

PROXY STATEMENT AND 2011 ANNUAL REPORT

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April 2012



Dear Fellow Stockholders,

We closed on the merger of Sirius and XM just over three years ago and are understandably proud about our achievements since then. The merger has delivered extraordinary benefits to the company and its stockholders. Our execution delivered the benefits we promised when we announced the merger in early 2007 and consummated the transaction in the late summer of 2008. Today, we are the largest radio company in the world ranked by revenue.

The combination of the two companies has not only allowed us to achieve record financial and operating results, but it has permitted us to focus on product innovations, enhance the creative content of our audio entertainment service, and increase our revenue. Since the transaction closed, we have realized cost savings throughout the company. The efficiencies of the merger were real and we continue to uncover savings in the two companies' operations. The savings from the elimination of redundancies alone were significant.

The foundation of our business continues to be our premium content. We are constantly on the lookout for creative and innovative audio content and talent to add to our service; and we continue to set the standard in programming. In 2011, we added 33 new, full-time channels to our service. We added several new music channels, a number of news, talk and entertainment channels, expanded the individual shows that make up our existing lineup of great programming, and added significantly to our online offering. We added diverse, new talk programming from Dr. Laura, Howard University, BYU Radio, Korea Today, and entertainment shows from TMZ, while also increasing our comedy channels on satellite and online. We also produced live broadcasts of our exclusive subscriber concert with Tim McGraw and our Studio 54 event, as well as exclusive "Town Hall" specials with Tom Petty, Nirvana and Coldplay. We also created pop-up channels with Coldplay, Beastie Boys, Simon & Garfunkel, Metallica, Wilco, Randy Travis, and Lady Antebellum, among other music stars and icons. In addition to 85 channels of commercial-free music available online and as part of our satellite service, we are the Official

Satellite Radio Partner of the National Football League, Major League Baseball, NASCAR, the National Basketball Association, the National Hockey League and the PGA TOUR and our sports offerings continue to include content that covers every major league, college football and basketball, and other events of interest to our subscribers. We also added SiriusXM Latino, a suite of Spanish language programming, and numerous comedy, music and sports programming channels which are available through our new Edge and Lynx radios and online. Even with all of these great additions, our programming expenses in the aggregate declined on a year-over-year basis. In short, we continue to offer the best radio on radio.

Our record-breaking results reflect the strength of our business model, content and subscriber focus. In 2011, our results met or exceeded all of our expectations:

- Subscribers grew to an all-time high, totaling almost 21.9 million by the end of 2011;
- Year-over-year free cash flow essentially doubled to \$416 million;
- Revenue exceeded \$3 billion; and
- Adjusted EBITDA reached \$731 million, up 17% over 2010.

In addition, in 2011 we saw our highest subscriber growth since our merger, adding 1.7 million net new subscribers, which drove top-line revenue growth.

I am particularly pleased with our free cash flow growth, which continues to be a point of emphasis. I have long believed that free cash flow is one of the most important measures of a company's performance. It enables a company to invest in the growth of its business, to pay down debt, make acquisitions, or return capital to stockholders.

Our growth and performance have also contributed to our improved balance sheet. At December 31, 2011, our net debt to Adjusted EBITDA ratio was approximately 3.1x. And our efforts are being rewarded. In

2011, Standard & Poor's upgraded our corporate family debt rating from "BB-" to "BB" and Moody's upgraded our corporate family debt rating from "B3" to "B2." We continue to reduce our leverage; however, you should not expect us to reduce our debt to zero. Properly and conservatively managed, debt can be a useful tool to increase stockholder returns. Today, our debt is reasonable in light of our operations and financial performance, allowing our board of directors to evaluate acquisitions or a return of capital to stockholders within the confines of our present capital structure.

I was also very pleased with our performance in 2011 in light of the events during the year. The tragedy in Japan and the flooding in Thailand introduced uncertainties in our supply chain and those of many automakers. Through it all the company executed its business plan nimbly and thoughtfully. We remained true to our core plan, but demonstrated the flexibility to adapt quickly to new inputs and changing business conditions.

Looking ahead, we are well positioned to build on our accomplishments in 2011, and there are a number of factors that have us optimistic about our prospects for 2012, including:

- Expected Continued Subscriber Growth. We continue to be optimistic about our ability to grow subscribers in the year ahead. In fact, we expect to break our all-time record high for subscribers by the end of 2012. Contributing to our optimism is that the consensus estimates for auto sales in 2012 began the year at approximately 13.7 million, which would be the highest number since 2007, and that estimate now appears conservative. The car is often our first point of entry with a subscriber and we believe the improving auto industry will provide a further boost for subscriber growth.
- Pricing Increase To Drive Top-Line Revenue Growth. Effective January 1, 2012, we raised the base price of our service by just under 12%, following the expiration of agreements with the FCC that restricted our ability to implement certain price increases. Coupled with the expected increase in our subscriber base, the move will improve our revenue, which we expect to grow to \$3.3 billion in 2012. This was the first increase in the core price in the history of Sirius service, and only the second increase ever on the XM platform. Increasing prices is never an easy decision, and the struggling economy and high unemployment rate, which has affected so many of our subscribers,

- only made that decision harder. Still, initial consumer reaction to the price changes has, in general, met our expectations.
- Previously-Owned Vehicles Represent a Significant Growth Opportunity. Our program to introduce buyers and lessees of certified pre-owned vehicles to SiriusXM has been very well received and the results have been encouraging. In 2011, we announced a program to provide purchasers of non-certified pre-owned vehicles of any brand with a complementary three-month trial of SiriusXM, including vehicles sold by participating Chevy, Buick, GMC, Cadillac, Nissan and Infiniti dealerships. In 2012, we are expanding this program to include Chrysler, Dodge, Jeep and Ram Truck dealers, and have broadened the reach of these programs by working directly with some of the country's largest automotive dealer groups, such as AutoNation. Currently, there are over 4,000 dealers nationwide in our non-certified pre-owned vehicle program and more automotive brands and dealer groups will be announced later this year. We expect the pre-owned vehicle market will be a major growth opportunity in the coming years.
- Exciting New Services. In 2012, we will introduce a variety of new services to broaden the availability of our suite of premium content. You will also see our service on more devices, particularly devices in your pocket and your home. We are most excited about our planned on-demand service across our Internet-based platforms, such as smartphones, and other connected devices that will enable subscribers to access a continuously updated library of some of our best content and listen on their own schedules. We expect this service to drive demand for our Internet add-on option, and our all access tier, which will improve average revenue per user and make our service a must-have for consumers. This product will differentiate us from our Internet-based competitors, who do not have anything remotely approaching the depth and breadth of our non-music online offerings.

We also expect to debut personalized radio on these same Internet-based platforms, which will enable subscribers to tailor music to their own preferences. Similarly, our additional SiriusXM 2.0 channels, including the suite of Hispanic channels, will be available at no extra charge to subscribers who have a SiriusXM 2.0-capable satellite radio. Automakers are moving quickly to adopt this technology. Chrysler has already announced

that it will be the first automaker to provide the expanded SiriusXM channel lineup as well as SiriusXM Latino in select 2013 model year vehicles. Adding this functionality on the Internet and increasing our content lineup on the satellites are two ways we are adding value to our service and keeping it attractive to consumers in the face of more competition. We will continue to strive to be the leader in audio entertainment.

- Improving Customer Service. As always, our success starts by improving the subscriber experience — whether through new programming, expanded access or improved customer service. We have always focused on customer service and in 2012 we plan to pay special attention to our customer's experience. We will be introducing new technology to improve the self-help functionality in our customer care website and will be rolling out solutions to our call center agents and throughout our billing systems that are designed to speed and ease each customer's interaction with us. Improving customer service, in ways that are big and small, is a major focus of our management, and I am optimistic that we will be reporting significant improvements in the year ahead.
- · SiriusXM's Differentiator: Our Scalable Business Model. SiriusXM continues to have a prime place in the car's dashboard and we have the economic model to maintain this position and to deliver the content consumers love. The unique distribution of our satellite service through automakers remains important, and our relationship with these manufacturers remains strong. In fact, in 2011 SiriusXM was factory installed in 67% of all new vehicles, up from 62% in 2010. Our subscription-based business model is substantially superior to traditional advertising models and allows us to monetize our customers far better than other businesses that rely on advertising revenue alone. Last year, 98% of our revenue was generated from subscriptions to our services; in comparison, our competitors generated a vast majority of their revenue from advertising. In 2011, our business model helped us generate approximately 10 times the revenue per subscriber than terrestrial radio did per listener, and approximately 22 times the revenue per each active user of Internet-based audio services in 2011.

This is an exciting time for SiriusXM and we look forward to building on our momentum in 2012. Our focus will continue to be on increasing our record level of subscribers, accelerating our revenue growth, and dramatically growing our free cash flow in 2012 and beyond. We will not stop investing in programming in 2012. Just this month, we announced an agreement to add the play-by-play call of every Major League Baseball game to our online offering, programming that we are certain will continue to set us apart as the leader in audio entertainment. Our service has been built on creative and innovative programming, and we have not forgotten that entertainment is the "lifeblood" of our service. Although we are happy with our current lineup and believe it continues to provide a compelling value, we are always on the hunt for the next breakout artist or program.

Everything we accomplish and all the value we create is built on the dedication of our outstanding team of employees, who are focused on increasing revenue, managing costs, and delivering profits. It is their creativity and diligence that enables us to exceed our goals and execute on our future growth strategy. We run an efficient organization and our employees are our most valuable asset. In 2011, our revenues per employee averaged approximately \$2 million, far outdistancing terrestrial radio companies and the largest Internet-based audio services on a revenue per employee basis. I extend my deepest appreciation and thanks to our employees for their continued hard work.

It is an honor to serve SiriusXM and a thrill to think about what can be accomplished in the year ahead and beyond. Thank you for your confidence and support.

Sincerely,

MEL KARMAZIN
Chief Executive Officer
SIRIUS XM Radio

Mel Karmay -





NOTICE OF 2012 ANNUAL MEETING OF STOCKHOLDERS

Time and Date: 9:00 a.m., New York City time, on Tuesday, May 22, 2012

Place: The Auditorium

The Equitable Center 787 Seventh Avenue

New York, New York 10019

Items of Business: 1. To elect the eight directors listed herein;

2. To ratify the appointment of KPMG LLP as our independent registered

public accountants for 2012; and

3. To transact any other business properly coming before the annual

meeting and any adjournments thereof.

Who may Vote: Stockholders of record at the close of business on April 2, 2012.

Important Notice Regarding the Date of Availability of Proxy Materials for the Stockholder Meeting to be Held on Tuesday, May 22, 2012:

We are pleased to be using the Securities and Exchange Commission's rules that allow companies to furnish proxy materials to their stockholders over the Internet. In accordance with these rules, we sent stockholders of record at the close of business on April 2, 2012, a Notice of Internet Availability of Proxy Materials (Notice) or a full set of proxy materials on or about

April 12, 2012. The Notice contains instructions on how to access our Proxy Statement and Annual Report for the year ended December 31, 2011

over the Internet and how to vote.

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

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

By Order of the Board of Directors,

PATRICK L. DONNELLY

Patrick L. Ronnelly

Executive Vice President, General Counsel and Secretary

New York, New York April 12, 2012

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

PROXY STATEMENT

This proxy statement contains information related to the annual meeting of stockholders of Sirius XM Radio Inc. to be held on Tuesday, May 22, 2012, beginning at 9:00 a.m., New York City time, in The Auditorium at The Equitable Center, 787 Seventh Avenue, New York, New York 10019, and at any postponements or adjournments thereof. This proxy statement is being distributed or made available, as the case may be, to stockholders on or about April 12, 2012.

ABOUT THE MEETING

What is the purpose of the annual meeting?

At our annual meeting, stockholders will act upon the matters outlined in the Notice of 2012 Annual Meeting of Stockholders, including:

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

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

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

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

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

The holder of our Series B-1 Preferred Stock does not have the right to vote with the holders of our common stock to elect the Common Stock Directors at the annual meeting. On all other matters submitted to a vote of the holders of our common stock, the holder of our Series B-1 Preferred Stock is entitled to slightly less than 207 votes per share of Series B-1 Preferred Stock, voting together with the holders of our common stock as a single class. On the Record Date, 3,788,436,591 shares of our common stock were outstanding. In addition, 12,500,000 shares of our Series B-1 Preferred Stock, representing aggregate voting power of 2,586,976,762 shares of common stock, were outstanding.

As of April 2, 2012 (the "Record Date"), holders of our common stock held approximately 60% of the general voting power, and holders of our Series B-1 Preferred Stock held approximately 40% of the general voting power. General voting power refers to all securities entitled to vote at the annual meeting. With respect to an individual proposal, voting power refers to all securities entitled to vote on that proposal.

What vote is required to approve each item?

Assuming the presence of a quorum, the Common Stock Directors will be elected by the holders of a plurality of the voting power of our common stock present in person or represented by proxy and entitled to vote. This means that the eight Common Stock Director Nominees who receive the most votes cast by the holders of shares of our common stock will be elected. You may vote "For" or "Withhold" with respect to each Common Stock Director Nominee. Votes that are withheld will be excluded entirely from the vote with respect to the nominee from which they are withheld and will have the same effect as an abstention. Votes that are withheld will not have any effect on the outcome of the election of the Common Stock Directors. Broker non-votes will have no effect on the outcome of the election of the Common Stock Directors.

The affirmative vote of the holders of a majority of the voting power of our common stock and our Series B-1 Preferred Stock, voting together as a single class, present in person or represented by proxy, and entitled to vote on the matter is required for any other proposal, including the ratification of the appointment of KPMG LLP as our independent registered public accountants. You may vote "For," "Against" or "Abstain" with respect to the ratification of the appointment of KPMG LLP as our independent registered public accountants. For proposals, other than the election of directors, any "Abstain" vote will have the same effect as a vote against the proposal.

When will voting results be available?

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

Who can attend the annual meeting?

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

What constitutes a quorum?

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

What is a broker non-vote?

A broker non-vote occurs if you hold shares in street name and do not provide voting instructions to your broker on a proposal and your broker does not have the discretionary authority to vote on such proposal. A broker is entitled to vote shares held for a beneficial holder on routine matters, such as the ratification of the appointment of KPMG as our independent registered public accountants, without instructions from the beneficial holder of those shares. On the other hand, absent instructions from the beneficial holders of such shares, a broker will not be entitled to vote shares held for a beneficial holder on certain non-routine items, such as the election of Common Stock Directors. It is therefore important that you provide instructions to your broker if your shares are held by a broker so that your vote with respect to Item 1 (election of the eight directors listed herein) is counted.

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

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

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

How do I vote?

