SIRIUS XM RADIO INC.
Form 10-Q
August 11, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2008
Commission file number 0-24710

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

Delaware	**52-1700207**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1221 Avenue of the Americas, 36th Floor
New York, New York 10020
(Address of principal executive offices)
(Zip code)
212-584-5100
(Registrant s telephone number, including area code)
SIRIUS SATELLITE RADIO INC.
(Former name, if changed since last report)

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

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes o Noþ

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

Common Stock, $0.001 par value	3,176,663,555 shares
(Class)	**(Outstanding as of August 6, 2008)**

SIRIUS XM RADIO INC. AND SUBSIDIARIES
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SIRIUS XM RADIO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Revenue:				
Subscriber revenue, including effects of rebates	$ 266,518	$ 209,635	$ 522,158	$ 400,431
Advertising revenue, net of agency fees	8,332	9,177	16,740	15,898
Equipment revenue	7,956	6,255	14,019	10,926
Other revenue	211	1,360	450	3,209
Total revenue	283,017	226,427	553,367	430,464
Operating expenses (excludes depreciation shown separately below) (1):				
Cost of services:				
Satellite and transmission	7,451	7,337	15,275	15,323
Programming and content	55,247	54,311	116,939	114,309
Revenue share and royalties	49,723	29,841	92,043	56,975
Customer service and billing	22,865	21,618	49,786	43,471
Cost of equipment	6,647	7,386	14,234	13,843
Sales and marketing	49,133	46,864	87,598	87,861
Subscriber acquisition costs	81,392	105,665	171,216	205,782
General and administrative	42,467	38,471	91,246	73,814
Engineering, design and development	9,028	11,250	17,684	23,661
Depreciation	27,113	26,284	54,019	53,070
Total operating expenses	351,066	349,027	710,040	688,109
Loss from operations	(68,049)	(122,600)	(156,673)	(257,645)
Other income (expense):				
Interest and investment income	1,425	4,753	4,227	10,795
Interest expense, net of amounts capitalized	(16,745)	(15,750)	(34,421)	(30,942)
Other income (expense)	13	5	(64)	10
Total other expense	(15,307)	(10,992)	(30,258)	(20,137)
Loss before income taxes	(83,356)	(133,592)	(186,931)	(277,782)
Income tax expense	(543)	(555)	(1,086)	(1,110)
Net loss	$ (83,899)	$ (134,147)	$ (188,017)	$ (278,892)
Net loss per share (basic and diluted)	$ (0.06)	$ (0.09)	$ (0.13)	$ (0.19)
Weighted average common shares outstanding (basic and diluted)	1,499,723	1,462,362	1,487,610	1,459,701

(1) Amounts related to stock-based compensation included in operating expenses were as follows:

Satellite and transmission	$ 759	$ 621	$ 1,555	$ 1,277
Programming and content	1,160	1,215	3,949	4,150
Customer service and billing	265	178	541	377
Sales and marketing	2,464	2,849	7,704	8,493
Subscriber acquisition costs		7	14	1,887
General and administrative	11,457	11,163	23,455	23,103
Engineering, design and development	1,046	984	2,195	1,990
Total stock-based compensation	$ 17,151	$ 17,017	$ 39,413	$ 41,277

See Notes to Unaudited Consolidated Financial Statements

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SIRIUS XM RADIO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

ASSETS	June 30, 2008 (Unaudited)	December 31, 2007
Current assets:		
Cash and cash equivalents	$ 220,133	$ 438,820
Marketable securities	465	469
Accounts receivable, net of allowance for doubtful accounts of $2,712 and $4,608 at June 30, 2008 and December 31, 2007, respectively	27,186	44,068
Receivables from distributors	71,831	60,004
Inventory, net	23,616	29,537
Prepaid expenses	33,139	31,392
Restricted investments	35,000	35,000
Other current assets	18,189	39,567
Total current assets	429,559	678,857
Property and equipment, net	812,307	806,263
FCC license	83,654	83,654
Restricted investments, net of current portion	21,000	18,000
Deferred financing fees	11,143	13,864
Other long-term assets	98,822	93,511
Total assets	$ 1,456,485	$ 1,694,149
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	$ 349,173	$ 464,943
Accrued interest	24,562	24,772
Deferred revenue	575,666	548,330
Current maturities of long-term debt	302,498	35,801
Total current liabilities	1,251,899	1,073,846
Long-term debt	977,369	1,278,617
Deferred revenue, net of current portion	110,064	110,525
Other long-term liabilities	24,272	23,898
Total liabilities	2,363,604	2,486,886
Commitments and contingencies (Note 11)		
Stockholders deficit:		
Common stock, $0.001 par value: 2,500,000,000 shares authorized, 1,501,131,817 and 1,471,143,570 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	1,501	1,471
Additional paid-in capital	3,678,369	3,604,764
Accumulated deficit	(4,586,989)	(4,398,972)

Total stockholders deficit	(907,119)	(792,737)
Total liabilities and stockholders deficit	$ 1,456,485	$ 1,694,149

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SIRIUS XM RADIO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS DEFICIT
(In thousands, except share and per share amounts)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Total
Balances, December 31, 2007	1,471,143,570	1,471	3,604,764	(4,398,972)	$ (792,737)
Net loss				(188,017)	(188,017)
Issuance of common stock to employees and employee benefit plans	4,853,813	5	14,497		14,502
Compensation in connection with the issuance of stock-based awards			25,451		25,451
Exercise of options, $1.96 to $3.36 per share	103,443		181		181
Exercise of warrants, $2.392 per share	899,836	1	(1)		
Exchange of 3 1/2 % Convertible Notes due 2008, including accrued interest	24,131,155	24	33,477		33,501
Balances, June 30, 2008	1,501,131,817	$ 1,501	$ 3,678,369	$ (4,586,989)	$ (907,119)

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SIRIUS XM RADIO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	For the Six Months Ended June 30, 2008	2007
Cash flows from operating activities:		
Net loss	$ (188,017)	$ (278,892)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	54,019	53,070
Non-cash interest expense	1,971	1,559
Provision for doubtful accounts	5,048	4,354
Loss on disposal of assets		106
Stock-based compensation	39,413	41,277
Deferred income taxes	1,086	1,110
Changes in operating assets and liabilities:		
Accounts receivable	11,834	(5,390)
Inventory	5,921	(7,435)
Receivable from distributors	(11,102)	(13,512)
Prepaid expenses and other current assets	14,594	9,579
Other long-term assets	5,399	(14,779)
Accounts payable and accrued expenses	(97,463)	(51,111)
Accrued interest	53	703
Deferred revenue	26,875	60,269
Other long-term liabilities	(712)	9,245
Net cash used in operating activities	(131,081)	(189,847)
Cash flows from investing activities:		
Additions to property and equipment	(73,698)	(36,589)
Sales of property and equipment		97
Purchases of restricted and other investments	(3,000)	(310)
Merger related costs	(14,843)	
Sale of investments	5,000	
Sales of available-for-sale securities	4	10,846
Net cash used in investing activities	(86,537)	(25,956)
Cash flows from financing activities:		
Long term borrowings, net of related costs		245,199
Repayments of long term borrowings	(1,250)	
Proceeds from exercise of stock options	181	1,932
Net cash (used in) provided by financing activities	(1,069)	247,131
Net (decrease) increase in cash and cash equivalents	(218,687)	31,328
Cash and cash equivalents at the beginning of period	438,820	393,421

