SIRIUS XM RADIO INC.
Form 10-K
February 25, 2010

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

FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR FISCAL YEAR ENDED DECEMBER 31, 2009
OR

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

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

Delaware	**52-1700207**
(State or other jurisdiction of incorporation of organization)	**(I.R.S. Employer Identification Number)**
1221 Avenue of the Americas, 36th Floor New York, New York	**10020**
(Address of principal executive offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	**Name of each exchange on which registered:**
Common Stock, par value $0.001 per share	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No þ
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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 Rule 12b-2 of the Act). Yes o No þ

The aggregate market value of the registrant s common stock held by non-affiliates of the registrant on June 30, 2009 was $1,670,079,432. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be affiliates of the registrant.

The number of shares of the registrant s common stock outstanding as of February 23, 2010 was 3,884,668,860.

Documents Incorporated by Reference

Information included in our definitive proxy statement for our 2010 annual meeting of stockholders scheduled to be held on Thursday, May 27, 2010 is incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this report.

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EXPLANATORY NOTE

Sirius XM Radio Inc. has two principal wholly-owned subsidiaries, XM Satellite Radio Holdings Inc. and Satellite CD Radio Inc. XM Satellite Radio Holdings Inc. owns XM Satellite Radio Inc., the operating company for the XM satellite radio service. Satellite CD Radio Inc. owns the Federal Communications Commission (FCC) license associated with the SIRIUS satellite radio service. XM Satellite Radio Inc. owns XM Radio Inc., the holder of the FCC license associated with the XM satellite radio service.

Unless otherwise indicated,

- we, us, our, the company, the companies and similar terms refer to Sirius XM Radio Inc. and its conso subsidiaries;
- SIRIUS refers to Sirius XM Radio Inc. and its consolidated subsidiaries, excluding XM Satellite Radio Holdings Inc., XM Satellite Radio Inc. and their respective subsidiaries;
- XM Holdings refers to XM Satellite Radio Holdings Inc. and its consolidated subsidiaries, including XM Satellite Radio Inc.; and
- XM refers to XM Satellite Radio Inc. and its consolidated subsidiaries.

The SIRIUS satellite radio business is conducted by SIRIUS; and the XM satellite radio business is conducted principally by XM under one management team. XM Holdings is primarily a holding company, although XM Holdings owns the former corporate headquarters and data center of XM and leases these buildings to XM; owns the XM-5 and portions of the XM-3 and XM-4 satellites; holds the investment in XM Canada; and holds certain cash accounts.

Special Note Regarding Forward-Looking Statements

The following cautionary statements identify important factors that could cause our actual results to differ materially from those projected in forward-looking statements made in this Annual Report on Form 10-K and in other reports and documents published by us from time to time. Any statements about our beliefs, plans, objectives, expectations, assumptions, future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as will likely result, are expected to, will continue, is anticipated, estimated, intend, plan, projection and outlook. Any forward-looking statements ar in their entirety by reference to the factors discussed throughout this Annual Report on Form 10-K and in other reports and documents published by us from time to time, particularly the risk factors described under Risk Factors in Item 1A of this Annual Report on Form 10-K.

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

- general economic conditions, which has adversely affected our business;
- our dependence upon automakers, many of which have experienced a dramatic drop in sales, and other third parties, such as manufacturers and distributors of satellite radios, retailers and programming providers;
- the substantial indebtedness of SIRIUS and XM;
- the useful life of our satellites, which have experienced component failures including, with respect to a number of satellites, failures on their solar arrays, and, in certain cases, are not insured; and
- the competitive position of SIRIUS and XM versus other forms of audio and video entertainment including terrestrial radio, HD radio, Internet radio, mobile phones, iPods and other MP3 devices, and emerging next-generation networks and technologies.

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

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PART I

ITEM 1. BUSINESS

We broadcast our music, sports, news, talk, entertainment, traffic and weather channels in the United States for a subscription fee through our proprietary satellite radio systems the SIRIUS system and the XM system. In July 2008, our wholly owned subsidiary, Vernon Merger Corporation, merged (the Merger) with and into XM Satellite Radio Holdings Inc. and, as a result, XM Satellite Radio Holdings Inc. is now our wholly owned subsidiary. The SIRIUS system consists of four in-orbit satellites, over 125 terrestrial repeaters that receive and retransmit signals, satellite uplink facilities and studios. The XM system consists of four in-orbit satellites, over 650 terrestrial repeaters that receive and retransmit signals, satellite uplink facilities and studios. Subscribers can also receive certain of our music and other channels over the Internet.

As of December 31, 2009, we had 18,772,758 subscribers. Our subscriber totals include:

- subscribers under our regular and discounted pricing plans;
- subscribers that have prepaid, including payments either made or due from automakers for prepaid subscriptions included in the sale or lease price of a new vehicle;
- certain radios activated for daily rental fleet programs;
- certain subscribers to SIRIUS Internet Radio and XM Online, 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 to an annual, semi-annual, quarterly or monthly plan. We offer discounts for prepaid and long-term subscriptions as well as discounts for multiple subscriptions on each platform. Since the Merger, we have introduced new programming packages and made certain changes to the pricing of our services. In October 2008, we introduced best of programming to both SIRIUS and XM subscribers for an additional $4.04 per month. In March 2009, we increased the price of our discounted second radio subscription plan from $6.99 to $8.99 per month. In March 2009, we began offering SIRIUS Internet Radio and XM Online, our Internet services, to our subscribers for an additional $2.99 per month. Effective July 29, 2009, we began adding a U.S. Music Royalty Fee to subscriber invoices. The U.S. Music Royalty Fee is $1.98 a month on our base $12.95 subscriptions and $.97 for base plans that are eligible for a second radio discount. We also derive revenue from activation and other fees, the sale of advertising on select non-music channels, the direct sale of satellite radios and accessories, and other ancillary services, such as our Backseat TV, data and weather services.

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

Sirius Satellite Radio Inc. was incorporated in the State of Delaware as Satellite CD Radio, Inc. on May 17, 1990. On December 7, 1992, Satellite CD Radio, Inc. changed its name to CD Radio Inc., and Satellite CD Radio, Inc. was formed as a wholly owned subsidiary. On November 18, 1999, CD Radio Inc. changed its name to Sirius Satellite Radio Inc. On August 5, 2008, we changed our name from Sirius Satellite Radio Inc. to Sirius XM Radio Inc.

XM Satellite Radio Holdings Inc., together with its subsidiaries, is operated as an unrestricted subsidiary under the agreements governing our existing indebtedness. As an unrestricted subsidiary, transactions between the companies are required to comply with various covenants in our respective debt instruments.

Programming

We offer a dynamic programming lineup of more than 135 channels of commercial-free music, sports, news, talk, entertainment, and traffic and weather on each of the SIRIUS platform and the XM platform of which 104 channels are available to subscribers on both platforms. The channel line-ups for the SIRIUS service and the XM service vary in certain respects and are available at sirius.com and xmradio.com.

Our subscription packages allow most listeners to customize and enhance our standard programming lineup. Our Best of SIRIUS package offers to XM subscribers the Howard Stern channels, Martha Stewart Living Radio, SIRIUS NFL Radio, SIRIUS NASCAR Radio, Playboy Radio and play-by-play NFL games and college sports programming. Our Best of XM package offers to SIRIUS subscribers Oprah Radio, The Virus, XM Public Radio, MLB Home Plate, NHL Home Ice, The PGA Tour Network, and select play-by-play of NBA and NHL games and college sports programming.

Subscribers with a la carte-capable radios may customize the programming they receive through our a la carte subscription packages. We also offer family friendly, mostly music and mostly sports, news and talk packages. We make changes to our programming lineup from time to time as we strive to attract new subscribers and offer content that appeals to a broad range of audiences and to our existing subscribers.

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Music Programming

The SIRIUS platform offers 69 channels and the XM platform offers 71 channels of commercial-free music. Each platform offers an extensive selection of music genres, ranging from rock, pop and hip-hop to country, dance, jazz, Latin and classical. Within each genre we offer a range of formats, styles and recordings.

All of our original music channels are broadcast commercial free. Certain of our music channels are programmed by third parties and air commercials. Our channels are produced, programmed and hosted by a team of experts in their fields, and each channel is operated as an individual radio station, with a distinct format and branding. We also from time to time provide special features, such as our *Artist Confidential* series which provides interviews and performances from some of the biggest names in music, and an array of pop up channels featuring the music of particular artists.

Sports Programming

Live play-by-play sports is an important part of our programming strategy. We are the Official Satellite Radio Partner of the National Football League (NFL), Major League Baseball (MLB), NASCAR, Formula One, NBA, NHL, and the PGA Tour, and broadcast most major college sports, including NCAA Division I football and basketball games. Soccer coverage includes matches from the Barclays English Premier League and UEFA Champions League. We also air FIS Alpine Skiing and World Cup events and horse racing.

We offer many exclusive talk channels and programs such as MLB s Home Plate, SIRIUS NASCAR Radio, SIRIUS NFL Radio and Chris Mad Dog Russo s *Mad Dog Unleashed* on Mad Dog Radio, as well as simulcasts of select ESPN television shows, including *SportsCenter*.

Talk and Entertainment Programming

We offer a multitude of talk and entertainment channels for a variety of audiences. Our diverse spectrum of talk programming is a significant differentiator from terrestrial radio and other audio entertainment providers.

In January 2006, Howard Stern moved his radio show to SIRIUS from terrestrial radio and now programs two of our channels. Our agreement with Stern expires on December 31, 2010. Our talk radio offerings also feature dozens of popular talk personalities, many creating radio shows that air exclusively on our services, including Oprah Winfrey, Martha Stewart, Rosie O Donnell, Barbara Walters, Opie and Anthony, Bob Edwards, Senator Bill Bradley, Deepak Chopra and doctors from the NYU Langone Medical Center.

Our comedy channels present a range of humor such as Jamie Foxx s The Foxxhole, Laugh USA, Blue Collar Comedy and Raw Dog Comedy. Other talk and entertainment channels include SIRIUS XM Book Radio, Kids Place Live and Radio Disney, as well as OutQ, Road Dog Trucking and Playboy Radio.

Our religious programming includes The Catholic Channel, which is programmed with the Archdiocese of New York; EWTN, a Global Catholic Radio Network; and Family Talk and Family Net Radio.

News and Information Programming

We offer a wide range of national, international and financial news, including news from BBC World Service News, Bloomberg Radio, CNBC, CNN, FOX News, NPR and World Radio Network.

We also offer continuous, local traffic reports for 21 metropolitan markets throughout the United States on the XM service, and 20 metropolitan markets throughout the United States on the SIRIUS service. We broadcast these reports, together with local and national weather reports from The Weather Channel.

We also air a range of political call-in talk shows on a variety of channels including our exclusive channel, POTUS.

Distribution of Radios

Automakers

Our primary means of distributing satellite radios is through the sale and lease of new vehicles. We have agreements with every major automaker Acura/Honda, Aston Martin, Audi, Automobili Lamborghini, Bentley, BMW, Chrysler, Dodge, Ferrari, Ford, General Motors, Honda, Hyundai, Infiniti/Nissan, Jaguar, Jeep, Kia, Land Rover, Lincoln, Lexus, Toyota, Scion, Subaru, Maybach, Mazda, Mercedes-Benz, Mercury, MINI, Mitsubishi, Porsche, Rolls-Royce, Volvo and Volkswagen to offer either SIRIUS or XM satellite radios as factory or dealer-installed equipment in their vehicles. As of December 31, 2009, satellite radios were available as a factory or dealer-installed option in substantially all vehicle models sold in the United States.

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Many automakers include a subscription to our radio service in the sale or lease price of their vehicles. In many cases, we receive subscription payments from automakers in advance of the activation of our service. We share with certain automakers a portion of the revenues we derive from subscribers using vehicles equipped to receive our service. We also reimburse various automakers for certain costs associated with the satellite radios installed in their vehicles, including in certain cases hardware costs, tooling expenses and promotional and advertising expenses.

Retail

We sell satellite radios directly to consumers through our websites. Satellite radios are also marketed and distributed through major national and regional retailers. We develop in-store merchandising materials and provide sales force training for several retailers.

Previously Owned Vehicles

We expect to acquire an increasing number of subscribers through the sale and lease of previously owned vehicles with factory installed satellite radios. We have entered into agreements with several automakers to market subscriptions to purchasers and lessees of vehicles which include satellite radios sold through their certified pre-owned programs.

We intend to develop systems and methods to identify purchasers and lessees of used vehicles which include satellite radios, and expect to make other efforts to market and sell satellite radio subscriptions to owners of used vehicles.

Our Satellite Radio Systems

Our satellite radio systems are designed to provide clear reception in most areas despite variations in terrain, buildings and other obstructions. Subscribers can receive our transmissions in all outdoor locations where the satellite radio has an unobstructed line-of-sight with one of our satellites or is within range of one of our terrestrial repeaters. We continually monitor our infrastructure and regularly evaluate improvements in technology.

The FCC has allocated the portion of the S-band located between 2320 MHz and 2345 MHz exclusively for satellite radio. Each of SIRIUS and XM uses 12.5 MHz of this bandwidth to transmit its respective signals. Uplink transmissions (from the ground to our satellites) use 12.5 MHz of bandwidth in the 7060-7072.5 MHz band.

Our satellite radio systems have three principal components:

- satellites, terrestrial repeaters and other satellite facilities;
- studios; and
- satellite radios.

Satellites, Terrestrial Repeaters and Other Satellite Facilities

SIRIUS Satellites. SIRIUS owns and operates four orbiting satellites, and owns a spare satellite that is in storage. Space Systems/Loral delivered the first three of SIRIUS operating satellites in 2000, its spare satellite to ground storage in 2002, and its fourth operating satellite in 2009. The SIRIUS satellites are of the Loral FS-1300 model series.

Three of SIRIUS orbiting satellites travel in a figure eight pattern extending above and below the equator, and spend approximately 16 hours per day north of the equator. At any time, two of these three orbiting satellites operate north of the equator while the third satellite does not transmit as it traverses the portion of the orbit south of the equator. This orbital configuration yields high signal elevation angles, reducing service interruptions from signal blockage. SIRIUS fourth operating satellite is deployed in a geostationary orbit at 96° West Longitude. This provides redundant coverage and enhances performance of our satellite constellation.

Space Systems/Loral is constructing a sixth satellite for use in the SIRIUS system. This satellite is also a Loral FS-1300 model satellite. SIRIUS has an agreement with International Launch Services to launch this satellite on a Proton rocket, and expects to launch this sixth satellite in the fourth quarter of 2011. SIRIUS plans to deploy this satellite in a geostationary orbit at 115° West Longitude.

XM Satellites. XM owns four orbiting satellites; two of which, XM-3 and XM-4, currently transmit the XM signal and two of which, XM-1 and XM-2, serve as in-orbit spares. Each of these satellites was manufactured by Boeing Satellite Systems International. The XM satellites were launched in March 2001, May 2001, February 2005 and October 2006, respectively. The XM satellites are deployed in geostationary orbits at 85° West Longitude and 115° West Longitude.

Space Systems/Loral is constructing a fifth satellite, XM-5, for use in the XM system. XM-5 is a Loral FS-1300 model satellite. XM has an agreement with International Launch Services to launch XM-5 during the third quarter of

2010 on a Proton rocket.

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Satellite Insurance. SIRIUS does not maintain in-orbit insurance for three of its four operating satellites. XM currently has in- orbit insurance on XM-3 and XM-4, its primary operating satellites, but does not carry insurance coverage for XM-1 and XM-2, its in-orbit spare satellites.

These policies provide coverage for a total, constructive total or partial loss of the satellites that occurs during annual (or multi-year) in-orbit periods. The insurance does not cover the full cost of constructing, launching and insuring new satellites, nor will it protect us from the adverse effect on business operations due to the loss of a satellite. The policies contain standard commercial satellite insurance provisions, including coverage exclusions.

Terrestrial Repeaters. In some areas with high concentrations of tall buildings, such as urban centers, signals from our satellites may be blocked and reception of satellite signals can be adversely affected. In many of these areas, we have deployed terrestrial repeaters to supplement satellite coverage. SIRIUS operates over 125 terrestrial repeaters; XM operates over 650 terrestrial repeaters.

Other Satellite Facilities. SIRIUS controls and communicates with its satellites from an uplink facility in New Jersey. These activities include routine satellite orbital maneuvers and monitoring of the satellites. SIRIUS also maintains earth stations in Panama and Ecuador to control and communicate with its satellites. XM s satellites are monitored, tracked and controlled by Telesat Canada, a satellite operator. In addition, XM and SIRIUS operate backup stations in the United States.

Studios

The programming on the SIRIUS and XM systems originates principally from studios in New York City and Washington D.C., and, to a lesser extent, from smaller studio facilities in Chicago, Cleveland, Los Angeles, Memphis, Nashville and Orlando. Our New York City offices house our corporate headquarters. Both our New York City and Washington D.C. offices house facilities for programming origination, programming personnel and facilities to transmit programming.

Satellite Radios

We design, establish specifications for, source or specify parts and components for, and manage various aspects of the logistics and production of SIRIUS and XM radios. We do not manufacture radios. We have authorized manufacturers to produce and distribute SIRIUS and XM brand radios, and have licensed our technology to various electronics manufacturers to develop, manufacture and distribute radios under various consumer brands. We directly import certain radios distributed through our websites. Due to differences in technology, SIRIUS and XM radios require distinct chip sets to receive and output the respective satellite radio services. To facilitate the sale of SIRIUS and XM radios, we often subsidize a portion of the radio manufacturing costs to reduce the hardware price to consumers.

SIRIUS and XM radios are manufactured in three principal configurations as in-dash radios, Dock & Play radios and portable or wearable radios.

In-dash radios are integrated into vehicles and allow the user to listen to AM, FM or satellite radio with the push of a button. Aftermarket in-dash radios are available at retailers nationally, and to automakers for factory or dealer installation.

Dock & Play radios enable subscribers to transport their SIRIUS or XM radios easily to and from their cars, trucks, homes, offices, boats or other locations with available adapter kits. Dock & Play radios adapt to existing audio systems through FM modulation or direct audio connection and can be easily installed. Audio systems and boom boxes, which enable subscribers to use their SIRIUS and XM radios virtually anywhere, are available for various models of Dock & Play radios. The SIRIUS Stratus 6 and SIRIUS Starmate 5 Dock & Play radios also support a la carte channel selection.

Portable or wearable radios offer live satellite radio on the go and recorded satellite, MP3 and WMA content. The XMp3 allows consumers to record up to one hundred hours of XM and Best of Sirius programming, and is capable of recording up to five channels simultaneously. The Stiletto 2 allows consumers to record up to 100 hours of SIRIUS and Best of XM programming and can connect to the SIRIUS Internet Radio service through an accessible Wi-Fi network.

SIRIUS and XM home units that provide our satellite services to home and commercial audio systems are also available.

We have introduced an interoperable radio, called MiRGE, containing both SIRIUS and XM chip sets. This radio has a unified control interface allowing for easy switching between the two satellite radio networks. We have introduced the XM SkyDock, which connects to an Apple iPhone and iPod touch and provides live XM satellite radio using the control capability of the iPhone or iPod touch.

Internet Radio

Both SIRIUS and XM simulcast music channels and select non-music channels over the Internet. Access to SIRIUS Internet Radio and XM Online are offered to subscribers for a fee. In 2009, we introduced new products that provide access to our internet radio services in the home, such as clock radios, without the need for a personal computer. We also developed and introduced an application for the Apple iPhone and iPod touch that permits consumers to access SIRIUS Internet Radio and XM Online on such devices. We expect to introduce similar applications to allow consumers to access SIRIUS Internet Radio and XM Online on other personal mobile devices. Subscribers to SIRIUS Internet Radio and XM Online are not included in our subscriber count, unless the service is purchased separately and not as part of a subscription to the SIRIUS or XM satellite radio service.

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International

Canada. We have an interest in the satellite radio services offered in Canada. SIRIUS Canada, a Canadian corporation that we jointly own with Canadian Broadcasting Corporation and Slaight Communications 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 12 channels offering Canadian content. XM Canada, a Canadian corporation in which we have an ownership interest, also offers satellite radio service in Canada. XM Canada offers 130 channels of music and news, sports, talk and entertainment programming. Subscribers to the SIRIUS Canada service and the XM Canada service are not included in our subscriber count.

Mexico. We have entered into a letter of intent with a Mexican company, ACIR DARS Mexico, S. de R.L. de C.V., to pursue a license to offer satellite radio in Mexico. ACIR DARS Mexico has filed an application for a license to offer satellite radio with the Mexican government. The letter of intent contemplates us receiving a royalty from ACIR DARS Mexico as well as an option to acquire an equity interest in such Mexican business.

Other regions. We are in discussions with various parties regarding possible joint ventures in other countries.

Other Services

Commercial Accounts. The SIRIUS and XM music services are also available for commercial establishments. Commercial accounts are available through providers of in-store entertainment solutions and directly from SIRIUS and XM. Commercial subscribers are included in our subscriber count.

Satellite Television Services. We offer music channels as part of certain programming packages on the DISH Network satellite television service. Our agreement to offer music channels as part of programming packages on the DirecTV satellite television service terminated in February 2010. Subscribers to the DISH Network satellite television service are not included in our subscriber count.

SIRIUS and XM Content Through Mobile Phone Carriers. SIRIUS and XM offer between 20 and 25 music and comedy channels to mobile phone users through relationships with AT&T, Alltel, Sprint and RIM. Subscribers to these services are not included in our subscriber count.

Subscribers to the following services are not included in our subscriber count, unless the applicable service is purchased by the subscriber separately and not as part of a subscription to the SIRIUS or XM satellite radio service:

SIRIUS Backseat TV. SIRIUS offers SIRIUS Backseat TV, a service offering television content designed primarily for children in the backseat of vehicles. SIRIUS Backseat TV is available as a factory-installed option in select Chrysler, Dodge and Jeep models, and at retail for aftermarket installation.

SIRIUS Travel Link. SIRIUS offers SIRIUS Travel Link, a suite of data services that includes real-time traffic, tabular and graphical weather, fuel prices, sports schedules and scores, and movie listings.

Real-Time Traffic Services. Both XM and SIRIUS offer services that provide graphic information as to road closings, traffic flow and incident data to consumers with compatible in-vehicle navigation systems.

Real-Time Weather Services. XM and SIRIUS offer several real-time weather services designed for in-vehicle, marine and/or aviation use.

FCC Conditions

In order to demonstrate to the FCC that the Merger was in the public interest, we agreed to implement a number of voluntary commitments. These programming, public interest and qualified entity channels, equipment, subscription rates, and other service commitments are summarized as follows:

Programming

A La Carte Programming: We offer the a la carte programming options described below to consumers with eligible radios:

- 50 channels are available for $6.99 a month. 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, including channels from both services, are available on an a la carte basis for $14.99 a month.

Our a la carte packages allow subscribers to pick, through interactive menus available on the Internet, the specific channels they would like to receive. We have introduced these packages, including channels from both services, and a radio capable of receiving them.

Best of Both Programming: We offer customers the ability to receive the best of both SIRIUS and XM programming at a monthly cost of $16.99.