Stockholders of record can vote as follows:

- By Internet: Stockholders may vote over the Internet at www.proxyvoting.com/siri by following the instructions included on your Notice or proxy card. You will need the 11-digit Control Number included on the Notice or proxy card to obtain your records and to create an electronic voting instruction form.
- *By Telephone:* Stockholders may vote by telephone 1-866-540-5760 by following the instructions included with your proxy card. You will need the 11-digit Control Number included on the proxy card in order to vote by telephone.
- *By Mail:* Stockholders who received a proxy card along with a proxy statement from us or requested a proxy card from us, may sign, date and return their proxy cards in the pre-addressed, postage-paid envelope that is provided.
- At the Meeting: If you attend the annual meeting, you may vote in person by ballot, even if you have previously returned a proxy card or otherwise voted.

If your shares are held in "street name," you may also submit voting instructions to your bank, broker or other nominee. In most instances, you will be able to do this over the Internet, by telephone or by mail. Please refer to information from your bank, broker or other nominee on how to submit voting instructions. The deadline for voting by telephone or electronically is 11:59 p.m., New York City time, on Monday, May 21, 2012. Mailed proxy cards with respect to shares held of record or in street name must be received no later than May 21, 2012. "Street name" stockholders who wish to vote in person at the meeting will need to obtain a proxy form from the institution that holds their shares.

What is householding?

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

We will promptly deliver, upon oral or written request, a separate copy of this proxy statement and annual report to any stockholder residing at an address to which only one copy was mailed. Requests for additional copies for this year's or future years' proxy materials should be directed to: Sirius XM Radio Inc., Attention: Corporate Secretary, 1221 Avenue of the Americas, 36th Floor, New York, New York 10020. Requests can also be made by telephone by calling (212) 584-5100.

Stockholders of record residing at the same address and currently receiving multiple copies of this proxy statement may contact our Corporate Secretary (in writing or by phone at the contact information indicated above) to request that only a single copy of our proxy statement be mailed in the future.

Can I change my vote or revoke my proxy?

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

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

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

Who will count the votes?

A representative of Computershare will tabulate the votes and act as inspector of elections.

What is a proxy?

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

Whom am I designating as my proxy?

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

How will my proxy vote my shares?

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

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

SIRIUS XM is soliciting your proxy. The cost of soliciting proxies will be borne by SIRIUS XM, which has engaged MacKenzie Partners, Inc. to assist in the distribution and solicitation of proxies. We have agreed to pay

MacKenzie \$10,000 and reimburse the firm for its reasonable out-of-pocket expenses. We will also reimburse brokerage firms, banks and other custodians for their reasonable out-of-pocket expenses for forwarding these proxy materials to you. Our directors, officers and employees may solicit proxies on our behalf by telephone or in writing.

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

Under the SEC's rules and regulations, any stockholder desiring to submit a proposal to be included in our 2013 proxy statement must submit such proposal to us in writing at our principal executive offices located at: 1221 Avenue of the Americas, 36th Floor, New York, New York 10020, to the attention of the Corporate Secretary, no later than the close of business on December 13, 2012.

Our By-laws provide for advance notice provisions. The By-laws require the timely notice of certain information to be provided by any stockholder who proposes director nominations or any other business for consideration at a stockholders' meeting. Failure to deliver a proposal in accordance with the procedures discussed above and in the By-laws may result in the proposal not being deemed timely received. To be timely, notice of a director nomination or any other business for consideration at a stockholders' meeting must be received by our Corporate Secretary at our principal executive offices not less than 70 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting. Therefore, to be presented at our 2013 Annual Meeting of Stockholders, such a proposal must be received by the Corporate Secretary on or after February 21, 2013 but no later than March 13, 2013. In the event that the date of the 2013 Annual Meeting is advanced by more than 20 days, or delayed by more than 70 days, from the anniversary date of the 2012 Annual Meeting of Stockholders, notice must be delivered no earlier than the 90th day prior to the 2013 Annual Meeting and not later than the close of business on the later of the 70th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of the 2013 Annual Meeting of Stockholders is first made. In addition, the date for timely notice specified in this paragraph shall be the earlier of the date calculated above or the date specified in paragraph (c)(1) of Rule 14a-4 of the Exchange Act.

ITEM 1 — ELECTION OF COMMON STOCK DIRECTORS

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

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

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

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

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

Biographical information about this year's nominees:

Common Stock Director Nominees

NameAgePosition, Principal Occupation, Business Experience and DirectorshipsJoan L. Amble58Ms. Amble has been a director since July 2008. From December 2006 to

Ms. Amble has been a director since July 2008. From December 2006 until the closing of our merger with XM Satellite Radio Holdings Inc. ("XM") in July 2008, Ms. Amble served as a director of XM. From May 2011 to December 2011, Ms. Amble was the Executive Vice President, Finance for the American Express Company and also served as Executive Vice President and Corporate Comptroller from December 2003 until May 2011. Prior to joining American Express, Ms. Amble served as Chief Operating Officer and Chief Financial Officer of GE Capital Markets, a service business within GE Capital Services, Inc., overseeing securitizations, debt placement and syndication, as well as structured equity transactions. From 1994 to March 2003, Ms. Amble served as vice president and controller for GE Capital. Ms. Amble also serves as a member of the board of directors of Brown-Forman Corporation. Ms. Amble also served as a director at Broadcom during the last five years.

Key Attributes, Experience and Skills:

Ms. Amble has extensive experience in financial reporting, including experience with the rules of the Securities and Exchange Commission, based, in part, on her experience at the Financial Accounting Standards Board and General Electric Company. Ms. Amble also has significant experience in areas of: financial controls; Sarbanes-Oxley Act compliance; operations; risk management; six sigma quality; and consumer oriented subscription businesses.

Name Age

Position, Principal Occupation, Business Experience and Directorships

Leon D. Black 60

Mr. Black has been a director since June 2001. Mr. Black is the Chairman of the Board, Chief Executive Officer and a Director of Apollo Global Management, LLC and a Managing Partner of Apollo Management, L.P. which he founded in 1990 to manage investment capital on behalf of a group of institutional investors, focusing on corporate restructuring, leveraged buyouts, and taking minority positions in growth oriented companies. From 1977 to 1990, Mr. Black worked at Drexel Burnham Lambert Incorporated, where he served as Managing Director, head of the Mergers & Acquisitions Group and co-head of the Corporate Finance Department. He serves on the boards of directors of Apollo Global Management, LLC and the general partner of AP Alternative Assets. Mr. Black is a trustee of The Museum of Modem Art, Mt. Sinai Hospital, The Metropolitan Museum of Art and The Asia Society. He is also a member of The Council on Foreign Relations and The Partnership for New York City. Mr. Black is also a member of the boards of FasterCures and the Port Authority Task Force. During the last five years, Mr. Black served as a director of United Rentals and was a member of the National Advisory Board of JPMorganChase.

Key Attributes, Experience and Skills:

Mr. Black's experience in corporate finance is well renowned. He has extensive experience in arranging and structuring financings for enterprises worldwide, particularly enterprises with credit profiles similar to ours. In addition, Mr. Black's experience in the private equity industry brings a long-term strategic perspective to the board's deliberations.

Name	Age	Position, Principal Occupation, Business Experience and Directorships
Lawrence F. Gilberti	61	Mr. Gilberti has been a director since September 1993. Since June 2000, Mr. Gilberti has been a partner in the law firm of Reed Smith LLP.
		Key Attributes, Experience and Skills:
		Mr. Gilberti has served on our board since 1993, shortly after our founding. He brings a range of institutional knowledge and experience to the board in evaluating business proposals, assessing risks and critiquing alternatives.
Name	Age	Position, Principal Occupation, Business Experience and Directorships
Eddy W. Hartenstein	61	Mr. Hartenstein has been a director since July 2008 and has served as the chairman of our board since November 2009. From May 2005 until the closing of the merger with XM in July 2008, Mr. Hartenstein served as a director of XM. Mr. Hartenstein is the Publisher and CEO of the Los Angeles Times and has served in that position since August 2008. He is also President and CEO of the Tribune Company, a position he has held since May 2011. Mr. Hartenstein was the Vice Chairman and a member of the board of directors of The DIRECTV Group, Inc. (formerly Hughes Electronics Corporation) from December 2003 until his retirement in December 2004. Mr. Hartenstein served as Chairman and CEO of DIRECTV, Inc. from late 2001 to 2004 and as President of DIRECTV, Inc. from its inception in 1990 to 2001. Prior to 1990, Mr. Hartenstein served in various capacities for Hughes Communications, Inc. and Equatorial Communications Services Company. Mr. Hartenstein also serves as a member of the board of directors of SanDisk Corporation, The City of Hope and Broadcom, Inc. Mr. Hartenstein also served as a director at Thomson Multimedia during the last five years.
		Key Attributes, Experience and Skills:
		As the former Chief Executive Officer of DIRECTV, Mr. Hartenstein has extensive experience in building, managing, marketing and operating a satellite service. He brings direct and highly relevant expertise to the board in such areas as: the construction and procurement of satellites, managing a large consumer subscriber base, consumer marketing, and the design and implementation of systems necessary to support a growing and dynamic consumer-oriented business.
Name	Age	Position, Principal Occupation, Business Experience and Directorships
James P. Holden	59	Mr. Holden has been a director since August 2001. From October 1999 until November 2000, Mr. Holden was the President and Chief Executive Officer of DaimlerChrysler Corporation, one of the world's largest automakers. Prior to being appointed President in 1999, Mr. Holden held numerous senior positions within Chrysler Corporation during his 19-year career at the company. Mr. Holden is a director of Speedway MotorSports, Inc., and the Lead Director of Snap-On Incorporated. Mr. Holden has also served as a director at Motors Liquidation Corporation, Meridian Automotive and SMobile Systems during the last five years. *Key Attributes, Experience and Skills:*

industry are significant assets to the board and its deliberations.

Mr. Holden has spent his career in the automotive business which is a key market for our services. Mr. Holden's perspective on and knowledge of the workings, business and product planning processes, and individuals in the automotive

Position, Principal Occupation, Business Experience and Directorships

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

Key Attributes, Experience and Skills:

Mr. Karmazin has spent his career in the media and entertainment industry, with particularly relevant experience in radio. Mr. Karmazin's expertise in general management, finance and strategic planning is extremely valuable; in particular, his radio experience and his skills in the areas of revenue maximization, cost control, music and talk programming as well as government, public and investor relations position him uniquely to serve as a director. As our Chief Executive Officer, Mr. Karmazin provides the board not only with knowledge of our daily workings, but also with the essential experience, insight and expertise that can be provided only by a person who is intimately involved in running our business.

Name Age

Position, Principal Occupation, Business Experience and Directorships

James F. Mooney 57

Mr. Mooney has been a director since July 2003. Mr. Mooney is a director and chairman of the board of directors of Virgin Media Inc., a U.K. entertainment and communications business, and has served in that role since March 2003. From December 2004 to December 2007, Mr. Mooney was the chairman of the board of directors of RCN Corporation, a provider of bundled telephone, cable and high speed internet services. From April 2001 to September 2002, Mr. Mooney was the Executive Vice President and Chief Operating Officer of Nextel Communications Inc., a provider of wireless communications services. From January 2000 to January 2001, Mr. Mooney was the Chief Executive Officer and Chief Operating Officer of Tradeout Inc., an asset management firm owned jointly by General Electric Capital, Ebay Inc. and Benchmark Capital. From March 1999 to January 2000, Mr. Mooney was the Chief Financial Officer/ Chief Operating Officer at Baan Company, a business management software provider. From 1980 until 1999, Mr. Mooney held a number of positions with IBM Corporation, including Chief Financial Officer of the Americas. Mr. Mooney is a member of the board of directors of Sidera Networks, LLC, a provider of high capacity communications services to carrier and enterprise customers.

Key Attributes, Experience and Skills:

Mr. Mooney has had a varied career in industries ranging from computer products to telecommunications. His diverse experience is very useful in our business and budget planning process, in analyzing subscriber growth and its trends and subscriber churn, assessing marketing opportunities, evaluating personnel and compensation, assessing financing alternatives, and assessing and evaluating our long-term business plans.

Name	Age	Position, Principal Occupation, Business Experience and Directorships
Jack Shaw	73	Mr. Shaw has been a director since July 2008. From May 1997 until the closing of the merger with XM in July 2008, Mr. Shaw served as a director of XM. Mr. Shaw served as Chief Executive Officer of Hughes Electronics Corporation from January 2000 until his retirement in December 2003 and served as Chief Executive Officer and Chairman of Hughes Network Systems, Inc. from 1987 and 1988, respectively, through January 2000. Previously, Mr. Shaw held senior management positions with companies including ITT Space Communications, Inc., Digital Communications Corporation and M/A-Com Telecommunications, Inc., which was acquired by Hughes Electronics Corporation in 1987. Mr. Shaw is a member of the Board of Directors of Globecomm Systems, Inc. <i>Key Attributes, Experience and Skills:</i> As the retired Chief Executive Officer of Hughes Electronics, Mr. Shaw has broad experience in satellite systems and telecommunications infrastructures. This experience, together with his general management expertise, assists the board in evaluating satellite procurement programs, satellite insurance and redundancy proposals, and long-term network planning projects.

Preferred Stock Directors Name A

<u>Ago</u>

John C. Malone 71

Position, Principal Occupation, Business Experience and Directorships

Mr. Malone has been a director since April 2009. Mr. Malone has served as the Chairman of the Board and a director of Liberty Interactive Corporation, formerly known as Liberty Media Corporation, since September 2011 to present. Mr. Malone has also served as Chairman of the Board and a director of Liberty Media Corporation or its predecessors (as applicable, "Liberty Media") since Liberty Media's inception in 1994. Mr. Malone also served as Liberty Media's Chief Executive Officer from August 2005 to February 2006. Mr. Malone served as Chairman of the Board of Tele-Communications, Inc. ("TCI"), a cable television company that was Liberty Media's former parent company, from November 1996 until March 1999, when TCI was acquired by AT&T, and as Chief Executive Officer of TCI from January 1994 to March 1997. Mr. Malone has served as Chairman of the Board of Liberty Global, Inc. ("LGI") since June 2005, and served as Chairman of the Board of LGI's predecessor, Liberty Media International, Inc., from March 2004 to June 2005. Mr. Malone served as a director of UnitedGlobalCom, Inc., now a subsidiary of LGI, from January 2002 to June 2005. Mr. Malone served as Chairman of the Board of DIRECTV from November 2009 to June 2010 and as Chairman of the Board of DIRECTV's predecessor, The DIRECTV Group, Inc. ("DTVG"), from February 2008 to November 2009. Mr. Malone has served as a director of Discovery Communications, Inc. since September 2008 and served as Chairman of the Board of its predecessor, Discovery Holding Company ("DHC"), from March 2005 to September 2008, and as a director of DHC from May 2005 to September 2008. Mr. Malone has served as a director of (i) Expedia, Inc. since August 2005, and (ii) Ascent Media Corporation since January 2010. Mr. Malone served as a director of (i) Live Nation Entertainment, Inc. from January 2010 to February 2011, (ii) InterActiveCorp from May 2006 to June 2010, (iii) The Bank of New York Company, Inc. from June 2005 to April 2007 and (iv) Cablevision Systems Corp. from March 2005 to June 2005.