Cash and cash equivalents at the end of period	$ 220,133	$ 424,749

See Notes to Unaudited Consolidated Financial Statements

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SIRIUS XM RADIO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	For the Six Months Ended June 30, 2008	2007
Supplemental Disclosure of Cash and Non-Cash Flow Information		
Cash paid during the period for:		
Interest, net of amounts capitalized	$32,196	$28,892
Income taxes	13	123
Non-cash operating activities:		
Common stock issued in satisfaction of accrued compensation	8,729	7,949
Non-cash investing and financing activities:		
Common stock issued in exchange of $3^1/2$% Convertible Notes due 2008, including accrued interest	33,501	2,922
Common stock issued in exchange of $2^1/2$% Convertible Notes due 2009, including accrued interest		2
Common stock issued to third parties		82,941

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

1. Business

We are a satellite radio provider in the United States. We currently broadcast over 130 channels of programming to listeners across the country. We offer 69 channels of 100% commercial-free music and feature 65 channels of sports, news, talk, entertainment, traffic and weather for a monthly subscription fee of $12.95.

We broadcast through our proprietary satellite radio system, which currently consists of three orbiting satellites, 124 terrestrial repeaters that receive and retransmit our signal, a satellite uplink facility and our studios. Subscribers receive our service through SIRIUS radios, which are sold by automakers, consumer electronics retailers, mobile audio dealers and through our website. Subscribers can also receive our music channels and certain other channels over the Internet. As of June 30, 2008, we had 8,924,139 subscribers.

SIRIUS Canada Inc., a Canadian corporation owned by us, Canadian Broadcasting Corporation and Standard Radio Inc., offers a satellite radio service in Canada. SIRIUS Canada offers 120 channels of commercial-free music and news, sports, talk and entertainment programming, including 11 channels of Canadian content. Subscribers to the SIRIUS Canada service are not included in our subscriber count.

On July 28, 2008, XM Satellite Radio Holdings Inc. (XM) merged (the Merger) with and into Vernon Merger Corporation (Merger Co.), our wholly-owned subsidiary, as a result of which XM is now our wholly-owned subsidiary. The Merger was effected pursuant to an Agreement and Plan of Merger (the Merger Agreement), dated as of February 19, 2007, entered into by and among us, XM and Merger Co. The information presented in these notes does not give effect to the Merger; refer to Note 12 Subsequent Events for further details. On August 5, 2008, we changed our name to Sirius XM Radio Inc.

2. Principles of Consolidation and Basis of Presentation

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

In presenting unaudited consolidated financial statements, management makes estimates and assumptions that affect the amounts reported and related disclosures. Estimates, by their nature, are based on judgment and available information. Actual results could differ from those estimates. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the consolidated financial statements as of June 30, 2008 and for the three and six months ended June 30, 2008 and 2007 have been recorded. The results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the full year. Our unaudited consolidated financial statements should be read together with our consolidated financial statements and footnotes contained in our Annual Report on Form 10-K for the year ended December 31, 2007.

3. Summary of Significant Accounting Policies

Revenue Recognition

Revenue from subscribers consists of subscription fees; revenue derived from our agreement with Hertz; non-refundable activation fees; and the effects of rebates.

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

We recognize subscription fees as our service is provided to a subscriber. We record deferred revenue for prepaid subscription fees and amortize these prepayments to revenue ratably over the term of the respective subscription plan.

At the time of sale, vehicle owners purchasing or leasing a vehicle with a subscription to our service typically receive between a six month and one year prepaid subscription. We receive payment from automakers for these subscriptions in advance of our service being activated. Such prepayments are recorded to deferred revenue and amortized ratably over the service period upon activation and sale to a customer. We also reimburse automakers for certain costs associated with the SIRIUS radio installed in the applicable vehicle at the time the vehicle is manufactured. The associated payments to the automakers are included in subscriber acquisition costs. Although we receive payments from the automakers, they do not resell our service; rather, automakers facilitate the sale of our service to our customers, acting similar to an agent. We believe this is the appropriate characterization of our relationship since we are responsible for providing service to our customers including being obligated to the customer if there was interruption of service.

Activation fees are recognized ratably over the estimated term of a subscriber relationship, currently estimated to be 3.5 years. The estimated term of a subscriber relationship is based on market research and management s judgment and, if necessary, will be refined in the future.

As required by Emerging Issues Task Force (EITF) No. 01-09, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Products), an estimate of rebates that are paid by us directly to subscribers is recorded as a reduction to revenue in the period the subscriber participates in and activates our service.

We recognize revenues from the sale of advertising on some of our non-music channels 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 in accordance with EITF No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent, as we are the primary obligor in the transaction. Advertising revenue share is recorded in the period the advertising is broadcast.

Equipment revenue from the direct sale of SIRIUS radios and accessories is recognized upon shipment. Shipping and handling costs billed to customers are recorded as revenue. Shipping and handling costs associated with shipping goods to customers are recorded to cost of equipment.

EITF No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables, provides guidance on how and when to recognize revenues for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. Revenue arrangements with multiple deliverables are required to be divided into separate units of accounting if the deliverables in the arrangement meet certain criteria. Arrangement consideration must be allocated among the separate units of accounting based on their relative fair values.

We have determined that the sale of our service through our direct to consumer channel with accompanying equipment constitutes a revenue arrangement with multiple deliverables. In these types of arrangements, fair value of all deliverables is determined and then allocated to each element based on their relative fair value; amounts received for equipment are recognized as equipment revenue; amounts received for service are recognized as subscription revenue; and amounts received for the non-refundable, up-front activation fees that are not contingent on the delivery of the service are allocated to equipment revenue. Activation fees are recorded to equipment revenue only to the extent that the aggregate equipment and activation fee proceeds do not exceed the fair value of the equipment. Any activation fees not allocated to the equipment are deferred upon activation and recognized as subscriber revenue on a straight-line basis over the estimated term of a subscriber relationship.

Stock-Based Compensation

We account for stock-based compensation in accordance with SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R). The stock-based compensation cost recognized includes compensation cost for all stock-based awards granted to employees and members of our board of directors (i) prior to, but not vested as of,

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Dollar amounts in thousands, unless otherwise stated)
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January 1, 2006 based on the grant date fair value originally estimated in accordance with the provisions of SFAS No. 123, Accounting for Stock-Based Compensation, and (ii) subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R.

