, March 8th on CNBC's "Mad Money w/Jim Cramer" (6 & 11PM ET). All references must be sourced to CNBC.

Video: Cramer Tunes into Sirius XM CEO

JIM CRAMER: Has Sirius XM, the one and only satellite radio company in America, finally got its groove back? This \$2 and change stock has run up 35% in the last few months. Now it seems to have more catalysts than you can count. I was skeptical of Sirius when the federal government made them wait eons before approving the merger with XM, closed on July of 2008. As a result of the extended wait the combined company did have a near death experience in late 2008. For only being saved by an infusion of capital from Liberty Media, which purchased a 40% stake in the satellite radio company. More on that in a moment.

But a lot has changed in the last few years. Auto sales are now on fire. That's a huge market for Sirius. They've also moved into the used auto market, which is gigantic for them. In the most recent quarter the company added 540,000 new subscribers. The total count is now 21.9 million.

In fact Sirius XM has become so successful that many worry its savior, Liberty Media, could buy the whole company on the cheap, something that I regard as a high quality problem. That's why I'm thrilled to have Mel Karmazin, the fabulous CEO of Sirius XM radio, and before that unbelievably successful work at radio and TV, who is celebrating the 10th anniversary of Sirius XM in an amazing fashion, what is sure to be a legendary Bruce Springsteen concert at the Apollo Theatre in Harlem for Sirius XM subscribers only.

We just happened to see a ticket going for \$10,000 on eBay, by the way, this afternoon. He's with us tonight to give us a sense of where his company's headed. Mr. Karmazin, welcome back to Mad Money. Mel, good to see you.

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MEL KARMAZIN: Good to see you, Jim.

JIM CRAMER: Good to see you. Have a seat.

MEL KARMAZIN: How are you? Thank you.

JIM CRAMER: First, I want to thank you. When my father got sick this summer - he was at a hospital in Philadelphia. And they didn't have CNBC on TV, so we very quickly got him a Sirius XM radio, which had CNBC you guys are doing a whole lot more than just when you first started.

MEL KARMAZIN: Oh yeah. I mean things have been great. I mean I've been here now almost eight years and when I joined the company we had 600,000 subscribers and we had revenues of like \$67 million. So it's been an extraordinary run.

JIM CRAMER: Now I like to measure your company as a cash flow company, because you taught me to do that when you were in radio. People don't understand, because they see it's a \$2 stock. They think, "Well, it must be losing a lot of money." Can you explain to people how it's the cash flow that matters and how that has really ramped up since the merger.

MEL KARMAZIN: So I believe, and have for a long time, that free cash flow is the only metric that creates wealth for investors.

JIM CRAMER: Right.

MEL KARMAZIN: Free cash flow is what enables you to buy back your stock, make acquisitions, pay down debt. And I believe free cash flow is an important metric. Our free cash flow now, is growing - it's extraordinary. Before the merger we had negative free cash flow of \$500 million. Negative free cash flow. This year we will have \$700 million of free cash flow. We haven't given guidance for next year. Analysts have us at a billion of free cash flow and continuing to grow. So it's a great start.

JIM CRAMER: You - they are in tune? They are off the mark?

MEL KARMAZIN: Who am I to say what analysts say. But we have not acknowledged what is going to happen beyond 2012.

JIM CRAMER: But it wouldn't shock you to do that?

MEL KARMAZIN: No. I mean if we've gone from \$400 last year to \$700 this year, you know, and the year before that we were at a \$100 and something, that growth rate looks like it's going to continue -

JIM CRAMER: Okay.

MEL KARMAZIN: --for some time.

JIM CRAMER: But Mel, if that's the case, you got one of the smartest guys in the world, 40% shareholder, Liberty. Why shouldn't they, now that the standstill's gone away, start buying and buy the rest of the company for, say, \$250, which is what some of the analysts are saying, capping all the return that you can give shareholders?

MEL KARMAZIN: Well - Liberty Media is free to do anything they want to.

JIM CRAMER: Yeah, they can do what they want and you can't tell them what to do.

MEL KARMAZIN: And I have no interest in telling them what to do. But what I am able to do is represent the best interests of the non-Liberty shareholders as well. So the way I look at my job now I'm responsible for all of our shareholders, including Liberty. If there ever was to be a transaction that Liberty would want to initiate, my responsibility would be to our shareholders to

make sure that they are treated very fairly.

JIM CRAMER: All right. Just a couple days ago Pandora reported a number. Everyone thought Pandora's spotted, these are all these free internet models, can destroy you. I look at Pandora and I think that they actually have rising costs and that you don't have, and that the competitive threat is overstated. But I need to hear it from you, because a lot of people tell me, "Jim, you're nuts believing in Sirius at this point?"

MEL KARMAZIN: So Jim, we have a lot of competition. Right? And I believe business models matter. Now I mean some people could sit there and disagree and say it's about eye balls or it's about something else. I believe it's about the business model. We competed with our terrestrial radio for the last 11 years. Grew from zero subscribers to 22 million subscribers. We now have competition from I.P. You know?

JIM CRAMER: Right.

MEL KARMAZIN: They're-- no barrier to entry. Anybody could be an I.P. audio content company. They have a questionable business model, because it's depending upon advertising. I have believed, for the last 10 years, from before I came to Sirius XM, that the internet has created so much inventory, so much inventory in the advertising world, that a business model that is principally advertising-driven, whether it be terrestrial radio or I.P. radio, it's advertising driven, is at risk. I don't particularly like that business model. Great company, Pandora. Great product. But not-- question about the business model.

JIM CRAMER: Right. Now speaking of your programming costs, there are a lot of deals that were put together when XM and Sirius were-- fighting tooth and nail. So you paid a lot more. Is it possible-- I don't think how much the Stern contract is. I know he is going to be on NBC soon. And I'm very excited about that. Very excited about that. But I'm trying to figure out whether you have a bunch of levers, including your costs, unlike Pandora's, could principally go down over the next four or five years as contracts roll over?

MEL KARMAZIN: If you take the entire premium entertainment category, so include television-- you know, cable television, satellite television, their costs are all going up. You see how there's these wars between the MSOs--

JIM CRAMER: Right. Right.

MEL KARMAZIN: --you know, and the content owners. What we have said is that our content costs are going down and as a percentage of revenue it's going to be less. There is no-- your company, Comcast, is faced with the idea that their programming costs are going up. Ours are--

JIM CRAMER: Going down.

MEL KARMAZIN: --going down. And they're going down because-- though we have all of this competition, there's only one satellite radio. So if CNBC wants to be on satellite radio, because it's one of the buckets-- they want to be on the internet, they want to be on cable. There's one conversation they can have and that's with us.

JIM CRAMER: Right.

MEL KARMAZIN: And that's different than when we were at war with each other.

JIM CRAMER: You guys were at war with each other. You know, I got my bill. I didn't even notice I guess it's a little bit higher. Am I, like everybody else, you've now had, what, a couple of-- you've had enough time to gauge whether there's been a fallout for that price increase?

MEL KARMAZIN: So-- Sirius started getting its first subscriber, as you pointed out, 10 years ago, having never had a price increase.

JIM CRAMER: Yeah. It's a bit of a bargain.

MEL KARMAZIN: When I first came to the company I thought we ought to raise prices because from the time it started got Howard Stern, got the NFL, other great content and never passed along those costs. We wanted to grow rapidly. Decided to hold off. Was looking at doing a price increase again. The merger came along. I said, "You know what? We don't need to do a price increase. We can get the savings that way." So now 11 years later, we've raised the price for the first time. I think we handled it really well. You know, we learned a lesson from another company that--

JIM CRAMER: Yeah, and I want to talk about it, because that company's--

MEL KARMAZIN: But--

JIM CRAMER: --valued much less than you, but it's a subscription model with similar number of clients. We're speaking about Netflix. Trying to understand 15 billion. I'm trying to get my arms around why you should be worth \$15 billion and not \$7 billion or \$6 billion like Netflix. I don't understand, Mel.

MEL KARMAZIN: So on the price increase-- and I'll give you the answer on that one, is that our consumers have been really loyal and they really love our product. And the reaction has been very modest. Very modest. So, you know, we feel very good about, you know, the subscriber growth in light of the fact that we put in a price increase. On the valuation, I don't make the valuation.

JIM CRAMER: I know you don't, but it's hard for me to get my arms--

MEL KARMAZIN: Well--

JIM CRAMER: --around why you should be at \$15.

MEL KARMAZIN: What is a company that is throwing off you know, 80% of its EBITDA is free cash flow. That free cash flow is growing at 75% last year. It's going to normalize. Keep growing. And the idea is that the competition that we are facing today, the competition we are facing today, terrestrial radio, is not investing in new content. They're not going to get bigger. On the I.P. side of the house, don't know who is going to win. I think that you know, today we are the number one radio revenue company. Number one radio in the world.

JIM CRAMER: Right. So therefore--

MEL KARMAZIN: In the world. And have growth characteristics. A growth company characteristics.

JIM CRAMER: Right. You do know that I want to understand it. Maybe -- boy, I'd love to make some news here, but you're-- got so much cash flow. You can only buy back so much debt because you have a lot of restrictions on co-options. Why not initiate a gigantic buy back and make all those people who have stuck with you and that stock for so long recognize that you believe, like they do, that the stock is way too cheap?

MEL KARMAZIN: So what we've said-- and this isn't the first time I'm acknowledging this, so I-- though I always love making news on--

JIM CRAMER: And I appreciate--

MEL KARMAZIN: --your show.

JIM CRAMER: --that. Oh, I appreciate that.

MEL KARMAZIN: Okay. But the fact is that when you have all of this free cash flow you could make-- you use the free cash flow for an acquisition. There is

nothing else.

JIM CRAMER: There's nothing.

MEL KARMAZIN: There is nothing, zero, out there that I want. Okay. So you're not going to make an acquisition. You could return the capital to shareholders. At the end of this year, at the end of this year, we'll have between a \$1.2 billion and a \$1.5 billion of cash on our balance sheet. I don't know what to do with it other than to use it as you're characterizing.

JIM CRAMER: Fair enough.

MEL KARMAZIN: Now it's a board decision.

JIM CRAMER: Right.

MEL KARMAZIN: It's a board decision. I would hope that the board would share my feelings that way, but that has to be the agenda.

JIM CRAMER: Okay. Absolutely.

MEL KARMAZIN: That absolutely has to be the agenda.

JIM CRAMER: I want to talk about Howard, because he's still amazing after all these years.

MEL KARMAZIN: He's the best.

JIM CRAMER: He's amazing as ever.

MEL KARMAZIN: He's the best.

JIM CRAMER: He's coming back and doing TV. You like that from your point of view? You don't mind sharing him with NBC?

MEL KARMAZIN: I think Howard is the-- absolutely the greatest radio performer of all--

JIM CRAMER: In history. Right.

MEL KARMAZIN: --time. In history of all time. We are very identified with Howard because he does these radio shows. The bigger Howard gets and the more exposure Howard gets, the better it is for me-- for us, our company.

JIM CRAMER: Right.

MEL KARMAZIN: Howard's not doing it for us. Believe me.

JIM CRAMER: No he's making good money, right? He's making hundreds of millions.

MEL KARMAZIN: Howard's doing it-- Howard-- and he's worth it. Whatever-- I mean he's not-- it's not that he's paid badly. He's worth the money that he's getting. And it's great for us that he is so successful. And I'm happy for Howard because I've known him for a long time.

JIM CRAMER: One last question, because I'm still a business guy about where you get your customers. The average car in this country is 11 years old. Are you beginning to see from used cars a major growth initiative or is it really going to have to come from new cars and that 14.5 million build could provide a lot of upside in 2012?

MEL KARMAZIN: So, so far this year on the new car side, right? Most people seek-- are seeing a number between 14 and 15--

JIM CRAMER: Yes.

MEL KARMAZIN: --mil. That's up huge. So--

JIM CRAMER: Yeah, from nine a couple years ago.

MEL KARMAZIN: That's going to drive our top line, together with the price increase, okay, that we're doing. And that's where the top line revenue growth is there.

JIM CRAMER: Okay.

MEL KARMAZIN: Used cars. There's 200 million used cars on the road today. We-- a lot of them have satellite radios in them because we started five years ago. We started ramping it up. We believe that used cars are going to be a big driver. We're working hard to find the information. So, as an example, I know how to deal with the certified pre-owned, I know how to deal with Auto Nation, Auto Nation dealers.

JIM CRAMER: Right.

MEL KARMAZIN: If you sell a car to me, I got to-- I want to find out how I can get that information so I can market to you and give you a three month trial. It is a big deal.

JIM CRAMER: Are you going to solve it--

MEL KARMAZIN: The numbers are small.

JIM CRAMER: --this year?

MEL KARMAZIN: Well, we're working and we're get--

JIM CRAMER: All right.

MEL KARMAZIN: --we're getting better every day.

JIM CRAMER:

16:40:26:00 Okay.

MEL KARMAZIN: Used cars are contributing toward the growth number that you said in the fourth quarter. Record year last year. Oh, by the way, you talked about Pandora, you talked about risk. In 2011, last year, with all this competition, we added the most number of subscribers since our merger.

JIM CRAMER: Well, I think you guys are--

MEL KARMAZIN: So--

JIM CRAMER: --you know, I it is a remarkable story. I did think that you were dead, Mel.

MEL KARMAZIN: I know.

JIM CRAMER: I did. And you--

MEL KARMAZIN: It's a great-- and by the way, you said that.

JIM CRAMER: Right.

MEL KARMAZIN: And in fairness to me, you know, it hurt.

JIM CRAMER: I know. I know. Look, and I appreciate you coming on the show because that was not-- you know, it was a hard hitting thing that I did. I know that.

MEL KARMAZIN: And you were--it could have been right. And a lot of companies-- a lot of companies-- Warren Buffet was lending money to Goldman Sachs and G.E. at 10% plus warrants. So when we spoke to 22 companies, okay, that were frozen, they wouldn't do it. And to his credit, you know, John Malone and Greg Maffei stepped up and, you know, made great investment for them and great investment for us.

JIM CRAMER: Well, congratulations on your 10th year. You deserve it. You're a winner. Mel, terrific. Thank you so much--

MEL KARMAZIN: Thanks a lot.

JIM CRAMER: --for coming on Mad Money.

MEL KARMAZIN: It's fun. As usual it's always fun.

JIM CRAMER: Mel Karmazin, CEO of Sirius XM Radio. Please-- Google him and see the successes and you'll know exactly was Sirius XM it going to be a huge success beyond where it is now. Stay with Cramer.

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EDITED TRANSCRIPT

SIRI - Sirius Satellite Radio at Morgan Stanley Technology, Media & Telecom Conference

EVENT DATE/TIME: FEBRUARY 28, 2012 / 5:15PM GMT



FEBRUARY 28, 2012 / 5:15PM, SIRI - Sirius Satellite Radio at Morgan Stanley Technology, Media & Telecom Conference

CORPORATE PARTICIPANTS

David Frear *Sirius XM Radio Inc. - EVP and CFO*

CONFERENCE CALL PARTICIPANTS

Ben Swinburne *Morgan Stanley - Analyst*

PRESENTATION

Ben Swinburne - *Morgan Stanley - Analyst*

Okay, [all] we are and yes we are. Good morning, everyone. Thanks for joining us. I'm Ben Swinburne, Morgan Stanley's Media Analyst and please note the important disclosures including my personal holding disclosures and Morgan Stanley disclosures, all appear at the handout available in the registration area and in the Morgan Stanley public website.

And I'm thrilled to have with me this morning David Frear, CFO of Sirius XM Radio. David has been CFO since 2003. Prior to that was CFO of Savvis, among other companies. David, thanks for being here.

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Thank you, Ben.

Ben Swinburne - *Morgan Stanley - Analyst*

Let's talk at a high level first about the opportunity in front of XM Sirius -- Sirius XM, excuse me. You guys recently gave guidance for 2012, but just getting back and looking more longer term, how do you talk about this addressable market for you guys and the opportunity?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Sure. It's really about enabling vehicles. So in a lot of ways, I think you can think about us as looking somewhat like the cable industry did in the early 1980s, right. They had plenty of content that was interesting stuff to watch, it was worth paying for and the question was were they in your neighborhood, right?

So the cable industry was building out homes. So equipping new cars with satellite radio is our equivalent of homes past. We've got about 40 million vehicles with a factory-installed satellite radio today. And by the end of the decade, that should exceed 100 million. So our job will be over the course of the next several years to see how many of those we can have revenue active in any given month.

Ben Swinburne - *Morgan Stanley - Analyst*

Great. You guys have put in your first price increase, at least that Sirius XM put one in a while ago. I know it's probably early days, but can you talk about the reaction you're seeing from customers, everyone has got the Netflix experience in their back of their minds from last year?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Sure. Yes, so I guess good news is that I think we approached the price differently than Netflix did that it was a very straightforward, very clean story for our subscribers, no alterations in the service or anything else, just a simple change of price. We communicated that out to them in advance that we -- as I think many of you know, we have over half of our subscribers are on annual or longer plans.



FEBRUARY 28, 2012 / 5:15PM, SIRI - Sirius Satellite Radio at Morgan Stanley Technology, Media & Telecom Conference

So as their plans come up for renewal, as part of the renewal notice, we also notify them with a price increase. We probably notified half of the subscriber base at this point. And so far, it seems to be going well. I'd say it's consistent with the guidance we provided. And I would note that we did indicate that the 1.3 million net adds for the year was we thought a conservative future guidance.

Ben Swinburne - Morgan Stanley - Analyst

Yes. You've not talked a lot about this in how you guys manage sort of customer retention and manage churn and you have some churn guidance as well out there. How do you think about the price increase as it relates to the guidance on churn which is for a little bit of an increase?

David Frear - Sirius XM Radio Inc. - EVP and CFO

We have guided to an increase in churn. Logically, if you increase prices, you're going to suppress demand. There are a lot of other factors going on out there that you have changes in mix of subscribers, you've got a changing economics or your backdrop you've got the used call market opportunity growing. So it's very difficult to isolate the impact of any one driver.

You can guess at it, but you really don't know. So on balance that we would expect self-pay churn to be up because of the price increase. It was 1.9% last year, we provided 2.1% guidance for this year. I think that we are hopeful that we'll beat that guidance as the year goes on. But it's too early to tell at this point.

Ben Swinburne - Morgan Stanley - Analyst

Okay. I was going to follow up because you mentioned before you think the net adds guidance is conservative. We've also had a very good start to the year in vehicle sales. So sort of two potential levers, better SAAR, lower churn, I guess both. Any more context to that comment?

David Frear - Sirius XM Radio Inc. - EVP and CFO

So we say all the time that we don't really know what auto sales are going to be, right. There are plenty of people out there that have their estimates for auto sales and I'm encouraged by what I've seen coming out of January not only in terms of auto sales and what I've heard about February in terms of the rumors of what sales will be but also the actions that we're seeing taken by the analyst community that if you look at last year, we went all through the year with softening estimates in auto sales.

So generally, you were looking at the analysts who were covering it sequentially sort of degrading their outlook for auto sales for 2012 during 2011. And as we've come into the first part of 2012, the few analysts who have updated since the beginning of the year have generally been taking their estimates up a little bit. Now, it really hasn't changed the average, right? So the averages when we came into the year was about 13.7, it's still 13.7 among the analysts. But the few people that have come out in recent weeks have generally come in at the 14 level. And so with January coming in sort of around that level, I'm cautiously optimistic that we've got a little wind at our back in auto sales.

Ben Swinburne - Morgan Stanley - Analyst

Great. Another key metric that everyone follows and focuses on that you've guided to is conversion ratio. And I've asked you this question before in the past is as SAAR ramps off of the economic bottom we were in over the last few years, do you expect any change in conversion ratio and how do you guys manage that [and have much] free cash?



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David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Sure. The conversion rate has remained very consistent for a long period of time, right. So it's been about three years now. If you go back and look quarter-by-quarter that for the most part, you're going to see it bouncing around between 44% and 46% that you've got a couple of statistical outliers that pop up in the quarters but --

Ben Swinburne - *Morgan Stanley - Analyst*

And this is converting trials to pay, [just everyone] that we're talking about.

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Exactly right. So there really isn't anything we see that's going to change that behavior. What moves it around for the most part now is mix. So whether it's mix between auto partners or mix within an individual partner based on their changing model mix and sales. But largely, mix factors are what we see coming through here.

In many ways, one way to think about this is it is a huge direct marketing organization. We get a very high-quality data on who owns our radio. So within days of the sale, we get customer name and address of new car sales, from the automakers. And it's a fresh lead, it's a highly accurate list that we get and it gives us the opportunity to put that new owner through a marketing campaign that is sequenced and we constantly tune it, change it from one partner to next and to try to optimize the conversion rate. It lends itself to a lot of statistical analysis, right. So we can look at kind of different mailings, how they perform the kind of yield that we get off of altering the cadences.

And then, as the used car opportunity comes around, we're looking to extend that same kind of marketing campaign management into the used car universe, that our objective is to work with the auto companies and work with the dealer groups to get that same sort of fresh sales data, fresh customer name and address within days of the sale, so that we can use our same well-proven direct marketing techniques to convert used car buyers.

Ben Swinburne - *Morgan Stanley - Analyst*

I want to ask you about the used car opportunities. The Sirius model is fairly straightforward. When you think about new vehicles, we will have the SAAR, we'll have two-thirds of [them, we'll have] radios and then you've got your conversion rate which has been steady. It's a pretty easy calculation, even I can do it. But on the used car front, it's a little trickier. Can you sort of size that market today for us and maybe the opportunity, where you are today, what deals you have in place and how that's going?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

It's definitely trickier to do because we don't really know when the cars are going to turn over, right. We find out after the facts and we don't necessarily find out on all of them. So I think the best way to think about it is the statistics for the auto industry are that first car ownership has now lengthened to between five years and six years.

And so if you were to look backwards five to six years, and say, okay, how many new cars we're getting satellite radios installed into them, well, then on average, they should be coming up for changing hands now. So five to six years ago, we were at 20% penetration rates of new car production.

If you roll that same kind of analysis forward, the last couple of years, we've been north of 60%. So you would think five, six years from now that we should have a 60% representation in used car sales. The one trick there is that remember that used cars are going to turn over multiple times. And so that you'll give you a certain amount of double counting.



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So you won't find us at our five-year ago rate used cars now, we shouldn't because there are cars turning over for a second time or a third time or a fourth time in the population. Same thing will be true in the future. But we are trying to sort through exactly what that mix impact looks at, what kind of consistency it shows to see if it isn't something that we can use from a guidance perspective. But the numbers are still moving a little bit.

Ben Swinburne - Morgan Stanley - Analyst

Do you guys have a sense for how many you have today in that used car market?

David Frear - Sirius XM Radio Inc. - EVP and CFO

We do. We haven't come out with the numbers yet only because we're trying to make sure that they actually represent what we think they do. So for instance, if you were to -- I can't imagine this would be the case. But if you were to deactivate one of your services, I know you have many, that -- and then, it was reactivated perhaps in your [voicemail] that that might appear in our database as a [second only], right.

Ben Swinburne - Morgan Stanley - Analyst

That's because you haven't changed your name is what you said.

David Frear - Sirius XM Radio Inc. - EVP and CFO

Right. So we are -- going back and looking at our householding algorithms and what kind of best practices to use to try and get a -- let's say a better read on that information and as we get more comfortable with the data, we'll certainly talk more about it.

Ben Swinburne - Morgan Stanley - Analyst

Okay. Let's talk a little bit about your retention efforts and ARPU. One of the things this year that we're looking at is, you've put in a price increase, you're trying to manage churn. One way to manage churn is to sort of give people breaks if they get upset about the price increase. So can you sort of frame how you're balancing rate and churn this year given that you're putting in this price increase and what those numbers might look like?

David Frear - Sirius XM Radio Inc. - EVP and CFO

We don't intend to lose a single subscriber, all right, not one. And so we will use all the tools at our disposal to keep subscribers. It's hard to get them.

Ben Swinburne - Morgan Stanley - Analyst

Whenever it is necessary.

David Frear - Sirius XM Radio Inc. - EVP and CFO

Yes. And you want to keep them engaged, right. You're more likely to keep them for the long term if they are engaged and the best form of engagement is listening. So what am I hopeful of? I'm hopeful that we're able to beat our subscriber guidance and we're able to beat it with less discounting and therefore a better-retained price increase.



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So we also beat our revenue guidance and then we beat our EBITDA guidance and I wouldn't mind missing our EBITDA guidance because auto sales jumped through the roof and we had significantly higher growth than had [expended] in SAC, but all in all what we want to do is we want to beat everything on every front that we kind of are hopeful, but the guidance is what the guidance is at this point.

Ben Swinburne - Morgan Stanley - Analyst

Okay. How do you think about tiering a product? And one question I get a lot from people is how do you attack that used car market. Are there people who are more price sensitive, this is a premium service. How do you -- do you guys think about opening this out to a boarder audience by tiering more? I know you've done some in the past were some -- part of the deal requirements, etcetera. But more of an offensive approach, I guess.

David Frear - Sirius XM Radio Inc. - EVP and CFO

We haven't seen big movements in demand based on low rate price, right. So the -- we do have the discount strategies in place. It's definitely helping us retain subscribers, but I don't think there is anything about it that would suggest, you know what, we're going to double subscribers if we cut the price by \$4 and have a lower tier.

So that being said, you know that it has to have some effect. The good news about satellite radio is in our penetration in vehicle is things change in a very evolutionary manner. And so we'll have an opportunity to test our way into different capture strategies without running the risk of what you've been most concerned about with introducing a lower price tier which would be cannibalizing the base, right.

And so we'll have the opportunity to check that out. It's a funny thing. At \$14.49, it's not really that expensive of a premium service. And if you go to Starbucks and get three or four cups of coffee a month, you're pretty much done with \$14.49. And so I don't believe it's really an affordability issue. It's more of a value issue, right. We have to convince people that this is something worth not only buying the first time but continuing to pay for it. It is, as anybody who has used it, a radically better form of radio than anything else that you've got out there with a diversity of content and we have to do a good job of continuing to demonstrate value to subscribers.

Ben Swinburne - Morgan Stanley - Analyst

On that front, I want to ask you about competition and smartphone penetration. I saw some stats this morning on a survey about the majority of people with smartphones use them in the car through Bluetooth and other connections. Not only since we compete with free and you've done a pretty good job competing with terrestrial radio over the last decade. How do you think about what's happening on Internet radio? I've got Pandora. We have Pandora at the conference later in the week -- actually, today, excuse me. How do you think about those services in differentiating and competing, are they competitive, how do you look at all that?

David Frear - Sirius XM Radio Inc. - EVP and CFO

They are absolutely competitive, right. So our free competition isn't limited to terrestrial radio. It's also the -- all of the Internet radio services including Pandora. Look, music is widely available to consumers for free. Just it's a fact of life. So the music, while an important component of our service, isn't what really drives demand for the service.

It's the unique content that we bring and whether that unique content is the way that we curate the music and organize for people or whether it's the news talk, entertainment and sports that we bring to the device which is also, as you think about it, curated content. We organize our content, we provide it to people and we think that has value for them. When I look around this room, I see a lot of smartphones on the table. And my guess is that many of you have used Internet radio services yourself and many of you probably have also subscribed or do subscribe now and hope all of you, we'll do a check on the way out who does and doesn't subscribe. But subscribe to satellite radio.



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Our basic demo, right, it reflects our distribution channel. So our main distribution channel right now is new car sales. So the new car sales buyer tends to be higher income, higher educated and that demo tends to overconsume a lot of products, so they overindex smartphones. They overindex Internet radio listening and yet they continue to subscribe to us. So we expect competition to intensify in the future. We expect to continue to deliver the best value proposition in audio entertainment to people to drive subscription volume.

Ben Swinburne - Morgan Stanley - Analyst

How do you measure -- and I know, we've asked you this question before, but you mentioned that a lot of the non-music content that you're curating drives to products. How do you guys measure that? So how do you measure what's working, what's not and where do you spend money and where you don't?

David Frear - Sirius XM Radio Inc. - EVP and CFO

Well, we don't measure it from a traditional ad, audience measurement metric because there are no commercials on our music service. And so average quarter-hour listening, things like that, are -- just really aren't relevant to us. There is no business decision we're going to make based on that. We do get ratings information to support ad sales on the non-music channels where we do sell advertising, but we do audience listening stuff to ensure that our catalog is fresh, that people are hearing the songs that they want to hear and we do want to keep the content interesting and compelling to customers.

Ben Swinburne - Morgan Stanley - Analyst

And you don't have any sense of what -- or would share with us the relative listening between music and non-music, or if you guys looked at that?

David Frear - Sirius XM Radio Inc. - EVP and CFO

It's not something we really look at.

Ben Swinburne - Morgan Stanley - Analyst

Okay, okay. Let's shift over to the products side of the equation. You've launched a 2.0. You're launching a 2.0. You've done an IP streaming product in the past. What should customers and investors expect on the product road map from you guys this year?

David Frear - Sirius XM Radio Inc. - EVP and CFO

So if you look at the 2.0 product that's in the marketplace, the Lynx, that it's actually a great demonstration product for what we'll bring to factoring [small] radios over the course of the next couple of years and we'll continue to enrich that product in the retail marketplace only because we can spin iterations of the product faster in the retail and it becomes a great demonstration of the capabilities it'll bring to car radios as well.

So the electronic programming guides, on-demand content, to the extent that you have a Wi-Fi connectivity, the couple hundred dollars of storage capability, the ability to background, record multiple channels for playback later, that scheduling shows -- favorite shows that you'd like to listen to the Hispanic content offering, that's been added into the overlaid portion of the spectrum. All things that are expanding these services, features and content to again continuing to drive that value proposition for the subscribers.

Ben Swinburne - Morgan Stanley - Analyst

Any of these rollouts going to materially impact either costs or you're actually facing some in top line this year?



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David Frear - Sirius XM Radio Inc. - EVP and CFO

It's all in our guidance, all factored into the guidance and we believe all of it drives increased margins and increased cash flow.

Ben Swinburne - Morgan Stanley - Analyst

Okay. On that front, revenue will be what it will be depending on a reaction of the price increase and SAAR conversion. But on the cost structure, you've been pretty consistent about incremental margins in your business over time. Can you just update on that outlook and also what we should expect for fixed cost growth in 2012?

David Frear - Sirius XM Radio Inc. - EVP and CFO

Sure. So on the margin front, contribution margins, right, which is the revenue share of royalties, customer service and billing and cost of equipment has been above 70% for a number of years and for the same number of years, I've been telling that you should expect longer-term that it's more or like 70%. And I would continue to tell you that to focus on 70%.

Just logically as one music royalties step up each year, so this year they stepped up by 0.5 point in January. So that eats away that margin a little bit as the mix of the business shifts -- continues to shift to OEM, a little more revenue share coming in. So while we tend to improve margin absorption and customer service billing as the business grows that it's offset a little bit by what's going on in revenue share and royalties.

So I'd encourage you to think about 70% as the contribution margin. We'll put the SAC aside from it; fixed costs, we encourage people to think of sort of flattish, the -- over time that we do expect long-term programming cost to continue to decline that there are other costs that have some inflationary increases in them. So those will sort of offset some of the programming savings.

We do have a favorable impact coming up in the fourth quarter of 2013 from new terms on a significant agreement with an automaker that, that contract was renegotiated a few years ago, that the new terms go into effect in the fourth quarter of 2013. It affects a lot of different lines in the P&L, it'll affect revenue share and royalties, it'll affect subscriber acquisition cost, it'll affect marketing cost.

And I think the way that you can think about that, we haven't provided any guidance as to what the net effect is. But we have said many times that you should think of it as material to the change in EBITDA from 2013 to 2014 and it's a material positive change.

Ben Swinburne - Morgan Stanley - Analyst

That's right. And I think a year or two after that, you've got potential for baseball, that's a step-down hopefully?

David Frear - Sirius XM Radio Inc. - EVP and CFO

Well, baseball and hockey, both come up after the play-offs in the World Series in 2015 so that they will affect for the most part 2016 our results. Both leagues have great content, great fan bases. We've got a few years before we will face the negotiation with them over a new contract. We're hopeful to keep great content for those fans available on satellite radio and we will see about the terms when we get there.

Ben Swinburne - Morgan Stanley - Analyst

Okay, I would love, David, if you could explain to us a little bit about how the royalty rates get set, without going into the [glorious] detail because you've got terms up I think, this year for a new five-year deal or five-year licensing term. You mentioned that the cost levels are going up a percent this year but last year the old agreement. How did these rates get set? And when I look at your business, it seems like the margins could get well



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into the 40s overall, EBITDA margins, barring what happens here. And I think the other side of the table, SoundExchange filed something asking for a 20% of revenue cut versus today's 8%. So how do we think about all those pieces there?

David Frear - Sirius XM Radio Inc. - EVP and CFO

So, you're right. SoundExchange did file for 20% the -- we filed for something in the 5% to 7% range. I think that of course, the General Counsel will always tell you not to discuss matters in litigation. So with that advice, I'm going to discuss matters in litigation. So they -- SoundExchange's case, you read the case, there is a public version of it available. To me, as an unbiased observer, it reads as if they are retrying the same case with these same facts that they tried a few years ago and then hoping for a result that is double to triple what those facts produced five years ago.

So we, on the other hand, have filed a case that brings in what I would characterize as material new evidence, right. The -- we have gone out and entered into marketplace agreements with independent labels for broader rights, right. So not only satellite radio but the rights cover satellite radio, they cover Internet radio, they cover cable satellite, some of them cover business establishment services.

They have waivers of something called the DMCA performance complement and other terms. And they are at rates that are generally below today's statutory rate. Why would an independent label do that? They would do it in the -- for the sake of deepening their relationship with the Company, that the music industry, in many respects, is about relationships that when you decide to put something into rotation and put it on the air, first of all, we want to make sure that it's absolutely great creative content that it's the kind of song that your listeners would like to hear and -- but relationships go into it as well. So if you've got an act that never comes through the studios, never does the subscriber of that. They just have some guys that would just play, play, play my stuff, but they never do anything to sort of reciprocate from a promotional thing to make it interesting for our subscribers.

So I mean we may play that song, but if we've got the good relationship with the next act who has an equally good creative work that comes through the studios, engages our subscribers, takes calls, does things like that, you have a better relationship, right. And so that as the program managers look at what they're going to put into rotation that, that good relationship will affect the choice they make. The direct licensing is nothing more than an extension of the same concept.

It just deepens our relationship with the labels and it doesn't take a whole lot more rotation to actually make it a better business plan for the labels to enter into a direct license relationship with us to deepen the relationship with the Company and to enjoy the benefits of increased royalties through increased spends.

Ben Swinburne - Morgan Stanley - Analyst

Just a couple of follow-ups. Clearly, they are economic animals, so their decision to go direct with Sirius rather than through SoundExchange would only I would assume take place if they see a bigger revenue stream out of it. [You see a deep relationship at least] to understand what you're talking about.

David Frear - Sirius XM Radio Inc. - EVP and CFO

Yes. And so what they're looking for in many labels, many artists are looking to have their music played. They want to be heard, right. And so if they believe that there is a better chance of their content being heard that, that's a good business reason for them to enter into a direct license.

Ben Swinburne - Morgan Stanley - Analyst

Is it a possibility that you end up with a direct relationship cost structure instead of whatever comes out of the board, Copyright Board? I don't know when the decision is actually, I think it's later this year but --?



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David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Well, I think that I don't think it's likely that 100% of the music industry is going to enter into a direct relationship with us. So I do believe that there will be either a settlement reached with SoundExchange. And we do -- we are actively interested in a fruitful negotiation with SoundExchange or that in the absence of a settlement with SoundExchange, the judges will reach a decision based on all the facts in front of them. And again, I like the case that we're going to present to the judges.

Ben Swinburne - *Morgan Stanley - Analyst*

Okay. Great. Let's talk a little bit about capital allocation. I wanted to ask you about your leverage targets. I think you are honing in on them. And what investors should think about in terms of return of capital this year and sort of longer term?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

So as we've said before, haven't had the first discussion with our board yet about returning the capital to shareholders, that's a subject that we'll probably engage with them in later in the year. Now, the Company is certainly generating a significant amount of free cash flow. The growth in that free cash flow is -- has been very strong that we are delevering, and delevering quickly. So we'll take it up as a matter with the board later in the year.

Ben Swinburne - *Morgan Stanley - Analyst*

Are there opportunities on the balance sheet? You've done a lot of things already but more opportunities to go after some of the older debt that was done during the more difficult times in our past that you can help free up more capital, lower your cost of debt?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

The 9.75% are callable in September at I think [1.04% and 7.8s]. And so we are likely to call those not a decision we've taken up yet. But a guess based on the circumstances right now that we'll probably call those in late summer. Other debt, we unfortunately don't have great call provisions on it. So there is a lot of [T plus 50 makeholds] out there but with interest rates where they are people, T plus 50 makeholds are very expensive right now. So we may opportunistically buy back debt in the marketplace.

Ben Swinburne - *Morgan Stanley - Analyst*

Okay. And could you see the Company delevering sub-three times long-term or do you expect to see this business handle higher leverage?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

I think the business is capable of handling a higher leverage. We're still sort of early days in getting there, but it certainly is capable of doing it. But I think three times is a good target for now. We'll sort out how the landscape changes for competition, for demand, for the service, everything else, as we go forward and ensure that we have a prudent amount of leverage.

Ben Swinburne - *Morgan Stanley - Analyst*

Okay. I've got one more and then I'll open up to the audience and ask if you can wait for the microphone before you ask your question. Regarding Liberty's 40% preferred, David, is there anything that you see in the near term that either removes Liberty as a preferred investor or rationalizes



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the structure in some way and there is a March expiration of a standstill [I'm going to] like to ask you about as well, whether that's something that's important or not to the Company?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Well, there is nothing I know of about rationalizing Liberty's position that I read a lot of things in people's research about what Liberty might do. But I really don't have any insight into their position.

Ben Swinburne - *Morgan Stanley - Analyst*

And the standstill expiration, is that something that's relevant?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Yes, not really. I believe that they were free to go above 49% actually a year ago. And so again, that is just a shareholder decision.

Ben Swinburne - *Morgan Stanley - Analyst*

Basically, I think if they were to go over 50% prior to the expiration of the standstill, they would have to tender for the rest, so that goes away basically?

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Yes.

Ben Swinburne - *Morgan Stanley - Analyst*

Yes. But they're at 40% today, so lots of room to grow.

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

Let's see if we have any questions in the audience.

David Frear - *Sirius XM Radio Inc. - EVP and CFO*

So clearly answered all your questions so far.

Ben Swinburne - *Morgan Stanley - Analyst*

Yes, right upfront here if you could just wait for a second.



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QUESTIONS AND ANSWERS

Unidentified Audience Member

All right, thanks. (inaudible) question but the books [isn't go] to the cause, what do you think is the lifetime of those books is? Is it kind of five years, is it 25 years, are these things not going to need to be reconfigured at all?

David Frear - Sirius XM Radio Inc. - EVP and CFO

They're designed to last as long as the car does, right. So the -- we've provided a -- in essence a reference platform for technology purposes to the tier one manufacturers that have built radio modules for the OEMs. And so those reference platforms are then built to automaker designs standards by their tier one manufacturers. So just like the radios, the AM and FM radios that we've all seen go into cars last the life of a car. The expectation is that satellite radio will last as well.

Ben Swinburne - Morgan Stanley - Analyst

That's a good question. [Got two over there, guys].

Unidentified Audience Member

With respect to the competition, can you elaborate a little more on where you see Sirius being most vulnerable to Pandora?

David Frear - Sirius XM Radio Inc. - EVP and CFO

Well, so where is Sirius most vulnerable to Pandora? I use Pandora as the sort of most prominent brand of a whole bunch of people in the Internet radio space, right. And so, I do think that we are at risk of competition from everybody that's in Internet radio. And as we've seen with Spotify's move to the US, the only thing that really stands in the way of increasing competition is just reaching an agreement with the labels on being able to get your service into this country. There are absolutely no barriers to entry in Internet radio. There is no major infrastructure investment that you need to make that the somebody else built the Internet, somebody else is building the listening device that most of the listening to Internet radio today occurs on smartphones.

And so there are absolutely no barriers to entry. That being said that there are over 100 million smartphones in the United States today and there are an awful lot of cars on the road today that have Bluetooth, that have the aux-in jacks, right, that -- I read this morning that there is an awful lot of them, some that I own that have USB ports. And so there are a lot of ways to get content off of your smartphone playing through your car radio today. So, with 100 million of them on the road already and this is before you get to a connected car where they put a modem in the car that if there is going to be a disruptive technology impact to our business, I think we would have seen it already.

So -- but it's like a lot of the things, I think it's more likely to be evolutionary, right. And I think that the Internet radio business plans for the most parts are actually competing -- while they're competing for a listening with us, they're competing for revenue with terrestrial radio because they are generally ad-based services. And over time, more free competition is going to make it tougher for us, but as Ben said earlier, we've done a good job over the last ten years competing against free. I think we'll do a good job in the next ten years.

Ben Swinburne - Morgan Stanley - Analyst

One follow-up right behind you.



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Unidentified Audience Member

Just sticking with the theme of competition, as you acknowledged, your competition is going to intensify. Do you think that will lead to any consolidation? And you're putting your balance sheet's, the capacity issues to one side. Are there any businesses out there that, if they are available that would be of interest to you, [Solaris]?

David Frear - Sirius XM Radio Inc. - EVP and CFO

So, I don't see the current competition driving consolidation, for instance, between satellite radio and terrestrial radio, or satellite radio and Internet radio. I don't know if it will drive consolidation between terrestrial radio and Internet radio. They have a common revenue model. And so there, you can see a thing there. But for us, we've looked at the Internet radio companies that are out there, both sort of public and private entities, they just don't look like compelling value opportunities to us that we have a very good business model and while acquisitions is a great way to grow business, if you're smart about the ones you do, you need to be smart about them. We haven't yet seen anything that looks compelling to us, that really adds to the performance. We're growing fast, both the top line and very fast at EBITDA and free cash flow. And we are not interested in spending money diffusing our attention in it, degrading those performance metrics at all. So if we can find the right thing for the right price, that helps us to grow faster, then we will do that.

Ben Swinburne - Morgan Stanley - Analyst

Probably have time for one more, that's all.

Unidentified Audience Member

How big is news for you guys, like what percentage of listening is news? And when you think through CNN or CNBC and the opportunity for them to just go direct to the consumer over the Internet via some kind of connection through your smartphone or whatever, how would you think about that if you were them and the opportunity of getting sort of affiliate fee from you or whatever you want to call it?

David Frear - Sirius XM Radio Inc. - EVP and CFO

So, we don't really track the listening between sort of music and non-music sources. We just don't -- we don't track it. Is news important? Absolutely, right. So I mean -- and can we get news? Yes, I got CNBC on my phone right here. I think I look at it all the time. So --

Unidentified Audience Member

(inaudible - microphone inaccessible).

David Frear - Sirius XM Radio Inc. - EVP and CFO

No, you can get that otherwise, right. And so I don't win business with curated content and the thing is that curated content has been around for centuries and I don't see it going away, it's convenience to people. No one needed newspapers. You could assemble the AP and the UPI feeds on your own if you wanted to, but you don't need a homepage with Yahoo! or AOL or anybody else, you can go search the Internet, you can get all your own news.

But the fact is that people lead busy lives and companies that organize information for them bring value to their lives. So we have a distribution platform that we think is unique and we are able to assemble and our job is to go through and assemble the content that we think is going to be most persuasive, most compelling to people and putting it there in an easy-to-get fashion is actually of significant value to consumers.



FEBRUARY 28, 2012 / 5:15PM, SIRI - Sirius Satellite Radio at Morgan Stanley Technology, Media & Telecom Conference

Unidentified Audience Member

(inaudible - microphone inaccessible).

David Frear - Sirius XM Radio Inc. - EVP and CFO

So the question was that if that's true, does it mean that it doesn't make sense for us to lock up exclusivity over the Internet and I think that's right. So to the extent that we can get exclusivity across multiple technology platforms, that's a good thing. You'd rather have a right than not have a right. But I don't think that it's worth us paying significant amounts for that additional exclusivity that we don't really compete. If CNBC wants to provide a live video feed over the Internet, right, they have that business plan, they're going to do it.

What we found, for instance, with the NFL, was that if we talked to the NFLs seven years ago, about getting the live feed of the games over the Internet, absolutely not, it was going to get in the way of their Internet business plan. But they came to understand that when we're selling Sirius XM-branded content, that people are coming to us for an overall experience that doesn't really compete with their online offerings. And so now, you can get this season through our recent contract, you can get the NFL games on the Sirius XM-branded Internet Radio service just like you can get it on the satellite radio service. And we're finding more and more content owners understand that the Sirius XM-branded content package doesn't really compete with their online efforts.

Ben Swinburne - Morgan Stanley - Analyst

Great. We need to take this outside. David, thank you so much.

David Frear - Sirius XM Radio Inc. - EVP and CFO

Thank you.

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EDITED TRANSCRIPT

SIRI - Q4 2011 SIRIUS SATELLITE RADIO EARNINGS CONFERENCE CALL

EVENT DATE/TIME: FEBRUARY 09, 2012 / 1:00PM GMT

OVERVIEW:

SIRI reported 2011 revenue of over \$3b. Expects 2012 revenues to be approx. \$3.3b.



CORPORATE PARTICIPANTS

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Mel Karmazin SIRIUS XM Radio Inc. - CEO

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PRESENTATION

Operator

Good day, everyone. Welcome to the Sirius XM Radio's full-year and fourth-quarter 2011 earnings conference call. Today's conference is being recorded. A question and answer session will be conducted following the presentation. (Operator Instructions)

And now, your host for today's call, Mr. Hooper Stevens, Senior Director of Investor Relations and Finance. Mr. Stevens, please go ahead, sir.

Hooper Stevens - SIRIUS XM Radio Inc. - Senior Director IR and Finance

Thank you, Rufus, and good morning everyone. Welcome to Sirius XM Radio's earnings conference call. Today, Mel Karmazin, our Chief Executive Officer, will be joined by David Frear, our Executive Vice President and Chief Financial Officer. At the conclusion of our prepared remarks, management will be glad to take your questions. Jim Meyer, President, Operations and Sales, and Scott Greenstein, President and Chief Content Officer will also be available for the Q&A portion of the call.

First, I would like to remind everyone that certain statements made during the call might be forward-looking statements as the term is defined in the Private Securities Litigation Reform Act of 1995. These and all forward-looking statements are based on management's current beliefs and expectations. And necessarily depend upon assumptions, data, or methods that may be incorrect or imprecise. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially. For more information about these risks and uncertainties please view Sirius XM's SEC filings. We advise listeners not to rely unduly on forward-looking statements and disclaim any intent or obligation to update them.

As we begin, I would like to advise our listeners that today's results will include discussions about both actual results and adjusted results. All discussions of adjusted operating results exclude the effects of stock-based compensation and certain purchase price accounting adjustments.

I will now hand the call over to Mel Karmazin.

Mel Karmazin - SIRIUS XM Radio Inc. - CEO

Thank you, all, once again for joining us on Sirius XM's earnings call to discuss our fourth-quarter and full-year 2011 results. And more importantly, our expectations for the future. We are very pleased to report our 2011 results met or exceeded the guidance we gave you at the beginning of the



year. And I'm even more excited about our prospects for accelerating revenue and adjusted EBITDA growth in 2012. We expect to deliver a very good year across-the-board in 2012.

In 2011, we delivered the best year of subscriber growth since the merger of Sirius and XM by adding 1.7 million net new subscribers. Revenue reached a record of over \$3 billion. Adjusted EBITDA climbed 17% to a record \$731 million, beating our guidance of \$715 million. Free cash flow essentially doubled to a record \$416 million beating our forecast of \$400 million. These statistics paint a picture of remarkable growth and record achievements in 2011. And had we not been constrained on the revenue side by our agreement with the FCC and other litigation, our numbers would have been even stronger. Those handcuffs are now off for 2012 and beyond.

For 2012, we are very optimistic about our ability to grow subscribers. And at this time, we expect 1.3 million net additions this year. Which should put our subscriber base at another all-time record high of 23.2 million by the end of the year. The consensus for auto sales in 2012 is approximately 13.7 million which represents the highest number since 2007 which was before the merger of Sirius and XM. The fact that US light vehicle sales should be up by 8% provides a solid foundation for subscriber growth this year. In addition to new car sales, we expect this year we will see a bigger contribution from the reactivation of radios in these cars.

Our net subscriber addition guidance is tempered by our sense of conservatism around the price increase we implemented January 1, 2012. Since the time of the Sirius and XM merger, we have been conservative in all of our subscriber growth forecasts. I believe this is the prudent cost and we will continue that practice. We will update our guidance, if appropriate, as the year progresses. On January 1, the price restrictions came off and we raised the base price of our service by just under 12% to \$14.49 per month. This was the first increase in the core price in the history of Sirius service, and only the second time ever on the XM platform.

I'm pleased to report that initial indications about consumer reaction to the price increase are meeting our expectations. While no one likes to pay higher prices, and we certainly don't like to charge more as we're competing against free services like AM/FM radio and IP radio, we are not seeing any major problems yet from the increase. It is still early so we need to be conservative in our outlook.

We will also continue to provide the best customer service possible, so when there are complaints, we are able to minimize churn. Because of the price increase and our conservative outlook, we expect churn to be up modestly this year, probably in the 2.1% range. Without the price increase, we would be providing self-pay churn guidance consistent with past years of 1.9%. And we continue to expect a conversion rate in the 44% to 46% range depending upon mix. The price increase will benefit our revenue performance in 2012 and 2013 as it rolls out and flows through the subscriber base.

We are projecting that revenue will grow by almost 10% to a record \$3.3 billion this year. And we expect further revenue growth in 2013 from more subscribers and a full year's effect on our price increase. In addition to our subscriber revenue focus, we expect advertising revenue will outperform the percentage increase in total revenue, as we attract more blue chip advertisers. Advertising represents a very small but profitable segment of our revenue.

Because our revenue growth will exceed expense growth, our adjusted EBITDA should grow by 20% this year to approximately \$875 million, also a new record high. And the best operating margin in our history. We still believe that we have plenty of room for margin growth over the next several years. And that a 40% long-term adjusted EBITDA target is a reasonable goal. Keep in mind that we have a significant improvement in a material OEM contract in late 2013 that will benefit EBITDA and margins in 2013 and 2014. The last but not the least piece of our guidance is for free cash flow to grow by nearly 70% to a record \$700 million this year. All of our 2012 financial metrics are anticipated to be very strong, even if we only deliver the net adds we are currently forecasting. Used car sales continue to gain momentum for us.

To augment our programs for buyers of certified pre-owned vehicles, we are also rolling out trials to all buyers of satellite radio equipped cars at increasing numbers of franchise dealerships. In 2011, we announced programs to enroll Chevy, Buick, GMC, Cadillac and Nissan dealers nationwide in a new program where we are providing all purchasers of used vehicles of any brand, not just certified pre-owned, with a complementary three-month trial of Sirius XM. This year, we announced we are expanding this program to Chrysler dealers, as well as launching a similar program at the country's largest independent auto retailer, AutoNation.



Currently, across the different brands, we have enrolled over 4,000 dealers nationwide in our non-certified pre-owned used car program. More OEM brands, franchise dealers will be announced later this year. It's a fantastic benefit to the used car sales process. And it's also a great way for consumers to trial satellite radio in newly-acquired used cars. We expect that the previously owned market will be a major growth opportunity in the coming years.

In 2012, we will introduce a variety of new services to broaden the availability of our suite of premium content. One major way we will do this is through an on-demand service across our IP platforms, such as the Web, smartphones, and other connected devices. This on-demand platform will enable subscribers to access a continuously updated library of some of our best content and listen on their own schedules, not just those of our programmers. We think this service will drive demand for our Internet add-on option, an all access tier, which will improve ARPU and only make our service more and have it be a must-have ownership for consumers.

None of our IT-based competitors will have anything remotely approaching the depth and breadth of our non-music online offerings. Later this year, we will also debut personalized radio on the same IP platforms. This will let people tailor music to their own preferences. We believe on-demand and personalization will add to increased customer satisfaction and improved churn and conversion. We look forward to offering this to subscribers this year.

Both of these new services, on-demand and personalization, will be available at no additional charge to subscribers who upgrade to our Internet add-on, making this option all the more desirable. Similarly, our additional 2.0 channels, including the suite of Hispanic channels, will be available at no extra charge to subscribers who have a 2.0-capable satellite radio. Adding this functionality on the Internet and increasing our content line up on the satellites are two very visible ways we are adding value to our service and keeping this service attractive to consumers in the face of more competition.

We are also investing in subscriber exclusive events such as our very special upcoming March 9 concert with Bruce Springsteen and the E Street Band at the Apollo Theatre here in New York. This concert celebrates satellite radio's tenth anniversary. The only way to see this concert will be via a lottery exclusively for our subscribers. And the only way to hear the concert will be on Sirius XM's exclusive Bruce Springsteen's E Street radio channel. This kind of event is not only a great source of exclusive content for us but it also helps us generate a tremendous amount of media attention and buzz about the consumer benefits of being a Sirius XM subscriber.

Remember, although we are the only satellite radio company, we do face numerous competitors. And this competition is increasing in the IP world as there is no real barrier to entry. In 2011, Sirius XM was factory installed in about two-thirds of all cars sold in America, while AM and FM radio was ubiquitous. Today, we are not seeing IP as a game changer. IP easy to use connectivity in cars is still very modest, but will become more commonplace over the coming years. Terrestrial radio is still our biggest competitor by far, and we know very well how to compete with it.

What also gives us comfort as we face these challenges is that we continue to have a prime place in the car's dashboard. And that we have the economic model to support this position and deliver valuable, often exclusive content, that consumers love. Unique proprietary distribution of our satellite service through OEMs remains important. And our relationships with all of our OEMs are very strong. They are embracing 2.0 technology and those rollouts will begin this year and rollout to more OEMs over the coming years. OEMs love the entertainment we offer their car buyers and our relationships are stronger than ever. Demonstrating this is the penetration into OEM models and trims continue in 2011. Sirius XM Satellite Radio are now factory installed in 67% of all new vehicles, up from 62% in 2010.

Our subscription-based business model is superior to that of terrestrial radio and IP radio, but this model clearly benefits our investors. For the full year of 2011, Sirius XM generated approximately \$139 of revenue per year per subscriber. The largest terrestrial radio company received only approximately 10% of what we did, or about \$13 of revenue for each of its listeners per year. The difference is even more extreme when you compare the largest IT competitor's revenue with the number of regular users that they have and you see that they will generate less than \$6 of revenue per year for each active user. This demonstrates the difficulty of generating advertising revenue from mobile users on their smartphones.

Business models matter for investors and Sirius XM has a great one. Another interesting statistic to look at is revenue per employee. At Sirius XM, we generate approximately \$2 million per employee per year, as compared to IP radio which is less than half that. Interestingly, terrestrial radio



generates about \$300,000 per employee compared to our \$2 million. Our business model will be even more important to investors as revenue growth accelerates.

Because of our powerful scalable business model, we have the ability to offer premium content and also commercial-free music as an option that is simply not available to advertising-based companies that wish to make a profit. We have always said that great content is critical, and never is that more true than today. We are also notable for being the only company in the premium content business where programming costs are actually dropping. In 2008, we spent \$447 million on programming costs or 18.3% of our adjusted revenue. In three years, we have reduced our programming costs by 27% to \$324 million or just 10.7% of adjusted revenue. In 2012, we will spend less on programming than we did in 2011, both in absolute dollars and as a percentage of revenue. Compare that to other video premium content providers and you will find that their content costs are going up, often even faster than their revenues.

We are accomplishing this cost reduction while the quality and the quantity of our programming is increasing. While we are proud of our cost savings in this area, among others in our Company, you should know that we have the means and ability to increase investments in content should the right content become available. We will never stop evolving and enhancing the content we offer our subscribers.

In closing, I want to remind investors that the Company is laser-like focused on growing subscribers and growing free cash flow. Free cash flow is a financial metric that I believe can create value for shareholders. David will talk more about the financials and balance sheet, but let me just say that I am very pleased about our prospects for growing free cash flow rapidly over the next few years. Not only do we expect continued expansion in our revenue and adjusted EBITDA, but we also expect to deliver most of this adjusted EBITDA as free cash flow. Some companies generate lots of EBITDA but a much smaller amount of free cash flow.

But in our case, our EBITDA to free cash flow conversion will continue to benefit from four positive factors. First, subscribers prepay for our service which generates cash as new subscribers come onboard and current subscribers renew. Second, our interest expense should fall as we've refinanced and deleveraged. Already, our debt trades at levels that imply a far lower borrowing cost for future issuance than what we are currently paying. Next, capital expenditures will fall significantly as we finish the deployment of our second generation of satellites in the first half of this year. We don't expect to start spending significantly on new satellites for another five years. And finally, our net operating loss carryforwards total some \$7.8 billion should allow us to pay minimal cash taxes for many years to come.

Our ending cash balance in 2012 should be about \$1.5 billion, or about \$1.2 billion if you assume we call the 9.75% notes this September. And our gross leverage will have fallen to under 3.2 times. There is an opportunity for the Board of Directors to consider a return of capital to shareholders beginning later this year. The Board has not taken up this topic so obviously no decision has been made as yet. Despite all the competition, our Company has more paying subs today than ever before in its history. We have plans to grow this record level of subscribers, accelerate our revenue growth, and dramatically grow our free cash flow in 2012 and beyond.

If we keep offering great content and making it easy for consumers to access, I have no doubt that Sirius and XM will continue to prosper in the coming years. We are starting this year very strong. New car sales in January were up 11%. We will end 2012 with a record number of subscribers, record revenue, record adjusted EBITDA, highest margin ever and record free cash flow. The Company is well-positioned to deliver subscriber growth and free cash flow for many years to come.

With that, I'll turn it over to David for some additional remarks.

David Frear - SIRIUS XM Radio Inc. - CFO, EVP

Thanks, Mel. Sirius XM delivered a spectacular year in 2011. We set all-time records for gross additions and auto penetration. And self-pay monthly churn remained at 1.9%, resulting in the best year for net additions since the merger. A strong finish to the year in auto sales also produced our best fourth quarter since the merger. More than 540,000 fourth quarter net additions drove the year to over 1.7 million net adds, solidly beating subscriber guidance and bringing total subscribers to 21.9 million.