Key Attributes, Experience and Skills:

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

Name	Age	Position, Principal Occupation, Business Experience and Directorships
Gregory B. Maffei 51		Mr. Maffei has been a director since March 2009. Mr. Maffei has served as President, CEO and as a director of Liberty Interactive Corporation, formerly known as Liberty Media Corporation, since September 2011 to present. Mr. Maffei also served as a director of Liberty Media Corporation or its predecessors (as applicable, "Liberty Media") since November 2005, and as its CEO-Elect from November 2005 through February 2006. Prior to joining Liberty Media, Mr. Maffei served as President and Chief Financial Officer of Oracle Corporation during 2005 and as Chairman and Chief Executive Officer of 360networks Corporation from 2000 until 2005. Previously, Mr. Maffei was the Chief Financial Officer of Microsoft Corporation from 1997 to 2000. Mr. Maffei has served as a director of Electronic Arts, Inc. since June 2003. Mr. Maffei served as a director of DIRECTV from November 2009 to June 2010 and as a director of its predecessor, DTVG, from February 2008 to November 2009. Mr. Maffei served as a director of Expedia, Inc. from 1999 to 2003, and as a director of Starbucks Corporation from 1999 to 2006. Mr. Maffei was also Chairman of the Board of Expedia, Inc. from 1999 to 2002.
		Key Attributes, Experience and Skills: Mr. Maffei brings to the board significant financial and operational experience based on his senior policy making positions at Liberty Media, Oracle, 360networks and Microsoft and his other public company experience.
Name	Age	Position, Principal Occupation, Business Experience and Directorships
David J.A. Flowers		Mr. Flowers has been a director since April 2009. Mr. Flowers has served as a Senior Vice President of Liberty Interactive Corporation, formerly known as Liberty Media Corporation, since October 2000 and served as its Treasurer from April 1997 to October 2011. He was a Vice President of Liberty Media from June 1995 to October 2000. Mr. Flowers has served as a director of Interval Leisure Group, Inc. since August 2008.
		Key Attributes, Experience and Skills:
		Mr. Flowers brings to the board significant financial, investment and public company experience as a senior finance executive of a large public company.

Name	Age	
Carl E. Vogel	 54	Mr. Vo

Position, Principal Occupation, Business Experience and Directorships

ogel has been a director since April 2011. Mr. Vogel is currently a member of the board of directors of Dish Network Corporation, a satellite television provider, and a senior advisor to its Chairman, CEO and President. He served as President of Dish Network Corporation from September 2006 until February 2008 and served as Vice Chairman from June 2005 until March 2009. From October 2007 until March 2009, Mr. Vogel served as the Vice Chairman of the board of directors of, and as a Senior Advisor to, EchoStar Communications Corporation. From 2001 until 2005, Mr. Vogel served as the President and CEO of Charter Communications Inc., a cable television and broadband services provider. Prior to joining Charter, Mr. Vogel worked as an executive officer in various capacities for companies affiliated with Liberty Media. Mr. Vogel is a member of the boards of directors and audit committees of Shaw Communications, Inc., a diversified communications company providing broadband cable and direct-to-home satellite services in Canada, Universal Electronics, Inc., a provider of wireless control technology for connected homes, NextWave Wireless Inc., a wireless technology company that develops, produces, and markets mobile multimedia and consumer electronic solutions, and is a member of the board of directors, audit committee and executive committee of Ascent Media Corporation.

Key Attributes, Experience and Skills:

Mr. Vogel brings executive level leadership experience in the communications industry as a result of his high level executive roles at Dish Network Corporation, Charter Communications Inc. and Liberty Media. Mr. Vogel also has extensive experience in reviewing financial statements as a result of his background as a certified public accountant and his role as a chief executive and senior finance executive of public companies.

Name Age

Position, Principal Occupation, Business Experience and Directorships

Vanessa A. Wittman . . . 44

Ms. Wittman has been a director since April 2011. Ms. Wittman recently accepted a senior position at Google Inc. From September 2008 to March 2012, she served as Executive Vice President and Chief Financial Officer of Marsh & McLennan Companies, Inc., a professional services company providing advice and solutions in the areas of risk, strategy, and human capital. Prior to joining Marsh & McLennan, Ms. Wittman was Chief Financial Officer and Executive Vice President of Adelphia Communications Corp., a cable television company, from 2003 to 2007. Prior to Adelphia, Ms. Wittman served as Chief Financial Officer of 360networks, a wholesale provider of telecommunications services. She also has held positions with Microsoft, Metricom Inc. and Morgan Stanley & Co. Incorporated. Ms. Wittman served as a director of kgb, an independent provider of directory assistance and enhanced information services, and Infospace, an internet search services company.

Key Attributes, Experience and Skills:

Ms. Wittman has been the Chief Financial Officer of various public companies since 1997. She has held senior positions in multi-national companies throughout her career. She also has been a director at several companies, including serving as audit committee chair for a public company.

The board of directors unanimously recommends a vote "FOR" the election of each of the Common Stock Director Nominees named above.

What are the responsibilities of the board of directors?

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

How are nominees for the board of directors selected?

Our Nominating and Corporate Governance Committee reviews possible candidates to be Common Stock Directors and is responsible for overseeing matters of corporate governance, including the evaluation of performance and practices of the board of directors, the board's committees, management succession plans and executive resources. The Nominating and Corporate Governance Committee considers suggestions from many sources, including stockholders, for possible Common Stock Directors. Such suggestions, together with appropriate biographical and other information required pursuant to our By-laws, should be submitted to our Corporate Secretary, Sirius XM Radio Inc., 1221 Avenue of the Americas, 36th Floor, New York, New York 10020. Candidates who are suggested by our stockholders are evaluated by the Nominating and Corporate Governance Committee in the same manner as are other possible candidates to be Common Stock Directors. During 2011, our board of directors did not retain any third parties to assist in the process of identifying and evaluating potential nominees to be Common Stock Directors.

In its assessment of each potential candidate, including those recommended by stockholders, the Nominating and Corporate Governance Committee takes into account all factors it considers appropriate, which may include (a) ensuring that the board of directors, as a whole, is diverse and consists of individuals with various and relevant career experience, relevant technical skills, industry knowledge and experience, financial expertise (including expertise that could qualify a director as a "financial expert," as that term is defined by the rules of the SEC), local or community ties, and (b) minimum individual qualifications, including strength of character, mature judgment, familiarity with our business and related industries, independence of thought and an ability to work collegially. The Nominating and Corporate Governance Committee also may consider the extent to which a candidate would fill a present need on the board of directors. After conducting an initial evaluation of a candidate, the Nominating and Corporate Governance Committee will interview that candidate if it believes the candidate might be qualified to be a Common Stock Director and may ask the candidate to meet with other directors and management. If the Nominating and Corporate Governance Committee believes a candidate would be a valuable addition to the board of directors, it will recommend to the board that candidate's nomination as a Common Stock Director.

What is the board's leadership structure?

Eddy W. Hartenstein is the Chairman of the Board of Directors. The chairman of our board organizes the work of the board and ensures that the board has access to sufficient information to enable the board to carry out its functions, including monitoring our performance and the performance of management. The chairman, among other things, presides over meetings of the board of directors, establishes the agenda for each meeting of the board in consultation with our Chief Executive Officer, oversees the distribution of information to directors, and performs other duties or assignments as agreed with either the board of directors or our Chief Executive Officer. The board of directors has determined that it is currently in our best interests to separate the chairman of the board position and the Chief Executive Officer position because it allows the Chief Executive Officer to focus on our day-to-day business, including risk management, while allowing the chairman of the board to lead the board and assist the board in its fundamental role of providing advice to and independent oversight of management.

Further, the board recognizes that the Chief Executive Officer position requires a significant dedication of time, effort, and energy in the current business environment. Our *Corporate Governance Guidelines* (the "*Guidelines*") do not establish this approach as a policy, but as a matter that is considered from time-to-time.

How does the board determine which directors are considered independent?

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

The Nominating and Corporate Governance Committee undertook a review of director independence in March 2012. As part of this review, the committee reviewed written questionnaires submitted by directors. The questionnaires disclose transactions and relationships between each director or members of his immediate family, on one hand, and SIRIUS XM, other directors, members of our senior management and our affiliates, on the other hand.

As a result of this review, the Nominating and Corporate Governance Committee determined that all of our directors and nominees are independent under the standards set forth in our *Guidelines* and applicable NASDAQ listing standards, with the exception of Mel Karmazin, our Chief Executive Officer, and John C. Malone, Gregory B. Maffei and David J.A. Flowers, each of whom is an employee of Liberty Media Corporation. With respect to Joan L. Amble, the board evaluated ordinary course transactions during the last three fiscal years between us and the American Express Company, for which she served as an executive officer until December 2011, and found that the amount paid by us to American Express was less than 5% of American Express' consolidated gross revenues during each of its last three fiscal years. Similarly, with respect to Vanessa A. Wittman, the board evaluated an ordinary course transaction that occurred during 2010 and 2011 between us and an indirect wholly owned subsidiary of Marsh & McLennan Companies, Inc. ("MMC"). Ms. Wittman served as an executive officer of MMC until March 2012. The board found that the amount we paid to this subsidiary of MMC was less than one tenth of one percent of MMC's reported consolidated revenues in each of these years.

The board has also determined that all of the members of the Audit Committee are financially literate and meet the independence requirements mandated by the applicable NASDAQ listing standards, Section 10A(m)(3) of the of the Exchange Act and our *Guidelines*. The board has determined that all of the members of the Compensation Committee meet the independence requirements mandated by the applicable NASDAQ listing standards and our *Guidelines* and qualify as "non-employee directors" for purposes of Rule 16b-3 of the Exchange Act and as "outside directors" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended. The board has determined that all of the members of the Nominating and Corporate Governance Committee meet the independence requirements mandated by the NASDAQ listing standards applicable to serving on the Nominating and Corporate Governance Committee and our *Guidelines*.

Our independent directors meet regularly in executive sessions.

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

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

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

The number of committee meetings held during 2011 was as follows: eight Audit Committee meetings, four Compensation Committee meetings and two Nominating and Corporate Governance Committee meetings.

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

Committee **Functions**

Audit

Members:

Joan L. Amble*

Eddy W. Hartenstein

James P. Holden

James F. Mooney

Vanessa A. Wittman

• Selects our independent registered public accounting firm

• Reviews reports of our independent registered public accounting firm

• Reviews and approves the scope and cost of all services, including all nonaudit services, provided by the firm selected to conduct the audit

• Monitors the effectiveness of the audit process

· Reviews adequacy of financial and operating controls

• Monitors our corporate compliance program

Compensation

Members:

Lawrence F. Gilberti*

James P. Holden

Jack Shaw

Carl E. Vogel

Reviews our executive compensation policies and strategies

• Oversees and evaluates our overall compensation structure and programs

Nominating and Corporate Governance

Members:

Lawrence F. Gilberti

James F. Mooney* Jack Shaw

Carl E. Vogel

 Develops and implements policies and practices relating to corporate governance

- · Reviews and monitors implementation of our policies and procedures related to the selection of director candidates
- Assists in developing criteria for open positions as Common Stock Directors on the board of directors
- Reviews background information on potential candidates for Common Stock Directors and makes recommendations to the board of directors
- Makes recommendations to the board of directors with respect to committee assignments

How often did the board meet during 2011?

During 2011, there were seven meetings of our board of directors. Each director, other than Leon Black, attended 75% or more of the total number of meetings of the board and meetings held by committees on which he or she served. Mr. Black has regularly advised our directors and executive offices on various matters of significance, including financings and strategic transactions.

Directors are also encouraged to attend the annual meeting of stockholders. Mmes. Amble and Wittman and Messrs. Gilberti, Hartenstein, Holden, Shaw, Vogel and Karmazin attended our 2011 annual meeting of stockholders.

How can stockholders communicate with the board of directors?

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

^{*} Chair

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

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

Director Compensation Table for 2011

The following table provides compensation information for the year ended December 31, 2011 for each of our non-employee directors. Mr. Karmazin is an employee and does not receive compensation for his service as a director.

Change in

Fee Earned or Paid in Cash (\$)	Stock Awards(2) (\$)	Option Awards(3)(4) (\$)	Non-Equity Incentive Plan Compensation (\$)	Pension Value of Non-Qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
80,000	_	70,000	_	_	_	150,000
_	_	70,000	_	_	_	70,000
50,000	_	70,000	_	_	_	120,000
70,000	_	70,000	_	_	_	140,000
100,000	_	70,000	_	_	_	170,000
50,000	_	70,000	_	_	_	120,000
50,000	_	70,000	_	_	_	120,000
50,000	_	70,000	_	_	_	120,000
60,000	_	70,000	_	_	_	130,000
50,000	_	70,000	_	_	_	120,000
37,500	_	70,000	_	_	_	107,500
37,500	_	70,000	_	_	_	107,500
	Paid in Cash (\$) 80,000 50,000 70,000 100,000 50,000 50,000 60,000 50,000 37,500	Paid in Cash (\$) Awards(2) (\$) 80,000 — 50,000 — 50,000 — 100,000 — 50,000 — 50,000 — 60,000 — 50,000 — 37,500 —	Paid in Cash (\$) Awards(2) (\$) Awards(3)(4) (\$) 80,000 — 70,000 — — 70,000 50,000 — 70,000 70,000 — 70,000 100,000 — 70,000 50,000 — 70,000 50,000 — 70,000 60,000 — 70,000 50,000 — 70,000 50,000 — 70,000 37,500 — 70,000	Fee Earned or Paid in Cash (\$) Stock (\$) Option Awards(3)(4) (\$) Incentive Plan Compensation (\$) 80,000 — 70,000 — 50,000 — 70,000 — 70,000 — 70,000 — 70,000 — 70,000 — 100,000 — 70,000 — 50,000 — 70,000 — 50,000 — 70,000 — 50,000 — 70,000 — 60,000 — 70,000 — 50,000 — 70,000 — 37,500 — 70,000 —	Fee Earned or Paid in Cash (\$) Stock (\$) Option Awards(3)(4) (\$) Non-Equity Incentive Plan Compensation (\$) Pension Value of Non-Qualified Deferred Compensation (\$) 80,000 — 70,000 — — - — 70,000 — — 50,000 — 70,000 — — 70,000 — 70,000 — — 100,000 — 70,000 — — 50,000 — 70,000 — — 50,000 — 70,000 — — 50,000 — 70,000 — — 50,000 — 70,000 — — 50,000 — 70,000 — — 50,000 — 70,000 — — 50,000 — 70,000 — — 50,000 — 70,000 — — 50,000 — 70,000 — — 50,000 <t< td=""><td>$\begin{array}{c ccccccccccccccccccccccccccccccccccc$</td></t<>	$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$

- (1) Vanessa A. Wittman and Carl E. Vogel were elected to our board of directors in April 2011.
- (2) Non-employee directors were not awarded restricted stock units in 2011. At December 31, 2011, the aggregate number of unvested restricted stock units outstanding for each non-employee director was as follows: Ms. Amble 0; Mr. Black 47,425; Mr. Flowers 0; Mr. Gilberti 140,672; Mr. Hartenstein 0; Mr. Holden 140,672; Mr. Maffei 0; Mr. Malone 0; Mr. Mooney 92,070; Mr. Shaw 0; Mr. Vogel 0; and Ms. Wittman 0. The directors acquired the restricted stock units held by them as part of our former director compensation program. These restricted stock units will vest on the first anniversary of the date the person ceases to be a director.
- (3) The aggregate grant date fair values of stock option awards were computed in accordance with FASB ASC Topic 718 (excluding estimated forfeitures). The assumptions used in the valuation are discussed in Note 15 to our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2011.
- (4) In 2011, non-employee directors were each awarded 59,905 options at an exercise price of \$2.2350 per share with an aggregate grant date fair value of \$70,000. At December 31, 2011, the aggregate number of option awards outstanding for each non-employee director was as follows: Ms. Amble 1,372,367;

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Mr. Black — 1,379,780; Mr. Flowers — 430,130; Mr. Gilberti — 901,103; Mr. Hartenstein — 1,418,367; Mr. Holden — 887,610; Mr. Maffei — 430,130; Mr. Malone — 430,130; Mr. Mooney — 1,379,780; Mr. Shaw — 1,464,367; Mr. Vogel — 59,905; and Ms. Wittman — 59,905.
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As chairman of the board of directors, Mr. Hartenstein receives an annual cash retainer of \$100,000. The other members of our board of directors each receive an annual cash retainer of \$50,000. Each director who serves as chair of a committee of the board of directors receives an additional annual cash retainer as follows: the audit committee chairwoman receives \$30,000; the compensation committee chairman receives \$20,000; and the nominating and corporate governance chairman receives \$10,000.

