SIRIUS XM RADIO INC.
Form 10-K
February 06, 2013

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 THE FISCAL YEAR ENDED DECEMBER 31, 2012
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 (State or other jurisdiction of incorporation or organization)	52-1700207 (I.R.S. Employer Identification Number)

1221 Avenue of the Americas, 36th Floor New York, New York (Address of principal executive offices)	10020 (Zip Code)

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

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	The 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 þ 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. o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 30, 2012 was $6,943,176,756. 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 1, 2013 was 6,558,986,663.

DOCUMENTS INCORPORATED BY REFERENCE

Information included in our definitive proxy statement for our 2013 annual meeting of stockholders scheduled to be held on Tuesday, May 21 2013 is incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this report.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
2012 FORM 10-K ANNUAL REPORT
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PART I

ITEM 1. BUSINESS

We broadcast our music, sports, entertainment, comedy, talk, news, traffic and weather channels, as well as infotainment services, in the United States on a subscription fee basis through our two proprietary satellite radio systems. Subscribers can also receive music and other channels, plus new features such as SiriusXM On Demand, over the Internet, including through applications for mobile devices.

As of December 31, 2012, we had 23,900,336 subscribers. Our subscribers include:

- subscribers under our regular and discounted pricing plans;
- subscribers that have prepaid, including payments made or due from automakers for subscriptions included in the sale or lease price of a vehicle;
- certain radios activated for daily rental fleet programs;
- subscribers to our Internet services who do not also have satellite radio subscriptions; and
- certain subscribers to our weather, traffic, data and Backseat TV services.

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

Our satellite radios are primarily distributed through automakers; retail locations nationwide; and through our website. We have agreements with every major automaker to offer satellite radios in their vehicles. Satellite radio services are also offered to customers of certain rental car companies.

As of January 17, 2013, Liberty Media Corporation beneficially owned, directly and indirectly, over 50% of the outstanding shares of our common stock. Liberty Media owns interests in a broad range of media, communications and entertainment businesses, including its subsidiaries Atlanta National League Baseball Club, Inc. and TruePosition, Inc., its interests in Live Nation Entertainment, Barnes & Noble, and minority equity investments in Time Warner Inc. and Viacom.

Certain other important dates in our corporate history are listed below:

- Satellite CD Radio, Inc. was incorporated in the State of Delaware on May 17, 1990.
- On December 7, 1992, Satellite CD Radio, Inc. changed its name to CD Radio Inc., and Satellite CD Radio, Inc. was formed as a wholly owned subsidiary.
- On November 18, 1999, CD Radio Inc. changed its name to Sirius Satellite Radio Inc.
- In July 2008, our wholly owned subsidiary, Vernon Merger Corporation, merged (the “Merger”) with and into XM Satellite Radio Holdings Inc.
- On August 5, 2008, we changed our name from Sirius Satellite Radio Inc. to Sirius XM Radio Inc.
- In April 2010, XM Satellite Radio Holdings Inc. merged with and into XM Satellite Radio Inc.; and in January 2011, XM Satellite Radio Inc., our wholly-owned subsidiary, merged with and into Sirius XM Radio Inc.

Programming

We offer a dynamic programming lineup of commercial-free music plus sports, entertainment, talk, news, traffic and weather. The channel line-ups for our services vary in certain respects and are available at siriusxm.com.

Our subscription packages allow most listeners to enhance our standard programming lineup. Our “XM Premier” package offers subscribers the Howard Stern channels, SiriusXM NFL Radio, SiriusXM NASCAR Radio, Playboy Radio, Sex Radio and play-by-play NFL games and college sports programming. Our “Sirius Premier” package offers subscribers Oprah Radio, Opie and Anthony, SiriusXM Public Radio, MLB Network Radio, SiriusXM NHL Network Radio, SiriusXM PGA TOUR Radio, SiriusXM Fantasy Sports Radio and select play-by-play of NBA and NHL games and college sports programming. Subscribers with a la carte-capable radios may customize the programming they receive through our a la carte subscription packages. We also offer family friendly, “mostly music” and “mostly sports, news and talk” packages.