Mostly Music or News, Sports and Talk Programming: We offer customers an option of mostly music programming or mostly news, sports and talk programming at a cost of $9.99 per month.

Discounted Family-Friendly Programming: We offer consumers 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. We also offer SIRIUS and XM customers a family-friendly version of the best of programming. This programming costs $14.99 per month, representing a discount of $2.00 per month from the cost of the best of programming.

Public Interest Channels

We agreed to set aside four percent of the full-time audio channels on the SIRIUS platform and on the XM platform for non-commercial, educational and informational programming within the meaning of the FCC rules that govern similar obligations of direct broadcast satellite providers. We also committed not to 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 by programming providers for such channels exceeds available supply.

Qualified Public Entity Channels

We agreed to 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. As digital compression technology enables us to broadcast additional full-time audio channels, we 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.

The Qualified Entity or Entities will not be required to make any lease payments for such channels. We will have no editorial control over these channels. The FCC is expected to inform us how it plans to select these Qualified Entities. In February 2009, the FCC commenced a proceeding to determine the method to select these Qualified Entities but has not completed this proceeding. We will implement our commitment to enter into long-term leases or other agreements to provide a Qualified Entity or Entities audio channels on the SIRIUS platform and on the XM platform when the FCC completes its pending proceeding and directs us how to legally implement this requirement.

Equipment

We are required to provide, on commercially reasonable terms, our intellectual property necessary to permit any device manufacturer to develop equipment that can deliver our satellite radio services. Chip sets for satellite radios, which include the encryption, conditional access and security technology necessary to access our satellite radio services, may be purchased by licensees from manufacturers in negotiated transactions with such manufacturers. We have agreed not to enter into any agreement that grants, or that would have the effect of granting, a device manufacturer an exclusive right to manufacture, market and sell equipment that can deliver our satellite radio services. We have also agreed not to execute any agreement or take any other action that would bar, or have the effect of barring, a car manufacturer or other third party from including non-interfering HD radio chips, iPod compatibility, or other audio technology in an automobile or audio device.

Subscription Rates

We have agreed not to raise the retail price for, or reduce the number of channels in, our basic $12.95 per month subscription package, our a la carte programming packages or our new programming packages described above until July 28, 2011. Under the FCC s order approving the Merger, we may pass through cost increases incurred since the filing of our FCC merger application as a result of statutorily or contractually required payments to the music, recording and publishing industries for the performance of musical works and sound recordings or for device recording fees. Effective July 29, 2009, we began adding a U.S. Music Royalty Fee to subscriber invoices. The U.S. Music Royalty Fee is $1.98 a month on our base $12.95 subscriptions and $.97 for base plans that are eligible for a second radio discount. Subscription packages, such as our News, Sports and Talk package, that contain little music are not subject to the U.S. Music Royalty Fee. Amounts collected on account of the U.S. Music Royalty Fee are being used to partially offset payments to the music industry. A summary of the costs passed through pursuant to U.S. Music Royalty Fee is available on our websites.

Service to Puerto Rico

We agreed to file an application with the FCC to provide the SIRIUS satellite radio service to the Commonwealth of Puerto Rico using terrestrial repeaters. In 2009, the FCC granted us Special Temporary Authority to operate terrestrial repeaters in Puerto Rico, and in late 2009, we introduced the SIRIUS satellite radio service to the Commonwealth.

Interoperable Radios

We agreed to offer for sale an interoperable radio and began offering such radio in early 2009.

Local Programming and Advertising

We have committed not to originate local programming or advertising through our repeater networks.

Transactions between SIRIUS, XM Holdings and XM

Promptly following the Merger, SIRIUS and XM began to integrate their operations, and agreed to share the costs of certain day-to-day functions. For example, XM transferred its employees to SIRIUS, and SIRIUS, in turn, has agreed to provide various services to both companies necessary to support their business, such as product development, sales, marketing, finance, accounting, information technology, programming, human resources, public relations, investor relations, legal and other general management services. XM and SIRIUS share equally the costs of these employees.

SIRIUS and XM also agreed to share programming and rationalize their channel line-ups, and to share equally the costs of certain programming that appears on both platforms. In addition, SIRIUS and XM have agreed to jointly market radios and coordinate rebate and warranty support programs to subscribers who purchase radios at retail or via their websites. In general, SIRIUS and XM share equally the costs of this marketing and sales coordination.

SIRIUS and XM have also sought opportunities to jointly increase revenues. SIRIUS and XM have agreed to offer their respective subscribers programming packages that include best of programming from the other service. Each of SIRIUS and XM retains all the respective revenue generated from its respective best of programming package. The companies have also made arrangements to have XM radios offered in RadioShack, a retailer that was previously exclusive to SIRIUS.

XM Holdings and XM are operated as unrestricted subsidiaries under the agreements governing SIRIUS existing debt. As unrestricted subsidiaries, transactions among the companies are required to comply with various contractual provisions in our respective debt instruments. The agreements between XM and SIRIUS are intended to permit both companies to share in the benefits of the inter-company arrangements in approximately equal proportion. The terms of the agreements between XM and SIRIUS are intended to be no more favorable to one company or the other than those that could be obtained at the time in an arm s-length dealing with an unaffiliated firm or person.

Certain operations have not yet been integrated in any significant respect. SIRIUS and XM expect to enter into additional arrangements as they continue to integrate their operations and pursue opportunities to realize cost savings and increase revenues.

From time to time, we continue to evaluate options to further integrate SIRIUS and XM by completing either or both of a merger between XM Holdings and XM or a merger between us and XM Holdings and/or XM.

Competition

We face significant competition for both listeners and advertisers. In addition to pre-recorded entertainment purchased or playing in cars, homes and using portable players, we compete with the following providers of radio or other audio services:

Traditional AM/FM Radio

SIRIUS and XM compete with traditional AM/FM radio. Many traditional radio companies are substantial entities owning large numbers of radio stations or other media properties. The radio broadcasting industry is highly competitive.

Unlike satellite radio, traditional AM/FM radio has had a well established demand for its services and offers free broadcasts paid for by commercial advertising rather than by a subscription fee. Many radio stations offer information programming of a local nature, such as local news and sports. By attracting listeners to their stations, traditional AM/FM radio reduces the likelihood that customers would be willing to pay for our subscription services and by offering free broadcasts they impose limits on what we can charge for our services. Some AM/FM radio stations have reduced the number of commercials per hour, expanded the range of music played on the air and experimented with new formats in order to lure customers away from satellite radio.

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HD Radio

Many radio stations have begun broadcasting digital signals, which have a clarity similar to our signals. These stations do not charge a subscription fee for their digital signals but do generally carry advertising. A group of major broadcast radio networks have created a coalition to jointly market digital radio services. According to this coalition, nearly 2,000 radio stations are currently broadcasting primary signals with HD Radio technology and broadcasting approximately 1,000 new FM multicast channels (HD2/HD3), and manufacturers are marketing and distributing digital receivers. To the extent that traditional AM/FM radio stations adopt digital transmission technology, any competitive advantage that we enjoy over traditional radio because of our clearer digital signal would be lessened. Traditional AM/FM broadcasters are also aggressively entering Internet radio and wireless internet-based distribution arrangements. Approximately 15 automakers have committed to installing HD Radio equipment as either a factory standard or factory option, including Ford, Volkswagen, BMW, Mercedes-Benz, Kia and Hyundai.

Internet Radio

Internet radio broadcasts have no geographic limitations and can provide listeners with radio programming from around the country and the world. Major media companies and online-only providers, including Clear Channel, CBS, and Pandora, make high fidelity digital streams available through the Internet for free or, in some cases, for a fraction of the cost of a satellite radio subscription. In addition, there has been wide proliferation of mobile Internet enabled smartphones, many of which have the capability of interfacing with vehicles. These smartphones can typically play recorded or cached content and access live Internet radio via browsers or dedicated applications. Internet based radio products have also been announced for vehicles, although their adoption is currently nascent. The past few years have seen a steady increase in the audio quality of Internet radio streams and in the amount of audio content available via the Web, resulting in a steady increase in Internet radio audience metrics. We expect that improvements from higher bandwidths and wider programming selection are likely to continue making Internet radio an increasingly significant competitor in the near future. These services already compete directly with SIRIUS and XM s Internet offerings and with our home line of products through the use of home stereo media adapters, media-centric PCs, and specialized IP-based audio consoles.

Portable Audio Devices

The Apple iPod® is a portable digital music player that allows users to download and purchase music through Apple s iTunes® Music Store, as well as convert music on compact disc to digital files. iPods® are compatible with certain car stereos and various home speaker systems, and certain automakers have entered into arrangements with manufacturers of portable media players that are expected to enhance this compatibility. Availability of music in the public MP3 audio standard has been growing in recent years with sound files available on the websites of online music retailers, artists and record labels and through numerous file sharing software programs. In addition, many emerging artists give away their music for free via blogs and other websites in order to increase live event ticket sales, which are often more profitable to emerging artists than music sales. These MP3 files can be played instantly, burned to a compact disc or stored in various portable players available to consumers. Internet-based audio formats are becoming increasingly competitive as quality improves and costs are reduced. In addition, many current generation portable audio devices, such as the iPod touch, also contain WiFi connections enabling direct Internet connections for purchasing additional music or streaming music that is not stored on the local device.

Direct Broadcast Satellite and Cable Audio

A number of companies provide specialized audio services through either direct broadcast satellite or cable audio systems. These services are targeted to fixed locations, mostly in-home. The radio service offered by direct broadcast satellite and cable audio is often included as part of a package of digital services with video service, and video customers generally do not pay an additional monthly charge for the audio service.

Digital Media Services

We face increased competition from businesses that deliver or plan to deliver media content through mobile phones and other wireless devices. The audio entertainment marketplace continues to evolve rapidly, with a steady emergence of new media platforms and portable devices that compete with the XM and SIRIUS services now or that could compete with those services in the future.

Traffic News Services

A number of providers also compete with the XM and SIRIUS traffic services. Clear Channel and Tele Atlas deliver nationwide traffic information for the top 50 markets to in-vehicle navigation systems using RDS/TMC, the radio broadcast standard technology for delivering traffic and travel information to drivers. The in-dash navigation market in which we primarily compete is also being threatened by increasingly capable smartphones that provide advanced navigation functionality, including live traffic. For instance, the Motorola Droid, Google Nexus One, Palm Pre, and Apple iPhone 3GS all include GPS functionality with turn-by-turn navigation although these services often require more expensive data plans or other fees.

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Government Regulation

As operators of a privately owned satellite system, we are regulated by the FCC under the Communications Act of 1934, principally with respect to:

- the licensing of our satellite systems;
- preventing interference with or to other users of radio frequencies; and
- compliance with FCC rules established specifically for U.S. satellites and satellite radio services.

Any assignment or transfer of control of our FCC licenses must be approved by the FCC. The FCC s order approving the Merger requires us to comply with certain voluntary commitments we made as part of the FCC merger proceeding. We believe we comply with those commitments.

In 1997, XM and SIRIUS was each a winning bidder for an FCC license to operate a satellite digital audio radio service and provide other ancillary services. SIRIUS FCC licenses for its satellites expire in 2017. XM s FCC licenses for its satellites expire in 2013 and 2014. We anticipate that, absent significant misconduct on our part, the FCC will renew our licenses to permit operation of our satellites for their useful lives, and grant a license for any replacement satellites.

SIRIUS has entered into an agreement with Space Systems/Loral to design and construct a sixth satellite. In September 2008, the FCC granted SIRIUS application to amend its license to add this satellite to the existing SIRIUS satellite constellation.

In some areas with high concentrations of tall buildings, such as urban centers, signals from our satellites may be blocked and reception can be adversely affected. In many of these areas, we have installed terrestrial repeaters to supplement our satellite signal coverage. The FCC has not yet established rules governing terrestrial repeaters. Rulemaking on the subject has been initiated by the FCC and is still pending. Many comments have been filed as part of this and related rulemakings. The comments cover many topics relating to the operation of our terrestrial repeaters, but principally seek to protect adjoining wireless services from interference. We cannot predict the outcome or timing of these FCC proceedings and the final rules adopted by the FCC may limit our ability to deploy additional terrestrial repeaters, require us to reduce the power of our existing terrestrial repeaters or fail to protect us from interference by adjoining spectrum holders. In the interim, the FCC has granted XM and SIRIUS special temporary authority (STA) to operate their terrestrial repeaters and offer service on a non-harmful interference basis to other wireless services. Following the FCC s review of whether certain repeaters had been operating at variance to the specifications in their STAs, both XM and SIRIUS entered into consent decrees in 2008 requiring both remedial action and a voluntary contribution to the federal government. We believe the repeaters operated by SIRIUS and XM comply with the consent decrees, the STAs and applicable FCC rules.

We design, establish specifications for, source or specify parts and components for, manage various aspects of the logistics and production of, and, in most cases, obtain FCC certifications for, satellite radios, including satellite radios that include FM modulators. Part 15 of the FCC s rules establish a number of requirements relating to FM modulators, including emissions and frequency rules. Following the FCC s review of whether the FM transmitters in certain XM and SIRIUS radios comply with the FCC s emissions and frequency rules, we entered into consent decrees in 2008 requiring both remedial action and a voluntary contribution to the federal government. We believe our radios that are in production comply with the consent decree and applicable FCC rules.

We are required to obtain export licenses from the United States government to deliver components of our satellite radio systems and related technical data thereto. In addition, the delivery of satellites and the supply of related ground control equipment, technical data, and satellite communication/control services to destinations outside the United States and to foreign persons is subject to strict export control and prior approval requirements from the United States government (including prohibitions on the sharing of certain satellite-related goods and services with China).

Changes in law or regulations relating to communications policy or to matters affecting our services could adversely affect our ability to retain our FCC licenses or the manner in which we operate.

Copyrights to Programming

In connection with our music programming, we must negotiate and enter into royalty arrangements with two sets of rights holders: holders of copyrights in musical works (that is, the music and lyrics) and holders of copyrights in sound recordings (that is, the actual recording of a work).

Musical works rights holders, generally songwriters and music publishers, are represented by performing rights organizations such as the American Society of Composers, Authors and Publishers (ASCAP), Broadcast Music, Inc. (BMI), and SESAC, Inc. (SESAC). These organizations negotiate fees with copyright users, collect royalties and distribute them to the rights holders. We have arrangements with all of these organizations.

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Sound recording rights holders, typically large record companies, are primarily represented by SoundExchange, an organization which negotiates licenses, and collects and distributes royalties on behalf of record companies and performing artists. Under the Digital Performance Right in Sound Recordings Act of 1995 and the Digital Millennium Copyright Act of 1998, we may negotiate royalty arrangements with the sound recording copyright owners, or if negotiation is unsuccessful, the royalty rate is established by the Copyright Royalty Board (the CRB) of the Library of Congress. In January 2008, the CRB issued a decision regarding the royalty rate payable by SIRIUS and XM under the statutory license covering the performance of sound recordings over their satellite radio services for the six-year period starting January 1, 2007 and ending December 31, 2012. Our next rate settling proceeding before the CRB is scheduled to commence in January 2011. Under the terms of the CRB s decision, we paid a royalty of 6.0%, 6.0% and 6.5% of gross revenues, subject to certain exclusions, for 2007, 2008 and 2009, respectively. Under this decision, we will pay a royalty of 7.0% for 2010, 7.5% for 2011 and 8.0% for 2012.

Trademarks

SIRIUS has registered, and intends to maintain, the trademark SIRIUS and the Dog design logo with the United States Patent and Trademark Office (the PTO) in connection with the transmission services offered by it. SIRIUS is not aware of any material claims of infringement or other challenges to its right to use the SIRIUS trademark or the Dog design logo in the United States. SIRIUS also has registered, and intends to maintain, trademarks for the names of certain of its channels. SIRIUS has also registered the trademark, SIRIUS , and the Dog design logo, in Canada. SIRIUS has granted a license to use its trademark in Canada to SIRIUS Canada.

XM has registered, and intends to maintain, the trademark XM with the PTO in connection with the transmission services offered by it. XM is not aware of any material claims of infringement or other challenges to its right to use the XM trademark in the United States. XM also has registered, and intends to maintain, trademarks for the names of certain of its channels. XM has also registered the trademark, XM , and the logo, in Canada. XM has granted a license to use its trademark in Canada to XM Canada.

Personnel

As of December 31, 2009, we had 1,514 full-time employees. In addition, we rely upon a number of part-time employees, consultants, other advisors and outsourced relationships. None of our employees is represented by a labor union, and we believe that our employee relations are good.

Corporate Information

Our executive offices are located at 1221 Avenue of the Americas, 36th floor, New York, New York 10020 and our telephone number is (212) 584-5100. Our internet address is siriusxm.com. Our annual, quarterly and current reports, and amendments to those reports, filed or furnished pursuant to Section 14(a) or 15(d) of the Securities Exchange Act of 1934 may be accessed free of charge through our website after we have electronically filed such material with, or furnished it to, the SEC. Siriusxm.com (including any other reference to such address in this Annual Report) is an inactive textual reference only, meaning that the information contained on or accessible from the website is not part of this Annual Report on Form 10-K and is not incorporated in this report by reference.

XM Holdings and XM also file and furnish annual, quarterly and current reports, and amendments to those reports, pursuant to the Securities Exchange Act of 1934, and those reports may be accessed free of charge through xmradio.com after XM Holdings and XM have electronically filed such material with, or furnished it to, the SEC. Xmradio.com (including any other reference to such address in this Annual Report) is an inactive textual reference only, meaning that the information contained on or accessible from the website is not part of this Annual Report on Form 10-K and is not incorporated in this report by reference.

Executive Officers of the Registrant

Certain information regarding our executive officers is provided below:

Name	Age	Position
Mel Karmazin	66	Chief Executive Officer
Scott A. Greenstein	50	President and Chief Content Officer
James E. Meyer	55	President, Operations and Sales
Dara F. Altman	51	Executive Vice President and Chief Administrative Officer

Patrick L. Donnelly	48	Executive Vice President, General Counsel and Secretary
David J. Frear	53	Executive Vice President and Chief Financial Officer

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Mel Karmazin has served as our Chief Executive Officer and a member of our board of directors since November 2004. Prior to joining us, Mr. Karmazin was President and Chief Operating Officer and a member of the board of directors of Viacom Inc. from May 2000 until June 2004. Prior to joining Viacom, Mr. Karmazin was President and Chief Executive Officer of CBS Corporation from January 1999 and a director of CBS Corporation from 1997 until its merger with Viacom in May 2000. He was President and Chief Operating Officer of CBS Corporation from April 1998 through December 1998. Mr. Karmazin joined CBS Corporation in December 1996 as Chairman and Chief Executive Officer of CBS Radio and served as Chairman and Chief Executive Officer of the CBS Station Group (Radio and Television) from May 1997 to April 1998. Prior to joining CBS Corporation, Mr. Karmazin served as President and Chief Executive Officer of Infinity Broadcasting Corporation from 1981 until its acquisition by CBS Corporation in December 1996. Mr. Karmazin served as Chairman, President and Chief Executive Officer of Infinity from December 1998 until the merger of Infinity Broadcasting Corporation with Viacom in February 2001.

Scott A. Greenstein has served as our President and Chief Content Officer since May 2004. Prior to May 2004, Mr. Greenstein was Chief Executive Officer of The Greenstein Group, a media and entertainment consulting firm. From 1999 until 2002, he was Chairman of USA Films, a motion picture production, marketing and distribution company. From 1997 until 1999, Mr. Greenstein was Co-President of October Films, a motion picture production, marketing and distribution company. Prior to joining October Films, Mr. Greenstein was Senior Vice President of Motion Pictures, Music, New Media and Publishing at Miramax Films, and held senior positions at Viacom Inc.

James E. Meyer has served as our President, Operations and Sales since May 2004. Prior to May 2004, Mr. Meyer was President of Aegis Ventures Incorporated, a consulting firm that provides general management services. From December 2001 until 2002, Mr. Meyer served as special advisor to the Chairman of Thomson S.A., a leading consumer electronics company. From January 1997 until December 2001, Mr. Meyer served as the Senior Executive Vice President for Thomson as well as the Chief Operating Officer for Thomson Consumer Electronics. From 1992 until 1996, Mr. Meyer served as Thomson s Senior Vice President of Product Management. Mr. Meyer is a director of ROVI Corporation.

Dara F. Altman has served as our Executive Vice President and Chief Administrative Officer since September 2008. From January 2006 until September 2008, Ms. Altman served as Executive Vice President, Business and Legal Affairs, of XM. Ms. Altman was Executive Vice President of Business Affairs for Discovery Communications from 1997 to 2005. From 1993 to 1997, Ms. Altman served as Senior Vice President and General Counsel of Reiss Media Enterprises, which owned Request TV, a national pay-per-view service. Before Request TV, Ms. Altman served as counsel for Home Box Office. Ms. Altman started her career as an attorney at the law firm of Willkie, Farr & Gallagher LLP.

Patrick L. Donnelly has served as our Executive Vice President, General Counsel and Secretary since May 1998. From June 1997 to May 1998, he was Vice President and deputy general counsel of ITT Corporation, a hotel, gaming and entertainment company that was acquired by Starwood Hotels & Resorts Worldwide, Inc. in February 1998. From October 1995 to June 1997, he was assistant general counsel of ITT Corporation. Prior to October 1995, Mr. Donnelly was an attorney at the law firm of Simpson Thacher & Bartlett LLP.

David J. Frear has served as our Executive Vice President and Chief Financial Officer since June 2003. From July 1999 through February 2003, Mr. Frear was Executive Vice President and Chief Financial Officer of Savvis Communications Corporation, a global managed service provider, delivering internet protocol applications for business customers. From October 1999 through February 2003, Mr. Frear also served as a director of Savvis. Mr. Frear was an independent consultant in the telecommunications industry from August 1998 until June 1999. From October 1993 to July 1998, Mr. Frear was Senior Vice President and Chief Financial Officer of Orion Network Systems Inc., an international satellite communications company that was acquired by Loral Space & Communications Ltd. in March 1998. From 1990 to 1993, Mr. Frear was Chief Financial Officer of Millicom Incorporated, a cellular, paging and cable television company. Prior to joining Millicom, he was an investment banker at Bear, Stearns & Co., Inc. and Credit Suisse.

Employment Agreements

Mel Karmazin

In June 2009, we amended our employment agreement with Mel Karmazin. The amendment (i) extended the term of his employment agreement through December 31, 2012, (ii) increased his base salary from $1,250,000 per year to $1,500,000 per year beginning on January 1, 2010, and (iii) provided for the 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).

These options vest in equal installments on each of December 31, 2010, December 31, 2011, June 30, 2012 and December 31, 2012. The vesting of these stock options accelerate 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 on 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.

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 annual base salary of $850,000, with an increase to at least $925,000 on January 1, 2010; at least $1,000,000 on January 1, 2011; at least $1,100,000 on January 1, 2012; and at least $1,250,000 on January 1, 2013. Mr. Greenstein will also be eligible to receive annual bonuses in an amount determined each year by the Compensation Committee of our board of directors.