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

Any director who fails to attend at least 75% of the meetings of the board of directors in any given year forfeits 25% of his or her compensation that is payable in cash. During 2011, all of our directors, other than Mr. Black, attended over 75% of the meetings of our board of directors.

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

STOCK OWNERSHIP

Who are the principal owners of our stock?

The following table sets forth information regarding beneficial ownership of our common stock as of February 29, 2012 by each person known by us to be the beneficial owner of more than 5% of our outstanding common stock. In general, "beneficial ownership" includes those shares a person has or shares the power to vote or transfer, and options to acquire our common stock that are exercisable currently or become exercisable within 60 days. Unless otherwise indicated, we believe that the beneficial owners of the common stock listed below, based on information furnished by these owners, have sole investment and voting power with respect to these shares.

	Shares Beneficially Owned as of February 29, 2012		
Name and Address of Beneficial Owner of Common Stock	Number	Percent	
Liberty Media Corporation(1)	2,586,976,761	40%	
Englewood, CO 80112			
Wellington Management Company, LLP(2)	206,920,324	5.52%	
280 Congress Street			
Boston, MA 02210			

- (1) Liberty Radio LLC, an affiliate of Liberty Media Corporation, owns 12,500,000 shares of our Series B-1 Preferred Stock. Each share of our Series B-1 Preferred Stock is convertible into 206.9581409 shares of our common stock. The number of shares shown in the table above reflects the aggregate number of shares of our common stock into which shares of our Series B-1 Preferred Stock are convertible.
- (2) Based upon a Schedule 13G filed by Wellington Management Company, LLC on February 14, 2012. As of December 31, 2011, Wellington Management Company, LLP, in its capacity as investment advisor, may be

deemed to beneficially own 206,920,324 shares of our common stock which are held of record by clients of Wellington Management. Wellington Management has shared investment and voting power with respect to 206,920,324 and 163,596,847 shares of our common stock, respectively.

How much stock do our directors and executive officers own?

The following table shows the number of shares of common stock beneficially owned by each of our directors, each of our named executive officers and all of our directors and executive officers as a group as of February 29, 2012.

Name of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned(1)	Percent of Class
Joan L. Amble	889,285	*
Leon D. Black	896,698	*
David J.A. Flowers(2)	159,608	*
Lawrence F. Gilberti	424,059	*
Eddy W. Hartenstein	935,285	*
James P. Holden	99,413	*
Gregory B. Maffei(2)	159,608	*
John C. Malone(2)	159,608	*
James F. Mooney(3)	905,798	*
Jack Shaw	981,285	*
Carl E. Vogel	100,000	*
Vanessa A. Wittman	_	
Mel Karmazin	68,823,947	1.8
Scott A. Greenstein	4,763,638	*
James E. Meyer	5,971,501	*
Dara F. Altman	919,402	*
Patrick L. Donnelly	1,838,717	*
David J. Frear(4)	5,892,827	*
All Executive Officers and Directors as a Group (18 persons)	93,920,679	2.4%

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

- (1) These amounts include shares of common stock, restricted shares of common stock and restricted stock units that the individuals hold. Also included are the shares of common stock acquired under and held in our 401(k) savings plan as of February 29, 2012: Mr. Karmazin 323,947 shares; Mr. Greenstein 84,677 shares; Mr. Meyer 2,873 shares; Ms. Altman 48,098; Mr. Donnelly 12,717 shares; and Mr. Frear 81,227 shares.
- (2) Messrs. Flowers, Maffei and Malone are employees of Liberty Media Corporation, which beneficially owns 12,500,000 shares of our Series B-1 Preferred Stock, and they disclaim beneficial ownership of the shares owned by an affiliate of Liberty Media Corporation.
- (3) Includes 9,100 shares held as custodian for his child.
- (4) Includes 1,900 shares held by Mr. Frear's spouse.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of reports filed pursuant to Section 16(a) of the Exchange Act and written representations furnished to us during our most recent fiscal year, we know of no director, executive officer or beneficial owner of more than ten percent of our common stock who failed to file on a timely basis reports of beneficial ownership of our common stock as required by Section 16(a) of the Exchange Act, as amended, except that Thomas Barry, our Senior Vice President and Controller, filed a Form 4 one day late in August 2011 reporting a stock option award.

GOVERNANCE OF THE COMPANY

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

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

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

What are our policies and procedures for related party transactions?

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

Our related person transaction policy requires:

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

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

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

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

In 2011, there were no related party transactions that are required to be disclosed pursuant to the SEC rules and regulations.

Relationship with Liberty Media

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

As part of the transactions with Liberty Media, on February 17, 2009, we entered into an investment agreement (the "Investment Agreement") with Liberty Radio, LLC, an indirect wholly-owned subsidiary of Liberty Media Corporation. Pursuant to the Investment Agreement, we issued to Liberty Radio, LLC 12,500,000 shares of convertible preferred stock with a liquidation preference of \$0.001 per share in partial consideration for the loan investments described herein. The preferred stock is convertible into approximately 40% of our outstanding shares of common stock (after giving effect to such conversion).

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

- the grant or issuance of our equity securities;
- any merger or consolidation, or any sale of all or substantially all of our assets;
- any acquisition or disposition of assets other than in the ordinary course of business above certain thresholds;
- the incurrence of debt in amounts greater than a stated threshold;
- engaging in a business different than the business currently conducted by us; and

• amending our certificate of incorporation or by-laws in a manner that materially adversely affects the holders of the preferred stock.

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

On March 30, 2012, in response to the filing by Liberty Media Corporation with the Federal Communications Commission (the "FCC") of an application for consent to transfer of *de facto* control of Sirius XM, we 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.

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

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

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

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

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Introduction

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

Executive Summary

The Compensation Committee is responsible for developing and maintaining compensation programs for our named executive officers. The Compensation Committee has strived to design these compensation programs with great care, focusing first and foremost on the incentives that the programs promote. The Compensation Committee is keenly aware of the heightened sensitivity that compensation programs have been subjected to in recent years, particularly with regard to pay packages that could be deemed excessive. In the final analysis, the Compensation Committee believes that our ability to recruit and retain top executive talent is essential to our long-term success. Accordingly, the Compensation Committee believes it has successfully balanced the sometimes competing obligations to make decisions which meet the needs of our company against various "one-size-fits-all" legislative, regulatory and "best practice" mandates.

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

At our annual meeting in May 2011, we held an advisory "say on pay" vote on the compensation of our named executive officers. Our stockholders overwhelmingly approved the compensation of our named executive officers, with over 98% of the voting power of our common stock and Series B-1 Preferred Stock, voting together as a single class, present in person or by proxy and entitled to vote on the proposal casting votes in favor of our 2011 say-on-pay resolution. In making compensation decisions for 2011, the Compensation Committee considered the strong support our stockholders expressed for our pay for performance compensation philosophy and therefore did not make changes to the core elements of our compensation programs, except for the addition of a Section 162(m)-compliant bonus plan.

We intend to include an advisory "say on pay" vote on the compensation of our named executive officers every three years. Accordingly, the next such vote will be held at our 2014 annual meeting of stockholders.

Fiscal Year 2011 Performance Summary

We had a very successful year in 2011. In the face of increasing competition for our products, we continued to invest in infrastructure, new products, high-quality programming and our brand. Further, our financial results exceeded our projections and were reflected in a 12% increase in our year-over-year stock price. The following highlights our financial and operating results:

- achieving adjusted EBITDA growth of 17% to over \$731 million in 2011;
- increasing our revenue by 7%; and
- increasing our free cash flow by 98% to \$416 million, and reducing our long-term debt by over \$200 million.

In addition, 2011 was marked by key subscriber and content-based achievements and other measures that contributed to our continued growth and success, including:

- adding approximately 1.7 million net new subscribers, resulting in a total of nearly 21.9 million subscribers, an increase of over 8% as compared to 2010;
- launching SiriusXM 2.0, a technology which expanded our channel lineup to include new music, sports and comedy channels, as well as the debut of SiriusXM Latino, a suite of new Latin channels featuring programming from leading providers of Spanish-language music, sports, news, talk and entertainment; and
- introducing our Lynx portable radio, our most advanced radio to date that allows subscribers to pause, rewind, replay and store content.

In this CD&A, we use certain financial performance measures that are not calculated and presented in accordance with generally accepted accounting principles in the United States of America ("Non-GAAP"). These Non-GAAP financial measures include adjusted EBITDA and free cash flow. We also use in this CD&A subscriber churn, a performance metric which management uses in measuring our business. We use these Non-GAAP financial measures and other performance metrics to manage our business, set operational goals and, in certain cases, as a basis for determining compensation for our employees. Please refer to the glossary contained in our Annual Report for the year ended December 31, 2011 which accompanies this proxy statement for a discussion of such Non-GAAP financial measures and reconciliations to the most directly comparable GAAP measure and a discussion of these other performance metrics.

Overall Program Objectives and Processes

Program Objectives

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

We achieve these objectives through three primary compensation elements:

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

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

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

Processes and Compensation Decisions

The Compensation Committee regularly reviews our compensation practices to assess — in light of current market conditions, the status of our business and development and our financial condition and prospects — whether our existing compensation structure properly advances the near- and long-term interests of our stockholders. In 2011, the Compensation Committee engaged Exequity LLP to assist it in designing a bonus program that would qualify for the performance-based exception contained in Section 162(m) of the Internal Revenue Code. During 2011, Exequity did not provide advice to the Compensation Committee on other compensation-related decisions. Instead, the members of the Compensation Committee relied on their significant experience and informed judgment in making compensation decisions as to base salaries, annual bonuses and long-term incentive awards.

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

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

Total Compensation for Named Executive Officers

The Compensation Committee's goal is to award compensation that incentivizes our named executive officers to enhance value for our stockholders and is reasonable when all elements of potential compensation are considered. In making decisions with respect to any element of a named executive officer's compensation, the Compensation Committee considers the officer's level of responsibility, experience and contributions, and the

total compensation that may be awarded to the officer, including salary, annual bonus, long-term incentives, perquisites and other benefits. In addition, the Compensation Committee considers the other benefits to which the officer is entitled under his or her employment agreement, including compensation payable upon termination of employment. (The named executive officers are employed pursuant to agreements described under "Potential Payments upon Termination or Change-in-Control — Employment Agreements" below.)

Executive Compensation Elements

Our practices with respect to the primary compensation elements identified above, as well as other elements of compensation, are described below, followed by a discussion of the specific factors considered in determining key compensation elements for the named executive officers for 2011.

Base Salary

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

- the nature and responsibility of the position and, to the extent available and deemed relevant, salary norms for persons in similar positions at comparable companies;
- the expertise and past performance of the individual executive;
- the executive's salary history and his or her total compensation, including other cash bonus and stockbased awards;
- the competitiveness of the market for the executive's services; and
- the recommendations of our Chief Executive Officer (except as to his own compensation).

In setting base salaries, the Compensation Committee also considers the percent of base salary as a percentage of total compensation with the goal that a substantial percentage of each executive officer's total compensation should be performance-based.

Annual Bonus

The Compensation Committee may award annual bonuses in cash, restricted stock, restricted stock units, stock options or a combination thereof. The Compensation Committee believes that bonuses should take into consideration all factors relevant to the Company's and an executive's performance, including numerous financial and operational metrics, without being limited by a purely formulaic approach. None of our named executive officers is entitled to a guaranteed or minimum bonus.

The bonuses approved by the Compensation Committee for 2011 were intended to achieve two principal objectives:

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

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

In 2011, the Compensation Committee adopted a bonus program under our 2009 Long-Term Stock Incentive Plan, where the awards made under this bonus program were intended to qualify for the performance-based exception under Section 162(m) (the "NEO Bonus Plan"). Pursuant the NEO Bonus Plan, a bonus pool was established for our Chief Executive Officer and the four most highly compensated executive officers, other than our Chief Financial Officer, consisting of 2.75% of our EBITDA, calculated in accordance with generally accepted accounting principles. The maximum bonus that a named executive officer could receive under the NEO Bonus Plan was (i) limited by the percentages set forth below (which percentages were not changed during the performance year); and (ii) could not exceed the cash equivalent of 120 million shares (based on our share price as of the end of 2011). In addition, (i) no amounts could be paid under the NEO Bonus Plan unless a threshold amount of EBITDA was achieved for 2011, and (ii) the Compensation Committee retained the ability to exercise its negative discretion to award bonuses in amounts less than the maximum percentages listed below:

Chief Executive Officer	40%
President, Operations and Sales	20%
President and Chief Content Officer	20%
General Counsel	15%
Chief Administrative Officer	5%

After the end of the year, the Compensation Committee evaluated our actual performance against a set of guidelines, including a variety of key operating metrics included in our budget and business plan for 2011. As part of such evaluation, the Compensation Committee considered several metrics, including our increase in subscribers, revenue, adjusted EBITDA and free cash flow; our results in controlling subscriber churn and operating expenses; the introduction of new products and services during the year; and additional accomplishments and other factors the Compensation Committee deemed relevant. The Compensation Committee did not weigh the metrics it considered as part of its evaluation of our performance. In addition, for named executive officers (other than himself), our Chief Executive Officer recommended to the Compensation Committee individual bonus amounts, taking into account the responsibilities and contributions of each individual during the year, our performance and the percentage limits contained in the NEO Bonus Plan. These amounts were reviewed and discussed with the Compensation Committee by our Chief Executive Officer and, following consideration by the Compensation Committee, the Compensation Committee approved the amounts while exercising its negative discretion regarding the permitted percentage limits set forth in the NEO Bonus Plan. For our Chief Executive Officer, the Compensation Committee reviewed his performance for the year, determined that he should receive a bonus and determined the bonus amount, while exercising its negative discretion regarding the permitted percentage limits contained in the NEO Bonus Plan. The Compensation Committee determined that the bonuses to our named executive officers would be paid solely in cash. The bonus awards to our named executive officers are described below under "Fiscal Year 2011 Pay Implications — Payment of Performance-Based Discretionary Annual Bonuses for 2011" and are reflected in the Summary Compensation Table.