Solid subscriber growth and focused efforts to deliver profitable growth also allowed us to outperform our financial guidance, beating revenue, adjusted EBITDA and free cash flow guidance. Over \$3 billion in revenue, \$731 million in adjusted EBITDA, and \$416 million in free cash flow. The 8% growth in our subscribers was aided by a record-setting pace in gross additions. Our 8.7 million gross adds were the highest in the history of satellite radio. The auto market continued its steady recovery with SAR at 12.7 million, up 10% from 2010. Consumer purchases of cars were up an even more encouraging 12% from 2010. Sirius XM radios were incorporated into nearly 67% of cars sold in 2011, up from 62% in the prior year. The increase in penetration resulted from higher incorporation rates among some OEMs and a shift in sales mix to higher penetrated OEMs during the year.

While automotive industry volumes remain well below the 16 million-plus car pace of several years ago, improvements in the production penetration rate has resulted in steady growth for Sirius XM. And should insure continuing growth in the future as the auto industry and the economy continue to recover. Gross additions were also aided by continuing success in the previously-owned car channel. In addition to the certified pre-owned programs launch with nearly all OEMs, we have signed up more than 4,000 dealers who provide customer name and address in exchange for free 90-day trials to their pre-owned vehicle customers. Our experience in the new car channel has showed us that providing trials and obtaining timely and accurate customer data significantly improves subscriber additions.

Since the merger in mid 2008 the new car trial conversion rate has generally ranged between 44% and 46%. In 2011, we remained in this range but were down slightly from 2010 at 44.6%. Sales mix and delays in getting trial conversion communications to some new car buyers contributed to the decline.

During 2011, we made significant investments in our customer care operations, introducing and improving upon our self-care website, and investing in call center and subscriber management technologies to improve the quality of customer care and the level of customer satisfaction. We also continued to invest in our programming, renewing agreements with longstanding partners like the NFL, NASCAR, Martha Stewart and Oprah. Launching new programming to better serve our Hispanic audience. And bringing live events to our subscribers from Coldplay, Tim McGraw, and Paul McCartney, among others.

Continuing to focus on delivering great programming and service to our customers allowed us to continue to deliver self-pay churn of 1.9% per month. Self-pay subscribers grew 7.3% to a record 17.9 million at year-end. Net self-pay additions of 1.2 million expanded 24% over 2010. Total paid and unpaid trials at year end expanded 26% from 4.3 million in 2010 to over 5.4 million at the end of December, a very solid new business pipeline as we enter 2012.

Total revenues exceeded \$3 billion and grew 7% over 2010, including 8% growth in subscriber revenues and 14% growth in ad revenues. Other revenue increased 3% for the year and declined 10% for the quarter, reflecting the adjustment of the music royalty fee in December 2010. ARPU declined \$0.15 from the prior year due to the reduction of the US music royalty fee in December 2010, the growth in paid automotive trials and the use of save offers as a subscriber retention tool. The total cash operating expenses grew only 3.7% in the year, resulting in an increase in adjusted EBITDA margin to 24.2% for 2011. Costs that vary with growth and subscribers or revenue accounted for all of the increase in cash operating expenses. Fixed costs actually fell in the year by \$16.7 million. Over the last three years, our EBITDA margin has grown by nearly one-third from 18.3% to 24.2%.

Contribution margin is down slightly from the prior year from 71.2% to 70.6% as music royalty rates increase, and the automotive share of our business on which we pay revenue share continues to rise. Subscriber acquisition costs increased 6% in the year, only half of the 12% increase in gross additions, as SAC per growth add declined from \$59 to \$55. Led by reductions in spending in our programming, satellite and transmission and G&A areas, total fixed expenses declined by \$16.7 million from 2010. Fixed operating costs are now \$366 million or nearly 30% lower than their pre-merger levels.

Despite this, we continue to invest in our product platform, bringing Sirius XM 2.0 to market through the Lynx introduction just prior to the Consumer Electronics Show. The Lynx allow subscribers to access content through either the satellites or a Wi-Fi connection, store up to 200 hours of programming, simultaneously record content from multiple channels, through Tune Start, start every song from the beginning and see what's coming next on that first electronic programming guide. The Lynx will also be capable of accessing on-demand content when that service is launched. Lynx provides a window to the kind of services we expect to bring to factory-installed radios and new car production in coming years.



Adjusted EBITDA grew 17% in the year to \$731 million from \$626 million in 2010. The 24.2% EBITDA margin is on pace to achieve the 40% EBITDA margins we believe Sirius XM can achieve in the future. Great performance in the P&L helped deliver a near double and free cash flow to \$416 million from \$211 million in 2010. Over \$100 million in EBITDA growth, combined with \$174 million in reduced capital expenditures, fueled an expansion of free cash flow that will accelerate in 2012. Our cash balances grew to \$774 million at year-end. Gross debt to EBITDA stands at 4.1 times, while net debt to EBITDA is at 3.1. Upgrades in the fourth quarter from both Moody's and S&P reflect our improving credit fundamentals. The debt market has also recognized our rapidly improving prospects. Sirius XM's benchmark unsecured debt is trading below 6%, a dramatic improvement from the cost of 15% secured debt with equity, we incurred just three years ago.

As Mel mentioned, our outlook for 2012 is for continued growth and rapidly improving profitability, liquidity and leverage. The consensus forecast for auto sales in 2012 is about 13.7 million cars and light trucks, up a little less than the 8% from 2011's 12.7 million vehicle pace. In January, we began implementing the first basic price increase for Sirius subscribers since the service was launched in 2001, and the first increase for XM subscribers in nearly seven years. Sirius XM programming is unparalleled value for consumers and audio entertainment. Our call center agents are equipped with a variety of tools to save every customer who is at risk of canceling. While we are encouraged by the early response to the price increase, we are anticipating a modest increase in self-pay churn in 2012 to approximately 2.1%.

We also expect the new car conversion rate to remain in the 44% to 46% range we have seen over the course of the last three years. Sirius XM expects to add 1.3 million net subscribers in 2012, or about 6% growth. Revenues will expand by nearly 10% to approximately \$3.3 billion. Over half of our customers are on one-year or longer plans. The full effect of the price increase will take about 18 months to be reflected in our operating results. As a result of the effects of the price increase and continued reductions in programming cost, adjusted EBITDA will expand at nearly twice the rate of our revenue growth, growing to \$875 million. This represents an increase to our previous adjusted EBITDA guidance for 2012.

Sirius 6, the last of our next generation satellites, should launch in the next several weeks. As adjusted EBITDA grows and working capital flows improve with the price increase, free cash flow will expand over 70% to \$700 million for 2012. Based on this guidance, the Company's liquidity profile will improve dramatically. Cash will expand to nearly \$1.5 billion and net debt to EBITDA will fall to about 1.8 times. During the course of the year, we will begin to evaluate returning capital to shareholders through dividends or stock buybacks. We expect to discuss our plans with you later in the year.

Sirius XM has shown a consistent ability to deliver solid operating performance under less than ideal conditions. The last three years has been tough on consumers and the worst stretch for the auto industry since 1981 to 1983. Despite that, we have significantly grown subscribers, revenue, EBITDA, and free cash flow, and significantly reduced our leverage. With continuing growth at auto sales, the growing opportunity to recapture subscriptions in the previously-owned car market, our strong operating leverage, the opportunity to renegotiate the remaining pre-merger contracts, lower interest expense, low capital expenditures and no taxes, Sirius XM is poised to show strong long-term growth and free cash flow.

Operator, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Benjamin Swinburne with Morgan Stanley.

Benjamin Swinburne - Morgan Stanley - Analyst

One for David and one for Mel. David, can you go back and talk about how sales mix impacted '11 and how it might impact '12? I think you said that it was a negative around conversion rate, maybe a positive on the build, the two-thirds build rate. I want to clarify that I got that right. And then any insights into how you're thinking about how that might impact '12. And then Mel, your comments were really interesting about the IP competition. You talked about greater penetration in car from IP services. But you also talked about the difficulty for them to sell advertising spots to advertisers. And obviously, you've spent a lot of time selling advertising over your career, going all the way back to Infinity and CBS. Can you



just spend a minute on why you think it's going to be difficult, particularly on the mobile front, which a lot of people seem to be excited about. It sounds like you're a little more cautious on the opportunity for them to generate meaningful revenue there.

David Frear - SIRIUS XM Radio Inc. - CFO, EVP

Okay, on the mix issues, on penetration rate, the shift towards North American automotive manufactures, primarily the Japanese, but generally Asian manufactures, had lower sales mix this year overall in the industry. And so that tends to bias the penetration rates up a little bit. The North American manufacturers are overpenetrated relative to the Japanese in particular. On conversion rate, the mix moves around a little bit that. Without getting into too much of the details, that when you're all done sorting through the mix of the conversion opportunities that came up in the year, which is a little bit different than the sales mix, that it biased a little bit towards lower converting manufacturers. And there was also a bias within model mix towards lower converting models in the sales mix.

Mel Karmazin - SIRIUS XM Radio Inc. - CEO

On the question about advertising, if you think about where the biggest piece of the pie goes in advertising, it's television, right? Television has the benefit of sight, the visual, the sound, high-definition, big screen. And now you take a look at what happens in the mobile environment. And in the mobile environment, you're not really able to do as robust video, particularly if you're thinking about it in the car. So you're limited in what type of advertising you're really going to be able to put on that mobile device. And if the mobile device is audio commercials, that sounds an awful lot like FM radio to me. And I also believe on the advertising side -- and I felt this way for a number of years -- and that is that there is just too much supply that's out there. There's no barrier to entry for people to be on the Internet. And there are more companies that are taking advertising dollars. So therefore, the idea of having so much supply puts the power in the hands of the buyer of the advertising. Other than when you get big events like the Super Bowl or big ticket items there's just a robust amount of advertising inventory available. So I think it's challenging. Obviously advertising's going to be around for a long time but there's going to be an awful lot of companies dividing up that advertising dollar.

Benjamin Swinburne - Morgan Stanley - Analyst

So hard to drive CPM, it sounds like you're saying, over time?

Mel Karmazin - SIRIUS XM Radio Inc. - CEO

Unless you're something other than a commodity. And if, in fact, you have music principally, and a lot of other people have music, and you're out there trying to sell your music is better. I think it's a challenging business.

Benjamin Swinburne - Morgan Stanley - Analyst

Thank you.

Operator

Barton Crockett with Lazard Capital Markets.

Barton Crockett - Lazard Capital Markets - Analyst

I wanted to drill a little bit into the subscriber outlook, seeing 1.3 million net additions versus 1.7 million. I was wondering if it's possible for you to parse in a little bit more detail what drives the production in net additions. Is it purely just a higher churn assumption, churn rate assumption, or is there something else going in there? That's question number one. And then question number two related to the churn, I was just curious, when



you say you expect 2.1% in 2012, is that based on seeing a 2.1% churn from people that have been hit with the price hike in January? Or is that just your best guess on what's really not fully data that can give you a churn rate yet?

Mel Karmazin - SIRIUS XM Radio Inc. - CEO

This is Mel. Let me start and then Jim and David can add-on anything they want to comment about it. First of all, I am saying that we are being conservative. There is no information that we have about our business. Our most recent quarter, our fourth quarter, showed the best fourth quarter in our history since the merger as far as net adds are concerned. So there's nothing that we are seeing impacting us. We're not seeing any new competition that's impacting us. We're not seeing any dissatisfaction of our service. What we're doing is we are putting in a price increase. We made that decision to do. And we really don't know exactly what the impact is going to be on subscribers, mainly because we have very limited experience at the Company in putting in a price increase. We compete with free. So in an ideal world, we would have lower cost per service. But that doesn't generate us as much revenue and EBITDA and free cash flow as we're looking for. So we're starting out conservative. We're not seeing anything impacting our January churn that is alarming to us at all. I think it's prudent to be conservative and that's the basis of the 1.3 million.

David Frear - SIRIUS XM Radio Inc. - CFO, EVP

Barton, we're just a month into it now. And when you think about the fact that 80% of our self-pay subscriber base is on credit card or debit card, you've got to wait for them, even though we notified everybody of the price increase, you've got to wait for them to see it come through on their bills, and then see how they react. So honestly, four weeks into the year, it's very early and this is our best estimate of what we think it will look like for the year.

In terms of drilling into the sub outlook a little bit, one of the things that you have to bear in mind on net additions is that the inventory of paid trial subscriptions at the end of the year, the change in that from year to year, affects what the total net additions are going to look like. So in 2011, we have supply disruptions in Asia. What we have is a shift in mix towards US and European manufacturers who tend to be paid trial partners. And I think the industry view is that there will be a shift in mix back towards Asian manufacturers in the course of 2012. Which will be a shift back towards unpaid trial partners. So part of what you're seeing in the sub outlook is just shifting mix in paid versus unpaid trial subscriptions. As well as the fact that we're instituting a price increase. Look, if you look at last year as being a year without a price increase, and this year being a year with a price increase, and you said do you think you'll have more or less overall demand for the service at the higher price or the lower price, you're probably going to say that the price increase ought to suppress demand a little bit. So we're reflecting that in our numbers.

Barton Crockett - Lazard Capital Markets - Analyst

Okay, great. I'll leave it there. Thank you very much.

Operator

Bryan Kraft with Evercore Partners.

Bryan Kraft - Evercore Partners - Analyst

I just had two questions. One, just wanted to see if you could talk about how you're handling the music growth you see this year from a pricing perspective to the consumer. And then, secondly, the conversion rate, I assume you're talking the official conversion rate which you would apply to the paid promotional subs. Can you talk about what you're seeing in terms of conversion on the free trial side, what the trend has been there and where you see that going this year, as well. Thank you.



David Frear - SIRIUS XM Radio Inc. - CFO, EVP

Brian, the conversion rate we've been talking about applies to all of the new car trials. So paid and unpaid. The 44% to 46% range covers all new car trials and our results for last year again covers all of them. On the music recovery fee, there's a little bit of art in coming up with that every year because we, in essence, have to project different mixes of subscribers on different plans and all the rest. But I think that the way you should look at it is that we came out from under the restrictions of the FCC merger order in the late part of the summer of 2011. Through last year, that what we were charging for the music royalty fee was in compliance with the terms of the merger order. Which involved delaying the recovery of that stuff for a couple of years and then we had to catch up on it.

So coming into the gate this year with a price change, that we've rejiggered the rate, the effect is about the same. If you look at a primary subscription, that I think in December we were charging \$1.40 on a \$12.95 subscription. And in January we were charging \$1.42 on a \$14.49 subscription. And just like it will take 18 months for the price increase to work its way through, the reduction in the music recovery fee that we did in December 2010 also takes about 18 months to work its way through the numbers. If you look at that component of ARPU over the course of last year, you generally see negative quarter-on-quarter comparisons. And that would continue to be true in the first part of this year and then it should level out.

Bryan Kraft - Evercore Partners - Analyst

Okay, thank you very much. That's helpful.

Operator

James Ratcliffe with Barclays.

James Ratcliffe - Barclays Capital - Analyst

Two quick ones, if I could. Just generally, could you talk about the impact that Sirius 2.0 on-demand, personalized radio and the like has on the royalty payment stream? And if that's going to change in any way the structure of those payments. And, secondly, could you talk about the activity you saw toward the end of the year. Didn't see as much of a bump up in prepaid revenue as I expected. Do you see a lot of customers aware of the price increase and contracting before it? Or do you think it's most generally seeing it as it comes through in their bills? Thanks.

David Frear - SIRIUS XM Radio Inc. - CFO, EVP

On the last question, I don't think there's really anything out of trend with prepaid revenue. I don't think we had a significant pull forward in the price increase. The ARPU is down a little bit, which is going to bring prepaid revenue down. The average month's prepaid remains fairly consistent. That hasn't changed a whole lot so it should move with ARPU. And on the 2.0 products are fully DMCA compliant and so we really don't anticipate any change in the royalty payment structure associated with the product.

James Ratcliffe - Barclays Capital - Analyst

Great. Thanks.

Operator

Amy Young with Macquarie.



Amy Young - *Macquarie Research Equities - Analyst*

Can you talk a little bit about your increased EBITDA guidance? Is this largely a result of cost or expectations for advertising growth?

David Frear - *SIRIUS XM Radio Inc. - CFO, EVP*

I think the biggest impact on it is subscriber growth and the price increase. We've got \$300 million worth of revenue growth and generally 70% contribution margins. So that, with some increase in SAC associated with the growing auto industry that you get to, they're still pretty healthy incremental EBITDA margins year to year.

Amy Young - *Macquarie Research Equities - Analyst*

Okay, thanks.

Mel Karmazin - *SIRIUS XM Radio Inc. - CEO*

Okay, thanks, everybody.

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PRELIMINARY TRANSCRIPT

SIRI - SIRIUS SATELLITE RADIO AT CITI
ENTERTAINMENT, MEDIA AND
TELECOMMUNICATIONS CONFERENCE

EVENT DATE/TIME: JANUARY 04, 2012 / 9:15PM GMT

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JANUARY 04, 2012 / 9:15PM, SIRI - Sirius Satellite Radio at Citi Entertainment, Media and Telecommunications Conference

CORPORATE PARTICIPANTS

Mel Karmazin *Sirius XM Radio Inc. - CEO*

CONFERENCE CALL PARTICIPANTS

Operator

PRESENTATION

Unidentified Participant

If you all would mind taking your seats, we can go ahead and get started with our next keynote speaker. We're very fortunate to have , Mr. Mel Karmazin, CEO of Sirius XM with us today.

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

Thank you.

Unidentified Participant

Thank you very much for joining. So, I guess, before we dive into questions, [I have to ask] is there any sort of opening remarks you want to make as we sort of wrap up 2011 and you think about the future.

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

Well, I guess, the first thing is to say, Happy New Year to everybody. Have a healthy and happy one. We had a Happy New Year year-end, because this morning, we learned that we -- well, let me start with what we gave as guidance. So, we had originally said that we would add less than the 1.6 million subscribers that we gave in our most recent guidance. We had raised our guidance couple of times, but we had told on our last earnings call that we would add 1.6 million subscribers this year.

And as of the end of the third quarter, in order for us to do that, we've had to add 440,000 subscribers to get to that 1.6 million. As of this morning, we are now -- we added approximately 550,000 subscribers and we have approximately 1.7 million net adds this year. That 1.7 million of net adds fell higher than anyone's expectations, also was the highest since the Company completed its merger as far as net adds is concerned. And our fourth quarter was the best fourth quarter insofar as net adds since the merger as well.

So, yes, we're feeling very good. Obviously, the competition that exists in this whole audio entertainment space has never been greater, yet our performance, as recently as this last quarter, has been just phenomenal. And I think that's what I got to say.

Unidentified Participant

That's impressive. What -- if you just peel back the onion a little bit on that huge net add number for the quarter, what would you say were the key drivers? Is it a more healthy auto market? Are you gaining more traction in the used car channel? What were some of the key drivers?



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Mel Karmazin - *Sirius XM Radio Inc. - CEO*

I think, clearly, the two drivers are the improvement in the OEM business. You certainly saw it with some of the announcements today on [December slot]. So, we certainly saw an improvement in car sales. Our penetration continues to do well. And, secondly, though the base is small, we are absolutely seeing a significant increase in our used car business as well as used car business as well.

Unidentified Participant

Okay.

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

Okay.

Unidentified Participant

So stepping away maybe from those great fourth-quarter net adds, if you sort of look out over the next one, two, three years, what are the key priorities for your firm?

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

So, I think I've said in the past that the metrics that remain important for the Company are to continue to be a growth Company, to continue to grow our subscribers. We'll talk a little bit about that growth in subscribers at our earnings call, when we report our fourth quarter and we give you some more information. But, certainly, continuing to grow our subscribers is very important and also free cash flow. So, the two metrics that our organization has been drilled into and everyone is focused on is the idea of growing the subscribers and growing our free cash flow.

The guidance that we had provided was that, in 2011, we have about \$400 million of free cash flow and we said that that was going to increase by about 75% and that sort of gets you to a number of around \$700 million of free cash flow. And, again, we feel very good about that and we feel that's what's going to happen in 2012 and 2013 and 2014, because of things that we believe we know today though, obviously, things are always subject to change is that they are fundamentals of the business that continue to improve along those lines. We have contracts that have not yet come up since the merger that start to roll out in those outer years.

So, unlike a lot of other mergers, where you capture all of the synergies in the first year or two, in our case, we had six and seven-year contracts, where we're still first getting to the first opportunity to where we have to show that improvement. The good news for us is that the OEMs take a very long time to roll things out. We're talking today to our OEM partners about new features and functionality and things in the cars for two years and three years from now. So, we can pretty well see what the car companies' plans are for 2012 and 2013 and 2014 today and we're feeling very good about that. We feel good about our penetration rate into the cars, we feel good that we're tied up with every single car company that makes cars for sale in North America.

Our self-pay churn is fairly good. Our conversion rate is where we've said it would be and we don't really see anything on the horizon that's going to get us unfocused on our core business. We're not out looking at acquisitions. We're not looking to expand in a whole lot of other places. So, I think, it may be boring, I hope the growth rate isn't boring, but clearly, I think, we're going to be pretty much what you see is what you get in the next few years.



Unidentified Participant

But you had a very successful career prior to this in the terrestrial radio business. If you look at the landscape with your hardware and two-thirds of all cars, you've got a handful of web-based start-ups and a lot of advertisement still generated in terrestrial radio. How do you see the market evolving? Were these existing sort of parallel segments of the market that will just slowly evolve or they're cross marketing, cross-promotional opportunities, will Sirius become bigger in the Internet over time and the satellite infrastructure that you have will become less [germane]? How do you see the business evolving?

Mel Karmazin - Sirius XM Radio Inc. - CEO

Yes, I think, the thing about us is that, we have grown our Company in 10 years. So if you think back 10 years ago, the terrestrial radio business was about a \$17 billion or \$18 billion business. And there was no revenue going to the satellite radio companies 10 years ago and there was no revenue going to the IT companies. So, you now come 10 years later and you see that the terrestrial radio business is still a, let's call it, a \$14 billion industry and they still have 90% of the people who are listening to terrestrial radio in the course of a week.

So, that's pretty much the market that we target on. That's where the money is, that's where the fish are and that's certainly where the opportunity for us to continue to grow is. So we've grown our Company in 10 years to where our revenue is \$3 billion a year. Clear Channel is celebrating its 40th year in 2012 from the time they acquired their first radio station and it took them 40 years to get to about \$3 billion of revenue. And then you have the [IP] side of the house and there is a whole bunch of companies out there that are providing audio content through the Internet.

And one of the things about the Internet is that, there's no barrier to entry. So the fact is that if you want to start an IP audio company, you are able to do it. Today, I guess the company that is most talked about though, talk is a bad word, but is Pandora. And Pandora is a really good company. They've been around for as long as we have. They've been around for about 10 years. They have about 40 million regular users, maybe more now. And they have about \$300 million of revenue.

So, business models matter. We like our business model of subscription better than the advertising-driven model. We believe that whether or not the consumer is going to get audio content on any device, if they're going to be hearing advertising related to it, it's sort of the same. And we think that we are very unique insofar as our business model. Having said that, we clearly want to super serve our subscribers.

So, couple of years ago, we started talking about SiriusXM 2.0 and as promised, we delivered a product just before the end of the year, a product called Lynx, that is a hybrid satellite radio and Internet product. There is a lot of advantages that one to many have and then there are those people who feel that there is some attraction to personalization and using the Internet more.

I can assure you that if our subscribers would like to have personalization, we're going to give it to them. So, you should assume that the idea is that if personalization is something that Pandora and Spotify and iHeartRadio and Slacker and all these companies are doing, Sirius Satellite Radio will expand and will make that personalization available, probably, this year to them. I don't think it's a big deal.

Again, we're not going into it as a business, we just again like our business model, but we're going into it and saying, you know what, if our subscribers like that feature and they want to be able to customize their tailor-made content for them, we're going to give them the ability to do that.

So, our innovation center is, obviously, working with the teams outside people on different algorithms and different ways that we can be different than others, but again, I think, our main business is going to be as you see it today. And I think we're going to continue to compete with terrestrial radio, which we have done effectively for the last 10 years. And I believe that our model is a better model than a model that's just going using IP delivery to a smartphone. But having said that, our new app on the iPad looks great, which we just introduced it and we're going to roll out apps into all the other smartphones as well.

We got you in the car with the satellite radio. We have you in the home with a whole number of ways of getting our content, including through, yes, your television set and including through IP. And in a mobile area, if you want to use your smartphone as your media player, we're going to allow you to get our content and additional content from that device as well.



Unidentified Participant

Okay. If you looked at the utility that your consumers today derive from your service, have you ever, sort of, analyzed what is the source of the utility? Is it the unique content that you have? Is it that consumers don't have to pick and choose, they can just sort of find a channel that sort of meets their needs as that it doesn't have ads on it, unlike a lot of, I think, all terrestrial radio? What are the different segments out there that sort of cause people to say this service is actually worth parting with some of my hard-earned money in this recession that allows you to generate some sort of subscriber numbers?

Mel Karmazin - Sirius XM Radio Inc. - CEO

So, I think one of the things that the Company was very smart about, and this is before I got here, so I'm not taking any credit for this at all, is that it thought that the way to deal with getting this product out to the most number of consumers as quickly as possible was through a business model that maybe OEM partners with us. And we provided incentives for the car companies to put satellite radio into a whole lot of cars.

The car companies would have been very happy to just put satellite radio in for any customers who wanted to ask for it. But we wanted more than that and we wanted to get out into all of the cars that we believe were appropriate for us. So, that business decision for us to compensate the automobile companies to put satellite radio out there has enabled us to get today to that penetration rate of about 67% in all cars.

We could have taken an approach and said, you know what, we'll go to General Motors and we'll offer the product to them and General Motors would say, okay, we'll put out a press release that says, we're going to put satellite radio into Cadillac vehicles and they would put it into half of the Cadillacs or 25% of the Cadillacs. And if you bought a Cadillac and you wanted satellite radio, you could have bought one of those vehicles.

Well, our business model [provided for] something different. We said that, we want to be in every Cadillac, okay. And we want you to push it out there and that model has worked real well. So, once we now have the user interface that is as easy to get satellite radio easier in some cases than it is to get your AM or FM, we think, that's a driver of one of the things.

So, now it all gets down to, if you got a user interface, you have a way of getting to the consumer, you've got to have content. Content is king, the play is the thing, going back to Shakespeare days. And we have made a point of getting the best radio on radio and that's why these [135] channels, here in San Francisco, the most number of radio stations that one company can own is eight radio stations. And, most of them are trying to come up with the format that's going to be the most popular. So, you have multiple formats competing with each other and a lot of unserved markets.

One of the things that we did is that, okay, we're going to be similar to the HBO model of saying, you know what, if you want movies, we'll give you movies, but if you want boxing, we'll give you boxing and if you want comedy like *The Sopranos* or *Sex and The City*, we'll give you that. And we've approached our spectrum and said, how do we want to divide up that spectrum to give everybody 8 channels or 10 channels that they're going to like.

Now, their 8 channels or 10 channels may be different than somebody else's, but we're going to have that full spectrum and whether or not it be our news, our Howard Stern and Opie & Anthony and whether or not it be our CNBC and various play-by-play events, we thought that we would give you whatever you want. And we're indifferent to which channels you choose.

I mean, if you like our music channels, we're happy to have you do that. If you prefer not to listen to music and want to hear news and talk, that's great as well.

Unidentified Participant

Okay. You mentioned a little bit earlier that the hardware is now in 67% of all cars. I think, underneath the hood on that, there is some shift going on between the paid trial and unpaid trial. I think GM is one of the example that's going from paid to unpaid. Can you talk a little bit about what



happened behind the scenes with that GM negotiation that made them want to migrate? What are some of the financial implications of that change? And do you think we'll see other OEMs go down that same path?

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

So, I don't know how much we have about previously disclosed at the time of the merger on that. So, I need to be a little bit vague, because I don't want to go over anything that betrays our contracts with General Motors.

But the first contract that we started to negotiate right after the merger was a contract with General Motors. And we entered into a new agreement with General Motors after the merger that provided for an immediate adjustment in the agreement and then it provided for a Phase 2 in that adjustment, which would further enhance the economics for the Company. I mean, it gets closer to a marketplace deal as compared to where the General Motors deal was originally.

Prior to the merger, it was relatively – it was commonly known that XM made no money on the General Motors contract. All of the benefits of satellite radio in with General Motors went to General Motors. And by the way, from a General Motors' perspective, that was appropriate, because General Motors said, hey, if we're going to launch satellite radio and we're going to put it into our cars and we are going to make a business for you, we want to be handsomely paid for it. And General Motors, in the first eight years of that contract, will have made an awful lot of money with XM having, up until the merger, not made any money on it. The new contract provided for an adjustment in that and the new agreement, which kicks in at the end of 2013 and the biggest impact in the 2014 provides for an even greater modification of the economics that are more appropriate for us and also still very good and very profitable for our partner.

So the idea was there was a negotiation and we're pleased that General Motors continues to be an important partner, but the deal was different. And the deal will provide us with a [favorable] return for what we bring to the table and appropriate value for what they're getting. And whether or not it's a three-month trial or a year, paid, prepaid, each deal is different. And that's why, when you look at the numbers, you've got to be really careful when you look at things, because every single deal is different and every single car converts differently. And we have seen three-months non-paid trials convert better than six-months paid trial.

So there is no one exact right answer for us. We haven't found the one that says, okay, this is what we want to roll out for all of our OEMs. This is the cookie cutter. What we are doing is working with our partner on profitable deals for us that incentivize them to put the radio out there and promote it and work with us on used cars, so that we are working with the owner of the vehicle even if it is not the original owner.

So the OEM deals are improving just like the content deals are improving and that's why when we said that our margin, when we are more mature, we'll be over 40%. That's sort of how we get there. And our margin has steadily been increasing each year since the merger.

Unidentified Participant

Some of that commentary, I think, you've given about margins in the long-term has sort of crept up over time, right? There was a time not that long ago, when you used to say, [35%], I believe, right?

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

Yeah. We do a whole bunch of long-term scenarios, right. You sit there and say, okay, what if? And the way we look at the business now and we are smarter, we are only 10 years old. I mean, I think if you were to talk to Ralph Roberts and Brian Roberts, when Comcast was 10 years old, they wouldn't have as much knowledge of where this business is going to grow as to where it is today. And what we're actually seeing is our ability to have better margins than we had originally anticipated.



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Unidentified Participant

I think there were some data points you alluded to earlier on the OEM side, where the auto number was actually ahead of the Street's expectations in terms of auto sales in the fourth quarter. I think it was -- was it Ford and [Ralph came off today]?

Mel Karmazin - Sirius XM Radio Inc. - CEO

Well, General Motors and Ford -- well, I think, Chrysler reported some numbers today. I know the SAAR number is, I mean, -- because I'm here, I don't know, but it's [2 million] today. So we should have a sense as to where the actual numbers came out. But business -- everybody had a good December, it was a good fourth quarter. The last SAAR number for the year that we had seen was somewhere short of 13 million this year.

Unidentified Participant

Okay.

Mel Karmazin - Sirius XM Radio Inc. - CEO

12.7 million to 13 million was where the SAAR was to be this year. Ford and General Motors today said that their SAAR next year being somewhere in the 13.5 million to 14 million. If they're right, that's great news for our Company and you could see where we've operated right after the merger when SAAR get down to 9 million, we were used to doing business at 16 million and 17 million cars a year. So, initially, a lot of the model when we did, we said, well, okay, the last 10 years are going to be 16 million to 17 million, what information do we have that in the next five aren't going to be 16 million or 17 million? Well, 2009 came and we saw how you can't do that type of modeling, but we managed to have a really good year from a revenue, EBITDA, subscriber growth, free cash flow growth. In 2011, where the SAAR number below 13 million and if in fact that number gets above that, that's good news for us.

Unidentified Participant

So outside of the new car market, there's the used car market you talked about it being a big strategic priority, I think, for Sirius over time, what -- well, I think investors, as we get a lot of the questions, they sort of understand the abstract opportunity is car market, they understand certified pre-owned were sort of easier to go after that channel. But the other sort of 95% of the used car market, what -- is there any sort of meat on the bones you can put on your thinking potential ways to go after that more difficult channels in the used car market?

Mel Karmazin - Sirius XM Radio Inc. - CEO

And you hit the nail on the head. I mean, that's exactly right. I mean, so, the first thing that we did is that we went to our partners at the car companies and said, hey, what can we do on certified pre-owned and we've done a really good job there. So you go in and you buy a certified pre-owned, it's virtually every case it's going to come with a three-month trial subscription for satellite radio just like your new car would. And we're going to market to you, and we're going to convert you and we're going to with no SAC, okay. We're going to get that customer to be a subscriber at some level. And then we went to the franchise dealers and we said to the same car companies, hey, can't we work with you and some of your franchised dealers and we now have programs there.

This week we announced that we did a deal with AutoNation. AutoNation a large car company, a large car retailer, and the deal is that on every used car that has a satellite radio in it, no matter what the brand is that it's going to come with a free three-month trial. We have various initiatives, some that work, some that didn't and we're going to continue to try new ideas. I'll give you one (technical difficulty). There is a auto -- a place that you might go to change your oil. Right. I don't want to mention the brand. You go in and -- you just go in for an oil check.



I did assess with them to where they would see a vehicle come in, they would see that it has a satellite radio in it. They would have access to be able to find out if that radio is activated or not activated. If that radio is not activated, we would incentivize them to offer that customer a free three-months trial program. Good idea, right. Small numbers. It didn't work. Wasn't worthy idea, but we've moved beyond that. So, we are constantly trying to figure out how we can find out if you've sold your car to me, how do I learn of that so that I can offer something to you. Well, one of the ways that you do it is insurance companies, right? So, who knows when a car is sold. Well, you can go to the state, of course you do your registration, right, you do that. And unfortunately, today, the states are still concerned about privacy issues and therefore don't want to give us this information. Who knows what the budget crisis has been due to them so where maybe some of these States, well, maybe change their viewpoint and they will let us get some of that information.

So, we're talking to insurance companies about how we can do it. We're talking about, now that the numbers are starting to roll in with maybe we just should ought to do some more advertising and marketing. And we go to market to the consumer and say that, hey, by the way you are buying the car where all over some of these sites that you go to or look up about what a car is, car histories and things like that about doing tie-ins with them.

So, it's a big opportunity if we do it right. We're going to add a lot of subscribers and we figure out a way to crack this other things that's going to be huge. And I hope that [that we do].

Unidentified Participant

Just for the -- for those that don't know, could you mind just share in a few numbers in terms of roughly how many cars are out there on the road that are not customers and what are some of the early data points you have on the conversion rates relative to the OEM market?

Mel Karmazin - Sirius XM Radio Inc. - CEO

Yes. So, I mean, I think what's relevant is that there's about over 200 million cars on the road today. And as I mentioned there's about 13 million new cars that are going to be sold. So, there's more used cars sold every year than there are new cars. So, that's a big deal. There's also the fact that we have satellite radio in a whole bunch of cars where people have chosen not to subscribe. They churn, they haven't converted. And today, there's probably about 40 million of those cars out there today and the opportunity exists for us when those vehicles are sold to get a subscriber. That number ramps up to 75 million or 80 million in the next five years.

Well, we think that when you get it into those kind of numbers, we're starting to have meetings about what should we do when we have, let's call it a 100 million radios out there, and let's say, 50 million of those radios are not satellite radio subscribers. Well, do we light up 10 channels? I mentioned that the most you can have in San Francisco is eight radio stations. Well, what if we were to put 10 channels on that would be commercial advertising. Whatever way we did it, and make that available as a way of [adding] monetization.

So far, there hasn't been a good idea yet for us to do it. But the opportunity is there for us to do a whole lot of that kind of thing, as time goes on and satellite radios in more and more vehicles and the SAC is already paid for.

Unidentified Participant

I think you recently instituted a price hike \$12.95 to \$14.49 at the beginning of the year. Given the robust net adds that you just cited, it sounds like, so far anyway the evidence is that it hasn't caused massive disruption or massive increases in terms --



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Mel Karmazin - *Sirius XM Radio Inc. - CEO*

Yes, I mean, I was on a call earlier today, because we certainly have put through that price increase as of the end of the year. So it went into effect in 2012. Hated the idea to raise our price, it's -- when you compete with free and all of our competition is free, whether it be terrestrial radio or IP radio, the idea of going from \$12.95 to \$14.49 though it's a small amount of money, it's a very difficult time and we're very sensitive.

We certainly learned a lot from what some other companies have done as far as handling the price increase. So we wanted to make sure that we learned from that. And the early indications and it's very early, right. The bills haven't gone out yet, all we've done is, put it into effect is that, it's reasonably well-received. We at Sirius, we never had a price increase since we started service 10 years ago. And everybody knows what's happened to the cable bills and everyone knows what's happened to the satellite television bills. And we don't want to be in one of those situations where we're constantly raising the price.

On the other hand, we've got a whole lot more content since the time we started our service without putting through a price increase. And we thought that it was appropriate. I can also tell you that we modeled the revenue benefit and ARPU benefit of the price increase even with higher churn and you can't really model high enough churn to make it not worth doing. I mean, so, it clearly is the right thing to do. I was a moderate in the organization. There was a faction, who believed that we should do it more higher, because of the fact that we've not done it before. I just was a little concerned about the timing and thought that our model could work with this modest increase. And we're going to monitor it very carefully and we're going to have our customer care people be all over it from save point of view and work on making sure we keep as many of the subscribers by offering them smaller packages or whatever else they might want if the price is too high for them.

Unidentified Participant

Okay. We have time for questions from the audience if there's any folks who want to Mr. Karmazin a question, we're more than happy to take a couple here.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Yes, you talked about offering the consumers personalization. Can you talk about how you would do that technologically? Would it be, they could get it on their phone or it's something you can do through the radio on the broadcast, somehow narrowcasting?

Mel Karmazin - *Sirius XM Radio Inc. - CEO*

Right. So the idea of personalization is not something that you're going to do from the satellite, right. But if you think of a hybrid, and you think about this Lynx Radio that we have as an example, which is a combination of satellite radio and also IP device that you can offer it through the smartphone and through your tablets and all of that.

So, there probably be 100 million people who have smartphones in the United States this year. And if somebody wants it, and they are looking away from us for personalization then they're using their smartphone for that and they -- our subscribers have smartphones, I mean, the research that we've done is that we over index the people with smartphones. Well, okay, so if you have a smartphone and you want to use your smartphone for personalization, we're going to let you have Sirius XM personalization.

Unidentified Audience Member

Okay. Thanks.



Unidentified Audience Member

My question for you is about, sometimes you have a lot of the cars out there have unique access to only Sirius' satellites or XM satellites that are out there. But you have some unique product for different broadcasting systems out there, is there any chance of making so people can get both the signals, taking some of the unique product and putting on some other channels on the other satellite, so people with the older cars can get product that they haven't had access to?

Mel Karmazin - Sirius XM Radio Inc. - CEO

Yes, so one of the things that we're certainly making sure of, is that anyone who has bought a -- let's talk about General Motors who has been the partner of that -- had satellite radio the longest. So if they're manufacturing a car, and that car is going to be on the road for 12 years, 15 years, we're going to want to make sure that you are going to, in that car be able to get satellite radio for at least the life of that vehicle.

So therefore, when the XM system was designed, it was only designed to be able to be picked up by those partners that were partners with XM and the same thing was true of Sirius. So going forward, all right, going forward we can sit there and have a -- and design our radios that they will be able to look at the Sirius satellite or the XM satellite, look at both satellite whichever way we wanted to.

And some longtime from now, I think 12 or 14 years because if this year, all of the vehicles that are made by XM partners are only going to look at the XM satellite and all of the ones who are at Sirius Partners, Ford, Chrysler are going to look at the Sirius thing. Those cars have to be made that look for those satellites and we can't use either of those satellites for the length of that car. But somewhere in the 2020, there is going to be a lot of spectrum that we're going to own.

That's going to be available to us to do something with whether or not we use that spectrum for more channels or premium channels or who knows what or whether or not we use it for different business model, right is the option that we're going to have. But we don't have the ability to discontinue service today on one of those services and use that spectrum today.

And it's not going to be for a good amount of time. So what we've tried to do is make whatever content that we have on Sirius, so if you like how it's turned and you have an XM Radio, we're enabling you by having our premium tier where you can get Howard on your XM Radio. But there is separate system and they're going to have to be separate systems for a long time to come.

Unidentified Audience Member

One of the marketing opportunities you may have, you haven't talked about it, is the [Rent A Car] business. And I since when I [Rent A Car] sometimes it's in there, sometimes it's not, but the whole process is really (inaudible) and I just wonder how much to think about that and it's a great opportunity to get people to try your product.

Mel Karmazin - Sirius XM Radio Inc. - CEO

Yes, so [Larry], it was one of the early things that we did. One of the things that it was done originally was to be a promotional vehicle. You rent the car, imagine if you rent the car and it had a satellite radio in it, and then you sort of liked the product, then you -- when you bought a car you'd want satellite radio. So we started that doing it proportionally.

Today we continue to work with every one of the rental cars, it's a profit-maker for us. So we are currently getting paid by the used cars for having satellite radio in them. We think it makes the driving experience better for the customers to have it and it gives us an opportunity to deal with it. It gets tricky, because we can't control, which cars find their way into the used car.

Are they the ones that we chosen not to put satellite radio in them, because they don't convert well. So therefore, it's



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part of the 30% of the cars that we didn't want to put the radio in.

On the other hand, if in fact, it's part of the 70%, we want to be able to make sure that we can activate that radio that the rental company tells us. Now, we can leave that radio activated all of the time and we're willing to do that if the car company is -- the rental company is going to pay us for that. If on the other hand, they want to do it on a per diem basis, so, okay, when Larry goes and he rents it and he want satellite radio and he is willing to pay \$5 a day, okay, we'll activate in then. So, it's -- again, I'm not apologizing. I mean, we're a young, new Company. And we have a lot of things that we need to work through and we've been distracted with things that we shouldn't have been distracted with in the last few years. And I think, now going forward, we can we refine the way we're working. I could tell you that we were doing deals that were bad deals done for promotion.

Airlines, said, gee, if you put your radio in or playing we'll let people listen to your product. And we said great, how much will you pay? No, no, we are not going to -- you pay us. That worked for a little while, and so we said that's a dumb business model. I mean, we're the content owner. Why should we be paying to put these devices in the planes and sit there and have people, maybe, convert one day or buy .

So, we're focused on free cash flow. We're focused on growing subscribers. That's our mantra. And if any of these other ways, opportunities are there that could enhance that, we're going to do it.

Unidentified Participant

One more question at the back.

Unidentified Audience Member

Hi, have you been able to sample a small set of customers that might have a car that has IP-enabled interface as well as the Sirius XM Radio and sort of test conversion rates in that versus some sort of experimental sets?

Mel Karmazin - Sirius XM Radio Inc. - CEO

Okay. So, the first time that we did that was when BMW was very active and they put in an iPod jack in the car because everybody, including me, was concerned at that time about what's now going to happen, because personalization, I mean, the ultimate personalization is an iPod. I mean you pick every single song that's there. And now, you're going to be able to bring that iPod into your car and be able to listen to it. And we did a great deal of work on that and you could see where it is today to where, I mean, maybe we would be that much bigger if in fact that device wasn't in the car. But it hasn't really hurt our growth.

Now, fast forward to the IP area, where the numbers are very skinny. I mean, the press releases are out there, but the actual number of vehicles on the road today, okay, are not that significant and the number of people who had three-month trials or six months are very low. So, we're all over that subject, okay. And the early numbers, and I don't want to mislead you, because the early numbers are small, okay, are certainly encouraging. We're not seeing our conversion rate impacted negatively when we look at those vehicles that were early adapted in putting in IT into it, not suggesting that the people aren't using it, but they're not canceling their subscription to our Company as a result of that.

Unidentified Participant

Okay. (inaudible) Mr. Karmazin, thanks very much for you time.

Mel Karmazin - Sirius XM Radio Inc. - CEO

Thank you.



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PRELIMINARY TRANSCRIPT



SIRIUS XM Radio Inc. (NasdaqGS:SIRI)

Earnings Call Transcript

Tuesday, November 01, 2011 8:00 AM ET

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Operator

Please stand by. Good morning, and welcome to SiriusXM Radio's Third Quarter 2011 Earnings Conference Call. Today's conference is being recorded. [Operator Instructions] At this time, I would like to turn the call over to Hooper Stevens, Senior Director, Investor Relations and Finance. Mr. Stevens, please go ahead.

Hooper Stevens

Thank you, Casey, and good morning, everyone. Welcome to SiriusXM Radio's earnings conference call. Today, Mel Karmazin, our Chief Executive Officer, will be joined by David Frear, our Executive Vice President and Chief Financial Officer. At the conclusion of our prepared remarks, management will be glad to take your questions. Jim Meyer, President, Operations and Sales; and Scott Greenstein, President and Chief Content Officer, will also be available for the Q&A portion of the call.

First, I would like to remind everyone that certain statements made during the call might be forward-looking statements as the term is defined in the Private Securities Litigation Reform Act of 1995. These and all forward-looking statements are based on management's current beliefs and expectations and necessarily depend upon assumptions, data or methods that may be incorrect or imprecise. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially.

For more information about those risks and uncertainties, please view SiriusXM's SEC filings. We advise listeners not to rely unduly on forward-looking statements and disclaim any intent or obligation to update them.

As we begin, I would like to advise our listeners that today's results will include discussions about both actual results and adjusted results. All discussions of adjusted operating results exclude the effects of stock-based compensation and certain purchase price accounting adjustments.

With that, I will now hand the call over to Mel Karmazin.

Mel Karmazin

Chief Executive Officer and Director

Thank you all for joining us this morning. SiriusXM continues to execute well in a challenging macroeconomic climate. We were able to drive our company's operating results to a new record level of subscribers, as well as a record quarterly revenue and record adjusted EBITDA. To put it simply, subscribers remain excited about the value and depth of our entertainment offering, and we have a great business model for our investors to be excited about as well.

Reviewing our current results, you will see that we added 334,000 net subscribers in the third quarter, taking us to a new high of 21.35 million subscribers. We are growing in what we all know is a very weak economy and in a market that have seen plenty of new competition. And we're pleased that growth is accelerating this year. We've added 1.16 million new net subscribers so far this year compared to 1.09 million in the first 9 months of 2010, a 6% increase over last year. And our second quarter -- on our second quarter earnings call, we raised our subscriber guidance for the year to 1.6 million net adds, which we expect to meet. This means, we anticipate adding about 440,000 net subscribers in the fourth quarter, up about 34% from subscriber growth in the fourth quarter of 2010.

Self-pay subscriber performance in the third quarter was excellent. We grew our self-pay subscriber base by 364,000 subs to an all-time new third quarter record. These third quarter self-pay net adds were up 41% from third quarter of last year, and represented the best single quarter since we completed the merger of SiriusXM in the summer of 2008.

When you look at the total number of customers we have, this too is also at an all-time high. While many subscription media companies are losing customers, we have increased our number of customers by 10% over last year to over 15 million, also a record number. More individuals and households are subscribing to satellite radio, and this bodes very well for our future and long-term prospects.

Gross additions were up 10% for the third quarter, driven by a third quarter SAR that was up 7% to 12.4 million on an annual basis, along with SiriusXM's higher penetration rate. This is the fourth consecutive quarter we exceeded 2 million gross additions.

Self-pay monthly churn rate was 1.9% in the third quarter, in line with both the second quarter and with last year's third quarter. Our new car conversion rate was 44.4%, which is a solid number, but at the lower end of our range. While the mix and increased penetration from OEM sales continue to affect this number, we are also working with our OEMs to improve the data feeds we receive from them, which will help conversion. We are not seeing any change in conversion that concerns us about how customers feel about our product. Conversion of the same vehicle models are basically the same. What changes every quarter is the mix of OEMs and the mix within OEMs, as all models convert at different levels.

Although we're proud of our subscriber growth, our financial performance was even better. Revenue of \$763 million was up 6%, and represents a new record for a single quarter. Keep in mind that our pricing remains constrained at present. And as you know, we actually lowered the Music Royalty fee last December, which held back ARPU a bit. Despite the restraints on our pricing, we remain on track to grow our revenue by about 6% and hit our full year revenue guidance of approximately \$3 billion. Importantly, the revenue constraint disappears in just 2 months.

Cash operating costs were up by less than 3% versus the same quarter last year, a rate that was well under our revenue growth number. Our fixed costs were up about 1%, while our variable expenses, which rise closely with revenue, were up 5%. We have achieved a reduction of about 20% in our programming and content expense since the merger of Sirius and XM. And in the first 9 months of this year, we cut expenses in this area by 8%. This is just one example of the focus on costs that is driving our performance. Quite simply, we're creating more value in our programming with a lower investment.

The tight expense control and our revenue growth produced adjusted EBITDA of \$197 million, up 16% year-over-year for the quarter. The adjusted EBITDA margin of 26% was also a new record high. In 2012, we expect adjusted EBITDA will climb to approximately \$860 million. Our adjusted EBITDA guidance next year implies a full year 26% margin, up from an estimated 24% for the full year of 2011. We continue to believe that we will be able to achieve long-term margins in excess of 40% by scaling subscribers and revenue, and holding the line on expenses.

We just turned EBITDA positive 3 years ago, and we are very pleased where we have been able to move our margin at this stage of our development. Growing EBITDA is really a precursor to driving free cash flow, which we believe is the primary driver of SiriusXM's value. We are focused on growing our free cash flow substantially in the future. Free cash flow will enable us to invest in our business, which will increase growth, reward shareholders via dividends or share repurchases and make accretive acquisitions to improve the value of our company.

Free cash flow in the third quarter grew 22% to \$75.4 million, helped by lower capital expenditures than in the same quarter last year. In the first 9 months of 2011, we've already produced more free cash flow than in all of 2010, \$224 million compared to \$210 million. In 2011, our free cash flow guidance is approaching \$400 million. And remember, we normally have seasonally higher cash flows in the fourth quarter. Our \$400 million free cash flow guidance represents a staggering 90% increase over 2010.

Just a few short years ago, in 2008, the combined negative free cash flow of SiriusXM exceeded \$550 million. To put it mildly, we've come a long way, and it gets better. Our 2011 guidance calls for our free cash flow to increase 75% next year versus 2010 to approximately \$700 million, driven by improved operating results and lower capital expenditures.

Let's put this in perspective. In 2012, we plan to grow our cash generation to nearly \$2 million every day, that's including weekends and holidays. Truly an astounding statistic, which will obviously represent the best free cash flow in the history of the company.

We continue to find success in the used-car channel, where we now have programs to reach consumers buying a variety of the used cars. Since we expensed our SAC up front when a car is first produced or sold, adding gross additions in the used-car channel is an extremely cost effective way for us to grow our subscriber base. We've rolled out trials to buyers of virtually all satellite radio-equipped certified preowned vehicles across most auto brands. These sales represent a small portion of used cars sold every year, but it was a great place to start. And the conversion rate from these certified preowned trials is solid, below the level of our new car conversion rate but still very, very acceptable.

We expanded on our certified preowned program this June when we announced that we enrolled over 1,000 Chevy, Buick, GMC and Cadillac dealers nationwide in a new program that provides all purchases of used vehicles, not just certified preowned, with a complimentary 3-month trial of SiriusXM. Today, nearly 2,000 General Motors dealers are now enrolled in this program, and we are gathering data on the early conversion in this channel. We followed up with the launch of a similar program with Nissan and Infiniti dealers, which we announced a few weeks ago. Stay tuned for future announcements over the coming months as we expand this program to other OEMs.

We add value to the used car sales process, and it's also a great rate for people to experience satellite radio in newly acquired used cars. We continue to be very confident that the previously-owned market will be a significant growth opportunity for SiriusXM in the coming years.

Consumers appreciate satellite radio, first and foremost, because of our tremendous and unmatched content covering every single genre of music, as well as talk and entertainment that can't be heard anywhere else, and a sports lineup that can't be matched anywhere else on radio or the Internet. We continue to invest in creating and making available more premium content to our customers.

In conjunction with the retail rollout of SiriusXM 2.0 this quarter, we launched more than 20 channels including a suite of Latino channels. We're taking a great product and we're making it better. Later in this quarter, we will also roll out the next component of 2.0, a new plug-and-play radio called Lynx. The Lynx will be a first for SiriusXM. Android-based, with a high resolution color touchscreen, it can operate as a satellite radio in the car, capable of accessing the new expanded 2.0 content lineup, and it also can access SiriusXM's Internet radio via WiFi and stream audio content through stereo systems via Bluetooth. In addition, Lynx will enable time shifting of content and storage of up to 200 hours of content, and we expect to add more functionality through software upgrades in the future.

Our great content is a significant factor in driving increased distribution of SiriusXM. In the third quarter, we were included in approximately 2/3 of all the new cars sold in America, up from about 62%, last year's third quarter. We continue to work with the major automakers to rollout 2.0 technology as quickly as possible, and we are seeing strong demand from them for this additional service. An all-time high penetration rate and the anticipated OEM rollout of SiriusXM 2.0 demonstrate automakers commitment to offer satellite radio to their car buyers.

Our OEMs continue to believe that we make the driving experience more desirable, and they prominently feature us in their advertising. Most recently, GMC began an extensive TV campaign featuring the NFL on SiriusXM, and offering a one-year prepaid service. Mercedes is also featuring SiriusXM in one of their TV spots currently on the air.

Auto sales are picking up, and despite the negative economic headlines, forecasters still expect auto sales to grow by about 1 million units next year. In fact, most forecasters believe auto sales will continue to grow for several years as Americans begin to more quickly replace the country's aging fleet of vehicles. SiriusXM is currently installed in approximately 2/3 of these new cars. As these aging vehicles are replaced, our growing penetration rate mean that we will have the opportunity to both introduce the benefit of satellite radio to more and more potential subscribers and gain more and more subscribers from the used-car market in addition to the new car market.

Again, we believe we have many, many years of subscriber growth ahead of us. Delivering great customer service is a major focus for SiriusXM, and we will continue to work to improve our satisfaction metrics in a cost effective way going forward through better uses of technology and improved agent training.

Growing subscribers is our primary means of growing revenue. But changes to our pricing and more effective bundling of higher-tiered packages will also boost revenue over the next few years. Since the 3-year FCC handcuff on our pricing expired this summer, we carefully condition considered what price level is most appropriate for our service. Never before in the company's first decade of operations had Sirius changed its core price of \$12.95 per month, despite adding a tremendous amount of premium content that didn't exist when the company launched service.

So in September, after thoughtful deliberation, we announced our intention to increase the price of our SiriusXM's Select packages beginning January 1, 2012, from \$12.95 to \$14.49 per month, approximately \$0.05 per day additional and 11.9% increase. This will help us accelerate our revenue growth next year. And you could see the early effects in our guidance for 2012, revenue growth of approximately 10% to \$3.3 billion. The price increase next year will also continue to benefit revenue in 2013. We will also be driving higher ARPU through the sale of our premium tier All Access plan and our Internet Listening add-on.

Revenue growth is fantastic for investors, but it's best when combined with high incremental margin and tight expense controls. Our low incremental cost and focus on our fixed expenses will result in expanding EBITDA margins. And with our low requirement for capital expenditures and multibillion dollar tax shield, we plan to dramatically increase free cash flow over the coming years. Remember that over the next few years, we will have the opportunity to refinance some of our expensive legacy debt at lower rates. We would have many years without the need for substantial satellite capital expenditures and with roughly \$8 billion of NOLs, we have a substantial tax holiday. All of these things will help us grow free cash flow for many years to come. We intend to be good stewards of this cash flow.

With over \$600 million of cash and equivalents on hand as of the third quarter, our net leverage has declined to just 3.4x, well underway to our state of leverage target of about 3x. Combining this with our free cash flow guidance this year and next implies we will have nearly \$1.5 billion of liquidity at our disposal by the end of 2012. We will have the flexibility to use this liquidity to grow our business, ensure a low cost of debt, make acquisitions and return capital to shareholders.

The market and rating agencies have clearly understood our balance sheet, and credit worthiness have strengthened considerably. Just last week, Standard & Poor's upgraded our corporate credit rating to BB from BB-, which puts us just 2 notches away from investment-grade status. Since early 2009, our credit ratings have been upgraded 6 notches by S&P. We are extremely pleased with the market view of our credit quality and access to credit, so we don't believe we need to attain an investment-grade rating. Given the predictable nature of our business, we would prefer to take advantage of a prudent level of leverage, which should mean higher returns for our equity holders over time.

SIRIUS XM Radio Inc., Q3 2011 Earnings Call, Nov 01, 2011

Without a doubt, there is more competition from all corners of analog and Internet radio, but SiriusXM is not slowing down, and we intend to accelerate our growth next year. Our company is performing extremely well. We have a unique product that consumers demand, and we have a business model that continues to demonstrate positive economic leverage. The best is yet to come.

Thank you for participating in today's call. And I'll now turn the call over to David Frear for additional remarks.

David J. Frear

Chief Financial Officer and Executive Vice President

Thanks, Mel. If we look at it from a macro perspective, the third quarter was pretty tough. Unemployment didn't budge. Household incomes were down, consumer confidence sank, car sales continue to fall off the pace set early in the year. There was virtually no good news in the housing market, political gridlock in Washington and growing concerns about Southern Europe triggered selloffs in the bond and equity markets. And with all that as a backdrop, SiriusXM posted a record quarter.

In fact, we just completed our fourth consecutive quarter of growth additions in excess of 2 million. The incorporation of satellite radio into nearly 2/3 of North American auto production helped overcome lower-than-expected auto sales, allowing us to deliver record levels of total subscribers at over 21.3 million and self-pay subscribers now more than 17.5 million.

With a falloff in car sales in the third quarter, the inventory of both paid and unpaid trials fell slightly, less than 100,000, and we continue to have over 5.1 million trials awaiting conversion. For the 3 and 9 months, growth in self-pay subscriptions was clearly the driving force in our subscriber growth. With subscribers up 7.5%, revenues grew 6.3% to \$763 million for the quarter. The reduction in ARPU over the prior year is entirely related to a reduction of the Music Recovery fee on primary subscriptions that was implemented last December, down to \$1.40 from \$1.98.

Contribution margins were stronger than expected at 71.4%, up from the prior year. We continue to encourage investors to plan for 78% margins in the near term as royalty costs are due to go up by 0.5% in January, and the portion of our subscribers that generate OEM revenue share payments continues to grow. The SAC per gross add continues its steady downward trend. At \$55, it improved 6.8% over the prior year, largely offsetting the 9.5% growth in gross additions, contributing about half of the pickup in our EBITDA margin in the quarter.