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We also offer an expanded channel lineup, including music, sports and comedy channels as well as SiriusXM Latino, a suite of Latin channels, online and over certain new radios. These channels were the first phase of SiriusXM 2.0, an upgrade and evolution of our satellite and Internet delivered service that spans hardware, software, audio, and data services.

We make changes to our programming lineup from time to time as we strive to attract new subscribers and offer content which appeals to a broad range of audiences and to our existing subscribers.

Music Programming

We offer an extensive selection of music genres, ranging from rock, pop and hip-hop to country, dance, jazz, Latin and classical. Within each genre we offer a range of formats, styles and recordings.

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

Sports Programming

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

We offer many exclusive talk channels and programs such as MLB Network Radio, SiriusXM NASCAR Radio, SiriusXM NFL Radio and Chris “Mad Dog” Russo's Mad Dog Unleashed on Mad Dog Radio, as well as two ESPN channels, ESPN Radio and ESPN Xtra. Simulcasts of select ESPN television shows, including SportsCenter, can be found on ESPN Xtra.

Talk and Entertainment Programming

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

Our talk radio offerings feature dozens of popular talk personalities, many creating radio shows that air exclusively on our services, including Howard Stern, Oprah Winfrey, Dr. Laura Schlessinger, Opie and Anthony, Bob Edwards, Senator Bill Bradley and doctors from the NYU Langone Medical Center.

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

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

News and Information Programming

We offer a wide range of national, international and financial news, including news from BBC World Service News, Bloomberg Radio, CNBC, CNN, FOX News, HLN, MSNBC, NPR and World Radio Network. We also air a range of political call-in talk shows on a variety of channels including our exclusive channel, POTUS.

We offer continuous, local traffic reports for 22 metropolitan markets throughout the United States.

Internet Radio

We stream music channels and select non-music channels over the Internet. Our Internet service also includes channels and features that are not available on our satellite service. Access to our Internet services is offered to subscribers for a fee. We have available products that provide access to our Internet services without the need for a personal computer. We also offer applications to allow consumers to access our Internet services on certain smartphones and tablet computers.

In 2012, we launched SiriusXM On Demand. SiriusXM On Demand offers our Internet subscribers listening on our online media player and on smartphones the ability to choose their favorite episodes from a catalog of more than 300 shows and over 3,000 hours of content to listen to whenever they want. SiriusXM On Demand is offered to our Internet subscribers at no extra charge and offers selections from recent shows; selections from our vault of programming; updated content on a daily basis; regularly updated feature content; and easy navigation through the content. SiriusXM On Demand gives subscribers access to shows from sports, comedy, exclusive talk and entertainment, and commercial-free music from many genres such as:

The Howard Stern Show	Bob Dylan's Theme Time Radio Hour
Tom Petty's Buried Treasure	Jimmy Buffett concerts
The Opie & Anthony Show	The Jamie Foxx Show
Coach K	Dr. Laura
The Bob Edwards Show	Mad Dog Unleashed featuring Christopher "Mad Dog" Russo
Ripken Baseball	Rotten Tomatoes Radio

Subscribers also have access to curated selections from our archives, including our exclusive Artist Confidential series and Town Hall specials with Bruce Springsteen, Roger Waters, One Direction, Quentin Tarantino, Aerosmith, Tom Petty, Taylor Swift, Usher, John Travolta & Olivia Newton-John, Ringo Starr, Coldplay, Nirvana, Cardinal Timothy Dolan, Billy Crystal and Coach K. In addition, subscribers get access to exclusive subscriber events, music specials and interviews from across our sports and talk channels.

Distribution of Radios

Automakers

Our primary means of distributing satellite radios is through the sale and lease of new vehicles. We have agreements with every major automaker to offer satellite radios in their vehicles and satellite radios are available as a factory or dealer-installed option in substantially all vehicle makes sold in the United States.