Compensation cost under SFAS No. 123R is recognized ratably using the straight-line attribution method over the expected vesting period.

FAS No. 123R requires forfeitures to be estimated on the grant date and revised in subsequent periods if actual forfeitures differ from those estimates. Prior to the adoption of SFAS No. 123R we accounted for forfeitures as they occurred.

Pursuant to SFAS No. 123R, we recognized $16,840 and $34,441, and $15,840 and $32,775 of compensation cost for stock-based awards granted to employees and members of our board of directors for the three and six months ended June 30, 2008 and 2007, respectively. Total unrecognized compensation costs related to unvested stock-based awards granted to employees and members of our board of directors at June 30, 2008, net of estimated forfeitures, was $88,075 and is expected to be recognized over a weighted-average period of three years.

We account for stock-based awards granted to non-employees, other than non-employee members of our board of directors, at fair value in accordance with SFAS No. 123R and SEC guidance contained in Staff Accounting Bulletin (SAB) No. 107. The fair value of equity instruments granted to non-employees is measured in accordance with EITF No. 96-18, Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. The final measurement date 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 generally include warrants, stock options, restricted stock and restricted stock units.

We estimate the fair value of stock-based awards using the Black-Scholes option valuation model (Black-Scholes). Black-Scholes was developed to estimate the fair market value of traded options, which have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions. Because our stock-based awards have characteristics significantly different from those of traded options and because changes in the subjective assumptions can materially affect the fair market value estimate, existing option valuation models do not necessarily provide a reliable single measure of the fair value of our stock-based awards.

Fair value determined using Black-Scholes varies based on assumptions used for the expected life, expected stock price volatility and risk-free interest rates. We estimate the fair value of awards granted using the implied volatility of actively traded options on our stock. The expected life assumption represents the weighted-average period stock-based awards are expected to remain outstanding. These expected life assumptions are established through a review of historical exercise behavior of stock-based award grants with similar vesting periods. Where historical patterns do not exist contractual terms are used. The risk-free interest rate represents the daily treasury yield curve rate at the reporting 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.

The following table summarizes the weighted-average assumptions used to compute reported stock-based compensation to employees and members of our board of directors for the periods set forth below:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Risk-free interest rate	3.1%	4.7%	2.7%	4.8%
Expected life of options - years	4.06	4.45	4.06	4.45
Expected stock price volatility	80%	60%	80%	60%

Expected dividend yield	N/A	N/A	N/A	N/A

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(Dollar amounts in thousands, unless otherwise stated)
(Unaudited)

The following table summarizes the range of assumptions used to compute reported stock-based compensation to third parties, other than non-employee members of our board of directors, for the periods set forth below:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Risk-free interest rate	2.9 - 3.3%	4.5 - 5.0%	1.6 - 3.3%	4.5 - 5.0%
Expected life of options years	2.50 - 4.06	2.50 - 8.91	2.00 - 4.08	2.50 - 8.91
Expected stock price volatility	80%	60%	80%	60%
Expected dividend yield	N/A	N/A	N/A	N/A

No income tax benefits have been realized from stock option exercises during the three and six months ended June 30, 2008 and 2007 because a valuation allowance was maintained for all net deferred tax assets.

Subscriber Acquisition Costs

Subscriber acquisition costs include hardware subsidies paid to radio manufacturers, distributors and automakers, including subsidies paid to automakers who include a SIRIUS 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 SIRIUS radios; commissions paid to retailers and automakers as incentives to purchase, install and activate SIRIUS radios; product warranty obligations; provisions for inventory allowance; and compensation costs associated with stock-based awards granted in connection with certain distribution agreements. Subscriber acquisition costs do not include advertising, loyalty payments to distributors and dealers of SIRIUS radios and revenue share payments to automakers and retailers of SIRIUS radios.

Subsidies paid to radio manufacturers and automakers are expensed upon shipment or installation. Commissions paid to retailers and automakers are expensed either upon activation or sale of the SIRIUS radio. 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 chip sets are shipped to radio manufacturers.

We record product warranty obligations in accordance with Financial Accounting Standards Board Interpretation (FIN) No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34. FIN No. 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee. We warrant that certain products sold through our retail and direct to consumer distribution channels will perform in all material respects in accordance with specifications in effect at the time of the purchase of the products by the customer. As of April 2008, we changed our warranty period to 90 days on our products from the purchase date for repair or replacement of components and/or products that contain defects of material or workmanship. Products purchased prior to April 2008 contain a warranty period of 12 months from the purchase date. Customers may exchange products directly to the retailer within 30 days of purchase. We record a liability for an estimate of costs that we expect to incur under our warranty when the product is shipped from the manufacturer. Factors affecting our 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.

The following table reconciles the beginning and ending aggregate product warranty liability:

Balance, December 31, 2007	$ 2,536
Accrual for warranties issued during the period	2,907
Settlements during the period	(4,781)

Balance, June 30, 2008	$	662

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(Dollar amounts in thousands, unless otherwise stated)
(Unaudited)

Research and Development Costs

Research and development costs are expensed as incurred. Research and development costs for the three months ended June 30, 2008 and 2007 were $8,238 and $10,482, respectively, and $16,074 and $20,532 for the six months ended June 30, 2008 and 2007, respectively. These costs are included in engineering, design and development expenses in our accompanying unaudited consolidated statements of operations.

Income Taxes

We account for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes and FIN No. 48, Accounting for Uncertainty in 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 established when necessary based on the weight of available evidence, if 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.

Net (Loss) Income Per Share

We compute net (loss) income per share in accordance with SFAS No. 128, Earnings Per Share. Basic net (loss) income per share is calculated using the weighted average common shares outstanding during each reporting period. Diluted net (loss) income per share adjusts the weighted average common shares outstanding for the potential dilution that could occur if common stock equivalents (convertible debt, warrants, stock options and restricted stock units) were exercised or converted into common stock. Common stock equivalents of approximately 125,000,000 and 138,000,000 for the three and six months ended June 30, 2008, respectively, and 164,000,000 and 166,000,000 for the three and six months ended June 30, 2007, respectively, were not considered in the calculation of diluted net loss per share as the effect would have been anti-dilutive.

Inventory

Inventory consists of finished goods, refurbished goods, chip sets and other raw material components used in manufacturing SIRIUS radios. Inventory is stated at the lower of cost, determined on a first-in, first-out basis, or market. We record an estimated adjustment for inventory that is considered slow moving and obsolete or whose carrying value is in excess of net realizable value. The provision related to product purchased for our direct to consumer distribution channel is recorded to cost of equipment in our unaudited consolidated statements of operations. The remaining provision is recorded to subscriber acquisition costs in our unaudited consolidated statements of operations.