Long-term Incentive Compensation

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

Stock options have an exercise price equal to the market price on the date of grant, and therefore provide value to the executives if the executives create value for our stockholders. In addition, stock options generally vest over a period of four years and are generally subject to the executive's continued employment, which incentivizes the executives to sustain increases in stockholder value over extended periods of time. The specific

number of options granted is determined by the Compensation Committee with the assistance of our Chief Executive Officer (other than in the case of any stock options award to himself) and by using their informed judgment, taking into account the executive's role and responsibilities within the Company and the overall performance of the Company and our common stock, and is not based on any specific quantitative or qualitative factors. As part of the process, the Compensation Committee also considered the value and structure of the awards as a retention tool.

Retirement and Other Employee Benefits

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

Perquisites and Other Benefits for Named Executive Officers

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

Due to Mr. Meyer's principal residence being in Indianapolis, Indiana, we reimburse Mr. Meyer for the reasonable costs of an apartment in the New York metropolitan area and other incidental living expenses, up to a maximum of \$5,000 per month for rent. We also reimburse Mr. Meyer for the reasonable costs of coach class air-fare from his home in Indianapolis, Indiana, to our offices in New York City. We pay Mr. Meyer an additional amount to hold him harmless as a result of any federal, state or New York City income taxes imputed in respect of the expenses for which he receives reimbursement. The costs of these benefits for Mr. Meyer constitute less than 10% of his total compensation.

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

The employment agreements with our named executive officers provide for severance payments upon an involuntary termination of employment, including involuntary terminations following a change-in-control. These arrangements vary from executive to executive due to individual negotiations based on each executive's history and individual circumstances.

We believe that these severance and change-in-control arrangements mitigate some of the risk that exists for executives working in our highly competitive industry. These arrangements are intended to attract and retain qualified executives who could have other job alternatives that may appear to them, in the absence of these arrangements, to be less risky, and such arrangements allow the executives to focus exclusively on the Company's interests.

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

Fiscal Year 2011 Pay Implications

2011 Base Salary Decisions

During 2011, as part of an agreement to extend his employment, the Compensation Committee approved an increase in the base salary of Mr. Frear beginning in July 2011 from \$750,000 to \$850,000. As part of an

agreement to extend Ms. Altman's employment, the Compensation Committee also approved an increase in her base salary beginning in August 2011 from \$446,332 to \$500,000. The Compensation Committee believed that these increases were appropriate given the competitive market for their services and their individual performances.

We have entered into employment agreements with each of Messrs. Meyer, Greenstein and Donnelly that include increases in their base salaries during the term of the respective agreements. Messrs. Meyer and Donnelly waived the increase in their base salaries that each would have been entitled to in 2011 and 2012 under their employment agreements. We did not solicit those waivers; rather Messrs. Meyer and Donnelly approached us initially in 2010 and again in 2011 regarding the contractually required increases in their base salaries after weighing factors important to each of them. We understand that Messrs. Meyer and Donnelly waived their increases in base salaries principally as a demonstration of leadership and a signal to our employees that any current increase in their compensation would be based on our performance in the form of bonuses and increases in the value of their stock options.

In January 2011, Mr. Greenstein's base salary increased from \$925,000 to \$1,000,000 as required by the terms of his employment agreement. Mr. Greenstein waived the increase in his base salary that he would have been entitled to in January 2012 under his employment agreement. Again, we did not solicit this waiver. We understand that Mr. Greenstein waived the increase in his base salary for 2012 principally as a demonstration of leadership and a signal to our employees that any current increase in his compensation would be based on our performance in the form of bonuses and increases in the value of his stock options.

There was no base salary increase for Mr. Karmazin in 2011.

Payment of Performance-Based Discretionary Annual Bonuses for 2011

Following the end of 2011, the Compensation Committee met to determine whether to exercise its discretion to pay bonuses to our named executive officers with respect to 2011 and whether to approve a general cash bonus pool for our other employees. The Compensation Committee carefully reviewed our performance against multiple key metrics in our budget and business plan for 2011, including the generation of EBITDA, as required by the NEO Bonus Plan, our efforts to increase subscribers, revenue, adjusted EBITDA and free cash flow and to control subscriber churn and operating expenses, as well as reviewing our performance in launching new products and services.

Following its review of our 2011 performance, which the Compensation Committee determined to be superior, the Compensation Committee:

- approved a cash bonus pool to be divided among our employees, other than the named executive officers;
- reviewed the NEO Bonus Plan pool and exercised its negative discretion and approved the individual bonus amounts granted to each of the named executive officers under the NEO Bonus Plan; and
- reviewed and approved the bonus amount granted to our Chief Financial Officer whose bonus, pursuant to Section 162(m), is not included in the NEO Bonus Plan.

The actual amount of the bonus paid to each named executive officer was based on a combination of factors, including our 2011 corporate performance, his or her individual contributions and performance in his or her functional areas of responsibility and, with respect to all named executive officers other than himself, upon recommendations made by Mr. Karmazin, our Chief Executive Officer. The amount of Mr. Karmazin's bonus was approved by the board of directors following a recommendation from the Compensation Committee. Various specific factors taken into consideration in determining the bonus amounts for the named executive officers are set forth below, and the annual bonus for Mr. Karmazin is discussed below under the heading "Related Policies and Considerations — Compensation of our Chief Executive Officer."

Mr. Greenstein was awarded a bonus for his contributions during the year, including his role in the continued enhancement of our programming, such as the expansion of our channel lineup to include new music, sports and comedy channels, as well as the debut of SiriusXM Latino, a suite of new Latin channels featuring programming from leading providers of Spanish-language music, sports, news, talk and entertainment; securing and creating additional compelling and exclusive content; reducing the costs of certain programming; streamlining and introducing efficiencies into our programming operations; the sale of advertisements on our non-music channels; understanding and analyzing customer satisfaction levels as they relate to our programming and content offerings; and the continuing integration of our legacy operations.

Mr. Meyer was awarded a bonus for his contributions during the year, including his role in our addition of over 1.7 million net subscribers in 2011; analyzing, evaluating and managing our subscriber churn and new vehicle conversion rate; reducing subscriber acquisition costs; overseeing the development of our transmission and radio technology; introducing and marketing the first phase of our Sirius XM 2.0 functionality and products, including the introduction of our Lynx portable radio, our most advanced radio introduced to date; building our business in pre-owned vehicles, including establishing agreements with automakers for certified pre-owned programs and with large independent resellers, including AutoNation; and the continuing integration of our legacy operations.

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

Mr. Frear was awarded a bonus for his contributions during the year, including his regular on-going contributions as our chief financial officer and his role in managing our fixed and variable costs; overseeing our investor relations efforts; managing our relationships with debt rating agencies and successfully improving our debt rating; reducing our leverage ratio; overseeing our investments in Sirius XM Canada and completing the combination of XM Canada and Sirius Canada; managing the construction of our FM-6 and XM-6 satellites; and his efforts in the continued integration of our legacy operations, particularly in the areas of information technology and financial planning and reporting.

Ms. Altman was awarded a bonus for her contributions during the year, including her regular on-going contributions as our chief administrative officer and her role in managing our human resources function, including our employee development and diversity and inclusion initiatives, and managing our facilities and security operations; supervising the evaluation, management and consolidation of our real estate holdings, including the review of our New York City real estate portfolio and the extension of our New York City lease holdings; overseeing our DC-based operations; and the continuing integration of our legacy operations.

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

Long-Term Equity Grants — 2011 Stock Option Grants

In 2011, in connection with Mr. Frear and Ms. Altman entering into extensions of their employment agreements, we granted stock options to Mr. Frear and Ms. Altman. The specific number of options granted to each of these named executive officers was determined by the Compensation Committee with the assistance of our Chief Executive Officer, as further described below, and are identified in the Grants of Plan-Based Awards Table for 2011. The stock options granted to these named executive officers in 2011 generally vest in equal installments over four years, and are generally subject to the officer's continued employment through the vesting period, which enhances the retention value of the award and incentivizes the officers to create and sustain long-term value for our stockholders. These options are expected to be Mr. Frear's and Ms. Altman's primary long-term incentive compensation during the term of their employment agreements.

Except in connection with Mr. Frear and Ms. Altman entering into extended employment agreements with us in 2011, there were no other long-term equity grants to any of our named executive officers in 2011.

Employment Agreements with Mr. Frear and Ms. Altman

Consistent with our practice for our named executive officers, we entered into new employment agreements with Mr. Frear and Ms. Altman in 2011. The extended agreements, which are described in more detail below under the heading "Potential Payments upon Termination or Change-in-Control — Employment Agreements," increased Mr. Frear's base salary to \$850,000 from \$750,000 and increased Ms. Altman's base salary to \$500,000 from \$446,332. The extended agreements also provided Mr. Frear and Ms. Altman each with a grant of options to purchase 16,000,000 and 7,500,000 shares, respectively, of our common stock at an exercise price of \$2.18 and \$1.69 per share, respectively. These options vest in equal installments over four years, generally subject to their continued employment through the vesting period.

The Compensation Committee determined that the increases in base salaries and grants of options for both Mr. Frear and Ms. Altman were appropriate in light of their performance and necessary for us to retain and continue to properly incentivize them.

Fiscal Year 2012 Considerations

The Compensation Committee expects to review our compensation programs in 2012 with a view to ensuring that they continue to provide the correct incentives and are properly sized given the scope and complexity of our business and the competition we face. The Compensation Committee may employ the same process, or may adopt a modified or wholly different process, in making future bonus decisions, provided that with respect to 2012, the Compensation Committee has again adopted a bonus program which is intended to comply with Section 162(m) for our named executive officers (other than our Chief Financial Officer) under our 2009 Long-Term Stock Incentive Plan that is designed to promote the achievement of our key financial goals for 2012. This bonus program provides for a bonus pool which is based on a percentage of EBITDA; provided that no bonus amount is payable under such program if we do not achieve a specified level of EBITDA.

We expect to continue to respond to changes in economic conditions and our business with innovation and flexibility, as needed, to advance our objectives of motivating, attracting and retaining high-quality executives with the skills and experience necessary to achieve our key business objectives and increase stockholder value.

Related Policies and Considerations

Compensation of our Chief Executive Officer

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

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

In February 2012, the Compensation Committee awarded a cash bonus to Mr. Karmazin of \$9,200,000 in recognition of his performance and our corporate performance in 2011, including:

- increasing our net subscribers additions by over 1.7 million, resulting in a total of nearly 21.9 million subscribers, an increase of over 8% as compared to 2010;
- achieving adjusted EBITDA growth of 17% to over \$731 million in 2011;
- increasing our 2011 revenue by 7% over 2010 levels;
- increasing free cash flow by 98% to \$416 million;
- reducing our long-term debt by over \$200 million;
- improving our corporate debt ratings to BB and B2 from Standard & Poor's and Moody's, respectively, and lowering our leverage, further strengthening our liquidity position for future growth;
- introducing SiriusXM 2.0 functionality and products, including our Lynx portable radio;
- expanding our ability to identify and acquire subscribers in certified pre-owned and used vehicles and managing our investment in infrastructure in this area;
- adding compelling content to our services while reducing programming expenses;
- launching Sirius XM Latino, the most comprehensive radio channel offering in the United States for Spanish-speaking listeners;
- managing and implementing, including all communications and marketing efforts, a price increase to certain of our subscription services;
- improving our customer care experience, including through the launch of our Internet-based self care functionality and deployment of an Internet-based chat services;
- creating a corporate culture that fosters quality, creativity and innovation to differentiate our content and services; and
- maintaining Sirius XM as one of the largest subscription-based media companies in the United States.

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

As described above under "Fiscal Year 2012 Considerations," in 2012 the Compensation Committee adopted a plan applicable to annual bonuses for our Chief Executive Officer and the four other most highly compensated executive officers, other than our Chief Financial Officer. The Committee anticipates that this plan will result in tax deductibility for any compensation we pay to such executive officers that exceeds \$1 million in any taxable year. However, the Compensation Committee may from time to time approve compensation that is not deductible under Section 162(m) if it determines that it is in our best interest to do so.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based on such review and discussion, we recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference into our annual report on Form 10-K for the year ended December 31, 2011.

Compensation Committee

LAWRENCE F. GILBERTI, Chairman JAMES P. HOLDEN JACK SHAW CARL E. VOGEL

Summary Compensation Table

The following table provides information concerning total compensation earned or paid to our Chief Executive Officer, our Chief Financial Officer and our four other most highly compensated executive officers who served in such capacities as of December 31, 2011 for services rendered to us during each of the past three fiscal years. These six officers are referred to herein as the named executive officers.

Name and Principal Position	Year	Salary \$	Bonus \$	Stock Awards(1)	Option Awards(1)	All Other Compensation(2)	Total(3)
Mel Karmazin	2011	1,500,000	9,200,000	_	_	7,350	10,707,350
Chief Executive Officer	2010	1,500,000	8,400,000	_	_	7,350	9,907,350
	2009	1,250,000	7,000,000	_	35,209,440	7,350	43,466,790
Scott A. Greenstein	2011	1,000,000	1,250,000	_	_	7,350	2,257,350
President and Chief	2010	925,000	1,150,000	_	_	7,350	2,082,350
Content Officer	2009	850,000	1,000,000	850,035	7,986,116	27,134	10,713,285
James E. Meyer	2011	1,100,000	1,750,000	_	_	236,221	3,086,221
President, Operations and Sales	2010	1,100,000	1,500,000	_		159,888	2,759,888
	2009	950,000	1,250,000	1,000,022	11,500,278	176,632	14,876,932
Dara F. Altman	2011	465,666	775,000	_	7,470,308	7,350	8,718,324
Executive Vice President and	2010	446,332	700,000	_	750,046	7,350	1,903,728
Chief Administrative Officer	2009	446,332	600,000	500,029	750,139	19,006	2,315,506
Patrick L. Donnelly	2011	575,000	1,050,000	_	_	7,350	1,632,350
Executive Vice President,	2010	573,301	900,000	_	6,000,000	7,350	7,480,651
General Counsel and Secretary	2009	525,000	750,000	600,020	1,000,336	21,328	2,896,684
David J. Frear	2011	795,833	1,100,000	_	18,895,552	7,350	20,798,735
Executive Vice President	2010	750,000	1,000,000	_	1,600,022	7,350	3,357,372
and Chief Financial Officer	2009	750,000	850,000	700,012	1,000,336	23,650	3,323,998

⁽¹⁾ The aggregate grant date fair value of stock option awards was computed in accordance with Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") Topic 718 (excluding estimated forfeitures). The assumptions used in the valuation are discussed in Note 15 to our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2011.