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. The vesting of these stock options will accelerate 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 on July 27, 2019, subject to earlier termination following Mr. Greenstein s termination of employment.

If Mr. Greenstein 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. 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. The employment agreement also provides for a lump sum severance payment in an amount equal to (1) Mr. Meyer s annual base salary plus, (2) 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 case of certain qualifying terminations. In the event Mr. Meyer elects to retire in April 2011, he will receive two times the Designated Amount generally in lieu of any other payments under the employment agreement. Our obligation to pay the foregoing amounts are subject to Mr. Meyer s execution of a valid release of claims against us and his compliance with certain restrictive covenants. We have also agreed to indemnify for any excise taxes that may be imposed on him under Section 280G of the Internal Revenue Code.

Upon the expiration of the employment agreement in May 2013 or following his retirement in April 2011, we have agreed to offer Mr. Meyer a one-year consulting agreement for no additional consideration, other than reimbursement of reasonable out-of-pocket expenses associated with the performance of his obligations under the consulting agreement.

In connection with the execution of the employment agreement, we granted Mr. Meyer an option to purchase 25,184,984 shares of our common stock at an exercise price of $0.5752 per share (the closing sale price of our common stock on date of the employment agreement). The option will generally vest in four equal installments on each of October 14, 2010, October 14, 2011, October 14, 2012 and October 14, 2013, subject to earlier acceleration or termination under certain circumstances.

Dara F. Altman

In September 2008, we entered into a three year employment agreement with Dara F. Altman to serve as our Executive Vice President and Chief Administrative Officer. We pay Ms. Altman an annual salary of $446,331, and

annual bonuses in an amount determined each year by the Compensation Committee of our board of directors.
If Ms. Altman s employment is terminated without cause or she terminates her employment for good reason, she is entitled to receive a lump sum severance payment, in cash equal to two times the sum of (1) her base salary as in effect immediately prior to the termination date or, if higher, in effect immediately prior to the first occurrence of an event or circumstance constituting good reason, and (2) the higher of (a) the last annual bonus actually paid to her and (b) 55% of her base salary as in effect immediately prior to the termination date or, if higher, in effect immediately prior to the first occurrence of an event or circumstance constituting good reason. In the event Ms. Altman s employment is terminated without cause or she terminates her employment for good reason, all options to purchase our common stock, restricted stock units or restricted shares of common stock issued by us to her during the term that are held by her on the termination date shall immediately vest. Any such vested stock options shall expire 90 days following the termination. In addition, in the event Ms. Altman s employment is terminated without cause or she terminates her employment for good reason, we are also obligated to continue her medical, dental and life insurance benefits for 24 months following her termination.

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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 initial base salary of $575,000, with specified increases. If Mr. Donnelly s employment is terminated without cause or he terminates his employment for good reason, 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. Our obligations to pay the foregoing amounts are subject to Mr. Donnelly s execution of a valid release of claims against us and his compliance with certain restrictive covenants. We have also agreed to indemnify Mr. Donnelly for any excise taxes that may be imposed on him under Section 280G of the Internal Revenue Code.

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 installments on each of January 14, 2011, January 14, 2012, January 14, 2013 and January 14, 2014, subject to earlier acceleration or termination under certain circumstances.

David J. Frear

Mr. Frear has agreed to serve as our Executive Vice President and Chief Financial Officer through July 2011. We pay Mr. Frear an annual salary of $750,000, and annual bonuses in an amount determined each year by the Compensation Committee of our board of directors.

If Mr. Frear s employment is terminated without cause or he terminates his employment for good reason, we are obligated to pay him a lump sum payment equal to the sum of his annual salary and the annual bonus last paid to him and to continue his medical 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.

Additional information regarding the compensation for Messrs. Karmazin, Greenstein, Meyer, Donnelly and Frear and Ms. Altman will be included in our definitive proxy statement for our 2010 annual meeting of stockholders scheduled to be held on Thursday, May 27, 2010.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of Form 4s 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 Securities Exchange Act of 1934, as amended.

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ITEM 1A. RISK FACTORS

In addition to the other information in this Annual Report on Form 10-K, including the information under the caption Competition, the following risk factors should be considered carefully in evaluating us and our business. This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. Actual results and the timing of events could differ materially from those projected in forward-looking statements due to a number of factors, including those set forth below and elsewhere in this Annual Report on Form 10-K. See Special Note Regarding Forward-Looking Statements.

Our business and our financial condition have been adversely affected by general economic conditions.

The purchase of a satellite radio subscription is discretionary, and we believe that our business and our financial condition have been adversely affected by general economic conditions. In addition, the dramatic slowdown in auto sales negatively impacted our subscriber growth in 2008 and 2009.

Demand for our services is difficult to predict.

We cannot estimate with any certainty whether consumer demand for our services will be sufficient for us to continue to increase the number of subscribers to our services. Our satellite radio services have experienced a decrease in new subscriptions from retail subscribers and most new subscription growth has come from new and used automobiles.

Failure of third parties to perform could adversely affect our business.

Our business depends in part on the efforts of various third parties, including:

- manufacturers that build and distribute satellite radios;
- companies that manufacture and sell integrated circuits for satellite radios;
- programming providers and on-air talent, including Howard Stern;
- retailers that market and sell satellite radios and promote subscriptions to our services; and
- vendors that have designed or built, and vendors that support or operate, important elements of our systems, such as our satellites and customer service facilities.

If one or more of these third parties do not perform in a sufficient or timely manner, our business could be adversely affected. In addition, a number of third parties on which we depend have, and may in the future, experience financial difficulties or file for bankruptcy protection. Such third parties may not be able to perform their obligations to us in a timely manner, if at all, as a result of their financial condition or may be relieved of their obligations to us as part of seeking bankruptcy protection.

We design, establish specifications, source or specify parts and components, and manage various aspects of the logistics and production of radios. As a result of these activities, we may be exposed to liabilities associated with the design, manufacture and distribution of radios that the providers of an entertainment service would not customarily be subject to, such as liabilities for design defects, patent infringement and compliance with applicable laws, as well as the costs of returned product.

Programming is an important part of our services, and the costs to renew our programming arrangements may be more than anticipated.

Third-party content is an important part of our satellite radio services, and we compete with many entities for content. We have entered into a number of important content arrangements, including agreements with the National Football League, Howard Stern and NASCAR, which require us to pay substantial sums. Our agreement with Howard Stern expires in December 2010; our agreement with the NFL expires at the end of the 2010-2011 NFL season; and our agreement with NASCAR expires in December 2011. As these agreements expire, we may not be able to negotiate renewals of one or more of these agreements, or renew such agreements at costs we believe are attractive.

In addition, we may not be able to obtain additional third-party content within the costs contemplated by our business plans.

We employ, or independently contract with, on-air talent who maintain significant loyal audiences in or across various demographic groups. There can be no assurance that this on-air talent will remain with us or that we will be able to retain their respective audiences. If we lose the services of one or more of them, or fail to attract qualified replacement personnel, it could harm our business and future prospects.

We must maintain and pay license fees for music rights.

We must maintain music programming royalty arrangements with, and pay license fees to, BMI, ASCAP and SESAC. These organizations negotiate with copyright users, collect royalties and distribute them to songwriters and music publishers. We have agreements with ASCAP and SESAC through December 2011. We do not have a definitive agreement with BMI, and we continue to operate under an interim agreement with BMI. There can be no assurance that the BMI royalty fee will remain at the current level when the pending agreement is finalized.

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Under the Digital Performance Right in Sound Recordings Act of 1995 and the Digital Millennium Copyright Act of 1998, we pay royalties to copyright owners of sound recordings. Those royalty rates may be established through negotiation or, if negotiation is unsuccessful, by the CRB. Our next rate setting proceeding before the CRB is scheduled to commence in January 2011, and, if negotiations prove unsuccessful, these royalty rates may not remain at their current levels following the proceeding.

Higher than expected costs of attracting new subscribers, higher subscriber turnover or weaker than expected advertising revenue could each adversely affect our financial performance and operating results.

We are spending substantial funds on advertising and marketing and in transactions with automakers, radio manufacturers, retailers and others to obtain and attract subscribers. If the costs of attracting new subscribers are greater than expected, our financial performance and operating results could be adversely affected.

We are experiencing, and expect to continue to experience, subscriber turnover, or churn. If we are unable to retain our current subscribers, or the costs of retaining subscribers are higher than we expect, our financial performance and operating results could be adversely affected. We cannot predict how successful we will be at retaining customers who purchase or lease vehicles that include a subscription to their satellite radio services. During 2009, we converted approximately 45.4% of the customers who received a promotional subscription as part of the purchase or lease of a new vehicle to a self-paying subscription. Over the same period, we have experienced churn of our self-pay subscribers of approximately 2.03% per month.

We cannot predict the amount of churn we will experience over the longer term. Our inability to retain customers who either purchase or lease new vehicles with our services beyond the promotional period, or who purchase or lease a new vehicle that includes a prepaid subscription to our services, and self-pay subscriber churn could adversely affect our financial performance and results of operations.

Our ability to generate advertising revenues is directly affected by general economic conditions, the number of subscribers to our services and the amount of time subscribers spend listening to the talk and entertainment channels or the traffic and weather services. General economic conditions are affecting our ad revenues. Our ability to generate advertising revenues also depends on several factors, including the level and type of penetration of our services, competition for advertising dollars from other media, and changes in the advertising industry and the economy generally. We directly compete for audiences and advertising revenues with traditional AM/FM radio stations and other media, some of which maintain longstanding relationships with advertisers.

We may from time to time modify our business plan, and these changes could adversely affect us and our financial condition.

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

Our substantial indebtedness could adversely affect our ability to raise additional capital to fund our operations and could limit our ability to react to changes in the economy or our industry.

As of December 31, 2009, we had an aggregate principal amount of approximately $3.1 billion of indebtedness. Our substantial indebtedness has important consequences. For example, it:

- increases our vulnerability to general adverse economic and industry conditions;
- requires us to dedicate a substantial portion of our cash flow from operations to payments on indebtedness, reducing the availability of cash flow to fund working capital, capital expenditures and other general corporate activities;
- limits our ability to borrow additional funds or make capital expenditure;
- limits our flexibility in planning for, or reacting to, changes in our business and the audio entertainment industry; and
- may place us at a competitive disadvantage compared to other competitors.

A substantial portion of our cash flows from operations is dedicated to the payment of principal and interest on our indebtedness and will not be available for other purposes, including our operations, capital expenditures, investments in new technologies and future business opportunities.

The instruments governing our indebtedness contain covenants that, among other things, restrict our ability to incur more debt, pay dividends, make distributions, make certain investments, repurchase stock, create liens, enter into transactions with affiliates, enter into sale lease-back transactions, merge or consolidate, and transfer or sell assets. Failure to comply with the covenants contained in the indentures and agreements governing this debt could result in an event of default, which, if not cured or waived, could cause us to seek the protection of the bankruptcy laws, discontinue operations or seek a purchaser for our business or assets.

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Our business might never become profitable.

As of December 31, 2009, we had an accumulated deficit of approximately $10.2 billion. We expect our cumulative net losses to grow as we make payments under various contracts, incur marketing and subscriber acquisition costs and make interest payments on existing debt. As of December 31, 2009, we had total debt of approximately $3.1 billion. If we are unable ultimately to consistently generate sufficient revenues to become profitable, we may not be able to make the required payments on our indebtedness and could ultimately default on our commitments.

Our business depends in large part upon automakers, a number of whom have experienced a sharp decline in sales, have reduced production and are experiencing extreme financial difficulties.

The sale and lease of vehicles with satellite radios is an important source of subscribers for our satellite radio services. We have agreements with every major automaker to include satellite radios in new vehicles, although these agreements do not require automakers to install specific or minimum quantities of radios in any given period. Economic conditions, particularly the dramatic slowdown in auto sales, negatively impacted subscriber growth for our services in 2008 and 2009.

Our subscription growth is dependent, in large part, on sales and vehicle production by automakers. Automotive sales and production are dependent on many factors, including the availability of consumer credit, general economic conditions, consumer confidence and fuel costs. To the extent vehicle sales by automakers continue to decline, or the penetration of factory-installed satellite radios in those vehicles is reduced, and there is no offsetting growth in vehicle sales or increased penetration by other automakers, subscriber growth for our satellite radio services will be adversely impacted.

Rapid technological and industry changes could adversely impact our services.

The audio entertainment industry is characterized by rapid technological change, frequent new product innovations, changes in customer requirements and expectations, and evolving standards. If we are unable to keep pace with these changes, our business may be unsuccessful. Products using new technologies, or emerging industry standards, could make our technologies less competitive in the marketplace.

Consumers could pirate our services.

Individuals who engage in piracy may be able to obtain or rebroadcast our satellite radio service or access the internet transmission of our services without paying the subscription fee. Although we use encryption technologies to mitigate the risk of signal theft, such technologies may not be adequate to prevent theft of the signals. If signal theft becomes widespread, it could harm our business.

Failure of our satellites would significantly damage our business and potential satellite losses may not be covered by insurance.

We operate eight in-orbit satellites, four supporting the SIRIUS service and four supporting the XM service, including two satellites that are used for backup purposes only. The useful lives of these satellites will vary and depend on a number of factors, including:

- degradation and durability of solar panels;
- quality of construction;
- random failure of satellite components, which could result in significant damage to or loss of a satellite;
- amount of fuel the satellites consume; and
- damage or destruction by electrostatic storms or collisions with other objects in space.

Three of SIRIUS orbiting satellites were launched in 2000; the fourth satellite was launched in 2009. We currently estimate that two of SIRIUS initial in-orbit satellites will have a 13-year operational life from the time of launch and the other orbiting SIRIUS satellites will each have a 15-year operational life from the time of launch. SIRIUS operating results would be materially adversely affected if the useful life of its satellites is significantly shorter than expected, whether as a result of a satellite failure or technical obsolescence, and SIRIUS does not launch replacement satellites in a timely manner.

Three of the SIRIUS in-orbit satellites have experienced circuit failures on their solar arrays. The circuit failures these satellites have experienced do not affect current operations. Additional circuit failures on the first three SIRIUS satellites could reduce the estimated useful lives of those satellites.

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If two or more of the SIRIUS satellites fail in orbit in close proximity in time, the SIRIUS service could be suspended until replacement satellites are launched and placed into service. In such event, SIRIUS business would be materially impacted and it could default on its commitments.

SIRIUS has entered into an agreement with Space Systems/Loral to design and construct a new satellite which is expected to be launched in the fourth quarter of 2011. Satellite launches have significant risks, including launch failure, damage or destruction of the satellite during launch and failure to achieve a proper orbit or operate as planned. SIRIUS agreement with Space Systems/Loral does not protect it against the risks inherent in a satellite launch or in-orbit operations.

XM placed its XM-3 and XM-4 satellites into service during the second quarter of 2005 and during the fourth quarter of 2006, respectively. XM s XM-1 and XM-2 satellites experienced progressive degradation problems common to early Boeing 702 class satellites and now serve as in-orbit spares. We estimate that the XM-3 and XM-4 satellites will meet their 15-year predicted useful lives, and that XM-1 and XM-2 satellites useful lives will end in 2011. An operational failure or loss of XM-3 or XM-4 would, at least temporarily, affect the quality of XM s service, and could interrupt the continuation of its service and harm its business. We expect to launch the XM-5 satellite, which will serve as an in-orbit spare for the SIRIUS and XM services, in the third quarter of 2010. In the event of any satellite failure prior to that time, XM would need to rely on its back-up satellites, XM-1 and XM-2. There can be no assurance that restoring service through XM-1 and XM-2 would allow XM to maintain adequate broadcast signal strength through the date on which XM-5 is brought into service, particularly if XM-1 or XM-2 were to suffer unanticipated additional performance degradation or experience an operational failure.

In addition, SIRIUS network of terrestrial repeaters communicates with one third-party satellite and XM s network of terrestrial repeaters communicates with one XM satellite. If the satellites communicating with the SIRIUS or XM repeater network fail unexpectedly, the services would be disrupted for several hours or longer.

In the ordinary course of operation, satellites experience failures of component parts and operational and performance anomalies. Components on our in-orbit satellites have failed and from time to time we have experienced anomalies in the operation and performance of these satellites. These failures and anomalies are expected to continue in the ordinary course, and we cannot predict if any of these future events will have a material adverse effect on our operations or the useful life of our existing in-orbit satellites.

We do not maintain in-orbit insurance policies covering three of the four satellites broadcasting the SIRIUS service. We maintain in-orbit insurance covering our primary satellites broadcasting the XM service, but do not maintain insurance on the XM back-up satellites.

Any insurance proceeds will not fully cover our losses in the event of a satellite failure or significant degradation. For example, the policies covering the insured satellites do not cover the full cost of constructing, launching and insuring new satellites or XM s in-orbit spare satellites, nor will they cover, and SIRIUS and XM do not have protection against, business interruption, loss of business or similar losses. Our insurance contains customary exclusions, material change and other conditions that could limit recovery under those policies. Further, any insurance proceeds may not be received on a timely basis in order to launch a spare satellite or construct and launch a replacement satellite or take other remedial measures. In addition, the policies are subject to limitations involving uninsured losses, large satellite performance deductibles and policy limits that may not be sufficient to cover losses.

Our broadcast studios, terrestrial repeater networks, satellite uplink facilities or other ground facilities could be damaged by natural catastrophes or terrorist activities.

An earthquake, tornado, flood, terrorist attack or other catastrophic event could damage our broadcast studios, terrestrial repeater networks or satellite uplink facilities, interrupt the SIRIUS or XM service and harm our business. We do not have replacement or redundant facilities that can be used to assume the functions of their terrestrial repeater networks. We do have redundant facilities that can be used to assume immediately many of the functions of the broadcast studios and satellite uplink facilities in the event of a catastrophic event.

Any damage to the satellites that transmit to the SIRIUS or XM terrestrial repeater network would likely result in degradation of the affected company s service for some subscribers and could result in complete loss of service in certain or all areas. Damage to our satellite uplink facilities could result in a complete loss of either the XM or SIRIUS service until the affected company could transfer its operations to its respective back-up facilities.

Electromagnetic interference from others could damage our business.

Our satellite radio service may be subject to interference caused by other users of radio frequencies, such as Wireless Communications Service (WCS) users. The FCC is seeking comment on proposals by certain WCS licensees for modification of rules regarding their operations in spectrum adjacent to satellite radio, including rule changes to facilitate mobile broadband services in the WCS frequencies. We are participating actively in this proceeding and have opposed the changes requested by WCS licensees out of a concern for their impact on the reception of satellite radio service. We cannot predict the outcome of the FCC proceeding, or the impact on satellite radio reception.

Failure to comply with FCC requirements could damage our business.

We hold FCC licenses and authorizations to operate commercial satellite radio services in the United States, including authorizations for satellites and terrestrial repeaters, and related authorizations. The FCC generally grants licenses and authorizations for a fixed term. Although we expect our licenses and authorizations to be renewed in the ordinary course upon their expiration, there can be no assurance that this will be the case. Any assignment or transfer of control of any of our FCC licenses or authorizations must be approved in advance by the FCC.

The operation of our satellite radio systems is subject to significant regulation by the FCC under authority granted through the Communications Act and related federal law. We are required, among other things, to operate only within specified frequencies; to meet certain conditions regarding the interoperability of our satellite radios with those of other licensed satellite radio systems; to coordinate our satellite radio services with radio systems operating in the same range of frequencies in neighboring countries; and to coordinate our communications links to our satellites with other systems that operate in the same frequency band. Non-compliance by us with these requirements or other conditions or with other applicable FCC rules and regulations could result in fines, additional license conditions, license revocation or other detrimental FCC actions. There is no guarantee that Congress will not modify the statutory framework governing our services, or that the FCC will not modify its rules and regulations in a manner that would have a material impact on our operations.

The terms of our licenses, the order of the FCC approving the Merger, and the consent decrees we entered into with the FCC require us to meet certain conditions. We have agreed to implement a number of voluntary commitments, including programming, a la carte, minority and public interest, equipment, subscription rates and other service commitments. Non-compliance with these conditions could result in fines, additional license conditions, license revocation or other detrimental FCC actions.

The FCC has not yet issued final rules permitting us to operate and deploy terrestrial repeaters to fill gaps in our satellite coverage. We are operating the SIRIUS and XM terrestrial repeaters on a non-interference basis pursuant to grants of special temporary authority from the FCC. The FCC s final terrestrial repeater rules may require us to reduce the power of our terrestrial repeaters or limit our ability to deploy additional repeaters. If the FCC requires us to reduce significantly the number or power of our terrestrial repeaters, this would have an adverse effect on the quality of our service in certain markets and/or cause us to alter our terrestrial repeater infrastructure at a substantial cost. If the FCC limits our ability to deploy additional terrestrial repeaters, our ability to improve any deficiencies in our service quality that may be identified in the future would be adversely affected.

Changes in consumer protection laws and their enforcement could damage our business.

We engage in extensive marketing efforts to attract and retain subscribers to our services. We employ a wide variety of communications tools as part of our marketing campaigns, including print, television, radio and online advertising; telemarketing efforts; and email solicitations. The United States Federal Trade Commission, the FCC and various states agencies have responsibility for consumer protection and have jurisdiction over components of our consumer marketing efforts.

Consumer protection laws, rules and regulations are extensive and have developed rapidly. Consumer protection laws in certain jurisdictions cover nearly all aspects of our marketing efforts, including the content of our advertising, the terms of consumer offers and the manner in which we communicate with subscribers and prospective subscribers. We are engaged in considerable efforts to ensure that all our activities comply with federal and state laws, rules and regulations relating to consumer protection. Modifications to federal and state laws, rules and regulations concerning consumer protection, including decisions by federal and state courts and agencies interpreting these laws, could have an adverse impact on our ability to attract and retain subscribers to our services. While we monitor the changes in and interpretations of these laws in consumer-related settlements and decisions, and while we believe that we are in material compliance with applicable laws, there can be no assurances that new laws or regulations will not be enacted or adopted, or preexisting laws or regulations will not be more strictly enforced, which might adversely affect our operations.

The unfavorable outcome of pending or future litigation could have a material adverse effect.

We are parties to several legal proceedings arising out of various aspects of our business. We are defending all claims against us. The outcome of these proceedings may not be favorable, and an unfavorable outcome may have a material adverse effect on our business or financial results.

Our business may be impaired by third-party intellectual property rights.

Development of the XM and SIRIUS systems has depended upon the intellectual property that we have developed, as well as intellectual property licensed from third parties. If the intellectual property that we have developed or use is not adequately protected, others will be permitted to and may duplicate portions of our satellite radio systems or services without liability. In addition, others may challenge, invalidate, render unenforceable or circumvent our intellectual property rights, patents or existing sublicenses or we may face significant legal costs in connection with defending and enforcing those intellectual property rights. Some of the know-how and technology we have developed, and plan to develop, is not now, nor will it be, covered by U.S. patents or trade secret protections. Trade secret protection and contractual agreements may not provide adequate protection if there is any unauthorized use or disclosure. The loss of necessary technologies could require us to obtain substitute technology of lower quality performance standards, at greater cost or on a delayed basis, which could harm us.