We continue to manage fixed expenses, that's sales and marketing, satellite and transmission, research and development and G&A and programming, to be relatively flat despite significant growth in subscribers and revenues. Programming costs continues to decline as premerger contracts come up for their post-merger renewals in the 9 months ended September 2008. Just after the close of the merger, fixed expenses ran \$936 million for the combined company. In 2009, we cut them to \$658 million. We held them at that level in 2010 and reduced them further in 2011 to \$649 million. That's an aggregate reduction of 31% while revenues have increased 25% over the same period.

High revenue growth and good cost controls result in expanding the EBITDA and the EBITDA margins. The \$197.3 million of the EBITDA generated in the quarter was a record for the company, and is up 16% from the prior year. Our record 25.8% EBITDA margin for the quarter is up from 23.5% a year ago, 16.9% in 2009 and minus 6% in 2008, a fantastic record of growth. We look forward to expanding EBITDA margins even further in 2012.

Free cash flow for the quarter came in at \$75 million, bringing the 9 months to \$224 million, exceeding the free cash flow generated in all of 2010. Cash exceeded \$600 million at the end of the quarter, and with the fourth quarter coming, traditionally, very strong for free cash flow, year-end cash will rise to roughly \$750 million.

In October, we repaid the remaining \$23 million of the 3 1/4% converts. Gross debt to EBITDA stood at 4.3x at the end of the quarter, while net debt to EBITDA was at 3.4x. EBITDA to interest coverage was 2.6x for the quarter. With rising free cash flow, it's clear that leverage can come down very quickly.

The improvement in our credit outlook was recognized by S&P last week and upgraded to BB with a stable outlook, as well as by the bond market where our 7 5/8% notes due 2018 traded yield at about 6%.

While the macro picture for Q3 was difficult, there are some bright spots in the gloom. September SAR show the best months since the first quarter tragedy in Japan, and October looks like it will continue. Consumer purchases of cars was up 7% year-on-year, but was up 11% in the month of September. September economic data was also more encouraging. While it's too early to declare victory, we're optimistic that we will see growth in 2012 above the 12.7 million car sales pace anticipated for 2011.

Our guidance in September anticipated the improvement in car sales. We initiated 2012 guidance in the midst of truly awful macroeconomic factors and an increasingly competitive landscape to demonstrate the confidence we have in delivering consistent profitable growth to investors. Our price increase will go into effect January 1, driving revenues

in 2012 to \$3.3 billion. Continued cost effective growth will drive the EBITDA up 20%, double the 10% revenue growth rate to \$860 million, and continuing the improvement of our EBITDA margin. And free cash flow will expand 75% to \$700 million, as our satellite replacement program comes to an end with the launch of Sirius 6. SiriusXM is well positioned for long-term growth subscribers, revenue EBITDA and free cash flow.

So operator, let's open it up for questions.

Question and Answer

Operator

[Operator Instructions] We'll take our first question from Barton Crockett with Lazard Capital Markets.

Barton E. Crockett

Lazard Capital Markets LLC, Research Division

I wanted to get a little bit better sense about your fourth quarter subscriber outlook, which is very healthy. And the one thing that was surprising this quarter was for us at least, it was a decline in promotional subscribers. And as we look to the fourth quarter, can you give us a little bit of color about what you see there whether there continues to be a decline or whether this was kind of a one quarter aberration. And then following up on that, as you look out to next year, I know you aren't guiding for subscriber growth here, you're just talking about revenues, but can you at least, in loose terms, give us some sense of how you see that subscriber growth trajectory that underlies your revenue guidance for next year?

Mel Karmazin

Chief Executive Officer and Director

I'll let that David answer the question. But first let me answer that we gave subscriber guidance for the year. And in the last quarter, we, a matter of fact, raised our subscriber guidance to 1.6 million net adds. And that's exactly the number that we are still forecasting for today for this year, and that results in what the fourth quarter would be. And David, can answer your specific other points?

David J. Frear

Chief Financial Officer and Executive Vice President

So Barton, on the decline in promotional subs, it's very in the short-term to 2 things: one is the level of automotive sales; and two is in the mix between paid and unpaid trial partners, but we tend to track the total trials in conversion, in the conversion funnel as opposed to just one or the other. And car was soft over the summer. The -- with the constraints on production for -- principally, for Toyota and Nissan and Honda, coming out of the problems in Japan in the first quarter that auto sales as everybody saw it sort of compressed over the summer. With that, we held the conversion trials relatively flat. It's as the sales -- auto sales picked back up, the total trials and the conversion funnel will pick up as well.

Barton E. Crockett

Lazard Capital Markets LLC, Research Division

Okay. But in terms of for next year with your revenue guidance, any color on subscriber outlook there in terms of -- I know you're not going to guide specifically, but even just loose color do you expect a better sub growth year or similar?

Mel Karmazin

Chief Executive Officer and Director

So, I think, I mentioned in my opening comments that all of the forecast that are out there for 2012 SAR are anticipating an increase of about 1 million additional cars sold. So we historically give our subscriber guidance on our fourth quarter earnings, and this year will be no different unless we decide to do a little bit earlier, but it will certainly be done by that time. And we're very encouraged. And for our planning purposes, we see SAR increasing. And if SAR increases, that's great news for SiriusXM.

Operator

We'll move on to Benjamin Swinburne with Morgan Stanley.

Benjamin Swinburne

Morgan Stanley, Research Division

I have 2 questions for either Mel or David or both if you're willing to answer them. I wanted to ask about the price increase for next year, Mel. I know no one knows what the churn impacts may be at this point, because you really hasn't bought anything through like this before. I guess the MRF is the best data point we have, but maybe you could spend a minute on any reaction you've had from either OEM partners or from customers on the announcement that

might give us some sense for what you expect next year on the churn front as a result of the price increase. And then second, for either of you or both, strong free cash flow. Again, this quarter, the outlook for free cash flow was very strong, so leverage keeps coming down. You talked about returning capital to shareholders. I think the assumption in the market is that share repurchase is at least on your -- on the table. How are you thinking about the liberty relationship and buying back stock in a situation that will drive their ownership up? I think Mel, you commented on that briefly at a couple of conferences earlier in the quarter, but any update or thoughts there would also be helpful.

Mel Karmazin

Chief Executive Officer and Director

Okay, so we'll give you a double shot. I'll give you my comments and then David can give you his. On the price increase, obviously, we compete with freight. All of the competition that's out there, whether or not it'd be in terrestrial analog radio or Internet radio tends to be a free service. So the fact is that we're very cautious when we are raising our price. We believe that we are being prudent. Again, we think that \$1.50 a month or, as I said earlier, \$0.05 a day is something that would not really materially change any DX for us. You really don't know. We're going to work very closely with our "save desk" and make sure that we're monitoring carefully. So far, based on the noise that's in the market, or I should say the lack of noise that's in the market, we monitor social networking and basically go through the feedback that we've gotten from our subscribers. And we've seen them say, they understand. I mean, the price increase is not in any way, shape or form egregious. It's not something that we're doing regularly, and we don't think that it should impact our growth next year. As a matter of fact, we think that the financial metrics will be very attractive for us as we start rolling them out to subscribers. So we thought about raising the prices more. Again, was concerned about the competition of freight and decided on this number, and we feel still very good about it after announcing it in September. It's now 2 months, and there really hasn't been much of a reaction to it. On anything about returning capital to shareholders, it's something that our board will discuss. We think that it will be a 2012 discussion. We introduced the subject already as we talked about these financial metrics accelerating. And I don't think that there is anymore specifics that I want to talk about what our plans are until our board finalizes and decides what we want to do with that -- in that regard.

David J. Frear

Chief Financial Officer and Executive Vice President

Just, Ben, on he We looked at the Music Recovery fee, we implemented that. We looked several years ago to when XM changed their prices and how their subscribers reacted to that back in, I believe, 2006. We looked at the change in the second sub pricing that we did post merger and sort of took it all into account that, one of the things to bear in mind with the price increase that the -- sort of that cost to consumers, which probably look through the change we made in the Music Recovery fee last December, if you go to what were prices a year ago now to what they will be in January, the effective increase is about \$1 overall, it's just that we've got it into 2 steps, \$0.58 down on the MRF and then about \$0.50 up 12 months later on the primary. So -- and maybe that sort of being around the \$1 is helping sort of mute the reaction that we're seeing so far, because we certainly haven't seen much.

Operator

We will take our next question from David Bank with RBC Capital Markets.

David Bank

RBC Capital Markets, LLC, Research Division

Two questions, the first one is I was wondering if you could give us color on the reactivation side. If not, maybe sub adds coming from reactivations but you kind of trends in reactivation as a percent of net adds in this quarter versus prior quarters. And second question is, Mel had mentioned one of the potential uses for free cash flow being acquisitions. And I was just wondering if you can give a little more color in terms of what would be the ideal kind of acquisition for you guys when you have financial flexibility towards 2012.

Mel Karmazin

Chief Executive Officer and Director

Okay. So let me give you the second, and then David will comment on your first one. In order for us to make an acquisition, it has to have a very -- passed a very high threshold. So first of all, it would have to be in our core competency. It would have to be a business that is growing. It would have to be a business that is going to be accretive to us on a free cash flow basis. So if -- you sort of look at those things and you say, "What won't it be?" It's pretty obvious, right? I mean, it's not going to be any of these other radio competitors, as an example, because of the fact that's not -- they're not going to be growing rapidly or they're not going to be free cash flow positive. So it's very difficult for a potential acquisition to be there. We look at lots of things, all of the bankers visit us regularly to show us everything that's on the market or conceivably to be on the market. We'd like to make an acquisition if in fact it meets those criteria. And when we find one, we'll let you know.

David J. Frear

Chief Financial Officer and Executive Vice President

So on -- David, on to the reactivation front, that -- you should think of it -- I think that in the short term, it's just sort of a fairly steady and consistent effect in the underlying numbers that reactivation is actually an incredibly broad category of things. I think when most people talk about it that they tend to think of it as subsequent owners of a radio, primarily a vehicle, and developing confidence in those statistics is going to take a little time. We know for sure whenever a radio turns off and turns back on, what is a little more difficult to tease out is the information is who owns the business than the existing subscriber who's reactivating a few days after a trial ends or after maybe they get disconnected for non-pay, or is it a subsequent owner of a vehicle that we frequently find with the timing of information sent to us by some of the automotive partners is that you can often have a radio that's still on for a car that's been sold. The new car buyer -- the used car buyer gets it. And they're actually calling us to "activate" their radio before we've been informed that the car has actually changed hands. So again, I think the short story is that over time, that as we can get confidence in the measurement and the numbers, we'll probably talk more to you about subsequent owners. But reactivations, at this point, is just sort of a pretty steady consistent contributor to all the underlying metrics you're looking at.

Operator

We will take our next and final question from David Joyce with Miller Tabak and Company.

David Carl Joyce

Miller Tabak + Co., LLC, Research Division

I was just wondering if you could update us on what might be happening on the retail channel with your new Lynx -- or with the Lynx products. And then if you had any color on the conversion rates on the used car channels.

James E. Meyer

President of Sales and Operations

Sure, this is Jim, Bob. We expect to have our product available -- the Lynx product available before the end of the year. That'll have a significant impact on the holiday season, although we're pretty optimistic about the acceptance of the product in the market. Overall, we're in the shape we usually are at this time of the year. We have several promotions planned with our key retail partners for both Black Friday and the Christmas holiday, as well as what we think is a strong lineup of promotions at our online store at siriusxm.com. And I'm pretty optimistic that the Christmas season will be good. Regarding used car conversion, as Mel mentioned, we're pleased with the conversion so far that we've seen on certified preowned vehicles. It's not as high as new cars. It's in fact, it tracks in the mid to high 30s right now. I think it's too early to say whether the long-term trend of conversion is going to be in used cars because like many -- if you remember, a new car conversion, it takes a while to figure the cadence, the proper cadence and the proper offer strategy and a proper follow-up to optimize that number. And used cars, that we're still relatively new at it. I don't believe at all it'll ever be as good as new cars, but I do believe that it will be very, very strong and a good contributor for our growth for many years.

Mel Karmazin

Chief Executive Officer and Director

All right, everyone, thanks for dialing in.

SIRIUS XM Radio Inc., Q3 2011 Earnings Call, Nov 01, 2011

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FINAL TRANSCRIPT

Thomson StreetEvents™

SIRI - Sirius XM Radio Inc at Bank of America Merrill Lynch Media, Communications & Entertainment Conference

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CORPORATE PARTICIPANTS

Jessica Reif Cohen

Bank of America, Merrill Lynch Media & Communications - Analyst

Mel Karmazin

Sirius XM Radio - CEO

PRESENTATION

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

(Audio in progress) -- to have Mel Karmazin of Sirius XM. Sirius' stock is up more than 60% since our last fireside chat a year ago, versus the market, which is up only 6.0% and I'd like to welcome now, who is always a pleasure and funny.

Mel Karmazin - *Sirius XM Radio - CEO*

Thank you, Jessica.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

And entertaining.

Mel Karmazin - *Sirius XM Radio - CEO*

Pleasure to be here.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

Yes.

Mel Karmazin - *Sirius XM Radio - CEO*

Always great.

Jessica Reif Cohen - *Bank of America, Merrill Lynch Media & Communications - Analyst*

So, on your second quarter conference call, you increased 2011 subscriber ads as guidance to \$1.6 million, or a 13% year-over-year increase, but since then, the markets have become super volatile, consumer seems weaker and weaker. Can you give us an update on current trends?

Mel Karmazin - *Sirius XM Radio - CEO*

Okay. Thanks, Jessica. So, basically, because this year we got an opportunity to talk with this group, we really wanted to bring out some new information, so one of the opportunities that I have is to update you on what we're seeing. So, we're definitely seeing the economy being very sloppy, but in spite of that, we certainly are also seeing our business being very strong.



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So, today, we're in a position to be able to reiterate our guidance for 2011 and you'll recall that what we said was that our revenue was going to be about \$3.0 billion, that our adjusted EBITDA would be about \$715 million and that our free cash flow, which, again, we think is the key metric for valuing any investment, was going to go from \$350 million, which we forecast, to \$400 million.

In addition to feeling very good about those numbers, we'd like to also provide you with some insight as to how we see 2012 and we thought that we would not wait until our next earnings call to do it, but to be able to do it today. So, for 2012, we see our revenue not just growing, but that revenue growth will accelerate and we will have -- we're looking at today having double-digit, 10% revenue growth to about \$3.3 billion next year.

Our EBITDA should grow by 20% and if you take the \$715 million, which we're forecasting, and take that up by 20%, that would get you to a number of approximately \$860 million. Again, very importantly, this free cash flow number of \$400 million, we are today looking at that number going up 75% and growing to \$700 million.

So, not only is our growth continuing, we're looking at 2012 as that growth accelerating and what's going to contribute toward that growth is that we are planning on a price increase in our subscription services, effective the beginning of January. And as an example, our Sirius Select package, which today is \$12.95, will go to \$13.49 for subscribers that whose term comes up starting in January. So, as you know, an awful lot of our subscribers pay significantly in advance and we're not changing any of the prices they pay until those deals come up.

Our price increase will be approximately 11% on that package, which is our biggest package. In real dollars, if you think about the offering that we have, it's currently \$12.95, is \$0.43 a day. \$0.43 a day gets you the best radio on radio.

Sirius has not had a price increase since we started service in 2002. We've added amazing content, whether it be Howard Stern, the NFL, NASCAR, Martha Stewart since then, without a price increase, and now what we're asking subscribers to do is to pay an additional \$0.05 a day, which is, in essence, \$0.48, and that will contribute towards our revenue.

So long answer, Jessica, to your question, but thank you for asking that.

Jessica Reif Cohen - Bank of America, Merrill Lynch Media & Communications - Analyst

That's an amazing echo, but I'm happy to hear it. So let's dig down into some of the drivers, but maybe more general questions for us and then we'll go through each part of the business. Our auto analyst is reporting an annualized SAAR rate of 12.1 million for August 2011. Well, as he said, domestic economic data becomes just more worrisome in recent months.

So what are your automotive partners saying about their expectations for projected SAAR? And it sounds like you feel really good about that next year, but given the economy are you reassessing at all that \$1.6 million revenue guidance?

Mel Karmazin - Sirius XM Radio - CEO

So, at this point, our partners are looking at 2012 SAAR to be somewhere between 12.5 and 13 million subscribers. We feel very good about the 1.6 million this year. The SAAR number for this year, in spite of what's going on, will be higher than it was in 2010. So there's about a 6.0% or 7.0% increase, even with these numbers, in SAAR, so we feel very good about the 1.6 million number that we said we're going to grow by.

I think what's real interesting is the fact that there's been a lot of talk about all of the competition that we face and that 1.6 million this year is higher than the 1.4 million of the year before. So we'd love to see SAAR get back to 16.5 million, which is where it had historically been. An awful lot of analysts are forecasting that the SAAR number will get back to the 15 million or 16 million.



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Uh-oh. Did I say something wrong?

Unidentified Company Representative

(Inaudible - microphone inaccessible)

Mel Karmazin - Sirius XM Radio - CEO

What did I say?

Unidentified Company Representative

(Inaudible - multiple speakers)

Jessica Reif Cohen - Bank of America, Merrill Lynch Media & Communications - Analyst

\$14.29.

Mel Karmazin - Sirius XM Radio - CEO

What did I say?

Unidentified Company Representative

(Inaudible - microphone inaccessible)

Mel Karmazin - Sirius XM Radio - CEO

\$13.49. I thought -- I'm sorry, \$14.49. I'm sorry. Forgive me. That the idea is that at \$12.95 going to \$14.49 was the price point, I misspoke. So, again, the SAAR number for 2012 again will increase probably between 13.5 and 14 million next year.

There's an awful lot of marketing efforts planned by the car companies beginning in October of this year to be promoting the new car introductions and to be driving it and our partners, we're not in the business of making the cars, but what they are telling us is that they feel pretty good about being able to achieve these levels and all we can do is take SAAR input from them.

Jessica Reif Cohen - Bank of America, Merrill Lynch Media & Communications - Analyst

Drawing on penetration that's now 65% of all U.S. vehicles manufactured in the U.S., how much further can you drive this and what some of the ways that either that you expect to achieve higher penetration?

Mel Karmazin - Sirius XM Radio - CEO

So one of the things we balance all of the time is are we putting satellite radio in the correct vehicles so that we are going to likely, after the promotional period and the trial is over, be able to keep them as paying subscribers? So, clearly, I think in the second quarter our penetration rate was almost 67%.



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If we were running the Company just for penetration rate and that metric was what people really were most concerned about, we would probably only get into the top tier line, because we have penetration of 70% and 80% conversion rates and penetration rates. On that subject, we have 70% conversion rates on some of our vehicles.

So, I think the idea of going into police vehicles, right, so if you think about the cars that are made of sale in the United States and if, in fact, there's going to be 12.5 million or 13 million, some of these vehicles are going to be police vehicles. Well, we don't see any advantage of putting satellite radio into those vehicles and increasing our penetration rate that way.

So, I think that if anyone is modeling or anybody is thinking about where that penetration rate should be, I think about 65% is an optimum, though we're constantly tweaking it, constantly experimenting with different lines. But the model works really well if you take the SAAR number as what it is and then you take 65% of it and then you get into the conversion rate on top of it, so I think that that's sort of a sweet spot for us.

Jessica Reif Cohen - Bank of America, Merrill Lynch Media & Communications - Analyst

And your conversion rate has been -- or you've gotten back to 45%, but you mentioned its 70% to 80% in cars.

Mel Karmazin - Sirius XM Radio - CEO

Yes, but I mean, there are some vehicles -- when you take a look at that number, there's an average of it. Some vehicles can absolutely convert at higher levels and some through lower levels, so mix is really important. The more expensive the vehicle to wear the price is not so sensitive to somebody, it converts better.

We think our conversion rate of somewhere between this 44% and 47%, which is where it's been, is a factor of two things. It's a factor of mix, because of what I said to you, some vehicles convert differently than others. A lot of our Asian partners have been newly adopting satellite radio, as compared to General Motors, which was a very early adopter. We have a lot of years of experience in working with our partners at General Motors on converting.

We've had less years of working with some of the Asian partners, so their conversion rates are suddenly -- or are somewhat lower, but there's nothing systemic with it. There's no reason that we can't show improvement. And then the other thing is penetration. Because as we have decided and desire to be in more vehicles and we increase the penetration, that too has an impact on the conversions because we're penetrating today more vehicles that are less expensive and those conversions are not quite as high as the other ones.

Jessica Reif Cohen - Bank of America, Merrill Lynch Media & Communications - Analyst

In April you began a nationwide initiative to enroll a thousand Chevy dealers, GMC and Cadillac dealers where you're offering a complimentary three-month trial of Sirius XM to used car buyers. Clearly the pool of Sirius XM-equipped cars will continue to grow. How significant of an opportunity is this?

Mel Karmazin - Sirius XM Radio - CEO

Yes, I can't underestimate the importance that the used cars and second owner and third owner are going to represent for us. So, as we have begun to get to the point where customers have gotten satellite radio in their vehicles and now they are selling those vehicles and hopefully they are going to continue to be a subscriber when they buy a new one. Now the key for us to get those vehicles that are now on the used car lots to get those people who are buying vehicle to subscribe.



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We also have the radio already in that dashboard, so our stock is there. So, if, in fact, we can come up with an efficient way to do it, the numbers could be extraordinary.

There are going to be -- in 2015, there'll be about 75 million vehicles on the road that will be equipped with satellite radio in the dashboard. Obviously a good number of those are not subscribers. So if, when they find their way into the used car lot, we're able to get a subscription by doing the same things with the used car dealers that we do with the OEMs, which is let's give them a trial, you'll buy a certified pre-owned or you'll buy a used car, it'll come with a trial. We'll get your name, address, email. We'll then market it to you while you're in this three-month trial and convert a good percentage of those people.

The early numbers that we're seeing on conversion on used cars, are not as good as the conversion is on the new cars, but it is surprisingly good as well and we're excited about it. I mean, we've not yet given and broken out on our metrics the number of used cars, but it is growing very rapidly. It represents today a relatively small number, but every single year -- if we are penetrating in 60%-plus of the vehicles, at some point some years out, 60-65% of all of the vehicles that are in the used car dealers' lots are going to be equipped with satellite radio.

So not only will we be putting satellite radios into the new vehicles that are buying. Then there's this market where a large number of them will be in a used car and that hasn't been available to us. And we look upon the used car market as being what the equivalent was of the retail market. When satellite radio first started, there was really two ways of getting it. The number one way was you went to Best Buy and you bought a radio and you put it in your car and then, as time went on, you bought a new car and the car came with it.

Well, now, what we're seeing is that, when you get a new car, it's going to come with satellite radio and then you're going to sell that car and somebody else is going to buy that car and we're going to get a subscription from them. So, long-term, we think it's a really big deal and we're seeing it in our numbers today.

Jessica Reif Cohen - Bank of America, Merrill Lynch Media & Communications - Analyst

Maybe switching gears a little bit, but on operating costs, do you think they've been fairly contained? At the same time, the programming officer said that it could only be richer. So, is the slow growth question sustainable?

Mel Karmazin - Sirius XM Radio - CEO

Yes. I think that what we've said is that the merger has enabled us to take a great deal of costs out of the Company, right. So that, if you think about how satellite radio was prior to the merger and you now think about what has happened as a result of the merger, we have saved a tremendous amount on costs.

Specifically, in the programming area, that has been a very important part of where our focus was in driving down costs, while we are not in any way, shape, or form taking away from our innovation in the programming side. What we've said is that like programming costs, if you take our lineup of content today, that cost of doing that content will go down and if you take it as a percentage of revenue, it will even go down greater.

So our peers in the cable and satellite television area are seeing a phenomenon that's very different than ours. Their programming costs are in fact going up. It's going up as a higher percentage of their revenue. Ours, the programming costs are going down and that it's going to be a lower percentage of our revenue. And deals are continuing to come up.

So it's not like we got everything, because when we did the merger there were many five-year deals in place. So, as an example, our agreement with NASCAR comes up at the end of this year and we're engaged in a discussion, because we think NASCAR content is very desirable and we're engaged in a discussion with NASCAR about a new agreement.



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In a few years, the major league baseball contract will come up for the first time. Again, we think major league baseball is great content and we would look forward to doing a marketplace deal when that deal is up and that marketplace is very different than the marketplace was when the original deal was done.

So, I mean, our model, Jessica, is real clear. Just even with the 2012 guidance that we gave, our revenue's going to go up 10%. Our EBITDA is going to go up 20%. That means our margin is going to grow even faster and our free cash flow is going to grow and that's going to continue with the help of these programming cost savings.

Jessica Reif Cohen - Bank of America, Merrill Lynch Media & Communications - Analyst

On the EBITDA margin, as they were approximately 25%, which is up 300 basis points year-over-year and in the past you've stated that you believe that you could take margins up to the 40% range. What timeframe do you think that's achievable?

Mel Karmazin - Sirius XM Radio - CEO

So we haven't given guidance beyond next year, but certainly we have modeled it as to what our future looks like and again, it's very early for us to be talking about 2012 and we are talking about 2012 at a time when everyone is concerned about the economy. So the one thing that we will not do is get ahead of ourselves.

You know investors just are so unforgiving on missing a number, so that we are being guardedly cautious in talking about it, but, in this conservative viewpoint that we have today, our margin is improving again next year because revenue is rolling more than expenses and therefore, we'll continue to see margin improvement. But, clearly, within the timeframe of our modeling and our providing long-term plans for internal operation and our board, we see these operating margins getting to 40% and that's not shocking.

I mean, if you believe that revenues are going to continue to grow because of the business model we have and yet we're able to control our expenses, we get this rate margin improvement.

Jessica Reif Cohen - Bank of America, Merrill Lynch Media & Communications - Analyst

Okay, you've just announced a 75% expected increase in free cash flow for next year. You ended the second quarter with net debt to EBITDA at around -- or net leverage at around 3.7 times and by year-end you should be able to say roughly 3.0 times. Are you comfortable with 3.0 times leverage? Is that your target leverage and at what point do you show returning capital to shareholders?

Mel Karmazin - Sirius XM Radio - CEO

So, yes, at this point -- I've always believed, in my past lives as well, that leverage is a good thing for our shareholders and that you certainly want to be prudent and we're still very comfortable with the fundamentals of our business. And sort of the -- I mean, not being in the advertising business primarily, being in a subscription business primarily, about the relative predictability of our free cash flow and EBITDA. And we know that for the next five years we won't be spending very much money on satellites, because that's cycle would have been done.

So, we feel 3.0 times is a good level. We've had discussions with our board. We've had discussions with our board about the fact that using these numbers that are out there - we have a little bit over \$500 million of cash on our balance sheet - assumes we take this free cash flow that we're going to have for next year. And you can see here where we'll have -- by the end of the year we'll have over \$1.0 billion of cash on our balance sheet.



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That, if we can find some better use for the free cash flow than to return capital, I think that would be our priority, but if not, I think that we should be in a position of our board seriously considering how do we return capital to our shareholders. But again, our primary interest in growing the business, because we are a growth company. We have a lot of years of growth ahead of us, so it's not like the only way we can grow our business is to shrink our share count.

We can grow our business in many, many ways, but we don't see any real advantage of us being an investment-grade company. I mean, we know we can easily -- if you run out the numbers, you could see how we could be debt free; in fact that was our interest. I don't see any reason for this company to be an investment grade company. I don't know what the advantages are for us.

Jessica Reif Cohen - Bank of America, Merrill Lynch Media & Communications - Analyst

So there seems to be ample capital for investment in your existing business, possibly returning capital to shareholders, but if you were to do acquisitions to grow further or grow faster, can you talk about what types of acquisitions that would interest you?

Mel Karmazin - Sirius XM Radio - CEO

Sure, I'd love to do an acquisition, right. I mean, the idea is that if there was an acquisition out there that was in our core competency, it was strategically logical, it was something that would generate accretively free cash flow, we would like to do that. So, I'm better at telling you what it wouldn't be than I am in telling you what it would be.

We're looking at opportunities all the time. You know? I mean, it's amazing the difference that three years makes, but a week doesn't go by that some banker is not up in our office talking to us about, "Gee, have you thought of buying X." And we are very disciplined. The money is not burning a hole in our pockets. We have no great desire to make an acquisition. We know we have a great business model is working. We don't want to screw it up and we're not going to make a bad acquisition.

If you think about what has hurt companies, making bad acquisitions sometimes has hurt companies. We have no interest in doing that, but again, first use of the free cash flow is that if we found something that was in our core competency, strategic and accretive, we'd love to do that and if not, returning -- shrinking our share base.

This Company got started by not being able to get bank financing when it was in the beginning stages. So every single time that it needed to launch a satellite, or every time it needed to sign a content deal, what they would do is it couldn't get the banks to lend the money, so they would go out into the shareholders and have the shareholders raise the money. So the ability today of us shrinking the number of shares outstanding would be a very good thing for us to do.

Jessica Reif Cohen - Bank of America, Merrill Lynch Media & Communications - Analyst

Dr. Malone recently expressed some frustration regarding the stock's valuation and short of better performance, do you think about the possibility of taking Sirius private? Given the financial risks inherent in losing NRLs posed by a Liberty takeover, what are the strategic positives and negatives of becoming a majority-owned member of the Liberty portfolio?

Mel Karmazin - Sirius XM Radio - CEO

Right. Wait, Dr. Malone was unhappy with the stock performance?



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Jessica Reif Cohen - Bank of America, Merrill Lynch Media & Communications - Analyst

I think he said he expressed frustration.

Mel Karmazin - Sirius XM Radio - CEO

I can't imagine -- so, I think that Liberty --.

Jessica Reif Cohen - Bank of America, Merrill Lynch Media & Communications - Analyst

I mean it's been a great stock. I said that in the beginning, but (inaudible - multiple speakers) --.

Mel Karmazin - Sirius XM Radio - CEO

Yes, no. No, I'm not selling, I mean, no. I mean, my conversations with the doctor has been that he's -- they've made about \$5.0 billion since they made their investment, which was, as he claimed, one of his best deals that he has ever made. And I have -- but I will call him after this meeting and find out exactly --.

Jessica Reif Cohen - Bank of America, Merrill Lynch Media & Communications - Analyst

Well, since he's not here to (inaudible - multiple speakers) little trial going on somewhere.

Mel Karmazin - Sirius XM Radio - CEO

Yes, exactly, so --.

Jessica Reif Cohen - Bank of America, Merrill Lynch Media & Communications - Analyst

But so let's take out the beginning of that then. Maybe I prefaced it incorrectly, but in any case, let's talk about the -- can you talk about the positives and negatives as possibly becoming part of Liberty?

Mel Karmazin - Sirius XM Radio - CEO

So Liberty has been a great partner. The investment they made has been a very good one for them and it certainly enabled us to clear up what was a balance sheet issue, not a Company issue, at a time when the market was not lending us money.

You'll recall at the time that Liberty came in was when Warren Buffett was lending Goldman Sachs money at 10% and lending GE money at 10% plus warrants. So how does a company like Sirius XM that had no free cash flow then get money? So what Liberty did for us was terrific and it turned out to be really good for them.

There really hasn't been any strategic advantage of Liberty providing us. John is on the board, along with Greg Maffei and Dave Flowers are on the board, so strategically they've been very helpful as board members. They're very smart people, but I think all I can do is reiterate the things that Liberty has said publically to us and one is they love the Company. That's why they became involved and at some point they could decide that they want to own more.



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The other thing that Liberty could decide is to do nothing. It's been a good investment and they can stay exactly where they are. Another option is -- and if you look at what they did with DirecTV at one point is that they said "Well, gee, this has no strategic reason that we need to own it. Why don't we think about splitting it off to the shareholders?"

So I think that they have all of those options available and when he's finished with that trial today, you can call him and find out from him what he wants to do, but he hasn't told me anything about what they want to do.

Jessica Reif Cohen - Bank of America, Merrill Lynch Media & Communications - Analyst

Okay. Churn dipped below 2.0% and appears to be heading lower. What is it about your self-pay customer base that makes you optimistic about the stability of the churn number? Do you think/perceive being able to drive it below 1.5% and maybe a comment on what your expectations are going into a price increase?

Mel Karmazin - Sirius XM Radio - CEO

Yes. So, I mean, one of the things that really has enabled us to have the churn, which we think is in this very, very acceptable area - an acceptable area 1.7% to 2.0% is where we sort of are hanging out - is that people love our content. People love our service. We have a great product and again, the price increase is something that we are doing because we've added so much content since the last time that it's the appropriate thing to do. But -- and again, we think that our subscribers feel that they're getting great value.

So I don't think that you should think about our churn. I just don't model it getting below 1.7%, so I think that that is sort of where we think it is the range and getting to about 2.0%. We have a tremendous amount of competition. People are talking about all of this Internet competition and if you think about it and you think about the companies that have come along over the last over the last number of years and are here today, the fact that we are still adding net ads more than we have been of recent year is to me indicative of our product.

So we continue to offer new content. We continue to try to improve our customer service to make them want to continue to be with us, not being in any way abusive on the pricing increases. You know there were people who came to us and said, "Gee, why don't you be more aggressive in your price increase than you are currently doing at \$14.49?" And our thinking, again, is that we compete with free.

I mean, if you think about the way people get audio entertainment, whether it be in terrestrial radio, whether it be in Internet radio, for the most part it's free and yet today, in spite of having all this content available for free, over 21 million people decided that they want to continue to have satellite radio. So we are monitoring it. We're always concerned.

Anytime anybody's in a subscription business -- I haven't been in subscription business most of my career. I had a little bit of subscription business at Showtime when I was involved with that. Most of the time it's been advertising. But now that I'm involved in the subscription business, the one thing that's the most important thing that we look at -- and we get a report on it daily on the number of DX.

We get a report every single day on the number of people who are de-acting and why they are de-acting and a lot of the de-acts that we're getting are unrelated to us. It's their credit card, the economy that they're experiencing with. And we believe that the research that we do, customers love our service. There's no waning of that in spite of increased competition. We're still out there as somebody that's offering this great content, so, but churn is a big deal.



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Jessica Reif Cohen - Bank of America, Merrill Lynch Media & Communications - Analyst

I'm going to ask one more question before we open it up to Q&A. Stocks declined to the mid-50s and you recently said that the decline is being driven by the OEMs. Can you just drill down into the cost reductions that are driving these efficiencies?

Mel Karmazin - Sirius XM Radio - CEO

Yes. I mean, as we get to more advanced chip sets and as we are able to take costs out and as we are able to merge the two companies together and to have the benefits of all that, we think that we've gone -- I think that when I first came to the Company, I joined the Company in November of 2004 and our SAC was about \$200. It was where the SAC was, but we've made dramatic improvements.

We have worked very hard on taking costs out and we don't see the \$56 going down very significantly going forward, but that business model enables us, at this kind of SAC, to be able to get to margins like we talked about the opportunity of us getting to, long-term, about 40%.

Jessica Reif Cohen - Bank of America, Merrill Lynch Media & Communications - Analyst

Let's open it up if there any questions from the audience.

QUESTIONS AND ANSWERS

Unidentified Audience Member

When you look at the mix of vehicles that are converting at high rates, what's your penetration on those vehicles? I mean, you mentioned that Japanese vehicles you'd like to get better, but do think you targeted market in those vehicles --?

Mel Karmazin - Sirius XM Radio - CEO

So you should assume that when we believe vehicles will convert very high, we are looking to be standard, right, so that if in fact we were to take a look at some of the luxury brands that are out there, we're in every single one of them. So there are vehicles that are 100% includes -- penetrated.

Then there others where the trim line is higher, so, in other words, you get to a lower price but you're in those with the radio where they have the extensive package and if you want it fully loaded, we see our conversion rate better there. So we try to penetrate more into the highest converting. We then take a look at some of the lower converting vehicles and think that maybe we should adjust our penetration maybe to be on the high end.

There are some vehicles where they have an Am/FM radio and that's it. I mean, we don't -- there are vehicles where they still have the cranks to turn down the windows and we're not experiencing that the satellite radio customer is apt to be buying that car, so therefore we shouldn't be penetrating them as highly as we are some of the luxury brands.

Unidentified Audience Member

Are you in every vehicle you want to be in, in high end?



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Mel Karmazin - Sirius XM Radio - CEO

Yes. I will tell you that our automobile partners want to sell cars. They know that they could sell a car because of the fact that we make the driving experience better. And many of them have financial benefits, revenue share, as to why they would, but we are in -- we have deals in every single car company. We are, if not today, where we want to be, working with those OEMs to be in those vehicles, penetrated at the right level and our relationship with the OEMs has been extraordinary.

Unidentified Audience Member

I know you've expressed the idea before that if Liberty took over they should pay some control premium. Is buying your stock back in conflict with that idea?

Mel Karmazin - Sirius XM Radio - CEO

No. I think the idea is that one of the sensitivities that we would have to deal with, Denny, and we haven't gotten that far. Again, our board, the decision to buy our stock back, or to a dividend, or not do anything would be made at the board level. But we have no plans to ever think about shrinking our bloat so that Liberty would be able to get, have more control than they do today and 40% is where Liberty is today.

So the idea wouldn't be that we would buy back shares and then therefore Liberty would then get accretive and therefore have a higher percentage of the Company. That's not something that we think is in our shareholders' best interest and that's something that we would balance if the decision was made to do that.

Unidentified Audience Member

You haven't really discussed sat radio 2.0 today. It seems like most of those benefits would accrue to the new car buyers, but is there any program to address the existing units that are out there?

Mel Karmazin - Sirius XM Radio - CEO

So, thank you for asking the question about 2.0, because this format was more being responsive to the question, so yes. We're very excited about 2.0. We will have two radios out retail in the fourth quarter; it's the holiday season. That we will also be using IT to extend our offering and to add functionality, which we have talked about.

We have a suite -- one of the easy things to explain is what we're doing in the Spanish language. So, if you take the Los Angeles market, which is one of the biggest radio markets for Hispanics, and you take a look at the landscape of radio stations in Los Angeles, well, today we offer three radio stations. So, going forward, if you paid \$14.49 and we didn't use 2.0, you'd be getting three Spanish language radio stations.

Going forward, starting this year, the end of this year, we're going to have more radio stations than exist in Los Angeles and therefore and special radio stations. So all the music stations that we're going to have in Hispanic aren't going to have commercials and we're going to offer content that's coming from Mexico that will be an enhancement, so we think that offering more content is one thing.

Having pause and rewind functionality, being able to start over -- one of the easy things to think about is you get into your car, you put on a station, you hear a song that you don't like and you push the button and you go to one of your other Sirius XM stations that you like, but that song would be in the middle and you'd miss the beginning.



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Well, starting over and being able to hear it from the beginning, having on demand, which is where we will evolve into. So Martha Stewart has done a show on making cupcakes and you're interested in that show. You're not necessarily only interested in what's on today. You'd be able to order up and just get the cupcake show. You'll be able to get content like Howard Stern content.

So, we think, just like the cable and satellite TV companies have improved their churn, improved their ARPU by adding more functionality, by adding more sticky things, by getting, giving them more channels, that's our vision. It's the same thing that was done in video. There's no reason that we can't do that on the audio entertainment side.

Jessica Reif Cohen - Bank of America, Merrill Lynch Media & Communications - Analyst

Great. I think that we're out of time. Thank you so much for breaking news at this conference and really appreciate it.

Mel Karmazin - Sirius XM Radio - CEO

Thank you.

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Company Name: Sirius XM Radio Inc
Company Ticker: SIRI US
Date: 2011-02-15
Event Description: Q4 2010 Earnings Call

Market Cap: 6,831.06
Current PX: 1.74
YTD Change(\$): +.1099
YTD Change(%): +6.742

Bloomberg Estimates - EPS
Current Quarter: 0.015
Current Year: 0.032
Bloomberg Estimates - Sales
Current Quarter: 735.400
Current Year: 3089.100

Q4 2010 Earnings Call

Company Participants

- William Prip, Director, Investor Relations
- Mel Karmazin, Chief Executive Officer
- David J. Frear, Executive Vice President, Chief Financial and Accounting Officer
- James E. Meyer

Other Participants

- Barton Crockett
- Vijay Jayant
- Michael Pace
- David Gober
- Vijay Singh
- Martin Pykkonen

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and welcome to the Sirius XM Radio's Full-year and Fourth Quarter 2010 Earnings Conference Call. Today's conference is being recorded. A question-and-answer session will be conducted following the presentation. [Operator Instructions]

At this time, I would like to turn the call over to William Prip, Senior Vice President, Treasurer and Investor Relations. Mr. Prip, please go ahead.

William Prip, Director, Investor Relations

Thank you, Nicky, and good morning, everyone. Welcome to Sirius XM Radio's earnings conference call. Today, Mel Karmazin, our CEO will be joined by David Frear, our EVP and CFO. They will review Sirius XM's full year 2010 financial results. At the conclusion of our prepared remarks, management will be glad to take your questions. Jim Meyer, President Operations, Sales and Scott Greenstein, President, Chief Content Officer will also be available for the Q&A portion of the call.

First, I would like to remind everyone that certain statements made during the call might be forward-looking statements as the term is defined in the Private Securities Litigation Reform Act of 1995. These and all forward-looking statements are based on management's current beliefs and expectations and necessarily depend upon assumptions, data or methods that may be incorrect or imprecise. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially. For more information about those risks and uncertainties, please view Sirius XM's SEC filings. We advise listeners to not rely unduly on forward-looking statements and disclaim any intent or obligation to update them.

As we begin, I would like to advise our listeners that today's results will include discussions about both actual results and adjusted results. All discussions of adjusted operating results exclude the effects of stock-based compensation and certain purchase price and timing adjustments.



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I will now hand the call over to Mel Karmazin.

Mel Karmazin, Chief Executive Officer

Thanks, Will, and good morning, everyone. 2010 was a remarkable year for satellite radio. If there were any doubts about the viability of SiriusXM, our 2010 results put those doubts to rest. Today, we have a respected brand that is coveted as a must-have product for discerning American consumers.

In addition, the business community at large cannot ignore the strong economic drivers inherent in our unique business model. Technology changes have transformed the media landscape over the past 10 years creating winners and losers along the way. I'm proud to say that we are clearly in the first camp. We are no longer a long-shot concept and company. I believe we are increasingly viewed as a sure thing.

Let me quickly review the company's important financial results in 2010. Revenue grew by over 14% to \$2.82 billion, a record for the company. At the same time, we managed our expenses aggressively allowing only a 7% increase in cash operating expenses. Most of the expense increases were revenue-related or related to our growth in subscribers. Consequently, adjusted EBITDA grew by over 35% to \$626 million, which was another record for the company.

After only two years of positive adjusted EBITDA, our margin was 22%. We anticipate significant margin expansion in the years ahead with an operating margin over 40% at maturity. As those investors who have known me for a long time appreciate, the most important measure of a business's success to me is free cash flow. It's free cash flow that enables you to pay down debt, make acquisitions or return capital to shareholders. In that regard, we generated \$210 million of free cash flow in 2010. That's despite launching a satellite last year and paying for a great deal of the construction of another satellite that will launch later this year. Free cash flow was also a record amount for the company.

That's two consecutive years of strong free cash flow generation; \$185 million in 2009 and the \$210 million in 2010. What a difference from the over a half billion of negative free cash flow in 2008. And free cash flow over the next several years should ramp dramatically given that we will not be spending any cash on satellite capital expenditures following this year's launch of SIRIUS 6 nor will we be a meaningful income tax payer.

Importantly, our operational metrics in 2010 were as gratifying as our financial results. Subscriber net additions were 1.4 million strong in 2010 representing a year-over-year growth rate of nearly 8%. That's pretty 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. We ended the year with 20.2 million subs, which was another record for SiriusXM.

In addition to the strong gross adds, principally a result of improved auto sales, I'm proud to say that this growth in our subscriber base was also the result of improvement in our subscriber metrics verse 2009 levels. The rate at which we converted consumers on trials to self-pay subscribers grew from 45.4% to 46.2%, while we also reduced our self-pay churn from 2.0% to 1.9%.

The fact that we grew our self-pay base by nearly 1 million subscribers is an astonishing achievement. Six times as many new customers chose to pay for our service in 2010 than in 2009. This clearly demonstrates that consumers love SiriusXM, given their willingness to pay for our service when they have plenty of free audio entertainment alternatives available to them.

Content is what matters. It was great news for our subscribers and our shareholders that we were able to extend Howard Stern's contract and also the NFL until 2015. We will continue to deliver to subscribers the best content in radio. We also anticipate that our programming costs will continue to decline in absolute dollars and also as a percentage of revenue. Also very importantly, Howard and the NFL are available on smartphones with the SiriusXM App and that will also please subscribers. As smartphones continue to emerge, SiriusXM will be a content leader there as well.

From whatever perspective you look at SiriusXM today, as a consumer, a lender or as a shareholder, the company is respected and offers a unique value proposition. To the consumer, we offer a tremendous array of diverse audio content at a modest cost. What else is available to the American consumer that provides a comparable level of daily satisfaction



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at a cost of less than \$0.50 a day?

To our lenders, our performance over the past quarters has provided a steadily improving credit profile that has rewarded them with a very good return on the risks they've taken when deciding to lend to us. Our debt investors today view us as a significantly better credit risk than they did in the recent past, and we expect that our continued growth will provide us even better borrowing rates in the future.

From our shareholders' perspective, we enjoy a premium valuation versus most of our competitors in the media space. Clearly, the equity market now better appreciates the strength of our business model, particularly the expected free cash flow generation characteristics of the company in the coming years. Luckily for our shareholders, I believe we have the assets, financial flexibility and the business savvy to satisfy the growth expectations inherent in our valuation today. I expect that we will continue to dominate paid audio entertainment in the years ahead.

So let's talk about the future, both near term and longer. As is usual for us, we are cautious starting the year, but I'm happy to announce today that we are providing guidance for 2011 that keeps us on a growth trajectory that is similar to the growth that we experienced last year. We expect to generate approximately \$3 billion in revenue and \$715 million in adjusted EBITDA.

We also expect free cash flow to approach \$300 million this year. Operationally, we are forecasting to add another 1.4 million net subscribers by the end of the year and to experience full year conversion and self-pay churn rates similar to the strong levels we enjoyed in 2010.

Our entire organization is working tirelessly to introduce SiriusXM 2.0 into the marketplace through the retail segment in 2011. I'm really excited about the evolution in our service. As I mentioned earlier, SiriusXM 2.0 promises increased content and functionality to our subscribers. We're expecting to expand our audio content lineup by a significant number of channels. That should make our already-robust content offering even better. You should expect us to offer additional data service over time as well.

We're also planning some exciting improvements in functionality. An electronic program guide will be available that lets you know what's on all of our channels. Our subscribers will be able to buy music from their radio. We'll also include pause, resume and replay as well as record and playback capabilities. We believe these improvements will enhance the customer experience and make our service that much more differentiated and superior to the alternatives out there and, therefore, that much more indispensable to our subscribers.

We'll also look to enhance the value of being a SiriusXM subscriber in other ways. We received very positive feedback about the Paul McCartney concert we presented last December that celebrated SiriusXM achieving over 20 million subscribers. You should expect that we will be doing more of these events in 2011 as well.

Our priorities for 2011 are to end the year reporting record revenue, record subs, record EBITDA and, most importantly, free cash flow.

The theme running through everything I just mentioned is simple. We know we have a great service that people want. We want to consumers to crave SiriusXM even more and establish an enduring loyalty to our brand. To accomplish this, we plan to continually invest in new services, functionality and especially programming that continually enhances the value proposition and encourages consumers to not hesitate at each opportunity to become a self-pay subscriber. We want to become a no-brainer when American consumers are deciding how to allocate their precious household budgets.

I believe this commitment to serving the wants and needs of our subscribers and having the financial wherewithal to meet that commitment will translate into sustaining growth and strong and consistent improving financial results, which we hope will further translate to incremental shareholder and value creation.

From my perspective, the long-term investment thesis is actually pretty straightforward. We intend to offer service to consumers that they will want for a long time. The opportunity for acquiring new customers is growing, both through additional improvements in the auto sector as well as the used car opportunity we've spoken about. The combination of these two factors should allow us to generate steady top-line growth over the next several years.



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Then slap that expectation against the strong operational leverage characteristics of this business, and we should be a significant free cash flow generator over the next several years. Growing EBITDA, no satellite CapEx, reduced interest payments and no meaningful income taxes will contribute to our dramatic free cash flow growth.

So the obvious question that arises from this is what will we do with the cash that we accumulate over time? There are only three things a company can do with a significant amount of excess cash; pay down debt, buy assets to grow the business or return capital to the shareholders. Our Board of Directors will consider all the alternatives and make the decision that is in the best interest of our shareholders. Long term, we expect to maintain some debt leverage at SiriusXM. As a subscription-based business, we can probably tolerate a significant amount of leverage, but just assume we keep leverage at a modest level like three times adjusted EBITDA.

In that case, we clearly would not be diverting much of the future cash generation toward reducing debt. In fact, we might more likely increase gross indebtedness over time as we continue to grow the business.

So will we buy assets with our excess cash? Perhaps, but we haven't seen anything yet that's worthy of any meaningful investment or acquisition. Then will we return capital to shareholders? Although I certainly can't quantify the amount or the timing for this, I think it is reasonable to expect that the company will return capital to shareholders over time.

Obviously, this perspective can change if we modified the financial policy around leverage I just mentioned or if we find some new technology or a company to buy that we believe provides a long-term strategic advantage for our shareholders. So stay tuned on this front as we expect to be near our target leverage ratio in the not-too-distant future.

Without everyone at the company focused exclusively on profitable growth, we will not be able to deliver the free cash flow growth that we and our shareholders want and expect. In that regard, I am confident that we have the focus at the board level, among the leadership and deep within the organization. Our employees are encouraged to think continually about growing the top line, managing cost and delivering economic profits.

We do this by continually improving programming, investing in technology, whether customer-facing or deployed internally, to make us more efficient and enhancing the customer experience in all ways including the customer care process. We're focused in this way because we understand and appreciate the power of competition. We live with intense competition since the first day we began broadcasting, and every paying customer we've acquired over the years came aboard because we've offered something different and better than the alternatives out there. But like most areas of modern life, alternatives to the consumers are ever-increasing, and we're up for the challenge.

The media business has always been highly competitive, and things will continue to evolve in the years to come. There will be winners and losers as the media landscape changes over time, and I am confident that SiriusXM will again be in the winner's circle.

For any company to succeed in a changing environment, it needs to stay relevant and I think strategically, not only about what consumers want today, but what they will want in the future. Change is always accompanied by opportunities and challenges. We're ready to keep grabbing those opportunities as they arise. I believe the best days for SiriusXM are yet to come. We fully expect to hit it out of the park in 2011.

With that, I'll hand the call over to David to discuss additional details about our 2010 financial and operating results.

David J. Frear, Executive Vice President, Chief Financial and Accounting Officer

Thanks, Mel. SiriusXM turned in a much better year than expected in the face of the slow improvement in the economy. While North American auto sales were up 10% from 2009 at 11.6 million units, they were still down 12% from 2008 and 28% from 2007's 16.1 billion vehicle pace. While the economy has improved, unemployment remains high, job creation is low, housing values haven't improved much and consumer credit remains scarce.



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 YTD Change(%): +6.742

Bloomberg Estimates - EPS
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 Current Year: 0.032
 Bloomberg Estimates - Sales
 Current Quarter: 735.400
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Nevertheless, in a clear demonstration of the strength of our subscriber-based business model, SiriusXM delivered record results solidly beating guidance we raised three times in the course of the year, finishing at 20.2 million subs, over \$2.8 billion in revenue, \$626 million in EBITDA and \$210 million in free cash flow. In delivering over 1.4 million net adds in 2010, our self-pay subscriber base grew by approximately 1 million to 16.7 million subscribers, and the funnel of paid and unpaid trials ready for conversion grew by 700,000, finishing the year at 4.3 million.

While gross additions expanded by 25% over 2009, total deactivation declined. Self-pay churn improved by 11 basis points, finishing the year at 1.92%, and the conversion rate of auto trials improved to 46.2%. With the slow-but-steady economic recovery and improving marketing practices, we are seeing improvements in conversion rates across virtually all auto manufacturers. The effect of these improvements on our overall conversion rate is somewhat muted by shifts in market share among the auto manufacturers as lower converting brands pick up in North American auto sales.

Revenues were up 14% at \$2.8 billion. ARPU of \$11.73 per month was up 7% for the year. The last three quarters for ARPU were roughly flat at \$11.80. In December, we adjusted the U.S. music recovery fee down to \$1.40 from \$1.98 for primary subscriptions, while leaving the multi-subscriber U.S. music recovery fee unchanged at \$0.97. Under the terms of the FCC merger order, we are allowed to pass on to our subscribers any increases in royalty costs incurred since March 2007. The adjustment in December was implemented to ensure that we do not recover more than what is allowed under the merger order.

Ad sales were up 25% over 2009 as we continued to outperformed both the radio market and the national ad market. Since 2008, EBITDA has improved by \$760 million. Revenues are up \$400 million over that two-year period and cash operating expenses are down by \$360 million. The principal drivers of the expense reductions are sales and marketing costs down \$120 million, programming and content down nearly \$100 million and SAC is down \$80 million on a 20% improvement in SAC per gross add.

We continued to grow revenue faster than expenses. Our EBITDA margin expanded to 22.1% for the year and to 38.1% on a pre-SAC basis. Contribution margin rose to 71.2% for the year. The 1-point, 2-point increase in contribution margin offset a similar rise in SAC as a percentage of revenue, which was driven by the 25% increase in gross additions in the year. Fixed cost improvements drove the nearly 4-point improvement in EBITDA margin.

This incredible performance in the income statement has dropped straight through to free cash flow, which has also improved by about \$760 million since 2008. Our free cash flow for 2010 improved to \$210 million significantly above our \$150 million guidance, despite an increase of 63 million in capital expenditures.

We successfully placed XM-5 in orbit in the fourth quarter of 2010. XM-5 will serve as an in-orbit spare for both the Sirius and XM fleet protecting our customers and our revenues from a degradation of service in the event of a satellite anomaly. In the fourth quarter of 2011, we will complete our satellite replacement cycle with the launch of SIRIUS 6.

We expect our satellite capital expenditures to decline by approximately \$90 million in 2011 and by another \$100 million in 2012. We do not expect begin construction of another satellite before late 2016 or 2017. As a result of the successful launch of XM-5, we no longer believe SIRIUS 4, which we've kept as a ground spare, will be used in our satellite operations. As a result, we have a recorded a \$56 million charge to restructuring impairments and related costs in the quarter to write off the remaining book value of this satellite.

In October, we issued \$700 million of 7.625% unsecured notes due 2018, the proceeds of which were used to retire the 11.25% senior secured notes due 2013. We recorded a charge of \$85 million in the fourth quarter in connection with the retirement of the 11.25%.

This issue followed our successful \$800 million placement of 8.75% unsecured notes due 2015 in March of 2010, the proceeds of which were used to retire secured debt due in 2012 and our 9.625% notes due in 2013. Over the course of 2010, we issued \$1.5 billion of unsecured debt at very attractive single-digit coupons, retired secured debt and pushed out maturities by three to five years.

The improvements in EBITDA and free cash flow have also resulted in dramatically improved leverage in the balance sheet. Our net debt to adjusted EBITDA has improved from 5.8 times at the end of 2009 to 4.2 times at the end of 2010.



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This improvement in leverage allowed us to merge the Sirius and XM entities in January 2011, simplifying our capital structure and eliminating unnecessary administrative costs.

Since December, we have also bought back \$131 million of debt including the remaining \$37 million of the 11.25% notes and \$94 million of the 3.25% converts due in October 2011. We now have only \$104 million of scheduled debt maturities between now and the middle of 2013.

As a final note, our two Canadian affiliates have reached an agreement to merge subject to shareholder and regulatory approval as well as certain other conditions. Canadian Satellite Radio, a public company traded on the Toronto Stock Exchange under the symbol XSR, will issue approximately 58% of its equity to the shareholders of Sirius Canada in the merger. CSR's shareholder meeting is on Thursday of this week, February 17th. The CRTC, the Canadian equivalent of the FCC, has announced that it will hold a hearing on the merger on March 7th. The Competition Bureau, which is Canada's equivalent of the Department of Justice, is also reviewing the transaction.

SiriusXM will own about 37% of the economic interest following the merger. This represents approximately 45.5 million XSR shares. As part of the merger, CSR will repay all amounts outstanding under the XM credit facility, and Sirius Canada is expected to make a cash distribution to its equity holders. We expect the transaction to close in the second quarter.

With that operator, I'd like to open it up for questions.

Q&A

Operator

Thank you. And at this time we'd like to open the call up for questions. [Operator Instructions]. And your first question comes from Barton Crockett with Lazard Capital Markets. Please go ahead.

<Q - Barton Crockett>: Okay, great. Thank you for taking the question. I wanted to ask about the focus on returning capital to shareholders and get a little bit more, kind of, elaboration on a couple of points. One is it safe to assume that your preference is going to be for share repurchase over dividend?

And then secondly, in order to buy back shares, could you talk about how the Liberty shareholdings play into your evaluation? In other words, are you constrained in your ability to repurchase near term by the desire not to trip a change in control for the NOLs given their 40% ownership? Is there a need to have some type of agreement with them to proceed? Do you see their shareholdings potentially the source of shares that you had repurchased or is your preference more to buy back from the publicly traded stock?

<A - David J. Frear, Executive Vice President, Chief Financial and Accounting Officer>: On the, NOL front, Barton, that 382 is a tax code. We'll constrain or influence what we do for probably the next year or little bit more. Under that section of the code, that you're always looking at a three-year window for a change in control and we clearly wouldn't want to trip the change in control because that would limit or affect the way in which we utilize our NOLs.

But once we get to the second quarter of 2012, we're beyond the three years since Liberty made their investment and we start over again with respect to the 382 calculation. So I think that as it relates to tax issues that you should think about this unconstrained starting in the second quarter of 2012.

<A - Mel Karmazin, Chief Executive Officer>: Yeah, so I think the date for Liberty is March of 2012 when that gets triggered. And regarding what exactly we're going to do, obviously, that will be a board decision. We have already had a discussion at the board level about what we should do with our free cash flow. No determination has been made.

Historically, I've always believed that a share buyback is a more tax-efficient way of returning capital to shareholders as compared to a dividend. But clearly, that's not anything that has been determined. We certainly have not heard anything specific from Liberty about their interest in having less ownership in the company. So certainly, from where I'm sitting today, we're not thinking about using the free cash flow to buy in Liberty shares as much as we might be



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thinking about using it for our public float.