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

Previously Owned Vehicles

We acquire an increasing number of subscribers through the sale and lease of previously owned vehicles with factory-installed satellite radios. We have entered into agreements with many automakers to market subscriptions to purchasers and lessees of vehicles which include satellite radios sold through their certified pre-owned programs. In addition, we work directly with franchise and independent dealers on similar programs for non-certified vehicles.

We have developed systems and methods to identify purchasers and lessees of previously owned vehicles which include satellite radios and have established marketing plans to promote our services to these potential subscribers.

Retail

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

Our Satellite Radio Systems

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

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

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Our satellite radio systems have three principal components:
- satellites, terrestrial repeaters and other satellite facilities;
- studios; and
- radios.

Satellites, Terrestrial Repeaters and Other Satellite Facilities

Satellites. We currently own a fleet of nine orbiting satellites. We have invested in more technologically advanced satellites and satellite deployment to provide for improved coverage, increased redundancy and more efficient use of our spectrum.

Space Systems/Loral has constructed another satellite, FM-6, for use in our system. We expect to launch this satellite in mid-2013.

We use four of our orbiting satellites in the Sirius system. These satellites, FM-1, FM-2, FM-3 and FM-5, are of the Loral FS-1300 model series. Our FM-1, FM-2 and FM-3 satellites travel in a geosynchronous orbit. Our FM-5 satellite is deployed in a geostationary orbit. In 2012, we donated our FM-4, an obsolete spare ground satellite, to the Smithsonian Institution where it will be on display with the Space Shuttle.

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

Satellite Insurance. We hold in-orbit insurance for our FM-5 and XM-5 satellites which will expire in 2014 and 2015, respectively. These policies provide coverage for a total, constructive total or partial loss of the satellites that occurs during the first five in-orbit years. We also have negotiated launch and in-orbit insurance for our FM-6 satellite. This insurance provides coverage for a total, constructive total or partial loss of FM-6 that occurs from launch through the end of the first annual in-orbit period. The insurance does not cover the full cost of constructing, launching and insuring new satellites, nor will it protect us from the adverse effect on business operations due to the loss of a satellite. The policies contain standard commercial satellite insurance provisions, including coverage exclusions. We use launch and in-orbit insurance to mitigate the potential financial impact of satellite launch and in-orbit failures unless the premium costs are considered to be uneconomical relative to the risk of satellite failure.

Terrestrial Repeaters. In some areas with high concentrations of tall buildings, such as urban centers, signals from our satellites may be blocked and reception of satellite signals can be adversely affected. In many of these areas, we have deployed terrestrial repeaters to supplement satellite coverage. We operate approximately 700 terrestrial repeaters as part of our systems.

Other Satellite Facilities. We control and communicate with our satellites from facilities in North America and maintain earth stations in Panama and Ecuador to control and communicate with several of our Sirius satellites. Our satellites are monitored, tracked and controlled by a third party satellite operator.

Studios

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

Radios

We design, establish specifications for, source or specify parts and components for, and manage various aspects of the logistics and production of satellite and Internet radios. We do not manufacture radios. We have authorized manufacturers and distributors to produce and distribute radios, and have licensed our technology to various electronics manufacturers to develop, manufacture and distribute radios under certain brands. We purchase radios from independent manufacturers that are distributed through our website. To facilitate the sale of radios, we may subsidize a portion of the radio manufacturing costs to reduce the hardware price to consumers.

Radios are manufactured in four principal configurations - as in-dash radios, Dock & Play radios, home or commercial units and portable radios. We have introduced Edge, a Dock & Play radio capable of receiving our SiriusXM 2.0 expanded channel lineup, including SiriusXM Latino, and Lynx, a portable radio with SiriusXM 2.0 satellite and Internet radio capability

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and features. We have introduced an interoperable radio, MiRGE, which has a unified control interface allowing for easy switching between our two satellite radio networks. We also offer the XM SkyDock, which connects to an Apple iPhone and iPod touch and provides live XM satellite radio using the control capability of the iPhone or iPod touch.