Inventory, net consists of the following:

	June 30, 2008	December 31, 2007
Raw materials	$ 12,502	$ 9,987
Finished goods	11,114	19,550
Total inventory	$ 23,616	$ 29,537

Investments

Our investments consist of the following:

June 30

	2008	December 31, 2007
Marketable securities	$ 465	$ 469
Restricted investments	56,000	53,000
Total investments	$ 56,465	$ 53,469

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Dollar amounts in thousands, unless otherwise stated)
(Unaudited)

Marketable Securities

We account for marketable securities in accordance with the provisions of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Marketable securities consist of certificates of deposit. As of June 30, 2008 and December 31, 2007, certificates of deposit were $465 and $469, respectively. The basic objectives of our investment policy are the preservation of capital, maintaining sufficient liquidity to meet operating requirements and maximizing yield. We classify our marketable securities as available-for-sale securities. Available-for-sale securities are carried at fair market value. Unrealized gains and losses are included in accumulated other comprehensive (loss) income as a separate component of stockholders deficit. Realized gains and losses, dividends and interest income, including amortization of the premium and discount arising at purchase, are included in interest and investment income. The specific-identification method is used to determine the cost of all securities and the basis by which amounts are reclassified from accumulated comprehensive (loss) income into earnings.

We received proceeds from the sale or maturity of marketable securities of $4 and $10,846 for the six months ended June 30, 2008 and 2007, respectively. There were no unrealized holding gains or losses on marketable securities as of June 30, 2008 and December 31, 2007.

Restricted Investments

As of June 30, 2008 and December 31, 2007, short-term restricted investments of $35,000 primarily included certificates of deposit placed in escrow for the benefit of a third party pursuant to a programming agreement.

As of June 30, 2008 and December 31, 2007, long-term restricted investments of $21,000 and $18,000, respectively, primarily included certificates of deposit and money market funds deposited in escrow for the benefit of third parties pursuant to programming agreements and certificates of deposit placed in escrow to secure our reimbursement obligations under letters of credit issued for the benefit of lessors of office space.

Investment, stated at cost

In September 2006, we invested in a third party for strategic purposes. We accounted for this investment under the cost method. We terminated our investment in this third party in 2008 and our original investment was returned in March 2008. There was no investment as of June 30, 2008.

Equity Method Investment

We have a 49.9% economic interest in SIRIUS Canada. Our investment in SIRIUS Canada is recorded using the equity method since we have significant influence, but less than a controlling voting interest. Under this method, our investment in SIRIUS Canada, originally recorded at cost, is adjusted to recognize our share of net earnings or losses as they occur rather than as dividends or other distributions are received, limited to the extent of our investment in, advances to and commitments to fund SIRIUS Canada. Our share of net earnings or losses of SIRIUS Canada is recorded to equity in net loss of affiliate in our accompanying unaudited consolidated statements of operations. We recorded $0 for both the three months ended June 30, 2008 and 2007, and $0 for the six months ended June 30, 2008 and 2007, for our share of SIRIUS Canada s net loss.

Merger Costs

We have incurred approximately $48,100 in direct costs as of June 30, 2008 in connection with our merger with XM Radio. In accordance with SFAS No. 141, Business Combinations, which specifies that the cost of an entity acquired in a business combination include the direct costs of the business combination, we have capitalized and included such costs in other long-term assets in our accompanying unaudited consolidated balance sheet.

Reclassifications

Certain amounts in the prior period unaudited consolidated financial statements have been reclassified to conform to the current period presentation. Specifically, during the first six months of 2008, we reclassified equipment related retention costs from cost of equipment to sales and marketing expense. Equipment related retention costs are associated with efforts to retain existing subscribers that we believe will result in higher revenue and lower churn.

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Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* and FSP 157-2, *Effective Date of FASB Statement No. 157*. FSP 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope. FSP 157-2, *Effective Date of FASB Statement No. 157* delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis, until January 1, 2009 for calendar year end entities. We adopted the provisions of SFAS No. 157 on January 1, 2008, except as it applies to nonfinancial assets and liabilities as noted in FSP 157-2. The partial adoption had no significant impact on its consolidated results of operations or financial position. We have not determined the impact, if any that the adoption of SFAS No. 157, as it relates to nonfinancial assets and liabilities will have on its consolidated results of operations or financial position.

In November 2007, the FASB issued SFAS No. 141R, Business Combinations, which continues to require that all business combinations be accounted for by applying the acquisition method. Under the acquisition method, the acquirer recognizes and measure the identifiable assets acquired, the liabilities assumed, and any contingent consideration and contractual contingencies, as a whole, at their face value as of the acquisition date. Under SFAS No. 141R, all transaction costs are expenses as incurred. SFAS No. 141R rescinds EITF 93-07 Uncertainties Related to Income Taxes in a Purchase Business Combination. Under EITF 93-07, the effect of any subsequent adjustments to uncertain tax positions were generally applied to goodwill, except for post-acquisition interest on uncertain tax provisions, which was recognized as an adjustment to income tax expense. Under SFAS No. 141R, all subsequent adjustments to these uncertain tax positions that otherwise would have impacted goodwill will be recognized in the income statement. The guidance in SFAS No. 141R will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning after December 15, 2008, and accordingly it is not expected to have an impact on the accounting for our merger with XM.

4. Subscriber Revenue

Subscriber revenue consists of subscription fees, revenue derived from our agreement with Hertz, non-refundable activation fees and the effects of rebates. Revenues received from automakers for prepaid subscriptions included in the sale or lease price of a new vehicle are also included in subscriber revenue over the service period upon activation and sale to the customer.

Subscriber revenue consists of the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Subscription fees	$ 261,360	$ 205,486	$ 511,827	$ 395,455
Activation fees	6,052	4,849	12,350	10,168
Effect of rebates	(894)	(700)	(2,019)	(5,192)
Total subscriber revenue	$ 266,518	$ 209,635	$ 522,158	$ 400,431

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5. Interest Costs

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Interest costs charged to expense	$ 16,745	$ 15,750	$ 34,421	$ 30,942
Interest costs capitalized	3,485	1,794	6,746	3,608
Total interest costs incurred	$ 20,230	$ 17,544	$ 41,167	$ 34,550

6. Related Party Transactions

In 2005, we entered into a license and services agreement with SIRIUS Canada. Pursuant to such agreement, we are reimbursed for certain costs incurred by us to provide SIRIUS Canada service, including certain costs we incur for the production and distribution of radios as well as information technology support costs. In consideration for the rights granted pursuant to this license and services agreement, SIRIUS Canada pays us a royalty based on a percentage of its annual gross revenues, as long as SIRIUS Canada maintains a positive cash flow position for twelve consecutive months. Additionally, the initial financing we provided to SIRIUS Canada is by way of subscription to non-voting shares which carry an 8% cumulative dividend.