- (2) For each named executive officer, the amount in the "All Other Compensation" column for 2011 reflects \$7,350 of matching contributions by us under our 401(k) savings plan paid in the form of shares of our common stock. "All Other Compensation" for Mr. Meyer also includes amounts reimbursed for temporary living and travel expenses, all of which are reimbursed based upon receipts. In 2011, Mr. Meyer was paid \$70,000 for rent, \$52,309 for travel and \$5,240 for utilities. Travel-related expenses include airfare, taxi/car services, and other incidental travel-related costs. In addition, "All Other Compensation" for Mr. Meyer includes \$101,322 for reimbursement of taxes associated with these expenditures in accordance with his employment agreement.
- (3) The amount of compensation reported for federal tax purposes for Mr. Karmazin in 2009 was \$1,620,316. We are providing this information to highlight the difference between compensation reported under the SEC rules and compensation amounts realized and reported as taxable income on Mr. Karmazin's Form W-2. The amount reported on Mr. Karmazin's W-2 includes, among other items: (1) total cash wages and bonuses paid to Mr. Karmazin in 2009, less amounts deferred under our 401(k) plan, and (2) the value of restricted stock awards that vested during 2009.

Grants of Plan-Based Awards in 2011

The following table provides information with respect to equity grants made during fiscal year 2011 to the named executive officers.

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options (#)(1)	Exercise or Base Price of Option Awards (\$/Sh)(2)	Grant Date Fair Value of Stock and Option Awards (\$)(3)
Mel Karmazin	_	_	_	_
Scott A. Greenstein	_	_	_	_
James E. Meyer	_	_	_	_
Dara F. Altman	8/23/2011	7,500,000	1.69	7,470,308
Patrick L. Donnelly	_	_	_	_
David J. Frear	7/21/2011	16,000,000	2.18	18,895,522

- (1) All grants were made under the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan. The stock option awards granted to Ms. Altman and Mr. Frear vest in equal annual installments over four years from the date of grant and have a term of ten years.
- (2) The exercise price of the options granted to Ms. Altman on August 23, 2011 is equal to the closing price of our common stock on the date of grant. The exercise price of the options granted to Mr. Frear on July 21, 2011 is equal to the last sale price of our common stock prior to the execution on July 21, 2011 of the employment agreement with Mr. Frear.
- (3) The aggregate grant date fair value of stock option awards was computed in accordance with FASB ASC Topic 718 (excluding estimated forfeitures). The assumptions used in the valuation are discussed in Note 15 to our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2011.

Outstanding Equity Awards at Fiscal Year-End 2011

The following table provides information with respect to the status at December 31, 2011 of all unexercised options awarded to each of the named executive officers.

	Option Awards					
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date		
Mel Karmazin(1)	60,000,000	60,000,000	0.43	12/31/2014		
Scott A. Greenstein(2)	1,000,000	, , , <u> </u>	3.14	5/5/2014		
· /	1,250,000	_	6.6020	8/8/2015		
	435,000	_	3.70	2/1/2017		
	455,250	151,750	2.87	1/23/2018		
	6,942,034	13,884,068	0.43	7/27/2019		
James E. Meyer(3)	66,666	_	1.04	8/11/2013		
	1,350,000	_	5.54	2/2/2016		
	512,000	_	3.70	2/1/2017		
	530,250	176,750	2.87	1/23/2018		
	830,500	1,661,000	0.6735	8/31/2019		
	8,422,992	12,592,492	0.5752	10/14/2019		
Dara F. Altman(4)	830,500	830,500	0.6735	8/31/2019		
	263,075	789,225	1.04	8/9/2020		
	_	7,500,000	1.69	8/23/2021		
Patrick L. Donnelly(5)	16,666	_	1.04	8/11/2013		
	120,000	_	5.71	2/1/2016		
	256,000	_	3.70	2/1/2017		
	1,450,000	_	2.72	5/17/2017		
	1,107,500	1,107,500	0.6735	8/31/2019		
	3,290,874	9,872,621	0.6669	1/14/2020		
David J. Frear(6)	1,150,000	_	1.85	8/11/2013		
	700,000	_	6.61	8/10/2015		
	307,000		3.70	2/1/2017		
	362,250	120,750	2.87	1/23/2018		
	1,500,000		3.10	2/12/2018		
	1,107,500	1,107,500	0.6735	8/31/2019		
	561,200	1,683,600	1.04	8/9/2020		
	_	16,000,000	2.18	7/21/2021		

⁽¹⁾ Outstanding equity awards for Mr. Karmazin vest in four equal installments on December 31, 2010, December 31, 2011, June 30, 2012 and December 31, 2012.

⁽²⁾ Outstanding equity awards for Mr. Greenstein vest as follows: options granted at an exercise price of \$3.14 vested immediately on the date of grant on May 5, 2004; options granted at an exercise price of \$6.6020 vested in three equal annual installments from the date of grant on August 8, 2005; options granted at an exercise price of \$3.70 vested in four equal annual installments from the date of grant on February 1, 2007; options granted at an exercise price of \$2.87 vested in four equal annual installments from the date of grant on January 23, 2008; and options granted at an exercise price of \$0.43 vest in four equal annual installments commencing on July 26, 2010.

⁽³⁾ Outstanding equity awards for Mr. Meyer vest as follows: options granted at an exercise price of \$1.04 vested in three equal annual installments on July 1, 2004, July 1, 2005 and July 1, 2006; options granted at

- an exercise price of \$5.54 vested in four equal annual installments from the date of grant on February 2, 2006; options granted at an exercise price of \$3.70 vested in four equal annual installments from the date of grant on February 1, 2007; options granted at an exercise price of \$2.87 vested in four equal annual installments from the date of grant on January 23, 2008; options granted at an exercise price of \$0.6735 vest in four equal annual installments from the date of grant on August 31, 2009; and options granted at an exercise price of \$0.5752 vest in four equal annual installments from the date of grant on October 14, 2009.
- (4) Outstanding equity awards for Ms. Altman vest as follows: options granted at an exercise price of \$0.6735 vest in four equal annual installments from the date of grant on August 31, 2009; options granted at an exercise price of \$1.04 vest in four equal annual installments from the date of grant on August 9, 2010; and options granted at an exercise price of \$1.69 vest in four equal annual installments from the date of grant on August 23, 2011.
- (5) Outstanding equity awards for Mr. Donnelly vest as follows: options granted at an exercise price of \$1.04 vested in three equal annual installments on July 1, 2004, July 1, 2005 and July 1, 2006; options granted at an exercise price of \$5.71 vested in four equal annual installments from the date of grant on February 1, 2006; options granted at an exercise price of \$3.70 vested in four equal annual installments from the date of grant on February 1, 2007; options granted at an exercise price of \$2.72 vested in three equal annual installments from the date of grant on May 17, 2007; options granted at an exercise price of \$0.6735 vest in four equal annual installments from the date of grant on August 31, 2009; and options granted at an exercise price of \$0.6669 vest in four equal annual installments from the date of grant on January 14, 2010.
- (6) Outstanding equity awards for Mr. Frear vest as follows: options granted at an exercise price of \$1.85 vested either (i) in three equal annual installments on July 1, 2004, July 1, 2005, and July 1, 2006, (ii) on March 15, 2004 as a result of the satisfaction of performance targets for the year ended December 31, 2003, or (iii) on March 15, 2005 as a result of the satisfaction of performance targets for the year ended December 31, 2004; options granted at an exercise price of \$6.61 vested in three equal annual installments from the date of grant on August 10, 2005; options granted at an exercise price of \$3.70 vested in four equal annual installments from the date of grant on February 1, 2007; options granted at an exercise price of \$2.87 vested in four equal annual installments from the date of grant on January 23, 2008; options granted at an exercise price of \$3.10 vested in three equal annual installments from the date of grant on February 12, 2008; options granted at an exercise price of \$0.6735 vest in four equal annual installments from the date of grant on August 31, 2009; options granted at an exercise price of \$1.04 vest in four equal annual installments from the date of grant on August 9, 2010; and options granted at an exercise price of \$2.18 vest in four equal annual installments from the date of grant on July 21, 2011.

Option Exercises and Stock Vested in 2011

The following table provides information with respect to option exercises and restricted stock and restricted stock units that vested during 2011.

	Option A	Awards	Stock Awards			
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(1)		
Mel Karmazin	_		_	_		
Scott A. Greenstein	_	_	_	_		
James E. Meyer	_	_	_	_		
Dara F. Altman	_	_	85,866	138,674		
Patrick L. Donnelly	_	_	_	_		
David J. Frear	_	_	100,000	180,500		

⁽¹⁾ Value realized on vesting is based on the closing price on the NASDAQ Global Select Market of our common stock on the date of vesting.

Non-Qualified Deferred Compensation and Pension Benefits

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

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

Employment Agreements

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

Mel Karmazin

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

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

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

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

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

Scott A. Greenstein

In July 2009, we entered into a new employment agreement with Scott A. Greenstein to continue to serve as our President and Chief Content Officer through July 27, 2013. The employment agreement provides for an initial annual base salary of \$850,000 and specified increases to no less than \$925,000 in January 2010, \$1,000,000 in January 2011, \$1,100,000 in January 2012, and \$1,250,000 in January 2013. Mr. Greenstein waived the increase in his base salary that was scheduled to take effect in January 2012 under his employment agreement. Mr. Greenstein is also entitled to participate in any bonus plans generally offered to our executive officers.

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

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

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

James E. Meyer

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

In connection with the execution of the 2009 employment agreement, we granted Mr. Meyer an option to purchase 25,184,984 shares of our common stock at an exercise price of \$0.5752 per share (the closing price of our common stock on date of the employment agreement). The options generally vest in four equal annual installments on each of October 14, 2010, October 14, 2011, October 14, 2012 and October 14, 2013, and expire on October 14, 2019, with potential accelerated vesting upon the termination of Mr. Meyer's employment agreement by us without cause or by him for good reason. If Mr. Meyer's employment is terminated due to his death or by us as a result of his disability, the vesting of the portion of his option award that otherwise would have become vested within 12 months following the date of such termination will accelerate.

If Mr. Meyer's employment is terminated without cause or he terminates his employment for good reason, subject to his execution of a release of claims and his compliance with certain restrictive covenants, we are obligated to continue his health benefits for 18 months and his life insurance benefits for one year and pay him a lump sum payment within 60 days, equal to Mr. Meyer's annual base salary plus the greater of (x) a bonus equal to 60% of his then annual base salary or (y) the prior year's bonus actually paid to him (the "Designated Amount"). In the event Mr. Meyer elects to retire in May 2013, subject to his execution of a release of claims and his compliance with certain restrictive covenants and generally in lieu of any other payments under his employment agreement, we are obligated to continue his health benefits for two years and pay him a lump sum within 60 days equal to two times the Designated Amount.

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

Dara F. Altman

In August 2011, we entered into a new employment agreement with Dara F. Altman to continue to serve as our Executive Vice President and Chief Administrative Officer through August 15, 2015. This employment agreement provides for an annual base salary of \$500,000, subject to approved increases.

In connection with the execution of the employment agreement, we granted Ms. Altman an option to purchase 7,500,000 shares of our common stock at an exercise price of \$1.69 per share (the last sale price of our common stock on The NASDAQ Global Select Market on the date of execution of the employment agreement). The option will generally vest in four equal annual installments on each of August 23, 2012, August 23, 2013, August 23, 2014 and August 23, 2015, and expires on August 23, 2021, with potential accelerated vesting upon the termination of Ms. Altman's employment agreement by us without cause, by her for good reason, due to her death or by us as a result of disability.

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

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

Patrick L. Donnelly

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

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

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

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

David J. Frear

In July 2011, we entered into a new employment agreement with David J. Frear to continue to serve as our Executive Vice President and Chief Financial Officer through July 20, 2015. The employment agreement provides for an annual base salary of \$850,000, subject to approved increases.

In connection with the execution of the employment agreement, we granted Mr. Frear an option to purchase 16,000,000 shares of our common stock at an exercise price of \$2.18 per share (the last sale price of our common stock on The NASDAQ Global Select Market on the date of execution of the employment agreement). The option will generally vest in four equal annual installments on each of July 21, 2012, July 21, 2013, July 21, 2014 and July 21, 2015, and expires on July 21, 2021, with potential accelerated vesting upon the termination of Mr. Frear's employment agreement by us without cause, by him for good reason, due to his death or by us as a result of disability.

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

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

2003 Long-Term Stock Incentive Plan

Messrs. Greenstein, Meyer, Donnelly and Frear also have outstanding options as of December 31, 2011 that were granted under the 2003 Long-Term Stock Incentive Plan. Under the 2003 Long-Term Stock Incentive Plan, the outstanding equity awards granted to these named executive officers are subject to potential accelerated vesting upon a change of control. In addition, Mr. Frear's award agreements relating to options and restricted stock units granted to him in February 2008 under the 2003 plan provide that such equity awards are subject to potential accelerated vesting upon his death and disability. All of the outstanding options granted under the 2003 plan held by the named executive officers were "out-of the money" as of December 31, 2011, and, therefore, are not included in the table of potential payments and benefits below.

2009 Long-Term Stock Incentive Plan

All of our named executive officers have outstanding equity awards as of December 31, 2011 that were granted under the 2009 Long-Term Stock Incentive Plan. Under the terms of the 2009 plan, the outstanding equity awards granted to the named executive officers are subject to potential accelerated vesting upon termination without cause by the company or termination by the executive for good reason during a two year period following a change of control, to the extent outstanding awards granted under the plan are either assumed, converted or replaced by the resulting entity in the event of a change of control.