Telematics

We have announced an agreement with Nissan North America to become the exclusive provider of a comprehensive suite of premium telematics services for Nissan branded vehicles. We are also exploring other opportunities in the telematics industry, including agreements with additional automakers to install our telematics service and the acquisition of businesses or technology that will complement or enhance our telematics service.

Our telematics service will integrate information and communications technology in vehicles and will include, among other services, 24/7 emergency support for accidents, stolen vehicle tracking and roadside assistance. We anticipate that subscribers will enjoy the simplicity of a consolidated bill for their audio entertainment and a central site to manage subscriptions.

Canada

We have an equity interest in the satellite radio services offered in Canada through Sirius XM Canada. We own approximately 38% of the equity of Sirius XM Canada.

Other Services

Commercial Accounts. Our programming is available for commercial establishments. Commercial subscription accounts are available through providers of in-store entertainment solutions and directly from us. Certain commercial subscribers are included in our subscriber count.

Satellite Television Service. Certain of our music channels are offered as part of certain programming packages on the DISH Network satellite television service. Subscribers to the DISH Network satellite television service are not included in our subscriber count.

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

Backseat TV. We offer Backseat TV, a service offering television content designed primarily for children in the backseat of vehicles.

Travel Link. We offer Travel Link, a suite of data services that includes graphical weather, fuel prices, sports schedules and scores and movie listings.

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

Real-Time Weather Services. We offer several real-time weather services designed for improving situational awareness in vehicle, marine and/or aviation use.

FCC Conditions

In order to demonstrate to the FCC that the Merger was in the public interest, we agreed to implement a number of voluntary commitments. These commitments include certain voluntary assurances regarding our programming and programming packages; the creation of public interest channels; and equipment manufacturing, all of which we have complied with.

Competition

We face significant competition for both listeners and advertisers. In addition to pre-recorded entertainment purchased or playing in cars, homes and using portable players, we compete with numerous other providers of radio or other audio services. Some of our digital competitors are making in-roads into automobiles, where we are currently the prominent alternative to traditional AM/FM radio. Our existing and emerging competition includes:

Traditional AM/FM Radio

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

Traditional AM/FM radio has a well-established demand for its services and offers free broadcasts paid for by commercial advertising rather than by a subscription fee like satellite radio. Many radio stations offer information programming of a local nature, such as local news and sports. Traditional free AM/FM radio reduces the likelihood that customers would be willing to pay for our subscription services and, by offering free broadcasts, it may 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.

HD Radio

Many radio stations broadcast digital signals, which have clarity similar to our signals. These stations do not charge a subscription fee for their digital signals but do generally carry advertising. To the extent that traditional AM/FM radio stations adopt digital transmission technology and listeners adopt digital receivers, any competitive advantage that we enjoy over traditional radio because of our clearer digital signal is lessened. Traditional AM/FM broadcasters are also complementing their HD Radio efforts by aggressively pursuing Internet radio, wireless Internet-based distribution arrangements and data services. Several automakers install or plan to install HD Radio equipment as factory standard equipment in select models, including Cadillac, Mazda, Lexus, Ford, Volkswagen, BMW, Mercedes-Benz, Scion, Kia and Hyundai.

Internet Radio and Internet-Enabled Smartphones

Internet radio broadcasts often have no geographic limitations and provide listeners with radio programming from across the country and around the world. Major media companies and online-only providers, including Clear Channel, CBS and Pandora, make high fidelity digital streams available through the Internet for free or, in some cases, for a fraction of the cost of a satellite radio subscription. These services compete directly with our services, at home, in the automobile, and wherever audio entertainment is consumed.

Internet-enabled smartphones, most of which have the capability of interfacing with vehicles, can play recorded or cached content and access Internet radio via dedicated applications or browsers. These applications are often free to the user and offer music and talk content as long as the user is subscribed to a sufficiently large mobile data plan. Leading audio smartphone radio applications include Pandora, last.FM, Slacker, iheartradio and Stitcher. Certain of these applications also include advanced functionality, such as personalization, and allow the user to access large libraries of content and podcasts on demand.