Other parties may have patents or pending patent applications, which will later mature into patents or inventions that may block our ability to operate the SIRIUS or XM system or license technologies. We may have to resort to litigation to enforce our rights under license agreements or to determine the scope and validity of other parties proprietary rights in the subject matter of those licenses. This may be expensive. Also, we may not succeed in any such litigation.

Third parties may assert claims or bring suit against us for patent, trademark or copyright infringement, or for other infringement or misappropriation of intellectual property rights. Any such litigation could result in substantial cost, and diversion of effort and adverse findings in any proceeding could subject us to significant liabilities to third parties; require us to seek licenses from third parties; block our ability to operate our systems or license our technology; or otherwise adversely affect our ability to successfully develop and market our satellite radio systems.

Liberty Media Corporation has significant influence over our business and affairs and its interests may differ from ours.

Liberty Media Corporation holds preferred stock that is convertible into approximately 40% of the issued and outstanding shares of our common stock. Pursuant to the terms of the preferred stock held by Liberty Media we cannot take certain actions, such as certain issuances of equity or debt securities, without the consent of Liberty Media. Additionally, Liberty Media has the right to designate six members of our fifteen-member board of directors. As a result, Liberty Media has significant influence over our business and affairs. The interests of Liberty Media may differ from our interests. The extent of Liberty Media s stock ownership in us also may have the effect of discouraging offers to acquire control of us.

Our net operating loss carryforwards could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code.

We have generated a federal net operating loss carryforward of approximately $8 billion through the year ended December 31, 2009, and we may generate net operating loss carryforwards in future years.

Section 382 of the Internal Revenue Code of 1986, as amended (the Code), contains rules that limit the ability of a company that undergoes an ownership change, which is generally any change in ownership of more than 50% of its stock over a three-year period, to utilize its net operating loss carryforwards and certain built-in losses recognized in years after the ownership change. These rules generally operate by focusing on ownership changes among stockholders owning directly or indirectly 5% or more of the stock of a company and any change in ownership arising from a new issuance of stock by the company.

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our common stock, including purchases or sales of stock between 5% stockholders, our ability to use our net operating loss carryforwards and to recognize certain built-in losses would be subject to the limitations of Section 382. Depending on the resulting limitation, a significant portion of our net operating loss carryforwards could expire before we would be able to use them. Our inability to utilize our net operating loss carryforwards could have a negative impact on our long-term financial position and results of operations.

In April 2009, our board of directors adopted a shareholder rights plan designed to preserve shareholder value and the value of certain tax assets primarily associated with net operating loss carryforwards and built-in losses under Section 382 of the Code. We have agreed to submit this shareholder rights plan to a vote of our stockholders. If our stockholders do not approve this shareholder rights plan prior to June 30, 2010 it will terminate in accordance with its terms.

Our stockholders have approved a reverse stock split, and a reverse stock split could have certain adverse effects.

On September 15, 2009, we received notice from the Nasdaq Stock Market that our common stock had closed below $1.00 per share for 30 consecutive business days and was therefore not in compliance with the Nasdaq Marketplace Rules. We may regain compliance if at any time by March 15, 2010 our common stock closes at or above $1.00 for 10 consecutive business days. The closing price of our common stock on February 23, 2010 was $1.12. However, we cannot assure you that our common stock will close at or above $1.00 for 10 consecutive business days by March 15, 2010.

In December 2008 and May 2009, our stockholders approved an amendment to our certificate of incorporation to effect a reverse stock split at a ratio of not less than one-for-ten and not more than one-for-fifty. Our board of directors has authority to select an exchange ratio within the approved range at any time prior to June 30, 2010. Our board of directors intends to effect the reverse stock split only if it determines the reverse split to be in the best interests of the company and its stockholders.

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A reverse stock split could have certain adverse consequences, including:

- if the reverse stock split is effected and the market price of our common stock declines, the percentage decline may be greater than would occur in the absence of a reverse stock split.
- there can be no assurance that the reverse stock split will result in any particular price for our common stock. As a result, the trading liquidity of our common stock may not necessarily improve.
- the total market capitalization of our common stock after the reverse stock split may be lower than the total market capitalization before the reverse stock split. Moreover, in the future, the market price of our common stock following the reverse stock split may not exceed or remain higher than the market price prior to the reverse stock split.
- because the number of issued and outstanding shares of common stock would decrease as result of the reverse stock split, the number of authorized but unissued shares of common stock may increase on a relative basis. If we issue additional shares of common stock, the ownership interest of our current stockholders would be diluted, possibly substantially.
- the proportion of unissued authorized shares to issued shares could, under certain circumstances, have an anti-takeover effect. For example, the issuance of a large block of common stock could dilute the stock ownership of a person seeking to effect a change in the composition of the board of directors or contemplating a tender offer or other transaction for the combination of the company with another company.
- the reverse stock split may result in some stockholders owning odd lots of less than 100 shares of common stock. Odd lot shares may be more difficult to sell, and brokerage commissions and other costs of transactions in odd lots are generally somewhat higher than the costs of transactions in round lots of even multiples of 100 shares.
- holders of common stock otherwise entitled to a fractional share as a result of the reverse stock split will receive a cash payment in lieu of such fractional share. As a result, the ownership interest in the company of certain small stockholders could be terminated.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Below is a list of the principal properties that we own or lease:

Location	Purpose	Own/Lease
New York, NY	Corporate headquarters and studio/production facilities	Lease
New York, NY	Office facilities	Lease
Washington, DC	Office and studio/production facilities	Own
Washington, DC	Office facilities and data center	Own
Lawrenceville, NJ	Office and technical/engineering facilities	Lease
Deerfield Beach, FL	Office and technical/engineering facilities	Lease
New York, NY	Studio/production facilities @ Jazz at Lincoln Center	Lease
Farmington Hills, MI	Office and technical/engineering facilities	Lease
Nashville, TN	Studio/production facility	Lease
Vernon, NJ	Technical/engineering facilities	Own
Ellenwood, GA	Technical/engineering facilities	Lease

We also own or lease other small facilities that we use as offices for our advertising sales personnel, studios and warehouse and maintenance space. These facilities are not material to our business or operations. We also lease properties in Panama and Ecuador that we use as earth stations to command and control the SIRIUS satellites.

In addition, we lease space at approximately 1,000 locations for use in connection with the terrestrial repeater networks that support the XM and SIRIUS services. In general, these leases are for space on building rooftops and communications towers. None of these individual leases is material to our business or operations.

ITEM 3. LEGAL PROCEEDINGS

FCC Merger Order. On July 25, 2008, the FCC adopted an order approving the Merger. In September 2008, Mt. Wilson FM Broadcasters, Inc. filed a Petition for Reconsideration of the FCC s merger order. This Petition for Reconsideration remains pending.

Advanced Recording Functionality Disputes/Atlantic Recording Corporation, BMG Music, Capital Records, Inc., Elektra Entertainment Group Inc., Interscope Records, Motown Record Company, L.P., Sony BMG Music Entertainment, UMG Recordings, Inc., Virgin Records, Inc. and Warner Bros. Records Inc. v. XM Satellite Radio Inc. Commencing in May 2006, holders of copyrights in sound recordings and holders of copyrights in musical works brought, or threatened to bring, actions against SIRIUS and XM in connection with the advanced recording functionality included in the XM Inno, the XM NeXus, the XM Helix, the XM SkyFi3, the SIRIUS S50 and the SIRIUS Stiletto line of radios. The plaintiffs brought this action in the United States District Court for the Southern District of New York, seeking monetary damages and equitable relief.

XM has settled these claims with the major record companies and a significant number of music publishers. XM is in discussions to settle these claims with certain independent record companies and other music publishers.

Prior to introducing retail sales of devices with advanced recording functionality, SIRIUS entered into agreements with the major recording companies concerning such devices. SIRIUS is in discussions to settle the remaining claims with certain independent record companies and music publishers.

SIRIUS and XM believe that the distribution and use of their products do not violate applicable copyright laws. There can be no assurance regarding the ultimate outcome of these matters and settlement discussions, or the significance, if any, to our business, consolidated results of operations or financial position.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the Nasdaq Global Select Market under the symbol SIRI. The following table sets forth the high and low sales price for our common stock, as reported by Nasdaq, for the periods indicated below:

	High	Low
Year ended December 31, 2008		
First Quarter	$ 3.89	$ 2.51
Second Quarter	2.92	1.80
Third Quarter	2.75	0.57
Fourth Quarter	0.69	0.08
Year ended December 31, 2009		
First Quarter	$ 0.43	$ 0.05
Second Quarter	0.63	0.30
Third Quarter	0.78	0.35
Fourth Quarter	0.69	0.51

On February 23, 2010, the closing sales price of our common stock on the Nasdaq Global Select Market was $1.12 per share. On February 23, 2010, there were approximately 935,000 beneficial holders of our common stock.

We have never paid cash dividends on our common stock. We currently intend to retain earnings, if any, for use in our business and do not anticipate paying any cash dividends in the foreseeable future.

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, 2004 to December 31, 2009. The graph assumes that $100 was invested on December 31, 2004 in each of our common stock, the S&P 500 and the NASDAQ Telecommunications Index and that all dividends were reinvested.

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Stockholder Return Performance Table

	Nasdaq Telecommunications Index	S&P 500 Index	Sirius XM Radio Inc.
December 31, 2004	$ 100.00	$ 100.00	$ 100.00
December 31, 2005	$ 92.79	$ 103.00	$ 87.93
December 31, 2006	$ 118.55	$ 117.03	$ 46.46
December 31, 2007	$ 129.42	$ 121.16	$ 39.76
December 31, 2008	$ 73.79	$ 74.53	$ 1.57
December 31, 2009	$ 109.39	$ 92.01	$ 7.87

Equity Compensation Plan Information

(shares in thousands) **Plan category**	**Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)**	**Weighted-average exercise price of outstanding options, warrants and rights (b)**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)**
Equity compensation plans approved by security holders	364,792	$ 1.44	274,425
Equity compensation plans not approved by security holders			
Total	364,792	$ 1.44	274,425

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ITEM 6. SELECTED FINANCIAL DATA

Our selected financial data set forth below with respect to the consolidated statements of operations for the years ended December 31, 2009, 2008 and 2007, and with respect to the consolidated balance sheets at December 31, 2009 and 2008, are derived from our audited consolidated financial statements included in Item 8 of this Annual Report on Form 10-K. Our selected financial data set forth below with respect to the consolidated statements of operations for the years ended December 31, 2006 and 2005, and with respect to the consolidated balance sheets at December 31, 2007, 2006 and 2005 are derived from our audited consolidated financial statements, which are not included in this Annual Report on Form 10-K. This selected financial data should be read in conjunction with the Consolidated Financial Statements and related notes thereto included in Item 8 of this Annual Report on Form 10-K and Management s Discussion and Analysis of Financial Condition and Results of Operations.

	For the Years Ended December 31,				
(in thousands, except per share data)	**2009**	**2008**(1)	**2007**	**2006**	**2005**
Statements of Operations Data:					
Total revenue	$ 2,472,638	$ 1,663,992	$ 922,066	$ 637,235	$ 242,245
Net loss	(342,790)	(5,313,288)	(565,252)	(1,104,867)	(862,997)
Net loss per share (basic and diluted)	$ (0.15)	$ (2.45)	$ (0.39)	$ (0.79)	$ (0.65)
Weighted average common shares outstanding (basic and diluted)	3,585,864	2,169,489	1,462,967	1,402,619	1,325,739
Balance Sheet Data:					
Cash and cash equivalents	$ 383,489	$ 380,446	$ 438,820	$ 393,421	$ 762,007
Restricted investments	3,400	141,250	53,000	77,850	107,615
Total assets	7,263,528	7,459,736	1,687,231	1,650,147	2,075,519
Long-term debt, net of current portion	3,062,693	2,820,781	1,271,699	1,059,868	1,074,594
Stockholders equity (deficit) (2)	37,432	8,537	(792,737)	(389,071)	324,968

(1) The 2008 results and balances reflect the results and balances of XM Holdings from the date of the Merger and a $4,766,190 goodwill impairment charge.

(2) No cash dividends were declared or paid in any of the periods presented.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. Actual results and the timing of events could differ materially from those projected in forward-looking statements due to a number of factors, including those described under Item 1A Risk Factors and elsewhere in this Annual Report. See Special Note Regarding Forward-Looking Statements.

(All dollar amounts referenced in this Item 7 are in thousands, unless otherwise stated)

Executive Summary

We broadcast our music, sports, news, talk, entertainment, traffic and weather channels in the United States on a subscription fee basis through our proprietary satellite radio systems the SIRIUS system and the XM system. On July 28, 2008, our wholly owned subsidiary, Vernon Merger Corporation, merged (the Merger) with and into XM Satellite Radio Holdings Inc. and, as a result, XM Satellite Radio Holdings Inc. is now our wholly owned subsidiary. The SIRIUS system consists of four in-orbit satellites, over 125 terrestrial repeaters that receive and retransmit signals, satellite uplink facilities and studios. The XM system consists of four in-orbit satellites, over 650 terrestrial repeaters that receive and retransmit signals, satellite uplink facilities and studios. Subscribers can also receive certain of our music and other channels over the Internet, including through an application on the Apple iPhone.

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

As of December 31, 2009, we had 18,772,758 subscribers. Our subscriber totals include subscribers under our regular pricing plans; discounted pricing plans; subscribers that have prepaid, including payments either made or due from automakers and dealers for prepaid subscriptions included in the sale or lease price of a vehicle; certain radios activated for daily rental fleet programs; certain subscribers to SIRIUS Internet Radio and XM Radio Online, 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 pre-paid and long-term subscriptions as well as discounts for multiple subscriptions on each platform. We also derive revenue from activation and other fees, the sale of advertising on select non-music channels, the direct sale of satellite radios, 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 vehicles. The length of these prepaid subscriptions varies, but is typically three to twelve months. In many cases, we receive subscription payments from automakers in advance of the activation of our service. We also reimburse various automakers for certain costs associated with satellite radios installed in their vehicles.

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

On August 5, 2008, Sirius Satellite Radio Inc. changed its name to Sirius XM Radio Inc. XM Satellite Radio Holdings Inc., together with its subsidiaries, is operated as an unrestricted subsidiary under the agreements governing our existing indebtedness. As an unrestricted subsidiary, transactions between the companies are required to comply with various contractual provisions in our respective debt instruments.

Unaudited Pro Forma and Actual Information

Our discussion of our unaudited pro forma information includes non-GAAP financial results that assume the Merger occurred on January 1, 2007. These financial results exclude the impact of purchase price accounting adjustments and refinancing transactions related to the Merger. The discussion also includes the following non-GAAP financial measures: average self-pay monthly churn; conversion rate; average monthly revenue per subscriber, or ARPU; subscriber acquisition cost, or SAC, as adjusted, per gross subscriber addition; customer service and billing expenses, as adjusted, per average subscriber; free cash flow; and adjusted income (loss) from operations. We believe this non-GAAP financial information provides meaningful supplemental information regarding our operating performance and is used for internal management purposes, when publicly providing the business outlook, and as a means to evaluate period-to-period comparisons. Please refer to the footnotes (pages 50 through 63) following our discussion of results of operations for the definitions and a further discussion of the usefulness of such non-GAAP financial information and reconciliation to GAAP.

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Unaudited Actual and Pro Forma Subscribers and Metrics. The following tables contain our actual and pro forma subscriber and key operating metrics for the three months and three years ended December 31, 2009, 2008 and 2007, respectively:

	Unaudited For the Three Months Ended December 31,		
	2009 (Actual)	2008 (Actual)	2007 (Pro Forma)
Beginning subscribers	18,515,730	18,920,911	16,234,070
Gross subscriber additions	1,882,950	1,713,210	2,336,640
Deactivated subscribers	(1,625,922)	(1,630,265)	(1,222,088)
Net additions	257,028	82,945	1,114,552
Ending subscribers	18,772,758	19,003,856	17,348,622
Retail	7,725,750	8,905,087	9,238,715
OEM	10,930,952	9,995,953	8,033,268
Rental	116,056	102,816	76,639
Ending subscribers	18,772,758	19,003,856	17,348,622
Retail	(200,154)	(131,333)	314,908
OEM	442,422	218,249	791,356
Rental	14,760	(3,971)	8,288
Net additions	257,028	82,945	1,114,552
Self-pay	15,703,932	15,549,657	13,873,346
Paid promotional	3,068,826	3,454,199	3,475,276
Ending subscribers	18,772,758	19,003,856	17,348,622
Self-pay	247,182	359,069	822,326
Paid promotional	9,846	(276,124)	292,226
Net additions	257,028	82,945	1,114,552
Daily weighted average number of subscribers	18,576,151	18,910,689	16,629,079

	Unaudited Pro Forma For the Three Months Ended December 31,		
	2009	2008	2007

Average self-pay monthly churn (1)(7)	2.0%	1.8%	1.7%
Conversion rate (2)(7)	46.4%	44.2%	51.4%
ARPU (3)(7)	$ 10.92	$ 10.65	$ 10.47
SAC, as adjusted, per gross subscriber addition (4)(7)	$ 64	$ 70	$ 83
Customer service and billing expenses, as adjusted, per average subscriber (5)(7)	$ 1.06	$ 1.18	$ 1.30
Total revenue	$ 683,779	$ 644,108	$ 557,515
Free cash flow (6)(7)	$ 149,547	$ 25,877	$ 5,405
Adjusted income (loss) from operations (8)	$ 115,339	$ 31,797	$ (224,143)
Net loss	$ (25,243)	$ (248,468)	$ (405,041)

Note: See pages 50 through 63 for footnotes.

Subscribers. At December 31, 2009, we had 18,772,758 subscribers, a decrease of 231,098 subscribers, or 1%, from the 19,003,856 subscribers as of December 31, 2008. Net subscriber additions increased 174,083, or 210%, in the three months ended December 31, 2009 compared to 2008. Net subscriber additions in our OEM channel increased 224,173, or 103%, in the three months ended December 31, 2009 compared to 2008. Net subscriber additions in our retail channel decreased 68,821, or 52%, in the three months ended December 31, 2009 compared to 2008. Deactivation rates for self-pay subscriptions in the quarter increased to 2.0% per month reflecting reductions in consumer discretionary spending, subscriber response to our increase in prices for multi-subscription accounts, channel line-up changes in 2008, the institution of a monthly charge for our upgraded streaming service and the introduction of the U.S. Music Royalty Fee.

We ended the fourth quarter 2008 with 19,003,856 subscribers, an increase of 1,655,234 subscribers, or 10%, from the 17,348,622 subscribers as of December 31, 2007. Net subscriber additions decreased 1,031,607, or 93%, in the three months ended December 31, 2008 compared to 2007. Net additions in our OEM channel decreased 573,107, or 72%, in the three months ended December 31, 2008 compared to 2007. Net subscriber additions in our retail channel decreased 446,241, or 142%, in the three months ended December 31, 2008 compared to 2007. Deactivation rates for self-pay subscriptions in the quarter increased slightly to1.8% per month.

ARPU. ARPU is derived from total earned subscriber revenue and net advertising revenue, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. See accompanying footnotes for more details. For the three months ended December 31, 2009 and 2008, total ARPU was $10.92 and $10.65, respectively. The increase was driven mainly by the sale of Best of programming, increased rates on our multi-subscription packages and revenues earned on our internet packages, partially offset by lower advertising revenue.

For the three months ended December 31, 2008 and 2007, total ARPU was $10.65 and $10.47, respectively. The increase was driven by the start of our Best of package sales and by lower OEM inventories. These factors were partially offset by an increase in the mix of discounted OEM promotional trials, subscriber win-back programs, second subscribers and a decline in net advertising revenue per average subscriber.

SAC, As Adjusted, Per Gross Subscriber Addition. SAC, as adjusted, 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, divided by the number of gross subscriber additions for the period. See accompanying footnotes for more details. For the three months ended December 31, 2009 and 2008, SAC, as adjusted, per gross subscriber addition was $64 and $70, respectively. The decrease in SAC was primarily due to lower OEM subsidies, lower chip set costs and lower aftermarket acquisition costs, partially offset by higher aftermarket inventory related charges compared to the three months ended December 31, 2008.

For the three months ended December 31, 2008 and 2007, SAC, as adjusted, per gross subscriber addition was $70 and $83, respectively. The decrease was primarily driven by lower retail and OEM subsidies due to better product economics and improved equipment margin.

Customer Service and Billing Expenses, As Adjusted, Per Average Subscriber. Customer service and billing expenses, as adjusted, per average subscriber is derived from total customer service and billing expenses, excluding share-based payment expense, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. See accompanying footnotes for more details. For the three months ended December 31, 2009 and 2008, customer service and billing expenses, as adjusted, per average subscriber was $1.06 and $1.18, respectively. The decline was primarily due to decreases in personnel costs and customer call center expenses.

For the three months ended December 31, 2008 and 2007, Customer service and billing expenses, as adjusted, per average subscriber was $1.18 and $1.30, respectively. The decline was primarily due to efficiencies across a larger subscriber base.

Adjusted Income (Loss) from Operations. We refer to net income (loss) before interest and investment income; interest expense, net of amounts capitalized; income tax expense; loss on extinguishment of debt and credit facilities, net; (gain) loss on investments; other expense (income); restructuring, impairments and related costs; depreciation and amortization; and share-based payment expense as adjusted income (loss) from operations. See accompanying footnotes for more details. For the three months ended December 31, 2009 and 2008, our adjusted income (loss) from operations was $115,339 and $31,797, respectively. Adjusted income (loss) from operations was favorably impacted by an increase of 6%, or $39,671, in revenues and a decrease of 7%, or $43,871, in total expenses included in adjusted income (loss) from operations. The increase in revenue was due mainly to increased rates on multi-subscription packages, revenues earned on internet packages, the introduction of the U.S. Music Royalty Fee and the sale of Best of programming, partially offset by decreased equipment revenue. The decreases in expenses were primarily driven by lower subscriber acquisition costs, lower customer service and billing expense, savings in programming and content expenses, and lower legal and consulting costs in general and administrative expenses.

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For the three months ended December 31, 2008 and 2007, our adjusted income (loss) from operations was $31,797 and ($224,143), respectively. Adjusted income (loss) from operations was favorably impacted by an increase of 16%, or $86,593, in revenues and a decrease of 22%, or $169,347, in total expenses included in adjusted income (loss) from operations.