<Q - Barton Crockett>: Okay, that's great. And then switching gears a little bit, given that we're right year on the cusp of Pandora's IPO filing, I was wondering if you could talk a little bit about your ability to include a Pandora-style feature in satellite radio. There's been some discussions from various sources about patents. Is this a feature that – the ability to select personalized music stream online. Is that something that you could include within satellite radio? Is it something that you think makes sense, is technologically feasible to do?

<A - Mel Karmazin, Chief Executive Officer>: Yeah, interesting. Certainly, without speaking to specifically to Pandora, there's an awful lot of IP audio content that's out there, and virtually all of them have a music recommendation engine or algorithms that enable you to, sort of, target a little bit more your channels. Most of those companies, today, when you pick a channel that you want are limited by the number of plays that you can have from a single artist because of the Digital Royalty Act.

So we think that our channels, curated channels, are something that's very desirable to the consumer. If you take a look at our time spent listening, which we do, and we compare it to the time spent listening of a lot of the IP channels, we see a greater satisfaction from our content. But having said that, certainly there is nothing that would preclude us from doing what you said in an IP part of the distribution that we do to consumers.

So clearly if, in fact, it was something we believe that our subscribers would want, we would absolutely do that. We think that there is an awful lot of people who like the Slacker, Pandora, Last.fm, iheart services because it's free. I mean, nothing is really free because the way they make their money is they make you listen to commercials, and lot of that IP content, as they get and try to get more and more revenue, are going to be running more and more commercials. And, again, we like our business model which is principally subscription-driven as compared to the model of where you're offering a service for free and running commercials. That sounds an awful lot like terrestrial radio.

<Q - Barton Crockett>: Okay, that's great. I'll leave it there. Thank you.

Operator

And our next question will come from Vijay Jayant with Citadel Securities. Please go ahead.

<Q - Vijay Jayant>: Hi, thanks. Looking at your guidance, Mel, it suggests that really no ARPU growth in 2011, based on your revenue expectations there, at least for the moment. Can you sort of talk about, long term, you never really have had any rate increases on the platform and you've added a lot more content over the years. And the price gap potentially, sort of, goes away, hopefully this year. Can you talk about long-term pricing in general, please?

<A - Mel Karmazin, Chief Executive Officer>: Yeah, certainly we believe that our original price point of \$12.95 when we started was attractive. We priced it that way because we wanted to grow our subscribers as rapidly as we could. We believe that we would get more subscribers at \$12.95 than we would at \$16.95 or at a higher price, so that was the determination then. Since the price was put in in 2002, we added a great deal of content; Howard Stern was added, the NFL was added. We added NASCAR. So we believe that we offer great value to our subscribers.

We're constantly looking at ways of continuing our growth and not pricing ourselves at a point that would really hamper our growth. But, I think, like all businesses, you should assume that the company is going to increase prices in the future. You just need to do that to remain profitable and to continue to invest in content. We have not certainly announced anything at this point in the way of increased prices, but the reality of it is that it's something that you should expect will happen in the future.

<Q - Vijay Jayant>: Great. Thank you.

Operator

And our next question will come from Mike Pace with JPMorgan. Please go ahead.



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<Q - Michael Pace>: Hi, thank you; just a follow-up from Barton's first question on the capital structure. Just to be clear, was that three times leverage target or goal, do you think about that on a gross or net basis? And then if we fast forward to when returning capital to shareholders, might be appropriate when we look at the balance sheet thing. You still have a maturity profile where there's a fair amount of debt that comes due in 2013 through '15. Two questions on that. Would you feel the need to clear a longer runway before returning capital to shareholders? And then what would be kind of a goal if you had a blank piece of paper for the debt capital structure in terms of a more traditional secured, unsecured debt capital structure to minimize interest cost? Thank you.

<A - Mel Karmazin, Chief Executive Officer>: So let me start and David could pipe in as well. What you have to factor in is the extraordinary amount of free cash flow that the company's operations are generating. So in taking a look at what our longer-term debt profile is, you really do need to factor in what we will be going into those years with in cash on those balance sheets. And I believe that where we are today, certainly, we don't see any impediment to the debt maturities not being able to easily being handled by our cash that we would have on hand.

When I take a look at it, it's not a perfect science and the three isn't a number that's written in concrete. But I tend to take a look at it from a net-debt point of view. And again, I don't want to front run anything that the board is going to do because this decision is obviously a board decision. But I think we all agree that having a leverage in our type of business of somewhere around three is appropriate. We get there rather quickly. We believe in our business model. We believe in the free cash flow generation that's going to enable us to very comfortably deal with the debt that's on the balance sheet and, regarding debt in general, we believe that having a certain amount of leverage is appropriate.

We think shareholders benefit from having a certain amount of leverage; think that that unsecured debt is better for us, particularly with where we are in our strength today and think that a capital structure that would have certain amount of debt unsecured and enabling us to use all the cash that we have in excess of the leverage we think is appropriate, we would use to buy back our stock or some other way of returning capital to shareholders.

<A - David J. Frear, Executive Vice President, Chief Financial and Accounting Officer>: That, you know I think I just want to reemphasize the point that Mel made in there that we believe that we will very comfortably cover our 2013 to '15 maturities out of the cash flow of the business. We think that'll give us an opportunity to potentially do new financings out in that timeframe to keep the debt, let's say, at, sort of, the \$3 billion level that it's at now that we'll be able to enter into new financing arrangements that significantly improve pricing from what's on the balance sheet today.

With respect to secured versus unsecured is you look at the difference in execution in the marketplace and what you can get in rates, right now, there's not enough of a benefit in the rate reduction to merit giving up the security. Clearly, if that changes and the gap widens between secured and unsecured, that's certainly a tool we can use.

<Q - Michael Pace>: Great. Thank you.

Operator

Thank you. And our next question will come from David Gobar with Morgan Stanley. Please go ahead.

<Q - David Gobar>: Good morning, guys. Thanks for taking my questions; one on the top line and one on the cost structure. In terms of the subscriber guidance, it seemed a little bit conservative, and I know you guys have been conservative in the past. I mean, particularly last year the initial guidance I think was 500,000 sub adds. So clearly there could be upside. But just curious in terms of the inputs there, what you guys are assuming in terms of SAR and how do we think about – I know you guys have mentioned that auto trends should be better and conversion rates and churn should be relatively stable. But I would think that at the end of the day that should result in a higher net add number rather than a flat one. I'm just curious if there's anything I'm missing there in terms of the math?

<A - Mel Karmazin, Chief Executive Officer>: Yeah, you're not missing anything at all. I think it just is really us going in and not really knowing enough about how many cars are going to be sold. We track all of the organizations



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that provide guidance on SAR including our partners who all do it. And today, they seem to be inching up. Every single day, I get a revised SAR number.

Steve Rattner was on CNBC this morning talking about how he believes that the number will be over 13 in this year and 14 in 2014. Now he is the car czar, ex-car czar, so he might know something about it. But we certainly are thinking of a SAR number that is around the mean number today, which is about 12.5 million and that's where the numbers seem to fall.

You should assume that if, in fact, the car sales are greater than that, then our subscriber numbers will grow; that there's nothing we're signaling at all. All we're doing is saying it's early in the year. We don't know exactly what's going to happen on the car level. We still think that the number is around 15 million, which is the replacement number of cars that should be sold to just replace the cars on the road.

So we believe that there is upside, not just in 2011, but in subsequent years in so far as car sales go. And our penetration level has been eking up a little bit actually. So we're in the low 60%, and we don't see that changing. So higher car sales, higher penetration, good conversion would get us to a different subscriber number, but we don't have the confidence today to give you that number.

<Q - David Gober>: Great. And I guess just on the cost side, a couple of little ones. G&A looked like it ticked up a little bit in the fourth quarter. I was curious if there's anything, one-time, or anything kind of interesting going on there. And in terms of customer care costs, I think, Mel, you'd mentioned investing and making sure that the consumer experience was good as possible. But it seemed like there was a little bit of tick up there in the fourth quarter as well? Just curious if there's anything that was going on there?

<A - Mel Karmazin, Chief Executive Officer>: So let me just deal with the customer care point, and David will do the rest. We have been investing significantly in trying to improve that customer care experience. We think that it's real important. Churn is a big priority for our company and a big focus point. We spent a good amount of money last year on IT that enables us to improve that customer care experience. We've introduced a new unified Web site that has a soft launch going on right now that has a lot more customer care features as part of it to be enable us to not just long-term improved cost, but more importantly, improve the customer care experience.

And let me just turn it over to David to answer the...

<A - David J. Frear, Executive Vice President, Chief Financial and Accounting Officer>: Okay. So just to finish up on customer care, in the quarter we have two things; one unusual and one kind of recurring that came up. Christmas is always a little bit of extra staffing in customer care. We still do a good amount of volume around Christmas time. We also have a lot of renewals that come through the holiday season, and so there's a seasonal ramp-up in staffing and training in the fourth quarter.

We also, in early November, put both platforms of subscribers onto the same system, so integration of our subscriber management system. And so in the quarter, we had a reasonably significant amount of training that went on to ensure that agents were familiar with the platform in. Any time you integrate a big subscriber system like that, you're also going to have edge cases where you're going to drive more calls from customers into the call center.

On the G&A front, you should really think of it as litigation spending, that we've got – as we've disclosed before, we've got some suits out there that we are actively pursuing and we're hopeful of resolving those in course of this year and seeing G&A come back down.

<Q - David Gober>: Great. Thank you very much, guys.

Operator

Thank you. And our next question will come from Vijay Singh with Janco Partners, please go-ahead.



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<Q - Vijay Singh>: Yeah, I just have a question on the XM 2.0. I just wanted to see what, with the increased bandwidth, what kind of demographics you'll be targeting and what kind of new programming would be coming on or just to get a direction as to if there is an experimental opportunity for the company?

<A - Mel Karmazin, Chief Executive Officer>: Yeah, I think that we will certainly have the additional bandwidth, which will enable us to do additional programming. It's not like we are suddenly saying that now we're going to go to a much younger demographic than we have historically programmed to mainly because, again, we're principally in the subscription business, and we're focused on generating revenues and going after our best subscribers.

So we think that there are additional channels that we will be adding. They will be complementary along the lines there will probably be some more on the edges because of the fact that we do have the ability to add some new genres of music and programming. But it's not a wholesale shift that's going to set in.

One of the things that you should assume, though, not on an age issue but from a demographic point of view, we certainly will be targeting Hispanics more than we have done to date. And we haven't finalized it yet, but we will have a suite of channels that will, we believe, appeal to what is the fastest growing part of the U.S. population, which is Hispanics, and it's an area that we have been underperforming in. So we think that that represents a greater opportunity.

<Q - Vijay Singh>: Great. Thank you.

Operator

And we will take our next and final question from Martin Pykkonen from Wedge Partners. Please go ahead.

<Q - Martin Pykkonen>: Yeah, thanks. Good morning. I wanted to ask on the conversion rates, as you look at your, kind of, financial capacity, obviously much improved over the last couple of years. Are there areas you might look at to invest in to drive that conversion rate higher over the next year to two? Obviously, you can't control the SAR, but curious if you think that has upside. And is the higher conversion rate built into your at-maturity operating margin being over 40% meaningfully higher than the current mid-to-high 40s conversion rate? Thanks.

<A - David J. Frear, Executive Vice President, Chief Financial and Accounting Officer>: Let me start out, and then Jim can add to it. I think generally we feel as managers like we can do a better job in conversion, but we feel like we can do a better job on everything we do every day. And so we'd like to improve it. We spend a lot of time with our automotive partners making sure that we're getting the customer name and address data coming across to us quickly and accurately, that striking while you still have that new car smell in the car. And the car is something that we know makes a difference in conversion rate; being smarter in, the kinds of messages and the cadence of the messaging that produces higher conversion rates.

We do a lot of tests, a lot of different programs and in trying to measure statistically what creates a difference in the rate. And then the last piece is that we have an opportunity in reactivating radios as well, which isn't necessarily part of the conversion rate we report but an important part of the business where we're spending a lot of effort in finding out where the best information is on who those new used-car buyers are and what we can do to reactivate more radios that are out there in the [inaudible] down the road.

<Q - Martin Pykkonen>: Okay.

<A - James E. Meyer>: Yeah, I think just to amplify what David said, we've been at this a long time, and yet we still continue to learn new things every month. But I think over the course of the plan, our assumption is that conversion remains in the mid to high 40s, and we don't see any magic bullet that magically takes it into the mid-50s. That's not to say it's not out there, and that's not to say we're not committed to continue to work on it and we will continue to work on it.

<A - Mel Karmazin, Chief Executive Officer>: Yeah, we don't have any plan of significantly increasing our expenditures in order for us to get the conversion rate up. We believe that by just best practices and doing things longer and smarter, the conversion rate will go up. But it won't require any additional material expenditures.



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<Q - Martin Pykkonen>: Okay. In other words, you say that is your guidance or kind of long-term operating margins over 40% at maturity is not predicated on any conversion rate up meaningfully from where it is today?

<A - Mel Karmazin, Chief Executive Officer>: That's correct.

<Q - Martin Pykkonen>: Okay, thanks.

William Prip, Director, Investor Relations

Okay. Thank you, everyone, for joining us. Have a good day.

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SIRIUS XM Radio Inc. (NasdaqGS:SIRI)

Earnings Call Transcript

Thursday, February 25, 2010 8:00 AM ET

Call Participants

Executives

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James E. Meyer

President of Sales and Operations

Mel Karmazin

Chief Executive Officer and Director

William Prip

Analysts

Barton E. Crockett

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Presentation

Operator

Good day, everyone, and welcome to SIRIUS XM Radio's Fourth Quarter 2009 Earnings Conference Call. [Operator Instructions] At this time, I would like to turn the conference over to William Prip, Senior Vice President, Treasurer and Investor Relations. Mr. Prip, please go ahead.

William Prip

Thank you, Lisa. Good morning, everyone, and welcome to SIRIUS XM Radio's Earnings Conference Call. Today, Mel Karmazin, our CEO, will be joined by David Frear, our EVP and CFO. They will discuss SIRIUS XM's fourth quarter and full year 2009 financial result. At the conclusion of the prepared remarks, management will be glad to take your questions. Jim Meyer, President, Operation and Sales; and Scott Greenstein, President and Chief Content Officer, will also be available for the Q&A portion of the call.

First, I would like to remind everyone that certain statements made during the call might be forward-looking statements as the term is defined in the Private Securities Litigation Reform Act of 1995. These and all forward-looking statements are based on management's current beliefs and expectations and necessarily depend upon assumptions, data and methods that may be incorrect or imprecise. Such forward-looking statements are subject to risks and uncertainties and could cause actual results to differ materially. For more information about those risks and uncertainties, please see SIRIUS XM's SEC filings.

We caution listeners not to rely unduly on forward-looking statements and disclaim any intent or obligations to update them. As we begin, I would like to caution our listeners that today's results may include discussions of both actual results and pro forma results. Listeners are cautioned to take special care to ensure accuracy in looking at today's report. I will now hand the call over to Mel Karmazin.

Mel Karmazin

Chief Executive Officer and Director

Thanks, Will, and welcome, everyone, to our earnings call. What a year 2009 was. We began the year with a tremendous sense of uncertainty. The economy appeared to be in shambles, with the labor market experiencing severe contraction and the auto industry and financial markets faring even worse. But by the end of the year, the economy was beginning to show signs of recovery.

At SIRIUS XM, we, too, began the year with a great sense of uncertainty, stemming from the fact that we were facing near-term maturities with neither the cash on hand to satisfy those maturities nor a functioning capital market to provide us the opportunity to extend them. We also felt a sense of frustration because we knew that the company would thrive and not just survive if given a liquidity lifeline. We were anxious to validate our superior business model as a result of the recently consummated merger. Fortunately, Liberty Media saw our situation in the same way as we did, and provided us the liquidity we needed to meet our financial obligations in February. This allowed management to focus on the company's operations and the results were worthy of our hopes and expectations.

As we announced in our press release this morning, we had a banner year. Operational and financial metrics have improved year-over-year or over the course of the year, and collectively, they demonstrate the strength of our differentiated business model. The paid subscriber business model works well in radio, and SIRIUS XM's business model in particular is strong and resilient. David will provide more details and insights on our financial and operational metrics, but I also want to address a few of them.

First, the company's revenue grew 4% in 2009, which was a year, which many people might have expected our revenue to decline given the hostile macro economic environment we experienced overlaid with the unique challenge facing the auto industry. But as a matter of fact, we had record revenue.

Second, we grew pro forma adjusted income from operations, adjusted EBITDA, by nearly \$600 million in 2009, a \$460 million to \$463 million from negative \$136 million in 2008. This represents the first year that the company has generated positive pro forma adjusted income from operations.

In March 2009, our original guidance for 2009 was just over \$300 million in adjusted EBITDA, producing \$300 million in adjusted EBITDA in '09 compared to a negative \$136 million in 2008 would have been great performance, delivering \$463 million compared to the loss of \$136 million was extraordinary performance. One more time, negative \$136 million to positive \$460 million in adjusted EBITDA in just one year.

Third, we grew free cash flow by over \$700 million in 2009 to \$185 million from negative \$550 million in 2008. This, too, represents a first for the company. The first full year of positive free cash flow. And as we have previously stated, free cash flow is a key metric for creating value for shareholders. I also want to discuss a few operational metrics that highlight the strength of our business.

We experienced better subscriber performance in the second half of the year, clawing back 359,000 subscribers in Q3 and Q4 of the 590,000 subscribers we lost in the first half of the year. While this improvement in our overall subscriber base over the course of 2009 was obviously welcome, I was extremely gratified that our self-pay subscriber base turned around even more quickly and ultimately resulted in us ending the year with more self-pay subscribers than we had at the beginning, 154,000 more to be precise.

In fact, our overall subscriber decline last year was driven solely by the loss of 385,000 promotional subscribers, which was clearly a consequence of the dramatic decline in auto sales in 2009. It is obviously reassuring to us that the self-pay subscriber base grew last year despite the recession and its impact on consumer spending. Now with auto sales showing signs of recovery, we are well-positioned to hopefully grow our promotional base in 2010 and beyond. We also note that our unpaid trials, which are not counted in our subscriber base, have also begun to grow and represent a significant source of future self-pay subscribers.

And finally, I just want to touch on churn. Churn picked up a bit in 2009 versus 2008, and it's difficult to be certain as to the course of that increase. Our subscribers, like all consumers last year, were pressured by a severe recession. At the same time, the company had taken pricing actions on certain of our services last year that likely caused some of our subscribers to cancel their subscriptions. What we had suspected throughout last year that the economy, more than our pricing actions, increased our churn. And now, given the lack of discernible impact on churn of the company's passing through the Music Royalty Fee, we are even more confident that the economy was the negative pressure on churn last year. As such, we are hopeful that churn will improve as the economy returns to health.

These results are outstanding when put in the context of the environment that we operated in last year, the auto industry's decline, coupled with consumers curtailing, many areas of discretionary spending could have been disastrous for SIRIUS XM, but our business model allowed us to be successful.

Specifically, two aspects of our business model allowed us to thrive last year and will continue to fuel our future growth.

First, we offered consumers a service that they appreciate and for which they are willing to pay despite the innumerable free entertainment alternatives we've always competed against. Simply put, we offer our subscribers a great product at a great price.

The second aspect of our business model that is allowing us to be successful and grow at the pace we demonstrated for the past two years is the operational leverage that is inherent in our business. As I've noted before, when businesses like ours reaches sufficient scale to cover our fixed cost and subscriber acquisition cost, which is a cost we're happy to pay because it represents future subscribers, it becomes a powerful cash flow generator because of the high contribution margin we enjoy.

Clearly, the operational leverage of this business was enhanced by the merger in mid-year 2008. The merger provided significant cost synergies in our fixed cost base, which consequently allowed us to reach scale more quickly than otherwise. Our fixed cost base dropped nearly \$350 million since 2007. This fact has allowed the combined company to increase pro forma adjusted income from operations in 2009 by nearly \$600 million in over one year, and by over \$1 billion over two years.

So I mentioned earlier about our differentiated business model. As you know, we principally generate our revenue from subscribers. Approximately 98% of our 2009 revenue of over \$2.5 billion came from our subscribers. Having multiple revenue streams is superior to the model that principally relies on advertising.

SIRIUS XM ended the year with over 18.7 million subscribers. That translated, according to Arbitron, to approximately 35 million listeners. We were able to generate over \$70 in revenue annually from each listener to satellite radio.

If you consider the major Terrestrial Radio companies and compare their total revenue with their total weekly listeners, they are only generating between \$10 and \$20 per listener per year. SIRIUS XM's business model enables us to monetize our listeners over 3.5 times that of Terrestrial Radio. Also, if you look at the largest Internet radio company that has over 40 million users and generates about \$50 million of revenue, which is about \$1.20 per user per year, our superior model is even more dramatic, \$70 for satellite radio, \$10 to \$20 per listener for Terrestrial Radio and \$1.20 per year per listener to Internet radio. In addition, our unique contracts with OEMs also are a significant contributor to our business model and is a major driver of our future growth.

So what does this mean for our future? Well, with respect to 2010, we are anticipating a very strong year. We expect to generate over \$2.7 billion in total revenue for 2010. We also expect our pro forma adjusted income from operations to reach approximately \$550 million this year, which is consistent with the 20% increase we guided on our last call despite the fact that we significantly overachieved our 2009 guidance.

Finally, we expect to grow subscribers in 2010 and add over 500,000 net subscribers this year, which will exceed the company's previous high of 19 million at the end of 2008. Now, with respect to our long-term performance, SIRIUS XM will undoubtedly continue to be a strong cash flow generator over the coming years. We will continue to be installed in a majority of new cars sold in the United States, an important fact given that new cars have become the source of the vast majority of our new subscribers. And we are also extremely excited about our potential to grow subscribers through the used car market. Eventually, there will be many more used cars with factory or dealer-installed radios on the road than new cars. So the universe of potential subscribers who can easily sample our service will continue to grow. And we're devoting a great deal of energy to create and refine processes to take advantage of this future fact. We have recently announced the management team to focus on capitalizing from the very large, certified pre-owned and used car market.

Importantly, we also expect to grow RPU over the coming years by offering additional services and pricing plans that make our services even more valuable to subscribers. And as we make our service offering better, we will not only increase RPU, but we will also enhance the stickiness of our service to customers, which would have the additional benefit of positive impact on churn. We are very pleased that in a very short time since the merger, we now have over 1 million subscribers buying our "Best of" packages.

Now let me turn to our balance sheet. As we continue to focus on growing cash flow, we will be more aggressive in attacking our balance sheet by repaying debt as it comes due, and in some cases, selectively refinancing in opportunistic transactions. And because we have no debt maturing this year and manageable amounts maturing in the following two years, we will be building a strong cash balance that will allow us to address our debt that matures in 2013. By reducing indebtedness while accretive to equity, it not only is adding our strong cash flow generation, but it will greatly increase shareholder value. Reducing overall leverage gives us greater flexibility generally, which consequently provides us with greater operational flexibility.

As the company improves its balance sheet, we will more be able to invest in strategic and commercial initiatives, as well as improve our internal business processes. And without financial flexibility, it is often impossible for companies to seize opportunities as they come along. The bottom line, we are positioning SIRIUS XM to have the agility and flexibility we need to grow the top line.

So as I pass this call on to David, I just want to address one final issue. Obviously, with our stock price trading above the dollar mark for the past six days, it is possible we will requalify under the NASDAQ continued listing criteria with 10 consecutive days over \$1. If that were to happen, we would obviously not pursue a reverse stock split. Moreover, even if we would have slipped below \$1 again and we receive a delisting notice from the exchange on March 15, we would appeal that notice and seek a six-month extension as permitted under the NASDAQ rules, and we are optimistic that we will prevail. We hope and expect we will meet the continued listing criteria either in the next few days or over the next several weeks to months. There is absolutely no concern about SIRIUS XM continuing to be listed and traded on NASDAQ. And if successful in meeting NASDAQ's dollar bid requirement, we have no plans to execute a reverse split. We're very excited about our future. 2009 was a good year, and we look forward to 2010 being great years.

Now I'll turn the call over to David.

David J. Frear

Chief Financial Officer and Executive Vice President

Thanks, Mel. Our performance in the fourth quarter and full year continues to demonstrate the strength of the Satellite Radio business model and the bright future for our company. Through the worst economic environment in a generation, our results are phenomenal.

Subscription performance in the quarter was encouraging in virtually all fronts. Gross additions in the quarter were at their highest level since Q2 2008, as the automotive sales continued their recovery and our penetration rate reached 55% for the full year and 60% in the fourth quarter. Auto sales were 10.4 million for the year and SAR ran at the 10.8 million unit pace for the fourth quarter. Conversion rate was up two percentage points in Q4 '08 at 46.4%. Self-pay churn was under 2% for the second consecutive quarter despite the introduction of the U.S. Music Recovery fee in August.

Net additions of 257,000 represented our best quarter since Q3 '08, and virtually all of these net additions were self-pay subscribers. We are well-positioned for a continuing recovery in the automotive sector. With self-pay subs at 15.7 million in total trials, paid, non-paid in the funnel of 3.6 million as of the end of the year.

January auto sales remained level with Q4's 10.8 million seasonally-adjusted rate, and we are cautiously optimistic that pace could be maintained. We expect our subscriber base will grow by over 500,000 subscribers in 2010, with most of that increasing occurring in our self-pay base, meaning that we expect to exceed our previous high of 19 million total subs by year end.

Note that most of the financial results I will discuss today will be based on pro forma combined company figures without purchase price accounting adjustments, which we believe represents the best way to observe the core trends underlying the business. Revenues for the quarter were \$684 million, up 6% as subscription and other revenues increased with higher RPU in the implementation of the Music Recovery fee. RPU improved \$0.27 or 2.5% to \$10.92 driven by higher sales of "Best of" packages and the rate increases on multi-radio subscriptions and Internet streaming.

Advertising revenues were flat with 2008, representing the strongest quarter of the year. As with auto sales, we are cautiously optimistic about the general advertising environment. Early bookings in 2010 are positive to year-ago levels.

Our track record of great cost control continued in the fourth quarter is virtually every element of our cost improved. Customer service and billing costs for sub improved 10% to \$1.06 per month on a margin basis from 10% of revenue to 9%.

Revenue share and royalties improved slightly on a margin basis year-over-year to 18% of revenue, with the Music Recovery fee revenue and improved OEM revenue share terms offsetting a higher performance royalty rate and a higher percentage of OEM customers versus retail compared to last year. As a result, contribution margin improved 3.7 percentage points to 71.4%. Factor gross add dropped 9% to \$64. In fact, as a percentage of revenue, also dropped to 19% from 21%.

The increase in satellite and transmission cost in the quarter is related to non-cash charges associated with lease accounting and launch insurance allocations. Sales and marketing costs were flat with last year as cost efficiencies were used to fund our icon's media campaign in the fourth quarter.

Programming, customer service, G&A and engineering all experienced double-digit percentage declines over the year-ago period. In total, our fixed operating expenses fell six percentage points to 36% of revenue. Add it all up and adjusted income from operations more than tripled to \$115 million, representing a 17% margin on sales compared to last year's 5% margin.

We have now had five consecutive quarters of positive adjusted operating income from operations, and in all four quarters of 2009, it exceeded \$100 million. For 2009, SIRIUS XM earned over \$463 million of adjusted income from operations, an improvement of just under \$600 million over 2008, and an improvement of more than \$1 billion since 2007 when the recession started. One year ago, we gave you guidance of adjusted income from operations would be more than \$300 million. We have delivered 54% more than that guidance.

Similarly, we saw dramatic gains in our free cash flow. Free cash flow in the fourth quarter was up nearly six times to \$150 million. And full year free cash flow improved to positive \$185 million from negative \$552 million in 2008, a swing of \$737 million in a single year. With \$383 million in cash, continuing positive free cash flow and minimal debt maturities in 2010, we will opportunistically look to improve our balance sheet.

We expect revenue to exceed \$2.7 billion in 2010, which would represent at least 7% growth consistent with our prior guidance of mid to high single-digit revenue growth. With the continuing shift in our subscriber base towards factory-installed radios and the increase in statutory royalty rates, we expect revenue share and royalties to grow at a faster rate than revenue in 2010. Similarly, with low auto inventories at year end and a recovering automotive sector, subscriber acquisition cost will grow faster than revenues in 2010 as we invest in growth that will reap revenue and cash flow benefits in 2011.

We will continue seeking efficiencies throughout the company. Many, though certainly not all of the merger cost synergies have been realized, year-on-year cost comparisons in 2010 will not show the dramatic across-the-board improvements you have consistently seen us demonstrate over the last 18 months. Our 2009 adjusted income from operations of \$463 million was significantly higher than we had anticipated in our prior guidance, but we are maintaining our guidance of a roughly 20% improvement in adjusted operating income, effectively raising our 2010 adjusted EBITDA guidance to \$550 million.

Despite an increase in satellite capital expenditures in 2010, we continue to expect positive free cash flow generation this year. With satellite CapEx declining by \$100 million in each of the next two years, 2011 and 2012 that is, as we complete the replacement of the satellite fleet, we expect increasing amounts of our cash flow from operations to be available to fund debt maturities or other strategic or financial priorities.

While we continue to delever in the near term, our growing cash flow presents many interesting opportunities for the company. With those comments, now I'd like to open up the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from David Bank with RBC Capital.

David Bank

Can you talk a little bit about what drove the reduction in revenue share on the automotive side, where the nature of some agreements changed or what happened there? Can you also tell us what percentage of your subscribers during the fourth quarter were paying the revenue, the royalty pass through? And should we assume that it's kind of fully baked into the subscriber base for the first quarter or will continue to roll out? The third question would be, kind of tough for you guys to talk about, I'm sure, but could you give us any color on where you are with Howard Stern and what scenarios you might be playing at, is there the potential to re-sign Howard, but for maybe fewer days on the air, something like that, or is it all or nothing? And then Last, Mel highlighted the operating leverage inherent in the model in his comments. But in some cases next year in 2010, where are you going to see expenses ramp faster than revenue growth. David kind of hit on it briefly, as the OEMs ramp faster than the retail base, that's part of the driver. But why exactly are revenue share and royalties going faster than revenues, and why exactly is SAC going faster than revenues?

Mel Karmazin

Chief Executive Officer and Director

Why don't you start with the first nine, and then I'll deal with the Howard Stern.

David J. Frear

Chief Financial Officer and Executive Vice President

The reduction in revenue share, we did renegotiate one of our OEM agreements entering 2009. And we're able to -- we extended that agreement. We're able to secure a reduction in the revenue share. As a result, we also have mix issues going on in the OEM side, where we've got an increasing mix of subscribers from OEMs with lower rates. And so overall, that's what brought that down. In terms of the Music Recovery fee, we estimate at this point, that about 2/3 of the self-paid base have had the Music Recovery fee assessed. I think, that the way you should think about it is that the -- -- some of the remaining third will never get it. So we've got subs that are on very long-term plans that may not roll up. The lifetime subscribers that predated the imposition to see of course that they'll never be assessed. And so I think that substantially all the subs who are going to experience the fee will get it in the next couple of months. In terms of the faster growth of some expenses -- one of the things that you know about the model is that when we have rapid growth, we incur all of the SAC expense on the day that we recognize the subscriber, but the revenue follows over some period of time after the subscription is initiated. So if the automotive industry recovers, and if you look at most of the estimates for the automotive industry this year, that it's sort of even with the fourth quarter and then it seems to be rising as you go out through the year. If that forecast comes true, you end up with a decent ramp in OEM additions in the second half of the year. So you'll be recognizing all that SAC expense but the revenue associated with those adds won't really come into 2011. So that sort of covers the SAC thing. If you look back at the company's growth in the, sort of 2004, '05 and '06 period, you'd see a similar behavior of SAC. With revenue share, again that's nothing more than the map. There's nothing actually changing with respect to the underlying rates in the business that, in 2009, we got the one-time benefit of a reduction in rate from one of our automotive partners, as well as the ramp up in mix on some of the lower-rated partners at 60% penetration and with a mix that isn't changing all that much in the course of this year, that it's just the OEM subs become larger proportion of total subs. There's going to be a natural bias up in revenue share expenses as a percentage of revenues. But when you add it all up, we're showing you what I think is very strong contribution margins, they're very strong incremental margins in the business, that you've got \$463 million of EBITDA going to \$550 million, was it a \$87 million improvement. And we've given you guidance of revenues going up by at least \$150 million. So that you're looking at incremental margins, that we're providing guidance that put you somewhere in the zip code of a 50% plus incremental EBITDA margin business, that's still a very, very strong economic model.

Mel Karmazin

Chief Executive Officer and Director

And the only other thing along the lines of what David said, is that you should assume that our revenue is growing faster than our operating expenses are. And we'll have EBITDA margin improvement as a percentage as well. So I think, that's the statement. So on the subject to Howard Stern, I wasn't here at the time the decision was made to bring Howard to SIRIUS. Scott and the team made absolutely great decision and something that has worked out terrifically well. So bringing Howard to SIRIUS was a great call. Along with everybody else, I believe that in the last four years, Howard has done his best work. His shows are better than they have ever been before. They're helped by the fact that he has a national platform and probably more importantly, by the fact that for the first time, Howard is operating in a very minimal commercial advertising mode. So in Terrestrial Radio, listeners were hearing up to 22 minutes an hour of commercials, where at SIRIUS XM, the most we're running are six. So when you think about the fact that Howard does about four hours a day, and listeners are hearing 15 minutes an hour more of Howard in essence, an extra hour each show of Howard, it has worked out terrifically well. He has been a great partner. We

would like to continue doing business together. There is nothing in his contract that deals with a timeframe as to when we need to negotiate and do a deal. Some contracts provide a period where that negotiation needs to take place. In Howard's contract, that's not the case. So we have nothing to announce today. My suggestion for those that are interested, and I'm sure many of you are, is that tune to Howard 100 because we will be providing you with regular updates. Howard talks about his life regularly, and I'm sure as he talked about it this morning, he will continue to talk about it. And when we have something to announce, we'll announce it.

Operator

Our next question comes from Barton Crockett with Lazard Capital Markets.

Barton E. Crockett

Lazard Capital Markets LLC, Research Division

I wanted to ask a little bit about your outlook for subscriber growth in 2010, the 500,000 growth. Is it safe to assume that that's all on the auto side and that retail subs are down again?

James E. Meyer

President of Sales and Operations

This is Jim. I think that's safe to assume.

Mel Karmazin

Chief Executive Officer and Director

I think, one of the things that you have to think about longer term, and starting -- when I say longer-term, I'm not talking ancient long-term away, including in 2010, that the aftermarket as you knew it, before OEMs ramped up, is going to sort of migrate toward the used-car market. Because that market is really the potential for us to add significant amounts of additional subscribers. So there will always be an aftermarket. Our DTC and retail stores will continue to sell it. But as people are principally using the car as the opportunity to access radio, that's the main spot. Our initiatives in new cars and used cars will be the predominant driver, and that's a good business model for us.

Barton E. Crockett

Lazard Capital Markets LLC, Research Division

And to that end, I was going to ask about used cars. Can you give us any sense of how much contribution used cars were to the subscriber total in 2009? And any color on how that might change in 2010?

David J. Frear

Chief Financial Officer and Executive Vice President

We generally -- it's certainly going to be increasing, in terms of number of adds each year, Barton. But we haven't broken out those figures for you yet. I don't think, we're going to do so today. But it is one of these things that, as we look at the 25 million or so factory-installed radios that are in the field and the roughly maybe 11 million or so that are active, there's obviously a growing pool of those that there are opportunities for us to get turned back on. Most of those are still in the hands of the original owner, because the ramp up in OEM has been fairly recent. But in the course of the next couple of years, the second-owner market's going to kick in. And we're going to start seeing a really significant numbers of them begin to turn over. And of course at 60% penetration levels, the total pool was growing pretty rapidly. So I think, as we see the volume grow, right, and I think, you'll hear us talk more about it and probably give you more details about it in the future.

Mel Karmazin

Chief Executive Officer and Director

I think, you should expect in the future as our IT systems evolve, to be able to get us the kind of precise information we want, that will become a reporting item as well. So we will be reporting, the aftermarket will be reporting at some point, the used-car secondary market, as well as the OEMs.

Barton E. Crockett

Lazard Capital Markets LLC, Research Division

On the topic of cars, can you talk about the Toyota issue? What impact that has had on you in the quarter and to what, if any impact, is happening in the first quarter and might have for the balance of the year?

James E. Meyer

President of Sales and Operations

So with Toyota, number one, the Toyota program that we have is a non-pay trial. And so the impact to the first quarter in terms of subscribers is zero. In terms of production, as you know, they were down for a fair amount of days. They're now back up and running. They've made up a lot of their production. What we can't predict is what's

going to happen to their market share. And so I really don't think it's going to be terribly disruptive to our numbers in the first half of 2010.

Mel Karmazin

Chief Executive Officer and Director

We had a meeting yesterday of all of our senior executives, and we talked about another advantage of the merger for the companies, is that the combined company has deals with every single OEM. So if in fact, one of our OEMs is going to lose some market share, then another of our OEMs is going to pick up that market share and we, for the most part, are not adversely affected at all.

Barton E. Crockett

Lazard Capital Markets LLC, Research Division

Then a final question here, I wanted to switch quick gears and ask a bit about the relationship with Liberty. And in particular -- and about a year, a little over a year, they would have an opportunity to adjust their holding structure. One thing they've done in recent history is with their holdings with DirecTV, which they weren't given full credit for that. They spun it off and merged then with DirecTV, which is a good thing for their shareholders. Is there any scenario under which it might make sense for SIRIUS to think about doing something like that with Liberty? So if you can talk a little bit about that?

Mel Karmazin

Chief Executive Officer and Director

So obviously, about a year ago, when we first got together with Liberty, it turned out to be a very, very good deal for SIRIUS. They stepped up and provided us the liquidity we needed. We paid them back, we've refinanced it. It was an extraordinary investment for Liberty. And at this point, what hypotheticals and possibilities could exist in the future, I really don't want to comment on. And I also think that any questions about what Liberty might do is best directed to Greg Maffei and John Malone. From our point of view, there's a standstill. One of the reasons that we were attracted to the Liberty deal and not to other deals that we had the opportunity to do, was that we didn't want to provide control of this company to somebody without a significant control premium. So the Liberty investment is at 40%, and there's a period of time where they have to stay at that. So what Liberty does with its shares of SIRIUS is really something that should be directed to Liberty.

Operator

Our next question comes from Mike Pace with JPMorgan.

Michael Pace

JP Morgan

I'd love to debate some of your guidance. But first of all, what SAR are you assuming in your subscriber guidance for 2010?

Mel Karmazin

Chief Executive Officer and Director

We do a bottoms-up approach in arriving at our guidance and subscriber numbers. We talk to each of our team that represents the various automotives. We look at each of the contracts. So we're not -- we have the range of SARDS, what everybody has given. We're not in the SAR-predicting business. But we tend to be more conservative than what is out there generally.

Michael Pace

JP Morgan

And then I guess -- and I acknowledge that there's a greater than sign [>] next to your revenue guidance. But if I think about your growing subs, you still have some more royalty rate pass-throughs to hit the financials in 2010. I guess if I just look at annualizing fourth quarter revenue numbers, and that would assume, really, no more growth. We're already above the 2.7 number. I'm just wondering if we're missing anything. Do you expect the underlying ARPU to be more promotional or safe techniques as you're thinking about that?

Mel Karmazin

Chief Executive Officer and Director

I think, you've read the guidance correctly. I think that our guidance of greater than 2.7 covers it.

Michael Pace

JP Morgan

And then finally just on cost saves, what are the key line items that you still have some more to do? And I'm thinking particularly more customer service and billing and programming of course. If you can be as specific as possible, that would be great.

David J. Frear

Chief Financial Officer and Executive Vice President

So we've said this many times that as each contract comes up that we take -- regardless of where it is, programming, automotive, retail printing, legal services, that we take the opportunity to negotiate hard with the bigger buying power that we now have. So on the programming side, there are a number of high-profile contracts that sort of come up year-by-year. I think, everybody knows that the Howard deal is up at the end of this year, that we are entering our last season under the current NFL agreement in the fall of the year and also in 2011. And those are up in 2012. And NASCAR is up and then there are others that follow year-after-year. I think, in terms of line items that we will be integrating the subscriber management system platforms, in the sort of third quarter of this year. That could give us opportunities on the IT side of things in 2011, really not so much in 2010, that IT expenditures get split between G&A and customer service and billing, so they'll be in there. We still think there are opportunities for other improvements on the G&A side. And then just generally, it's part of the D&A of this company that we go through and we beat the expenses up every month. And so again, I think as we've said before, you shouldn't expect to see the dramatic improvements in every single line item that we show in the last 18 months. But you should expect to continue to see expanding EBITDA as a percentage of revenues.

Operator

Our next question comes from Jim Goss with Barrington Research.

James C. Goss

Barrington Research Associates, Inc., Research Division

First, Mel, I'd be interested in your thoughts and some insights into your thought process with regard to pricing philosophy. I realize we're still more than a year away before you can really address the basic prices. But you do have these several significant contracts coming due. And I imagine as you look at those, you can think of the two systems you might spread certain of the programming over and there could be an involvement of a premium service, versus -- an interior versus just straight pricing. Could you provide any thoughts on that matter?

Mel Karmazin

Chief Executive Officer and Director

Yes. I think, obviously, we have a lot of competition. We compete with free. And we believe right now, that we're offering extraordinary value to our subscribers. We talked about how we've seen the churn improvement in the fourth quarter from a point of view of even passing along the MRF, and as the economy gets better. We'd like to be able to continue to offer our subscribers value, that we're sort of mandated under the SEC order until July or I guess August of 2011, about making any current subscriber pay more for what they were currently getting before. And as we go through that process, we'll start looking at ways that we can add more value for our subscribers. And that might include subscribers paying a little bit more for some of the value that we're going to add. But we really have not announced anything, and I really have no comment today on anything that we may be doing some time in the future.

James C. Goss

Barrington Research Associates, Inc., Research Division

One for David. With regard to the 2013 maturities, despite the fact that you have no maturities this year and manageable in 2011 and 2012, the looming 2013 still seems to pop up periodically with investors. And I'm wondering if there's any thought aside from building cash to try to -- are there things you can do to try to address that issue ahead of time?

David J. Frear

Chief Financial Officer and Executive Vice President

Sure. Yes, you should expect us to be smart and opportunistic with respect to the 2013 maturities, and that they're obviously a long way out. The company's credit profile is very clearly improving rapidly and dramatically. And so, as we keep a pretty close eye on the markets, if there's an opportunity to go into the markets and get attractively-priced, long-term paper to term out some of those maturities, that's something that you should expect us to do, to the extent that the paper trades weekly from time to time, that as we build the cash over the course of the next couple of years, that we could decide to buy paper in early. So I think, it's obviously an important thing for the company to focus on. And we put a lot of effort into it. And as the opportunities arise, you can expect us to move quickly and take advantage of it.

Mel Karmazin

Chief Executive Officer and Director

I mean, I think -- just to answer -- I agree with what David said, is that you should just assume that extending the 2013 maturities is something that we would like to do.

James C. Goss

Barrington Research Associates, Inc., Research Division

The share of autos with built-in radio at year end, I think earlier in the year, you thought the year-end target would be something like 58%. Is that about where you wound up?

David J. Frear

Chief Financial Officer and Executive Vice President

60% in the fourth quarter.

James C. Goss

Barrington Research Associates, Inc., Research Division

And the upside is not much more than that, 65% or so?

Mel Karmazin

Chief Executive Officer and Director

No, I think you should plan the penetration to stay at least in '10 around 60%, 62%. Just one point, one of the things we're going through now, and I think, it's a great sign of the maturity of the company, there are certain cars that are built that just don't yield an acceptable subscriber profile for us. An example is in one of our large OEMs, there is a group of commercial trucks that we learned don't convert anywhere near to give us an acceptable financial equation. And despite the short-term impact on subscribers, we're eliminating those from including satellite radio, going forward.

Operator

And thank you for dialing in and that concludes our conference call.

David J. Frear

Chief Financial Officer and Executive Vice President

Thank you.

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SIRIUS XM RADIO INC.

FORM 10-K (Annual Report)

Filed 02/09/12 for the Period Ending 12/31/11

Address	1221 AVENUE OF THE AMERICAS 36TH FLOOR NEW YORK, NY 10020
Telephone	212-584-5100
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SIC Code	4832 - Radio Broadcasting Stations
Industry	Broadcasting & Cable TV
Sector	Services
Fiscal Year	12/31

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For Fiscal Year Ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From

to

COMMISSION FILE NUMBER 001-34295

SIRIUS XM RADIO INC.

(Exact name of registrant as specified in its charter)

Delaware
(or other jurisdiction of
incorporation of organization)

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

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

10020
(Zip Code)

Registrant's telephone number, including area code:

(212) 584-5100

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

Title of Each Class:
Common Stock, par value \$0.001 per share

Name of Each Exchange on Which Registered:
Nasdaq Global Select Market

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

None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 30, 2011 was \$8,614,271,427. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

The number of shares of the registrant's common stock outstanding as of February 7, 2012 was 3,755,256,475.

DOCUMENTS INCORPORATED BY REFERENCE

Information included in our definitive proxy statement for our 2012 annual meeting of stockholders scheduled to be held on Tuesday, May 22, 2012 is incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this report.

SIRIUS XM RADIO INC.
2011 FORM 10-K ANNUAL REPORT
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ITEM 1. BUSINESS

We broadcast our music, sports, entertainment, comedy, talk, news, 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 mobile devices.

As of December 31, 2011, we had 21,892,824 subscribers. Our subscribers include:

- subscribers under our regular and discounted pricing plans;
- subscribers that have prepaid, including payments made or due from automakers for subscriptions included in the sale or lease price of a vehicle;
- certain radios activated for daily rental fleet programs;
- subscribers to our Internet services who do not also have satellite radio subscriptions; and
- certain subscribers to our weather, traffic, data and Backseat TV 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 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”); retail locations nationwide; and through our website. We have agreements with every major automaker to offer satellite radios in their vehicles. Satellite radio services are also offered to customers of certain rental car companies.

Certain important dates in our corporate history are listed below:

- Satellite CD Radio, Inc. was incorporated in the State of Delaware on May 17, 1990.
- On December 7, 1992, Satellite CD Radio, Inc. changed its name to CD Radio Inc., and Satellite CD Radio, Inc. was formed as a wholly owned subsidiary.
- On November 18, 1999, CD Radio Inc. changed its name to Sirius Satellite Radio Inc.
- In July 2008, our wholly owned subsidiary, Vernon Merger Corporation, merged (the “Merger”) with and into XM Satellite Radio Holdings Inc.
- On August 5, 2008, we changed our name from Sirius Satellite Radio Inc. to Sirius XM Radio Inc.
- In April 2010, XM Satellite Radio Holdings Inc. merged with and into XM Satellite Radio Inc.; and in January 2011, XM Satellite Radio Inc., our wholly-owned subsidiary, merged with and into Sirius XM Radio Inc.

Programming

We offer a dynamic programming lineup of commercial-free music, sports, entertainment, talk, news, traffic and weather. The channel line-ups for our services vary in certain respects and are available at siriusxm.com.

Our subscription packages allow most listeners to enhance our standard programming lineup. Our “XM Premier” package offers subscribers the Howard Stern channels, Martha Stewart Living Radio, SiriusXM NFL Radio, SiriusXM NASCAR Radio, Playboy Radio, Spice Radio and play-by-play NFL games and college sports programming. Our “Sirius Premier” package offers subscribers Oprah Radio, Opie and Anthony, SiriusXM Public Radio, MLB Network Radio, NHL Home Ice, SiriusXM PGA Radio, Sirius XM Fantasy Sports Radio and select play-by-play of NBA and NHL games and college sports programming. Subscribers with a la carte-capable radios may customize the programming they receive through our a la carte subscription packages. We also offer family friendly, “mostly music” and “mostly sports, news and talk” packages.

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

We make changes to our programming lineup from time to time as we strive to attract new subscribers and offer content which appeals to a broad range of audiences and to our existing subscribers.

Music Programming

We offer an extensive selection of music genres, ranging from rock, pop and hip-hop to country, dance, jazz, Latin and classical. Within each genre we offer a range of formats, styles and recordings.

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

Sports Programming

Live play-by-play sports is an important part of our programming strategy. We are the Official Satellite Radio Partner of the National Football League (“NFL”), Major League Baseball (“MLB”), NASCAR, National Basketball Association (“NBA”), National Hockey League (“NHL”) and PGA TOUR, and broadcast most major college sports, including NCAA Division I football and basketball games. Soccer coverage includes matches from the Barclays Premier League. We also air FIS Alpine Skiing, FIFA World Cup events and horse racing.

We offer many exclusive talk channels and programs such as MLB Network Radio, SiriusXM NASCAR Radio, SiriusXM NFL Radio and Chris “Mad Dog” Russo’s *Mad Dog Unleashed* on Mad Dog Radio, as well as two ESPN channels, ESPN Radio and ESPN Xtra. Simulcasts of select ESPN television shows, including *SportsCenter*, can be found on ESPN Xtra.

Talk and Entertainment Programming

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

Our talk radio offerings feature dozens of popular talk personalities, many creating radio shows that air exclusively on our services, including Howard Stern, Oprah Winfrey, Martha Stewart, Dr. Laura Schlessinger, Opie and Anthony, Bob Edwards, Senator Bill Bradley and doctors from the NYU Langone Medical Center.

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

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

News and Information Programming

We offer a wide range of national, international and financial news, including news from BBC World Service News, Bloomberg Radio, CNBC, CNN, FOX News, HLN, MSNBC, NPR and World Radio Network. We also air a range of political call-in talk shows on a variety of channels including our exclusive channel, POTUS.

We offer continuous, local traffic reports for 22 metropolitan markets throughout the United States.

Distribution of Radios

Automakers

Our primary means of distributing satellite radios is through the sale and lease of new vehicles. We have agreements with every major automaker to offer satellite radios in their vehicles and satellite radios are available as a factory or dealer-installed option in substantially all vehicle makes sold in the United States.

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

Previously Owned Vehicles

We expect to acquire an increasing number of subscribers through the sale and lease of previously owned vehicles with factory-installed satellite radios. We have entered into agreements with many automakers to market subscriptions to purchasers and lessees of vehicles which include satellite radios sold through their certified pre-owned programs. In addition, we work directly with many franchise and independent dealers on similar programs for non-certified vehicles.

We have developed systems and methods to identify purchasers and lessees of previously owned vehicles which include satellite radios and have established marketing plans to promote our services to these potential subscribers.

Retail

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

Our Satellite Radio Systems

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

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

Our satellite radio systems have three principal components:

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

Satellites, Terrestrial Repeaters and Other Satellite Facilities

Satellites. We currently own a fleet of nine orbiting satellites. We have invested in more technologically advanced satellites and satellite deployment to provide for improved coverage, increased redundancy and more efficient use of our spectrum.

Space Systems/Loral has constructed another satellite, FM-6, for use in our system. We expect to launch this satellite on a Proton rocket in the first half of 2012.

We use four of our orbiting satellites in the Sirius system. These satellites, FM-1, FM-2, FM-3 and FM-5, are of the Loral FS-1300 model series. Our FM-1, FM-2 and FM-3 satellites travel in a geosynchronous orbit. Our FM-5 satellite is deployed in a geostationary orbit.

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

Satellite Insurance. We hold in-orbit insurance for our FM-5 and XM-5 satellites. These policies provide coverage for a total, constructive total or partial loss of the satellites that occurs during the first five in-orbit years. We also have negotiated launch and in-orbit insurance for our FM-6 satellite. This insurance provides coverage for a total, constructive total or partial loss of the FM-6 that occurs from launch through the end of the first annual in-orbit period. The insurance does not cover the full cost of constructing, launching and insuring new satellites, nor will it protect us from the adverse effect on business operations due to the loss of a satellite. The policies contain standard commercial satellite insurance provisions, including coverage exclusions. We use launch and in-orbit insurance to mitigate the potential financial impact of satellite fleet launch and in-orbit failures unless the premium costs are considered to be uneconomical relative to the risk of satellite failure.

Terrestrial Repeaters. In some areas with high concentrations of tall buildings, such as urban centers, signals from our satellites may be blocked and reception of satellite signals can be adversely affected. In many of these areas, we have deployed terrestrial repeaters to supplement satellite coverage. We operate over 140 terrestrial repeaters in the Sirius system and over 560 terrestrial repeaters in the XM system.

Other Satellite Facilities. We control and communicate with our satellites from facilities in North America and maintain earth stations in Panama and Ecuador to control and communicate with several of our Sirius satellites. Our satellites are monitored, tracked and controlled by a third party satellite operator.

Studios

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

Radios

We design, establish specifications for, source or specify parts and components for, and manage various aspects of the logistics and production of satellite and Internet radios. We do not manufacture radios. We have authorized manufacturers and distributors to produce and distribute radios, and have licensed our technology to various electronics manufacturers to develop, manufacture and distribute radios under certain brands. We purchase radios from independent manufacturers, that are distributed through our website. To facilitate the sale of radios, we may subsidize a portion of the radio manufacturing costs to reduce the hardware price to consumers.

Radios are manufactured in four principal configurations — as in-dash radios, Dock & Play radios, home or commercial units and portable or wearable radios.

- In-dash satellite radios are integrated into vehicles and allow the user to listen to satellite radio with the push of a button. Aftermarket in-dash radios are available at retailers nationally, and to automakers for factory or dealer installation.
- Dock & Play satellite radios enable subscribers to transport their radios easily to and from their cars, trucks, homes, offices, boats or other locations with available adapter kits. Dock & Play radios adapt to existing audio systems through FM modulation or direct audio connection and can be easily installed. Audio systems and boom boxes, which enable subscribers to use their radios virtually anywhere, are available for various models. The Stratus 6, Starmate 5 and Starmate 8 Dock & Play radios also support a la carte channel selection.
- Radios that provide our satellite or Internet service to home and commercial audio systems.
- Portable or wearable radios offer live satellite or Internet radio and recorded satellite, MP3 or WMA content “on the go”.

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

In 2011, we introduced Edge, a Dock & Play radio capable of receiving our SiriusXM 2.0 expanded channel lineup, including SiriusXM Latino, and Lynx, a portable radio with SiriusXM 2.0 satellite and Internet radio capability and features.

Internet Radio

We stream music channels and select non-music channels over the Internet. Our Internet service also includes channels and features that are not available on our satellite service. Access to certain Internet services is offered to subscribers for a fee. We have available products that provide access to our Internet services without the need for a personal computer. We also offer applications to allow consumers to access our Internet services on certain smartphones and tablet computers. Subscribers to our Internet services are not included in our subscriber count, unless the service is purchased separately and not as part of a satellite radio subscription.

Canada

We also have an equity interest in the satellite radio services offered in Canada through Sirius XM Canada. In June 2011, Canadian Satellite Radio Holdings Inc. (“CSR”), the parent company of XM Canada, and Sirius Canada completed a transaction to combine their operations. Following this merger, we own approximately 38.0% of the equity of CSR, which operates as Sirius XM Canada.

Other Services

Commercial Accounts. Our music services are also available for commercial establishments. Commercial accounts are available through providers of in-store entertainment solutions and directly from us. Certain commercial subscribers are included in our subscriber count.

Satellite Television Service. Certain of our music channels are offered as part of certain programming packages on the DISH Network satellite television service. Subscribers to the DISH Network satellite television service are not included in our subscriber count.

Subscribers to the following services are not included in our subscriber count, unless the applicable service is purchased by the subscriber separately and not as part of a radio subscription to our services:

Backseat TV. We offer Backseat TV, a service offering television content designed primarily for children in the backseat of vehicles. Backseat TV is available as a factory-installed option in select Chrysler, Dodge and Jeep models, and at retail for aftermarket installation.

Travel Link. We offer Travel Link, a suite of data services that includes graphical weather, fuel prices, sports schedules and scores, and movie listings.

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

Real-Time Weather Services. We offer several real-time weather services designed for improving situational awareness in vehicle, marine and/or aviation use.

FCC Conditions

In order to demonstrate to the FCC that the Merger was in the public interest, we agreed to implement a number of voluntary commitments. These commitments include certain voluntary assurances regarding our programming and programming packages; the creation of public interest channels; and equipment manufacturing, all of which we have complied with.

Qualified Entity Channels

In April 2011, we entered into long-term leases or other agreements to provide rights to four percent of the full-time audio channels on our platforms to a Qualified Entity or Entities. A Qualified Entity is defined as an entity or entities that: (1) are not directly or indirectly owned, in whole or in part, by us or one of our affiliates; (2) do not share any common officers, directors or employees with us or any affiliate of us; and (3) did not have any existing relationships with us for the supply of programming during the two years prior to October 19, 2010.

As digital compression technology enables us to broadcast additional full-time audio channels, we will ensure that four percent of the full-time audio channels on our platforms are reserved for Qualified Entities. The Qualified Entities are not required to make any lease payments for such channels. We may not alter, censor, or otherwise exercise any control over the leased programming but we may remove programming that violates the law.

Subscription Rates

In connection with the Merger, we had agreed with the FCC not to raise the retail price for, or reduce the number of channels in, our basic \$12.95 per month subscription package, our a la carte programming packages or certain other programming packages until July 28, 2011. In July 2011, the FCC issued an order confirming that the price cap was no longer necessary. On January 1, 2012, we increased the base price of our basic subscription packages from \$12.95 to \$14.49 per month.

Competition

We face significant competition for both listeners and advertisers. In addition to pre-recorded entertainment purchased or playing in cars, homes and using portable players, we compete with numerous other providers of radio or other audio services. Some of our new, digital competitors are making in-roads into automobiles, where we are currently the prominent alternative to traditional AM/FM radio. Our existing and emerging competition includes:

Traditional AM/FM Radio

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

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

HD Radio

Many radio stations now broadcast digital signals, which have clarity similar to our signals. These stations do not charge a subscription fee for their digital signals but do generally carry advertising. A group of major broadcast radio networks have created a coalition to jointly market digital radio services. According to this coalition, over 2,100 radio stations are currently broadcasting primary signals with HD Radio technology and broadcasting more than 1,300 additional FM multicast channels (HD2/HD3), and manufacturers are marketing and distributing digital receivers. To the extent that traditional AM/FM radio stations adopt digital transmission technology and listeners adopt digital receivers, any competitive advantage that we enjoy over traditional radio because of our clearer digital signal would be lessened. Traditional AM/FM broadcasters are also complementing their HD Radio efforts by aggressively pursuing Internet radio and wireless Internet-based distribution arrangements. Several automakers install or plan to install HD Radio equipment as factory standard equipment in select models, including Cadillac, Mazda, Lexus, Ford, Volkswagen, BMW, Mercedes-Benz, Scion, Kia and Hyundai.