Spotify has launched a music streaming service in the United States, which allows its users unlimited, on-demand access to a large library of song tracks, allowing the sharing of playlists with other listeners through the Facebook platform. Other similar services have launched Facebook integration, including MOG and Rdio. These services, which usually require a monthly subscription fee, are currently available on smartphones but may become integrated into connected cars in the future.

Third and fourth generation mobile networks have enabled a steady increase in the audio quality and reliability of mobile Internet radio streaming, and this is expected to further increase as fourth generation networks become the standard. We expect that improvements from higher bandwidths, wider programming selection, and advancements in functionality are likely to continue making Internet radio and smartphone applications an increasingly significant competitor, particularly in vehicles.

Advanced In-Dash Infotainment Systems

Nearly all automakers have deployed or are planning to deploy integrated multimedia systems in dash boards, such as Ford's SYNC, Toyota's Entune, and BMW/Mini's Connected. These systems can combine control of audio entertainment from a variety of sources, including AM/FM/HD radio broadcasts, satellite radio, Internet radio, smartphone applications and stored audio, with navigation and other advanced applications such as restaurant bookings, movie show times and financial information. Internet radio and other data are typically connected to the system via a bluetooth link to an Internet-enabled smartphone, and the entire system may be controlled by touchscreen or voice recognition. These systems enhance the attractiveness of our Internet-based competition by making such applications more prominent, easier to access, and safer to use in the car. Similar systems are also available in the aftermarket and sold through retailers.

Direct Broadcast Satellite and Cable Audio

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

Other Digital Media Services

The audio entertainment marketplace continues to evolve rapidly, with a steady emergence of new media platforms and portable devices that compete with our services now or that could compete with those services in the future.

Traffic News Services

A number of providers also compete with our traffic news services. Clear Channel and Tele Atlas partner to deliver nationwide traffic information for the top 50 markets to in-vehicle navigation systems using RDS/TMC, the radio broadcast standard technology for delivering traffic and travel information to drivers. The in-dash navigation market is also being threatened by increasingly capable smartphones that provide advanced navigation functionality, including live traffic. Android, Blackberry, and Apple iOS-based smartphones all include GPS mapping and navigation functionality, often with turn-by-turn navigation.

Government Regulation

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

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

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

In 1997, we were the winning bidders for FCC licenses to operate a satellite digital audio radio service and provide other ancillary services. Our FCC licenses for our Sirius satellites expire in 2017. Our FCC licenses for our XM satellites expire in 2013, 2014 and 2018. We anticipate that, absent significant misconduct on our part, the FCC will renew our licenses to permit operation of our satellites for their useful lives, and grant a license for any replacement satellites.

In some areas with high concentrations of tall buildings, such as urban centers, signals from our satellites may be blocked and reception can be adversely affected. In many of these areas, we have installed terrestrial repeaters to supplement our satellite signal coverage. The FCC has established rules governing terrestrial repeaters and has granted us a license to operate our repeater network.

We design, establish specifications for, source or specify parts and components for, manage various aspects of the logistics and production of, and, in most cases, obtain FCC certifications for, satellite radios, including satellite radios that include FM modulators. We believe our radios that are in production comply with all applicable FCC rules.

We are required to obtain export licenses from the United States government to export certain ground control equipment, satellite communications/control services and technical data related to our satellites and their operations. The delivery of such equipment, services and technical data to destinations outside the United States and to foreign

persons is subject to strict export

control and prior approval requirements from the United States government (including prohibitions on the sharing of certain satellite-related goods and services with China).
Changes in law or regulations relating to communications policy or to matters affecting our services could adversely affect our ability to retain our FCC licenses or the manner in which we operate.

Copyrights to Programming

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

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

Sound recording rights holders, typically large record companies, are primarily represented by SoundExchange, an organization which negotiates licenses, and collects and distributes royalties on behalf of record companies and performing artists. Under the Digital Performance Right in Sound Recordings Act of 1995 and the Digital Millennium Copyright Act of 1998, we may negotiate royalty arrangements with the sound recording copyright owners, or if negotiation is unsuccessful, the royalty rate is established by the Copyright Royalty Board (the "CRB") of the Library of Congress.