	Unaudited For the Years Ended December 31,		
	2009 (Actual)	2008 (Pro Forma)	2007 (Pro Forma)
Beginning subscribers	19,003,856	17,348,622	13,653,107
Gross subscriber additions	6,208,482	7,710,306	8,077,674
Deactivated subscribers	(6,439,580)	(6,055,072)	(4,382,159)
Net additions	(231,098)	1,655,234	3,695,515
Ending subscribers	18,772,758	19,003,856	17,348,622
Retail	7,725,750	8,905,087	9,238,715
OEM	10,930,952	9,995,953	8,033,268
Rental	116,056	102,816	76,639
Ending subscribers	18,772,758	19,003,856	17,348,622
Retail	(1,179,452)	(333,628)	784,135
OEM	935,114	1,962,685	2,863,895
Rental	13,240	26,177	47,485
Net additions	(231,098)	1,655,234	3,695,515
Self-pay	15,703,932	15,549,657	13,873,346
Paid promotional	3,068,826	3,454,199	3,475,276
Ending subscribers	18,772,758	19,003,856	17,348,622
Self-pay	154,275	1,676,311	2,382,480
Paid promotional	(385,373)	(21,077)	1,313,035
Net additions	(231,098)	1,655,234	3,695,515
Daily weighted average number of subscribers	18,529,696	18,373,274	15,342,041

	Unaudited Pro Forma For the Years Ended December 31,

	2009	2008	2007
Average self-pay monthly churn (1)(7)	2.0%	1.8%	1.7%
Conversion rate (2)(7)	45.4%	47.5%	50.9%
ARPU (7)(10)	$ 10.73	$ 10.56	$ 10.66
SAC, as adjusted, per gross subscriber addition (7)(11)	$ 63	$ 74	$ 86
Customer service and billing expenses, as adjusted, per average subscriber (7)(12)	$ 1.05	$ 1.11	$ 1.18
Total revenue	$ 2,526,703	$ 2,436,740	$ 2,058,608
Free cash flow (7)(13)	$ 185,319	$ (551,771)	$ (504,869)
Adjusted income (loss) from operations (14)	$ 462,539	$ (136,298)	$ (565,452)
Net loss	$ (441,333)	$ (902,335)	$ (1,247,633)

Note: See pages 50 through 63 for footnotes.

Subscribers. At December 31, 2009, we had 18,772,758 subscribers, a decrease of 231,098 subscribers, or 1%, from the 19,003,856 subscribers as of December 31, 2008. The decrease was principally the result of 385,373 fewer paid promotional trials compared to December 31, 2008 due to the decline in North American auto sales. This decline was partially offset by an increase of 154,275 in self-pay subscribers compared to December 31, 2008. Deactivation rates for self-pay subscriptions in the year increased to 2.0% per month reflecting reductions in consumer discretionary spending, subscriber response to our increase in prices for multi-subscription accounts, channel line-up changes in 2008, the institution of a monthly charge for our upgraded streaming service and the introduction of the U.S. Music Royalty Fee.

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We ended 2008 with 19,003,856 subscribers, an increase of 1,655,234, or 10%, from the 17,348,622 subscribers as of December 31, 2007. Net subscriber additions decreased 2,040,281, or 55% during 2008 from 2007. Deactivation rates for self-pay subscriptions in the year increased slightly to 1.8%; deactivations due to non-conversions of subscribers in paid promotional trial periods increased as production penetration rates increased.

ARPU. For the years ended December 31, 2009 and 2008, total ARPU was $10.73 and $10.56, respectively. Increases in subscriber revenue were driven mainly by the sale of Best of programming, increased rates on our multi-subscription packages and revenues earned on our internet packages, partially offset by lower advertising revenue.

For the years ended December 31, 2008 and 2007, total ARPU was $10.56 and $10.66, respectively. The decrease was driven by a change in the mix of discounted OEM promotional subscriptions, subscriber win-back programs, second subscribers and a decline in net advertising revenue per average subscriber.

SAC, As Adjusted, Per Gross Subscriber Addition. For the years ended December 31, 2009 and 2008, SAC, as adjusted, per gross subscriber addition was $63 and $74, respectively. The decrease was primarily driven by lower OEM subsidies, fewer OEM installations relative to gross subscriber additions and lower aftermarket inventory charges in the year ended December 31, 2009 compared to 2008.

For the years ended December 31, 2008 and 2007, SAC, as adjusted, per gross subscriber addition was $74 and $86, respectively. The decrease was primarily driven by lower retail and OEM subsidies due to better product economics and improved equipment margin.

Customer Service and Billing Expenses, As Adjusted, Per Average Subscriber. For the years ended December 31, 2009 and 2008, customer service and billing expenses, as adjusted, per average subscriber was $1.05 and $1.11, respectively. The decline was primarily due to decreases in personnel costs and customer call center expenses.

For the years ended December 31, 2008 and 2007, Customer service and billing expenses, as adjusted, per average subscriber was $1.11 and $1.18, respectively. The decline was primarily due to efficiencies across a larger subscriber base.

Adjusted Income (Loss) from Operations. For the years ended December 31, 2009 and 2008, our adjusted income (loss) from operations was $462,539 and ($136,298), respectively. Adjusted income (loss) from operations was favorably impacted by an increase of 4%, or $89,963, in revenues and a decrease of 20%, or $508,874, in total expenses included in adjusted income (loss) from operations. The increase in revenue was due mainly to an increase in weighted average subscribers as well as increased rates on multi-subscription packages, revenues earned on internet packages, the introduction of the U.S. Music Royalty Fee and the sale of Best of programming, partially offset by decreased by equipment revenue. The decreases in expenses were primarily driven by lower subscriber acquisition costs, lower sales and marketing discretionary spend, savings in programming and content expenses, and lower legal and consulting costs in general and administrative expenses.

For the years ended December 31, 2008 and 2007, our adjusted income (loss) from operations was ($136,298) and ($565,452), respectively. Adjusted income (loss) from operations was favorably impacted by an increase of 18%, or $378,132, in revenues and a decrease of 2%, or $51,022, in total expenses included in adjusted income (loss) from operations.

Unaudited Pro Forma Results of Operations. Set forth below are certain pro forma items that give effect to the Merger as if it had occurred on January 1, 2007. The pro forma information below does not give effect to any adjustments as a result of the purchase price accounting for the Merger, or the goodwill impairment charge taken during 2008. See footnote 8 (pages 51 to 52) and footnote 14 (page 57) for a reconciliation of net income (loss) to adjusted income (loss) from operations.

	Unaudited Pro Forma For the Three Months Ended December 31,		
(in thousands)	**2009**	**2008**	**2007**
Revenue:			
Subscriber revenue, including effects of rebates	$ 593,841	$ 588,622	$ 501,595
Advertising revenue, net of agency fees	14,467	15,776	20,571
Equipment revenue	19,008	30,712	25,133
Other revenue	56,463	8,998	10,216
Total revenue	683,779	644,108	557,515
Operating expenses:			
Satellite and transmission	25,094	22,851	23,697
Programming and content	92,857	105,215	109,076
Revenue share and royalties	124,527	122,711	163,541
Customer service and billing	58,887	67,036	65,006
Cost of equipment	12,200	18,084	37,334
Sales and marketing	80,161	81,712	123,711
Subscriber acquisition costs	127,588	132,731	180,767
General and administrative	39,108	51,591	64,223
Engineering, design and development	8,018	10,380	14,303
Depreciation and amortization	57,549	49,519	75,045
Restructuring, impairments and related costs	2,640	2,977	
Share-based payment expense	7,480	24,945	52,897
Total operating expenses	636,109	689,752	909,600
Income (loss) from operations	47,670	(45,644)	(352,085)
Other expense	(70,276)	(202,649)	(52,055)
Loss before income taxes	(22,606)	(248,293)	(404,140)
Income tax expense	(2,637)	(175)	(901)
Net loss	$ (25,243)	$ (248,468)	$ (405,041)

Highlights for the Three Months Ended December 31, 2009. Our revenue grew 6%, or $39,671, in the three months ended December 31, 2009 compared to 2008. Subscriber revenue increased 1%, or $5,219, in the three months ended December 31, 2009 compared to 2008. The increase in subscriber revenue was driven by the sale of Best of programming and the price increases to our multi-subscription and internet packages. Advertising revenue decreased 8%, or $1,309, in the three months ended December 31, 2009 compared to 2008. The decrease in advertising revenue was driven by the current economic environment. Equipment revenue decreased 38%, or $11,704, in the three months ended December 31, 2009 compared to 2008. The decrease in equipment revenue was driven by declines in sales through our direct to consumer distribution channel and lower product royalties. Other revenue increased 528%, or $47,465, in the three months ended December 31, 2009 compared to 2008. The increase in other revenue was driven by the U.S. Music Royalty Fee introduced in the third quarter of 2009. The overall increase in revenue, combined with a decrease of 7%, or $43,871, in adjusted operating costs (total operating expense excluding restructuring, impairments and related costs, depreciation and amortization and share-based payment expense), resulted in improved adjusted income (loss) from operations of $115,339 in the three months ended December 31, 2009 compared to $31,797 in 2008.

Satellite and transmission costs increased 10%, or $2,243, in the three months ended December 31, 2009 compared to 2008 due to non-cash repeater lease charges and an increase in in-orbit insurance expense, partially offset by reductions in repeater maintenance costs and personnel costs. Programming and content costs decreased 12%, or $12,358, in the three months ended December 31, 2009 compared to 2008, due mainly to reductions in personnel and on-air talent costs as well as savings on certain content agreements. Revenue share and royalties increased 1%, or $1,816, in the three months ended December 31, 2009 compared to 2008 primarily due to an increase in our revenues and an increase in the statutory royalty rate for the performance of sound recordings. Customer service and billing costs decreased 12%, or $8,149, in the three months ended December 31, 2009 compared to 2008 primarily due to decreases in personnel costs and customer call center expenses. Cost of equipment decreased 33%, or $5,884, in the three months ended December 31, 2009 compared to 2008 as a result of a decrease in our direct to customer sales and lower inventory write-downs.

Sales and marketing costs decreased 2%, or $1,551, in the three months ended December 31, 2009 compared to 2008 due to reduced personnel costs and third party distribution support expenses. Subscriber acquisition costs decreased 4%, or $5,143, in the three months ended December 31, 2009 compared to 2008. This improvement was driven by lower OEM subsidies, improved chip set costs and lower aftermarket acquisition costs, partially offset by higher aftermarket inventory related charges.

General and administrative costs decreased 24%, or $12,483, in the three months ended December 31, 2009 compared to 2008 mainly due to the absence of certain legal and regulatory charges incurred in 2008 and lower personnel costs. Engineering, design and development costs decreased 23%, or $2,362, in the three months ended December 31, 2009 compared to 2008, due to lower costs associated with development, tooling and testing of radios as well as lower personnel costs.

Restructuring, impairments and related costs decreased 11%, or $337, in the three months ended December 31, 2009 compared to 2008 mainly due to fewer restructuring charges associated with the Merger.

Other expenses decreased 65%, or $132,373, in the three months ended December 31, 2009 compared to 2008 driven mainly by a decrease in loss on extinguishment of debt and credit facilities of $94,324 and a decrease of $28,892 in loss on investments.

Highlights for the Three Months Ended December 31, 2008. Our revenue grew 16%, or by $86,593, in the three months ended December 31, 2008 compared to 2007. The increase in subscriber revenue was driven primarily by a 14% growth in average subscribers. Advertising revenue decreased 23%, or $4,795, in the three months ended December 31, 2008 compared to 2007. The decrease in advertising revenue was driven by reduced spending by advertisers. Equipment revenue increased 22%, or $5,579, in the three months ended December 31, 2008 compared to 2007. The increase in equipment revenue was driven by increased sales through our direct to consumer distribution channel at higher average prices. Other revenue decreased 12%, or $1,218, in the three months ended December 31, 2008 compared to 2007. The decrease in other revenue was driven mainly by decreased content license fees. The overall increase in revenue was accompanied by lower operating costs, as described below, resulting in a significantly improved adjusted income (loss) from operations of $31,797 compared to ($224,143) in the fourth quarter of 2007. Total operating expenses, excluding goodwill impairment, restructuring, depreciation and share-based payment expense, decreased by 22%, or $169,347, in the quarter.

Satellite and transmission costs decreased 4%, or $846, in the three months ended December 31, 2008 compared to 2007 primarily due to reductions in repeater maintenance costs and personnel costs. Programming and content costs decreased 4%, or $3,861, in the three months ended December 31, 2008 compared to 2007 as a result of Merger related savings. Revenue share and royalties, representing approximately 19% and 29% of revenue during 2008 and 2007 respectively, decreased by 25%, or $40,830, over the prior year s quarter. The prior period included a charge of $52,440 resulting from the decision in January 2008 of the Copyright Royalty Board to increase royalties to the music industry commencing January 1, 2007. Adjusting for the royalty accrual in the fourth quarter of 2007, revenue share and royalties increased 10%, or $11,610, from the fourth quarter of 2007. Customer service and billing costs increased 3%, or $2,030, from the prior year s quarter, reflecting higher subscriber totals and improved scale efficiencies. Cost of equipment decreased 52%, or $19,250, in the three months ended December 31, 2008 compared to 2007 as a result of lower product costs.

Sales and marketing cost decreased 34%, or $41,999, in the three months ended December 31, 2008 compared to 2007 due to reduced advertising and cooperative marketing spend and Merger related savings, partially offset by higher customer retention spending. Subscriber acquisition costs decreased 27%, or $48,036, in the three months ended December 31, 2008 compared to 2007. This improvement was primarily driven by 27% lower gross additions in the fourth quarter of 2008.

General and administrative costs decreased 20%, or $12,632, in the three months ended December 31, 2008 compared to 2007, reflecting lower Merger costs and savings from the integration of administrative functions. Engineering, design and development costs decreased 27%, or $3,923, in the three months ended December 31, 2008 compared to 2007 due to lower product development costs and Merger savings.

Restructuring, impairments and related costs increased $2,977 in the three months ended December 31, 2008 compared to 2007 due to restructuring charges associated with the Merger.

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Other expenses increased by $150,594 or 289% as compared to prior year s quarter as a result of higher interest expense and loss from redemption of debt during 2008.

	Unaudited Pro Forma		
	For the Years Ended December 31,		
(in thousands)	**2009**	**2008**	**2007**
Revenue:			
Subscriber revenue, including effects of rebates	$ 2,334,317	$ 2,258,322	$ 1,888,709
Advertising revenue, net of agency fees	51,754	69,933	73,340
Equipment revenue	50,352	69,398	57,614
Other revenue	90,280	39,087	38,945
Total revenue	2,526,703	2,436,740	2,058,608
Operating expenses:			
Satellite and transmission	82,170	99,185	101,721
Programming and content	370,470	446,638	401,461
Revenue share and royalties	486,990	477,962	403,059
Customer service and billing	232,405	244,195	217,402
Cost of equipment	40,188	66,104	97,820
Sales and marketing	232,199	342,296	413,084
Subscriber acquisition costs	401,670	577,126	654,775
General and administrative	181,920	267,032	271,831
Engineering, design and development	36,152	52,500	62,907
Depreciation and amortization	203,145	245,571	293,976
Restructuring, impairments and related costs	32,807	10,434	
Share-based payment expense	78,782	124,619	165,099
Total operating expenses	2,378,898	2,953,662	3,083,135
Income (loss) from operations	147,805	(516,922)	(1,024,527)
Other expense	(583,157)	(381,425)	(221,610)
Loss before income taxes	(435,352)	(898,347)	(1,246,137)
Income tax expense	(5,981)	(3,988)	(1,496)
Net loss	$ (441,333)	$ (902,335)	$ (1,247,633)

Highlights for the Year Ended December 31, 2009. Our revenue grew 4%, or $89,963, in the year ended December 31, 2009 compared to 2008. Subscriber revenue grew 3%, or $75,995, in the year ended December 31, 2009 compared to 2008. Advertising revenue decreased 26%, or $18,179, in the year ended December 31, 2009 compared to 2008. The decrease in advertising revenue was driven by the current economic environment. Equipment revenue decreased 27%, or $19,046, in the year ended December 31, 2009 compared to 2008. The decrease in equipment revenue was driven by declines in sales through our direct to consumer distribution channel and lower product and component sales offset by higher product royalties. Other revenue increased 131%, or $51,193, in the year ended December 31, 2009 compared to 2008. The increase in other revenue was driven by the U.S. Music Royalty Fee introduced in the third quarter of 2009. The overall increase in revenue, combined with a decrease of 20%, or $508,874, in adjusted operating costs (total operating expense excluding restructuring, impairments and related costs, depreciation and amortization and share-based payment expense), resulted in improved adjusted income (loss) from operations of $462,539 in the year ended December 31, 2009 compared to ($136,298) in 2008.

Satellite and transmission costs decreased 17%, or $17,015, in the year ended December 31, 2009 compared to 2008 due to reductions in repeater maintenance costs, non-cash repeater lease charges and personnel costs. Programming and content costs decreased 17%, or $76,168, in the year ended December 31, 2009 compared to 2008, due mainly to a $27,500 one-time payment recognized in 2008 to a programming provider upon completion of the Merger, reductions in personnel and on-air talent costs as well as savings on certain content agreements. Revenue share and royalties increased 2%, or $9,028, in the year ended December 31, 2009 compared to 2008. Customer service and billing costs decreased 5%, or $11,790, in the year ended December 31, 2009 compared to 2008 due to scale efficiencies. Cost of equipment decreased 39%, or $25,916, in the year ended December 31, 2009 compared to 2008 as a result of a decrease in direct to customer sales, lower inventory write-downs and lower product and component sales.

Sales and marketing costs decreased 32%, or $110,097, in the year ended December 31, 2009 compared to 2008 due to reduced advertising and cooperative marketing spend as well as reductions to personnel costs and third party distribution support expenses. Subscriber acquisition costs decreased 30%, or $175,456, in the year ended December 31, 2009 compared to 2008. This improvement was driven by fewer OEM installations relative to gross subscriber additions, improved OEM subsidies and chip set cost, decreased production of certain radios and lower aftermarket inventory reserves as compared to 2008. Subscriber acquisition costs also decreased as a result of the 19% decline in gross additions during the year ended December 31, 2009 compared to 2008.

General and administrative costs decreased 32%, or $85,112, mainly due to the absence of certain legal and regulatory charges incurred in 2008 and lower personnel costs. Engineering, design and development costs decreased 31%, or $16,348, in the year ended December 31, 2009 compared to 2008, due to lower costs associated with development, tooling and testing of radios as well as lower personnel costs.

Restructuring, impairments and related costs increased 214%, or $22,373, mainly due to a loss of $24,196 on capitalized installment payments for the launch of a satellite, which are expected to provide no future benefit due to the counterparty s bankruptcy filing, offset partially by a decrease in personnel related restructuring costs.

Other expenses increased 53%, or $201,732, in the year ended December 31, 2009 compared to 2008 driven mainly by the increase in loss on extinguishment of debt and credit facilities of $169,443 and an increase in interest expense of $88,787, partially offset by a decrease of $45,448 in loss on investments. The loss on the extinguishment of debt and credit facilities was incurred on the full repayment of SIRIUS Credit Agreement with Liberty Media and XM s Amended and Restated Credit Agreement and termination of XM s Second-Lien Credit Agreement. Interest expense increased due primarily to the issuance of XM s 13% Senior Notes due 2013 and the 7% Exchangeable Senior Subordinated Notes due 2014 in the third quarter of 2008.

Highlights for the Year Ended December 31, 2008. Our revenue grew 18%, or by $378,132, in the year ended December 31, 2008. Subscriber revenue grew 20%, or $369,613, in the year ended December 31, 2008 compared to 2007. Advertising revenue decreased 5%, or $3,407, in the year ended December 31, 2008 compared to 2007. The decrease in advertising revenue was driven by the economic environment. Equipment revenue increased 20%, or $11,784, in the year ended December 31, 2008 compared to 2007. The increase in equipment revenue was driven by higher product royalties and increased sales through our direct to consumer distribution channel at higher average prices. Other revenue increased $142 in the year ended December 31, 2008 compared to 2007. This revenue growth was driven by our 20% growth in average subscribers. This increase, combined with lower fixed costs, particularly in the fourth quarter, resulted in improved adjusted loss from operations of ($136,298) in 2008 versus ($565,452) in 2007, as increases in our variable costs were more than offset by decreases in other operating expenses. Total operating expenses, excluding restructuring, depreciation and share-based payment expense and a $27,500 one-time Merger related payment to a programming provider, decreased by 3%, or $78,522, during 2008.

Satellite and transmission costs decreased 2%, or $2,536, in the year ended December 31, 2008 compared to 2007 due to reductions in repeater maintenance costs and personnel costs. Programming and content costs increased 11%, or $45,177, in the year ended December 31, 2008 compared to 2007, primarily due to a one-time payment to a programming provider of $27,500 due upon completion of the Merger. Excluding this one-time payment, programming costs increased by 4%, or $17,677. Revenue share and royalties increased by 19%, or $74,903, in the year ended December 31, 2008 compared to 2007, maintaining a flat percentage of revenue of approximately 20% in 2008 and 2007. Customer service and billing costs increased 12%, or $26,793, in the year ended December 31, 2008 compared to 2007 due to a larger subscriber base, mitigated by scale efficiencies. Cost of equipment decreased by 32%, or $31,716, in the year ended December 31, 2008 compared to 2007 as a result of lower product costs.

Sales and marketing costs decreased 17%, or $70,788, in the year ended December 31, 2008 compared to 2007 due to reduced advertising and cooperative marketing spend, offset in part by higher customer retention spending. Subscriber acquisition costs declined nearly 12%, or $77,649, in the year ended December 31, 2008 compared to 2007. This improvement was primarily driven by a 14% improvement in SAC, as adjusted, per gross addition due to improved product economics and lower retail and OEM subsidies. Subscriber acquisition costs also declined as a result of the 5% decline in gross additions during 2008.

General and administrative costs decreased 2%, or $4,799, in the year ended December 31, 2008 compared to 2007, reflecting lower one-time costs in connection with the Merger and early integration savings in 2008. Engineering, design and development costs decreased 17%, or $10,407, in the year ended December 31, 2008 compared to 2007 due to fewer OEM platform launches and lower product development costs.

Restructuring, impairments and related costs increased $10,434, in the year ended December 31, 2008 compared to 2007 due to restructuring charges associated with the Merger.

Other expenses increased by $159,815 or 72%, in the year ended December 31, 2008 compared to 2007 as a result of higher interest expense and loss from redemption of debt during 2008.

Unaudited Actual Information

Our discussion of our unaudited actual results of operations includes the following non-GAAP financial measures: average self-pay monthly churn; conversion rate; average monthly revenue per subscriber, or ARPU; subscriber acquisition cost, or SAC, as adjusted, per gross subscriber addition; customer service and billing expenses, as adjusted, per average subscriber; free cash flow; and adjusted income (loss) from operations. We believe these non-GAAP financial measures provide meaningful supplemental information regarding our operating performance and are used for internal management purposes, when publicly providing the business outlook, and as a means to evaluate period-to-period comparisons. Please refer to the footnotes (pages 50 through 63) following our discussion of results of operations for the definitions and a further discussion of the usefulness of such non-GAAP financial measures.

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The discussion of our results of operations for the three months and three years ended December 31, 2009, 2008, and 2007 includes the financial results of XM from the date of the Merger. The inclusion of these results may render direct comparisons with results for prior periods less meaningful. Accordingly, the discussion below addresses trends we believe are significant.