Total costs that have been or will be reimbursed by SIRIUS Canada for the three months ended June 30, 2008 and 2007 were $3,128 and $723, respectively, and $7,830 and $2,600 for the six months ended June 30, 2008 and 2007, respectively. We recorded $0 and $643 in royalty income for the three months ended June 30, 2008 and 2007, respectively, and $0 and $1,159 for the six months ended June 30, 2008 and 2007, respectively. Such royalty income was recorded to other income in our accompanying unaudited consolidated statements of operations. We also recorded dividend income of $0 and $216 for the three months ended June 30, 2008 and 2007, respectively, and $0 and $422 for the six months ended June 30, 2008 and 2007, respectively, which was included in interest and investment income in our accompanying unaudited consolidated statements of operations.

The amounts due from SIRIUS Canada at June 30, 2008 were $4,672, of which $1,435 and $3,237 are included in other current assets and other long-term assets, respectively, on our accompanying unaudited consolidated balance sheet. The amounts due from SIRIUS Canada at December 31, 2007 were $5,398, of which $2,161 and $3,237 are included in other current assets and other long-term assets, respectively, on our accompanying unaudited consolidated balance sheet. The amounts payable to SIRIUS Canada at June 30, 2008 and December 31, 2007 to fund its remaining capital requirements, were $1,386 and $1,148, respectively, and is included in other long-term liabilities in our accompanying unaudited consolidated balance sheet.

7. Debt

Debt consists of the following:

	Price (per share)	As of June 30, 2008	As of December 31, 2007
Senior Secured Term Loan	N/A	$ 248,125	$ 249,375
$9^5/8$% Senior Notes due 2013	N/A	500,000	500,000
$3^1/4$% Convertible Notes due 2011	$ 5.30	230,000	230,000
$2^1/2$% Convertible Notes due 2009	4.41	299,998	299,998

$3^1/2$% Convertible Notes due 2008	1.38		33,301
$8^3/4$% Convertible Subordinated Notes due 2009	28.46	1,744	1,744
		1,279,867	1,314,418
Less Current Maturities		302,498	35,801
Total long-term debt		$ 977,369	$ 1,278,617

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Senior Secured Term Loan

In June 2007, we entered into a Term Credit Agreement with a syndicate of financial institutions. The Term Credit Agreement provides for a term loan of $250,000, which has been drawn. Interest under the Term Credit Agreement is based, at our option, on (i) adjusted LIBOR plus 2.25% or (ii) the higher of (a) the prime rate and (b) the Federal Funds Effective Rate plus 1/2 of 1.00%, plus 1.25%. As of June 30, 2008, the interest rate was 4.75%. LIBOR borrowings may be made for interest periods, at our option, of one, two, three or six months (or, if agreed by all of the lenders, nine or twelve months). The loan amortizes in equal quarterly installments of 0.25% of the initial aggregate principal amount for the first four and a half years, with the balance of the loan thereafter being repaid in four equal quarterly installments. The loan matures on December 20, 2012.

The loan is guaranteed by our wholly owned subsidiary, Satellite CD Radio, Inc., a Delaware corporation (the Guarantor). The Term Credit Agreement is secured by a lien on substantially all of our and the Guarantor s assets, including our four satellites and the shares of the Guarantor.

The Term Credit Agreement contains customary affirmative covenants and event of default provisions. The negative covenants contained in the Term Credit Agreement are substantially similar to those contained in the indenture governing our 9 5/8% Senior Notes due 2013.

9 5/8% Senior Notes due 2013

In August 2005, we issued $500,000 in aggregate principal amount of our 9 5/8% Senior Notes due 2013 resulting in net proceeds of $493,005. Our 9 5/8% Senior Notes due 2013 mature on August 1, 2013 and interest is payable semi-annually on February 1 and August 1 of each year. The obligations under our 9 5/8% Senior Notes due 2013 are not secured by any of our assets.

3 1/4% Convertible Notes due 2011

In October 2004, we issued $230,000 in aggregate principal amount of our 3 1/4% Convertible Notes due 2011 resulting in net proceeds of $224,813. These notes are convertible, at the option of the holder, into shares of our common stock at any time at a conversion rate of 188.6792 shares of common stock for each $1,000.00 principal amount, or $5.30 per share of common stock, subject to certain adjustments. Our 3 1/4% Convertible Notes due 2011 mature on October 15, 2011 and interest is payable semi-annually on April 15 and October 15 of each year. The obligations under our 3 1/4% Convertible Notes due 2011 are not secured by any of our assets.

2 1/2% Convertible Notes due 2009

In February 2004, we issued $250,000 in aggregate principal amount of our 2 1/2% Convertible Notes due 2009 resulting in net proceeds of $244,625. In March 2004, we issued an additional $50,000 in aggregate principal amount of our 2 1/2% Convertible Notes due 2009 pursuant to an option granted in connection with the initial offering of the notes, resulting in net proceeds of $48,975. These notes are convertible, at the option of the holder, into shares of our common stock at any time at a conversion rate of 226.7574 shares of common stock for each $1,000.00 principal amount, or $4.41 per share of common stock, subject to certain adjustments. Our 2 1/2% Convertible Notes due 2009 mature on February 15, 2009 and interest is payable semi-annually on February 15 and August 15 of each year. The obligations under our 2 1/2% Convertible Notes due 2009 are not secured by any of our assets.

3 1/2% Convertible Notes due 2008

In May 2003, we issued $201,250 in aggregate principal amount of our 3 1/2% Convertible Notes due 2008 resulting in net proceeds of $194,224. These notes matured on June 1, 2008 and were repaid on such date.

8 3/4% Convertible Subordinated Notes due 2009

In 1999, we issued our 8 3/4% Convertible Subordinated Notes due 2009. The remaining balance of our 8 3/4% Convertible Subordinated Notes due 2009 mature on September 29, 2009 and interest is payable semi-annually on March 29 and September 29 of each year. These notes are convertible, at the option of the holder, into shares of our common stock at any time at a conversion rate of 35.134 shares of common stock for each $1,000.00 principal amount, or $28.4625 per share of common stock, subject to certain adjustments. The obligations under our 8 3/4%

Convertible Subordinated Notes due 2009 are not secured by any of our assets.