Internet Radio and Internet-Enabled Smartphones

Internet radio broadcasts often have no geographic limitations and can provide listeners with radio programming from across the country and around the world. Major media companies and online-only providers, including Clear Channel, CBS and Pandora, make high fidelity digital streams available through the Internet for free or, in some cases, for a fraction of the cost of a satellite radio subscription. These services compete directly with our services, at home, in the automobile, and wherever audio entertainment is consumed.

Internet-enabled smartphones, most of which have the capability of interfacing with vehicles, have become popular. These smartphones can typically play recorded or cached content and access Internet radio via dedicated applications or browsers. These applications are often free to the user and offer music and talk content as long as the user is subscribed to a sufficiently large mobile data plan. Leading audio smartphone radio applications include Pandora, last.FM, Slacker, iheartradio and Stitcher. Certain of these applications also include advanced functionality, such as personalization and song skipping, and allow the user to access large libraries of content and podcasts on demand.

In 2011, Spotify launched its music streaming service in the United States, which allows its users unlimited, on-demand access to a large library of song tracks, allowing the sharing of playlists with other listeners through the Facebook platform. Other similar services have launched Facebook integration, including MOG and Rdio. These services, which usually require a monthly subscription fee, are currently available on smartphones but may become integrated into connected cars in the future.

Third and fourth generation mobile networks have enabled a steady increase in the audio quality and reliability of mobile Internet radio streaming, and this is expected to further increase as fourth generation networks become the standard. We expect that improvements from higher bandwidths, wider programming selection, and advancements in functionality are likely to continue making Internet radio and smartphone applications an increasingly significant competitor, particularly in vehicles.

Advanced In-Dash Infotainment Systems

Nearly all automakers have deployed or are planning to deploy integrated multimedia systems in dash boards, such as Ford's SYNC, Toyota's Entune, and BMW/Mini's Connected. These systems can combine

control of audio entertainment from a variety of sources, including AM/FM/HD radio broadcasts, satellite radio, Internet radio, smartphone applications and stored audio, with navigation and other advanced applications such as restaurant bookings, movie show times and financial information. Internet radio and other data is typically connected to the system via a bluetooth link to an Internet-enabled smartphone, and the entire system may be controlled by touchscreen or voice recognition. These systems enhance the attractiveness of our Internet-based competition by making such applications more prominent, easier to access, and safer to use in the car. Similar systems are also available in the aftermarket and sold through retailers.

Direct Broadcast Satellite and Cable Audio

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

Other Digital Media Services

The audio entertainment marketplace continues to evolve rapidly, with a steady emergence of new media platforms and portable devices that compete with our services now or that could compete with those services in the future.

Traffic News Services

A number of providers also compete with our traffic services. Clear Channel and Tele Atlas deliver nationwide traffic information for the top 50 markets to in-vehicle navigation systems using RDS/TMC, the radio broadcast standard technology for delivering traffic and travel information to drivers. The in-dash navigation market is also being threatened by increasingly capable smartphones that provide advanced navigation functionality, including live traffic. Android, Palm, Blackberry, and Apple iOS-based smartphones all include GPS mapping and navigation functionality, often with turn-by-turn navigation.

Government Regulation

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

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

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

In 1997, we were the winning bidders for an FCC license to operate a satellite digital audio radio service and provide other ancillary services. Our FCC licenses for our Sirius satellites expire in 2017. Our FCC licenses for our XM satellites expire in 2013, 2014 and 2018. We anticipate that, absent significant misconduct on our part, the FCC will renew our licenses to permit operation of our satellites for their useful lives, and grant a license for any replacement satellites.

In some areas with high concentrations of tall buildings, such as urban centers, signals from our satellites may be blocked and reception can be adversely affected. In many of these areas, we have installed terrestrial repeaters to supplement our satellite signal coverage. In 2010, the FCC established rules governing terrestrial repeaters which are also intended to protect adjacent wireless services from interference. Under those rules, we filed an application in November 2011 for a single license to authorize operation of our repeater network.

We design, establish specifications for, source or specify parts and components for, manage various aspects of the logistics and production of, and, in most cases, obtain FCC certifications for, satellite radios, including satellite radios that include FM modulators. We believe our radios that are in production comply with all applicable FCC rules.

We are required to obtain export licenses from the United States government to export certain ground control equipment, satellite communications/control services and technical data related to our satellites and their operations. The delivery of such equipment, services and technical data to destinations outside the United States and to foreign persons is subject to strict export control and prior approval requirements from the United States government (including prohibitions on the sharing of certain satellite-related goods and services with China).

Changes in law or regulations relating to communications policy or to matters affecting our services could adversely affect our ability to retain our FCC licenses or the manner in which we operate.

Copyrights to Programming

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

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

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

The rate setting proceeding covering the period from 2013 through 2017 before the CRB commenced in January 2011. In November 2011, we filed our direct case in that proceeding and requested the CRB to set a royalty rate payable by us under the statutory license covering the performance of sound recordings over our satellite radio services at less than 7% of our gross revenues, subject to certain exclusions. In November 2011, SoundExchange also filed its direct case in the proceeding and requested the CRB to set a royalty rate under the statutory license of initially 12%, increasing by 2% each year during the term and up to a maximum of 20%, of our gross revenues. A hearing before the CRB in this proceeding is scheduled to commence in 2012.

Trademarks

We have registered, and intend to maintain, the trademark "Sirius", "XM", "SiriusXM" and the "Dog design" logo with the United States Patent and Trademark Office in connection with the services we offer. We are not aware of any material claims of infringement or other challenges to our right to use the "Sirius", "XM" or "SiriusXM" trademark or the "Dog design" logo in the United States. We also have registered, and intend to maintain, trademarks for the names of certain of our channels. We have also registered the trademarks "Sirius", "XM", and the "Dog design" logo in Canada. We have granted a license to use certain of our trademarks in Canada to Sirius XM Canada.

Personnel

As of December 31, 2011, we had 1,526 full-time employees. In addition, we rely upon a number of part-time employees, consultants, other advisors and outsourced relationships. None of our employees are represented by a labor union, and we believe that our employee relations are good.

Corporate Information

Our executive offices are located at 1221 Avenue of the Americas, 36th floor, New York, New York 10020 and our telephone number is (212) 584-5100. Our internet address is www.siriusxm.com. Our annual, quarterly and current reports, and any amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 may be accessed free of charge through our website after we have electronically filed or furnished such material with the SEC. Siriusxm.com (including any other reference to such address in this Annual Report) is an inactive textual reference only, meaning that the information contained on or accessible from the website is not part of this Annual Report on Form 10-K and is not incorporated in this report by reference.

Executive Officers of the Registrant

Certain information regarding our executive officers is provided below:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Mel Karmazin	68	Chief Executive Officer
Scott A. Greenstein	52	President and Chief Content Officer
James E. Meyer	57	President, Operations and Sales
Dara F. Altman	53	Executive Vice President and Chief Administrative Officer
Patrick L. Donnelly	50	Executive Vice President, General Counsel and Secretary
David J. Frear	55	Executive Vice President and Chief Financial Officer

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

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

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

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

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

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

ITEM 1A. FACTORS RISK

In addition to the other information in this Annual Report on Form 10-K, including the information under the caption Item 1. Business "Competition," the following risk factors should be considered carefully in evaluating us and our business. This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results and the timing of events could differ materially from those projected in forward-looking statements due to a number of factors, including those set forth below and elsewhere in this Annual Report on Form 10-K. See "Special Note Regarding Forward-Looking Statements" following this Item 1A. Risk Factors.

We face substantial competition and that competition is likely to increase over time.

We face substantial competition from other providers of radio and other audio services. Our ability to retain and attract subscribers depends on our success in creating and providing popular or unique music, entertainment, news and sports programming. Our subscribers can obtain certain similar content for free through terrestrial radio stations or Internet radio services. Audio content delivered via the Internet, including through mobile devices, is increasingly competitive with our services. A number of automakers and aftermarket manufacturers have introduced, or will shortly introduce, factory-installed radios capable of accessing Internet-delivered audio entertainment. A summary of various services that compete with us is contained in the section entitled "Item 1. Business — Competition."

Competition could result in lower subscription, advertising or other revenue or increase our marketing, promotion or other expenses and, consequently, lower our earnings and free cash flow. We cannot assure you we will be able to compete successfully with our existing or future competitors or that competition will not have a material adverse effect on our business, financial condition or results of operations.

Our business depends in large part upon automakers.

Most of our new subscription growth has come from purchasers and lessees of new and previously owned automobiles. As a result, the sale and lease of vehicles with satellite radios is an important source of subscribers

for our satellite radio service. We have agreements with every major automaker to include satellite radios in new vehicles, although these agreements do not require automakers to install specific or minimum quantities of radios in any given period.

Automotive production and sales are dependent on many factors, including the availability of consumer credit, general economic conditions, consumer confidence and fuel costs. To the extent vehicle sales by automakers decline, or the penetration of factory-installed satellite radios in those vehicles is reduced, subscriber growth for our satellite radio services may be adversely impacted.

General economic conditions can affect our business.

The purchase of a satellite radio subscription is discretionary, and our business and our financial condition can be negatively affected by general economic conditions. Poor general economic conditions can adversely affect subscriber churn, conversion rates and vehicle sales, as evidenced by the dramatic slowdown in auto sales that negatively impacted our subscriber growth in 2008 and 2009.

Failure of our satellites would significantly damage our business.

The lives of our satellites will vary and depend on a number of factors, including:

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

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

Three of the Sirius in-orbit satellites have experienced degradation on their solar arrays. The degradation these satellites have experienced does not affect current operations. Additional degradation on the three Sirius satellites could reduce the estimated lives of those satellites.

Space Systems/Loral has constructed a new satellite for the Sirius system that is expected to be launched in the first half of 2012. Satellite launches have significant risks, including launch failure, damage or destruction of the satellite during launch and failure to achieve a proper orbit or operate as planned. Our agreement with Space Systems/Loral does not protect us against the risks inherent in a satellite launch or in-orbit operations.

Our XM-1 and XM-2 satellites have experienced progressive degradation problems common to early Boeing 702 class satellites and now serve as in-orbit spares. Our XM-2, XM-3, and XM-4 in-orbit satellites have experienced circuit failures on their solar arrays which do not affect current operations. Additional circuit failures on the satellites could reduce the estimated lives of those satellites. We estimate that our XM-3, XM-4 and XM-5 satellites will meet their 15-year predicted depreciable lives, and that the XM-1 and XM-2 satellites' depreciable lives will end no earlier than 2013.

Our XM-5 satellite serves as an in-orbit spare for both of our services. In the event of a failure of XM-3, XM-4 or any of the Sirius satellites, service would be maintained through XM-5.

In addition, our Sirius network of terrestrial repeaters communicates with a single third-party satellite. Our XM network of terrestrial repeaters communicates with a single XM satellite. If the satellites communicating with the applicable repeater network fail unexpectedly, the services would be disrupted for several hours or longer.

We maintain in-orbit insurance policies covering only our XM-5 and FM-5 satellites. We may not renew these in-orbit insurance policies when they expire. Any insurance proceeds will not fully cover our losses in the event of a satellite failure or significant degradation. For example, the policies covering the insured satellites do not cover the full cost of constructing, launching and insuring new satellites, nor will they cover, and we do not have protection against, business interruption, loss of business or similar losses. Our insurance contains customary exclusions, material change and other conditions that could limit recovery under those policies. Further, any insurance proceeds may not be received on a timely basis in order to launch a spare satellite or construct and launch a replacement satellite or take other remedial measures. In addition, the policies are subject to limitations involving uninsured losses, large satellite performance deductibles and policy limits.

Our ability to attract and retain subscribers at a profitable level in the future is uncertain.

We spend substantial amounts on advertising and marketing and in transactions with automakers, retailers and others to obtain and attract subscribers. During 2011, we added 1,701,860 net subscribers to our satellite radio service. Our ability to retain our subscribers, or increase the number of subscribers to our service, in any given period is subject to many factors, including:

- the price of our service, which we increased on January 1, 2012;
- the health of the economy;
- the production and sale of new vehicles in the United States;
- our ability to convince owners and lessees of new and previously owned vehicles that include satellite radios to purchase subscriptions to our service;
- the effectiveness of our marketing programs;
- the entertainment value of our programming; and
- actions by our competitors, such as terrestrial radio and other audio entertainment providers.

As part of our business, we experience, and expect to experience in the future, subscriber turnover (i.e., churn). If we are unable to retain current subscribers at expected rates, or the costs of retaining subscribers are higher than expected, our financial performance and operating results could be adversely affected. We cannot predict how successful we will be at retaining customers who purchase or lease vehicles that include a prepaid promotional subscription to our satellite radio service. During 2011, we converted 45% of the customers who received a promotional subscription as part of the purchase or lease of a new vehicle to a self-paying subscription. Over the same period, we have experienced churn of our self-pay subscribers of 1.9% per month.

Average monthly revenue per subscriber, which we refer to as ARPU, is another key metric we use to analyze our business. Over the past several years, we have focused substantial attention and efforts on balancing ARPU and subscriber additions. Our ability to maintain ARPU over time is uncertain and depends upon various factors, including:

- the value consumers perceive in our service;
- our ability to add and retain compelling programming;
- the increasing competition we experience from terrestrial and Internet radio; and
- pricing and other offers we may make to attract new subscribers and retain existing subscribers.

If we are unable to consistently attract new subscribers, and retain our current subscribers, at a sufficient level of revenues to be profitable, the value of our common stock could decline, and without sufficient cash flow we may not be able to make the required payments on our indebtedness and could ultimately default on our commitments.

Royalties for music rights may increase.

We must maintain music programming royalty arrangements with, and pay license fees to, BMI, ASCAP and SESAC. These organizations negotiate with copyright users, collect royalties and distribute them to songwriters and music publishers. We have agreements with ASCAP and SESAC through 2016. We do not have a definitive agreement with BMI and continue to operate under an interim agreement. There can be no assurance that the royalties we pay to ASCAP, SESAC and BMI will not increase upon expiration of these arrangements.

Under the Digital Performance Right in Sound Recordings Act of 1995 and the Digital Millennium Copyright Act of 1998, we pay royalties to copyright owners of sound recordings. Those royalty rates may be established through negotiation or, if negotiation is unsuccessful, by the CRB. Owners of copyrights in sound recordings have created SoundExchange, a collective organization, to collect and distribute royalties. SoundExchange is exempt by statute from U.S. antitrust laws and exercises significant market power in the licensing of sound recordings.

A rate setting proceeding commenced in January 2011, and, if negotiations with SoundExchange prove unsuccessful, new royalty rates will be determined by the CRB and will be effective for the five-year period beginning in 2013. In November 2011, we filed our direct case in that proceeding and requested the CRB to set a royalty rate payable by us under the statutory license covering the performance of sound recordings over our satellite radio services at less than 7% of our gross revenues, subject to certain exclusions. In November 2011, SoundExchange also filed a direct case in the proceeding and requested the CRB to set a royalty rate under the statutory license of initially 12%, increasing by 2% each year during the term and up to a maximum of 20%, of our gross revenues. A hearing before the CRB in this proceeding is scheduled to commence in 2012.

Failure to comply with FCC requirements could damage our business.

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

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

The terms of our licenses, the order of the FCC approving the Merger, and the consent decrees we entered into with the FCC require us to meet certain conditions. Non-compliance with these conditions could result in fines, additional license conditions, license revocation or other detrimental FCC actions.

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

We are parties to several legal proceedings arising out of various aspects of our business, including class action lawsuits alleging violations of state consumer protection statutes. We are defending all claims against us. The outcome of these proceedings may not be favorable, and an unfavorable outcome may have a material adverse effect on our business or financial results.

Rapid technological and industry changes could adversely impact our services.

The audio entertainment industry is characterized by rapid technological change, frequent product innovations, changes in customer requirements and expectations, and evolving standards. If we are unable to keep pace with these changes, our business may not succeed. Products using new technologies, or emerging industry standards, could make our technologies less competitive in the marketplace.

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

Our business depends, in part, on various other third parties, including:

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

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

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

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

We engage in extensive marketing efforts to attract and retain subscribers to our services. We employ a wide variety of communications tools as part of our marketing campaigns, including telemarketing efforts; print, television, radio and online advertising; and email solicitations.

Consumer protection laws, rules and regulations are extensive and have developed rapidly, particularly at the State level. Consumer protection laws in certain jurisdictions cover nearly all aspects of our marketing efforts, including the content of our advertising, the terms of consumer offers and the manner in which we communicate with subscribers and prospective subscribers. We are engaged in considerable efforts to ensure that all our activities comply with federal and state laws, rules and regulations relating to consumer protection, including laws relating to privacy. Modifications to federal and state laws, rules and regulations concerning consumer protection, including decisions by federal and state courts and agencies interpreting these laws, could have an adverse impact on our ability to attract and retain subscribers to our services. While we monitor the

changes in and interpretations of these laws in consumer-related settlements and decisions, and while we believe that we are in material compliance with applicable laws, there can be no assurances that new laws or regulations will not be enacted or adopted, preexisting laws or regulations will not be more strictly enforced or that our varied operations will continue to comply with all applicable laws, which might adversely affect our operations.

A Multistate Working Group of 30 State Attorneys General, led by the Attorney General of the State of Ohio, is investigating certain of our consumer practices. The investigation focuses on practices relating to the cancellation of subscriptions; automatic renewal of subscriptions; charging, billing, collecting, and refunding or crediting of payments from consumers; and soliciting customers. A separate investigation into our consumer practices is being conducted by the Attorneys General of the State of Florida and New York. In addition, the Attorney General of the State of Missouri has commenced an action against us regarding our telemarketing practices to residents of the State of Missouri.

Interruption or failure of our information technology and communications systems could negatively impact our results and our brand.

We operate a complex and growing business. We offer a wide variety of subscription packages at different price points. Our business is dependent on the operation and availability of our information technology and communication systems and those of third party service providers. Any degradation in the quality, or any failure, of our systems could reduce our revenues, cause us to lose customers and damage our brand. Although we have implemented practices designed to maintain the availability of our information technology systems and mitigate the harm of any unplanned interruptions, we do not have complete redundancy for all of our information technology systems, and our disaster recovery planning cannot anticipate all eventualities. We occasionally experience unplanned outages or technical difficulties. We could also experience loss of data or processing capabilities, which could cause us to lose customers and could materially harm our reputation and our operating results.

We are involved in continuing efforts to upgrade and maintain our information technology systems. These maintenance and upgrade activities are costly, and problems with the design or implementation of system enhancements could harm our business and our results of operations.

Our data centers and our information technology and communications systems are vulnerable to damage or interruption from natural disasters, malicious attacks, fire, power loss, telecommunications failures, computer viruses or other attempts to harm our systems.

If hackers were able to circumvent our security measures, we could lose proprietary information or personal information or experience significant disruptions. If our systems become unavailable or suffer a security breach, we may be required to expend significant resources to address these problems, including notification under various federal and state data privacy regulations, and our reputation and operating results could suffer.

We rely on internal systems and external systems maintained by manufacturers, distributors and service providers to take, fulfill and handle customer service requests and host certain online activities. Any interruption or failure of our internal or external systems could prevent us from servicing customers or cause data to be unintentionally disclosed.

If we fail to protect the security of personal information about our customers, we could be subject to costly government enforcement actions or private litigation and our reputation could suffer.

The nature of our business involves the receipt and storage of personal information about our subscribers. If we experience a data security breach, we could be exposed to government enforcement actions and private litigation. In addition, our subscribers and potential customers could lose confidence in our ability to protect their personal information, which could cause them to discontinue usage of our services. Such events could lead to lost future sales and adversely affect our results of operations.

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

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

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

As of December 31, 2011, we had an aggregate principal amount of approximately \$3.1 billion of indebtedness. Our substantial indebtedness has important consequences. For example, it:

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

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

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

An earthquake, tornado, flood, terrorist attack or other catastrophic event could damage our broadcast studios, terrestrial repeater networks or satellite uplink facilities, interrupt our service and harm our business.

Any damage to the satellites that transmit to our terrestrial repeater networks would likely result in degradation of the affected service for some subscribers and could result in complete loss of service in certain or all areas. Damage to our satellite uplink facilities could result in a complete loss of either of our services until we could transfer operations to suitable back-up facilities.

Electromagnetic interference from others could damage our business.

Our satellite radio service may be subject to interference caused by other users of radio frequencies, such as RF lighting, ultra-wideband technology and Wireless Communications Service ("WCS") users. The FCC has approved modifications to the rules governing the operations of WCS devices in the spectrum adjacent to satellite radio, including rule changes that facilitate mobile broadband services in the WCS frequencies. We have opposed certain of the changes out of a concern for their impact on the reception of satellite radio service, and have filed a petition with the FCC asking the Commission to reconsider certain of the changes. We cannot predict the outcome of our petition for reconsideration. The ultimate impact of certain of these rules changes on satellite

radio reception is impossible to predict and dependent on numerous factors outside of our control, such as the design and implementation of WCS systems and devices, the applications deployed through WCS devices, and the number of WCS devices ultimately adopted by consumers.

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

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

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

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

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

Liberty Media Corporation holds preferred stock that is convertible into 2,586,976,000 shares of common stock. Pursuant to the terms of the preferred stock held by Liberty Media, we cannot take certain actions, such as certain issuances of equity or debt securities, without the consent of Liberty Media. Additionally, Liberty Media has the right to designate a percentage of our board of directors proportional to its interest. As a result, Liberty Media has significant influence over our business and affairs. The interests of Liberty Media may differ from our interests. The extent of Liberty Media's stock ownership in us also may have the effect of discouraging offers to acquire control of us. Under its investment agreement, Liberty Media is subject to certain standstill provisions which expire in March 2012.

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

We have generated a federal net operating loss carryforward of approximately \$7.8 billion through the year ended December 31, 2011, and we may generate net operating loss carryforwards in future years.

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

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our common stock, including purchases or sales of stock between 5% stockholders, our ability to use our net operating loss carryforwards and to recognize certain built-in losses would be subject to the limitations of Section 382. The limitation on our ability to utilize tax losses and credit carryforwards arising from an ownership change under Section 382 would depend upon the value of our equity at the time of any ownership change. Given our current market capitalization, any future ownership change will not negatively impact our ability to fully utilize our existing net operating losses within the carryforward period. If we were to experience a significant decrease in equity value it is possible that a portion of our tax losses and credit carryforwards could expire before we would be able to use them to offset future taxable income.

Special Note About Forward-Looking Statements

We have made various statements in this Annual Report on Form 10-K that may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may also be made in our other reports filed with or furnished to the SEC, in our press releases and in other documents. In addition, from time to time, we, through our management, may make oral forward-looking statements. Forward-looking statements are subject to risks and uncertainties, including those identified above, which could cause actual results to differ materially from such statements. The words “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimated,” “believe,” “intend,” “plan,” “may,” “should,” “could,” “would,” “likely,” “projection,” “outlook” and similar expressions are intended to identify forward-looking statements. We caution you that the risk factors described above are not exclusive. There may also be other risks that we are unable to predict at this time that may cause actual results to differ materially from those in forward-looking statements. 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. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statements.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

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

We also own or lease other small facilities that we use as offices for our advertising sales personnel, studios and warehouse and maintenance space. These facilities are not material to our business or operations. We also lease properties in Panama and Ecuador that we use as earth stations to command and control satellites.

In addition, we lease or license space at over 650 locations for use in connection with the terrestrial repeater networks that support our satellite radio services. In general, these leases and licenses are for space on building rooftops and communications towers. None of these individual arrangements is material to our business or operations.

ITEM 3. LEGAL PROCEEDINGS

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

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

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

Carl Blessing et al. v. Sirius XM Radio Inc. . We have settled the case titled Carl Blessing et al. v. Sirius XM Radio Inc. and the settlement has been approved by the United States District Court for the Southern District of New York. Notices of appeal have been filed by 11 individuals seeking to overturn the settlement.

In December 2009, Carl Blessing, a subscriber, filed a lawsuit against us in the United States District Court for the Southern District of New York. Mr. Blessing and several other plaintiffs purported to represent all subscribers who were subject to: an increase in the price for additional-radio subscriptions from \$6.99 to \$8.99; the imposition of the US Music Royalty Fee; and the elimination of our free Internet service. The suit claimed that the pricing changes showed that our merger with XM lessened competition or led to a monopoly in violation of the Clayton Act and that the merger led to monopolization in violation of the Sherman Act. Earlier the Court dismissed the plaintiffs' claims for breach of contract and granted our motion for summary judgment as to various state law claims.

As part of the settlement, we agreed to: not raise the price of our basic satellite radio service or other programming packages or our Internet services; not increase our US Music Royalty Fee; or not decrease our multi-radio discount prior to January 1, 2012. Existing subscribers were also permitted to renew their current subscription plans at current rates prior to December 31, 2011. Former subscribers who terminated their subscriptions after July 29, 2009 are entitled to receive, at their election, either: one month of our basic satellite radio service or one month of our Internet service, at no charge. We also paid the costs of providing notice to the plaintiff class and reimbursed counsel for the plaintiffs for \$13 million of their fees and expenses.

One Twelve, Inc. and Don Buchwald v. Sirius XM Radio Inc. . In March 2011, One Twelve, Inc., Howard Stern's production company, and Don Buchwald, Stern's agent, commenced an action against us in the Supreme Court of the State of New York, County of New York. The action alleges that, upon the Merger, we failed to honor our obligations under the performance-based compensation provisions of our prior agreement dated

October 2004 with One Twelve and Buchwald, as agent; One Twelve and Buchwald each assert a claim of breach of contract. More specifically, the complaint alleges that subscribers to the XM Satellite Radio service should have been counted as “Sirius subscribers” following the Merger for purposes of provisions entitling One Twelve and Buchwald to compensation in the event that the number of “Sirius subscribers” exceeded the projected growth amounts of Sirius subscribers by certain magnitudes specified in the 2004 agreement for each year of that agreement. The suit seeks damages, plus interest and costs, in an amount to be determined. We believe that the claims are without merit and intend to vigorously defend this action.

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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

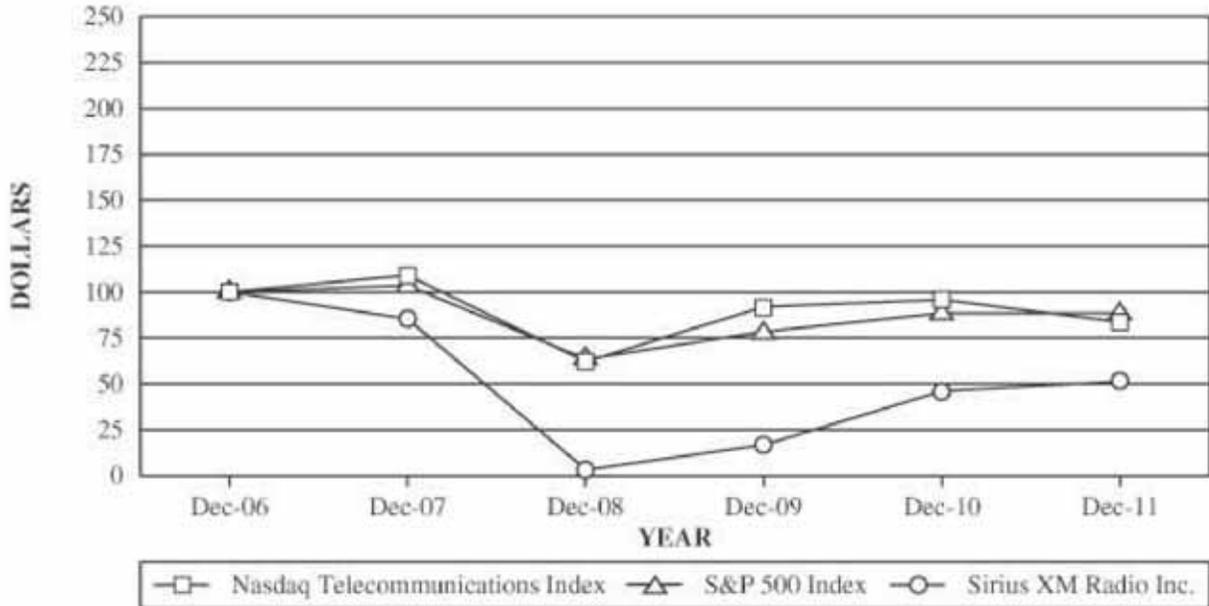
	<u>High</u>	<u>Low</u>
Year ended December 31, 2010		
First Quarter	\$1.18	\$0.61
Second Quarter	1.25	0.84
Third Quarter	1.20	0.90
Fourth Quarter	1.69	1.18
Year ended December 31, 2011		
First Quarter	\$1.88	\$1.49
Second Quarter	2.44	1.62
Third Quarter	2.35	1.44
Fourth Quarter	1.92	1.27

On February 7, 2012, the closing sales price of our common stock on the Nasdaq Global Select Market was \$2.12 per share. On February 7, 2012, there were approximately 11,459 record holders of our common stock.

We have never paid cash dividends on our common stock. Our ability to pay dividends on our common stock is currently limited by covenants under our debt agreements. It is currently our intention to retain earnings, if any, for use in our business. Our board of directors discusses alternative uses of cash based on a variety of factors such as working capital levels, our debt repayment obligations or repurchase of our debt, our cash requirements for acquisitions, and our return of capital to shareholders. See Note 13 to our consolidated financial statements included in this Annual Report on Form 10-K.

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, 2006 to December 31, 2011. The graph assumes that \$100 was invested on December 31, 2006 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, 2006	\$ 100.00	\$ 100.00	\$ 100.00
December 31, 2007	\$ 109.17	\$ 103.53	\$ 85.59
December 31, 2008	\$ 62.25	\$ 63.69	\$ 3.39
December 31, 2009	\$ 92.27	\$ 78.62	\$ 16.95
December 31, 2010	\$ 95.89	\$ 88.67	\$ 46.05
December 31, 2011	\$ 83.79	\$ 88.67	\$ 51.41

Equity Compensation Plan Information

<u>Plan category</u> <i>(shares in thousands)</i>	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	462,086	\$ 1.32	197,606
Equity compensation plans not approved by security holders	—	—	—
Total	462,086	\$ 1.32	197,606

ITEM 6. SELECTED FINANCIAL DATA

Our selected financial data set forth below with respect to the consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009, and with respect to the consolidated balance sheets at December 31, 2011 and 2010, are derived from our audited consolidated financial statements included in Item 8 of this Annual Report on Form 10-K. Our selected financial data set forth below with respect to the consolidated statements of operations for the years ended December 31, 2008 and 2007, and with respect to the consolidated balance sheets at December 31, 2009, 2008 and 2007 are derived from our audited consolidated financial statements, which are not included in this Annual Report on Form 10-K. This selected financial data should be read in conjunction with the Consolidated Financial Statements and related notes thereto included in Item 8 of this Annual Report on Form 10-K and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this Annual Report on Form 10-K.

	As of and for the Years Ended December 31,				
	2011	2010	2009(1)	2008(1)(2)	2007
<i>(in thousands, except per share data)</i>					
Statements of Operations Data:					
Total revenue	\$3,014,524	\$2,816,992	\$2,472,638	\$ 1,663,992	\$ 922,066
Net income (loss) attributable to common stockholders	\$ 426,961	\$ 43,055	\$ (538,226)	\$(5,316,910)	\$ (565,252)
Net income (loss) per share — basic	\$ 0.11	\$ 0.01	\$ (0.15)	\$ (2.45)	\$ (0.39)
Net income (loss) per share — diluted	\$ 0.07	\$ 0.01	\$ (0.15)	\$ (2.45)	\$ (0.39)
Weighted average common shares outstanding — basic	3,744,606	3,693,259	3,585,864	2,169,489	1,462,967
Weighted average common shares outstanding — diluted	6,500,822	6,391,071	3,585,864	2,169,489	1,462,967
Balance Sheet Data:					
Cash and cash equivalents	\$ 773,990	\$ 586,691	\$ 383,489	\$ 380,446	\$ 438,820
Restricted investments	\$ 3,973	\$ 3,396	\$ 3,400	\$ 141,250	\$ 53,000
Total assets	\$7,495,996	\$7,383,086	\$7,322,206	\$ 7,527,075	\$1,687,231
Long-term debt, net of current portion	\$3,012,351	\$3,021,763	\$3,063,281	\$ 2,820,781	\$1,271,699
Stockholders' equity (deficit)(3)	\$ 704,145	\$ 207,636	\$ 95,522	\$ 75,875	\$ (792,737)

- (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.

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

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results and the timing of events could differ materially from those projected in forward-looking statements due to a number of factors, including those described under "Item 1A — Risk Factors" and elsewhere in this Annual Report. See "Special Note Regarding Forward-Looking Statements."

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

Executive Summary

We broadcast our music, sports, entertainment, comedy, talk, news, 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 applications for mobile devices.

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

As of December 31, 2011, we had 21,892,824 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 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 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 equity interest in the satellite radio services offered in Canada. Subscribers to the Sirius XM Canada service are not included in our subscriber count. In June 2011, Canadian Satellite Radio Holdings Inc. ("CSR"), the parent company of XM Canada, and Sirius Canada completed a transaction to combine their operations ("the Canada Merger").

Actual Results of Operations

Set forth below are our results of operations for the year ended December 31, 2011 compared with the year ended December 31, 2010 and the year ended December 31, 2010 compared with the year ended December 31, 2009.

	For the Years Ended December 31,			2011 vs 2010 Change		2010 vs 2009 Change	
	2011	2010	2009	Amount	%	Amount	%
Revenue:							
Subscriber revenue	\$2,595,414	\$2,414,174	\$2,287,503	\$181,240	8%	\$126,671	6%
Advertising revenue, net of agency fees	73,672	64,517	51,754	9,155	14%	12,763	25%
Equipment revenue	71,051	71,355	50,352	(304)	(0%)	21,003	42%
Other revenue	274,387	266,946	83,029	7,441	3%	183,917	222%
Total revenue	3,014,524	2,816,992	2,472,638	197,532	7%	344,354	14%
Operating expenses:							
Revenue share and royalties	471,149	435,410	397,210	35,739	8%	38,200	10%
Programming and content	281,234	305,914	308,121	(24,680)	(8%)	(2,207)	(1%)
Customer service and billing	259,719	241,680	234,456	18,039	7%	7,224	3%
Satellite and transmission	75,902	80,947	84,033	(5,045)	(6%)	(3,086)	(4%)
Cost of equipment	33,095	35,281	40,188	(2,186)	(6%)	(4,907)	(12%)
Subscriber acquisition costs	434,482	413,041	340,506	21,441	5%	72,535	21%
Sales and marketing	222,773	215,454	228,956	7,319	3%	(13,502)	(6%)
Engineering, design and development	53,435	45,390	41,031	8,045	18%	4,359	11%
General and administrative	238,738	240,970	227,554	(2,232)	(1%)	13,416	6%
Depreciation and amortization	267,880	273,691	309,450	(5,811)	(2%)	(35,759)	(12%)
Restructuring, impairments and related costs	—	63,800	32,807	(63,800)	(100%)	30,993	94%
Total operating expenses	2,338,407	2,351,578	2,244,312	(13,171)	(1%)	107,266	5%
Income from operations	676,117	465,414	228,326	210,703	45%	237,088	104%
Other income (expense):							
Interest expense, net of amounts capitalized	(304,938)	(295,643)	(315,668)	(9,295)	(3%)	20,025	6%
Loss on extinguishment of debt and credit facilities, net	(7,206)	(120,120)	(267,646)	112,914	94%	147,526	55%
Interest and investment income (loss)	73,970	(5,375)	5,576	79,345	nm	(10,951)	(196%)
Other income	3,252	3,399	3,355	(147)	(4%)	44	1%
Total other expense	(234,922)	(417,739)	(574,383)	182,817	44%	156,644	27%
Income (loss) before income taxes	441,195	47,675	(346,057)	393,520	825%	393,732	114%
Income tax expense	(14,234)	(4,620)	(5,981)	(9,614)	(208%)	1,361	23%
Net income (loss)	426,961	43,055	(352,038)	383,906	892%	395,093	112%
Preferred stock beneficial conversion feature	—	—	(186,188)	—	—%	186,188	nm
Net income (loss) attributable to common stockholders	\$ 426,961	\$ 43,055	\$ (538,226)	\$383,906	892%	\$581,281	108%

nm — not meaningful

Total Revenue

Subscriber Revenue includes subscription fees, activation and other fees.

- **2011 vs. 2010** : For the years ended December 31, 2011 and 2010, subscriber revenue was \$2,595,414 and \$2,414,174, respectively, an increase of 8%, or \$181,240. The increase was primarily attributable to an increase of 8% in daily weighted average subscribers and an increase in sales of premium services, including Premier packages, data services and Internet subscriptions, partially offset by the impact of subscription discounts offered through customer acquisition and retention programs.
- **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 sales of premium services, including Premier packages, data services and Internet subscriptions; 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.

The future growth of subscriber revenue will be dependent upon the growth of our subscriber base, conversion and churn rates, promotions, rebates offered to subscribers and corresponding take-rates, plan mix, subscription prices and identification of additional revenue streams from subscribers. We increased certain of our subscription rates beginning January 2012.

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

- **2011 vs. 2010** : For the years ended December 31, 2011 and 2010, advertising revenue was \$73,672 and \$64,517, respectively, an increase of 14%, or \$9,155. The increase was primarily due to greater demand for audio advertising resulting in increases in the number of advertising spots sold as well as the rate charged per spot.
- **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.

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 increase as advertisers are attracted by the growth in our subscriber base.

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

- **2011 vs. 2010** : For the years ended December 31, 2011 and 2010, equipment revenue was \$71,051 and \$71,355, respectively, a decrease of \$304. The decrease was driven by a reduction in aftermarket hardware subsidies earned, partially offset by increased royalties from higher OEM production.
- **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 production and subsidies earned on aftermarket radios and accessories.

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

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

- **2011 vs. 2010** : For the years ended December 31, 2011 and 2010, other revenue was \$274,387 and \$266,946, respectively. The \$7,441 increase was primarily due to increased royalty revenue from Sirius

XM Canada. While the number of subscribers subject to the U.S. Music Royalty Fee increased, that increase was offset by a reduction in December 2010 in the rate charged on primary subscriptions.

- *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.

Other revenue is dependent upon the amount of the U.S. Music Royalty Fee and revenues from our Canadian affiliate. Other revenue will fluctuate as additional subscribers become subject to the U.S. Music Royalty Fee and based on the performance of our Canadian affiliate.

Operating Expenses

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

- *2011 vs. 2010* : For the years ended December 31, 2011 and 2010, revenue share and royalties were \$471,149 and \$435,410, respectively, an increase of 8%, or \$35,739. For the year ended December 31, 2011, revenue share and royalties remained flat as a percentage of total revenue. The increase in revenue share and royalties was primarily attributable to a 14% increase in our revenues subject to royalty and/or revenue sharing arrangements and a 7% increase in the statutory royalty rate for the performance of sound recordings, partially offset by a \$18,974 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.
- *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 in revenue share 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.

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

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

- *2011 vs. 2010*: For the years ended December 31, 2011 and 2010, programming and content expenses were \$281,234 and \$305,914, respectively, a decrease of 8%, or \$24,680 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 and an \$8,394 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.

- *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.

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

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

- *2011 vs. 2010:* For the years ended December 31, 2011 and 2010, customer service and billing expenses were \$259,719 and \$241,680, respectively, an increase of 7%, or \$18,039 and remained flat as a percentage of total revenue. The increase was primarily attributable to an 8% increase in daily weighted average subscribers which drove higher call volume, billing and collection costs, transaction fees, as well as increased handle time per call and personnel costs. This increase was partially offset by lower agent rates, fewer contacts per subscriber and lower general operating costs.
- *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 driven by an increase in average subscribers and more contacts per subscriber, partially offset by lower handle time per call and lower agent cost as a result of moving calls to lower cost locations.

We expect our customer care and billing expenses to increase as our subscriber base grows.

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

- *2011 vs. 2010 :* For the years ended December 31, 2011 and 2010, satellite and transmission expenses were \$75,902 and \$80,947, respectively, a decrease of 6%, or \$5,045 and decreased as a percentage of total revenue. The decrease was due to savings in repeater expenses from network optimization along with favorable lease renewals, a reduction in satellite in-orbit insurance expense, and a transition to more cost-effective approaches to satellite and broadcast operations.
- *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 and 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.

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

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

- *2011 vs. 2010 :* For the years ended December 31, 2011 and 2010, cost of equipment was \$33,095 and \$35,281, respectively, a decrease of 6%, or \$2,186, and remained flat as a percentage of total revenue. The decrease was primarily due to lower volume of direct to consumer sales.

- *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.

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

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

- *2011 vs. 2010* : For the years ended December 31, 2011 and 2010, subscriber acquisition costs were \$434,482 and \$413,041, respectively, an increase of 5%, or \$21,441, and decreased as a percentage of total revenue. The increase was primarily a result of the 12% increase in gross subscriber additions and higher subsidies related to increased OEM installations occurring in advance of acquiring the subscriber, partially offset by improved OEM subsidy rates per vehicle and a \$6,052 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.
- *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 increased OEM installations occurring in advance of acquiring the subscriber, partially offset by improved OEM subsidy rates 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.

We expect total subscriber acquisition costs to fluctuate with increases or decreases in OEM installations and changes in our gross subscriber additions. Declines in contractual OEM subsidy rates and 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; subscriber communications; 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.

- *2011 vs. 2010* : For the years ended December 31, 2011 and 2010, sales and marketing expenses were \$222,773 and \$215,454, respectively, an increase of 3%, or \$7,319, and decreased as a percentage of total revenue. The increase was primarily due to increased subscriber communications and retention programs associated with a greater number of subscribers and promotional trials, partially offset by reductions in consumer advertising and event marketing.
- *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.

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

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

- *2011 vs. 2010* : For the years ended December 31, 2011 and 2010, engineering, design and development expenses were \$53,435 and \$45,390, respectively, an increase of 18%, or \$8,045, and remained flat as a percentage of total revenue. The increase was primarily due to higher product development costs and costs related to enhanced subscriber features and functionality, partially offset by lower share-based payment expenses.
- *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, and remained flat as a percentage of total revenue. The increase was primarily due to higher personnel, overhead and aftermarket product development costs.

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

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

- *2011 vs. 2010* : For the years ended December 31, 2011 and 2010, general and administrative expenses were \$238,738 and \$240,970, respectively, a decrease of 1%, or \$2,232, and decreased as a percentage of total revenue. The decrease was primarily due to lower share-based payment expense, as well as lower general operating expenses, including rent, insurance and information technology 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, and 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.

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

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.

- *2011 vs. 2010*: For the years ended December 31, 2011 and 2010, depreciation and amortization expense was \$267,880 and \$273,691, respectively, a decrease of 2%, or \$5,811, and decreased as a percentage of total revenue. The decrease was primarily due to a reduction in the amortization of subscriber relationships, partially offset by depreciation recognized on additional assets placed in service.
- *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.

We expect depreciation expenses to increase in future periods as we complete construction and launch our FM-6 satellite, which will be partially offset by reduced 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.

- *2011 vs. 2010:* In 2011, we did not record any restructuring, impairments, and related costs. For the year ended December 31, 2010, restructuring, impairments and related costs were \$63,800 primarily due to the impairment of our FM-4 satellite as a result of the launch of XM-5 in 2010, and contract terminations.
- *2010 vs. 2009:* For the years ended December 31, 2010 and 2009, restructuring, impairments and related costs were \$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 as a result of the launch of XM-5 in 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.

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.

- *2011 vs. 2010:* For the years ended December 31, 2011 and 2010, interest expense was \$304,938 and \$295,643, respectively, an increase of 3%, or \$9,295. The increase was primarily due to lower capitalized interest related to the construction of our satellites and related launch vehicles, partially offset by the mix of outstanding debt with lower interest rates.
- *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.

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

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

- *2011 vs. 2010:* For the years ended December 31, 2011 and 2010, loss on extinguishment of debt and credit facilities, net, was \$7,206 and \$120,120, respectively, a decrease of 94%, or \$112,914. During the year ended December 31, 2011, the loss was incurred on the repayment of our 11.25% Senior Secured Notes due 2013 and our 3.25% Convertible Notes due 2011. 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.

- *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.

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

- *2011 vs. 2010* : For the years ended December 31, 2011 and 2010, interest and investment income (loss) was \$73,970 and (\$5,375), respectively, an increase of \$79,345. The increase was attributable to a net gain realized as a result of the Canada Merger. This transaction resulted in the recognition of a \$75,768 gain recorded in interest and investment income. The gain was partially offset by our share of net losses at our Canadian affiliate.
- *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.

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, foreign withholding taxes on royalty income and the state tax impact of the suspension of net operating loss ("NOL") use in California and Illinois.

- *2011 vs. 2010* : For the years ended December 31, 2011 and 2010, income tax expense was \$14,234 and \$4,620, respectively, an increase of 208%, or \$9,614, primarily due to an increase in the applicable state effective tax rate, foreign withholding taxes on royalty income and the state tax impact of the suspension of NOL use in California and Illinois.
- *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 as a result of a decrease in the applicable state effective tax rate and foreign withholding taxes on royalty income.

In assessing the recoverability of our deferred tax assets, management regularly considers whether some portion or all of the deferred tax assets will not be realized based on the recognition threshold and measurement of tax positions in accordance with the Income Tax Topic of the FASB Accounting Standards Codification (the "Income Taxes Topic"). The ultimate realization of deferred tax assets is dependent upon the generation of future

taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax assets and liabilities, projected taxable income and tax planning strategies in making this assessment. Management's evaluation of the realizability of deferred tax assets considers both positive and negative evidence. The weight given to the potential effects of positive and negative evidence is based on the extent to which it can be objectively verified. Our conclusion with regard to maintaining or releasing the valuation allowance gives consideration to a variety of factors including but not limited to: (a) our ability to utilize net operating losses within the carryforward period, (b) a three-year cumulative pre-tax income, (c) current period taxable income and (d) the expectation of future earnings. After weighting this evidence, management will conclude whether it is more likely than not that our deferred tax assets will be realized.

We have maintained a deferred tax valuation allowance against our deferred tax assets through December 31, 2011. In 2010, we had our first year of pre-tax earnings, but continued to generate taxable losses. For the year ended December 31, 2011, we have continued to report positive earnings and have generated taxable income. If such earnings trends continue, we may realize the benefits of all or a significant portion of our net deferred tax assets in 2012 through a reduction in our deferred tax valuation allowance. This would result in an income tax benefit that would be reflected in net income. As of December 31, 2011, we had approximately \$3.4 billion of valuation allowances established against the deferred tax assets.

Subscriber Data

The following table contains actual subscriber data for the years ended December 31, 2011, 2010 and 2009, respectively.

	Unaudited		
	For the Years Ended December 31,		
	2011	2010	2009
Beginning subscribers	20,190,964	18,772,758	19,003,856
Gross subscriber additions	8,696,020	7,768,827	6,208,482
Deactivated subscribers	(6,994,160)	(6,350,621)	(6,439,580)
Net additions	1,701,860	1,418,206	(231,098)
Ending subscribers	21,892,824	20,190,964	18,772,758
Self-pay	17,908,742	16,686,799	15,703,932
Paid promotional	3,984,082	3,504,165	3,068,826
Ending subscribers	21,892,824	20,190,964	18,772,758
Self-pay	1,221,943	982,867	154,275
Paid promotional	479,917	435,339	(385,373)
Net additions	1,701,860	1,418,206	(231,098)
Daily weighted average number of subscribers	20,903,908	19,385,055	18,529,696
Average self-pay monthly churn	1.9%	1.9%	2.0%
New vehicle consumer conversion rate	45%	46%	45%

Note: See pages 45 through 51 for a glossary of terms.

Subscribers. At December 31, 2011, we had 21,892,824 subscribers, an increase of 1,701,860 subscribers, or 8%, from the 20,190,964 subscribers as of December 31, 2010.

- *2011 vs. 2010:* For the years ended December 31, 2011 and 2010, net additions were 1,701,860 and 1,418,206, respectively, an increase in net additions of 20%, or 283,654. The improvement is due to the 12% increase in gross subscriber additions, primarily resulting from an increase in U.S. light vehicle sales, new vehicle penetration, and returning subscriber activations inclusive of previously owned car acquisitions. This increase in gross additions was partially offset by the 10% increase in deactivations, which was primarily due to an increase in paid promotional trial volumes along with growth in our subscriber base.
- *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 subscriber activations.

Average Self-pay Monthly Churn is derived by dividing the monthly average of self-pay deactivations for the quarter by the average self-pay subscriber balance for the quarter. (See accompanying glossary on pages 45 through 51 for more details.)

- *2011 vs. 2010:* For the years ended December 31, 2011 and 2010, our average self-pay monthly churn rate was 1.9%. The consistent churn rate exhibits stability in the continued demand for and satisfaction with our service from existing subscribers.
- *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.

New Vehicle Consumer 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. The metric excludes rental and fleet vehicles. (See accompanying glossary on pages 45 through 51 for more details).

- *2011 vs. 2010* : For the years ended December 31, 2011 and 2010, the new vehicle consumer conversion rate was 45% and 46%, respectively. The decrease was primarily due to the changing mix of sales among OEMs and operational issues impacting the timing of the receipt of customer information and prompt marketing communications with buyers and lessees of vehicles.
- *2010 vs. 2009* : For the years ended December 31, 2010 and 2009, the new vehicle consumer conversion rate was 46% and 45%, respectively. The increase was primarily due to improved marketing to promotional period subscribers and an improving economy.

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

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

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

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

We believe these Non-GAAP financial measures provide useful information to investors regarding our financial condition and results of operations. We believe investors find these Non-GAAP financial performance measures useful in evaluating our core trends 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 glossary (pages 45 through 51) 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, 2011, 2010 and 2009, respectively:

	Unaudited		
	For the Years Ended December 31,		
	2011	2010	2009
<i>(in thousands, except for per subscriber amounts)</i>			
ARPU	\$ 11.58	\$ 11.73	\$ 10.95
SAC, per gross subscriber addition	\$ 55	\$ 59	\$ 63
Customer service and billing expenses, per average subscriber	\$ 1.03	\$ 1.03	\$ 1.05
Free cash flow	\$ 415,742	\$ 210,481	\$ 185,319
Adjusted total revenue	\$3,025,434	\$2,838,898	\$2,526,703
Adjusted EBITDA	\$ 731,018	\$ 626,288	\$ 462,539

Note: See pages 45 through 51 for a glossary of terms.

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 glossary on pages 45 through 51 for more details.)

- *2011 vs. 2010* : For the years ended December 31, 2011 and 2010, ARPU was \$11.58 and \$11.73, respectively. The decrease was driven primarily by an increase in subscription discounts offered through customer acquisition and retention programs and the decrease in the U.S. Music Royalty Fee rate, partially offset by an increase in sales of our premium services, including Premier packages, data services and Internet subscriptions.
- *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 Premier packages, 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.

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 glossary on pages 45 through 51 for more details.)

- *2011 vs. 2010* : For the years ended December 31, 2011 and 2010, SAC, per gross subscriber addition, was \$55 and \$59, respectively. The decrease was primarily due to lower per radio subsidy rates for certain OEMs and growth in subscriber reactivations and royalties from radio manufacturers.
- *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 increased OEM installations of factory-installed satellite radios.

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 glossary on pages 45 through 51 for more details.)

- *2011 vs. 2010* : For the years ended December 31, 2011 and 2010, customer service and billing expenses, per average subscriber, were \$1.03.
- *2010 vs. 2009* : For the years ended December 31, 2010 and 2009, customer service and billing expenses, per average subscriber, were \$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.

Free Cash Flow includes the net cash provided by operations, additions to property and equipment, and restricted and other investment activity. (See accompanying glossary on pages 45 through 51 for more details.)

- *2011 vs. 2010* : For the years ended December 31, 2011 and 2010, free cash flow was \$415,742 and \$210,481, respectively, an increase of \$205,261. Net cash provided by operating activities increased \$30,735 to \$543,630 for the year ended December 31, 2011 compared to the \$512,895 provided by operations for the year ended December 31, 2010. Capital expenditures for property and equipment for the year ended December 31, 2011 decreased \$174,439 to \$137,429 compared to \$311,868 for the year ended December 31, 2010. The increase in net cash provided by operating activities was primarily the result of improved operating performance driving higher adjusted EBITDA, cash received from the Canada Merger, higher collections from subscribers and distributors, and the repayment in the first quarter of 2010 of liabilities deferred in 2009. The decrease in capital expenditures for the year ended December 31, 2011 was primarily the result of decreased satellite construction and launch expenditures due to the launch in 2010 of our XM-5 satellite. The increase in restricted and other investment activities was driven by the return of capital resulting from the Canada Merger, partially offset by proceeds from the sale of investment securities in the year ended December 31, 2010.
- *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.

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 glossary on pages 45 through 51 for more details.)

(in thousands)	Unaudited		
	For the Years Ended December 31,		
	2011	2010	2009
Revenue:			
Subscriber revenue	\$2,595,414	\$2,414,174	\$2,287,503
Advertising revenue, net of agency fees	73,672	64,517	51,754
Equipment revenue	71,051	71,355	50,352
Other revenue	274,387	266,946	83,029
Purchase price accounting adjustments:			
Subscriber revenue	3,659	14,655	46,814
Other revenue	7,251	7,251	7,251
Adjusted total revenue	<u>\$3,025,434</u>	<u>\$2,838,898</u>	<u>\$2,526,703</u>

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 glossary on pages 45 through 51 for more details):

- **2011 vs. 2010 :** For the years ended December 31, 2011 and 2010, adjusted EBITDA was \$731,018 and \$626,288, respectively, an increase of 17%, or \$104,730. The increase was primarily due to an increase of 7%, or \$186,536, in adjusted revenues, partially offset by an increase of 4%, or \$81,806, in expenses included in adjusted EBITDA. The increase in adjusted revenues was primarily due to the increase in our subscriber base. The increase in expenses was primarily driven by higher revenue share and royalties expenses associated with growth in revenues, increased customer service and billing expenses associated with subscriber growth and higher subscriber acquisition costs related to the 12% increase in gross additions, partially offset by lower programming and content costs.
- **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 adjusted 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.

Liquidity and Capital Resources

Cash Flows for the Year Ended December 31, 2011 Compared with the Year Ended December 31, 2010 and Year Ended December 31, 2010 Compared with the Year Ended December 31, 2009

As of December 31, 2011 and 2010, we had \$773,990 and \$586,691, respectively, in cash and cash equivalents. The following table presents a summary of our cash flow activity for the years set forth below:

	For the Years Ended December 31,			2011 vs. 2010	2010 vs. 2009
	2011	2010	2009		
Net cash provided by operating activities	\$ 543,630	\$ 512,895	\$ 433,830	\$ 30,735	\$ 79,065
Net cash used in investing activities	(127,888)	(302,414)	(248,511)	174,526	(53,903)
Net cash used in financing activities	(228,443)	(7,279)	(182,276)	(221,164)	174,997
Net increase in cash and cash equivalents	187,299	203,202	3,043	(15,903)	200,159
Cash and cash equivalents at beginning of period	586,691	383,489	380,446	203,202	3,043
Cash and cash equivalents at end of period	\$ 773,990	\$ 586,691	\$ 383,489	\$ 187,299	\$ 203,202

Cash Flows Provided by Operating Activities

Cash provided by operating activities increased by \$30,735, or 6%, to \$543,630 for the year ended December 31, 2011 from \$512,895 for the year ended December 31, 2010. Cash provided by operating activities increased by \$79,065, or 18%, to \$512,895 for the year ended December 31, 2010 from cash provided by operating activities of \$433,830 for the year ended December 31, 2009. 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 \$426,691, \$43,055, and (\$352,038) for the years ended December 31, 2011, 2010 and 2009, respectively. Our net income growth has been primarily due to growth in our subscriber revenues which increased by \$181,240, or 8%, and \$126,671, or 6%, for the years ended December 31, 2011 and 2010, respectively.
- Net adjustments to net income (loss) were \$66,975, \$357,743, and \$564,902 for the years ended December 31, 2011, 2010 and 2009, respectively. Significant components of adjustments to net income, and their impact on cash flows from operating activities, include:

	For the Years Ended December 31,		
	2011	2010	2009
Depreciation and amortization	\$ 267,880	\$ 273,691	\$ 309,450
Restructuring, impairments and related costs	\$ —	\$ 66,731	\$ 26,964
Loss on extinguishment of debt and credit facilities, net	\$ 7,206	\$ 120,120	\$ 267,646
Gain on merger of unconsolidated entities	\$ (75,768)	\$ —	\$ —
Share-based payment expense	\$ 53,190	\$ 60,437	\$ 73,981
Other non-cash purchase price adjustments	\$(275,338)	\$(250,727)	\$(202,054)

Depreciation and amortization expense is expected to increase in future periods as we recognize depreciation expense after the construction and launch of our FM-6 satellite and continue to invest in our information technology, broadcast, and facilities infrastructures.

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.

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

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

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

Changes in operating assets and liabilities contributed \$49,694, \$112,097 and \$220,966 to operating cash flows for the years ended December 31, 2011, 2010 and 2009, respectively. Significant changes in operating assets and liabilities include the timing of collections from our customers, the repayment of the XM Canada credit facility, and the timing of payments to vendors and related parties. As we continue to grow our subscriber and revenue base, we expect that deferred revenue and amounts due from customers and distributors will continue to increase. Amounts payable to vendors are also expected to increase as our business grows. The timing of payments to vendors and related parties are based on both contractual commitments and the terms and conditions of our vendors.

Cash Flows Used in Investing Activities

Cash used for investing activities consists primarily of capital expenditures for property and equipment. We will continue to incur significant costs to improve our terrestrial repeater network and broadcast and administrative infrastructure. In addition, we will continue to incur capital expenditures associated with our FM-6 satellite, which is scheduled for launch in the first half of 2012. After the launch of our FM-6 satellite, we anticipate no significant satellite capital expenditures for several years until it becomes necessary to replace satellites in our fleet.

- The decrease in cash used for investing activities was primarily due to lower capital expenditures for construction of our satellites and related launch vehicles following the launch of our XM-5 satellite in 2010.

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 exercise of stock options. 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.