In December 2012, the CRB issued its determination regarding the royalty rate payable by us under the statutory license covering the performance of sound recordings over our satellite digital audio radio service, and the making of ephemeral (server) copies in support of such performances, for the five-year period starting January 1, 2013 and ending on December 31, 2017. Under the terms of the CRB's decision, we will pay a royalty based on gross revenues, subject to certain exclusions, of 9.0% for 2013, 9.5% for 2014, 10.0% for 2015, 10.5% for 2016, and 11% for 2017. The rate for 2012 was 8.0%.

The revenue subject to royalty includes subscription revenue from our U.S. satellite digital audio radio subscribers and advertising revenue from channels other than those channels that make only incidental performances of sound recordings. Exclusions from revenue subject to the statutory license fee include, among other things, revenue from channels, programming and products or other services offered for a separate charge where such channels make only incidental performances of sound recordings; revenue from equipment sales; revenue from current and future data services (including video services) offered for a separate charge; intellectual property royalties received by us; credit card, invoice and fulfillment service fees; and bad debt expense. The regulations also allow us to further reduce our monthly royalty fee in proportion to the percentage of our performances that feature pre-1972 recordings (which are not subject to federal copyright protection) as well as those that are licensed directly from the copyright holder, rather than through the statutory license.

Trademarks

We have registered, and intend to maintain, the trademark "Sirius", "XM", "SiriusXM" and the "Dog design" logo with the United States Patent and Trademark Office in connection with the services we offer. We are not aware of any material claims of infringement or other challenges to our right to use the "Sirius", "XM" or "SiriusXM" trademark or the "Dog design" logo in the United States. We also have registered, and intend to maintain, trademarks for the names of certain of our channels. We have also registered the trademarks "Sirius", "XM", and the "Dog design" logo in Canada. We have granted a license to use certain of our trademarks in Canada to Sirius XM Canada.

Personnel

As of December 31, 2012, we had 1,596 full-time employees. In addition, we rely upon a number of part-time employees, consultants, other advisors and outsourced relationships. None of our employees are represented by a labor union, and we believe that our employee relations are good.

Corporate Information

Our executive offices are located at 1221 Avenue of the Americas, 36th floor, New York, New York 10020 and our telephone number is (212) 584-5100. Our internet address is www.siriusxm.com. Our annual, quarterly and current

reports, and any amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 may be accessed free of charge through our website after we have electronically filed or furnished such material with the SEC. Siriusxm.com (including any other reference to such address in this Annual Report) is an inactive textual reference only,

meaning that the information contained on or accessible from the website is not part of this Annual Report on Form 10-K and is not incorporated in this report by reference.

Executive Officers of the Registrant

Certain information regarding our executive officers is provided below:

Name	Age	Position
James E. Meyer	58	Chief Executive Officer
Scott A. Greenstein	53	President and Chief Content Officer
Dara F. Altman	54	Executive Vice President and Chief Administrative Officer
Stephen Cook	57	Executive Vice President, Sales and Automotive
Patrick L. Donnelly	51	Executive Vice President, General Counsel and Secretary
David J. Frear	56	Executive Vice President and Chief Financial Officer
Enrique Rodriguez	50	Executive Vice President, Operations and Products

James E. Meyer was appointed as our Chief Executive Officer in December 2012. From May 2004 to December 2012, Mr. Meyer was our President, Operations and Sales. 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 a member of the executive committee. From 1992 until 1996, Mr. Meyer served as Thomson's Senior Vice President of Product Management. Mr. Meyer is a director of ROVI Corporation.

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

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.