Space Systems/Loral Credit Agreement

In July 2007, we amended and restated our existing Credit Agreement with Space Systems/Loral (the Loral Credit Agreement). Under Loral Credit Agreement, Space Systems/Loral has agreed to make loans to us in

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an aggregate principal amount of up to $100,000 to finance the purchase of our fifth and sixth satellites. Loans made under the Loral Credit Agreement will be secured by our rights under the Satellite Purchase Agreement with Space Systems/Loral, including our rights to these satellites. The loans are also entitled to the benefits of a subsidiary guarantee from Satellite CD Radio, Inc., our subsidiary that holds our FCC license, and any future material subsidiary that may be formed by us. The maturity date of the loans is the earliest to occur of (i) June 10, 2010, (ii) 90 days after the sixth satellite becomes available for shipment and (iii) 30 days prior to the scheduled launch of the sixth satellite. Any loans made under the Loral Credit Agreement generally will bear interest at a variable rate equal to three-month LIBOR plus 4.75%. The daily unused balance bears interest at a rate per annum equal to 0.50%, payable quarterly on the last day of each March, June, September and December. The Loral Credit Agreement permits us to prepay all or a portion of the loans outstanding without penalty. We have not borrowed under the Loral Credit Agreement as of June 30, 2008.

Covenants and Restrictions

Our $9^5/_8$% Senior Notes due 2013, our Credit Agreement with Space Systems/Loral and our Senior Secured Term Loan require us to comply with certain covenants that restrict our ability to, among other things, (i) incur additional 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 as provided in the $9^5/_8$% Senior Notes due 2013 indenture, the Loral Credit Agreements and the credit agreement governing our Senior Secured Term Loans. If we fail to comply with these covenants, our $9^5/_8$% Senior Notes due 2013, our Senior Secured Term Loan and any loans outstanding under the Loral Credit Agreement and our Term Loan could become immediately payable and the Loral Credit Agreement could be terminated. At June 30, 2008, we were in compliance with all such covenants.

8. Stockholders Deficit

Common Stock, par value $0.001 per share

We are authorized to issue 2,500,000,000 shares of our common stock as of June 30, 2008. As of June 30, 2008, approximately 321,628,000 shares of our common stock were reserved for issuance in connection with outstanding convertible debt, warrants, incentive stock plans and common stock to be granted to third parties upon satisfaction of performance targets. During the six months ended June 30, 2008, employees exercised 103,443 stock options at exercise prices ranging from $1.96 to $3.36 per share, resulting in proceeds to us of $181.

In January 2004, we signed a seven-year agreement with the NFL. We delivered to the NFL 15,173,070 shares of our common stock valued at $40,967 upon execution of this agreement. These shares of common stock are subject to transfer restrictions which lapse over time. We recognized expense associated with these shares of $219 during the three months ended June 30, 2008 and 2007, and $1,860 during the six months ended June 30, 2008 and 2007. Of the remaining $17,264 in common stock value, $5,852 and $11,412 are included in other current assets and other long-term assets, respectively, on our accompanying unaudited consolidated balance sheet as of June 30, 2008.

Warrants

We have issued warrants to purchase shares of our common stock in connection with distribution and programming agreements and certain debt issuances. As of June 30, 2008, warrants to acquire 55,461,000 shares of our common stock with an average exercise price of $3.94 were outstanding. These warrants vest over time or upon the achievement of milestones and expire at various times through June 2014. For the three months ended June 30, 2008 and 2007, we recognized expense of $86 and $750, respectively, and $2,856 and $5,949 for the six months ended June 30, 2008 and 2007, respectively, in connection with these warrants.

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9. Benefit Plans

Stock-Based Awards

In January 2003, our board of directors adopted the Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan (the 2003 Plan), and on March 4, 2003 our stockholders approved this plan. On May 25, 2004, our stockholders approved an amendment to the 2003 Plan to include members of our board of directors as eligible participants. Employees, consultants and members of our board of directors are eligible to receive awards under the 2003 Plan. The 2003 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 2003 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 our common stock upon vesting.

As of June 30, 2008, approximately 99,339,000 stock options, shares of restricted stock and restricted stock units were outstanding. As of June 30, 2008, approximately 54,711,000 shares of our common stock were available for grant under the 2003 Plan.

The following table summarizes stock option activity under our stock incentive plans for the six months ended June 30, 2008 (shares in thousands):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Intrinsic Value
Outstanding at December 31, 2007	79,600	$ 5.38		
Granted	17,492	2.89		
Exercised	(103)	1.71		
Cancelled or expired	(1,655)	4.82		
Outstanding at June 30, 2008	95,334	4.93	6.78	$ 2,325
Exercisable at June 30, 2008	52,769	5.81	5.63	$ 2,261

The weighted average grant date fair value of options granted during the six months ended June 30, 2008 and 2007 was $1.73 and $1.89, respectively. The total intrinsic value of stock options exercised during the six months ended June 30, 2008 and 2007 was $120 and $1,136, respectively.

We recognized stock-compensation expense associated with stock options of $11,468 and $10,596 for the three months ended June 30, 2008 and 2007, respectively, and $22,524 and $21,290 for the six months ended June 30, 2008 and 2007, respectively.

The following table summarizes the non-vested restricted stock unit activity under our stock incentive plans for the six months ended June 30, 2008 (shares in thousands):

	Weighted Average

	Shares	Grant Date Fair Value
Outstanding at December 31, 2007	3,623	3.70
Granted	3,208	2.87
Exercised	(2,792)	3.55
Cancelled or expired	(34)	1.45
Outstanding at June 30, 2008	4,005	2.73

The weighted average grant date fair value of restricted stock units granted during the six months ended June 30, 2008 and 2007 was $2.87 and $3.58, respectively. The total intrinsic value of restricted stock units that vested during the six months ended June 30, 2008 and 2007 was $8,302 and $7,764, respectively.

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We recognized stock compensation expense associated with restricted stock units and shares of restricted stock of $1,800 and $2,519 for the three months ended June 30, 2008 and 2007, respectively, and $4,614 and $6,217 for the six months ended June 30, 2008 and 2007, respectively.

For the three and six months ended June 30, 2008, we also recognized stock compensation expense of $1,510 and $2,970 for restricted stock units expected to be granted for services performed in 2008. For the three and six months ended June 30, 2007, we recognized stock compensation expense of $1,226 and $2,404, respectively, for restricted stock units expected to be granted for services performed in 2007.

401(k) Savings Plan

We sponsor the Sirius Satellite Radio 401(k) Savings Plan (the Plan) for eligible employees. The Plan allows eligible employees to voluntarily contribute from 1% to 50% of their pre-tax salary subject to certain defined limits. Currently we match 50% of employee voluntary contributions, up to 6% of an employee s pre-tax salary, in the form of shares of our common stock. Our matching contribution vests at a rate of $33^1/_3$% for each year of employment and is fully vested after three years of employment. Expense resulting from our matching contribution to the Plan was $364 and $295 for the three months ended June 30, 2008 and 2007, respectively, and $1,229 and $793 for the six months ended June 30, 2008 and 2007, respectively.