Unaudited Actual Subscribers and Metrics. The following tables contain our actual subscribers and key operating metrics for the three months and three years ended December 31, 2009, 2008 and 2007:

	Unaudited Actual For the Three Months Ended December 31,		
	2009	**2008**	**2007**
Beginning subscribers	18,515,730	18,920,911	7,667,476
Gross subscriber additions	1,882,950	1,713,210	1,194,014
Deactivated subscribers	(1,625,922)	(1,630,265)	(539,705)
Net additions	257,028	82,945	654,309
Ending subscribers	18,772,758	19,003,856	8,321,785
Retail	7,725,750	8,905,087	4,640,710
OEM	10,930,952	9,995,953	3,665,631
Rental	116,056	102,816	15,444
Ending subscribers	18,772,758	19,003,856	8,321,785
Retail	(200,154)	(131,333)	211,962
OEM	442,422	218,249	444,244
Rental	14,760	(3,971)	(1,897)
Net additions	257,028	82,945	654,309
Self-pay	15,703,932	15,549,657	5,685,064
Paid promotional	3,068,826	3,454,199	2,636,721
Ending subscribers	18,772,758	19,003,856	8,321,785
Self-pay	247,182	359,069	423,794
Paid promotional	9,846	(276,124)	230,515
Net additions	257,028	82,945	654,309
Daily weighted average number of subscribers	18,576,151	18,910,689	7,878,574

Unaudited Actual

	For the Three Months Ended December 31, 2009	2008	2007
Average self-pay monthly churn (1)(7)	2.0%	1.8%	1.7%
Conversion rate (2)(7)	46.4%	44.2%	47.4%
ARPU (7)(16)	$ 10.81	$ 10.30	$ 10.05
SAC, as adjusted, per gross subscriber addition (7)(17)	$ 55	$ 59	$ 87
Customer service and billing expenses, as adjusted, per average subscriber (7)(18)	$ 1.06	$ 1.18	$ 1.23
Total revenue	$ 676,173	$ 622,183	$ 249,816
Free cash flow (7)(19)	$ 149,547	$ 25,877	$ 75,921
Adjusted income (loss) from operations (20)	$ 170,566	$ 72,155	$ (107,220)
Net loss	$ 14,167	$ (245,844)	$ (166,223)

Note: See pages 50 through 63 for footnotes.

Subscribers. At December 31, 2009, we had 18,772,758 subscribers, a decrease of 231,098 subscribers, or 1%, from the 19,003,856 subscribers as of December 31, 2008. Net subscriber additions increased 174,083, or 210%, in the three months ended December 31, 2009 compared to 2008. Net subscriber additions in our OEM channel increased 224,173, or 103%, in the three months ended December 31, 2009 compared to 2008. Net subscriber additions in our retail channel decreased 68,821, or 52%, in the three months ended December 31, 2009 compared to 2008. Deactivation rates for self-pay subscriptions in the quarter increased to 2.0% per month reflecting reductions in consumer discretionary spending, subscriber response to our increase in prices for multi-subscription accounts, channel line-up changes in 2008, the institution of a monthly charge for our streaming service and the introduction of the U.S. Music Royalty Fee.

We ended the fourth quarter of 2008 with 19,003,856 subscribers, an increase of 10,682,071 subscribers, or 128%. The increase was primarily a result of the additional subscribers acquired in the Merger. Net subscriber additions decreased 571,364, or 87%, in the three months ended December 31, 2008 compared to 2007. Net subscriber additions in our OEM channel decreased 225,995, or 51%, in the three months ended December 31, 2008 compared to 2007. Net subscriber additions in our retail channel decreased 343,295, or 162%, in the three months ended December 31, 2008 compared to 2007. Deactivations include the results of XM in the quarter. Deactivations for self-pay subscriptions increased slightly to 1.8% per month; non-conversions of subscribers in paid promotional trial periods increased as production penetration rates increased.

ARPU. For the three months ended December 31, 2009 and 2008, total ARPU was $10.81 and $10.30, respectively. The increase was driven by the revenues earned for Best of programming, increased rates on multi-subscription packages and internet subscriptions.

For the three months ended December 31, 2008 and 2007, total ARPU was $10.30 and $10.05, respectively. The increase was driven by the start of our Best of package sales and by a lower mix of prepaid subscriptions from automakers in vehicles which have not sold through to customers. These factors were partially offset by an increase in the mix of discounted OEM promotional trials, subscriber win-back programs, second subscribers, the effect of purchase price accounting adjustments and a decline in net advertising revenue per average subscriber as subscriber growth exceeded the growth in ad revenues.

We expect ARPU to fluctuate based on promotions, rebates offered to subscribers and corresponding take-rates, plan mix, subscription prices, advertising sales and the identification of additional revenue from subscribers.

SAC, As Adjusted, Per Gross Subscriber Addition. For the three months ended December 31, 2009 and 2008, SAC, as adjusted, per gross subscriber addition was $55 and $59, respectively. The decrease in SAC was primarily due to lower OEM subsidies, lower chip set costs and lower aftermarket acquisition costs, partially offset by higher aftermarket inventory related charges compared to the three months ended December 31, 2008.

For the three months ended December 31, 2008 and 2007, SAC, as adjusted, per gross subscriber addition was $59 and $87, respectively. The decrease was primarily driven by lower retail and OEM subsidies due to better product economics, the effect of purchase price accounting adjustments and improved equipment margins.

We expect SAC, as adjusted, per gross subscriber addition to decline as the costs of subsidized components of SIRIUS and XM radios decrease in the future. Our SAC, as adjusted, per gross subscriber addition will be impacted by our increasing mix of OEM additions and the effects of purchase price accounting adjustments.

Customer Service and Billing Expenses, As Adjusted, Per Average Subscriber. For the three months ended December 31, 2009 and 2008, customer service and billing expenses, as adjusted, per average subscriber was $1.06 and $1.18, respectively.

For the three months ended December 31, 2008 and 2007, Customer service and billing expenses, as adjusted, per average subscriber decreased $1.18 and $1.23, respectively. The decline was primarily due to efficiencies across a larger subscriber base.

We expect customer service and billing expenses, as adjusted, per average subscriber to decrease on an annual basis as our subscriber base grows due to scale efficiencies in our call centers and other customer care and billing operations.

Adjusted Income (Loss) from Operations. For the three months ended December 31, 2009 and 2008, our adjusted income (loss) from operations was $170,566 and $72,155, respectively. Adjusted income (loss) from operations was favorably impacted by an increase of 9%, or $53,990, in revenues and a decrease of 8%, or $44,421, in total expenses included in adjusted income (loss) from operations. The increase in revenue was due mainly to increased rates on multi-subscription packages, revenues earned on internet packages, the introduction of the U.S. Music Royalty Fee and the sale of Best of programming. The decreases in expenses were primarily driven by lower subscriber acquisition costs, savings in programming and content expenses, lower customer service and billing expenses and lower legal and consulting costs in general and administrative expenses.

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For the three months ended December 31, 2008 and 2007, our adjusted income (loss) from operations was $72,155 and ($107,220), respectively. Adjusted income (loss) from operations was favorably impacted by the $372,367 increase in revenues, partially offset by the $192,992 increase in expenses included in adjusted income (loss) from operations, both of which were favorably impacted by the inclusion of the operating results of XM in the amount of $60,371.

	Unaudited Actual For the Years Ended December 31,		
	2009	**2008**	**2007**
Beginning subscribers	19,003,856	8,321,785	6,024,555
Gross subscriber additions	6,208,482	14,954,112	4,183,901
Deactivated subscribers	(6,439,580)	(4,272,041)	(1,886,671)
Net additions	(231,098)	10,682,071	2,297,230
Ending subscribers	18,772,758	19,003,856	8,321,785
Retail	7,725,750	8,905,087	4,640,710
OEM	10,930,952	9,995,953	3,665,631
Rental	116,056	102,816	15,444
Ending subscribers	18,772,758	19,003,856	8,321,785
Retail	(1,179,452)	4,264,378	598,884
OEM	935,114	6,330,321	1,706,622
Rental	13,240	87,372	(8,276)
Net additions	(231,098)	10,682,071	2,297,230
Self-pay	15,703,932	15,549,657	5,685,064
Paid promotional	3,068,826	3,454,199	2,636,721
Ending subscribers	18,772,758	19,003,856	8,321,785
Self-pay	154,275	9,864,593	1,262,222
Paid promotional	(385,373)	817,478	1,035,008
Net additions	(231,098)	10,682,071	2,297,230
Daily weighted average number of subscribers	18,529,696	13,378,035	7,082,927

Unaudited Actual
For the Years Ended December 31,

	2009	2008	2007
Average self-pay monthly churn (1)(7)	2.0%	1.8%	1.6%
Conversion rate (2)(7)	45.4%	47.5%	47.5%
ARPU (7)(21)	$ 10.52	$ 9.94	$ 10.46
SAC, as adjusted, per gross subscriber addition (7)(22)	$ 53	$ 69	$ 98
Customer service and billing expenses, as adjusted, per average subscriber (7)(23)	$ 1.05	$ 1.02	$ 1.10
Total revenue	$ 2,472,638	$ 1,663,992	$ 922,066
Free cash flow (7)(24)	$ 185,319	$ (244,467)	$ (218,624)
Adjusted income (loss) from operations (25)	$ 644,564	$ 31,032	$ (327,410)
Net loss	$ (342,790)	$ (5,313,288)	$ (565,252)

Note: See pages 50 through 63 for footnotes.

Subscribers. At December 31, 2009, we had 18,772,758 subscribers, a decrease of 231,098 subscribers, or 1%, from the 19,003,856 subscribers as of December 31, 2008. The decrease was principally the result of 385,373 fewer paid promotional trials due to the decline in North American auto sales. This decline was partially offset by an increase of 154,275 in self-pay subscribers compared to December 31, 2008. Deactivation rates for self-pay subscriptions in the quarter increased to 2.0% per month reflecting reductions in consumer discretionary spending, subscriber response to our increase in prices for multi-subscription accounts, channel line-up changes in 2008, the institution of a monthly charge for our streaming service and the introduction of the U.S. Music Royalty Fee.

We ended 2008 with 19,003,856 subscribers, an increase of 128% from the 8,321,785 subscribers as of December 31, 2007. The increase was a result of the 9,716,070 subscribers acquired in the Merger. Gross additions in our OEM channel continued to grow as automakers continued to increase the portion of their production which incorporates satellite radio. The growth in OEM gross additions was offset by declines in retail gross additions. Deactivations include the results of XM from the date of the Merger. The deactivation rate for self-pay subscriptions increased slightly to 1.8% while the conversion rate for subscribers in paid promotional trial periods stayed constant.

ARPU. For the years ended December 31, 2009 and 2008, total ARPU was $10.52 and $9.94, respectively. The increase was driven by the revenues earned for Best of programming, increased rates on multi-subscription packages and internet subscriptions.

For the years ended December 31, 2008 and 2007, total ARPU was $9.94 and $10.46, respectively. The decrease was driven by an increase in the mix of discounted OEM promotional trials, subscriber win-back programs, second subscribers, the effect of purchase price accounting adjustments and a decline in net advertising revenue per average subscriber as subscriber growth exceeded the growth in ad revenues.

We expect ARPU to fluctuate based on promotions, rebates offered to subscribers and corresponding take-rates, plan mix, subscription prices, advertising sales and the identification of additional revenue from subscribers.

SAC, As Adjusted, Per Gross Subscriber Addition. For the years ended December 31, 2009 and 2008, SAC, as adjusted, per gross subscriber addition was $53 and $69, respectively. The decrease was primarily driven by the effect of purchase price accounting adjustments, lower OEM subsidies, decreased production of certain radios, lower aftermarket inventory reserves and improved equipment margins in the year ended December 31, 2009 compared to 2008.

For the years ended December 31, 2008 and 2007, SAC, as adjusted, per gross subscriber addition was $69 and $98, respectively. The decrease was primarily driven by lower retail and OEM subsidies due to better product economics, the effect of purchase price accounting adjustments and improved equipment margins.

We expect SAC, as adjusted, per gross subscriber addition to decline as the costs of subsidized components of SIRIUS and XM radios decrease in the future. Our SAC, as adjusted, per gross subscriber addition will be impacted by our increasing mix of OEM additions and the effects of purchase price accounting adjustments.

Customer Service and Billing Expenses, As Adjusted, Per Average Subscriber. For the years ended December 31, 2009 and 2008, customer service and billing expenses, as adjusted, per average subscriber was $1.05 and $1.02, respectively. The increase was primarily due to the inclusion of XM, which had historically experienced higher customer service and billing expenses.

For the years ended December 31, 2008 and 2007, Customer service and billing expenses, as adjusted, per average subscriber was $1.02 and $1.10, respectively. The decline was primarily due to efficiencies across a larger subscriber base.

We expect customer service and billing expenses, as adjusted, per average subscriber to decrease on an annual basis as our subscriber base grows due to scale efficiencies in our call centers and other customer care and billing operations.

Adjusted Income (Loss) from Operations. For the years ended December 31, 2009 and 2008, our adjusted income (loss) from operations was $644,564 and $31,032, respectively. Adjusted income (loss) from operations was favorably impacted by an increase of 49%, or $808,646, in revenues, partially offset by the increase of 12%, or $195,114, in total expenses included in adjusted income (loss) from operations. The increase in revenue was due mainly to the inclusion of XM for a full year, an increase in weighted average subscribers, increased rates on multi-subscription packages, revenues earned on internet packages, the introduction of the U.S. Music Royalty Fee and the sale of Best of programming. The increases in expenses were primarily driven by the inclusion of XM for a full year.

For the years ended December 31, 2008 and 2007, our adjusted income (loss) from operations was $31,032 and ($327,410), respectively. Adjusted income (loss) from operations was favorably impacted by the $741,926 increase in revenues, partially offset by the $383,484 increase in expenses included in adjusted income (loss) from operations, both of which were favorably impacted by the inclusion of the operating results of XM in the amount of $82,863.

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Unaudited Actual Results of Operations. Set forth below are our actual results of operations for the three months ended December 31, 2009, 2008 and 2007. See footnote 20 (pages 61 to 62) for a reconciliation of net income (loss) to adjusted income (loss) from operations for the three months ended December 31, 2009, 2008 and 2007. See footnote 25 (page 63) for a reconciliation of net income (loss) to adjusted income (loss) from operations for the three years ended December 31, 2009, 2008 and 2007.

	Unaudited For the Three Months Ended December 31,		
(in thousands)	**2009**	**2008**	**2007**
Revenue:			
Subscriber revenue, including effects of rebates	$ 588,048	$ 568,523	$ 227,658
Advertising revenue, net of agency fees	14,467	15,776	9,770
Equipment revenue	19,008	30,712	12,065
Other revenue	54,650	7,172	323
Total revenue	676,173	622,183	249,816
Operating expenses (1):			
Satellite and transmission	24,597	24,481	5,175
Programming and content	77,297	89,214	62,735
Revenue share and royalties	100,355	103,217	56,762
Customer service and billing	58,887	67,818	29,288
Cost of equipment	12,200	18,084	15,886
Sales and marketing	76,308	80,699	56,866
Subscriber acquisition costs	109,733	113,512	100,062
General and administrative	44,601	64,586	37,212
Engineering, design and development	8,056	12,404	7,946
Impairment of goodwill		15,331	
Depreciation and amortization	77,826	82,958	27,638
Restructuring, impairments and related costs	2,640	2,977	
Total operating expenses	592,500	675,281	399,570
Income (loss) from operations	83,673	(53,098)	(149,754)
Other income (expense):			
Interest and investment income	1,043	(90)	4,171
Interest expense, net of amounts capitalized	(66,358)	(61,196)	(19,887)
Loss on extinguishment of debt and credit facilities, net	(3,879)	(98,203)	
Gain (loss) on investments	1,474	(27,418)	
Other income (expense)	851	(5,664)	17
Total other income (expense)	(66,869)	(192,571)	(15,699)
Income (loss) before income taxes	16,804	(245,669)	(165,453)
Income tax expense	(2,637)	(175)	(770)
Net income (loss)	$ 14,167	$ (245,844)	$ (166,223)

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

Satellite and transmission	$ (276)	$ 1,349	$ 364
Programming and content	1,646	4,672	2,786
Customer service and billing		783	165
Sales and marketing	(474)	2,165	539
Subscriber acquisition costs			156
General and administrative	5,493	12,995	10,261
Engineering, design and development	38	2,023	625
Total share-based payment expense	$ 6,427	$ 23,987	$ 14,896

Highlights for the Three Months Ended December 31, 2009. Our revenue grew 9%, or $53,990, in the three months ended December 31, 2009 compared to 2008. Subscriber revenue increased 3%, or $19,525, in the three months ended December 31, 2009 compared to 2008. The increase in subscriber revenue was driven by the sale of Best of programming and the rate increases to our multi-subscription and internet packages. Advertising revenue decreased 8%, or $1,309, in the three months ended December 31, 2009 compared to 2008. The decrease in advertising revenue was driven by the current economic environment. Equipment revenue decreased 38%, or $11,704, in the three months ended December 31, 2009 compared to 2008. The decrease in equipment revenue was driven by declines in sales through our direct to consumer distribution channel and lower product royalties. Other revenue increased 662%, or $47,478, in the three months ended December 31, 2009 compared to 2008. The increase in other revenue was driven by the U.S. Music Royalty Fee introduced in the third quarter of 2009. The overall increase in revenue, combined with a decrease of 8%, or $44,421, in adjusted operating costs (total operating expense excluding restructuring, impairments and related costs, depreciation and amortization and share-based payment expense), resulted in improved adjusted income (loss) from operations of $170,566 in the three months ended December 31, 2009 compared to $72,155 in 2008.

Satellite and transmission costs increased slightly in the three months ended December 31, 2009 compared to 2008 due to non-cash repeater lease charges and an increase in in-orbit insurance expense, partially offset by reductions in repeater maintenance costs and personnel costs. Programming and content costs decreased 13%, or $11,917, in the three months ended December 31, 2009 compared to 2008, due mainly to reductions in personnel and on-air talent costs as well as savings on certain content agreements. Revenue share and royalties decreased 3%, or $2,862, in the three months ended December 31, 2009 compared to 2008 primarily due to the impact of purchase accounting adjustments partially offset by increases to revenues and an increase in the statutory royalty rate for the performance of sound recordings. Customer service and billing costs decreased 13%, or $8,931, in the three months ended December 31, 2009 compared to 2008 primarily due to decreases in personnel costs and customer call center expenses. Cost of equipment decreased 33%, or $5,884, in the three months ended December 31, 2009 compared to 2008 as a result of a decrease in our direct to customer sales and lower inventory write-downs.

Sales and marketing costs decreased $4,391, or 5%, in the three months ended December 31, 2009 compared to 2008 due to reduced advertising and cooperative marketing spend as well as reductions to personnel costs and third party distribution support expenses. Subscriber acquisition costs decreased 3%, or $3,779, in the three months ended December 31, 2009 compared to 2008. The decrease was primarily due to lower OEM subsidies, improved chip set costs and lower aftermarket acquisition costs, partially offset by higher aftermarket inventory related charges.

General and administrative costs decreased 31%, or $19,985, in the three months ended December 31, 2009 compared to 2008 mainly due to the absence of certain legal and regulatory charges incurred in 2008 and lower personnel costs. Engineering, design and development costs decreased 35%, or $4,348, in the three months ended December 31, 2009 compared to 2008, due to lower costs associated with development, tooling and testing of radios as well as lower personnel costs.

Restructuring, impairments and related costs decreased 11%, or $337, in the three months ended December 31, 2009 compared to 2008 mainly due to fewer restructuring charges associated with the Merger.

Other expenses decreased 65%, or $125,702, in the three months ended December 31, 2009 compared to 2008 driven mainly by a decrease in loss on extinguishment of debt and credit facilities of $94,324 and a decrease of $28,892 in loss on investments, partially offset by an increase in interest expense of $5,162.

Highlights for the Three Months Ended December 31, 2008. Our revenue grew 149%, or by $372,367, in the three months ended December 31, 2008 compared to 2007. The inclusion of XM s results for the fourth quarter of 2008 drove $315,551 of the increase. Adjusted income (loss) from operations was $72,155 in the fourth quarter of 2008 quarter compared to ($107,220) in the fourth quarter of 2007. Total operating expenses, excluding goodwill impairment, restructuring, depreciation and share-based payment expense, increased by 54%, or $192,992, in the quarter. $262,908 of the increase was attributable to the Merger.

Satellite and transmission costs increased by 373%, or $19,306, in the three months ended December 31, 2008 compared to 2007 due to the inclusion of XM s satellite and transmission costs for the fourth quarter of 2008. Programming and content costs increased by 42%, or $26,479, in the three months ended December 31, 2008 compared to 2007, as a result of the inclusion of XM s programming costs for the fourth quarter of 2008. Revenue share and royalties increased by 82%, or $46,455, in the three months ended December 31, 2008 compared to 2007, as a result of the inclusion of XM s revenue share and royalties costs. Customer service and billing costs increased 132%, or $38,530, in the three months ended December 31, 2008 compared to 2007. $36,002 of the increase was attributable to the Merger.

Sales and marketing cost increased 42%, or $23,833, in the three months ended December 31, 2008 compared to 2007. The increase was attributable to the merger, partially offset by reduced advertising and cooperative marketing spend. Subscriber acquisition costs increased 13%, or $13,450, over the prior year s quarter, of which, $37,343 was attributable to the Merger, partially offset by improved product economics and lower retail and OEM subsidies. General and administrative costs increased 74%, or $27,374, over the prior year s quarter, $24,006 of which was attributable to the Merger. Engineering, design and development costs increased 56%, or $4,458. The Merger drove $6,467 of the increase. The offsetting decrease was due lower product development costs and savings at SIRIUS as result of the Merger.

Restructuring, impairments and related costs increased $2,977 in the three months ended December 31, 2008 compared to 2007 due to restructuring charges associated with the Merger.

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Other expenses increased 1,127%, or $176,872, in the three months ended December 31, 2008 compared to 2007 driven mainly by an increase in loss on extinguishment of debt and credit facilities of $98,203, an increase in interest expense of $41,309, and an increase of $27,418 in loss on investments due to the inclusion of XM s expenses attributable to the Merger.

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008 and Year Ended December 31, 2008 Compared with Year Ended December 31, 2007 Actual

Total Revenue

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, subscriber revenue was $2,287,503 and $1,548,919, respectively, an increase of 48%, or $738,584. The Merger was responsible for approximately $670,870 of the increase and the remaining increase was primarily attributable to the sale of Best of programming, increased internet and multi-subscription rates and higher average subscribers.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, subscriber revenue was $1,548,919 and $854,933, respectively, an increase of 81%, or $693,986. The Merger was responsible for approximately $472,457 of the increase and the remaining increase was primarily attributable to the growth of subscribers to our services.

The following table contains a breakdown of our subscriber revenue for the periods presented:

	For the Years Ended December 31,		
	2009	**2008**	**2007**
Subscription fees	$ 2,266,809	$ 1,529,726	$ 853,832
Activation fees	21,837	23,025	20,878
Effect of rebates	(1,143)	(3,832)	(19,777)
Total subscriber revenue	$ 2,287,503	$ 1,548,919	$ 854,933

Future subscriber revenue will be dependent upon, among other things, the growth of our subscriber base, promotions, rebates offered to subscribers and corresponding take-rates, plan mix, subscription prices and the identification of additional revenue streams from subscribers.