- The increase in cash flows used in financing activities was primarily due to the 2011 repayment of the remaining balance of our 11.25% Senior Secured Notes due 2013 and 3.25% Convertible Notes due 2011

without issuing new debt. In 2010, we repaid our Senior Secured Term Loan due 2012, 9.625% Senior Notes due 2013, XM's 10% Senior PIK Secured Notes due 2011 and 9.75% Senior Notes due 2014. We also partially repaid XM's 11.25% Senior Secured Notes due 2013 and our 3.25% Convertible Notes due 2011. We issued the following new debt in 2010; our 8.75% Senior Notes due 2015 and 7.625% Senior Notes due 2018.

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 17 in our consolidated financial statements in Item 8 of this Annual Report on Form 10-K, as of December 31, 2011, we expect to incur expenditures of approximately \$60,517 and \$5,526 in 2012 and 2013, respectively, and an additional \$48,545 thereafter, 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.

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.

Debt Covenants

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

For a discussion of our "Debt Covenants", refer to Note 13 to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

We do not have any significant off-balance sheet financing arrangements other than those disclosed in Note 17 to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K that are reasonably likely to have a material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Contractual Cash Commitments

For a discussion of our “Contractual Cash Commitments,” refer to Note 17 to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Related Party Transactions

For a discussion of “Related Party Transactions,” refer to Note 11 to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods. Accounting estimates require the use of significant management assumptions and judgments as to future events, and the effect of those events cannot be predicted with certainty. The accounting estimates will change as new events occur, more experience is acquired and more information is obtained. We evaluate and update our assumptions and estimates on an ongoing basis and use outside experts to assist in that evaluation when we deem necessary. We have disclosed all significant accounting policies in Note 2 to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

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. Assessments are 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; an impairment loss will be recorded for the amount the carrying value exceeds the implied fair value. At October 1, 2011, 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”). Subsequent to our annual evaluation of the carrying value of goodwill, there were no events or circumstances that triggered the need for an interim evaluation for impairment. As a result, there were no changes in the carrying value of our goodwill during the years ended December 31, 2011 and 2010.

Long-Lived and Indefinite-Lived Assets. We carry our long-lived assets at cost less accumulated amortization and depreciation. We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset is not recoverable. At the time an impairment in 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.

Our annual impairment assessment of indefinite-lived assets, our FCC licenses and trademark, 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. To determine fair value, we employ an expected present value technique, which utilizes multiple cash flow scenarios for the FCC licenses and trademark that reflect the range of possible outcomes and an appropriate discount rate.

We use independent appraisals to assist in determining the fair value of our FCC licenses and trademark. The income approach, which is commonly called the “Jefferson Pilot Method” or the “Greenfield Method”, has been consistently used to estimate the fair value of our FCC licenses. 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. The "Relief from Royalty" method valuation approach was utilized to value our trademark. This methodology involves the estimation of an amount of hypothetical royalty income that could be generated if the asset was licensed from an independent, third-party owner. The value of the intangible is the present value of the prospective stream of hypothetical royalty income that would be generated over the useful life of the asset.

At October 1, 2011, the fair value of our FCC licenses and trademark substantially exceeded the carrying value and therefore was not at risk of impairment. Subsequent to our annual evaluation of the carrying value of our long-lived assets, there were no events or circumstances that triggered the need for an interim impairment evaluation.

There were no changes in the carrying value of our indefinite life intangible assets during the years ended December 31, 2011 and 2010.

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 facilities. We monitor our satellites for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset is not recoverable.

We currently expect our first two in-orbit Sirius satellites launched in 2000 to operate effectively through 2013, our FM-3 satellite, which was also launched in 2000, to operate effectively through 2015, and our FM-5 satellite, launched in 2009, to operate effectively through 2024. In December 2010, we recorded an other than temporary charge for our FM-4 satellite, the ground spare held in storage since 2002. We operate five in-orbit XM satellites, three of which function as in-orbit spares. Two of the three in-orbit spare satellites were launched in 2001 and the other in 2010 while the other two satellites were launched in 2005 and 2006. We estimate that our XM-3, XM-4 and XM-5 satellites will meet their 15 year predicted depreciable lives, and that the depreciable 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 depreciable 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 depreciable lives of satellites and spacecraft control facilities during 2011 would have resulted in approximately \$20,614 of additional depreciation expense.

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, 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. As of December 31, 2011 and 2010, we maintained a full valuation allowance against our deferred tax assets due to our prior history of pre-tax losses and uncertainty about the timing of and ability to generate taxable income in the future and our assessment that the realization of the deferred tax assets did not meet the "more likely than not" criterion under ASC 740.

Recent Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820) — Fair Value Measurement* ("ASU 2011-04"), to provide a consistent

definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. The amendments are not expected to have a significant impact on companies that apply U.S. GAAP. This standard is effective for interim and annual periods beginning after December 15, 2011 and will be applied prospectively. The impact of our pending adoption of ASU 2011-04 will not be material to our consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220) — Presentation of Comprehensive Income* ("ASU 2011-05"), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. The standard does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. This standard is effective for interim and annual periods beginning after December 15, 2011 and will be applied retrospectively. The FASB has deferred the requirement to present reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income. Companies are required to either present amounts reclassified out of other comprehensive income on the face of the financial statements or disclose those amounts in the notes to the financial statements. During the deferral period, there is no requirement to separately present or disclose the reclassification adjustments into net income. The effective date of this deferral will be consistent with the effective date of the ASU 2011-05. ASU 2011-05 affects financial statement presentation only and will have no impact on our results of operations or financial position.

Glossary

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

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

	Unaudited		
	For the Years Ended December 31,		
	2011	2010	2009
Net income (loss) (GAAP):	\$ 426,961	\$ 43,055	\$(352,038)
Add back items excluded from Adjusted EBITDA:			
Purchase price accounting adjustments:			
Revenues (see pages 47-49)	10,910	21,906	54,065
Operating expenses (see pages 47-49)	(277,258)	(261,832)	(240,891)
Share-based payment expense, net of purchase price accounting adjustments	53,369	63,309	78,782
Depreciation and amortization (GAAP)	267,880	273,691	309,450
Restructuring, impairments and related costs (GAAP)	—	63,800	32,807
Interest expense, net of amounts capitalized (GAAP)	304,938	295,643	315,668
Loss on extinguishment of debt and credit facilities, net (GAAP)	7,206	120,120	267,646
Interest and investment (income) loss (GAAP)	(73,970)	5,375	(5,576)
Other income (GAAP)	(3,252)	(3,399)	(3,355)
Income tax expense (GAAP)	14,234	4,620	5,981
Adjusted EBITDA	<u>\$ 731,018</u>	<u>\$ 626,288</u>	<u>\$ 462,539</u>

Adjusted Revenues and Operating Expenses – We define this Non-GAAP financial measure as our actual revenues and operating expenses adjusted to exclude the impact of certain purchase price accounting adjustments and share-based payment expense. We use this Non-GAAP financial measure to manage our business, set operational goals and as a basis for determining performance-based compensation for our employees. The following tables reconcile our actual revenues and operating expenses to our adjusted revenues and operating expenses for the years ended December 31, 2011, 2010 and 2009:

<i>(in thousands)</i>	Unaudited For the Year Ended December 31, 2011			
	As Reported	Purchase Price		Adjusted
		Accounting Adjustments	Allocation of Share-based Payment Expense	
Revenue:				
Subscriber revenue	\$2,595,414	\$ 3,659	\$ —	\$2,599,073
Advertising revenue, net of agency fees	73,672	—	—	73,672
Equipment revenue	71,051	—	—	71,051
Other revenue	274,387	7,251	—	281,638
Total revenue	<u>\$3,014,524</u>	<u>\$ 10,910</u>	<u>\$ —</u>	<u>\$3,025,434</u>
Operating expenses				
Cost of services:				
Revenue share and royalties	471,149	126,941	—	598,090
Programming and content	281,234	49,172	(6,212)	324,194
Customer service and billing	259,719	18	(1,502)	258,235
Satellite and transmission	75,902	313	(2,678)	73,537
Cost of equipment	33,095	—	—	33,095
Subscriber acquisition costs	434,482	85,491	—	519,973
Sales and marketing	222,773	15,233	(8,193)	229,813
Engineering, design and development	53,435	31	(4,851)	48,615
General and administrative	238,738	59	(29,933)	208,864
Depreciation and amortization (a)	267,880	—	—	267,880
Restructuring, impairments and related costs	—	—	—	—
Share-based payment expense (b)	—	—	53,369	53,369
Total operating expenses	<u>\$2,338,407</u>	<u>\$ 277,258</u>	<u>\$ —</u>	<u>\$2,615,665</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, 2011 was \$59,000.

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

Programming and content	\$ 6,185	\$ 27	\$ —	\$ 6,212
Customer service and billing	1,484	18	—	1,502
Satellite and transmission	2,659	19	—	2,678
Sales and marketing	8,166	27	—	8,193
Engineering, design and development	4,820	31	—	4,851
General and administrative	29,874	59	—	29,933
Total share-based payment expense	<u>\$ 53,188</u>	<u>\$ 181</u>	<u>\$ —</u>	<u>\$ 53,369</u>

Unaudited For the Year Ended December 31, 2010

<i>(in thousands)</i>	As Reported	Purchase Price Accounting Adjustments	Allocation of Share-based Payment Expense	Adjusted
Revenue:				
Subscriber revenue	\$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	\$2,816,992	\$ 21,906	\$ —	\$2,838,898
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	\$2,351,578	\$ 261,832	\$ —	\$2,613,410

(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	\$ 60,437	\$ 2,872	\$ —	\$ 63,309

Unaudited For the Year Ended December 31, 2009

<i>(in thousands)</i>	Purchase Price	Allocation of	Adjusted	
As Reported	Accounting Adjustments	Share-based Payment Expense	Adjusted	
Revenue:				
Subscriber revenue	\$2,287,503	\$ 46,814	\$ —	\$2,334,317
Advertising revenue, net of agency fees	51,754	—	—	51,754
Equipment revenue	50,352	—	—	50,352
Other revenue	83,029	7,251	—	90,280
Total revenue	\$2,472,638	\$ 54,065	\$ —	\$2,526,703
Operating expenses				
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	\$2,244,312	\$ 240,891	\$ —	\$2,485,203

(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	\$ 73,981	\$ 4,801	\$ —	\$ 78,782

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,		
	2011	2010	2009
Subscriber revenue (GAAP)	\$ 2,595,414	\$ 2,414,174	\$ 2,287,503
Add: net advertising revenue (GAAP)	73,672	64,517	51,754
Add: other subscription-related revenue (GAAP)	231,902	234,148	48,679
Add: purchase price accounting adjustments	3,659	14,655	46,814
	<u>\$ 2,904,647</u>	<u>\$ 2,727,494</u>	<u>\$ 2,434,750</u>
Daily weighted average number of subscribers	20,903,908	19,385,055	18,529,696
ARPU	<u>\$ 11.58</u>	<u>\$ 11.73</u>	<u>\$ 10.95</u>

Average self-pay monthly churn — is defined as the monthly average of self-pay deactivations for the period divided by the average number of self-pay subscribers for the period. Average self-pay churn for the year is the average of the quarterly average self-pay churn.

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,		
	2011	2010	2009
Customer service and billing expenses (GAAP)	\$ 259,719	\$ 241,680	\$ 234,456
Less: share-based payment expense, net of purchase price accounting adjustments	(1,502)	(2,207)	(2,504)
Add: purchase price accounting adjustments	18	281	453
	<u>\$ 258,235</u>	<u>\$ 239,754</u>	<u>\$ 232,405</u>
Daily weighted average number of subscribers	20,903,908	19,385,055	18,529,696
Customer service and billing expenses, per average subscriber	<u>\$ 1.03</u>	<u>\$ 1.03</u>	<u>\$ 1.05</u>

Free cash flow — is derived from cash flow provided by operating activities, capital expenditures and restricted and other investment activity. Free cash flow is calculated as follows (in thousands):

	Unaudited		
	For the Years Ended December 31,		
	2011	2010	2009
Net cash provided by operating activities	\$ 543,630	\$ 512,895	\$ 433,830
Additions to property and equipment	(137,429)	(311,868)	(248,511)
Restricted and other investment activity	9,541	9,454	—
Free cash flow	<u>\$ 415,742</u>	<u>\$ 210,481</u>	<u>\$ 185,319</u>

New vehicle consumer conversion rate — is defined as 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. 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.

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,		
	2011	2010	2009
Subscriber acquisition costs (GAAP)	\$ 434,482	\$ 413,041	\$ 340,506
Less: margin from direct sales of radios and accessories (GAAP)	(37,956)	(36,074)	(10,164)
Add: purchase price accounting adjustments	85,491	79,439	61,164
	<u>\$ 482,017</u>	<u>\$ 456,406</u>	<u>\$ 391,506</u>
Gross subscriber additions	<u>8,696,020</u>	<u>7,768,827</u>	<u>6,208,482</u>
SAC, per gross subscriber addition	<u>\$ 55</u>	<u>\$ 59</u>	<u>\$ 63</u>

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS*

As of December 31, 2011, we did not have any derivative financial instruments. We do not hold or issue any free-standing derivatives. We hold investments in marketable securities consisting of money market funds, and 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.

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES**Controls and Procedures**

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

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. We have performed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our internal control over financial reporting. Our management used the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations to perform this evaluation. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our internal control over financial reporting was effective as of December 31, 2011.

KPMG LLP, an independent registered public accounting firm, which has audited and reported on the consolidated financial statements contained in this Annual Report on Form 10-K, has issued its report on the effectiveness of our internal control over financial reporting which follows this report.

Audit Report of the Independent Registered Public Accounting Firm

The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their audit report appearing on page F-3 of this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 is incorporated in this report by reference to the applicable information in our definitive proxy statement for the 2012 annual meeting of stockholders set forth under the captions *Stock Ownership*, *Governance of the Company*, *Item 1. Election of Common Stock Directors* and *Item 2. Ratification of Independent Registered Public Accountants*, which we expect to file with the Securities and Exchange Commission prior to April 30, 2012.

Code of Ethics

We have adopted a code of ethics that applies to all employees, including executive officers, and to directors. The Code of Ethics is available on the Corporate Governance page of our website at www.siriusxm.com. If we ever were to amend or waive any provision of our Code of Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or any person performing similar functions, we intend to satisfy our disclosure obligations with respect to any such waiver or amendment by posting such information on our internet website set forth above rather than filing a Form 8-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is incorporated in this report by reference to the applicable information in our definitive proxy statement for the 2012 annual meeting of stockholders set forth under the captions *Item 1. Election of Common Stock Directors* and *Item 2. Ratification of Independent Registered Public Accountants*, which we expect to file with the Securities and Exchange Commission prior to April 30, 2012.

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

Certain information required by this item is set forth under the heading "Equity Compensation Plan Information" in Part II, Item 5, of this report.

The additional information required by this Item 12 is incorporated in this report by reference to the applicable information in our definitive proxy statement for the 2012 annual meeting of stockholders set forth under the caption *Stock Ownership*, which we expect to file with the Securities and Exchange Commission prior to April 30, 2012.

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

The information required by this Item 13 is incorporated in this report by reference to the applicable information in our definitive proxy statement for the 2012 annual meeting of stockholders set forth under the captions *Governance of the Company* and *Item 1. Election of Common Stock Directors* which we expect to file with the Securities and Exchange Commission prior to April 30, 2012.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 is incorporated in this report by reference to the applicable information in our definitive proxy statement for the 2012 annual meeting of stockholders set forth under the captions *Item 2. Ratification of Independent Registered Public Accountants — Principal Accountant Fees and Services*, which we expect to file with the Securities and Exchange Commission prior to April 30, 2012.

PART IV

ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*

Documents filed as part of this report:

- (1) Financial Statements. See Index to Consolidated Financial Statements appearing on page F-1.
- (2) Financial Statement Schedules. See Index to Consolidated Financial Statements appearing on page F-1.
- (3) Exhibits. See Exhibit Index following this report, which is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 9th day of February 2012.

SIRIUS XM RADIO INC.

By: /s/ DAVID J. FREAR

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

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ EDDY W. HARTENSTEIN</u> (Eddy W. Hartenstein)	Chairman of the Board of Directors and Director	February 9, 2012
<u>/s/ MEL K. ARMAZIN</u> (Mel Karmazin)	Chief Executive Officer and Director (Principal Executive Officer)	February 9, 2012
<u>/s/ DAVID J. FREAR</u> (David J. Frear)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 9, 2012
<u>/s/ THOMAS D. BARRY</u> (Thomas D. Barry)	Senior Vice President and Controller (Principal Accounting Officer)	February 9, 2012
<u>/s/ JOAN L. AMBLE</u> (Joan L. Amble)	Director	February 9, 2012
<u>/s/ LEON D. BLACK</u> (Leon D. Black)	Director	February 9, 2012
<u>/s/ DAVID J. A. FLOWERS</u> (David J. A. Flowers)	Director	February 9, 2012
<u>/s/ LAWRENCE F. GILBERTI</u> (Lawrence F. Gilberti)	Director	February 9, 2012
<u>/s/ JAMES P. HOLDEN</u> (James P. Holden)	Director	February 9, 2012
<u>/s/ GREGORY B. MAFFEI</u> (Gregory B. Maffei)	Director	February 9, 2012

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ JOHN C. MALONE</u> (John C. Malone)	Director	February 9, 2012
<u>/s/ JAMES F. MOONEY</u> (James F. Mooney)	Director	February 9, 2012
<u>/s/ JACK SHAW</u> (Jack Shaw)	Director	February 9, 2012
<u>/s/ CARL VOGEL</u> (Carl Vogel)	Director	February 9, 2012
<u>/s/ VANESSA WITTMAN</u> (Vanessa Wittman)	Director	February 9, 2012

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

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Sirius XM Radio Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2011. 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, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, 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, 2011, 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 9, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

New York, New York
February 9, 2012

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, 2011, 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, 2011, 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, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2011, and our report dated February 9, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York
February 9, 2012

SIRIUS XM RADIO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,		
	2011	2010	2009
<i>(in thousands, except per share data)</i>			
Revenue:			
Subscriber revenue	\$2,595,414	\$2,414,174	\$2,287,503
Advertising revenue, net of agency fees	73,672	64,517	51,754
Equipment revenue	71,051	71,355	50,352
Other revenue	274,387	266,946	83,029
Total revenue	<u>3,014,524</u>	<u>2,816,992</u>	<u>2,472,638</u>
Operating expenses:			
Cost of services:			
Revenue share and royalties	471,149	435,410	397,210
Programming and content	281,234	305,914	308,121
Customer service and billing	259,719	241,680	234,456
Satellite and transmission	75,902	80,947	84,033
Cost of equipment	33,095	35,281	40,188
Subscriber acquisition costs	434,482	413,041	340,506
Sales and marketing	222,773	215,454	228,956
Engineering, design and development	53,435	45,390	41,031
General and administrative	238,738	240,970	227,554
Depreciation and amortization	267,880	273,691	309,450
Restructuring, impairments and related costs	—	63,800	32,807
Total operating expenses	<u>2,338,407</u>	<u>2,351,578</u>	<u>2,244,312</u>
Income from operations	676,117	465,414	228,326
Other income (expense):			
Interest expense, net of amounts capitalized	(304,938)	(295,643)	(315,668)
Loss on extinguishment of debt and credit facilities, net	(7,206)	(120,120)	(267,646)
Interest and investment income (loss)	73,970	(5,375)	5,576
Other income	3,252	3,399	3,355
Total other expense	<u>(234,922)</u>	<u>(417,739)</u>	<u>(574,383)</u>
Income (loss) before income taxes	441,195	47,675	(346,057)
Income tax expense	(14,234)	(4,620)	(5,981)
Net income (loss)	<u>426,961</u>	<u>43,055</u>	<u>(352,038)</u>
Preferred stock beneficial conversion feature	—	—	(186,188)
Net income (loss) attributable to common stockholders	<u>\$ 426,961</u>	<u>\$ 43,055</u>	<u>\$ (538,226)</u>
Net income (loss) per common share:			
Basic	<u>\$ 0.11</u>	<u>\$ 0.01</u>	<u>\$ (0.15)</u>
Diluted	<u>\$ 0.07</u>	<u>\$ 0.01</u>	<u>\$ (0.15)</u>
Weighted average common shares outstanding:			
Basic	<u>3,744,606</u>	<u>3,693,259</u>	<u>3,585,864</u>
Diluted	<u>6,500,822</u>	<u>6,391,071</u>	<u>3,585,864</u>

See accompanying notes to the consolidated financial statements.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2011	2010
<i>(in thousands, except share and per share data)</i>		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 773,990	\$ 586,691
Accounts receivable, net	101,705	121,658
Receivables from distributors	84,817	67,576
Inventory, net	36,711	21,918
Prepaid expenses	125,967	134,994
Related party current assets	14,702	6,719
Deferred tax asset	132,727	44,787
Other current assets	6,335	7,432
Total current assets	1,276,954	991,775
Property and equipment, net	1,673,919	1,761,274
Long-term restricted investments	3,973	3,396
Deferred financing fees, net	42,046	54,135
Intangible assets, net	2,573,638	2,632,688
Goodwill	1,834,856	1,834,856
Related party long-term assets	54,953	33,475
Other long-term assets	35,657	71,487
Total assets	\$ 7,495,996	\$ 7,383,086
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 543,193	\$ 593,174
Accrued interest	70,405	72,453
Current portion of deferred revenue	1,333,965	1,201,346
Current portion of deferred credit on executory contracts	284,108	271,076
Current maturities of long-term debt	1,623	195,815
Related party current liabilities	14,302	15,845
Total current liabilities	2,247,596	2,349,709
Deferred revenue	198,135	273,973
Deferred credit on executory contracts	218,199	508,012
Long-term debt	2,683,563	2,695,856
Long-term related party debt	328,788	325,907
Deferred tax liability	1,011,084	914,637
Related party long-term liabilities	21,741	24,517
Other long-term liabilities	82,745	82,839
Total liabilities	6,791,851	7,175,450
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Preferred stock, par value \$0.001; 50,000,000 authorized at December 31, 2011 and 2010; Series A convertible preferred stock; no shares issued and outstanding at December 31, 2011 and 2010	—	—
Convertible perpetual preferred stock, series B-1 (liquidation preference of \$0.001 per share at December 31, 2011 and 2010); 12,500,000 shares issued and outstanding at December 31, 2011 and 2010	13	13
Convertible preferred stock, series C junior; no shares issued and outstanding at December 31, 2011 and 2010	—	—
Common stock, par value \$0.001; 9,000,000,000 shares authorized at December 31, 2011 and 2010; 3,753,201,929 and 3,933,195,112 shares issued and outstanding at December 31, 2011 and 2010, respectively	3,753	3,933
Accumulated other comprehensive income (loss), net of tax	71	(5,861)
Additional paid-in capital	10,484,400	10,420,604
Accumulated deficit	(9,784,092)	(10,211,053)
Total stockholders' equity	704,145	207,636
Total liabilities and stockholders' equity	\$ 7,495,996	\$ 7,383,086

See accompanying notes to the consolidated financial statements.

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

	Series A Convertible Preferred Stock		Convertible Perpetual Preferred Stock, Series B-1		Common Stock		Accumulated Other Comprehensive Income (loss)	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
<i>(in thousands, except share and per share data)</i>										
Balance at January 1, 2009	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
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	—	\$ —	12,500,000	\$ 13	3,933,195,112	\$ 3,933	\$ (5,861)	\$10,420,604	\$ (10,211,053)	\$ 207,636
Net income									426,961	426,961
Other comprehensive income:										
Realized loss on XM Canada investment foreign currency translation adjustment							6,072			6,072
Foreign currency translation adjustment, net of tax of \$11							(140)			(140)
Total comprehensive income										432,893
Issuance of common stock to employees and employee benefit plans, net of forfeitures					1,882,801	2		3,480		3,482
Share-based payment expense								48,581		48,581
Exercise of options and vesting of restricted stock units					13,401,048	13		11,540		11,553
Issuance of common stock upon exercise of warrants					7,122,951	7		(7)		
Return of shares under share borrow agreements					(202,399,983)	(202)		202		
Balance at December 31, 2011	—	\$ —	12,500,000	\$ 13	3,753,201,929	\$ 3,753	\$ 71	\$10,484,400	\$ (9,784,092)	\$ 704,145

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,		
	2011	2010	2009
<i>(in thousands)</i>			
Cash flows from operating activities:			
Net income (loss)	\$ 426,961	\$ 43,055	\$(352,038)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	267,880	273,691	309,450
Non-cash interest expense, net of amortization of premium	39,515	42,841	43,066
Provision for doubtful accounts	33,164	32,379	30,602
Restructuring, impairments and related costs	—	66,731	26,964
Amortization of deferred income related to equity method investment	(2,776)	(2,776)	(2,776)
Loss on extinguishment of debt and credit facilities, net	7,206	120,120	267,646
Gain on merger of unconsolidated entities	(75,768)	—	—
Loss on unconsolidated entity investments, net	6,520	11,722	13,664
Loss on disposal of assets	269	1,017	—
Share-based payment expense	53,190	60,437	73,981
Deferred income taxes	8,264	2,308	4,359
Other non-cash purchase price adjustments	(275,338)	(250,727)	(202,054)
Distribution from investment in unconsolidated entity	4,849	—	—
Changes in operating assets and liabilities:			
Accounts receivable	(13,211)	(39,236)	(42,158)
Receivables from distributors	(17,241)	(11,023)	(2,788)
Inventory	(14,793)	(5,725)	8,269
Related party assets	30,036	(9,803)	15,305
Prepaid expenses and other current assets	8,525	75,374	10,027
Other long-term assets	36,490	17,671	86,674
Accounts payable and accrued expenses	(32,010)	5,420	(46,645)
Accrued interest	(2,048)	(884)	2,429
Deferred revenue	55,336	133,444	93,578
Related party liabilities	(1,542)	(53,413)	50,172
Other long-term liabilities	152	272	46,103
Net cash provided by operating activities	<u>543,630</u>	<u>512,895</u>	<u>433,830</u>
Cash flows from investing activities:			
Additions to property and equipment	(137,429)	(311,868)	(248,511)
Purchase of restricted investments	(826)	—	—
Sale of restricted and other investments	—	9,454	—
Release of restricted investments	250	—	—
Return of capital from investment in unconsolidated entity	10,117	—	—
Net cash used in investing activities	<u>(127,888)</u>	<u>(302,414)</u>	<u>(248,511)</u>
Cash flows from financing activities:			
Proceeds from exercise of stock options	11,553	10,839	—
Preferred stock issuance, net of costs	—	—	(3,712)
Long-term borrowings, net of costs	—	1,274,707	582,612
Related party long-term borrowings, net of costs	—	196,118	362,593
Payment of premiums on redemption of debt	(5,020)	(84,326)	(17,075)
Repayment of long-term borrowings	(234,976)	(1,262,396)	(755,447)
Repayment of related party long-term borrowings	—	(142,221)	(351,247)
Net cash used in financing activities	<u>(228,443)</u>	<u>(7,279)</u>	<u>(182,276)</u>
Net increase in cash and cash equivalents	187,299	203,202	3,043
Cash and cash equivalents at beginning of period	586,691	383,489	380,446
Cash and cash equivalents at end of period	<u>\$ 773,990</u>	<u>\$ 586,691</u>	<u>\$ 383,489</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>2011</u>	<u>2010</u>	<u>2009</u>
<i>(in thousands)</i>			
Supplemental Disclosure of Cash and Non-Cash Flow Information			
Cash paid during the period for:			
Interest, net of amounts capitalized	\$258,676	\$241,160	\$257,328
Non-cash investing and financing activities:			
Share-based payments in satisfaction of accrued compensation	\$ —	\$ —	\$ 31,291
Common stock issued in exchange of 2.5% Convertible Notes due 2009 including, accrued interest	\$ —	\$ —	\$ 18,000
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
In-orbit satellite performance incentive	\$ —	\$ 21,450	\$ 14,905
Sale-leaseback of equipment	\$ —	\$ 5,305	\$ —
Common stock issuance upon exercise of warrants	\$ 7	\$ —	\$ —
Conversion of Series A preferred stock to common stock	\$ —	\$ 25	\$ —

See accompanying notes to the 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, entertainment, comedy, talk, news, 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 applications for mobile devices. We have agreements with every major automaker (“OEMs”) to offer satellite radios as factory- or dealer-installed equipment in their vehicles. We also distribute our satellite radios through retail locations nationwide and through our website. Satellite radio services are also offered to customers of certain daily rental car companies.

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 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.

(2) Summary of Significant Accounting Policies

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, 2011 and 2010, and for the years ended December 31, 2011, 2010 and 2009 have been made.

We have evaluated events subsequent to the balance sheet date and prior to the filing of this Annual Report on Form 10-K for the year ended December 31, 2011 and have determined no events have occurred that would require adjustment to or disclosure in our consolidated financial statements.

Reclassifications

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes. Estimates, by their nature, are based on judgment and available information. Actual results could differ materially from those estimates.

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

Significant estimates inherent in the preparation of the accompanying consolidated financial statements include revenue recognition, asset impairment, depreciable 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.

Cash and Cash Equivalents

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

Equity Method Investments

We hold an equity method investment in Sirius XM Canada. 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 income (expense) in our consolidated statements of operations.

The difference between our investment and our share of the fair value of the underlying net assets of our affiliates is first allocated to either finite-lived intangibles or indefinite-lived intangibles and the balance is attributed to goodwill. We follow ASC 350, *Intangibles — Goodwill and Other* ("ASC 350"), which requires that equity method finite-lived intangibles be amortized over their estimated useful life while indefinite-lived intangibles and goodwill are not amortized. The amortization of equity method finite-lived intangible assets is recorded in Interest and investment income in our consolidated statements of operations. We periodically evaluate our equity method investments to determine if there has been an other than temporary decline below carrying value. Equity method finite-lived intangibles, indefinite-lived intangibles and goodwill are included in the carrying amount of the investment.

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 depreciable 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 - 15 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.

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

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. We did not record any impairments in 2011, 2010 or 2009.

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. This test 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. Our indefinite life intangibles include FCC licenses and trademark. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

We use independent appraisals to assist in determining the fair value of our FCC licenses and trademark. The income approach, which is commonly called the "Jefferson Pilot Method" or the "Greenfield Method", has been consistently used to estimate the fair value of our FCC licenses. 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. The Relief from Royalty method valuation approach was utilized to value our trademark. This methodology involves the estimation of an amount of hypothetical royalty income that could be generated if the asset was licensed to an independent, third-party owner. The value of the intangible is the present value of the prospective stream of hypothetical royalty income that would be generated over the useful life of the asset. We did not record any impairments in 2011, 2010 or 2009.

Other intangible assets with finite lives consists primarily of customer relationships acquired in business combinations, licensing agreements, and certain IT related costs. These assets 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. We did not record any impairments in 2011, 2010 or 2009.

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; and non-refundable activation and other fees. Revenue is recognized as it is realized or realizable and earned.

We recognize subscription fees as our services are provided.

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

At the time of sale, vehicle owners purchasing or leasing a vehicle with a subscription to our service typically receive between a three 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.

Activation fees are recognized ratably over the estimated term of a subscriber relationship, estimated to be approximately 3.5 years during 2011, 2010 and 2009. The estimated term of a subscriber relationship is based on historical experience.

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 at the inception of the arrangement to all deliverables based on their relative selling price, which has been determined using vendor specific objective evidence of selling price of self-pay customers.

Revenue Share

We share a portion of the subscription revenues earned from subscribers with certain automakers. The terms of the revenue share agreements vary with each automaker, but are typically based upon the earned audio revenue as reported or gross billed audio revenue. Revenue share is recorded as an expense in our consolidated statement of operations and not as a reduction to revenue.

Programming Costs

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

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, 2011, 2010 and 2009, we recorded advertising costs of \$116,694, \$110,050 and \$128,784, respectively. These costs are reflected in Sales and marketing expense in our consolidated statements of operations.

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

Subscriber Acquisition Costs

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

Subsidies paid to radio manufacturers and automakers are expensed upon installation, shipment, receipt of product or activation and are included in Subscriber acquisition costs because we are responsible for providing the service to the customers. 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, 2011, 2010 and 2009, we recorded research and development costs of \$48,574, \$40,043 and \$38,852, respectively. These costs are reported as a component of Engineering, design and development expense in our consolidated statements of operations.

Share-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. In 2011, we estimate fair value of awards

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

granted using the hybrid approach for volatility, which weights observable historical volatility and implied volatility of qualifying actively traded options on our common stock. In 2010 and 2009, due to the lack of qualifying actively traded options on our common stock, we utilized a 100% weighting to observable historical volatility. 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.

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 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.

As of December 31, 2011 and 2010, we maintained a full valuation allowance against our deferred tax assets due to our prior history of pre-tax losses and uncertainty about the timing of and ability to generate taxable income in the future and our assessment that the realization of the deferred tax assets did meet the "more likely than not" criterion under ASC 740.

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

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 the 8% convertible unsecured subordinated debentures issued by Sirius XM Canada. This investment is 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.

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, 2011 and 2010, the carrying value of our debt was \$3,013,974 and \$3,217,578, respectively; and the fair value approximated \$3,506,546 and \$3,722,905, respectively.

Recent Accounting Pronouncements

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

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220) — Presentation of Comprehensive Income* ("ASU 2011-05"), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. The standard does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. This standard is effective for interim and annual periods beginning after December 15, 2011 and will be applied retrospectively. The FASB has deferred the requirement to present reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income. Companies are required to either present amounts reclassified out of other comprehensive income on the face of the financial statements or disclose those amounts in the notes to the financial statements. During the deferral period, there is no requirement to separately present or disclose the reclassification adjustments into net income. The effective date of this deferral will be consistent with the effective date of the ASU 2011-05. ASU 2011-05 affects financial statement presentation only and will have no impact on our results of consolidated financial statements.

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

(3) Earnings per Share

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 exercised or converted into common stock, calculated using the treasury stock method. For the years ended December 31, 2011 and 2010, common stock equivalents of approximately 419,752,000 and 689,922,000, respectively, 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 year ended December 31, 2009, common stock equivalents of approximately 3,381,905,000 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>	For the Years Ended December 31,		
	2011	2010	2009
Net income (loss) available to common stockholders	\$ 426,961	\$ 43,055	\$ (538,226)
Average common shares outstanding-basic	3,744,606	3,693,259	3,585,864
Dilutive effect of equity instruments	2,756,216	2,697,812	—
Average common shares outstanding-diluted	6,500,822	6,391,071	3,585,864
Net income (loss) per common share			
Basic	\$ 0.11	\$ 0.01	\$ (0.15)
Diluted	\$ 0.07	\$ 0.01	\$ (0.15)

(4) Accounts Receivable, net

Accounts receivable, net 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 certain receivable balances, current economic conditions and other factors that may affect the counterparty's ability to pay.

Accounts receivable, net, consists of the following:

	December 31,	December 31,
	2011	2010
Gross accounts receivable	\$ 111,637	\$ 131,880
Allowance for doubtful accounts	(9,932)	(10,222)
Total accounts receivable, net	\$ 101,705	\$ 121,658

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

	December 31,	December 31,
	2011	2010
Billed	\$ 44,618	\$ 30,456
Unbilled	40,199	37,120
Total	\$ 84,817	\$ 67,576

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

(5) Inventory, net

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:

	<u>December 31,</u>	<u>December 31,</u>
	<u>2011</u>	<u>2010</u>
Raw materials	\$ 24,134	\$ 18,181
Finished goods	28,007	24,492
Allowance for obsolescence	(15,430)	(20,755)
Total inventory, net	<u>\$ 36,711</u>	<u>\$ 21,918</u>

(6) 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, 2011 and 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"). Subsequent to our annual evaluation of the carrying value of goodwill, there were no events or circumstances that triggered the need for an interim evaluation for impairment. There were no changes in the carrying value of our goodwill during the years ended December 31, 2011, 2010 and 2009.

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

(7) Intangible Assets

Intangible assets consisted of the following:

	Weighted Average Useful Lives	December 31, 2011			December 31, 2010		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Indefinite life intangible assets:							
FCC licenses	Indefinite	\$2,083,654	\$ —	\$2,083,654	\$2,083,654	\$ —	\$2,083,654
Trademark	Indefinite	250,000	—	250,000	250,000	—	250,000
Definite life intangible assets:							
Subscriber relationships	9 years	380,000	(191,201)	188,799	380,000	(144,325)	235,675
Licensing agreements	9.1 years	78,897	(34,145)	44,752	78,897	(24,130)	54,767
Proprietary software	6 years	16,552	(11,507)	5,045	16,552	(9,566)	6,986
Developed technology	10 years	2,000	(683)	1,317	2,000	(483)	1,517
Leasehold interests	7.4 years	132	(61)	71	132	(43)	89
Total intangible assets		<u>\$2,811,235</u>	<u>\$ (237,597)</u>	<u>\$2,573,638</u>	<u>\$2,811,235</u>	<u>\$ (178,547)</u>	<u>\$2,632,688</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 satellite(1)	2017
SIRIUS FM-5 satellite	2017
SIRIUS FM-6 satellite	(2)
XM-1 satellite	2014
XM-2 satellite	2014
XM-3 satellite	2013
XM-4 satellite	2014
XM-5 satellite	2018

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

(2) We hold an FCC license for our FM-6 satellite, which will expire eight years from when this satellite is launched and placed into operation.

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

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

Our annual impairment assessment of our indefinite intangible assets is performed as of October 1st of each year. An assessment is made at other times if events or changes in circumstances indicate that it is more likely than not that the assets have been impaired. At October 1, 2011 and 2010, the fair value of our indefinite intangible assets substantially exceeded its carrying value and therefore was not at risk of impairment. Subsequent to our annual evaluation of the carrying value of goodwill, there were no events or circumstances that triggered the need for an interim evaluation for 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 all definite life intangible assets was \$59,050, \$66,324 and \$76,587 for the years ended December 31, 2011, 2010 and 2009, respectively. Expected amortization expense for each of the fiscal years through December 31, 2016 and for periods thereafter is as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2012	\$ 53,680
2013	47,357
2014	38,879
2015	37,553
2016	31,959
Thereafter	30,556
Total definite life intangibles assets, net	<u>\$239,984</u>

(8) Subscriber Revenue

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

Subscriber revenue consists of the following:

	<u>For the Years Ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Subscription fees	\$2,581,433	\$2,398,146	\$2,265,666
Activation fees	13,981	16,028	21,837
Total subscriber revenue	<u>\$2,595,414</u>	<u>\$2,414,174</u>	<u>\$2,287,503</u>

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

(9) Interest Costs

We capitalized a portion of the interest on funds borrowed to finance the construction costs of our satellites and related launch vehicles for our FM-6 satellite for the year ended December 31, 2011 and for our FM-6 and XM-5 satellites for the years ended December 31, 2010 and 2009. 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:

	For the Years Ended December 31,		
	2011	2010	2009
Interest costs charged to expense	\$304,938	\$295,643	\$315,668
Interest costs capitalized	33,522	63,880	61,201
Total interest costs incurred	<u>\$338,460</u>	<u>\$359,523</u>	<u>\$376,869</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 \$39,515, \$42,841 and \$43,066 for the years ended December 31, 2011, 2010 and 2009, respectively.

(10) Property and Equipment

Property and equipment, net, consists of the following:

	December 31, 2011	December 31, 2010
Satellite system	\$ 1,943,537	\$ 1,943,537
Terrestrial repeater network	112,440	109,582
Leasehold improvements	43,455	43,567
Broadcast studio equipment	53,903	51,985
Capitalized software and hardware	193,301	163,689
Satellite telemetry, tracking and control facilities	60,539	57,665
Furniture, fixtures, equipment and other	60,283	63,265
Land	38,411	38,411
Building	57,185	56,685
Construction in progress	372,508	297,771
Total property and equipment	2,935,562	2,826,157
Accumulated depreciation and amortization	(1,261,643)	(1,064,883)
Property and equipment, net	<u>\$ 1,673,919</u>	<u>\$ 1,761,274</u>

Construction in progress consists of the following:

	December 31, 2011	December 31, 2010
Satellite system	\$ 343,932	\$ 262,744
Terrestrial repeater network	19,194	19,239
Other	9,382	15,788
Construction in progress	<u>\$ 372,508</u>	<u>\$ 297,771</u>

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

Depreciation and amortization expense on property and equipment was \$208,830, \$207,367 and \$232,863 for the years ended December 31, 2011, 2010 and 2009, respectively. We retired property and equipment of \$12,158 during the year ended December 31, 2011 and \$155,000, which included our FM-4 satellite, during the year ended December 31, 2010.

Satellites

We currently own a fleet of nine orbiting satellites. The chart below provides certain information on these satellites:

<u>Satellite Designation</u>	<u>Year Delivered</u>	<u>Estimated End of Depreciable Life</u>
FM-1	2000	2013
FM-2	2000	2013
FM-3	2000	2015
FM-5	2009	2024
XM-1	2001	2013
XM-2	2001	2013
XM-3	2005	2020
XM-4	2006	2021
XM-5	2010	2025

We own four orbiting satellites for use in the Sirius system. Space Systems/Loral has constructed another satellite (FM-6) for use in this system.

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

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 years ended December 31, 2011 and 2010, we capitalized expenditures, including interest, of \$81,189 and \$223,928, respectively, related to the construction of our FM-6 and XM-5 satellites and related launch vehicles.

(11) Related Party Transactions

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

	<u>Related party current assets</u>		<u>Related party long-term assets</u>		<u>Related party current liabilities</u>		<u>Related party long-term liabilities</u>		<u>Related party long-term debt</u>	
	<u>2011*</u>	<u>2010</u>	<u>2011*</u>	<u>2010</u>	<u>2011*</u>	<u>2010</u>	<u>2011*</u>	<u>2010</u>	<u>2011*</u>	<u>2010</u>
Liberty Media	\$ —	\$ —	\$ 1,212	\$ 1,571	\$ 9,722	\$ 9,765	\$ —	\$ —	\$328,788	\$325,907
Sirius XM Canada	14,702	—	53,741	—	4,580	—	21,741	—	—	—
Sirius Canada	—	5,613	—	—	—	1,805	—	—	—	—
XM Canada	—	1,106	—	31,904	—	4,275	—	24,517	—	—
Total	\$14,702	\$6,719	\$54,953	\$33,475	\$14,302	\$15,845	\$21,741	\$24,517	\$328,788	\$325,907

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

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

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. The Investment Agreement provides for certain standstill provisions during the three year period ending in March 2012.

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.

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

	December 31, <u>2011</u>	December 31, <u>2010</u>
8.75% Senior Notes due 2015	\$ 150,000	\$ 150,000
9.75% Senior Secured Notes due 2015	50,000	50,000
13% Senior Notes due 2013	76,000	76,000
7% Exchangeable Senior Subordinated Notes due 2014	11,000	11,000
7.625% Senior Notes due 2018	50,000	50,000
Total principal debt	337,000	337,000
Less: discounts	8,212	11,093
Total carrying value debt	<u>\$ 328,788</u>	<u>\$ 325,907</u>

As of December 31, 2011 and 2010, we recorded \$9,722 and \$9,765, respectively, related to accrued interest with Liberty Media to Related party current liabilities. We recognized Interest expense associated with debt held by Liberty Media of \$35,681, \$40,169 and \$79,640 for the years ended December 31, 2011, 2010 and 2009, respectively.

Sirius XM Canada

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

- approximately 46,700,000 Class A shares of CSR, representing a 38.0% equity interest and a 25.0% voting interest;
- \$53,781 in cash as repayment of the XM Canada credit facility (\$38,815) and consideration for our preferred stock in Sirius Canada (\$10,117 as a return of capital and \$4,849 in dividends, net of foreign withholding taxes); and
- \$5,208 in non-interest bearing notes of CSR, which are primarily due at the earliest of (a) the maturity date (2 years), (b) after Sirius XM Canada is "free cash flow" positive for a period of six consecutive months, or (c) a date determined by the Sirius XM Canada board of directors. As of December 31, 2011, \$4,798 of these notes were reported as a Related Party current assets.

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

The transaction was accounted for as a reverse acquisition whereby Sirius Canada was deemed to be the acquirer of CSR. As a result of the transaction, we recognized a \$75,768 gain in Interest and investment income during the year ended December 31, 2011.

Our interest in Sirius XM Canada is accounted for under the equity method. The excess of the cost of our ownership interest in the equity of Sirius XM Canada over our share of the net assets is recognized as goodwill and intangible assets and is included in the carrying amount of our investment. Equity method goodwill is not amortized. We will periodically evaluate this investment to determine if there has been an other than temporary decline below carrying value. Equity method intangible assets are amortized over their respective useful lives, which is recorded in Interest and investment income. As of December 31, 2011, our investment balance in Sirius XM Canada was approximately \$45,061, \$28,589 of which represents equity method goodwill and intangible assets, and was recorded in Related party long-term assets.

We provide Sirius XM Canada with chip sets and other services and we are reimbursed for these costs. As of December 31, 2011, amounts due for these costs totaled \$7,404 and is reported as Related party current assets.

As of December 31, 2011, amounts due from Sirius XM Canada also included \$7,280 attributable to deferred programming costs and accrued interest, \$4,780 of which is reported as Related party long-term assets.

We hold an investment in Cdn\$4,000 face value of 8% convertible unsecured subordinated debentures issued by CSR, for which the embedded conversion feature is bifurcated from the host contract. The host contract is accounted for at fair value as an available-for-sale security with changes in fair value recorded to Accumulated other comprehensive income (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, 2011, the carrying values of the host contract and embedded derivative related to our investment in the debentures was \$3,490 and \$0, respectively. As of December 31, 2010, the carrying values of the host contract and embedded derivative related to our investment in the debentures was \$3,302 and \$11, respectively. The carrying values of the host contract and embedded derivative are recorded in Related party long-term assets.

As of December 31, 2011, amounts due to Sirius XM Canada totaled \$1,804 and is reported as Related party current liabilities.

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

	For the Year Ended
	December 31,
	2011*
Royalty income	\$ 13,735
Amortization of Sirius XM Canada deferred income	1,388
Licensing fee revenue	3,000
Advertising reimbursements	417
Total revenue from Sirius XM Canada	\$ 18,540

* Sirius XM Canada commenced operations on June 2011.

Our share of net earnings or losses of Sirius XM Canada are recorded to Interest and investment income (loss) in our consolidated statements of operations on a one month lag. Our share of Sirius XM Canada's net income was \$1,081 for the year ended December 31, 2011. We recorded amortization expense of \$1,556 related to the equity method intangible assets for the year ended December 31, 2011.

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

Sirius Canada

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

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

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

	For the Years Ended December 31,		
	2011*	2010	2009
Royalty income	\$ 9,945	\$ 10,684	\$ 5,797
Dividend income	460	926	839
Total revenue from Sirius Canada	<u>\$ 10,405</u>	<u>\$ 11,610</u>	<u>\$ 6,636</u>

*Sirius Canada combined with XM Canada in June 2011.

Receivables from royalty and dividend income were utilized to absorb a portion of our share of net losses generated by Sirius Canada. Total costs that have been or will be reimbursed by Sirius Canada were \$5,253, \$12,185 and \$11,031 for the years ended December 31, 2011, 2010 and 2009, respectively.

Our share of net earnings or losses of Sirius Canada was recorded to Interest and investment income (loss) in our consolidated statements of operations on a one month lag. Our share of Sirius Canada's net loss was \$9,717, \$10,257 and \$6,636 for the years ended December 31, 2011, 2010 and 2009, respectively. The payments received from Sirius Canada in excess of carrying value were \$6,748, \$10,281 and \$13,738 for the years ended December 31, 2011, 2010 and 2009, respectively.

XM Canada

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

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

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

amortized on a straight-line basis through 2020, the end of the expected term of the agreements. As of December 31, 2011 and December 31, 2010, the carrying value of deferred revenue related to this agreement was \$24,517 and \$28,792, respectively.

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

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

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

	For the Years Ended December 31,		
	2011*	2010	2009
Amortization of XM Canada deferred income	\$ 1,388	\$ 2,776	\$ 2,776
Subscriber and activation fee royalties	5,483	10,313	11,603
Licensing fee revenue	3,000	4,500	6,000
Advertising reimbursements	833	1,083	1,067
Total revenue from XM Canada	\$10,704	\$18,672	\$21,446

*XM Canada combined with Sirius Canada in June 2011.

Our share of net earnings or losses of XM Canada is recorded to Interest and investment income in our consolidated statements of operations on a one month lag. Our share of XM Canada's net loss was \$6,045, \$12,147 and \$2,292 for the years ended December 31, 2011, 2010 and 2009, respectively.

General Motors and American Honda

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

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

We have a long-term distribution agreement with American Honda. American Honda had a representative on our board of directors and was considered a related party through May 27, 2010. We have an agreement to make a certain amount of our bandwidth available to American Honda. American Honda's use of our bandwidth

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

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

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

	For the Years Ended December 31,	
	2010*	2009
GM	\$ 12,759	\$ 31,037
American Honda	4,990	12,254
Total	\$ 17,749	\$ 43,291

*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	
	GM	Honda	GM	Honda
Sales and marketing	\$13,374	\$ —	\$ 31,595	\$ 500
Revenue share and royalties	15,823	3,167	58,992	6,541
Subscriber acquisition costs	17,514	1,969	34,895	5,397
Customer service and billing	125	—	268	—
Interest expense, net of amounts capitalized	1,421	—	4,644	—
Total	\$48,257	\$ 5,136	\$130,394	\$12,438

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

(12) Investments

Auction Rate Certificates

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

Long Term 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, 2011 and December 31, 2010, our Long-term restricted investments were \$3,973 and \$3,396, respectively. During the year ended December 31, 2011, \$250 of obligations relating to these letters of credit were terminated and a new letter of credit agreement was entered into for \$826 for additional space.

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

(13) Debt

Our debt consists of the following:

	Conversion Price (per share)	December 31, 2011	December 31, 2010
3.25% Convertible Notes due 2011 (a)	\$ 5.30	\$ —	\$ 191,979
Less: discount		—	(515)
8.75% Senior Notes due 2015 (b)	N/A	800,000	800,000
Less: discount		(9,753)	(12,213)
9.75% Senior Secured Notes due 2015 (c)	N/A	257,000	257,000
Less: discount		(8,356)	(10,116)
11.25% Senior Secured Notes due 2013 (d)	N/A	—	36,685
Less: discount		—	(1,705)
13% Senior Notes due 2013 (e)	N/A	778,500	778,500
Less: discount		(39,504)	(59,592)
7% Exchangeable Senior Subordinated Notes due 2014 (f)	\$ 1.875	550,000	550,000
Less: discount		(5,956)	(7,620)
7.625% Senior Notes due 2018 (g)	N/A	700,000	700,000
Less: discount		(10,898)	(12,054)
Other debt:			
Capital leases	N/A	2,941	7,229
Total debt		3,013,974	3,217,578
Less: total current maturities non-related party		1,623	195,815
Total long-term		3,012,351	3,021,763
Less: related party		328,788	325,907
Total long-term, excluding related party		\$2,683,563	\$2,695,856

(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 were 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. Interest was payable semi-annually on April 15 and October 15 of each year. The obligations under the 3.25% Notes were not secured by any of our assets.

In 2011, we purchased \$168,113 of the outstanding 3.25% Notes at prices between 100.75% and 101% of the principal amount plus accrued interest. We recognized a loss on extinguishment of debt for the 3.25% Notes of \$2,291 for the year ended December 31, 2011, which consists primarily of cash premiums paid, unamortized discount and deferred financing fees. The remaining \$23,866 in principal amount of the 3.25% Notes was paid in October 2011 upon maturity.

(b) 8.75% Senior Notes due 2015

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

SIRIUS XM RADIO INC. AND SUBSIDIARIES
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(c) 9.75% Senior Secured Notes due 2015

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

(d) 11.25% Senior Secured Notes due 2013

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

In October 2010, we purchased \$489,065 in aggregate principal amount of the 11.25% Notes. The aggregate purchase price for the 11.25% Notes was \$567,927. We recorded an aggregate loss on extinguishment of the 11.25% Notes of \$85,216, consisting primarily of unamortized discount, deferred financing fees and repayment premium to Loss on extinguishment of debt and credit facilities, net, in our 2010 consolidated statements of operations. The remainder of the 11.25% Notes of \$36,685 was purchased in January 2011 for an aggregate purchase price of \$40,376. A loss from extinguishment of debt of \$4,915 associated with this purchase was recorded during the year ended December 31, 2011.

(e) 13% Senior Notes due 2013

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

(f) 7% Exchangeable Senior Subordinated Notes due 2014

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

Interest is payable semi-annually in arrears on June 1 and December 1 of each year at a rate of 7% per annum. The Exchangeable Notes mature on December 1, 2014. The Exchangeable Notes are exchangeable at any time at the option of the holder into shares of our common stock at an initial exchange rate of 533.3333 shares of common stock per \$1,000 principal amount of Exchangeable Notes, which is equivalent to an approximate exchange price of \$1.875 per share of common stock.

(g) 7.625% Senior Notes due 2018

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

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

Covenants and Restrictions

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

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

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

(14) 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, 2011 and 2010. There were 3,753,201,929 and 3,933,195,112 shares of common stock issued and outstanding as of December 31, 2011 and 2010, respectively.

As of December 31, 2011, approximately 3,342,818,000 shares of common stock were reserved for issuance in connection with outstanding convertible debt, preferred stock, warrants, incentive stock awards and common stock to be granted to third parties upon satisfaction of performance targets.

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

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

We recorded interest expense related to the amortization of the costs associated with the share-lending arrangement and other issuance costs of \$11,189, \$10,095 and \$9,248, respectively, for the years ended December 31, 2011, 2010 and 2009. As of December 31, 2011, the unamortized balance of the debt issuance costs was \$40,054, with \$39,253 recorded in deferred financing fees, net, and \$801 recorded in long-term related party assets. As of December 31, 2010, the unamortized balance of the debt issuance costs was \$51,243, with \$50,218 recorded in deferred financing fees, net, and \$1,025 recorded in long-term related party assets. As of December 31, 2010, the estimated fair value of the outstanding 202,400,000 loaned shares was approximately \$329,912. These costs will continue to be amortized until the debt is terminated.

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 which expired in February 2011. Upon execution of this agreement, Sirius delivered 15,173,070 shares of common stock valued at \$40,967 to that programming provider. These shares of common stock were subject to transfer restrictions which lapsed over time. We recognized share-based payment expense associated with these shares of \$1,568, \$5,852, and \$5,852 in the years ended December 31, 2011, 2010 and 2009, respectively. As of December 31, 2011 and December 31, 2010, there was \$0 and \$1,568 remaining balance of common stock value included in other current assets, respectively.

Preferred Stock, par value \$0.001 per share

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

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

There were 12,500,000 shares of Series B Preferred Stock issued and outstanding as of December 31, 2011 and 2010. The Series B Preferred Stock is convertible into shares of our common stock at the rate of 206.9581409 shares of common stock for each share of Series B Preferred Stock, representing approximately 40% of our outstanding shares of common stock (after giving effect to such conversion). As the holder of the Series B Preferred Stock, Liberty Radio LLC is entitled to a number of votes equal to the number of shares of our common stock into which such shares of Series B Preferred Stock are convertible. Liberty Radio LLC will also receive dividends and distributions ratably with our common stock, on an as-converted basis. With respect to dividend rights, the Series B Preferred Stock ranks evenly with our common stock and each other class or series of our equity securities not expressly provided as ranking senior to the Series B Preferred Stock. With respect to liquidation rights, the Series B Preferred Stock ranks evenly with each other class or series of our equity securities not expressly provided as ranking senior to the Series B Preferred Stock, and will rank senior to our common stock. 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 the 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, 2011 and 2010. In 2009, our board of directors created and reserved for issuance in accordance with the Rights Plan (as described below) 9,000 shares of the Series C Junior Preferred Stock. The shares of Series C Junior Preferred Stock are not redeemable and rank, with respect to the payment of dividends and the distribution of assets, junior to all other series of our preferred stock, unless the terms of such series shall so provide. The Rights Plan expired on August 1, 2011.

Warrants

We have issued warrants to purchase shares of common stock in connection with distribution, programming and satellite purchase agreements and certain debt issuances. As of December 31, 2011 and 2010 approximately 22,506,000 and 42,421,000 warrants to acquire an equal number of shares of common stock were outstanding and fully vested. These warrants expire at various times through 2015. At December 31, 2011 and 2010, the weighted average exercise price of outstanding warrants was \$2.63 and \$2.66 per share, respectively. During the year ended December 31, 2011, 3,415,000 warrants expired. We incurred warrant related expense of \$2,522 for the year ended December 31, 2009. We did not incur warrant related expenses in 2011 or 2010.

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

<i>(warrants in thousands)</i>	Average	Expiration Date	Number of Warrants Outstanding	
	Exercise		December 31,	
	Price		2011	2010
NFL	\$ 2.50	March 2015	16,718	16,718
DaimlerChrysler AG	1.04	May 2012	—	16,500
Ford	3.00	October 2012	4,000	4,000
Lehman Warrants		March 2011 - April 2011	—	1,575
Space Systems/Loral	7.05	December 2011	—	1,840
Other distributors and programming providers	3.00	June 2014	1,788	1,788
Total			22,506	42,421

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

Rights Plan

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

(15) Benefits Plans

We recognized share-based payment expense of \$51,622, \$54,585, and \$65,607 for the years ended December 31, 2011, 2010 and 2009, respectively. We did not realize any income tax benefits from share-based benefits plans during the years ended December 31, 2011, 2010 and 2009 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, 2011, approximately 197,606,000 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 continue to vest.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (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,		
	2011	2010	2009
Risk-free interest rate	1.1%	1.7%	2.5%
Expected life of options — years	5.27	5.28	4.68
Expected stock price volatility	68%	85%	88%
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 Year Ended
	December 31, 2009
Risk-free interest rate	0.67-2.69%
Expected life — years	2.33-6.19
Expected stock price volatility	83-130%
Expected dividend yield	0%

There were no options granted to third parties, other than non-employee members of our board of directors, during the years ended December 31, 2011 and 2010.

In 2011, we estimated fair value of awards granted using the hybrid approach for volatility, which weights observable historical volatility and implied volatility of qualifying actively traded options on our common stock. In 2010 and 2009, due to the lack of qualifying actively traded options on our common stock, we utilized a 100% weighting to observable historical volatility.