We may also elect to contribute to the profit sharing portion of the Plan based upon the total compensation of all eligible participants. These additional contributions, referred to as profit-sharing contributions, are determined by the compensation committee of our board of directors. Employees are only eligible to receive profit-sharing contributions during any year in which they are employed on the last day of the year. Profit-sharing contribution expense was $1,703 and $1,412 for the three months ended June 30, 2008 and 2007, respectively, and $3,360 and $2,763 for the six months ended June 30, 2008 and 2007, respectively.

10. Income Taxes

We recorded income tax expense of $543 and $555 for the three months ended June 30, 2008 and 2007, respectively, and $1,086 and $1,110 for the six months ended June 30, 2008 and 2007, respectively. Such expense represents the recognition of a deferred tax liability related to the difference in accounting for our FCC license, which is amortized over 15 years for tax purposes but not amortized for book purposes.

We provide a valuation allowance for all of our deferred tax assets. Accordingly, unrecognized federal or state income tax positions should not impact the face of our financial statements, but instead would reduce the gross tax benefit. We did not have any unrecognized tax benefits.

11. Commitments and Contingencies

The following table summarizes our expected contractual cash commitments as of June 30, 2008:

	Remaining 2008	2009	2010	2011	2012	Thereafter	Total
Long-term debt obligations	$ 1,250	304,242	2,500	232,500	239,375	500,000	$ 1,279,867
Cash interest payments	38,684	73,509	69,116	68,688	55,971	49,194	355,162
Lease obligations	6,651	13,607	13,131	12,367	12,253	22,852	80,861
Satellite and Transmission	83,689	119,035	106,314	46,507	7,678	41,049	404,272
Programming and content	76,179	173,072	161,778	22,507	19,983	9,667	463,186
Marketing and distribution	46,142	23,711	26,190	14,573	5,500		116,116

Chip set development and production	3,654						3,654
Other	7,349	6,908	3,292	17			17,566
Total contractual cash commitments	$ 263,598	$ 714,084	$ 382,321	$ 397,159	$ 340,760	$ 622,762	$ 2,720,684

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Debt Obligations. Long-term debt obligations include principal payments on our outstanding debt.

Cash Interest Payments. Cash interest payments include interest due on our outstanding debt through maturity.

Lease Obligations. We have entered into operating leases related to our studios, office space, terrestrial repeaters and equipment.

Satellite and Transmission. We have entered into agreements with third parties to operate and maintain our off-site satellite telemetry, tracking and control facilities and certain components of our terrestrial repeater network.

We have also entered into an agreement with Space Systems/Loral to design and construct our fifth and sixth satellites. Construction of our fifth satellite is expected to be completed in the second quarter of 2009. We plan to launch this satellite on a Proton rocket under our contract with International Launch Services. We expect to launch our sixth satellite in the fourth quarter of 2010. In January 2008, we entered into an agreement with International Launch Services to secure two additional satellite launches on Proton rockets. We plan to use one of these rockets to launch our sixth satellite. This agreement provides us the flexibility to defer launch dates if we choose. We also have the ability to cancel the second of these launches upon payment of a cancellation fee.

Programming and Content. We have entered into agreements with licensors of programming and other content providers and, in certain instances, are obligated to pay license fees and guarantee minimum advertising revenue share.

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 SIRIUS radios into vehicles they manufacture. In addition, in the event that certain new products are not shipped by our distributor to its customers within 90 days of their receipt of goods, we have agreed to purchase and take title to the product.

Chip Set Development and Production. We have entered into agreements with third parties to develop, produce and supply chip sets; to develop products; and in certain instances to license intellectual property related to chip sets.

Other. We have entered into various agreements with third parties for general operating purposes.

In addition to the contractual cash commitments described above, we have entered into agreements with automakers, radio manufacturers, distributors and others that include per-radio, per-subscriber, per-show and other variable cost arrangements. These future costs are dependent upon many factors including our 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 provisions.

We are required under the terms of certain agreements to provide letters of credit and deposit monies in escrow, which place restrictions on our cash and cash equivalents. As of June 30, 2008 and December 31, 2007, $56,000 and $53,000, respectively, was classified as restricted investments as a result of our reimbursement obligations under these letters of credit and escrow deposits.

We have not entered into any off-balance sheet arrangements or transactions.

Legal Proceedings

FCC Matters. In August 2008, we entered into a Consent Decree to settle with the Enforcement Bureau of the Federal Communications Commission outstanding enforcement matters. In 2006, the FCC commenced investigations regarding the compliance of certain radios that include FM transmitters with the Commission s rules, and the compliance of certain terrestrial repeaters with the special temporary authority granted by the Commission. The Consent Decree terminated these inquiries.

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As part of the Consent Decree, we agreed, among other things, to:

adopt a comprehensive compliance plan, and take steps to address any potentially non-compliant radios remaining in the hands of consumers;

receive special temporary authority to operate two of our eleven variant terrestrial repeaters. These eleven terrestrial repeaters were shut off by us in October 2006; and

make a voluntary contribution to the United States Treasury of approximately $2,200.

Copyright Royalty Board Proceeding. In December 2007, the Copyright Royalty Board, or CRB, of the Library of Congress issued its decision regarding the royalty rate payable by us under the statutory license covering the performance of sound recordings over our satellite digital audio radio service for the six-year period starting January 1, 2007 and ending December 31, 2012. Under the terms of the CRB s decision, we will pay a royalty of 6.0% of gross revenues, subject to certain exclusions, for 2007 and 2008, 6.5% for 2009, 7.0% for 2010, 7.5% for 2011 and 8.0% for 2012. SoundExchange has appealed the decision of the CRB to the United States Court of Appeals for the District of Columbia Circuit.

U.S. Electronics Arbitration. In 2006, U.S. Electronics Inc., a former licensed distributor manufacturer of SIRIUS radios, commenced an arbitration proceeding against us. U.S. Electronics alleges that, among other things, we breached our contract; failed to pay monies owed under the contract; tortiously interfered with U.S. Electronics relationships with retailers and manufacturers; and otherwise acted in bad faith. U.S. Electronics is seeking between $75,000 and $110,000 in damages. We believe that a substantial portion of these damages are barred by the limitation of liability provisions contained in the contract between us and U.S. Electronics. U.S. Electronics contends that these provisions do not bar its damages because of, among other reasons, our alleged bad faith and tortious conduct. Absent a settlement, we expect the arbitrators to issue a decision in this matter in September 2008.

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

12. Subsequent Events

General. On July 28, 2008, XM merged with and into Merger Co., our wholly-owned subsidiary, as a result of which XM is now our wholly-owned subsidiary. The merger was effected pursuant to the Merger Agreement, dated as of February 19, 2007, entered into by and among us, XM and Merger Co. For purposes of our outstanding debt instruments, XM constitutes our unrestricted subsidiary.