Stephen Cook was appointed as our Executive Vice President, Sales and Automotive, in January 2013. Mr. Cook served as our Group Vice President and General Manager, Automotive Division, from July 2008 until January 2013. Mr. Cook served as Executive Vice President, Automotive, of XM from July 2006 to July 2008. He also served as XM's Executive Vice President, Sales and Marketing, from January 2002 until July 2006, and as XM's Senior Vice President, Sales and Marketing, from February 1999 until January 2002. Prior to joining XM, Mr. Cook was Chief Operating Officer for Conxus Communications. From 1990 to 1997, Mr. Cook held management positions with GTE's cellular operations. Prior to that time, Mr. Cook worked in brand management for Procter & Gamble.

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

David J. Frear has served as our Executive Vice President and Chief Financial Officer since June 2003. From 1999 to 2003, Mr. Frear was Executive Vice President and Chief Financial Officer of Savvis Communications Corporation, a global managed service provider, delivering internet protocol applications for business customers. Mr. Frear also

served as a director of Savvis. From 1993 to 1998, Mr. Frear was Senior Vice President and Chief Financial Officer of Orion Network Systems Inc., an international satellite communications company that was acquired by Loral Space & Communications Ltd. in 1998. From

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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.
Enrique Rodriguez was appointed as our Executive Vice President, Operations and Products, in January 2013. He served as our Group Vice President from October 2012 until January 2013. Mr. Rodriguez was the Senior Vice President and General Manager of Cisco System Inc.'s Service Provider Video Technology Group from May 2010 until December 2011. Mr. Rodriguez served as Corporate Vice President for the TV Division of Microsoft Corp. from June 2006 until April 2010. Prior to heading Microsoft's TV Division, Mr. Rodriguez served as Vice President of Xbox Partnerships for Microsoft. Before joining Microsoft in 2003, Rodriguez spent over 20 years at Thomson/RCA in a variety of engineering and executive roles.
Our former Chief Executive Officer, Mel Karmazin, terminated his employment with us in December 2012.

ITEM 1A. RISK FACTORS

In addition to the other information in this Annual Report on Form 10-K, including the information under the caption Item 1. Business "Competition," the following risk factors should be considered carefully in evaluating us and our business. This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results and the timing of events could differ materially from those projected in forward-looking statements due to a number of factors, including those set forth below and elsewhere in this Annual Report on Form 10-K. See "Special Note Regarding Forward-Looking Statements" following this Item 1A. Risk Factors.

We face substantial competition and that competition is likely to increase over time.

We face substantial competition from other providers of radio and other audio services. Our ability to retain and attract subscribers depends on our success in creating and providing popular or unique music, entertainment, news and sports programming. Our subscribers can obtain certain similar content for free through terrestrial radio stations or Internet radio services. Audio content delivered via the Internet, including through mobile devices, is increasingly competitive with our services. In addition, automakers and aftermarket manufacturers have introduced factory-installed radios capable of seamlessly accessing Internet-delivered audio entertainment and easily connecting to Internet-delivered content on smartphones. A summary of various services that compete with us is contained in the section entitled "Item 1. Business - Competition."
Competition could result in lower subscription, advertising or other revenue or increase our marketing, promotion or other expenses and, consequently, lower our earnings and free cash flow. We cannot assure you we will be able to compete successfully with our existing or future competitors or that competition will not have a material adverse effect on our business, financial condition or results of operations.

Our business depends in large part upon automakers.

A substantial portion of our new subscription growth has come from purchasers and lessees of new and previously owned automobiles. The sale and lease of vehicles with satellite radios is an important source of subscribers for our satellite radio service. We have agreements with every major automaker to include satellite radios in new vehicles, although these agreements do not require automakers to install specific or minimum quantities of radios in any given period.
Automotive production and sales are dependent on many factors, including the availability of consumer credit, general economic conditions, consumer confidence and fuel costs. To the extent vehicle sales by automakers decline, or the penetration of factory-installed satellite radios in those vehicles is reduced, subscriber growth for our satellite radio services may be adversely impacted.

General economic conditions can affect our business.

The purchase of a satellite radio subscription is discretionary, and our business and our financial condition can be negatively affected by general economic conditions. Poor general economic conditions can adversely affect subscriber churn, conversion rates and vehicle sales, as evidenced by the dramatic slowdown in auto sales that negatively impacted our subscriber growth in 2008 and 2009.