Potential Payments and Benefits

The following table describes the potential payments and benefits under the named executive officers' agreements and our stock incentive plans to which they would have been entitled if a termination of employment or change-in-control had occurred as of December 30, 2011:

Name	Triggering Event	Lump Sum Severance Payment (\$)	Equity	Continuation of Insurance Benefits(2) (\$)	Excise Tax Gross-Up (\$)	Total (\$)
Mel Karmazin	. Change-in-control Termination due to death or	_	83,400,000		_	83,400,000
	disability Termination without cause or	_	83,400,000	_	_	83,400,000
	for good reason Termination without cause or for good reason following		83,400,000	13,941	_	84,913,941
Scott A. Greenstein	change-in-control Termination due to death or	1,500,000	83,400,000	13,941	_	84,913,941
Scott A. Greenstein	disability Termination without cause or	_	19,298,855	_	_	19,298,855
	for good reason Termination without cause or for good reason following	2,150,000	19,298,855	21,233	_	21,470,088
LEM	change-in-control	2,150,000	19,298,855	21,233	_	21,470,088
James E. Meyer	. Termination due to death or disability Termination without cause or	_	7,837,567	_	_	7,837,567
	for good reason Termination for scheduled	2,600,000	15,675,134	31,454	_	18,306,588
	retirement(3) Termination without cause or for good reason following	5,200,000	_	52,823	_	5,252,823
Dogo E. Altmon	change-in-control . Termination due to death or	2,600,000	17,579,471	31,454	_	20,210,924
Dara F. Altman	disability Termination without cause or	_	975,000	_	_	975,000
	for good reason Termination without cause or for good reason following	1,200,000	975,000	21,233	_	2,196,233
D	change-in-control	1,200,000	2,542,764	21,233	_	3,763,997
Patrick L. Donnelly	. Termination due to death or disability Termination without cause or	_	11,384,119	_	_	11,384,119
	for good reason Termination without cause or for good reason following	1,475,000	11,384,119	21,233	_	12,880,352
	change-in-control	1,475,000	12,653,868	21,233	_	14,150,101
David J. Frear	Termination without cause or for good reason Termination without cause or for good reason following a	1,850,000	_	21,233	_	1,871,233
	change-in-control	1,850,000	2,582,957	21,233	_	4,454,190

⁽¹⁾ Amounts were calculated based on the closing price on the NASDAQ Global Select Market of our common stock on December 30, 2011 of \$1.82. The accelerated vesting of options is valued at (a) the difference

- between the closing price and the exercise price of the options multiplied by (b) the number of shares of common stock underlying the options.
- (2) Assumes that medical and dental benefits would be continued under COBRA for up to 18 months at current rates; thereafter assumes rate of two times current employer costs, unless otherwise indicated in the employment agreement. Assumes that life insurance would be continued at rate of two times current employer cost.
- (3) Refers to scheduled retirement in May 2012 pursuant to the terms of Mr. Meyer's employment agreement, as in effect on December 31, 2011.

ITEM 2 — RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

The Audit Committee has selected KPMG LLP ("KPMG") as our independent registered public accountants for 2012. As such, KPMG will audit and report on our financial statements for the year ending December 31, 2012 and on the effectiveness of internal control over financial reporting as of December 31, 2012. KPMG has served as our independent registered public accountants since September 2008. The Audit Committee and the board are requesting, as a matter of policy, that stockholders ratify the selection of KPMG. The Audit Committee and the board are not required to take any action as a result of the outcome of the vote on this proposal.

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

The board of directors unanimously recommends a vote "FOR" the ratification of KPMG LLP as our independent registered public accountants for 2012.

Principal Accountant Fees and Services

The following table sets forth the fees billed to us by KPMG as of and for the years ended December 31, 2011 and 2010:

	For the Year Ended December 31,		
	2011	2010	
Audit fees(1)	\$1,715,660	\$1,872,327	
Audit-related fees(2)	277,006	98,350	
Tax fees(3)	113,365	22,969	
All other fees(4)	28,121		
	\$2,134,152	\$1,993,646	
	28,121	<u> </u>	

- (1) Audit fees billed by KPMG related to the audits of our annual consolidated financial statements and internal control over financial reporting; the review of our interim consolidated financial statements; review of documents filed with the SEC; and reimbursement for direct out-of-pocket expenses.
- (2) Audit-related fees billed by KPMG related to audits of employee benefit plans, licensing and contractual compliance services, and financial due diligence services.
- (3) Tax fees billed by KPMG LLP for services relating to federal, state and local tax consulting.
- (4) All other fees billed by KPMG LLP related to seminars purchased by us.

Pre-Approval Policy for Services of Independent Auditor

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

- The independent registered public accounting firm is not permitted to perform consulting, legal, book-keeping, valuation, internal audit, management functions, or other prohibited services, under any circumstances;
- The engagement of our independent registered public accounting firm, including related fees, with respect to the annual audits and quarterly reviews of our consolidated financial statements is specifically approved by the Audit Committee on an annual basis;
- The Audit Committee reviews and pre-approves a detailed list of other audit and audit-related services annually or more frequently, if required. Such services generally include services performed under the audit and attestation standards established by regulatory authorities or standard setting bodies and include services related to SEC filings, employee benefit plan audits and subsidiary audits;

- The Audit Committee reviews and pre-approves a detailed list of permitted non-audit services annually or more frequently, if required; and
- The Audit Committee pre-approves each proposed engagement to provide services not previously
 included in the approved list of audit and non-audit services and for fees in excess of amounts previously
 pre-approved.

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

All of the services covered under the captions "Audit Fees", "Audit-Related Fees" and "Tax Fees" were pre-approved by the Audit Committee.

Who is the Audit Committee's financial expert?

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

REPORT OF THE AUDIT COMMITTEE

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

In the performance of its oversight function, the Audit Committee reviewed and discussed our audited financial statements with management and with our independent registered public accounting firm. The Audit Committee also discussed with the independent registered public accounting firm the matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 32007. In addition, the Audit Committee received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence, and discussed with the independent registered public accounting firm their independence.

Based upon the review and discussions described in the preceding paragraph, the Audit Committee recommended to the board of directors that our audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC.

Audit Committee

Joan L. Amble, Chairwoman Eddy W. Hartenstein James P. Holden James F. Mooney Vanessa A. Wittman

OTHER MATTERS

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

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 22, 2012

This proxy statement and our annual report for the year ended December 31, 2011 are available for you to view online at http://www.proxyvoting.com/siri.

By Order of the Board of Directors,

Patrick L. Donnelly *Executive Vice President*,

Patrick L. Bonnell

General Counsel and Secretary

New York, New York April 12, 2012

We make available, free of charge on our website, all of our filings that are made electronically with the SEC, including Forms 10-K, 10-Q and 8-K. To access these filings, go to our website, www.siriusxm.com, and click on "Reports & Filings" and then on "SEC Filings" under the "Investor Relations" heading. Copies of our Annual Report on Form 10-K for the year ended December 31, 2011, including financial statements and schedules thereto, are also available without charge to stockholders upon written request addressed to:

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



2011 ANNUAL REPORT

Special Note About Forward-Looking Statements

We have made various statements in the annual report 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 forwardlooking statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Executive Summary

We broadcast our music, sports, 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 2 Chang		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 Engineering, design and	222,773	215,454	228,956	7,319	3%	(13,502)	(6%)
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	207,000	270,071	205,.20	(0,011)	(= /0)	(55,75)	(12/0)
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	(201020)		(2.2.2.2.2.2.2.2.2.2.2.2.2.2.2.2.2.2.2.	(0.505)			
capitalized	(304,938)	(295,643)	(315,668)	(9,295)	(3%)	20,025	6%
Loss on extinguishment of debt and	(7.206)	(120, 120)	(267.646)	112.014	0.407	147.506	E E 01
credit facilities, net	(7,206)	(120, 120)	(267,646)	112,914	94%	147,526	55%
(loss)	73,970	(5,375)	5,576	79,345	nm	(10,951)	(196%)
Other income	3,252	3,399	3,355	(147)	(4%)	(10,931)	1%
Total other expense	$\frac{3,232}{(234,922)}$	(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%

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 multisubscription 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 Y	ears Ended Decer	nber 31,		
	2011	2010	2009		
Beginning subscribers Gross subscriber additions Deactivated subscribers	20,190,964 8,696,020 (6,994,160)	18,772,758 7,768,827 (6,350,621)	19,003,856 6,208,482 (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 Paid promotional	17,908,742 3,984,082	16,686,799 3,504,165	15,703,932 3,068,826		
Ending subscribers	21,892,824	20,190,964	18,772,758		
Self-pay Paid promotional	1,221,943 479,917	982,867 435,339	154,275 (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 21 through 27 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 21 through 27) 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
(in thousands, except for per subscriber amounts)						
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	2,838,898	\$2	2,526,703
Adjusted EBITDA	\$	731,018	\$	626,288	\$	462,539

Note: See pages 21 through 27 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 21 through 27 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 21 through 27 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 21 through 27 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 21 through 27 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 21 through 27 for more details.)

	Unaudited For the Years Ended December 31,					
	2011	2010	2009			
(in thousands)						
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	\$3,025,434	\$2,838,898	\$2,526,703			

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 21 through 27 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	2010	2009	2011 vs. 2010	2010 vs. 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
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
\$ 267,880	\$ 273,691	\$ 309,450
\$ —	\$ 66,731	\$ 26,964
\$ 7,206	\$ 120,120	\$ 267,646
\$ (75,768)	\$ —	\$ —
\$ 53,190	\$ 60,437	\$ 73,981
\$(275,338)	\$(250,727)	\$(202,054)
	\$ 267,880 \$ \$ 7,206 \$ (75,768) \$ 53,190	2011 2010 \$ 267,880 \$ 273,691 \$ — \$ 66,731 \$ 7,206 \$ 120,120 \$ (75,768) \$ — \$ 53,190 \$ 60,437

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 this annual report, 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 this annual report.

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 this annual report that are reasonably likely to have a material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Contractual Cash Commitments

For a discussion of our "Contractual Cash Commitments," refer to Note 17 to our consolidated financial statements in this annual report.

Related Party Transactions

For a discussion of "Related Party Transactions," refer to Note 11 to our consolidated financial statements in this annual report.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods. Accounting estimates require the use of significant management assumptions and judgments as to future events, and the effect of those events cannot be predicted with certainty. The accounting estimates will change as new events occur, more experience is acquired and more information is obtained. We evaluate and update our assumptions and estimates on an ongoing basis and use outside experts to assist in that evaluation when we deem necessary. We have disclosed all significant accounting policies in Note 2 to our consolidated financial statements in this annual report.

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	\$ 731,018	\$ 626,288	\$ 462,539		

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:

	Unaudited For the Year Ended December 31, 2011					
(in thousands)	As Reported	Purchase Price Accounting Adjustments	Allocation of Share-based Payment Expense	Adjusted		
	As Reported	Aujustinents	1 ayment Expense	Aujusteu		
Revenue:						
Subscriber revenue	\$2,595,414	\$ 3,659	\$ —	\$2,599,073		
fees	73,672	_		73,672		
Equipment revenue	71,051	_	_	71,051		
Other revenue	274,387	7,251		281,638		
Total revenue	\$3,014,524	\$ 10,910	<u> </u>	\$3,025,434		
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	\$2,338,407	\$277,258	<u> </u>	\$2,615,665		

⁽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	\$53,188	<u>\$181</u>	<u>\$ —</u>	\$53,369

Unaudited	For the	Voor	Ended	December	31	2010
Unaudited	ror me	: rear	randed	December	.71.	. 2010

(in thousands)	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	<u>\$</u>	\$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	(2.000			62 000
related costs	63,800	_	_	63,800
Share-based payment expense(b)			63,309	63,309
Total operating expenses	\$2,351,578	\$261,832	<u> </u>	\$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	<u>_</u>	32,147
Total share-based payment expense	\$60,437	\$2,872	<u>\$ —</u>	\$63,309

Unaudited	For the	Voor	Ended	Docombor	31 2000
Unaudited	ror the	rear	ranaea	December	31, 2009

		udited i or the rear	Bilded December 61,	
(in thousands)	As Reported	Purchase Price Accounting Adjustments	Allocation of 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	<u> </u>	\$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	22.007			22.007
related costs	32,807		_	32,807
Share-based payment expense(b)			78,782	78,782
. ,			10,102	
Total operating expenses	\$2,244,312	<u>\$240,891</u>	<u> </u>	\$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	<u>\$ —</u>	\$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			
	\$ 2,904,647	\$ 2,727,494	\$ 2,434,750			
Daily weighted average number of subscribers	20,903,908	19,385,055	18,529,696			
ARPU	\$ 11.58	\$ 11.73	\$ 10.95			

<u>Average self-pay monthly churn</u> — 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
	\$	258,235	\$	239,754	\$	232,405
Daily weighted average number of subscribers	_2	0,903,908	_1	9,385,055	_1	8,529,696
Customer service and billing expenses, per average subscriber	\$	1.03	\$	1.03	\$	1.05

 $\underline{\text{Free cash flow}}$ — 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				
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	\$ 415,742	\$ 210,481	\$ 185,319		

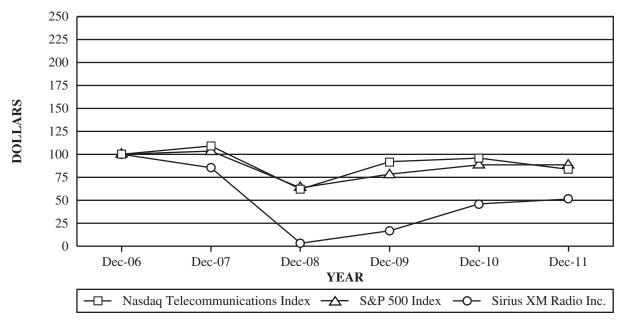
<u>New vehicle consumer conversion rate</u> — is defined as the percentage of owners and lessees of new vehicles that receive our service and convert to become self-paying subscribers after the initial promotion period. At the time satellite radio enabled vehicles are sold or leased, the owners or lessees 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.

<u>Subscriber acquisition cost, per gross subscriber addition</u> — 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				
(GAAP)	(37,956) 85,491	(36,074) 79,439	(10,164) 61,164				
	\$ 482,017	\$ 456,406	\$ 391,506				
Gross subscriber additions	8,696,020	7,768,827	6,208,482				
SAC, per gross subscriber addition	\$ 55	\$ 59	\$ 63				

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

	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))
Plan category	(a)	(b)	(c)
(shares in thousands)			
Equity compensation plans approved by security holders	462,086	\$1.32	197,606
by security holders	_	_	_
Total	462,086	\$1.32	197,606

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 this annual report. 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. This selected financial data should be read in conjunction with the Consolidated Financial Statements and related notes thereto included in this annual report on and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this annual report.

	As of and for the Years Ended December 31,									
		2011		2010		2009(1)	2	008(1)(2)		2007
(in thousands, except per share data)										
Statements of Operations Data:										
Total revenue	\$3	3,014,524	\$2	2,816,992	\$2	,472,638	\$ 1	1,663,992	\$	922,066
Net income (loss) attributable to common										
stockholders	\$	426,961	\$	43,055	\$ ((538,226)	\$(5	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	3,744,606	3	,693,259	3	,585,864	2	2,169,489	1	,462,967
Weighted average common shares										
outstanding — diluted	6	5,500,822	6	5,391,071	3.	,585,864	2	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		,383,086		,322,206		7,527,075		,687,231
Long-term debt, net of current portion		3,012,351	\$3	,021,763	\$3	,063,281	- :	2,820,781		,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.

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.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.



Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Sirius XM Radio Inc. and subsidiaries as of December 31, 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 statements chedule 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		
(in thousands, except per share data) 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	3,014,524	2,816,992	2,472,638		
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	2,338,407	2,351,578	2,244,312		
Income from operations	676,117	465,414	228,326		
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	(234,922)	(417,739)	(574,383)		
Income (loss) before income taxes	441,195	47,675	(346,057)		
Income tax expense	(14,234)	(4,620)	(5,981)		
Net income (loss)	426,961	43,055	(352,038)		
Preferred stock beneficial conversion feature			(186,188)		
Net income (loss) attributable to common stockholders	\$ 426,961	\$ 43,055	\$ (538,226)		
Net income (loss) per common share:	¢ 0.11	¢ 0.01	¢ (0.15)		
Basic	\$ 0.11	\$ 0.01	\$ (0.15)		
Diluted	\$ 0.07	\$ 0.01	\$ (0.15)		
Weighted average common shares outstanding:					
Basic	3,744,606	3,693,259	3,585,864		
Diluted	6,500,822	6,391,071	3,585,864		

SIRIUS XM RADIO INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	As of Dec	ember 31,
	2011	2010
(in thousands, except share and per share data)		
ASSETS		
Current assets: Cash and cash equivalents Accounts receivable, net Receivables from distributors Inventory, net Prepaid expenses Related party current assets Deferred tax asset Other current assets	\$ 773,990 101,705 84,817 36,711 125,967 14,702 132,727 6,335	\$ 586,691 121,658 67,576 21,918 134,994 6,719 44,787 7,432
Total current assets Property and equipment, net Long-term restricted investments Deferred financing fees, net Intangible assets, net Goodwill Related party long-term assets Other long-term assets Total assets	1,276,954 1,673,919 3,973 42,046 2,573,638 1,834,856 54,953 35,657 \$7,495,996	991,775 1,761,274 3,396 54,135 2,632,688 1,834,856 33,475 71,487 \$7,383,086
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities: Accounts payable and accrued expenses Accrued interest Current portion of deferred revenue Current portion of deferred credit on executory contracts Current maturities of long-term debt Related party current liabilities	\$ 543,193 70,405 1,333,965 284,108 1,623 14,302	\$ 593,174 72,453 1,201,346 271,076 195,815 15,845
Total current liabilities Deferred revenue Deferred credit on executory contracts Long-term debt Long-term related party debt Deferred tax liability Related party long-term liabilities Other long-term liabilities	2,247,596 198,135 218,199 2,683,563 328,788 1,011,084 21,741 82,745	2,349,709 273,973 508,012 2,695,856 325,907 914,637 24,517 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. Convertible preferred stock, series C junior; no shares issued and outstanding at December 31, 2011 and 2010		13
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 71 10,484,400 (9,784,092)	3,933 (5,861) 10,420,604 (10,211,053)
Total stockholders' equity	704,145	207,636
Total liabilities and stockholders' equity	\$ 7,495,996	\$ 7,383,086

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

	Series A Con Preferred S		Convert Perpett Preferred Series I	ial Stock,	Common S	tock	Accumulated Other Comprehensive	Additional Paid-in	Accumulated 5	Total Stockholders'
	Shares	Amount	Shares	Amount	Shares		Income (loss)	Capital	Deficit	Equity
(in thousands, except share and per share data) Balance at January 1, 2009 Net loss Other comprehensive loss:		\$ 25	_	\$—	3,651,765,837	\$3,652	\$(7,871)	\$ 9,795,951	\$ (9,715,882) (352,038)	\$ 75,875 (352,038)
Unrealized gain on available-for-sale securities	_	_	_	_	_	_	473	_	_	473
net of tax of \$110	_	_	_	_	_	_	817	_	_	817
Total comprehensive loss	_	_	12,500,000	13	_	_	_ _	410,179	— (186,188)	(350,748) 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								ŕ		
Notes due 2011		_	_	_	59,178,819 —	59 —	_	5,859 71,388	=	5,918 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 Net income		\$ 25	12,500,000	\$13	3,882,659,087	\$3,882	\$(6,581)	\$10,352,291	\$(10,254,108) 43,055	\$ 95,522 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 Issuance of common stock to employees and	_	_	_	_	_	_	_	_	_	43,775
employee benefit plans, net of forfeitures	_	_	_	_	6,175,089	6	_	5,265	_	5,271
Share-based payment expense Exercise of options and vesting of restricted	_	_	_	_	_	_	_	52,229	_	52,229
stock units	_	_	_	_	19,551,977	20	_	10,819	_	10,839
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) 426,961	\$ 207,636 426,961
Other comprehensive income: Realized loss on XM Canada investment foreign currency translation							6.072			(072
adjustment	_	_	_	_	_	_	6,072	_	_	6,072
net of tax of \$11	_	_	_	_	_	_	(140)	_	_	(140)
Total comprehensive income Issuance of common stock to employees and employee benefit plans, net of		_	_	_	_	_	_	_	_	432,893
forfeitures		_	_	_	1,882,801	_	_	3,480 48,581	_	3,482 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		<u>\$ —</u>	12,500,000	\$13	3,753,201,929	\$3,753	\$ 71	\$10,484,400	\$ (9,784,092)	\$ 704,145

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31		
	2011	2010	2009
(in thousands)			
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	543,630	512,895	433,830
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	(127,888)	(302,414)	(248,511)
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	(228,443)	(7,279)	(182,276)
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	\$ 773,990	\$ 586,691	\$ 383,489

${\bf CONSOLIDATED\ STATEMENTS\ OF\ CASH\ FLOWS--(Continued)}$

	For the Years Ended December 31,				r 31,	
	20	011		2010	2	009
(in thousands)						
Supplemental Disclosure of Cash and Non-Cash Flow Information						
Cash paid during the period for:						
Interest, net of amounts capitalized	\$25	8,676	\$2	241,160	\$25	7,328
Non-cash investing and financing activities:						
Share-based payments in satisfaction of accrued compensation	\$	_	\$	_	\$ 3	1,291
Common stock issued in exchange of 2.5% Convertible Notes due						
2009 including, accrued interest	\$	_	\$	_	\$ 1	8,000
Structuring fee on 10% Senior PIK Secured Notes due 2011	\$	_	\$	_	\$	5,918
Preferred stock issued to Liberty Media	\$	_	\$	_	\$22	7,716
Release of restricted investments	\$	_	\$	_	\$13	7,850
In-orbit satellite performance incentive	\$	_	\$	21,450	\$ 1	4,905
Sale-leaseback of equipment	\$		\$	5,305	\$	
Common stock issuance upon exercise of warrants	\$	7	\$	_	\$	
Conversion of Series A preferred stock to common stock	\$	_	\$	25	\$	_

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 the 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.

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.

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 not impaired 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.

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.

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

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.

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.

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.

	For the Years Ended December 31,					
(in thousands, except per share data)	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:

	2011	2010
Gross accounts receivable	\$111,637	\$131,880
Allowance for doubtful accounts	(9,932)	_(10,222)
Total accounts receivable, net	\$101,705	<u>\$121,658</u>

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

	2011	2010
Billed	\$44,618	\$30,456
Unbilled	40,199	37,120
Total	\$84,817	\$67,576

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:

	December 31, 2011	December 31, 2010
Raw materials	\$ 24,134	\$ 18,181
Finished goods	28,007	24,492
Allowance for obsolescence	(15,430)	(20,755)
Total inventory, net	\$ 36,711	\$ 21,918

(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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(7) Intangible Assets

Intangible assets consisted of the following:

		De	ecember 31, 20	11	De	ecember 31, 20	10
	Weighted Average Useful Lives	Gross Carrying Value			Accumulated Amortization	Net Carrying Value	
Indefinite life intangible assets: FCC licenses	Indefinite	\$2,083,654	¢	\$2,002,654	\$2,083,654	¢	\$2,083,654
			Ф —			э —	
Trademark	Indefinite	250,000	_	250,000	250,000	_	250,000
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>	\$2,573,638	\$2,811,235	<u>\$(178,547)</u>	\$2,632,688

Indefinite Life Intangible Assets

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

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

FCC license	Expiration year
SIRIUS FM-1 satellite	2017
SIRIUS FM-2 satellite	2017
SIRIUS FM-3 satellite	
SIRIUS FM-4 satellite(1)	
SIRIUS FM-5 satellite	
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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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:

Year ending December 31,	Amount
2012	\$ 53,680
2013	47,357
2014	38,879
2015	
2016	31,959
Thereafter	30,556
Total definite life intangibles assets, net	\$239,984

(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:

	For the Years Ended December 31,			
	2011	2010	2009	
Subscription fees	\$2,581,433	\$2,398,146	\$2,265,666	
Activation fees	13,981	16,028	21,837	
Total subscriber revenue	\$2,595,414	\$2,414,174	\$2,287,503	

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	\$338,460	\$359,523	\$376,869	

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
\$ 1,943,537	\$ 1,943,537
112,440	109,582
43,455	43,567
53,903	51,985
193,301	163,689
60,539	57,665
60,283	63,265
38,411	38,411
57,185	56,685
372,508	297,771
2,935,562	2,826,157
(1,261,643)	(1,064,883)
\$ 1,673,919	\$ 1,761,274
	\$ 1,943,537 112,440 43,455 53,903 193,301 60,539 60,283 38,411 57,185 372,508 2,935,562 (1,261,643)

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	\$372,508	\$297,771

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:

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. 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:

		elated party Related party Related party current liabilities				long-term liabilities		Related party long-term debt		
	2011*	2010	2011*	2010	2011*	2010	2011*	2010	2011*	2010
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.

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, 2011	December 31, 2010
8.75% Senior Notes due 2015	\$150,000	\$150,000
9.75% Senior Secured Notes due 2015	50,000	50,000
13% Senior Notes due 2013	76,000	76,000
7% Exchangeable Senior Subordinated Notes due 2014	11,000	11,000
7.625% Senior Notes due 2018	50,000	50,000
Total principal debt	337,000	337,000
Less: discounts	8,212	11,093
Total carrying value debt	\$328,788	\$325,907

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.

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:

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	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	<u>\$18,540</u>

^{*} 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.

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	\$10,405	\$11,610	\$6,636

^{*} 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

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

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,			
	20	10*	200	09
	GM	American Honda	GM	American 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	<u>\$12,438</u>

^{*} 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(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.

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Number of

			War	oer of rants anding
	Average Exercise	Expiration	Decem	ber 31,
(warrants in thousands)	Price	Date	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	15.00	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.

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.

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	(66,405)	\$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	(14,741)	\$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	(26,440)	\$4.15		
Outstanding, December 31, 2011	439,580	\$1.25	6.33	\$378,274
Exercisable, December 31, 2011	179,851	\$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.

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	6,919	\$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	2,397	\$2.57
Granted	_	\$ —
Vested restricted stock awards	(1,854)	\$3.30
Vested restricted stock units	(101)	\$3.08
Forfeited	(21)	\$3.05
Nonvested, 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

under the Sirius XM Plan vest at a rate of 33½% 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	5,970	2,312	1,622	
Deferred taxes:				
Federal	3,991	4,163	3,962	
State	4,273	(1,855)	397	
Total deferred taxes	8,264	2,308	4,359	
Total income tax expense	\$14,234	\$ 4,620	\$5,981	

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	\$ 14,234	\$ 4,620	\$ 5,981

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	3,859,194	4,043,957	
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	(1,376,811)	(1,362,519)	
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	\$ (878,357)	\$ (869,850)	

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.

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:

	2011	2010
Balance, beginning of year	\$ 942	\$ —
Additions for tax positions from prior years	490	942
Interest	92	
Balance, end of year	\$1,524	\$942

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) Cash interest	\$ 1,623	\$ 779,636	\$550,182	\$1,057,000	\$ —	\$ 700,000	\$3,088,441
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)	<u>\$711,343</u>	\$1,328,420	\$960,687	\$1,387,570	\$105,714	\$1,098,782	\$5,592,516

⁽¹⁾ Includes captial lease obligations.

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.

⁽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.

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 the Annual Report on Form 10-K for the Year ended December 31, 2011.

${\bf SIRIUS~XM~RADIO~INC.~AND~SUBSIDIARIES}$ ${\bf NOTES~TO~CONSOLIDATED~FINANCIAL~STATEMENTS} \ -- (Continued)$

(18) Quarterly Financial Data — Unaudited

Our quarterly results of operations are summarized below:

	For the Three Months Ended							
	Ma	arch 31	J	une 30	Sept	ember 30	Dec	ember 31
2011:								
Total revenue	\$ 7	23,839	\$ 7	44,397	\$ 7	62,550	\$ 7	783,738
Cost of services	\$(2	70,689)	\$(2	273,331)	\$(2	277,360)	\$(2	299,719)
Income from operations	\$ 1	64,172	\$ 1	72,982	\$ 1	84,488	\$ 1	54,475
Net income	\$	78,121	\$ 1	73,319	\$ 1	04,185	\$	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	\$ 6	63,784	\$ 6	99,761	\$ 7	17,548	\$ 7	35,899
Cost of services	\$(2	60,867)	\$(2	266,121)	\$(2	80,545)	\$(2	291,699)
Income from operations	\$ 1	25,140	\$ 1	25,634	\$ 1	43,069	\$	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.

Schedule II — Schedule of Valuation and Qualifying Accounts

Description (in thousands) 2009	Balance January 1,	Charged to Expenses (Benefit)	Write-offs/ Payments/ Other	Balance December 31,
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

Corporate Information

Management

Mel Karmazin

Chief Executive Officer

Scott A. Greenstein

President and Chief Content Officer

James E. Meyer

President, Operations and Sales

Dara F. Altman

Executive Vice President and Chief Administrative Officer

Patrick L. Donnelly

Executive Vice President, General Counsel and Secretary

David J. Frear

Executive Vice President and Chief Financial Officer

Board of Directors

Common Stock Directors

Eddy W. Hartenstein

Chairman of the Board of

Sirius XM Radio Inc.

Publisher and CEO Los Angeles Times

Joan L. Amble

Director

Executive Vice President and Corporate Comptroller (Retired)

American Express Company

Leon D. Black

Director

Chairman and Chief Executive

Officer

Apollo Global Management, LLC

Lawrence F. Gilberti

Director

Partner

Reed Smith LLP

James P. Holden

Director

President and CEO (Retired)

Chrysler Corporation

Mel Karmazin

Director

Chief Executive Officer

Sirius XM Radio Inc.

James F. Mooney

Director

Chairman

Virgin Media Inc.

Jack Shaw

Director

Chief Executive Officer (Retired)

Hughes Electronics Corporation

Preferred Stock Directors

John C. Malone

Director

Chairman of the Board

Liberty Media Corporation

Gregory B. Maffei

Director

President and CEO

Liberty Media Corporation

David J.A. Flowers

Director

Senior Vice President

Liberty Media Corporation

Vanessa A. Wittman

Director

senior executive

Google Inc.

Carl E. Vogel

Director

Senior Advisor

Dish Network Corporation

Executive Offices

Sirius XM Radio Inc.

1221 Avenue of the Americas

36th Floor

New York, New York 10020

212.584.5100

www.siriusxm.com

Stockholder Information

Annual Stockholders Meeting

The annual meeting of Sirius XM stockholders is scheduled for 9:00 a.m., New York City time, on Tuesday, May 22, 2012, in The Auditorium at The Equitable Center, 787 Seventh Avenue, New York, New York 10019

Transfer Agent and Registrar

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

Computershare

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

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

Independent Registered Public Accounting Firm

KPMG LLP 345 Park Avenue New York, New York 10154