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, net advertising revenue was $51,754 and $47,190, respectively, which represents an increase of 10%, or $4,564. The increase was due to the inclusion of XM revenue from the Merger, which was offset by a decrease in ad revenue due to the current economic environment.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, net advertising revenue was $47,190 and $34,192, respectively, which represents an increase of 38%, or $12,998. The Merger was responsible for approximately $10,010 of the increase and the remaining increase was primarily attributable to an increase in advertisers compared to 2007.

Our advertising revenue is subject to fluctuation based on the national economic environment. We believe general economic conditions have negatively affected our advertising revenue in recent quarters. We expect advertising revenue to grow as our subscribers increase, as the economy improves and as we increase the size and effectiveness of our advertising sales force.

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, equipment revenue was $50,352 and $56,001, respectively, which represents a decrease of 10%, or $5,649. The decrease was primarily due to a decrease in sales through our direct to consumer distribution channel and lower product royalties, partially offset by the inclusion of XM revenue for a full year.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, equipment revenue was $56,001 and $29,281, respectively, which represents an increase of 91%, or $26,720. The Merger was responsible for approximately $18,991 of the increase and the remaining increase was primarily attributable to higher unit sales at higher average prices.

We expect equipment revenue to increase as we introduce new products and as sales grow through our direct to consumer distribution channel.

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, other revenue was $83,029 and $11,882, respectively, which represents an increase of 599%, or $71,147. The increase was primarily due to the introduction of the U.S. Music Royalty Fee and the inclusion of XM revenue for a full year.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, other revenue was $11,882 and $3,660, respectively, which represents an increase of 225%, or $8,222. The increase was primarily due to the Merger and was partially offset by decreased content licensing fees.

We expect other revenue to increase with a full year of billing of the U.S. Music Royalty Fee and as revenues from affiliates increase.

Operating Expenses

Satellite and Transmission. Satellite and transmission expenses consist of costs associated with the operation and maintenance of our satellites; satellite telemetry, tracking and control system; terrestrial repeater network; satellite uplink facility; and broadcast studios.

2009 vs. 2008: For the years ended December 31, 2009 and 2008, satellite and transmission expenses were $84,033 and $59,279, respectively, which represents an increase of 42%, or $24,754. The satellite and transmission increase was primarily due to the inclusion of XM s satellite and transmission expense, partially offset by decreases due to the elimination of contracts, decommissioned repeater sites and decrease in streaming costs.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, satellite and transmission expenses were $59,279 and $27,907, respectively, which represents an increase of 112%, or $31,372 primarily due to the Merger. XM satellite and transmission expense accounted for $29,852 during the year ended December 31, 2008.

We expect satellite and transmission expenses, excluding share-based payment expense, to increase as we add to our in-orbit satellite fleet.

Programming and Content. Programming and content expenses include costs to acquire, create and produce content and on-air talent costs. We have entered into various agreements with third parties for music and non-music programming that require us to pay license fees, share advertising revenue, purchase advertising on media properties owned or controlled by the licensor and pay other guaranteed amounts. Purchased advertising is recorded as a sales and marketing expense and the cost of sharing advertising revenue is recorded as revenue share and royalties in the period the advertising is broadcast.

2009 vs. 2008: For the years ended December 31, 2009 and 2008, programming and content expenses were $308,121 and $312,189, respectively, which represents a decrease of $4,068, or 1%. The increase from the inclusion of a full year of XM expense was offset by savings in content agreements, personnel and on-air talent costs.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, programming and content expenses were $312,189 and $236,059, respectively, which represents an increase of 32%, or $76,130 primarily due to the Merger.

Our programming and content expenses, excluding share-based payment expense, are expected to decrease as we reduce duplicate programming and content costs.

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, revenue share and royalties were $397,210 and $280,852, respectively, which represents an increase of 41%, or $116,358. The increase was primarily attributable to the inclusion of XM s revenue share and royalty expense as a result of the Merger, an increase in our revenues and an increase in the statutory royalty rate for the performance of sound recordings.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, revenue share and royalties were $280,852 and $146,715, respectively, which represents an increase of 91%, or $134,137. The increase was primarily attributable to an increase in our revenues, the $91,132 effect of including XM s revenue share and royalty expense as a result of the Merger and an increase in the statutory royalty rate due for the performance of sound recordings.

We expect these costs to increase as our revenues grow, as we expand our distribution of SIRIUS and XM radios through automakers, and as a result of statutory increases in the royalty rate for the performance of sound recordings.

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, customer service and billing expenses were $234,456 and $165,036, respectively, which represents an increase of 42%, or $69,420. The increase was primarily due to the inclusion of XM s customer and billing expense as a result of the Merger and increased bad debt expense due to the current economic environment.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, customer service and billing expenses were $165,036 and $93,817, respectively, which represents an increase of 76%, or $71,219, primarily due to the Merger. XM s customer services and billing expense accounted for $59,767 during the year ended December 31, 2008. The remaining increase was primarily attributed to higher call center operating costs necessary to accommodate the increase in our subscriber base and higher total transaction fees on the larger customer base.

We expect our customer care and billing expenses to decrease on a per subscriber basis, but increase overall as our subscriber base grows due to increased call center operating costs, transaction fees and bad debt expense associated with a larger subscriber base.

Cost of Equipment. Cost of equipment includes costs from the sale of SIRIUS and XM radios, components and accessories.

2009 vs. 2008: For the years ended December 31, 2009 and 2008, cost of equipment was $40,188 and $46,091, respectively, which represents a decrease of 13%, or $5,903. This was mainly due to lower sales volume through our direct to consumer channel, lower inventory related charges and lower product and component sales, partially offset by the inclusion of XM s cost of equipment expense as a result of the Merger.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, cost of equipment was $46,091 and $35,817, respectively, which represents an increase of 29%, or $10,274. The Merger related increase of approximately $12,299 was partially offset by lower product costs.

We expect cost of equipment to vary in the future with changes in sales through our direct to consumer distribution channel.

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

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

2008 vs. 2007: For the years ended December 31, 2008 and 2007, sales and marketing expenses were $231,937 and $183,213, respectively, which represents an increase of 27%, or $48,724. The Merger increased sales and marketing expense by $76,104, which was partially offset by a reduction in consumer advertising.

We expect sales and marketing expenses, excluding share-based payment expense, to increase as we increase our advertising, retention and promotional activities over a larger subscriber base.

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 or XM 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 SIRIUS and XM radios; product warranty obligations; and provisions for inventory allowance. 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 SIRIUS and XM radios, and revenue share payments to automakers and retailers of SIRIUS and XM radios.

2009 vs. 2008: For the years ended December 31, 2009 and 2008, subscriber acquisition costs were $340,506 and $371,343, respectively, which represents a decrease of 8%, or $30,837. This decrease was primarily a result of lower OEM subsidies and chip set costs, decreases in production of certain radios and lower aftermarket inventory charges in the year ended December 31, 2009 compared to 2008, partially offset by the inclusion of XM s subscriber acquisition costs as a result of the Merger.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, subscriber acquisition costs were $371,343 and $407,642, respectively, which represents a decrease of 9%, or $36,299. This decrease was primarily due to lower retail and OEM subsidies due to better product economics, offset partially by the impact of the Merger. XM s subscriber acquisition costs accounted for $64,865 during the year ended December 31, 2008.

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We expect total subscriber acquisition costs to fluctuate as increases or decreases in our gross subscriber additions are accompanied by continuing declines in the costs of subsidized components of SIRIUS and XM radios. We intend to continue to offer subsidies, commissions and other incentives to acquire subscribers.

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

2009 vs. 2008: For the years ended December 31, 2009 and 2008, general and administrative expenses were $227,554 and $213,142, respectively, which represents an increase of 7%, or $14,412, primarily due to the impact of the Merger, offset by lower costs for certain merger, litigation and regulatory matters.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, general and administrative expenses were $213,142 and $155,863, respectively, which represents an increase of 37%, or $57,279, primarily due to the impact of the Merger. XM s general and administrative expense accounted for $47,322 during the year ended December 31, 2008. The remaining increase was primarily attributable to higher compensation-related costs to support the growth of our business.

We expect total general and administrative expenses, excluding share-based payment expense, to decrease in future periods as we gain efficiencies in staff, facilities and information technology costs.

Engineering, Design and Development. Engineering, design and development expenses include 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.

2009 vs. 2008: For the years ended December 31, 2009 and 2008, engineering, design and development expenses were $41,031 and $40,496, respectively, which represents an increase of 1%, or $535. This increase was primarily due to the inclusion of XM s engineering, design and development expenses, partially offset by lower costs associated with development, tooling and testing of radios as well as lower personnel costs.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, engineering, design and development expenses were $40,496 and $41,343, respectively, which represents a decrease of 2%, or $847. This decrease was primarily due to reduced OEM and product development costs, offset partially by the impact of the Merger.

We expect engineering, design and development expenses, excluding share-based payment expense, to increase in future periods as we increase development of our next generation chip sets.

Other Income (Expense)

Interest and Investment Income. Interest and investment income includes realized gains and losses, dividends and interest income, including amortization of the premium and discount arising at purchase.

2009 vs. 2008: For the years ended December 31, 2009 and 2008, interest and investment income was $3,645 and $9,079, respectively. The decrease of 60%, or $5,434, was primarily attributable to lower interest rates in 2009 and a lower average cash balance.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, interest and investment income was $9,079 and $20,570, respectively. The decrease of 56%, or $11,491 was primarily attributable to lower interest rates in 2008 and a lower cash balance.

Interest Expense. Interest expense includes interest on outstanding debt, reduced by interest capitalized in connection with the construction of our satellites and launch vehicles.

2009 vs. 2008: For the years ended December 31, 2009 and 2008, interest expense was $306,420 and $144,833, respectively, which represents an increase of 112%, or $161,587. Interest expense increased significantly as a result of the Merger, due to additional debt and higher interest rates. Increases in interest expense were partially offset by the capitalized interest associated with satellite construction and related launch vehicles.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, interest expense was $144,833 and $70,328, respectively, which represents an increase of 106%, or $74,505. Interest expense increased significantly as a result of the Merger, due to additional debt and higher interest rates. Increases in interest expense were partially offset by the capitalized interest associated with satellite construction and related launch vehicle.

We expect interest expense to increase as a result of changes in the GAAP recognition and reporting requirements for share lending arrangements which were adopted as of January 1, 2010. EITF No. 09-1, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance*, (EITF No. 09-1), will require us to recognize an aggregate increase of $378,000 in deferred financing costs associated with XM s 7% Exchangeable Senior Subordinated Notes due 2014, which will be amortized to interest expense over the six year life of the notes under the effective interest method.

Loss on Extinguishment of Debt and Credit Facilities, net. Loss on extinguishment of debt and credit facilities, net, includes losses incurred as a result of the conversion and retirement of certain debt instruments.

2009 vs. 2008: For the years ended December 31, 2009 and 2008, loss on extinguishment of debt and credit facilities, net, was $267,646 and $98,203, respectively. During 2009, the loss was incurred on the retirement of the SIRIUS Term Loan and Purchase Money Loan borrowings from Liberty Media, the repurchase of a portion of XM Holdings 10% Convertible Senior Notes due 2009, and the retirement of XM s Amended and Restated Credit Agreement and XM s Second-Lien Credit Agreement.

2008 vs. 2007: For the year ended December 31, 2008 and 2007, loss from redemption of debt was $98,203 and $0, respectively.

Gain (loss) on investments. Gain (loss) on investments includes our share of SIRIUS Canada s and XM Canada s net losses, and losses recorded from our investment in XM Canada when the fair value was determined to be other than temporary.

2009 vs. 2008: For the years ended December 31, 2009 and 2008, gain (loss) on investment was $1,931 and ($30,507), respectively. The decrease in the loss was attributable to payments received from SIRIUS Canada in excess of our carrying value of our investments, decreases in our share of SIRIUS Canada s and XM Canada s net losses and decreases in impairment charges related to our investment in XM Canada for the year ended December 31, 2009 compared to 2008.

2008 vs. 2007: For the years ended December 31, 2008 and 2007, loss on investment was $30,507 and $0, respectively.

Income Taxes

Income Tax Expense. Income tax expense represents the recognition of a 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.

2009 vs. 2008: We recorded income tax expense of $5,981 and $2,476 for the years ended December 31, 2009 and 2008, respectively. The increase was attributed to the inclusion of XM.

2008 vs. 2007: We recorded income tax expense of $2,476 and $2,435 for the years ended December 31, 2008 and 2007, respectively.

Liquidity and Capital Resources

Cash Flows for the Year Ended December 31, 2009 Compared with Year Ended December 31, 2008 and Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

As of December 31, 2009 and 2008, we had $383,489 and $380,446, respectively, in cash and cash equivalents. The following table presents a summary of our cash flow activity for the periods set forth below (in thousands):

	For the Years Ended December 31, 2009	2008	2007	2009 vs. 2008	2008 vs. 2007
Net cash provided by (used in) operating activities	$ 433,830	$ (152,797)	$ (148,766)	$ 586,627	$ (4,031)
Net cash (used in) provided by investing activities	(248,511)	728,425	(54,186)	(976,936)	782,611
Net cash (used in) provided by financing activities	(182,276)	(634,002)	248,351	451,726	(882,353)
Net increase (decrease) in cash and cash equivalents	3,043	(58,374)	45,399	61,417	(103,773)

Cash and cash equivalents at beginning of period	380,446	438,820	393,421	(58,374)	45,399
Cash and cash equivalents at end of period	$ 383,489	$ 380,446	$ 438,820	$ 3,043	$ (58,374)

Cash Flows Provided by (Used in) Operating Activities

2009 vs. 2008: Net cash provided by operating activities increased $586,627 to $433,830 for the year ended December 31, 2009 from net cash used in operating activities of $152,797 for the year ended December 31, 2008. The increase was primarily the result of a decreased net loss, net of non-cash operating activities of $388,435, and an increase in cash provided by working capital of $198,192.

2008 vs. 2007: Net cash used in operating activities increased $4,031 to $152,797 for the year ended December 31, 2008 from $148,766 for the year ended December 31, 2007. The increase was primarily the result of a decrease in cash provided by working capital of $194,376, offset partially by a decrease in net loss, net of non-cash operating activities of $190,345. The decrease in working capital was primarily due to decreases in cash provided by deferred revenue and accounts payable and accrued expenses.

Cash Flows (Used in) Provided by Investing Activities

2009 vs. 2008: Net cash used in investing activities increased $976,936 to $248,511 for the year ended December 31, 2009 from net cash provided by investing activities of $728,425 for the year ended December 31, 2008. The increase was primarily the result of a decrease of $819,521 in net cash acquired from XM in the Merger, a decrease of $65,869 from the sale of restricted and other investments and an increase in capital expenditures of $117,960 associated with our satellite construction and launch vehicle, partially offset by a decrease of $23,519 in Merger-related costs.

2008 vs. 2007: Net cash provided by investing activities was $728,425 for the year ended December 31, 2008 compared with net cash used in investing activities of $54,186 for the year ended December 31, 2007. The $782,611 increase was primarily due to the inclusion of $819,521 in net cash acquired from XM in the Merger offset partially by increased capital expenditures of $65,287 associated with our satellite construction and launch vehicle.

We will incur significant capital expenditures to construct and launch our new satellites and improve our terrestrial repeater network and broadcast and administrative infrastructure. These capital expenditures will support our growth and the resiliency of our operations, and will also support the delivery of future new revenue streams.

Cash Flows (Used in) Provided by Financing Activities

2009 vs. 2008: Net cash used in financing activities decreased $451,726 to $182,276 for the year ended December 31, 2009 from $634,002 for the year ended December 31, 2008. The decrease in cash used in financing activities was primarily due to an increase of $413,462 in net proceeds from our agreement with Liberty Media and issuance of XM s 11.25% Senior Secured Notes due 2013 and SIRIUS 9.75% Senior Secured Notes due 2015 during the year ended December 31, 2009 compared to proceeds from XM s 7% Exchangeable Senior Subordinated Notes due 2014 during the year ended December 31, 2008 and a decrease of $61,880 in payments to a noncontrolling interest; partially offset by a decrease in debt payment of $21,051, principally to holders of SIRIUS 2½% Convertible Notes due 2009, XM s Amended and Restated Credit Agreement due 2011 and SIRIUS Term Loan and Purchase Money Loan borrowings from Liberty Media during the year ended December 31, 2009 compared to debt payments to holders of XM s 9.75% Senior Notes due 2014, XM s Senior Floating Rate Notes due 2013 and XM s Debt of Consolidated Variable Interest Entity during the year ended December 31, 2008.

2008 vs. 2007: Net cash used in financing activities increased $882,353 to $634,002 for the year ended December 31, 2008 from net cash provided by financing activities of $248,351 for the year ended December 31, 2007. Significant financing activities for the year ended December 31, 2008 included $550,000 in cash proceeds from the issuance of XM s 7% Exchangeable Senior Subordinated Notes due 2014; $613,400 in cash used to extinguish 99% of the principal and accrued interest on XM s 9.75% Senior Notes due 2014; $203,500 in cash used to extinguish 100% of the principal, accrued interest and prepayment premiums on XM s Senior Floating Rate Notes due 2013; and $309,400 for transponder repurchase obligation, from both debt and equity holders of a consolidated variable interest entity, including a prepayment premium and interest accrued through the date of extinguishment.

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 beneficially owns at least half of its initial equity investment, we need the consent of Liberty 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 a stated threshold.

Future Liquidity and Capital Resource Requirements

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

We are the sole stockholder of XM Holdings and its business is operated as an unrestricted subsidiary under the agreements governing our existing indebtedness. Under certain circumstances, SIRIUS may be unwilling or unable to contribute or loan XM capital. Similarly, under certain circumstances, XM may be unwilling or unable to contribute or loan SIRIUS capital. To the extent XM s funds are insufficient to support its business, XM may be required to seek additional financing, which may not be available on favorable terms, or at all. If XM is unable to secure additional financing, its business and results of operations may be adversely affected.

We regularly evaluate our plans and strategy. These evaluations often result in changes to our plans and strategy, some of which may be material and significantly change our cash requirements. These changes in our 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 will also be affected by the FCC order approving the Merger which imposed certain conditions upon, among other things, our program offerings and our ability to increase prices.

Off-Balance Sheet Arrangements

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 December 31, 2009 and 2008, $3,400 and $141,250, respectively, was classified as restricted investments as a result of obligations under these letters of credit and escrow deposits. In February 2009, we released to programming providers an aggregate of $138,000 held in escrow in satisfaction of future obligations under our agreements with them.

We do not have any significant off-balance sheet arrangements other than those disclosed in Note 15 to our consolidated financial statements in Item 8 of this Form 10-K that are reasonably likely to have a material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

2009 Long-Term Stock Incentive Plan

In May 2009, our stockholders approved the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan (the 2009 Plan). Employees, consultants and members of our board of directors are eligible to receive awards under the 2009 Plan, which provides for the grant of stock options, restricted stock, restricted stock units and other stock-based awards that the compensation committee of our board of directors may deem appropriate. Vesting and other terms of stock-based awards are set forth in the agreements with the individuals receiving the awards. Stock-based awards granted under the 2009 Plan are generally subject to a vesting requirement. Stock-based awards generally expire ten years from the date of grant. Each restricted stock unit entitles the holder to receive one share of common stock upon vesting. As of December 31, 2009, approximately 274,425,000 shares of common stock were available for future grant under the 2009 Plan.

Other Plans

SIRIUS and XM Holdings maintain four other share-based benefit plans the XM Holdings 2007 Stock Incentive Plan, the Amended and Restated Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan, the XM Holdings 1998 Shares Award Plan and the XM Holdings Talent Option Plan. These plans generally provide for the grant of stock options, restricted stock, restricted stock units and other stock based awards. No further awards may be made under these plans. Outstanding awards under these plans will be continued.

Contractual Cash Commitments

For a discussion of our Contractual Cash Commitments refer to Note 15 to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Related Party Transactions

For a discussion of Related Party Transactions refer to Note 9 to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods. Accounting estimates require the use of significant management assumptions and judgments as to future events, and the effect of those events cannot be predicted with certainty. The accounting estimates will change as new events occur, more experience is acquired and more information is obtained. We evaluate and update our assumptions and estimates on an ongoing basis and use outside experts to assist in that evaluation when we deem necessary. We have disclosed all significant accounting policies in Note 3 to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K. We have identified the following policies, which were discussed with the audit committee of our board of directors, as critical to our business and understanding our results of operations.

Fair Value of XM Assets Acquired and Liabilities Assumed. On July 28, 2008, our wholly owned subsidiary Vernon Merger Corporation merged with and into XM Satellite Radio Holdings Inc., with XM Holdings becoming our wholly-owned subsidiary. The application of purchase accounting resulted in the transaction being valued at $5,836,363 and our recording of goodwill acquired totaling $6,601,046.

Long-Lived Assets. We carry our long-lived assets at cost less accumulated 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 value of a long-lived asset is identified, the impairment is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. To determine fair value, we employ an expected present value technique, which utilizes multiple cash flow scenarios that reflect the range of possible outcomes and an appropriate discount rate.

We evaluate our indefinite life intangible assets for impairment on an annual basis. During the year ended December 31, 2008, we recorded $4,766,190 of goodwill impairment. At December 31, 2009, our intangible assets with indefinite lives totaled $2,333,654, and the remaining unamortized total basis of our intangible assets with definite lives was $361,461.

Useful Life of Broadcast/Transmission System. Our satellite system includes the costs of our satellite construction, launch vehicles, launch insurance, capitalized interest, spare satellite, terrestrial repeater network and satellite uplink facility. We monitor our satellites for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset is not recoverable. The expected useful lives of our four in-orbit SIRIUS satellites were originally 15 years from the date they were placed into orbit. In June 2006, we adjusted the useful lives of two of our in-orbit SIRIUS satellites to 13 years to reflect the unanticipated loss of power from the solar array and the way we operate the constellation. We currently expect our first three in-orbit SIRIUS satellites to operate effectively through 2015 and are evaluating the impact of current satellite operational data on the expected useful lives. XM Holdings operates four in-orbit satellites, two of which function as in-orbit spares. The two in-orbit spare satellites were launched in 2001 while the other two satellites were launched in 2005 and 2006. We estimate that the XM-3 and XM-4 satellites will meet their 15 year predicted useful lives, and that XM-1 and XM-2 satellite s useful lives will end in 2011. XM Holdings is constructing an additional XM satellite which is in storage awaiting its launch.

Certain of our in-orbit satellites have experienced circuit failures on their solar arrays. We continue to monitor the operating condition of our in-orbit satellites. If events or circumstances indicate that the useful lives of our in-orbit satellites have changed, we will modify the depreciable life accordingly. If we were to revise our estimates, our depreciation expense would change, for example, a 10% decrease in the expected useful lives of satellites and spacecraft control facilities during 2009 would have resulted in approximately $19,432 of additional depreciation expense.

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

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

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

Activation fees are recognized ratably over the estimated term of a subscriber relationship, estimated to be approximately 3.5 years during 2009. The estimated term of a subscriber relationship is based on historical experience. If we were to revise our estimate our recognition of activation fees would change, for example, a 10%

decrease to the estimated term of a subscriber relationship during 2009 would have resulted in approximately $7,585 of additional activation fees.