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, 2011, 2010 and 2009 (shares in thousands):

	Shares	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2009	165,436	\$ 4.42		
Granted	265,761	\$ 0.53		
Exercised	—	\$ —		
Forfeited, cancelled or expired	<u>(66,405)</u>	\$ 5.21		
Outstanding, December 31, 2009	<u>364,792</u>	\$ 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		
Granted	77,450	\$ 1.80		
Exercised	(13,300)	\$ 0.87		
Forfeited, cancelled or expired	<u>(26,440)</u>	\$ 4.15		
Outstanding, December 31, 2011	<u>439,580</u>	\$ 1.25	6.33	\$378,274
Exercisable, December 31, 2011	<u>179,851</u>	\$ 1.59	4.92	\$158,550

The weighted average grant date fair value of options granted during the years ended December 31, 2011, 2010 and 2009 was \$1.04, \$0.67 and \$0.36, respectively. The total intrinsic value of stock options exercised during the years ended December 31, 2011, 2010 and 2009 was \$13,408, \$13,261 and \$0, respectively.

We recognized share-based payment expense associated with stock options of \$48,038, \$44,833 and \$46,080 for the years ended December 31, 2011, 2010 and 2009, 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, 2011, 2010 and 2009 (shares in thousands):

	Shares	Weighted-Average Grant Date Fair Value
Nonvested, January 1, 2009	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	(2,351)	\$ 1.92
Nonvested, December 31, 2009	<u>6,919</u>	\$ 2.65
Granted	—	\$ —
Vested restricted stock awards	(4,039)	\$ 2.85
Vested restricted stock units	(192)	\$ 2.92
Forfeited	(291)	\$ 2.72
Nonvested, December 31, 2010	<u>2,397</u>	\$ 2.57
Granted	—	\$ —
Vested restricted stock awards	(1,854)	\$ 3.30
Vested restricted stock units	(101)	\$ 3.08
Forfeited	(21)	\$ 3.05
Nonvested, December 31, 2011	<u>421</u>	\$ 1.46

The weighted average grant date fair value of restricted stock units granted during the year ended December 31, 2009 was \$0.37. No restricted stock units were granted during 2011 or 2010. The total intrinsic value of restricted stock and restricted stock units that vested during the years ended December 31, 2011, 2010 and 2009 was \$3,178, \$3,927 and \$45,827, respectively.

We recognized share-based payment expense associated with restricted stock units and shares of restricted stock of \$543, \$7,397 and \$16,632 for the years ended December 31, 2011, 2010 and 2009, 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, 2011 and 2010, net of estimated forfeitures, was \$129,983 and \$108,170, respectively. The total unrecognized compensation costs at December 31, 2011 are expected to be recognized over a weighted-average period of three years.

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

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

under the Sirius XM Plan vest at a rate of 33 1/3% for each year of employment and are fully vested after three years of employment for all current and future contributions. Share-based payment expense resulting from the matching contribution to the Sirius XM Plan was \$3,041, \$2,356 and \$2,895 for the years ended December 31, 2011, 2010 and 2009, respectively.

We may also elect to contribute to the profit sharing portion of the Sirius XM Plan based upon the total eligible compensation of eligible participants. These additional contributions in the form of shares of common stock are determined by the compensation committee of our board of directors. Employees are only eligible to receive profit-sharing contributions during any year in which they are employed on the last day of the year. We did not contribute to the profit sharing portion of the Sirius XM Plan in 2011, 2010 or 2009.

(16) Income Taxes

Our income tax expense consisted of the following:

	For the Years Ended December 31,		
	2011	2010	2009
Current taxes:			
Federal	\$ —	\$ —	\$ —
State	3,229	942	—
Foreign	2,741	1,370	1,622
Total current taxes	<u>5,970</u>	<u>2,312</u>	<u>1,622</u>
Deferred taxes:			
Federal	3,991	4,163	3,962
State	4,273	(1,855)	397
Total deferred taxes	<u>8,264</u>	<u>2,308</u>	<u>4,359</u>
Total income tax expense	<u>\$14,234</u>	<u>\$ 4,620</u>	<u>\$ 5,981</u>

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

	For the Years Ended December 31,		
	2011	2010	2009
Federal tax expense (benefit), at statutory rate	\$ 154,418	\$ 16,678	\$(117,883)
State income tax expense (benefit), net of federal benefit	15,751	1,620	(11,788)
State rate changes	3,851	(2,252)	—
Non-deductible expenses	457	4,130	1,849
Other, net	6,209	6,193	(4,945)
Change in valuation allowance	(166,452)	(21,749)	138,748
Income tax expense	<u>\$ 14,234</u>	<u>\$ 4,620</u>	<u>\$ 5,981</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,	
	2011	2010
Deferred tax assets:		
Net operating loss carryforwards	\$ 3,025,621	\$ 3,091,869
GM payments and liabilities	194,976	308,776
Deferred revenue	410,812	346,221
Severance accrual	21	266
Accrued bonus	17,296	16,599
Expensed costs capitalized for tax	35,227	44,149
Loan financing costs	1,575	1,568
Investments	40,880	62,742
Stock based compensation	89,862	118,507
Other	42,924	53,260
Total deferred tax assets	<u>3,859,194</u>	<u>4,043,957</u>
Deferred tax liabilities:		
Depreciation of property and equipment	(405,892)	(379,180)
FCC license	(781,742)	(773,850)
Other intangible assets	(188,988)	(209,489)
Other	(189)	—
Total deferred tax liabilities	<u>(1,376,811)</u>	<u>(1,362,519)</u>
Net deferred tax assets before valuation allowance	2,482,383	2,681,438
Valuation allowance	(3,360,740)	(3,551,288)
Total deferred tax liability	<u>\$ (878,357)</u>	<u>\$ (869,850)</u>

The difference in the net deferred tax liability of \$878,357 and \$869,850 at December 31, 2011 and 2010, respectively, is primarily the result of the amortization of our FCC licenses which are 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.

As a result of the Merger, we have had several ownership changes under Section 382 of the Internal Revenue Code, which may limit our ability to utilize tax deductions. Internal Revenue Code Section 382 imposes substantial restrictions on the utilization of net operating losses and tax credits in the event of a corporation's ownership change. Currently, our ownership changes do 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. As of December 31, 2011, we had NOL carryforwards of approximately \$7,844,000 for federal and state income tax purposes available to offset future taxable income. These NOL carryforwards expire on various dates beginning in 2014 and ending in 2028.

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

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences can be carried forward under tax law. Management's evaluation of the realizability of deferred tax assets considers both positive and negative evidence, including historical financial performance, scheduled reversal of deferred tax assets and liabilities, projected taxable income and tax planning strategies in making this assessment. The weight given to the potential effects of positive and negative evidence is based on the extent to which it can be objectively verified. We will not release the valuation allowance until giving consideration to a variety of factors including but not limited to: (a) the current period realization of NOL carryforwards, (b) three-year cumulative pre-tax income, (c) the current period taxable income and (d) the expectation of future earnings. After weighting this evidence, management concluded that it is more likely than not that our deferred tax assets will not be realized, accordingly, a full valuation allowance was retained at December 31, 2011.

There is no U.S. federal income tax provision as all federal taxable income was offset by utilizing U.S. NOL carryforwards. The state tax provision is primarily related to taxable income in certain states that have suspended the ability to use NOL carryforwards. The foreign income tax provision is primarily related to foreign withholding taxes related to royalty income between us and our Canadian affiliate.

As of December 31, 2011 and 2010, the gross liability for income taxes associated with uncertain state tax positions, including interest, was \$1,524 and \$942, respectively, in other long-term liabilities. No penalties have been accrued for. We do not currently anticipate that our existing reserves related to uncertain tax positions as of December 31, 2011 will significantly increase or decrease during the twelve-month period ending December 31, 2012; 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 our consolidated statements of operations as part of the income tax provision. Our policy is to recognize interest and penalties accrued on uncertain tax positions as part of income tax expense.

Changes in our uncertain income tax positions, from January 1 through December 31 are presented below:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 942	\$ —
Additions for tax positions from prior years	490	942
Interest	92	—
Balance, end of year	<u>\$1,524</u>	<u>\$942</u>

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

(17) Commitments and Contingencies

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

	2012	2013	2014	2015	2016	Thereafter	Total
Long-term debt obligations(1)	\$ 1,623	\$ 779,636	\$550,182	\$1,057,000	\$ —	\$ 700,000	\$3,088,441
Cash interest payments(1)	288,338	288,208	186,935	113,433	53,375	106,750	1,037,039
Satellite and transmission	60,517	5,526	13,296	13,156	3,455	18,638	114,588
Programming and content	238,792	182,885	157,106	151,531	8,750	—	739,064
Marketing and distribution	46,153	17,555	12,816	11,644	8,617	3,192	99,977
Satellite incentive payments	11,577	12,660	12,615	12,010	12,913	74,989	136,764
Operating lease obligations	34,662	31,291	26,135	28,528	18,422	195,213	334,251
Other	29,681	10,659	1,602	268	182	—	42,392
Total(2)	\$711,343	\$1,328,420	\$960,687	\$1,387,570	\$105,714	\$1,098,782	\$5,592,516

(1) Includes capital lease obligations.

(2) The table does not include our reserve for uncertain tax positions, which at December 31, 2011 totaled \$1,524, 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.

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

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

Programming and content. We have entered into various programming agreements. Under the terms of these agreements, our obligations 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.

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

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, 2011, we have accrued \$27,925 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, 2011, we have accrued \$10,709 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, 2011, 2010 and 2009 was \$34,143, \$36,652 and \$44,374, 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 financing arrangements that are reasonably likely to have a material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Legal Proceedings

In the ordinary course of business, we are a defendant in various lawsuits and arbitration proceedings, including derivative actions; actions filed by subscribers, both on behalf of themselves and on a class action basis; former employees; parties to contracts or leases; and owners of patents, trademarks, copyrights or other intellectual property. Our significant legal proceedings are discussed under Item 3, Legal Proceedings, in Part I of this Annual Report on Form 10-K.

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

(18) 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
2011:				
Total revenue	\$ 723,839	\$ 744,397	\$ 762,550	\$ 783,738
Cost of services	\$(270,689)	\$(273,331)	\$ (277,360)	\$ (299,719)
Income from operations	\$ 164,172	\$ 172,982	\$ 184,488	\$ 154,475
Net income	\$ 78,121	\$ 173,319	\$ 104,185	\$ 71,336
Net income per common share — basic(1)	\$ 0.02	\$ 0.05	\$ 0.03	\$ 0.02
Net income per common share — diluted(1)	\$ 0.01	\$ 0.03	\$ 0.02	\$ 0.01
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 (loss) income	\$ 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)

(1) The sum of the quarterly net income (loss) per share applicable to common stockholders (basic and diluted) does not necessarily agree to the net income (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> <i>(in thousands)</i>	<u>Balance</u> <u>January 1,</u>	<u>Charged to</u> <u>Expenses</u> <u>(Benefit)</u>	<u>Write-offs/</u> <u>Payments/</u> <u>Other</u>	<u>Balance</u> <u>December 31,</u>
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
2011				
Allowance for doubtful accounts	\$ 10,222	33,164	(33,454)	\$ 9,932
Deferred tax assets — valuation allowance	\$3,551,288	(166,452)	(24,096)	\$3,360,740

EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of the Company, dated March 4, 2003 (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
3.2	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, dated July 28, 2008 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated August 1, 2008).
3.3	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, dated December 18, 2008 (incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-3 dated December 30, 2008).
3.4	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, dated May 29, 2009 (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8 dated July 1, 2009).
3.5	Amended and Restated By-Laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
3.6	Certificate of Amendment of the Amended and Restated By-Laws of the Company, dated July 28, 2008 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K dated August 1, 2008).
3.7	Certificate of Designations of Series B-1 Convertible Perpetual Preferred Stock of the Company, dated March 5, 2009 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated March 6, 2009).
3.8	Certificate of Ownership and Merger, dated January 12, 2011 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated January 12, 2011).
4.1	Form of certificate for shares of the Company's common stock (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-1 (File No. 33-74782)).
4.2	Common Stock Purchase Warrant granted by the Company to Ford Motor Company dated October 7, 2002 (incorporated by reference to Exhibit 4.16 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
4.3	Indenture, dated as of July 31, 2008, among XM Escrow LLC and The Bank of New York Mellon, as trustee, relating to the 13% Senior Notes due 2013 (incorporated by reference to Exhibit 4.77 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008).
4.4	Supplemental Indenture, dated as of July 31, 2008, among XM Satellite Radio Holdings Inc., XM Satellite Radio Inc., XM Equipment Leasing LLC, XM Radio Inc. and The Bank of New York Mellon, as trustee, relating to the 13% Senior Notes due 2013 (incorporated by reference to Exhibit 4.78 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008).
4.5	Supplemental Indenture, dated as of July 31, 2008, among XM Satellite Radio Holdings Inc., XM Escrow LLC and The Bank of New York Mellon, as trustee, relating to the 13% Senior Notes due 2013 (incorporated by reference to Exhibit 4.79 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008).
4.6	Indenture, dated as of August 1, 2008, among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc., XM Equipment LLC, XM Radio Inc., the Company and The Bank of New York Mellon, as trustee, relating to the 7% Exchangeable Senior Subordinated Notes due 2014 (incorporated by reference to Exhibit 4.80 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008).

<u>Exhibit</u>	<u>Description</u>
4.7	Registration Rights Agreement, dated August 1, 2008, among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc., XM Equipment Leasing LLC, XM Radio Inc., the Company, J.P. Morgan Securities Inc., Morgan Stanley & Co. Incorporated and UBS Securities LLC, relating to the 7% Exchangeable Senior Subordinated Notes due 2014 (incorporated by reference to Exhibit 4.81 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008).
4.8	Form of Media-Based Incentive Warrant, dated as of January 27, 2009, issued by the Company to NFL Enterprises LLC (incorporated by reference to Exhibit 4.48 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008).
4.9	Investment Agreement, dated as of February 17, 2009, among the Company and Liberty Radio LLC (incorporated by reference to Exhibit 4.55 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008).
4.10	Indenture, dated as of August 24, 2009, between the Company and U.S. Bank National Association relating to the 9.75% Senior Secured Notes due 2015 (incorporated by reference to Exhibit 4.61 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
4.11	Indenture, dated as of March 17, 2010, among the Company, the guarantors thereto and U.S. Bank National Association, as trustee, relating to the 8.75% Senior Notes due 2015 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated March 19, 2010).
4.12	Third Supplemental Indenture, dated April 14, 2010, among XM Satellite Radio Inc., certain subsidiaries thereof and The Bank of New York Mellon, as trustee, relating to the 13% Senior Notes due 2013 (incorporated by reference to XM Satellite Radio Inc.'s Quarterly Report on Form 10-Q filed on May 7, 2010).
4.13	Supplemental Indenture, dated April 14, 2010, among XM Satellite Radio Inc., certain subsidiaries thereof and The Bank of New York Mellon, as trustee, relating to the 7% Exchangeable Senior Subordinated Notes due 2014 (incorporated by reference to XM Satellite Radio Inc.'s Quarterly Report on Form 10-Q filed on May 7, 2010).
4.14	Indenture, dated as of October 27, 2010, among XM Satellite Radio Inc., the guarantors thereto and U.S. Bank National Association, as trustee, relating to the 7.625% Senior Notes due 2018 (incorporated by reference to Exhibit 4.1 to XM Satellite Radio Inc.'s Current Report on Form 8-K filed on October 28, 2010).
4.15	Supplemental Indenture, dated January 12, 2011, by and among XM Satellite Radio Inc., the Company, certain subsidiaries thereof and The Bank of New York Mellon, as trustee, relating to the 13% Senior Notes due 2013 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 12, 2011).
4.16	Supplemental Indenture, dated January 12, 2011, by and among XM Satellite Radio Inc., the Company, certain subsidiaries thereof and The Bank of New York Mellon, as trustee, relating to the 7% Exchangeable Senior Subordinated Notes due 2014 (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on January 12, 2011).
4.17	Supplemental Indenture, dated January 12, 2011, by and among XM Satellite Radio Inc., the Company, certain subsidiaries thereof and U.S. Bank National Association, as trustee, relating to the 7.625% Senior Notes due 2018 (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed on January 12, 2011).
4.18	Supplemental Indenture, dated January 12, 2011, by and among the Company, certain subsidiaries thereof and U.S. Bank National Association, as trustee, relating to the 8.75% Senior Notes due 2015 (incorporated by reference to Exhibit 4.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010).

<u>Exhibit</u>	<u>Description</u>
4.19	Supplemental Indenture, dated January 12, 2011, by and among the Company, certain subsidiaries thereof and U.S. Bank National Association, as trustee, relating to the 9.75% Senior Secured Notes due 2015 (incorporated by reference to Exhibit 4.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010).
4.20	Collateral Agreement, dated January 12, 2011, by and among the Company, certain subsidiaries thereof and U.S. Bank National Association, as collateral agent, relating to the 9.75% Senior Secured Notes due 2015 (incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K filed on January 12, 2011).
**10.1	Operational Assistance Agreement, dated as of June 7, 1999, between XM Satellite Radio Inc. and Clear Channel Communications, Inc. (incorporated by reference to Exhibit 10.10 to Amendment No. 1 to XM Satellite Radio Holdings Inc.'s Registration Statement on Form S-1, File No. 333-83619).
**10.2	Technology Licensing Agreement among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc., WorldSpace Management Corporation and American Mobile Satellite Corporation, dated as of January 1, 1998, amended by Amendment No. 1 to Technology Licensing Agreement, dated June 7, 1999 (incorporated by reference to Exhibit 10.3 to XM Satellite Radio Holdings Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007).
***10.3	Third Amended and Restated Distribution and Credit Agreement, dated as of February 6, 2008, among General Motors Corporation, XM Satellite Radio Holdings Inc. and XM Satellite Radio Inc. (incorporated by reference to Exhibit 10.63 to XM Satellite Radio Holdings Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007).
**10.4	Third Amended and Restated Satellite Purchase Contract for In-Orbit Delivery, dated as of May 15, 2001, between XM Satellite Radio Inc. and Boeing Satellite Systems International Inc. (incorporated by reference to Exhibit 10.36 to Amendment No. 1 to XM Satellite Radio Holdings Inc.'s Registration Statement on Form S-3, File No. 333-89132).
10.5	Assignment and Novation Agreement, dated as of December 5, 2001, between XM Satellite Radio Holdings Inc., XM Satellite Radio Inc. and Boeing Satellite Systems International Inc. (incorporated by reference to Exhibit 10.3 to XM Satellite Radio Holdings Inc.'s Current Report on Form 8-K filed on December 6, 2001).
**10.6	Amendment to the Satellite Purchase Contract for In-Orbit Delivery, dated as of December 5, 2001, between XM Satellite Radio Inc. and Boeing Satellite Systems International Inc. (incorporated by reference to Exhibit 10.4 to XM Satellite Radio Holdings Inc.'s Current Report on Form 8-K filed on December 6, 2001).
10.7	Amended and Restated Assignment and Use Agreement, dated as of January 28, 2003, between XM Satellite Radio Inc. and XM Radio Inc. (incorporated by reference to Exhibit 10.7 to XM Satellite Radio Holdings Inc.'s Current Report on Form 8-K filed on January 29, 2003).
**10.8	Amended and Restated Amendment to the Satellite Purchase Contract for In-Orbit Delivery, dated May 23, 2003, among XM Satellite Radio Inc. and XM Satellite Radio Holdings Inc. and Boeing Satellite Systems International Inc. (incorporated by reference to Exhibit 10.53 to XM Satellite Radio Holdings Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
**10.9	Amendment to the Satellite Purchase Contract for In-Orbit Delivery, dated July 31, 2003, among XM Satellite Radio Inc. and XM Satellite Radio Holdings Inc. and Boeing Satellite Systems International Inc. (incorporated by reference to Exhibit 10.54 to XM Satellite Radio Holdings Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).

<u>Exhibit</u>	<u>Description</u>
**10.10	December 2003 Amendment to the Satellite Purchase Contract for In-Orbit Delivery, dated December 19, 2003, among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc. and Boeing Satellite Systems International Inc. (incorporated by reference to Exhibit 10.57 to XM Satellite Radio Holdings Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003).
*10.11	Form of Option Agreement between the Company and each Optionee (incorporated by reference to Exhibit 10.16.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).
*10.12	Form of Director Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.25 to Amendment No. 5 to XM Satellite Radio Holdings Inc.'s Registration Statement on Form S-1, File No. 333-83619).
*10.13	CD Radio Inc. 401(k) Savings Plan (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8 (File No. 333-65473)).
*10.14	Employment Agreement, dated as of June 3, 2003, between the Company and David J. Frear (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
*10.15	Amended and Restated Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
*10.16	Employment Agreement dated November 18, 2004 between the Company and Mel Karmazin (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
*10.17	Restricted Stock Unit Agreement, dated as of August 9, 2005, between the Company and James E. Meyer (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated August 12, 2005).
*10.18	First Amendment, dated as of August 10, 2005, to the Employment Agreement, dated as of June 3, 2003, between the Company and David J. Frear (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated August 12, 2005).
*10.19	Form of Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.2 to XM Satellite Radio Holdings Inc.'s Current Report on Form 8-K filed June 1, 2007).
*10.20	Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.3 to XM Satellite Radio Holdings Inc.'s Current Report on Form 8-K filed June 1, 2007).
*10.21	XM Satellite Radio Holdings Inc. 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.5 to XM Satellite Radio Holdings Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007).
*10.22	Sirius XM Radio 401(k) Savings Plan, as amended and restated effective January 1, 2009 (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the year ended December 31, 2009).
*10.23	Agreement to Forfeit Non-Qualified Stock Options, dated as of May 13, 2009, between Mel Karmazin and the Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 13, 2009).
*10.24	Second Amendment, dated as of February 12, 2008, to the Employment Agreement, dated as of June 3, 2003, between the Company and David J. Frear (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 13, 2008).

<u>Exhibit</u>	<u>Description</u>
*10.25	Employment Agreement, dated as of September 26, 2008, between the Company and Dara F. Altman (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 1, 2008).
*10.26	Letter Agreement dated June 30, 2009 amending the Employment Agreement dated November 18, 2004 between Mel Karmazin and the Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 1, 2009).
*10.27	Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan (incorporated by reference to Exhibit 4.9 to the Company's Registration Statement on Form S-8 dated July 1, 2009).
*10.28	Employment Agreement, dated as of July 28, 2009, between the Company and Scott A. Greenstein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 29, 2009).
*10.29	Employment Agreement, dated as of October 14, 2009, between the Company and James E. Meyer (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed October 16, 2009).
*10.30	Employment Agreement, dated as of January 14, 2010, between the Company and Patrick L. Donnelly (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed January 15, 2010).
*10.31	First Amendment, dated as of February 14, 2011, to the Employment Agreement dated as of October 14, 2009, between the Company and James E. Meyer (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 15, 2011).
*10.32	Employment Agreement, dated as of July 21, 2011, between the Company and David J. Frear (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 22, 2011).
*10.33	Employment Agreement, dated as of August 23, 2011, between the Company and Dara F. Altman (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 24, 2011).
*10.34	Form of Director Non-Qualified Stock Option Agreement (filed herewith).
*10.35	Form of Non-Qualified Stock Option Agreement (filed herewith).
21.1	List of Subsidiaries (filed herewith).
23.1	Consent of KPMG LLP (filed herewith).
31.1	Certificate of Mel Karmazin, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certificate of David J. Frear, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certificate of Mel Karmazin, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.2	Certificate of David J. Frear, Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

<u>Exhibit</u>	<u>Description</u>
****101.1	The following financial information from our Annual Report on Form 10-K for the year ended December 31, 2011 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009; (ii) Consolidated Balance Sheets as of December 31, 2011 and 2010; (iii) Consolidated Statements of Stockholder's Equity and Comprehensive Income (Loss) for the years ended December 31, 2011, 2010 and 2009; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009; and (v) Notes to Consolidated Financial Statements.
*	This document has been identified as a management contract or compensatory plan or arrangement.
**	Pursuant to the Commission's Orders Granting Confidential Treatment under Rule 406 of the Securities Act of 1933 or Rule 24(b)-2 under the Securities Exchange Act of 1934, certain confidential portions of this Exhibit were omitted by means of redacting a portion of the text.
***	Confidential treatment has been requested with respect to portions of this Exhibit that have been omitted by redacting a portion of the text.
****	In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101.1 to this Annual Report on Form 10-K shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

THIS OPTION HAS NOT BEEN REGISTERED UNDER STATE OR FEDERAL SECURITIES LAWS. THIS OPTION MAY NOT BE TRANSFERRED EXCEPT BY WILL OR UNDER THE LAWS OF DESCENT AND DISTRIBUTION.

SIRIUS XM RADIO 2009 LONG-TERM STOCK INCENTIVE PLAN

STOCK OPTION AGREEMENT
2011 COMPENSATION AWARD

THIS STOCK OPTION AGREEMENT (this "Agreement"), dated as of [], between SIRIUS XM RADIO INC., a Delaware corporation (the "Company"), and [] (the "Director").

1. Grant of Option; Vesting. (a) Subject to the terms and conditions of this Agreement and the Sirius XM Radio 2009 Long-Term Stock Incentive Plan (the "Plan"), the Company hereby grants to the Director the right and option (this "Option") to purchase up to [] () shares (the "Shares") of common stock, par value \$0.001 per share, of the Company at a price per share of \$[] (the "Exercise Price"). This Option is not intended to qualify as an Incentive Stock Option for purposes of Section 422 of the Internal Revenue Code of 1986, as amended. In the case of any stock split, stock dividend or like change in the Shares occurring after the date hereof, the number of Shares and the Exercise Price shall be adjusted as set forth in Section 4(b) of the Plan.

(b) The right and option to purchase up to up to [] () Shares shall vest and be exercisable as follows:

- (i) [] () Shares shall vest and become exercisable on , 2012;
- (ii) [] () Shares shall vest and become exercisable on , 2013;
- (iii) [] () Shares shall vest and become exercisable on , 2014; and
- (iv) [] () Shares shall vest and become exercisable on , 2015.

2. Term. This Option shall terminate on , 2021.

3. Exercise. Subject to Section 1 of this Agreement and the terms of the Plan, this Option may be exercised, in whole or in part, by means of a written notice of exercise signed and delivered by the Director (or, in the case of exercise after death of the Director, by the executor, administrator, heir or legatee of the Director, as the case may be, or, in the case of exercise after a disability under circumstance in which it is reasonable to conclude that the Director does not

have the ability to exercise this Option, by the person or persons who have been legally appointed to act in the name of the Director) to the Company at the address set forth herein for notices to the Company. Such notice shall (a) state the number of Shares to be purchased and the date of exercise, and (b) be accompanied by payment of the Exercise Price in cash or such other method of payment as may be permitted by Section 6(d) of the Plan, subject, in the case of a broker-assisted exercise, to applicable law.

4. Non-transferable. This Option may not be transferred, assigned, pledged or hypothecated in any manner (whether by operation of law or otherwise) other than by will or by the applicable laws of descent and distribution and shall not be subject to execution, attachment or similar process. Any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this Option or of any right or privilege conferred hereby shall be null and void.

5. Professional Advice. The acceptance and exercise of this Option may have consequences under federal and state tax and securities laws that may vary depending upon the individual circumstances of the Director. Accordingly, the Director acknowledges that the Director has been advised to consult his or her personal legal and tax advisor in connection with this Agreement and this Option.

6. Agreement Subject to the Plan. The Option and this Agreement are subject to the terms and conditions set forth in the Plan, which terms and conditions are incorporated herein by reference. A copy of the Plan previously has been delivered to the Director. This Agreement and the Plan constitute the entire understanding between the Company and the Director with respect to this Option.

7. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York without regard to its conflict of laws principles, and shall bind and inure to the benefit of the heirs, executors, personal representatives, successors and assigns of the parties hereto.

8. Notices. All notices and other communications hereunder shall be in writing and shall be deemed given when delivered personally or when telecopied (with confirmation of transmission received by the sender), three business days after being sent by certified mail, postage prepaid, return receipt requested or one business day after being delivered to a nationally recognized overnight courier with next day delivery specified to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

Company: Sirius XM Radio Inc.
1221 Avenue of the Americas
36th Floor
New York, New York 10020
Attention: General Counsel

Director: Address on file at the
office of the Company

Notices sent by email or other electronic means not specifically authorized by this Agreement shall not be effective for any purpose of this Agreement.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

SIRIUS XM RADIO INC.

By:

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

**SIRIUS XM RADIO INC.
2009 LONG-TERM STOCK INCENTIVE PLAN**

**STOCK OPTION AGREEMENT
2011 COMPENSATION AWARD**

THIS STOCK OPTION AGREEMENT (this "Agreement"), dated as of _____ (the "Date of Grant"), between SIRIUS XM RADIO INC., a Delaware corporation (the "Company"), and _____ (the "Employee").

1. Grant of Option; Vesting. (a) Subject to the terms and conditions of this Agreement and the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan (the "Plan"), the Company hereby grants to the Employee the right and option (this "Option") to purchase up to _____ shares (the "Shares") of common stock, par value \$0.001 per share, of the Company at a price per share of _____, the closing price of such common stock on The Nasdaq Global Select Market on [[INSERT DATE OF CLOSING PRICE]] (the "Exercise Price"). This Option is not intended to qualify as an Incentive Stock Option for purposes of Section 422 of the Internal Revenue Code of 1986, as amended. In the case of any stock split, stock dividend or like change in the Shares occurring after the date hereof, the number of Shares and the Exercise Price shall be adjusted as set forth in Section 4(b) of the Plan. Capitalized terms not otherwise defined herein have the meanings assigned to them in the Plan.

(b) Subject to the terms and conditions of this Section 1(b), this Option shall vest and be exercisable as follows:

- (i) _____ Shares shall vest and become exercisable on August _____, 2012 if the Employee continues to be employed by the Company on August _____, 2012;
- (ii) _____ Shares shall vest and become exercisable on August _____, 2013 if the Employee continues to be employed by the Company on August _____, 2013;
- (iii) _____ Shares shall vest and become exercisable on August _____, 2014 if the Employee continues to be employed by the Company on August _____, 2014; and
- (iv) _____ Shares shall vest and become exercisable on August _____, 2015 if the Employee continues to be employed by the Company on August _____, 2015.

2. Term. (a) Subject to Sections 2(b) and 2(c), this Option shall terminate ten (10) years from the Date of Grant or earlier upon the expiration of (a) ninety days following the termination of the Employee's employment for any reason other than death, or (b) one year from the date of death of the Employee. Subject to the terms of the Plan, if the Employee's employment is terminated by death, this Option shall be exercisable only by the person or persons to whom the Employee's rights under such Option shall pass by the Employee's will or by the laws of descent and distribution of the state or county of the Employee's domicile at the time of death.

(b) If the Employee's employment has been terminated by the Company for Cause, this Option, including all vested Options, shall terminate on the date of termination of Employee's employment.

(c) If, within ninety (90) days following the termination of Employee's employment by Employee for any reason or by the Company without Cause, the Employee breaches any employment agreement, non-competition agreement, or other similar agreement or arrangement that the Employee has with the Company, then the Option, including all vested Options, shall terminate immediately as of the date of the breach. 3. Non-transferable. This Option may not be transferred, assigned, pledged or hypothecated in any manner (whether by operation of law or otherwise) other than by will or by the applicable laws of descent and distribution, and shall not be subject to execution, attachment or similar process. Any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this Option or of any right or privilege conferred hereby shall be null and void.

4. Exercise. Subject to Sections 1 and 2 of this Agreement and the terms of the Plan, this Option may be exercised, in whole or in part, by means of a written notice of exercise signed and delivered by the Employee (or, in the case of exercise after death of the Employee, by the executor, administrator, heir or legatee of the Employee, as the case may be). Such notice shall (a) state the number of Shares to be purchased and the date of exercise, and (b) be accompanied by payment of the aggregate Exercise Price in such manner as is permitted by the Plan.

5. Withholding. Prior to delivery of the Shares purchased upon exercise of this Option, the Company shall determine the amount of any United States federal, state and local income tax, if any, which is required to be withheld under applicable law and shall, as a condition of exercise of this Option and delivery of certificates representing the Shares purchased upon exercise of this Option, collect from the Employee the amount of any such tax to the extent not previously withheld.

6. No Rights of a Stockholder. The Employee shall not have any rights as a stockholder of the Company with respect to any Shares until the Shares purchased upon exercise of this Option have been issued.

7. Rights of the Employee. None of this Option, the execution of this Agreement nor the exercise of any portion of this Option shall confer upon the Employee any right to, or guarantee of, continued employment by the Company, or in any way limit the right of the Company to terminate employment of the Employee at any time, subject to the terms of any written employment or similar agreement between the Company and the Employee.

8. Professional Advice. The acceptance and exercise of this Option may have consequences under federal and state tax and securities laws that may vary depending upon the individual circumstances of the Employee. Accordingly, the Employee acknowledges that the Employee has been advised to consult his or her personal legal and tax advisor in connection with this Agreement and this Option.

9. Agreement Subject to the Plan. The Option and this Agreement are subject to the terms and conditions set forth in the Plan, which terms and conditions are incorporated herein by reference. Employee acknowledges that a copy of the Plan is posted on the Company's intranet site and Employee agrees to review it and comply with its terms. This Agreement and the Plan constitute the entire understanding between the Company and the Employee with respect to this Option. In the event of any conflict between the Agreement and the Plan, the Plan shall govern and prevail.

10. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, and shall bind and inure to the benefit of the heirs, executors, personal representatives, successors and assigns of the parties hereto. The parties hereby irrevocably and unconditionally consent to submit to the exclusive jurisdiction of the state and federal courts located in the Borough of Manhattan, State of New York, and expressly waive the right to a jury trial, for any actions, suits or proceedings arising out of or relating to this Agreement.

11. Notices. All notices and other communications hereunder shall be in writing and shall be deemed given when delivered personally or when telecopied (with confirmation of transmission received by the sender), three business days after being sent by certified mail, postage prepaid, return receipt requested or one business day after being delivered to a nationally recognized overnight courier with next day delivery specified to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

Company: Sirius XM Radio Inc.
1221 Avenue of the Americas
36th Floor
New York, New York 10020
Attention: General Counsel

Employee: _____
Address on file at the
office of the Company

Notices sent by email or other electronic means not specifically authorized by this Agreement shall not be effective for any purpose of this Agreement.

Employee

SIRIUS XM RADIO INC.
SUBSIDIARIES

Sirius Entertainment Promotions LLC
Satellite CD Radio LLC
XM 1500 Eckington LLC
XM Investment LLC
Spend LLC
Earth Station Ecuador Cia. Ltda.
XM Radio LLC
XM E-mail Inc.
Satellite Public Radio Inc.
Interoperable Technologies LLC

Consent of Independent Registered Public Accounting Firm

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

We consent to the incorporation by reference in the registration statements (No. 333-158135, No. 333-152548, No. 333-139869, No. 333-130949, No. 333-127169, No. 333-115695, No. 333-108387, No. 333-104406, No. 333-85847, No. 333-65602, and No. 333-64344) on Form S-3, in the registration statement (No. 333-144845) on Form S-4, and in the registration statements (No. 333-169309, 333-166699, 333-160386, No. 333-159206, No. 333-158156, No. 333-156441, No. 333-152574, No. 333-149186, No. 333-142726, No. 333-139214, No. 333-133277, No. 333-125118, No. 333-119479, No. 333-111221, No. 333-106020, No. 333-101515, No. 333-100083, No. 333-81914, No. 333-74752, No. 333-65473, No. 333-62818, No. 333-47954, No. 333-31362, and No. 333-15085), on Form S-8 of Sirius XM Radio Inc. of our reports dated February 9, 2012, with respect to the consolidated balance sheets of Sirius XM Radio Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2011, and the related financial statement schedule for each of the years in the three-year period ended December 31, 2011, and with respect to the effectiveness of internal control over financial reporting as of December 31, 2011, which reports appear in the December 31, 2011 annual report on Form 10-K of Sirius XM Radio Inc.

/s/ KPMG LLP

New York, New York
February 9, 2012

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Mel Karmazin, the Chief Executive Officer of Sirius XM Radio Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2011 of Sirius XM Radio Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any changes in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ M EL K ARMAZIN

Mel Karmazin
Chief Executive Officer
(Principal Executive Officer)

February 9, 2012

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David J. Frear, the Executive Vice President and Chief Financial Officer of Sirius XM Radio Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2011 of Sirius XM Radio Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any changes in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ DAVID J. FREAR

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

February 9, 2012

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002**

In connection with the Annual Report of Sirius XM Radio Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mel Karmazin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ M EL K ARMAZIN

Mel Karmazin
Chief Executive Officer
(Principal Executive Officer)

February 9, 2012

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002**

In connection with the Annual Report of Sirius XM Radio Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David J. Frear, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ DAVID J. FREAR

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

February 9, 2012

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

SIRIUS XM RADIO INC.

FORM 10-Q (Quarterly Report)

Filed 05/01/12 for the Period Ending 03/31/12

Address	1221 AVENUE OF THE AMERICAS 36TH FLOOR NEW YORK, NY 10020
Telephone	212-584-5100
CIK	0000908937
Symbol	SIRI
SIC Code	4832 - Radio Broadcasting Stations
Industry	Broadcasting & Cable TV
Sector	Services
Fiscal Year	12/31

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 001-34295

SIRIUS XM RADIO INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

10020
(Zip Code)

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

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

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

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

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

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

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

(Class)

(Outstanding as of April 27, 2012)

COMMON STOCK, \$0.001 PAR VALUE

3,801,029,929

SHARES

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

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SIRIUS XM RADIO INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Three Months Ended March 31,	
	2012	2011
<i>(in thousands, except per share data)</i>		
Revenue:		
Subscriber revenue	\$ 700,242	\$ 622,437
Advertising revenue, net of agency fees	18,670	16,558
Equipment revenue	16,953	15,867
Other revenue	68,857	68,977
Total revenue	804,722	723,839
Operating expenses:		
Cost of services:		
Revenue share and royalties	132,111	106,929
Programming and content	70,095	72,959
Customer service and billing	66,187	65,836
Satellite and transmission	18,110	18,560
Cost of equipment	5,806	6,405
Subscriber acquisition costs	116,121	105,270
Sales and marketing	58,361	47,819
Engineering, design and development	12,690	11,135
General and administrative	59,886	56,354
Depreciation and amortization	66,117	68,400
Total operating expenses	605,484	559,667
Income from operations	199,238	164,172
Other income (expense):		
Interest expense, net of amounts capitalized	(76,971)	(78,218)
Loss on extinguishment of debt and credit facilities, net	(9,971)	(5,994)
Interest and investment loss	(1,142)	(1,884)
Other (loss) income	(578)	1,617
Total other expense	(88,662)	(84,479)
Income before income taxes	110,576	79,693
Income tax expense	(2,802)	(1,572)
Net income	\$ 107,774	\$ 78,121
Foreign currency translation adjustment, net of tax	(56)	67
Comprehensive income	\$ 107,718	\$ 78,188
Net income per common share:		
Basic	\$ 0.03	\$ 0.02
Diluted	\$ 0.02	\$ 0.01
Weighted average common shares outstanding:		
Basic	3,767,443	3,735,136
Diluted	6,537,728	6,481,384

See accompanying notes to the unaudited consolidated financial statements.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<i>(in thousands, except share and per share data)</i>	<u>March 31, 2012</u>	<u>December 31, 2011</u>
	<u>(unaudited)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 746,576	\$ 773,990
Accounts receivable, net	108,335	101,705
Receivables from distributors	96,037	84,817
Inventory, net	36,791	36,711
Prepaid expenses	177,515	125,967
Related party current assets	6,503	14,702
Deferred tax asset	144,798	132,727
Other current assets	20,539	6,335
Total current assets	<u>1,337,094</u>	<u>1,276,954</u>
Property and equipment, net	1,645,610	1,673,919
Long-term restricted investments	3,973	3,973
Deferred financing fees, net	38,848	42,046
Intangible assets, net	2,559,712	2,573,638
Goodwill	1,834,856	1,834,856
Related party long-term assets	54,229	54,953
Other long-term assets	27,402	35,657
Total assets	<u>\$ 7,501,724</u>	<u>\$ 7,495,996</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 454,748	\$ 543,193
Accrued interest	77,562	70,405
Current portion of deferred revenue	1,404,919	1,333,965
Current portion of deferred credit on executory contracts	281,270	284,108
Current maturities of long-term debt	1,540	1,623
Related party current liabilities	16,541	14,302
Total current liabilities	<u>2,236,580</u>	<u>2,247,596</u>
Deferred revenue	183,430	198,135
Deferred credit on executory contracts	147,012	218,199
Long-term debt	2,625,533	2,683,563
Long-term related party debt	329,576	328,788
Deferred tax liability	1,024,734	1,011,084
Related party long-term liabilities	21,048	21,741
Other long-term liabilities	84,232	82,745
Total liabilities	<u>6,652,145</u>	<u>6,791,851</u>
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Preferred stock, par value \$0.001; 50,000,000 authorized at March 31, 2012 and December 31, 2011:		
Series A convertible preferred stock; no shares issued and outstanding at March 31, 2012 and December 31, 2011	—	—
Convertible perpetual preferred stock, series B-1 (liquidation preference of \$0.001 per share at March 31, 2012 and December 31, 2011); 12,500,000 shares issued and outstanding at March 31, 2012 and December 31, 2011	13	13
Common stock, par value \$0.001; 9,000,000 shares authorized at March 31, 2012 and December 31, 2011; 3,788,755,725 and 3,753,201,929 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	3,789	3,753
Accumulated other comprehensive income, net of tax	15	71

Additional paid-in capital	10,522,080	10,484,400
Accumulated deficit	<u>(9,676,318)</u>	<u>(9,784,092)</u>
Total stockholders' equity	849,579	704,145
Total liabilities and stockholders' equity	<u>\$ 7,501,724</u>	<u>\$ 7,495,996</u>

See accompanying notes to the unaudited consolidated financial statements.

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

	Series A Convertible Preferred Stock		Convertible Perpetual Preferred Stock, Series B-1		Common Stock		Accumulated Other Comprehensive Income	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
<i>(in thousands, except share data)</i>										
Balance at December 31, 2011	—	\$ —	12,500,000	\$ 13	3,753,201,929	\$3,753	\$ 71	\$10,484,400	\$(9,784,092)	\$ 704,145
Comprehensive income, net of tax							(56)		107,774	107,718
Issuance of common stock to employees and employee benefit plans, net of forfeitures	—	—	—	—	598,972	1	—	1,307	—	1,308
Share-based payment expense	—	—	—	—	—	—	—	13,643	—	13,643
Exercise of stock options and vesting of restricted stock units	—	—	—	—	34,954,824	35	—	22,730	—	22,765
Balance at March 31, 2012	—	\$ —	12,500,000	\$ 13	3,788,755,725	\$3,789	\$ 15	\$10,522,080	\$(9,676,318)	\$ 849,579

See accompanying notes to the unaudited consolidated financial statements.

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

<i>(in thousands)</i>	For the Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 107,774	\$ 78,121
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	66,117	68,400
Non-cash interest expense, net of amortization of premium	10,647	9,573
Provision for doubtful accounts	6,208	9,623
Amortization of deferred income related to equity method investment	(694)	(694)
Loss on extinguishment of debt and credit facilities, net	9,971	5,994
Loss on unconsolidated entity investments, net	422	2,350
Loss on disposal of assets	—	266
Share-based payment expense	14,951	12,856
Deferred income taxes	1,572	1,111
Other non-cash purchase price adjustments	(73,956)	(66,743)
Changes in operating assets and liabilities:		
Accounts receivable	(12,838)	11,291
Receivables from distributors	(11,220)	(8,982)
Inventory	(80)	(7,330)
Related party assets	8,347	(3,686)
Prepaid expenses and other current assets	(65,753)	(39,232)
Other long-term assets	8,256	7,617
Accounts payable and accrued expenses	(96,859)	(110,400)
Accrued interest	7,157	8,124
Deferred revenue	56,182	39,225
Related party liabilities	2,239	738
Other long-term liabilities	1,505	(113)
Net cash provided by operating activities	39,948	18,109
Cash flows from investing activities:		
Additions to property and equipment	(25,187)	(34,983)
Net cash used in investing activities	(25,187)	(34,983)
Cash flows from financing activities:		
Proceeds from exercise of stock options	22,765	1,072
Payment of premiums on redemption of debt	(6,602)	(4,094)
Repayment of long-term borrowings	(58,338)	(133,100)
Net cash used in financing activities	(42,175)	(136,122)
Net decrease in cash and cash equivalents	(27,414)	(152,996)
Cash and cash equivalents at beginning of period	773,990	586,691
Cash and cash equivalents at end of period	\$ 746,576	\$ 433,695

See accompanying notes to the unaudited consolidated financial statements.

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

<i>(in thousands)</i>	For the Three Months Ended March 31,	
	2012	2011
Supplemental Disclosure of Cash and Non-Cash Flow Information		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$ 56,129	\$ 57,371
Non-cash financing activities:		
Common stock issuance upon exercise of warrants	—	7

See accompanying notes to the unaudited consolidated financial statements.

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

(1) Business

We broadcast our music, sports, entertainment, comedy, talk, news, 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 applications for 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 acquire subscribers through the sale and lease of previously owned vehicles with factory-installed satellite radios. We distribute our satellite radios through retail locations nationwide and through our website. Satellite radio services are also offered to customers of certain daily rental car companies.

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 Internet radio, Backseat TV, data, traffic, and weather services.

In certain cases, automakers include a subscription to our radio services in the sale or lease price of new and previously 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.

(2) Summary of Significant Accounting Policies

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"), the instructions to Form 10-Q and Article 10 of Regulation S-X of the United States Securities and Exchange Commission ("SEC") for interim financial reporting. Accordingly, these interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. All significant intercompany transactions have been eliminated in consolidation.

Basis of Presentation

In the opinion of management, all normal recurring adjustments necessary for a fair presentation of our unaudited consolidated financial statements as of March 31, 2012 and for the three months ended March 31, 2012 and 2011 have been made.

Interim results are not necessarily indicative of the results that may be expected for a full year. This Quarterly Report on Form 10-Q should be read together with our Annual Report on Form 10-K for the year ended December 31, 2011, which was filed with the SEC on February 9, 2012.

We have evaluated events subsequent to the balance sheet date and prior to the filing of this Quarterly Report on Form 10-Q for the three months ended March 31, 2012 and have determined that no events have occurred that would require adjustment to our unaudited consolidated financial statements. For a discussion of subsequent events refer to Notes 16 and 17.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes. 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 unaudited consolidated financial statements include revenue recognition, asset impairment, depreciable lives of our satellites, share-based payment expense, and valuation allowances against deferred tax assets.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollar amounts in thousands, unless otherwise stated)

Income Taxes

Deferred income taxes represents the tax consequence 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 reporting period, 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.

As of March 31, 2012 and December 31, 2011, we maintained a full valuation allowance against our deferred tax assets due to our historical accumulated pre-tax losses.

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 in our unaudited consolidated statements of comprehensive income.

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 unaudited consolidated statements of comprehensive income.

Fair Value of Financial Instruments

The fair value for publicly traded instruments is determined using quoted market prices while the fair value for non-publicly traded instruments is based upon estimates from a market maker and brokerage firm. As of March 31, 2012 and December 31, 2011, the carrying value of our debt was \$2,956,649 and \$3,013,974, respectively; and the fair value approximated \$3,192,636 and \$3,506,546, respectively.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income of \$15 is comprised of foreign currency translation adjustments related to our interest in Sirius XM Canada. During the three months ended March 31, 2012, we recorded a foreign currency translation adjustments loss of \$56, net of tax of \$35.

Recent Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820) — Fair Value Measurement (“ASU 2011-04”), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. This standard is effective for interim and annual periods beginning after December 15, 2011 and is applied on a prospective basis. We have adopted ASU 2011-04 and the impact of adoption is not material to our unaudited consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220), Presentation of Comprehensive Income (“ASU 2011-05”), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statements of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. The standard does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. This standard is effective for interim and annual periods beginning after December 15, 2011 and is to be applied retrospectively. The FASB has deferred the requirement to present reclassification adjustments for each component of

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accumulated other comprehensive income in both net income and other comprehensive income. Companies are required to either present amounts reclassified out of other comprehensive income on the face of the financial statements or disclose those amounts in the notes to the financial statements. During the deferral period, there is no requirement to separately present or disclose the reclassification adjustments into net income. The effective date of this deferral will be consistent with the effective date of the ASU 2011-05. We have adopted ASU 2011-05 and disclosed comprehensive income in our unaudited consolidated statements of comprehensive income and note that this guidance only affects financial statement presentation only and has no impact on our results of unaudited consolidated financial statements.

(3) Earnings per Share

Basic net income per common share is calculated using the weighted average common shares outstanding during each reporting period. Diluted net income per common share adjusts the weighted average common shares outstanding for the potential dilution that could occur if common stock equivalents (convertible debt and preferred stock, warrants, stock options, restricted stock and restricted stock units) were exercised or converted into common stock, calculated using the treasury stock method. For the three months ended March 31, 2012 and 2011, common stock equivalents of approximately 443,764,000 and 587,254,000, respectively, were excluded from the calculation of diluted net income per common share as the effect would have been anti-dilutive.

	For the Three Months Ended March 31,	
	2012	2011
<i>(in thousands, except per share data)</i>		
Net income	\$ 107,774	\$ 78,121
Average common shares outstanding-basic	3,767,443	3,735,136
Dilutive effect of equity instruments	2,770,285	2,746,248
Average common shares outstanding-diluted	6,537,728	6,481,384
Net income per common share		
Basic	\$ 0.03	\$ 0.02
Diluted	\$ 0.02	\$ 0.01

(4) Accounts Receivable, net

Accounts receivable, net 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 certain receivable balances, current economic conditions and other factors that may affect the counterparty's ability to pay.

Accounts receivable, net, consists of the following:

	March 31, 2012	December 31, 2011
Gross accounts receivable	\$ 119,310	\$ 111,637
Allowance for doubtful accounts	(10,975)	(9,932)
Total accounts receivable, net	\$ 108,335	\$ 101,705

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:

	March 31, 2012	December 31, 2011
Billed	\$ 52,426	\$ 44,618
Unbilled	43,611	40,199
Total	\$ 96,037	\$ 84,817

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

(5) Inventory, net

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

Inventory, net, consists of the following:

	March 31, 2012	December 31, 2011
Raw materials	\$ 22,441	\$ 24,134
Finished goods	31,102	28,007
Allowance for obsolescence	(16,752)	(15,430)
Total inventory, net	<u>\$ 36,791</u>	<u>\$ 36,711</u>

(6) 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. We will perform an annual qualitative assessment as of October 1st of each year to determine if it is more likely than not that the fair value is less than the carrying amount. An assessment is performed at other times if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset below its carrying value.

As of March 31, 2012, there were no indicators of impairment and no impairment loss was recorded for goodwill during the three months ended March 31, 2012 and 2011.

(7) Intangible Assets

Intangible assets consisted of the following:

	Weighted Average Useful Lives	March 31, 2012			December 31, 2011		
		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	(202,134)	177,866	380,000	(191,201)	188,799
Licensing agreements	9.1 years	78,897	(36,649)	42,248	78,897	(34,145)	44,752
Proprietary software	6 years	16,552	(11,941)	4,611	16,552	(11,507)	5,045
Developed technology	10 years	2,000	(733)	1,267	2,000	(683)	1,317
Leasehold interests	7.4 years	132	(66)	66	132	(61)	71
Total intangible assets		<u>\$ 2,811,235</u>	<u>\$ (251,523)</u>	<u>\$ 2,559,712</u>	<u>\$ 2,811,235</u>	<u>\$ (237,597)</u>	<u>\$ 2,573,638</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.



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

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

- (1) In 2010, we retired our FM-4 ground spare satellite. We still maintain the FCC license for this satellite.
(2) We hold an FCC license for our FM-6 satellite, which will expire eight years from when this satellite is launched and placed into operation.

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

In connection with the merger of our wholly owned subsidiary, Vernon Merger Corporation, with and into XM Satellite Radio Holdings Inc. in July 2008 (the "Merger"), \$250,000 of the purchase price was allocated to the XM trademark. As of March 31, 2012, 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 these assets might be impaired. The impairment test consists of a comparison of the fair value of the assets with its carrying value. If the carrying value of the intangible assets exceeds its fair value, an impairment loss is recognized. As of March 31, 2012, there were no indicators of impairment and no impairment loss was recorded for intangible assets with indefinite lives during the three months ended March 31, 2012 and 2011.

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 all definite life intangible assets was \$13,926 and \$15,303 for the three months ended March 31, 2012 and 2011, respectively. Expected amortization expense for the remaining period in 2012, each of the fiscal years 2013 through 2016 and for periods thereafter is as follows:

Year ending December 31,	Amount
2012	\$ 39,739
2013	47,357
2014	38,879
2015	37,553
2016	31,959
Thereafter	30,571
Total definite life intangibles assets, net	<u>\$ 226,058</u>



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(8) Subscriber Revenue

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

Subscriber revenue consists of the following:

	For the Three Months Ended March 31,	
	2012	2011
Subscription fees	\$ 696,298	\$ 619,291
Activation fees	3,944	3,146
Total subscriber revenue	<u>\$ 700,242</u>	<u>\$ 622,437</u>

(9) Interest Costs

We capitalized a portion of the interest on funds borrowed to finance the construction costs of our FM-6 satellite and related launch vehicle. We will continue to capitalize the interest until the launch of our FM-6 satellite. 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:

	For the Three Months Ended March 31,	
	2012	2011
Interest costs charged to expense	\$ 76,971	\$ 78,218
Interest costs capitalized	7,954	7,250
Total interest costs incurred	<u>\$ 84,925</u>	<u>\$ 85,468</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 \$10,647 and \$9,573 for the three months ended March 31, 2012 and 2011, respectively.

(10) Property and Equipment

Property and equipment, net, consists of the following:

	March 31, 2012	December 31, 2011
Satellite system	\$ 1,943,537	\$ 1,943,537
Terrestrial repeater network	110,335	112,440
Leasehold improvements	43,529	43,455
Broadcast studio equipment	54,218	53,903
Capitalized software and hardware	201,266	193,301
Satellite telemetry, tracking and control facilities	61,020	60,539
Furniture, fixtures, equipment and other	60,739	60,283
Land	38,411	38,411
Building	57,200	57,185
Construction in progress	385,300	372,508
Total property and equipment	<u>2,955,555</u>	<u>2,935,562</u>
Accumulated depreciation and amortization	(1,309,945)	(1,261,643)
Property and equipment, net	<u>\$ 1,645,610</u>	<u>\$ 1,673,919</u>

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Construction in progress consists of the following:

	March 31, 2012	December 31, 2011
Satellite system	\$ 352,597	\$ 343,932
Terrestrial repeater network	18,586	19,194
Other	14,117	9,382
Construction in progress	<u>\$ 385,300</u>	<u>\$ 372,508</u>

Depreciation and amortization expense on property and equipment was \$52,191 and \$53,097 for the three months ended March 31, 2012 and 2011, respectively.

Satellites

We currently own a fleet of nine orbiting satellites. The chart below provides certain information on these satellites:

Satellite Designation	Year Delivered	Estimated End of Depreciable Life
FM-1	2000	2013
FM-2	2000	2013
FM-3	2000	2015
FM-5	2009	2024
XM-1	2001	2013
XM-2	2001	2013
XM-3	2005	2020
XM-4	2006	2021
XM-5	2010	2025

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

During the three months ended March 31, 2012 and 2011, we capitalized expenditures, including interest, of \$ 8,665 and \$ 28,815, respectively, related to the construction of our FM-6 satellite and related launch vehicle.

(11) Related Party Transactions

We had the following related party balances at March 31, 2012 and December 31, 2011:

	Related party current assets		Related party long-term assets		Related party current liabilities		Related party long-term liabilities		Related party long-term debt	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
Liberty Media	\$ —	\$ —	\$ 1,122	\$ 1,212	\$ 10,461	\$ 9,722	\$ —	\$ —	\$ 329,576	\$ 328,788
Sirius XM Canada	6,503	14,702	53,107	53,741	6,080	4,580	21,048	21,741	—	—
Total	<u>\$ 6,503</u>	<u>\$ 14,702</u>	<u>\$ 54,229</u>	<u>\$ 54,953</u>	<u>\$ 16,541</u>	<u>\$ 14,302</u>	<u>\$ 21,048</u>	<u>\$ 21,741</u>	<u>\$ 329,576</u>	<u>\$ 328,788</u>

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



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we issued to Liberty Radio, LLC 12,500,000 shares of our Convertible Perpetual Preferred Stock, Series B-1 (the "Series B Preferred Stock"), with a liquidation preference of \$0.001 per share in partial consideration for certain loan investments. Liberty Media has representatives on our board of directors. The Series B Preferred Stock is convertible into 2,586,976,000 shares of common stock. Liberty Media Corporation has filed with the Federal Communications Commission an application for consent to transfer *de facto* control of Sirius XM. We have filed a petition to dismiss or deny such application. Liberty Media's application was not filed in connection with a transaction between Liberty Media and us.

Liberty Media has advised us that as of March 31, 2012 and December 31, 2011, respectively, it owned the following:

	March 31, 2012	December 31, 2011
8.75% Senior Notes due 2015	\$ 150,000	\$ 150,000
9.75% Senior Secured Notes due 2015	50,000	50,000
13% Senior Notes due 2013	76,000	76,000
7% Exchangeable Senior Subordinated Notes due 2014	11,000	11,000
7.625% Senior Notes due 2018	50,000	50,000
Total principal debt	337,000	337,000
Less: discounts	7,424	8,212
Total carrying value debt	\$ 329,576	\$ 328,788

As of March 31, 2012 and December 31, 2011, we recorded \$10,461 and \$9,722, respectively, related to accrued interest with Liberty Media to Related party current liabilities. We recognized Interest expense associated with debt held by Liberty Media of \$8,994 and \$8,933 for the three months ended March 31, 2012 and 2011, respectively.

Sirius XM Canada

In June 2011, Canadian Satellite Radio Holdings Inc. ("CSR"), the parent company of XM Canada, and Sirius Canada completed a transaction to combine their operations ("the Canada Merger"). As a result of the Canada Merger, Sirius Canada became a wholly-owned subsidiary of CSR. The combined company operates as Sirius XM Canada. We own approximately 46,700,000 Class A shares of CSR, representing a 38.0% equity interest and a 25.0% voting interest, and hold a non-interest bearing note of \$410 issued by CSR.