Pursuant to the Merger Agreement, each outstanding share of the common stock of XM was converted in the Merger into the right to receive 4.6 fully paid and nonassessable shares of our common stock, and each outstanding share of the series A convertible preferred stock of XM was converted in the merger into the right to receive 4.6 fully paid and nonassessable shares of a newly-designated series of our preferred stock.

Consideration. The fair value of the options issued in exchange for XM options was estimated by using the Black-Scholes option pricing model with market assumptions, including an expected stock price volatility of 58 percent, an expected life of 1-6 years based on the age of the original award, and a risk-free interest rate of 3.36%.

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The preliminary consideration is as follows:

	Common Stock	Preferred Stock	Additional Paid In Capital	Total
		(In thousands)		
Total consideration				
Issuance of common stock to XM stockholders (1.4 billion shares at $3.79)	$ 1,437	$	$ 5,443,693	$ 5,445,130
Issuance of preferred stock to XM stockholders (24.8 million shares at $3.79)		25		25
Issuance of common stock to XM restricted stockholders (43.6 million shares at $3.79)	33		126,527	126,560
Estimated fair value of outstanding XM stock options and restricted stock			75,515	75,515
Estimated fair value of outstanding XM warrants			35,401	35,401
Total consideration	$ 1,470	$ 25	$ 5,681,136	$ 5,682,631

The table below represents a preliminary allocation of the total consideration to XM s tangible and intangible assets and liabilities based on our preliminary estimate of their respective fair values as of June 30, 2008.

	Total (In thousands)
XM historical net book value of assets and liabilities assumed	$ (1,144,272)
XM minority interest assumed	(60,200)
Elimination of XM historical FCC license	(141,412)
Adjustment to fair value FCC license	1,300,000
Elimination of XM historical intangible asset related to subscriber and advertiser relationships and trademarks	(2,750)
Adjustment to fair value intangible assets related to subscriber and advertiser relationships and trademarks	437,000
Adjustment to deferred taxes related to increased FCC license carrying value	(463,435)
Estimated transaction costs	(65,000)
Residual goodwill created from the merger	5,798,406
Unrecognized compensation on unvested stock options and restricted stock	61,444
Loss on commitment to purchase transponders of XM-4 satellite	(16,057)
Write-off of debt issuance costs	(21,093)
Total consideration allocated	$ 5,682,631

Upon completion of the fair value assessment, we anticipate that the ultimate price allocation will differ from the preliminary assessment. Any changes to the initial estimates of the fair value of the assets and liabilities will be recorded as adjustments to those assets and liabilities and residual amounts will be allocated to goodwill.

Our common stock will continue to trade on the NASDAQ Global Select Market under the symbol SIRI . Following consummation of the Merger, the common stock of XM was delisted from the NASDAQ Global Select Market. On August 5, 2008, we changed our name to Sirius XM Radio Inc.

FCC Conditions

In order to demonstrate to the FCC that the merger was in the public interest, we and XM represented to the FCC that the combined company will implement a number of voluntary commitments. These programming, minority and public interest, equipment, subscription rates, and other service commitments are summarized as follows:

Programming

A La Carte Programming: The combined company will offer the following a la carte programming options:

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50 Channels will be available for $6.99 a month and will allow consumers to choose either 50 SIRIUS channels from approximately 100 SIRIUS channels or 50 XM channels from approximately 100 XM channels. Additional channels can be added for 25 cents each, with premium programming priced at additional cost. However, in no event will a customer subscribing to this a la carte option pay more than $12.95 per month for this programming.

100 Channels will be available on an a la carte basis for $14.99 a month. This a la carte option will allow SIRIUS customers to choose from the SIRIUS programming line-up and some of the best of XM s programming, and XM customers to choose from the XM programming line-up and some of the best of SIRIUS programming.

Within three months of the consummation of the merger, the first radios capable of offering a la carte programming will be introduced in the retail after-market, likely first with respect to radios offered by us followed thereafter by XM radios, and the combined company will commence offering a la carte programming.

Best of Both Programming: Within three months of the consummation of the merger, we will offer customers the ability to receive the best of both SIRIUS and XM programming. Current XM customers will continue to receive their existing XM service, and be able to obtain select SIRIUS programming. Likewise, current SIRIUS customers will continue to receive their existing SIRIUS service, and be able to obtain select XM programming. This best of programming will be the same best of programming included as part of the 100 Channel a la carte offering, and will be available at a monthly cost of $16.99.

Mostly Music or News, Sports and Talk Programming: Within three months of the consummation of the merger, customers will have the option of choosing an option of mostly music programming. Subscribers will also be able to choose an option of news, sports and talk programming. Each of these programming options will be available on existing satellite radios at a cost of $9.99 per month.

Discounted Family-Friendly Programming: Within three months of the consummation of the merger, consumers will be able to purchase a family-friendly version of existing SIRIUS or XM programming at a cost of $11.95 a month, representing a discount of $1.00 per month. Current SIRIUS customers will also be able to choose a family-friendly version of SIRIUS programming that includes select XM programming, and current XM customers can choose a family-friendly XM programming option that includes select SIRIUS programming. This programming will cost $14.99 per month, representing a discount of $2.00 per month from the cost of the best of programming. These programming options are subject to individual channel changes in the ordinary course of business and, in the case of certain programming, the consent of third-party programming providers.

Public Interest and Qualified Entity Channels.

Within six months of the consummation of the merger, we will set aside four percent of the full-time audio channels on the Sirius platform and on the XM platform, respectively, which currently represents six channels on the Sirius platform and six channels on the XM platform, for noncommercial, educational and informational programming within the meaning of the FCC rules that govern a similar obligation of direct broadcast satellite providers. We and XM will not select a programmer to fill more than one non-commercial, educational or informational channel on each of the Sirius and XM platforms as long as demand for such channels exceeds available supply.

In addition, within four months of the consummation of the merger, the we will enter into long-term leases or other agreements to provide to a Qualified Entity or Entities, defined as an entity or entities that are majority-owned by persons who are African American, not of Hispanic origin; Asian or Pacific Islanders; American Indians or Alaskan Natives; or Hispanics, rights to four percent of the full-time audio channels on the Sirius platform and on the XM platform, respectively, which again currently represents six channels on the

Sirius platform and six channels on the XM platform. As digital compression technology enables the company to broadcast additional full-time audio channels, the combined company will ensure that four percent of full-time audio channels on the Sirius platform and the XM platform are reserved for a Qualified Entity or Entities; provided that in no event will we reserve fewer than six channels on the Sirius platform and six channels on the XM platform.

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The Qualified Entity or Entities will not be required to make any lease payments for such channels. We are willing not to be involved in the selection of the Qualified Entity or Entities. We will have no editorial control over these channels.

Equipment

The combined company, we will offer for license, on commercially reasonable and non-discriminatory terms, the intellectua