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

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

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

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

Share-based Payment. We recognize all share-based compensation payments in the financial statements based on fair value using the Black-Scholes-Merton option-pricing model to value stock option awards and we treat awards with graded vesting as a single award. Forfeitures are estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from initial estimates.

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

Equity instruments granted to non-employees are recognized in earnings at the estimated fair value, which is remeasured during the performance commitment period. The final measurement date for the fair value of equity instruments 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.

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Footnotes to Results of Operations

(1) Average self-pay monthly churn represents the monthly average of self-pay deactivations by the quarter divided by the average self-pay subscriber balance for the quarter.

(2) We measure the percentage of vehicle owners and lessees that receive our service and convert to self-paying after the initial promotion period. We refer to this as the conversion rate. At the time of sale, vehicle owners and lessees generally receive between three and twelve month trial subscriptions. 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. Based on our experience it may take up to 90 days after the trial service ends for vehicle owners and lessees to respond to our marketing communications and become self-paying subscribers.

(3) ARPU is derived from total earned subscriber revenue and net advertising revenue, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. ARPU is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited Pro Forma For the Three Months Ended December 31,		
	2009	**2008**	**2007**
Subscriber revenue	$ 593,841	$ 588,622	$ 501,595
Net advertising revenue	14,467	15,776	20,571
Total subscriber and net advertising revenue	$ 608,308	$ 604,398	$ 522,166
Daily weighted average number of subscribers	18,576,151	18,910,689	16,629,079
ARPU	$ 10.92	$ 10.65	$ 10.47

(4) SAC, as adjusted, 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, divided by the number of gross subscriber additions for the period. SAC, as adjusted, per gross subscriber addition is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited Pro Forma For the Three Months Ended December 31,		
	2009	**2008**	**2007**
Subscriber acquisition cost	$ 127,588	$ 132,731	$ 190,090
Less: share-based payment expense granted to third parties and employees			(9,323)
(Less) Add: margin from direct sales of radios and accessories	(6,808)	(12,628)	12,201
SAC, as adjusted	$ 120,780	$ 120,103	$ 192,968
Gross subscriber additions	1,882,950	1,713,210	2,336,640
SAC, as adjusted, per gross subscriber addition	$ 64	$ 70	$ 83

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(5) Customer service and billing expenses, as adjusted, per average subscriber is derived from total customer service and billing expenses, excluding share-based payment expense, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. Customer service and billing expenses, as adjusted, per average subscriber is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited Pro Forma For the Three Months Ended December 31,		
	2009	2008	2007
Customer service and billing expenses	$ 58,981	$ 67,906	$ 65,991
Less: share-based payment expense	(94)	(870)	(985)
Customer service and billing expenses, as adjusted	$ 58,887	$ 67,036	$ 65,006

Daily weighted average number of subscribers	18,576,151	18,910,689	16,629,079
Customer service and billing expenses, as adjusted, per average subscriber	$ 1.06	$ 1.18	$ 1.30

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

	Unaudited Pro Forma For the Three Months Ended December 31,		
	2009	**2008**	**2007**
Net cash provided by operating activities	$ 180,723	$ 64,195	$ 30,957
Additions to property and equipment	(31,176)	(27,846)	(18,954)
Merger related costs		(10,472)	(6,680)
Restricted and other investment activity			82
Free cash flow	$ 149,547	$ 25,877	$ 5,405

(7) Average self-pay monthly churn; conversion rate; ARPU; SAC, as adjusted, per gross subscriber addition; customer service and billing expenses, as adjusted, per average subscriber; and free cash flow are not measures of financial performance under U.S. GAAP. We believe these non-GAAP financial measures provide meaningful supplemental information regarding our operating performance and are used by us for budgetary and

planning purposes; when publicly providing our business outlook; as a means to evaluate period-to-period comparisons; and to compare our performance to that of our competitors. We believe that investors also use our current and projected metrics to monitor the performance of our business and to make investment decisions.

We believe the exclusion of share-based payment expense in our calculations of SAC, as adjusted, per gross subscriber addition and customer service and billing expenses, as adjusted, 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 subscriber acquisition costs and customer service and billing expenses. Specifically, the exclusion of share-based payment expense in our calculation of SAC, as adjusted, per gross subscriber addition is critical in being able to understand the economic impact of the direct costs incurred to acquire a subscriber and the effect over time as economies of scale are reached.

These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with GAAP. These non-GAAP financial measures 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.

(8) We refer to net income (loss) before interest and investment income; interest expense, net of amounts capitalized; income tax expense; loss on extinguishment of debt and credit facilities, net; (gain) loss on investments; other expense (income); restructuring, impairments and related costs; depreciation and amortization; and share-based payment expense as adjusted income (loss) from operations. Adjusted income (loss) from operations is not a measure of financial performance under U.S. GAAP. We believe adjusted

income (loss) from operations is a useful measure of our operating performance. We use adjusted income (loss) from operations for budgetary and planning purposes; to assess the relative profitability and on-going performance of our consolidated operations; to compare our performance from period-to-period; and to compare our performance to that of our competitors. We also believe adjusted income (loss) from operations is useful to investors to compare our operating performance to the performance of other communications, entertainment and media companies. We believe that investors use current and projected adjusted income (loss) from operations to estimate our current or prospective enterprise value and to make investment decisions.

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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 interest and depreciation expense. We believe adjusted income (loss) from operations provides useful information about the operating performance of our business apart from the costs associated with our capital structure and physical plant. The exclusion of interest and depreciation and amortization expense is useful given fluctuations in interest rates and significant variation in depreciation and amortization expense that can result from the amount and timing of capital expenditures and 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 taxes is appropriate for comparability purposes as the tax positions of companies can vary because of their differing abilities to take advantage of tax benefits and because of the tax policies of the various jurisdictions in which they operate. We believe the exclusion of restructuring, impairments and related costs is useful given the non-recurring nature of these expenses. We also believe the exclusion of share-based payment expense is useful given the significant variation in expense that can result from changes in the fair market value of our common stock. To compensate for the exclusion of taxes, other expense (income), depreciation and amortization and share-based payment expense, we separately measure and budget for these items.

There are material limitations associated with the use of adjusted income (loss) from operations in evaluating our company compared with net loss, which reflects overall financial performance, including the effects of taxes, other (income) expense, depreciation and amortization, restructuring, impairments and related costs and share-based payment expense. We use adjusted income (loss) from operations to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Investors that wish to compare and evaluate our operating results after giving effect for these costs, should refer to net loss as disclosed in our consolidated statements of operations. Since adjusted income (loss) from operations is a non-GAAP financial measure, our calculation of adjusted income (loss) from operations 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 the pro forma unadjusted net income (loss) to the pro forma adjusted income (loss) from operations is calculated as follows (see footnotes for reconciliation of the pro forma amounts to their respective GAAP amounts) (in thousands):

	Unaudited Pro Forma For the Three Months Ended December 31,		
	2009	**2008**	**2007**

Reconciliation of Net loss to Adjusted income (loss) from operations:			
Net loss	$ (25,243)	$ (248,468)	$ (405,041)
Add back Net loss items excluded from Adjusted income (loss) from operations:			
Interest and investment income	(1,043)	90	(6,978)
Interest expense, net of amounts capitalized	69,765	71,274	48,703
Income tax expense	2,637	175	901
Loss on extinguishment of debt and credit facilities, net	3,879	98,203	728
(Gain) loss on investments	(1,474)	27,418	3,768
Other (income) expense	(851)	5,664	5,834
Income (loss) from operations	47,670	(45,644)	(352,085)
Restructuring, impairments and related costs	2,640	2,977	
Depreciation and amortization	57,549	49,519	75,045
Share-based payment expense	7,480	24,945	52,897
Adjusted income (loss) from operations	$ 115,339	$ 31,797	$ (224,143)

There are material limitations associated with the use of a pro forma unadjusted results of operations in evaluating our company compared with our GAAP results of operations, which reflects overall financial performance. We use pro forma unadjusted results of operations to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Investors that wish to compare and evaluate our operating results after giving effect for these costs, should refer to results of operations as disclosed in our consolidated statements of operations. Since pro forma unadjusted results of operations is a non-GAAP financial measure, our 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.

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(9) The following tables reconcile our GAAP results of operations to our non-GAAP pro forma unadjusted results of operations:

	Unaudited For the Three Months Ended December 31, 2009			
(in thousands)	As Reported	Purchase Price Accounting Adjustments	Allocation of Share-based Payment Expense	Pro Forma
Revenue:				
Subscriber revenue, including effects of rebates	$ 588,048	$ 5,793	$	$ 593,841
Advertising revenue, net of agency fees	14,467			14,467
Equipment revenue	19,008			19,008
Other revenue	54,650	1,813		56,463
Total revenue	676,173	7,606		683,779
Operating expenses (depreciation and amortization shown separately below) (1)				
Cost of services:				
Satellite and transmission	24,597	327	170	25,094
Programming and content	77,297	17,361	(1,801)	92,857
Revenue share and royalties	100,355	24,172		124,527
Customer service and billing	58,887	94	(94)	58,887
Cost of equipment	12,200			12,200
Sales and marketing	76,308	3,522	331	80,161
Subscriber acquisition costs	109,733	17,855		127,588
General and administrative	44,601	350	(5,843)	39,108
Engineering, design and development	8,056	205	(243)	8,018
Depreciation and amortization	77,826	(20,277)		57,549
Restructuring, impairments and related costs	2,640			2,640
Share-based payment expense			7,480	7,480
Total operating expenses	592,500	43,609		636,109
Income (loss) from operations	83,673	(36,003)		47,670
Other income (expense)				
Interest and investment income	1,043			1,043

Interest expense, net of amounts capitalized	(66,358)	(3,407)		(69,765)
Loss on extinguishment of debt and credit facilities, net	(3,879)			(3,879)
Gain on investments	1,474			1,474
Other income	851			851
Total other expense	(66,869)	(3,407)		(70,276)
Income (loss) before income taxes	16,804	(39,410)		(22,606)
Income tax expense	(2,637)			(2,637)
Net income (loss)	$ 14,167	$ (39,410)	$	$ (25,243)

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

Satellite and transmission	$ (276)	$ 106	$	$ (170)
Programming and content	1,646	155		1,801
Customer service and billing		94		94
Sales and marketing	(474)	143		(331)
Subscriber acquisition costs				
General and administrative	5,493	350		5,843
Engineering, design and development	38	205		243
Total share-based payment expense	$ 6,427	$ 1,053	$	$ 7,480

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(in thousands)	Unaudited For the Three Months Ended December 31, 2008 As Reported	Purchase Price Accounting Adjustments (a)	Allocation of Share-based Payment Expense	Pro Forma
Revenue:				
Subscriber revenue, including effects of rebates	$ 568,523	$ 20,099	$	$ 588,622
Advertising revenue, net of agency fees	15,776			15,776
Equipment revenue	30,712			30,712
Other revenue	7,172	1,826		8,998
Total revenue	622,183	21,925		644,108
Operating expenses (depreciation and amortization shown separately below) (1)				
Cost of services:				
Satellite and transmission	24,481	(214)	(1,416)	22,851
Programming and content	89,214	20,755	(4,754)	105,215
Revenue share and royalties	103,217	19,494		122,711
Customer service and billing	67,818	88	(870)	67,036
Cost of equipment	18,084			18,084
Sales and marketing	80,699	3,312	(2,299)	81,712
Subscriber acquisition costs	113,512	19,219		132,731
General and administrative	64,586	306	(13,301)	51,591
Engineering, design and development	12,404	281	(2,305)	10,380
Impairment of goodwill	15,331	(15,331)		
Depreciation and amortization	82,958	(33,439)		49,519
Restructuring, impairments and related costs	2,977			2,977
Share-based payment expense			24,945	24,945
Total operating expenses	675,281	14,471		689,752
(Loss) income from operations	(53,098)	7,454		(45,644)
Other income (expense)				
Interest and investment income	(90)			(90)
Interest expense, net of amounts capitalized	(61,196)	(10,078)		(71,274)
Loss on extinguishment of debt and credit facilities, net	(98,203)			(98,203)
Loss on investments	(27,418)			(27,418)
Other expense	(5,664)			(5,664)
Total other expense	(192,571)	(10,078)		(202,649)
Loss before income taxes	(245,669)	(2,624)		(248,293)

Income tax expense		(175)						(175)
Net loss	$	(245,844)	$	(2,624)	$		$	(248,468)

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

Satellite and transmission	$	1,349	$	67	$		$	1,416
Programming and content		4,672		82				4,754
Customer service and billing		783		87				870
Sales and marketing		2,165		134				2,299
General and administrative		12,995		306				13,301
Engineering, design and development		2,023		282				2,305
Total share-based payment expense	$	23,987	$	958	$		$	24,945

(a) Includes impairment of goodwill.

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(in thousands)	Unaudited For the Three Months Ended December 31, 2007 As Reported	Predecessor Financial Information	Allocation of Share-based Payment Expense	Pro Forma
Revenue:				
Subscriber revenue, including effects of rebates	$ 227,658	$ 273,937	$	$ 501,595
Advertising revenue, net of agency fees	9,770	10,801		20,571
Equipment revenue	12,065	13,068		25,133
Other revenue	323	9,893		10,216
Total revenue	249,816	307,699		557,515
Operating expenses (depreciation and amortization shown separately below) (1)				
Cost of services:				
Satellite and transmission	5,175	20,304	(1,782)	23,697
Programming and content	62,735	51,297	(4,956)	109,076
Revenue share and royalties	56,762	106,779		163,541
Customer service and billing	29,288	36,703	(985)	65,006
Cost of equipment	15,886	21,448		37,334
Sales and marketing	56,866	83,693	(16,848)	123,711
Subscriber acquisition costs	100,062	90,028	(9,323)	180,767
General and administrative	37,212	43,106	(16,095)	64,223
Engineering, design and development	7,946	9,265	(2,908)	14,303
Depreciation and amortization	27,638	47,407		75,045
Share-based payment expense			52,897	52,897
Total operating expenses	399,570	510,030		909,600
Loss from operations	(149,754)	(202,331)		(352,085)
Other income (expense)				
Interest and investment income	4,171	2,807		6,978
Interest expense, net of amounts capitalized	(19,887)	(28,816)		(48,703)
Loss on extinguishment of debt and credit facilities, net		(728)		(728)
Loss on investments		(3,768)		(3,768)
Other income (expense)	17	(5,851)		(5,834)
Total other expense	(15,699)	(36,356)		(52,055)
Loss before income taxes	(165,453)	(238,687)		(404,140)
Income tax expense	(770)	(131)		(901)
Net loss	$ (166,223)	$ (238,818)	$	$ (405,041)

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

Satellite and transmission	$	364	$	1,418	$		$	1,782
Programming and content		2,786		2,170				4,956
Customer service and billing		165		820				985
Sales and marketing		539		16,309				16,848
Subscriber acquisition costs		156		9,167				9,323
General and administrative		10,261		5,834				16,095
Engineering, design and development		625		2,283				2,908
Total share-based payment expense	$	14,896	$	38,001	$		$	52,897

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(10) ARPU is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited Pro Forma For the Years Ended December 31,		
	2009	2008	2007
Subscriber revenue	$ 2,334,317	$ 2,258,322	$ 1,888,709
Net advertising revenue	51,754	69,933	73,340
Total subscriber and net advertising revenue	$ 2,386,071	$ 2,328,255	$ 1,962,049
Daily weighted average number of subscribers	18,529,696	18,373,274	15,342,041
ARPU	$ 10.73	$ 10.56	$ 10.66

(11) SAC, as adjusted, per gross subscriber addition is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited Pro Forma For the Years Ended December 31,		
	2009	2008	2007
Subscriber acquisition cost	$ 401,670	$ 577,140	$ 666,785
Less: share-based payment expense granted to third parties and employees		(14)	(12,010)
(Less) Add: margin from direct sales of radios and accessories	(10,164)	(3,294)	40,206
SAC, as adjusted	$ 391,506	$ 573,832	$ 694,981
Gross subscriber additions	6,208,482	7,710,306	8,077,674
SAC, as adjusted, per gross subscriber addition	$ 63	$ 74	$ 86

(12) Customer service and billing

expenses, as adjusted, per average subscriber is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited Pro Forma For the Years Ended December 31,		
	2009	2008	2007
Customer service and billing expenses	$ 234,909	$ 248,176	$ 220,593
Less: share-based payment expense	(2,504)	(3,981)	(3,191)
Customer service and billing expenses, as adjusted	$ 232,405	$ 244,195	$ 217,402
Daily weighted average number of subscribers	18,529,696	18,373,274	15,342,041
Customer service and billing expenses, as adjusted, per average subscriber	$ 1.05	$ 1.11	$ 1.18

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

	Unaudited Pro Forma For the Years Ended December 31,		
	2009	2008	2007
Net cash provided by (used in) operating activities	$ 433,830	$ (403,883)	$ (303,496)
Additions to property and equipment	(248,511)	(161,394)	(198,602)
Merger related costs		(23,519)	(29,444)
Restricted and other investment activity		37,025	26,673
Free cash flow	$ 185,319	$ (551,771)	$ (504,869)

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(14) Adjusted income (loss) from operations is calculated as follows (in thousands):

	Unaudited Pro Forma For the Years Ended December 31, 2009	2008	2007
Reconciliation of Net loss to Adjusted income (loss) from operations:			
Net loss	$ (441,333)	$ (902,335)	$ (1,247,633)
Add back Net loss items excluded from Adjusted income (loss) from operations:			
Interest and investment income	(3,645)	(12,092)	(34,654)
Interest expense, net of amounts capitalized	324,442	235,655	186,933
Income tax expense	5,981	3,988	1,496
Loss on extinguishment of debt and credit facilities, net	267,646	98,203	3,693
(Gain) loss on investments	(1,931)	43,517	56,156
Other (income) expense	(3,355)	16,142	9,482
Income (loss) from operations	147,805	(516,922)	(1,024,527)
Restructuring, impairments and related costs	32,807	10,434	
Depreciation and amortization	203,145	245,571	293,976
Share-based payment expense	78,782	124,619	165,099
Adjusted income (loss) from operations	$ 462,539	$ (136,298)	$ (565,452)

(15) The following tables reconcile our GAAP results of operations to our non-GAAP pro forma unadjusted results of operations:

	Unaudited For the Year Ended December 31, 2009			
(in thousands)	**As Reported**	**Purchase Price Accounting Adjustments**	**Allocation of Share-based Payment Expense**	**Pro Forma**
Revenue:				
Subscriber revenue, including effects of rebates	$ 2,287,503	$ 46,814	$	$ 2,334,317
Advertising revenue, net of agency fees	51,754			51,754
Equipment revenue	50,352			50,352
Other revenue	83,029	7,251		90,280
Total revenue	2,472,638	54,065		2,526,703
Operating expenses (depreciation and amortization shown separately below) (1)				
Cost of services:				
Satellite and transmission	84,033	1,339	(3,202)	82,170
Programming and content	308,121	72,069	(9,720)	370,470
Revenue share and royalties	397,210	89,780		486,990
Customer service and billing	234,456	453	(2,504)	232,405
Cost of equipment	40,188			40,188
Sales and marketing	228,956	13,507	(10,264)	232,199
Subscriber acquisition costs	340,506	61,164		401,670
General and administrative	227,554	1,602	(47,236)	181,920
Engineering, design and development	41,031	977	(5,856)	36,152
Depreciation and amortization	309,450	(106,305)		203,145
Restructuring, impairments and related costs	32,807			32,807
Share-based payment expense			78,782	78,782
Total operating expenses	2,244,312	134,586		2,378,898
Income (loss) from operations	228,326	(80,521)		147,805
Other income (expense)				
Interest and investment income	3,645			3,645
Interest expense, net of amounts capitalized	(306,420)	(18,022)		(324,442)

Loss on extinguishment of debt and credit facilities, net		(267,646)						(267,646)
Gain on investments		1,931						1,931
Other income		3,355						3,355
Total other expense		(565,135)		(18,022)				(583,157)
Loss before income taxes		(336,809)		(98,543)				(435,352)
Income tax expense		(5,981)						(5,981)
Net loss	$	(342,790)	$	(98,543)	$		$	(441,333)

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

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

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	Unaudited For the Year Ended December 31, 2008				
(in thousands)	As Reported	Predecessor Financial Information	Purchase Price Accounting Adjustments (a)	Allocation of Share-based Payment Expense	Pro Forma
Revenue:					
Subscriber revenue, including effects of rebates	$ 1,548,919	$ 670,870	$ 38,533	$	$ 2,258,322
Advertising revenue, net of agency fees	47,190	22,743			69,933
Equipment revenue	56,001	13,397			69,398
Other revenue	11,882	24,184	3,021		39,087
Total revenue	1,663,992	731,194	41,554		2,436,740
Operating expenses (depreciation and amortization shown separately below) (1)					
Cost of services:					
Satellite and transmission	59,279	46,566	424	(7,084)	99,185
Programming and content	312,189	117,156	34,667	(17,374)	446,638
Revenue share and royalties	280,852	166,606	30,504		477,962
Customer service and billing	165,036	82,947	193	(3,981)	244,195
Cost of equipment	46,091	20,013			66,104
Sales and marketing	231,937	126,054	5,393	(21,088)	342,296
Subscriber acquisition costs	371,343	174,083	31,714	(14)	577,126
General and administrative	213,142	116,444	1,083	(63,637)	267,032
Engineering, design and development	40,496	23,045	400	(11,441)	52,500
Impairment of goodwill	4,766,190		(4,766,190)		
Depreciation and amortization	203,752	88,749	(46,930)		245,571
Restructuring, impairments and related costs	10,434				10,434
Share-based payment expense				124,619	124,619
Total operating expenses	6,700,741	961,663	(4,708,742)		2,953,662
(Loss) income from operations	(5,036,749)	(230,469)	4,750,296		(516,922)
Other income (expense)					
Interest and investment income	9,079	3,013			12,092
Interest expense, net of amounts capitalized	(144,833)	(73,937)	(16,885)		(235,655)
	(98,203)				(98,203)

Loss on extinguishment of debt and credit facilities, net					
Loss on investments	(30,507)	(13,010)			(43,517)
Other expense	(9,599)	(6,543)			(16,142)
Total other expense	(274,063)	(90,477)	(16,885)		(381,425)
(Loss) income before income taxes	(5,310,812)	(320,946)	4,733,411		(898,347)
Income tax expense	(2,476)	(1,512)			(3,988)
Net (loss) income	$ (5,313,288)	$ (322,458)	$ 4,733,411	$	$ (902,335)

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

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

(a) Includes impairment of goodwill.

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	Unaudited For the Year Ended December 31, 2007			
(in thousands)	**As Reported**	**Predecessor Financial Information**	**Allocation of Share-based Payment Expense**	**Pro Forma**
Revenue:				
Subscriber revenue, including effects of rebates	$ 854,933	$ 1,033,776	$	$ 1,888,709
Advertising revenue, net of agency fees	34,192	39,148		73,340
Equipment revenue	29,281	28,333		57,614
Other revenue	3,660	35,285		38,945
Total revenue	922,066	1,136,542		2,058,608