We also hold an investment in Cdn \$4,000 face value of 8% convertible unsecured subordinated debentures issued by CSR, for which the embedded conversion feature is bifurcated from the host contract. The host contract is accounted for at fair value as an available-for-sale security with changes in fair value recorded to Accumulated other comprehensive income (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 loss. As of March 31, 2012, the carrying values of the host contract and embedded derivative related to our investment in the debentures was \$3,638 and \$13, respectively. As of December 31, 2011, the carrying values of the host contract and embedded derivative related to our investment in the debentures was \$3,490 and \$0, respectively. The carrying values of the host contract and embedded derivative are recorded in Related party long-term assets.

Our interest in Sirius XM Canada is accounted for under the equity method. The excess of the cost of our ownership interest in the equity of Sirius XM Canada over our share of the net assets is recognized as goodwill and intangible assets and is included in the carrying amount of our investment. Equity method goodwill is not amortized. We periodically evaluate this investment to determine if there has been an other than temporary decline below carrying value. Equity method intangible assets are amortized over their respective useful lives, which is recorded in Interest and investment loss. As of March 31, 2012, our investment balance in Sirius XM Canada was approximately \$44,631, \$28,763 of which represents equity method goodwill and intangible assets, and was recorded in Related party long-term assets. As of December 31, 2011, our investment balance in Sirius XM Canada was approximately \$45,061, \$28,589 of which represented equity method goodwill and intangible assets, and was recorded in Related party long-term assets.

We provide Sirius XM Canada with chip sets and other services and we are reimbursed for these costs. As of March 31, 2012 and December 31, 2011 amounts due for these costs totaled \$4,504 and \$7,404, respectively, and is reported as Related party current assets.

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As of March 31, 2012, amounts due from Sirius XM Canada also included \$6,414 attributable to deferred programming costs and accrued interest, \$4,415 of which is reported as Related party long-term assets. As of December 31, 2011, amounts due from Sirius XM Canada included \$7,280 attributable to deferred programming costs and accrued interest, \$4,780 of which was reported as Related party long-term assets.

As of March 31, 2012 and December 31, 2011, the amounts due to Sirius XM Canada totaled \$3,305 and \$1,804, respectively, and is reported as Related party current liabilities.

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

	For the Three Months Ended March 31, 2012
Royalty income	\$ 7,465
Amortization of Sirius XM Canada deferred income	694
Licensing fee revenue	1,500
Advertising reimbursements	417
Total revenue from Sirius XM Canada	\$ 10,076

Our share of net earnings or losses of Sirius XM Canada are recorded to Interest and investment loss in our consolidated statements of comprehensive income on a one month lag. Our share of Sirius XM Canada's net loss was \$1,645 for the three months ended March 31, 2012. We recorded amortization expense of \$(173) related to the equity method intangible assets for three months ended March 31, 2012.

Sirius Canada

We had an equity interest of 49% in Sirius Canada until June 21, 2011 when the transaction between XM Canada and Sirius Canada closed.

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

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

	For the Three Months Ended March 31, 2011
Royalty income	\$ 4,470
Dividend income	238
Total revenue from Sirius Canada	\$ 4,708

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

Our share of net earnings or losses of Sirius Canada was recorded to Interest and investment loss in our consolidated statements of comprehensive income on a one month lag. Our share of Sirius Canada's net loss was \$4,458 for the three months ended March 31, 2011. The payments received from Sirius Canada in excess of carrying value were \$2,880 for the three months ended March 31, 2011.

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XM Canada

We had an equity interest of 21.5% in XM Canada until June 21, 2011 when the transaction between XM Canada and Sirius Canada closed.

In 2005, XM entered into agreements to provide XM Canada with the right to offer XM satellite radio service in Canada. The agreements have an initial ten year term and XM Canada has the unilateral option to extend the agreements for an additional five year term. We receive a 15% royalty for all subscriber fees earned by XM Canada each month for its basic service and an activation fee for each gross activation of an XM Canada subscriber on XM's system. Sirius XM Canada is obligated to pay us a total of \$70,300 for the rights to broadcast and market National Hockey League ("NHL") games for a ten year term. We recognize these payments on a gross basis as a principal obligor pursuant to the provisions of ASC 605, *Revenue Recognition*. The estimated fair value of deferred revenue from XM Canada as of the Merger date was approximately \$34,000, which is amortized on a straight-line basis through 2020, the end of the expected term of the agreements. As of March 31, 2012 and December 31, 2011, the carrying value of deferred revenue related to this agreement was \$23,823 and \$24,517, respectively.

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

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

	For the Three Months Ended March 31, 2011
Amortization of XM Canada deferred income	\$ 694
Subscriber and activation fee royalties	2,623
Licensing fee revenue	1,500
Advertising reimbursements	417
Total revenue from XM Canada	<u>\$ 5,234</u>

Our share of net earnings or losses of XM Canada is recorded to Interest and investment loss in our consolidated statements of comprehensive income on a one month lag. Our share of XM Canada's net loss was \$2,053 for the three months ended March 31, 2011.

(12) Investments

Long Term Restricted Investments

Restricted investments relate to reimbursement obligations under letters of credit issued for the benefit of lessors of office space. As of March 31, 2012 and December 31, 2011, our Long-term restricted investments were \$ 3,973.

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(13) Debt

Our debt consists of the following:

	Conversion Price (per share)	March 31, 2012	December 31, 2011
8.75% Senior Notes due 2015 (a)	N/A	800,000	800,000
Less: discount		(9,102)	(9,753)
9.75% Senior Secured Notes due 2015 (b)	N/A	224,428	257,000
Less: discount		(6,886)	(8,356)
13% Senior Notes due 2013 (c)	N/A	744,246	778,500
Less: discount		(32,438)	(39,504)
7% Exchangeable Senior Subordinated Notes due 2014 (d)	\$ 1.875	550,000	550,000
Less: discount		(5,513)	(5,956)
7.625% Senior Notes due 2018 (e)	N/A	700,000	700,000
Less: discount		(10,595)	(10,898)
Other debt:			
Capital leases	N/A	2,509	2,941
Total debt		2,956,649	3,013,974
Less: total current maturities non-related party		1,540	1,623
Total long-term		2,955,109	3,012,351
Less: related party		329,576	328,788
Total long-term, excluding related party		\$ 2,625,533	\$ 2,683,563

(a) 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.

(b) 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 March 2012, we purchased \$32,572 in aggregate principal amount of the 9.75% Notes, \$9,500 of which was settled in April 2012. The aggregate purchase price for these 9.75% Notes was \$35,565 inclusive of accrued interest. We recognized an aggregate loss on extinguishment of these 9.75% Notes of \$3,778, consisting primarily of unamortized discount, deferred financing fees and repayment premium, to Loss on extinguishment of debt and credit facilities, net, for the three months ended March 31, 2012.

(c) 13% Senior Notes due 2013

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

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

the 13% Notes.

In March 2012, we purchased \$34,254 in aggregate principal amount of the 13% Notes. The aggregate purchase price for these 13% Notes was \$39,610 inclusive of accrued interest. We recognized an aggregate loss on extinguishment on these 13% Notes of \$6,193, consisting primarily of unamortized discount, deferred financing fees and repayment premium, to Loss on extinguishment of debt and credit facilities, net, for the three months ended March 31, 2012.

(d) 7% Exchangeable Senior Subordinated Notes due 2014

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

Interest is payable semi-annually in arrears on June 1 and December 1 of each year at a rate of 7% per annum. The Exchangeable Notes mature on December 1, 2014. The Exchangeable Notes are exchangeable at any time at the option of the holder into shares of our common stock at an initial exchange rate of 533.3333 shares of common stock per \$1,000 principal amount of Exchangeable Notes, which is equivalent to an approximate exchange price of \$1.875 per share of common stock. Although our stock price was greater than the exchange price during the three months ended March 31, 2012, the common stock reserved for exchange in connection with the Exchangeable Notes were considered to be anti-dilutive in our calculation of diluted net income per common share.

(e) 7.625% Senior Notes due 2018

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

Retired Debt Instruments

3.25% Convertible Notes due 2011

In February 2011, we purchased \$94,148 of our then outstanding 3.25% Convertible Notes due 2011 (the "3.25% Notes") at prices between 100.75% and 100.94% of the principal amount plus accrued interest. We recognized a loss on extinguishment of debt for the 3.25% Notes of \$1,079 for the three months ended March 31, 2011, which consisted primarily of cash premiums paid, unamortized discount and deferred financing fees. The remainder of the 3.25% Notes were paid upon maturity in the fourth quarter of 2011.

11.25% Senior Secured Notes due 2013

In January 2011, we purchased the remaining portion of our outstanding 11.25% Senior Secured Notes due 2013 for an aggregate purchase price of \$40,376. A loss from extinguishment of debt of \$4,915 associated with this purchase was recorded during the three months ended March 31, 2011.

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 would be no greater than 6.0 times consolidated operating cash flow after the incurrence of the indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) merge or consolidate with another person, (vi) sell, assign, lease or otherwise dispose of all or substantially all of our assets, and (vii) make voluntary prepayments of certain debt, in each case subject to exceptions.

Under our debt agreements, the following generally constitute an event of default: (i) a default in the payment of

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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 March 31, 2012, we were in compliance with our debt covenants.

(14) Stockholders' Equity

Common Stock, par value \$0.001 per share

We were authorized to issue up to 9,000,000,000 shares of common stock as of March 31, 2012 and December 31, 2011. There were 3,788,755,725 and 3,753,201,929 shares of common stock issued and outstanding as of March 31, 2012 and December 31, 2011, respectively.

As of March 31, 2012, approximately 3,303,857,000 shares of common stock were reserved for issuance in connection with outstanding convertible debt, preferred stock, warrants, incentive stock awards and common stock to be granted to third parties upon satisfaction of performance targets.

To facilitate the offering of the Exchangeable Notes, we entered into share lending agreements with Morgan Stanley Capital Services Inc. ("MS") and UBS AG London Branch ("UBS") in July 2008, under which we loaned MS and UBS an aggregate of 262,400,000 shares of our common stock in exchange for a fee of \$0.001 per share. During the third quarter of 2009, MS returned to us 60,000,000 shares of our common stock borrowed. In October 2011, MS and UBS returned the remaining 202,400,000 shares loaned. The returned shares were retired upon receipt and removed from outstanding common stock. The share lending agreements have been terminated. Under GAAP, the borrowed shares were not considered outstanding for the purpose of computing and reporting our net income (loss) per common share.

We recorded interest expense related to the amortization of the costs associated with the share lending arrangement and other issuance costs of \$2,982 and \$2,690, respectively, for the three months ended March 31, 2012 and 2011. As of March 31, 2012, the unamortized balance of the debt issuance costs was \$37,072, with \$36,331 recorded in deferred financing fees, net, and \$741 recorded in Long-term related party assets. As of December 31, 2011, the unamortized balance of the debt issuance costs was \$40,054, with \$39,253 recorded in deferred financing fees, net, and \$801 recorded in Long-term related party assets. These costs will continue to be amortized until the debt is terminated.

In January 2004, Sirius Satellite Radio Inc. signed a seven-year agreement with a sports programming provider which expired in February 2011. Upon execution of this agreement, Sirius delivered 15,173,070 shares of common stock valued at \$40,967 to that programming provider. These shares of common stock were subject to transfer restrictions which lapsed over time. We recognized share-based payment expense associated with these shares of \$1,568 in the three months ended March 31, 2011.

Preferred Stock, par value \$0.001 per share

We were authorized to issue up to 50,000,000 shares of undesignated preferred stock as of March 31, 2012 and December 31, 2011. There were no shares of Series A Convertible Preferred Stock ("Series A Preferred Stock") issued and outstanding as of March 31, 2012 and December 31, 2011.

There were 12,500,000 shares of Series B Preferred Stock issued and outstanding as of March 31, 2012 and December 31, 2011. The Series B Preferred Stock is convertible into shares of our common stock at the rate of 206.9581409 shares of common stock for each share of Series B Preferred Stock, representing approximately 40% of our outstanding shares of common stock (after giving effect to such conversion). As the holder of the Series B Preferred Stock, Liberty Radio LLC is entitled to a number of votes equal to the number of shares of our common stock into which such shares of Series B Preferred Stock are convertible. Liberty Radio LLC will also receive dividends and distributions ratably with our common stock, on an as-converted basis. With respect to dividend rights, the Series B Preferred Stock ranks evenly with our common stock and each other class or series of our equity securities not expressly provided as ranking senior to the Series B Preferred Stock. With respect to liquidation rights, the Series B Preferred Stock ranks evenly with each other class or series of our equity securities not expressly provided as ranking senior to the Series B Preferred Stock, and ranks senior to our common stock.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
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Warrants

We have issued warrants to purchase shares of common stock in connection with distribution, programming and satellite purchase agreements. As of March 31, 2012 and December 31, 2011, approximately 22,506,000 warrants to acquire an equal number of shares of common stock were outstanding and fully vested. These warrants expire at various times through 2015. At March 31, 2012 and December 31, 2011, the weighted average exercise price of outstanding warrants was \$2.63 per share. We did not incur warrant related expenses during the three months ended March 31, 2012 and 2011.

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

(15) Benefits Plans

We recognized share-based payment expense of \$14,951 and \$11,288 for the three months ended March 31, 2012 and 2011, respectively. We did not realize any income tax benefits from share-based benefits plans during the three months ended March 31, 2012 and 2011 as a result of the full valuation allowance that is maintained for substantially all net deferred tax assets.

2009 Long-Term Stock Incentive Plan

In May 2009, our stockholders approved the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan (the "2009 Plan"). Employees, consultants and members of our board of directors are eligible to receive awards under the 2009 Plan. The 2009 Plan provides for the grant of stock options, restricted stock, restricted stock units and other stock-based awards that the compensation committee of our board of directors may deem appropriate. Vesting and other terms of stock-based awards are set forth in the agreements with the individuals receiving the awards. Stock-based awards granted under the 2009 Plan are generally subject to a vesting requirement. Stock-based awards generally expire ten years from the date of grant. Each restricted stock unit entitles the holder to receive one share of common stock upon vesting. As of March 31, 2012, approximately 199,061,000 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 continue to vest.

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 Three Months
	Ended March 31,
	2012
Risk-free interest rate	0.8%
Expected life of options — years	5.34
Expected stock price volatility	57%
Expected dividend yield	0%

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

There were no options granted to third parties during the three months ended March 31, 2012 and 2011.

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The following table summarizes stock option activity under our share-based payment plans for the three months ended March 31, 2012 (options in thousands):

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2011	439,580	\$ 1.25		
Granted	275	\$ 2.04		
Exercised	(34,955)	\$ 0.65		
Forfeited, cancelled or expired	(4,281)	\$ 2.67		
Outstanding as of March 31, 2012	400,619	\$ 1.29	6.00	\$ 501,494
Exercisable, March 31, 2012	148,585	\$ 1.78	4.20	\$ 169,371

The weighted average grant date fair value of options granted during the three months ended March 31, 2012 was \$1.02 . The total intrinsic value of stock options exercised during the three months ended March 31, 2012 and 2011 was \$52,274 and \$2,099 , respectively.

We recognized share-based payment expense associated with stock options of \$13,643 and \$9,977 for the three months ended March 31, 2012 and 2011 , respectively.

The following table summarizes the nonvested restricted stock and restricted stock unit activity under our share-based payment plans for the three months ended March 31, 2012 (awards in thousands):

	Awards	Weighted-Average Grant Date Fair Value
Nonvested, December 31, 2011	421	\$ 1.46
Granted	—	\$ —
Vested restricted stock	—	\$ —
Vested restricted stock units	—	\$ —
Forfeited	—	\$ —
Nonvested, March 31, 2012	421	\$ 1.46

The outstanding nonvested shares of restricted stock represent shares issued to members of the board of directors as part of our former director compensation program. These shares will vest on the first anniversary of the date the person ceases to be a director.

The weighted average grant date fair value of restricted stock units granted during the three months ended March 31, 2012 and 2011 was \$0 as no shares were granted in the periods. The total intrinsic value of restricted stock and restricted stock units that vested during the years ended March 31, 2012 and 2011 was \$0 and \$3,085 , respectively.

We recognized share-based payment expense associated with restricted stock units and shares of restricted stock of \$0 and \$542 for the three months ended March 31, 2012 and 2011 , respectively.

Total unrecognized compensation costs related to unvested share-based payment awards for stock options and restricted stock units and shares granted to employees and members of our board of directors at March 31, 2012 and December 31, 2011 , net of estimated forfeitures, was \$115,786 and \$129,983 , respectively. The total unrecognized compensation costs at March 31, 2012 are expected to be recognized over a weighted-average period of three years.

401(k) Savings Plan

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

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The Sirius XM Plan allows eligible employees to voluntarily contribute from 1% to 50% of their pre-tax eligible earnings, subject to certain defined limits. We match 50% of an employee's voluntary contributions, up to 6% of an employee's pre-tax salary, in the form of shares of common stock. Employer matching contributions under the Sirius XM Plan vest at a rate of 33.33% for each year of employment and are fully vested after three years of employment for all current and future contributions. Share-based payment expense resulting from the matching contribution to the Sirius XM Plan was \$1,308 and \$769 for the three months ended March 31, 2012 and 2011, respectively.

We may also elect to contribute to the profit sharing portion of the Sirius XM Plan based upon the total eligible compensation of eligible participants. These additional contributions in the form of shares of common stock are determined by the compensation committee of our board of directors. Employees are only eligible to receive profit-sharing contributions during any year in which they are employed on the last day of the year. Currently, we do not plan to contribute to the profit sharing portion of the Sirius XM Plan in 2012. We did not contribute to the profit sharing portion of the Sirius XM Plan in 2011.

(16) Commitments and Contingencies

The following table summarizes our expected contractual cash commitments as of March 31, 2012 :

	2012	2013	2014	2015	2016	Thereafter	Total
Long-term debt obligations	\$ 1,191	\$ 745,382	\$ 550,182	\$ 1,024,428	\$ —	\$ 700,000	\$ 3,021,183
Cash interest payments	221,328	280,579	183,759	110,257	53,375	106,750	956,048
Satellite and transmission	5,624	57,257	13,311	13,157	3,597	18,693	111,639
Programming and content	135,602	191,616	163,131	156,244	13,388	1,125	661,106
Marketing and distribution	35,957	22,692	17,450	12,129	8,685	3,192	100,105
Satellite incentive payments	7,758	11,864	12,607	11,728	12,604	78,591	135,152
Operating lease obligations	26,501	32,333	27,005	29,378	19,033	195,416	329,666
Other	23,268	14,283	2,712	419	182	—	40,864
Total(1)	\$ 457,229	\$ 1,356,006	\$ 970,157	\$ 1,357,740	\$ 110,864	\$ 1,103,767	\$ 5,355,763

(1) The table does not include our reserve for uncertain tax positions, which at March 31, 2012 totaled \$1,537, as the specific timing of any cash payments cannot be projected with reasonable certainty.

Long-term debt obligations. Long-term debt obligations include principal payments on outstanding debt and capital lease obligations. The chart above does not give effect to the purchase of \$62,729 of our 13% Notes in April 2012. Refer to Note 17.

Cash interest payments. Cash interest payments include interest due on outstanding debt and capital lease payments through maturity. The chart above does not give effect to the purchase of \$62,729 of our 13% Notes in April 2012. Refer to Note 17.

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.

Programming and content. We have entered into various programming agreements. Under the terms of these agreements, our obligations include fixed payments, advertising commitments and revenue sharing arrangements.

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

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Satellite incentive payments. Boeing Satellite Systems International, Inc., the manufacturer of four of XM's in-orbit satellites, may be entitled to future in-orbit performance payments with respect to two of XM's satellites. As of March 31, 2012, we have accrued \$27,812 related to contingent in-orbit performance payments for XM-3 and XM-4 based on expected operating performance over their fifteen year design life. Boeing may also be entitled to an additional \$10,000 if XM-4 continues to operate above baseline specifications during the five years beyond the satellite's fifteen -year design life.

Space Systems/Loral, may be entitled to future in-orbit performance payments. As of March 31, 2012, we have accrued \$10,216 and \$21,450 related to contingent performance payments for FM-5 and XM-5, respectively, based on expected operating performance over their fifteen-year design life.

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

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

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

Legal Proceedings

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

(17) Subsequent Events

Repurchase of 13% Senior Notes due 2013

In April 2012, we purchased \$62,729 of the outstanding principal balance of our 13% Notes. The aggregate purchase price of these 13% Notes was \$73,616, which is inclusive of accrued interest. We will recognize a loss on extinguishment of these 13% Notes of approximately \$11,600, consisting primarily of unamortized debt, deferred financing fees and repayment premium, in the second quarter.

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

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

Special Note Regarding Forward-Looking Statements

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

Form 10-K for the year ended December 31, 2011 and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” herein and in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2011 .

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

- we face substantial competition and that competition is likely to increase over time;
- our business depends in large part upon automakers;
- general economic conditions can affect our business;
- failure of our satellites would significantly damage our business;
- our ability to attract and retain subscribers at a profitable level in the future is uncertain;
- royalties for music rights may increase;
- failure to comply with FCC requirements could damage our business;
- the unfavorable outcome of pending or future litigation could have a material adverse effect;
- rapid technological and industry changes could adversely impact our services;
- failure of other third parties to perform could adversely affect our business;
- changes in consumer protection laws and their enforcement could damage our business;
- interruption or failure of our information technology and communication systems could negatively impact our results and brand;
- if we fail to protect the security of personal information about our customers, we could be subject to costly government enforcement actions or private litigation and our reputation could suffer;
- we may from time to time modify our business plan, and these changes could adversely affect us and our financial condition;
- our substantial indebtedness could adversely affect our operations and could limit our ability to react or changes in the economy or our industry;
- our broadcast studios, terrestrial repeater networks, satellite uplink facilities or other ground facilities could be damaged by natural catastrophes or terrorist activities;
- electromagnetic interference from others could damage our business;
- our business may be impaired by third-party intellectual property rights;
- Liberty Media Corporation has significant influence over our business and affairs and its interest may differ from ours; and
- our net operating loss carryforwards could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code.

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

Executive Summary

We broadcast our music, sports, news, talk, entertainment, traffic and weather channels, as well as infotainment services 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 applications for 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 acquire subscribers through the sale and lease of previously owned vehicles with factory-installed satellite radios. We distribute our satellite radios through retail locations nationwide and through our website. Satellite radio services are also offered to customers of certain daily rental car companies.

As of March 31, 2012 , we had 22,297,420 subscribers of which 18,208,090 were self-pay subscribers and 4,089,330 were paid promotional 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 Backseat TV, data, traffic, and weather 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 Internet radio, Backseat TV, data, traffic, and weather services.

In certain cases, automakers include a subscription to our radio services in the sale or lease price of new and previously 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 equity interest in the satellite radio services offered in Canada. Subscribers to the Sirius XM Canada service are not included in our subscriber count. In June 2011, Canadian Satellite Radio Holdings Inc. ("CSR"), the parent company of XM Canada, and Sirius Canada completed a transaction to combine their operations (the "Canada Merger").

Results of Operations

Set forth below are our results of operations for the three months ended March 31, 2012 compared with the three months ended March 31, 2011.

	Unaudited			
	For the Three Months Ended March 31,		2012 vs 2011 Change	
	2012	2011	Amount	%
Revenue:				
Subscriber revenue	\$ 700,242	\$ 622,437	\$ 77,805	13 %
Advertising revenue, net of agency fees	18,670	16,558	2,112	13 %
Equipment revenue	16,953	15,867	1,086	7 %
Other revenue	68,857	68,977	(120)	— %
Total revenue	804,722	723,839	80,883	11 %
Operating expenses:				
Cost of services:				
Revenue share and royalties	132,111	106,929	25,182	24 %
Programming and content	70,095	72,959	(2,864)	(4)%
Customer service and billing	66,187	65,836	351	1 %
Satellite and transmission	18,110	18,560	(450)	(2)%
Cost of equipment	5,806	6,405	(599)	(9)%
Subscriber acquisition costs	116,121	105,270	10,851	10 %
Sales and marketing	58,361	47,819	10,542	22 %
Engineering, design and development	12,690	11,135	1,555	14 %
General and administrative	59,886	56,354	3,532	6 %
Depreciation and amortization	66,117	68,400	(2,283)	(3)%
Total operating expenses	605,484	559,667	45,817	8 %
Income from operations	199,238	164,172	35,066	21 %
Other income (expense):				
Interest expense, net of amounts capitalized	(76,971)	(78,218)	1,247	2 %
Loss on extinguishment of debt and credit facilities, net	(9,971)	(5,994)	(3,977)	(66)%
Interest and investment loss	(1,142)	(1,884)	742	39 %
Other (loss) income	(578)	1,617	(2,195)	(136)%
Total other expense	(88,662)	(84,479)	(4,183)	(5)%
Income before income taxes	110,576	79,693	30,883	39 %
Income tax expense	(2,802)	(1,572)	(1,230)	(78)%
Net income	\$ 107,774	\$ 78,121	\$ 29,653	38 %

Total Revenue

Subscriber Revenue includes subscription, activation and other fees.

- For the three months ended March 31, 2012 and 2011, subscriber revenue was \$700,242 and \$622,437, respectively, an increase of 13%, or \$77,805. The increase was primarily attributable to a 9% increase in daily weighted average subscribers, the increase in certain of our subscription rates beginning in January 2012, and an increase in sales of premium services, including Premier packages, data services and streaming. The increase was partially offset by the impact of subscription discounts offered through customer acquisition and retention programs.

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

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

- For the three months ended March 31, 2012 and 2011, advertising revenue was \$18,670 and \$16,558, respectively, an increase of 13%, or \$2,112. The increase was primarily due to increases in the number of advertising spots sold as well as the rate charged per spot.

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

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

- For the three months ended March 31, 2012 and 2011, equipment revenue was \$16,953 and \$15,867 respectively, an increase of 7%, or \$1,086. The increase was driven by royalties from higher OEM production.

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

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

- For the three months ended March 31, 2012 and 2011, other revenue was \$68,857 and \$68,977, respectively, a decrease of \$120. The decrease was primarily due to the December 2010 reduction in the U.S. Music Royalty Fee rate from 15.3% to 10.8%, partially offset by increased royalty revenue from Sirius XM Canada, an increase in subscribers and the increase in certain subscription rates.

Other revenue is dependent upon the amount of the U.S. Music Royalty Fee and the royalty from our Canadian affiliate. Other revenue will fluctuate as our subscriber base changes, as additional subscribers cycle to the lower rate of the U.S. Music Royalty Fee, as the increase in certain subscription rates cycle through to subscriptions, and based on the performance of our Canadian affiliate.

Operating Expenses

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

- For the three months ended March 31, 2012 and 2011, revenue share and royalties were \$132,111 and \$106,929, respectively, an increase of 24%, or \$25,182 and increased as a percentage of total revenue. The increase was primarily attributable to an increase in our revenues subject to royalty and/or revenue sharing arrangements and a 7% increase in the statutory royalty rate for the performance of sound recordings, partially offset by a \$4,913 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.

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We expect our revenue share and royalty costs to increase as our revenues grow. Under the terms of the Copyright Royalty Board's decision, we paid royalties of 8.0% and 7.5% of gross revenues, subject to certain exclusions, for the three months ended March 31, 2012 and 2011, respectively. 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 in 2013.

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

- For the three months ended March 31, 2012 and 2011, programming and content expenses were \$70,095 and \$72,959 , respectively, a decrease of 4% , or \$2,864 , and decreased as a percentage of total revenue. The decrease was primarily due to savings in content agreements, partially offset by increases in personnel costs and a \$1,122 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.

Excluding the impact from purchase accounting adjustments, based on our current programming offerings, we expect our programming and content expenses to decrease as agreements expire and are renewed or replaced on more cost effective terms. The impact of purchase price accounting adjustments associated with the Merger attributable to the amortization of the deferred credit on acquired programming executory contracts will continue to decline, in absolute amount and as a percentage of reported programming and content costs, through 2015. Substantially all of the deferred credits on executory contracts will be amortized by the end of 2013.

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

- For the three months ended March 31, 2012 and 2011, customer service and billing expenses were \$66,187 and \$65,836 , respectively, an increase of 1% , or \$351 , but decreased as a percentage of total revenue. The increase was primarily due to higher call volume due to the increases in total subscribers, billing and collection costs and personnel costs, partially offset by lower bad debt expense.

We expect our customer service and billing expenses to increase as our subscriber base grows.

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

- For the three months ended March 31, 2012 and 2011, satellite and transmission expenses were \$18,110 and \$18,560 , respectively, a decrease of 2% , or \$450 , and decreased as a percentage of total revenue. The decrease was primarily due to a reduction in in-orbit satellite insurance expense, partially offset by increased repeater network costs.

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

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

- For the three months ended March 31, 2012 and 2011, cost of equipment was \$5,806 and \$6,405 , respectively, a decrease of 9% , or \$599 , and remained flat as a percentage of total revenue but decreased as a percentage of equipment revenue. The decrease was primarily due to lower direct to consumer sales.

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

Subscriber Acquisition Costs include hardware subsidies paid to radio manufacturers, distributors and automakers, including subsidies paid to automakers who include a satellite radio and subscription to our service in the sale or lease price of

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

- For the three months ended March 31, 2012 and 2011, subscriber acquisition costs were \$116,121 and \$105,270 , respectively, an increase of 10% , or \$10,851 , and decreased as a percentage of total revenue. The increase was primarily a result of the 5% increase in gross subscriber additions and subsidies related to increased OEM installations occurring in advance of acquiring the subscriber, partially offset by improved OEM subsidy rates per vehicle and a \$2,429 increase in the benefit to earnings from the amortization of the deferred credit for acquired executory contracts recognized in purchase price accounting associated with the Merger.

We expect total subscriber acquisition costs to fluctuate with increases or decreases in OEM installations and changes in our gross subscriber additions. Changes in contractual OEM subsidy rates and 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 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.

- For the three months ended March 31, 2012 and 2011, sales and marketing expenses were \$58,361 and \$47,819 , respectively, an increase of 22% , or \$10,542 , and increased as a percentage of total revenue. The increase was primarily due to additional subscriber communications and retention programs associated with a greater number of subscribers and promotional trials, and higher OEM cooperative marketing.

Sales and marketing expenses will fluctuate on a quarterly basis as we launch seasonal advertising and promotional initiatives to attract new subscribers, and launch and expand programs to retain our existing subscribers and win-back former subscribers. The impact of purchase price accounting adjustments associated with the Merger attributable to the amortization of the deferred credit on acquired sales and marketing contracts will continue to decline, in absolute amount and as a percentage of reported sales and marketing costs, through 2013.

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.

- For the three months ended March 31, 2012 and 2011, engineering, design and development expenses were \$12,690 and \$11,135 , respectively, an increase of 14% or \$1,555 , and remained flat as a percentage of total revenue. The increase was due to higher product development costs and costs related to enhanced subscriber features and functionality as well as higher 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 executive management, rent and occupancy, finance, legal, human resources, information technology, insurance and investor relations costs.

- For the three months ended March 31, 2012 and 2011, general and administrative expense was \$59,886 and \$56,354 , respectively, an increase of 6% or \$3,532 , and remained flat as a percentage of total revenue. The increase was primarily due to higher facility and legal costs, partially offset by lower litigation settlement charges.

We expect our general and administrative expenses to increase in future periods primarily as a result of enhanced

information technology and personnel costs to support the growth of our business.

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.

- For the three months ended March 31, 2012 and 2011, depreciation and amortization expense was \$66,117 and \$68,400, respectively, a decrease of 3% or \$2,283, and decreased as a percentage of total revenue. The decrease was primarily due to a reduction in the amortization of subscriber relationships and depreciation recognized on assets placed in-service as certain assets reach the end of their estimated service lives.

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

Other Income (Expense)

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

- For the three months ended March 31, 2012 and 2011, interest expense was \$76,971 and \$78,218, respectively, a decrease of 2% or \$1,247. The decrease was primarily due to higher capitalized interest related to the construction of a satellite and related launch vehicle and by the mix of outstanding debt with lower interest rates.

Following the launch of our FM-6 satellite, the capitalization of interest expense related to the construction of our satellites and related launch vehicles will be eliminated, until we begin replacing satellites in our fleet. As a result, we expect interest expense to increase, offset partially as our outstanding debt declines due to retirements at maturity, redemptions and repurchases.

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

- For the three months ended March 31, 2012 and 2011, loss on extinguishment of debt and credit facilities, net was \$9,971 and \$5,994, respectively, an increase of 66% or \$3,977. During the three months ended March 31, 2012, a \$9,971 loss was recorded on the partial repayment of our 13% Senior Notes due 2013 and our 9.75% Senior Secured Notes due 2015. During the three months ended March 31, 2011, a \$5,994 loss was incurred on the repayment of our 11.25% Senior Secured Notes due 2013 and the partial repayment of our 3.25% Convertible Notes due 2011.

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

- For the three months ended March 31, 2012 and 2011, interest and investment loss was \$1,142 and \$1,884, respectively, a decrease of 39% or \$742. The decrease was primarily attributable to a lower loss on our share of Sirius XM Canada's net loss in the first quarter of 2012 compared to losses at XM Canada and Sirius Canada during the same period in 2011.

Income Taxes

Income Tax Expense primarily represents the change in our 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, foreign withholding taxes on royalty income and the effect of changes in certain state laws related to the utilization of net operating losses ("NOLs").

- For the three months ended March 31, 2012 and 2011, income tax expense was \$2,802 and \$1,572, respectively, an increase of 78%, or \$1,230. The increase was primarily due to an increase in the applicable state effective tax rates and the effect of changes in certain state laws related to the utilization of NOLs.

In assessing the recoverability of our deferred tax assets, management regularly considers whether a portion or all of the deferred tax assets will not be realized based on the recognition threshold and measurement of tax positions. The ultimate realization of deferred tax assets is dependent upon the generation of sufficient projected taxable income within the carryforward periods. Management considers the scheduled reversal of deferred tax assets and liabilities, projected taxable income and tax planning strategies in making this assessment. Management's evaluation of the realizability of deferred tax assets weighs both positive and negative evidence. The weight given to the potential effects of positive and negative evidence is based on the extent to which it can be objectively verified. Our conclusion with regard to maintaining or releasing the valuation allowance gives consideration to a variety of factors including but not limited to: (a) a three-year cumulative pre-tax income, (b) the extent of current period taxable income and an expectation of sufficient and sustainable future taxable income, and (c) our ability to utilize net operating losses within the carryforward period. After weighing this evidence, management concludes whether it is more likely than not that our deferred tax assets will be realized.

We maintained a deferred tax valuation allowance against our deferred tax assets as of March 31, 2012. In 2010, we had our first year of pre-tax earnings for financial reporting purposes, but continued to generate taxable losses for tax reporting purposes. For the year ended December 31, 2011, we continued to report positive earnings and generated taxable income for the first time since our inception. For the quarter ended March 31, 2012, this positive trend continued. However, based on the objective and verifiable negative evidence, such as cumulative losses in recent years, we have concluded as of March 31, 2012 to retain the valuation allowance.

As part of our continuing assessment of the recoverability of our deferred tax assets, we consider the impact of future forecasted taxable income. Depending on our continued positive performance in the second quarter of 2012, together with the emergence from cumulative losses in recent years, as well as projections of sufficient and sustainable taxable income, we may recognize the benefits of all or a significant portion of our net deferred tax assets in the second quarter of 2012 through a reduction of the valuation allowance. This would result in an income tax benefit that would materially and favorably affect net income and stockholders' equity in the period of the reduction. As of December 31, 2011, we had approximately \$3,400 million of valuation allowances established against the deferred tax assets.

Subscriber Data

The following table contains subscriber data for the three months ended March 31, 2012 and 2011, respectively:

	Unaudited	
	For the Three Months Ended March 31,	
	2012	2011
Beginning subscribers	21,892,824	20,190,964
Gross subscriber additions	2,161,693	2,052,367
Deactivated subscribers	(1,757,097)	(1,679,303)
Net additions	404,596	373,064
Ending subscribers	22,297,420	20,564,028
Self-pay	18,208,090	16,807,643
Paid promotional	4,089,330	3,756,385
Ending subscribers	22,297,420	20,564,028
Self-pay	299,348	120,844
Paid promotional	105,248	252,220
Net additions	404,596	373,064
Daily weighted average number of subscribers	21,990,863	20,233,144
Average self-pay monthly churn	1.9%	2.0%
New vehicle consumer conversion rate	45%	45%

Note: See pages 36 through 41 for glossary.

Subscribers. At March 31, 2012, we had 22,297,420 subscribers, an increase of 1,733,392 subscribers, or 8%, from the 20,564,028 subscribers as of March 31, 2011.

- For the three months ended March 31, 2012 and 2011, net additions were 404,596 and 373,064, respectively, an increase of 8%, or 31,532. The improvement was due to the 5% increase in gross subscriber additions, primarily resulting from higher new vehicle shipments and light vehicle sales, as well as an increase in conversions from unpaid promotional trials and returning subscriber activations inclusive of previously owned vehicles. This increase in gross additions was partially offset by the 5% increase in deactivations. The increase in deactivations was primarily due to paid promotional trial deactivations stemming from the growth of paid trials, along with growth in our subscriber base, partially offset by a decline in the self-pay churn rate.

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 glossary on pages 36 through 41 for more details.)

- For the three months ended March 31, 2012 and 2011, our average self-pay monthly churn rate was 1.9% and 2.0%, respectively. The decrease in the churn rate was driven by a reduction in non-pay cancellation rates, as well as a favorable shift in the subscriber mix towards automotive vehicles, which churn at lower rates in comparison to aftermarket subscribers.

New Vehicle Consumer 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. The metric excludes rental and fleet vehicles. (See accompanying glossary on pages 36 through 41 for more details).

- For the three months ended March 31, 2012 and 2011, the new vehicle consumer conversion rate was 45%.

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; free cash flow; and adjusted EBITDA. These measures exclude the impact of certain purchase price accounting adjustments. We use these Non-GAAP financial measures to manage our business, set operational goals and as a basis for determining performance-based compensation for our employees.

The purchase price accounting adjustments include the elimination of the earnings benefit of deferred revenue associated with our investment in Sirius 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 certain programming providers.

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

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

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

We believe these Non-GAAP financial measures provide useful information to investors regarding our financial condition and results of operations. We believe investors find these Non-GAAP financial performance measures useful in evaluating our core trends 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 glossary (pages 36 through 41) for a further discussion of such Non-GAAP financial measures and reconciliations to the most directly comparable GAAP measure.

The following table contains our key operating metrics based on our unaudited adjusted results of operations for the three months ended March 31, 2012 and 2011, respectively:

	Unaudited Adjusted	
	For the Three Months Ended	
	March 31,	
	2012	2011
ARPU	\$ 11.77	\$ 11.52
SAC, per gross subscriber addition	\$ 60	\$ 57
Customer service and billing expenses, per average subscriber	\$ 1.00	\$ 1.08
Free cash flow	\$ 14,761	\$ (16,874)
Adjusted EBITDA	\$ 208,162	\$ 181,359

(in thousands, except for per subscriber amounts)

Note: See pages 36 through 41 for glossary.

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 glossary on pages 36 through 41 for more details.)

- For the three months ended March 31, 2012 and 2011, ARPU was \$11.77 and \$11.52 , respectively. The increase was driven primarily by the increase in certain of our subscription rates beginning in January 2012, an increase in sales of premium services, including Premier packages, data services and streaming, partially offset by an increase in subscriber retention programs and in the number of subscribers on promotional plans and a decrease in the revenue from the U.S. Music Royalty Fee due to the December 2010 reduction in the rate from 15.3% to 10.8%.

SAC, Per Gross Subscriber Addition is derived from subscriber acquisition costs and margins from the sale of radios, components 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 glossary on pages 36 through 41 for more details.)

- For the three months ended March 31, 2012 and 2011, SAC, per gross subscriber addition was \$60 and \$57 , respectively. The increase was primarily due to higher subsidies related to increased OEM installations occurring in advance of acquiring the subscriber, partially offset by improved OEM subsidy rates per vehicle compared to the three months ended March 31, 2011.

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 glossary

on pages 36 through 41 for more details.)

- For the three months ended March 31, 2012 and 2011, customer service and billing expenses, per average subscriber, were \$1.00 and \$1.08 , respectively. The decrease was primarily due to the 9% increase in daily weighted average number of subscribers for the three months ended March 31, 2012 compared to the same period in 2011, while customer service and billing expenses increased only 1% over the three months ended March 31, 2011.

Free Cash Flow includes the net cash provided by operations, additions to property and equipment, merger related costs and restricted and other investment activity. (See accompanying glossary on pages 36 through 41 for more details.)

- For the three months ended March 31, 2012 and 2011, free cash flow was \$14,761 and \$(16,874) , respectively, an increase of \$31,635 . Net cash provided by operating activities increased \$21,839 to \$39,948 for the three months ended March 31, 2012 compared to the \$18,109 , provided by operations for the three months ended March 31, 2011. Capital expenditures for property and equipment for the three months ended March 31, 2012 decreased \$9,796 to \$25,187 compared to \$34,983 , for the three months ended March 31, 2011. The increase in net cash provided by operating activities was primarily the result of improved operating performance driving higher adjusted EBITDA and higher collections from subscribers and distributors. The decrease in capital expenditures was primarily the result of lower satellite and related launch vehicle construction costs.

Adjusted EBITDA. EBITDA is defined as net income (loss) before interest and investment 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 glossary on pages 36 through 41 for more details):

- For the three months ended March 31, 2012 and 2011, adjusted EBITDA was \$208,162 and \$181,359 , respectively, an increase of 15%, or \$26,803. The increase was primarily due to an increase of 11% , or \$79,041, in adjusted revenues, partially offset by an increase of 10%, or \$52,238, in expenses included in adjusted EBITDA. The increase in adjusted revenues was primarily due to the increase in our subscriber base. The increase in expenses was primarily driven by higher revenue share and royalties expenses associated with growth in revenues, higher subscriber acquisition costs related to the 5% increase in gross additions, and higher sales and marketing costs related to subscriber communications and cooperative marketing, partially offset by lower programming and content costs.

Liquidity and Capital Resources

Cash Flows for the Three Months Ended March 31, 2012 Compared with the Three Months Ended March 31, 2011

As of March 31, 2012 and December 31, 2011 , we had \$746,576 and \$773,990 , respectively, of cash and cash equivalents. The following table presents a summary of our cash flow activity for the periods set forth below:

	For the Three Months Ended March 31,		
	2012	2011	2012 vs. 2011
Net cash provided by operating activities	\$ 39,948	\$ 18,109	\$ 21,839
Net cash used in investing activities	(25,187)	(34,983)	9,796
Net cash used in financing activities	(42,175)	(136,122)	93,947
Net decrease in cash and cash equivalents	(27,414)	(152,996)	125,582
Cash and cash equivalents at beginning of period	773,990	586,691	187,299
Cash and cash equivalents at end of period	\$ 746,576	\$ 433,695	\$ 312,881

Cash Flows Provided by Operating Activities

Cash provided by operating activities increased by \$21,839 to \$39,948 for the three months ended March 31, 2012 from cash provided by operating activities of \$18,109 for the three months ended March 31, 2011 . The primary driver of our operating cash flow growth has been improvements in profitability.

- Our net income was \$107,774 and \$78,121 for the three months ended March 31, 2012 and 2011, respectively. Our increase in net income was primarily driven by an increase in our subscriber revenues of \$77,805 , or 13% , for the three months ended March 31, 2012 , attributable to a 9% increase in daily weighted average subscribers, the increase in certain of our subscription rates beginning in January 2012, an increase in sales of premium services, including Premier packages, data services and streaming. Our growth in revenue was partially offset by an increase in our operating expenses of \$45,817 , or 8% . The increase in operating expenses was primarily driven by higher revenue share and royalties expenses associated with growth in revenues, higher subscriber acquisition costs related to the 5% increase in gross additions, and higher sales and marketing costs related to subscriber communications and cooperative marketing.
- Net non-cash adjustments to net income were \$35,238 and \$42,736 for the three months ended March 31, 2012 and 2011, respectively. Significant components of non-cash expenses, and their impact on cash flows from operating activities, include the following:

	For the Three Months Ended March 31,	
	2012	2011
Depreciation and amortization	\$ 66,117	\$ 68,400
Loss on extinguishment of debt and credit facilities, net	9,971	5,994
Share-based payment expense	14,951	12,856
Other non-cash purchase price adjustments	(73,956)	(66,743)

Depreciation and amortization expense is expected to increase in future periods as we recognize depreciation expense upon the completion and launch of our FM-6 satellite.

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

Share-based payment expense is expected to increase in future periods as we grant equity awards to our employees and directors. Compensation expense for share-based awards is recorded in the financial statements based on the fair value of the underlying equity awards.

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

Changes in operating assets and liabilities reduced operating cash flows for the three months ended March 31, 2012 and 2011 by \$103,064 and \$102,748 , respectively. 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 our vendors.

Cash Flows Used in Investing Activities

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

- The decrease in cash used for investing activities was primarily due to lower satellite and related launch vehicle construction costs related to our FM-6 satellite.

Cash Flows Provided by (Used in) Financing Activities

Cash flows provided by (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 exercise of stock options. 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.

- The decrease in cash flows used in financing activities was primarily due to the the exercise of stock options in 2012 and the 2011, repayment of the remaining balance of our 11.25% Senior Secured Notes due 2013 and the partial repayment of our 3.25% Convertible Notes due 2011, partially offset by the partial repayment of our 13% Senior Notes due 2013 and our 9.75% Senior Secured Notes due 2015 during the three months ended March 31, 2012 .

Financings and Capital Requirements

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

Future Liquidity and Capital Resource Requirements

We have entered into various agreements to design, construct, and launch our satellites in the normal course of business. As disclosed in Note 16 to our unaudited consolidated financial statements, as of March 31, 2012 , we expect to incur satellite and transmission related expenditures of approximately \$5,624 and \$57,257 in 2012 and 2013, respectively, the majority of which is attributable to the construction and launch of our FM-6 satellite and related launch vehicle in 2013 and an additional \$48,758 thereafter.

Based upon our current business plans, we believe that we have sufficient cash, cash equivalents and marketable securities to cover our estimated short-term and long-term 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.

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.

Debt Covenants

The indentures governing our debt include restrictive covenants. As of March 31, 2012 , we were in compliance with our debt covenants. For a discussion of our "Debt Covenants", refer to Note 13 to our unaudited consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

We do not have any significant off-balance sheet arrangements other than those disclosed in Note 16 to our unaudited consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q that are reasonably likely to have a material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Contractual Cash Commitments

For a discussion of our "Contractual Cash Commitments," refer to Note 16 to our unaudited consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q.

Related Party Transactions

For a discussion of “Related Party Transactions,” refer to Note 11 to our unaudited consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q.

Critical Accounting Policies and Estimates

For a discussion of our “Critical Accounting Policies and Estimates,” refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2011 and Note 2 to our unaudited consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q. There have been no material changes to our critical accounting policies and estimates since December 31, 2011 .

Glossary

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

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

	Unaudited	
	For the Three Months Ended March 31,	
	2012	2011
Net income (GAAP):	\$ 107,774	\$ 78,121
Add back items excluded from Adjusted EBITDA:		
Purchase price accounting adjustments:		
Revenues (see pages 38-39)	1,880	3,722
Operating expenses (see pages 38-39)	(74,024)	(67,972)
Share-based payment expense, net of purchase price accounting adjustments	14,951	13,037
Depreciation and amortization (GAAP)	66,117	68,400
Interest expense, net of amounts capitalized (GAAP)	76,971	78,218
Loss on extinguishment of debt and credit facilities, net (GAAP)	9,971	5,994
Interest and investment loss (GAAP)	1,142	1,884
Other loss (income) (GAAP)	578	(1,617)
Income tax expense (GAAP)	2,802	1,572
Adjusted EBITDA	\$ 208,162	\$ 181,359

Adjusted Revenues and Operating Expenses - We define this Non-GAAP financial measure as our actual revenues and operating expenses adjusted to exclude the impact of certain purchase price accounting adjustments and share-based payment expense. We use this Non-GAAP financial measure to manage our business, set operational goals and as a basis for determining performance-based compensation for our employees. The following tables reconcile our actual revenues and operating expenses to our adjusted revenues and operating expenses for the months ended March 31, 2012 and 2011:

Unaudited For the Three Months Ended March 31, 2012

<i>(in thousands)</i>	As Reported	Purchase Price Accounting Adjustments	Allocation of Share- based Payment Expense	Adjusted
Revenue:				
Subscriber revenue	\$ 700,242	\$ 67	\$ —	\$ 700,309
Advertising revenue, net of agency fees	18,670	—	—	18,670
Equipment revenue	16,953	—	—	16,953
Other revenue	68,857	1,813	—	70,670
Total revenue	\$ 804,722	\$ 1,880	\$ —	\$ 806,602
Operating expenses				
Cost of services:				
Revenue share and royalties	132,111	34,846	—	166,957
Programming and content	70,095	11,702	(1,374)	80,423
Customer service and billing	66,187	—	(427)	65,760
Satellite and transmission	18,110	—	(785)	17,325
Cost of equipment	5,806	—	—	5,806
Subscriber acquisition costs	116,121	24,085	—	140,206
Sales and marketing	58,361	3,391	(2,360)	59,392
Engineering, design and development	12,690	—	(1,432)	11,258
General and administrative	59,886	—	(8,573)	51,313
Depreciation and amortization (a)	66,117	—	—	66,117
Share-based payment expense	—	—	14,951	14,951
Total operating expenses	\$ 605,484	\$ 74,024	\$ —	\$ 679,508

(a) Purchase price accounting adjustments included above exclude the incremental depreciation and amortization associated with the \$785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the three months ended March 31, 2012 was \$14,000.

Unaudited For the Three Months Ended March 31, 2011

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

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

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

Programming and content	\$ 2,483	\$ 27	\$ —	\$ 2,510
Customer service and billing	349	18	—	367
Satellite and transmission	548	19	—	567
Sales and marketing	1,848	27	—	1,875
Engineering, design and development	1,111	31	—	1,142
General and administrative	6,517	59	—	6,576
Total share-based payment expense	\$ 12,856	\$ 181	\$ —	\$ 13,037

ARPU - is derived from total earned subscriber revenue, net advertising revenue and other subscription-related revenue, net of purchase price accounting adjustments, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. Other subscription-related revenue includes the U.S. Music Royalty Fee. Purchase price accounting adjustments include the recognition of deferred subscriber revenues not recognized in purchase price accounting associated with the Merger. ARPU is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited	
	For the Three Months Ended March 31,	
	2012	2011
Subscriber revenue (GAAP)	\$ 700,242	\$ 622,437
Add: net advertising revenue (GAAP)	18,670	16,558
Add: other subscription-related revenue (GAAP)	57,721	58,531
Add: purchase price accounting adjustments	67	1,909
	<u>\$ 776,700</u>	<u>\$ 699,435</u>
Daily weighted average number of subscribers	<u>21,990,863</u>	<u>20,233,144</u>
ARPU	<u>\$ 11.77</u>	<u>\$ 11.52</u>

Average self-pay monthly churn - is defined as the monthly average of self-pay deactivations for the period divided by the average number of self-pay subscribers for the period.

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 Three Months Ended March 31,	
	2012	2011
Customer service and billing expenses (GAAP)	\$ 66,187	\$ 65,836
Less: share-based payment expense, net of purchase price accounting adjustments	(427)	(367)
Add: purchase price accounting adjustments	—	18
	<u>65,760</u>	<u>65,487</u>
Daily weighted average number of subscribers	<u>21,990,863</u>	<u>20,233,144</u>
Customer service and billing expenses, per average subscriber	<u>\$ 1.00</u>	<u>\$ 1.08</u>

Free cash flow - is derived from cash flow provided by operating activities, capital expenditures and restricted and other investment activity. Free cash flow is calculated as follows (in thousands):

	Unaudited	
	For the Three Months Ended March 31,	
	2012	2011
Cash Flow information		
Net cash provided by operating activities	\$ 39,948	\$ 18,109
Net cash used in investing activities	(25,187)	(34,983)
Net cash used in financing activities	(42,175)	(136,122)
Free Cash Flow		
Net cash provided by operating activities	\$ 39,948	\$ 18,109
Additions to property and equipment	(25,187)	(34,983)
Free cash flow	\$ 14,761	\$ (16,874)

New vehicle consumer conversion rate - is defined as 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. 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. The metric excludes rental and fleet vehicles.

Subscriber acquisition cost, per gross subscriber addition - or SAC, per gross subscriber addition, is derived from subscriber acquisition costs and margins from the 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 Three Months Ended March 31,	
	2012	2011
Subscriber acquisition costs (GAAP)	\$ 116,121	\$ 105,270
Less: margin from direct sales of radios and accessories (GAAP)	(11,147)	(9,462)
Add: purchase price accounting adjustments	24,085	21,656
	\$ 129,059	\$ 117,464
Gross subscriber additions	2,161,693	2,052,367
SAC, per gross subscriber addition	\$ 60	\$ 57

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

As of March 31, 2012, we did not have any derivative financial instruments. We do not hold or issue any free-standing derivatives. We hold investments in marketable securities consisting of money market funds, and we also hold certificates of deposit and investments in debt and equity securities of other entities. We classify our investments in marketable securities as available-for-sale. These securities are consistent with the objectives in our investment policy. The basic objectives of our investment policy are the preservation of capital, maintaining sufficient liquidity to meet operating requirements and maximizing yield.

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

ITEM 4. CONTROLS AND PROCEDURES

Controls and Procedures

As of March 31, 2012, an evaluation was performed under the supervision and with the participation of our management, including Mel Karmazin, our Chief Executive Officer, and David J. Frear, our Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as that term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act). Based on that evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of March 31, 2012.

There has been no change in our internal control over financial reporting (as that term is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act) during the quarter ended March 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

State Consumer Investigations. A Multistate Working Group of 31 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 Attorneys General of the State of Florida and the State of New York. We are cooperating with these investigations and believe our consumer practices comply with all applicable federal and state laws and regulations.

Carl Blessing et al. v. Sirius XM Radio Inc. We have settled the case titled Carl Blessing et al. v. Sirius XM Radio Inc. and the settlement has been approved by the United States District Court for the Southern District of New York. Appeals have been filed by 11 individuals seeking to overturn the settlement.

In December 2009, Carl Blessing, a subscriber, filed a lawsuit against us in the United States District Court for the Southern District of New York. Mr. Blessing and several other plaintiffs purported to represent all subscribers who were subject to: an increase in the price for additional-radio subscriptions from \$6.99 to \$8.99; the imposition of the US Music Royalty Fee; and the elimination of our free Internet service. The suit claimed that the pricing changes showed that our merger with XM lessened competition or led to a monopoly in violation of the Clayton Act and that the merger led to monopolization in violation of the Sherman Act. Earlier the Court dismissed the plaintiffs' claims for breach of contract and granted our motion for summary judgment as to various state law claims.

As part of the settlement, we agreed to: not raise the price of our basic satellite radio service or other programming packages or our Internet services; not increase our US Music Royalty Fee; and not decrease our multi-radio discount prior to January 1, 2012. Existing subscribers were also permitted to renew their current subscription plans at current rates prior to December 31, 2011. Former subscribers who terminated their subscriptions after July 29, 2009 are entitled to receive, at their election, either: one month of our basic satellite radio service or one month of our Internet service, at no charge. We also paid the costs of providing notice to the plaintiff class and reimbursed counsel for the plaintiffs for \$13 million of their fees and expenses.

One Twelve, Inc. and Don Buchwald v. Sirius XM Radio Inc. In March 2011, One Twelve, Inc., Howard Stern's production company, and Don Buchwald, Stern's agent, commenced an action against us in the Supreme Court of the State of New York, County of New York. The action alleged that, upon the Merger, we failed to honor our obligations under the performance-based compensation provisions of our prior agreement dated October 2004 with One Twelve and Buchwald, as agent; One Twelve and Buchwald each assert a claim of breach of contract. In April 2012, the Court granted our motion for summary judgment and dismissed with prejudice the suit. The Court found the agreement unambiguous. One Twelve and Buchwald have filed a notice of appeal.

Other Matters. In the ordinary course of business, we are a defendant in various lawsuits and arbitration proceedings, including derivative actions; actions filed by subscribers, both on behalf of themselves and on a class action basis, actions filed

by former employees, parties to contracts or leases, and owners of patents, trademarks, copyrights or other intellectual property. None of these other actions are, in our opinion, likely to have a material adverse effect on our business, financial condition or results of operations.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in response to Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2011 .

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

See Exhibit Index attached hereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 1st day of May 2012.

SIRIUS XM RADIO INC.

By: /s/ David J. Frear

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

EXHIBIT INDEX

Exhibit	Description
*10.1	Second Amendment, dated as of March 5, 2012, to the Employee Agreement, dated as of October 14, 2009, between the Company and James E. Meyer (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 5, 2012).
31.1	Certificate of Mel Karmazin, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certificate of David J. Frear, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certificate of Mel Karmazin, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.2	Certificate of David J. Frear, Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101.1**	The following financial information from our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 formatted in eXtensible Business Reporting Language (XBRL): (i) Unaudited Consolidated Statements of Comprehensive Income for the three months ended March 31, 2012 and 2011; (ii) Consolidated Balance Sheets as of March 31, 2012 (Unaudited) and December 31, 2011; (iii) Unaudited Consolidated Statements of Stockholder's Equity as of March 31, 2012; (iv) Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011; and (v) Notes to Unaudited Consolidated Financial Statements.

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

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

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

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David J. Frear, the Executive Vice President and Chief Financial Officer of Sirius XM Radio Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2012 of Sirius XM Radio Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any changes in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ DAVID J. FREAR

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

May 1, 2012

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002**

In connection with the Quarterly Report of Sirius XM Radio Inc. (the "Company") on Form 10-Q for the period ended March 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David J. Frear, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ DAVID J. FREAR

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

May 1, 2012

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Mel Karmazin, the Chief Executive Officer of Sirius XM Radio Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2011 of Sirius XM Radio Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any changes in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter (the Company's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Mel Karmazin

Mel Karmazin
Chief Executive Officer
(Principal Executive Officer)

May 3, 2011

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David J. Frear, the Executive Vice President and Chief Financial Officer of Sirius XM Radio Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2011 of Sirius XM Radio Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any changes in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter (the Company's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ David J. Frear

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

May 3, 2011

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002**

In connection with the Quarterly Report of Sirius XM Radio Inc. (the "Company") on Form 10-Q for the period ended March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mel Karmazin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Mel Karmazin

Mel Karmazin
Chief Executive Officer
(Principal Executive Officer)

May 3, 2011

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002**

In connection with the Quarterly Report of Sirius XM Radio Inc. (the "Company") on Form 10-Q for the period ended March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David J. Frear, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ David J. Frear

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

May 3, 2011

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.