Failure of our satellites would significantly damage our business.

The lives of our satellites will vary and depend on a number of factors, including:

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

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

Three of the Sirius in-orbit satellites have experienced degradation on their solar arrays. The degradation these satellites have experienced does not affect current operations. Additional degradation on the three Sirius satellites could reduce the estimated lives of those satellites.

Space Systems/Loral has constructed a new satellite for the Sirius system that is expected to be launched during mid-2013. Satellite launches have significant risks, including launch failure, damage or destruction of the satellite during launch and failure to achieve a proper orbit or operate as planned. Our agreement with Space Systems/Loral does not protect us against the risks inherent in a satellite launch or in-orbit operations.

Our XM-1 and XM-2 satellites have experienced progressive degradation problems common to early Boeing 702 class satellites and now serve as in-orbit spares. Our XM-3, XM-4 and XM-5 in-orbit satellites have experienced circuit failures on their solar arrays which do not affect current operations. Additional circuit failures on the satellites could reduce the estimated lives of those satellites. We estimate that our XM-3, XM-4 and XM-5 satellites will meet their 15-year predicted depreciable lives, and that the XM-1 and XM-2 satellites' depreciable lives will end in 2013.

Our XM-5 satellite serves as an in-orbit spare for both of our services. In the event of a failure of XM-3, XM-4 or any of the Sirius satellites, service would be maintained through XM-5.

In addition, our Sirius network of terrestrial repeaters communicates with a single third-party satellite. Our XM network of terrestrial repeaters communicates with a single XM satellite. If the satellites communicating with the applicable repeater network fail unexpectedly, the services would be disrupted for several hours or longer.

We maintain in-orbit insurance policies covering only our XM-5 and FM-5 satellites. These policies will expire in 2014 and 2015, respectively, and we may not renew these in-orbit insurance policies when they expire. Any insurance proceeds will not fully cover our losses in the event of a satellite failure or significant degradation in the service provided by such satellites. For example, the policies covering the insured satellites do not cover the full cost of constructing, launching and insuring new satellites, nor will they cover, and we do not have protection against, business interruption, loss of business or similar losses. Our insurance contains customary exclusions, material change and other conditions that could limit recovery under those policies. Further, any insurance proceeds may not be received on a timely basis in order to launch a spare satellite or construct and launch a replacement satellite or take other remedial measures. In addition, the policies are subject to limitations involving uninsured losses, large satellite performance deductibles and policy limits.

Our ability to attract and retain subscribers at a profitable level in the future is uncertain.
We spend substantial amounts on advertising and marketing and in transactions with automakers, retailers and others to obtain and attract subscribers. During 2012, we added approximately two million net subscribers to our services. Our ability to retain our subscribers, or increase the number of subscribers to our service, in any given period is subject to many factors, including:

- the price of our service;
- the health of the economy;
- the production and sale of new vehicles in the United States;
- our ability to convince owners and lessees of new and previously owned vehicles that include satellite radios to purchase subscriptions to our service;
- the effectiveness of our marketing programs;
- the entertainment value of our programming; and
- actions by our competitors, such as terrestrial radio and other audio entertainment and information providers.

As part of our business, we experience, and expect to experience in the future, subscriber turnover (i.e., churn). If we are unable to retain current subscribers at expected rates, or the costs of retaining subscribers are higher than expected, our financial performance and operating results could be adversely affected. We cannot predict how successful we will be at retaining customers who purchase or lease vehicles that include a prepaid promotional subscription to our satellite radio service. During 2012, we converted 45% of the customers who received a promotional subscription as part of the purchase or lease of a new vehicle to a self-paying subscription. Over the same period, we have experienced churn of our self-pay subscribers of 1.9% per month.
Average monthly revenue per subscriber, which we refer to as ARPU, is another key metric we use to analyze our business. Over the past several years, we have focused substantial attention and efforts on balancing ARPU and subscriber additions. Our ability to increase or maintain ARPU over time is uncertain and depends upon various factors, including:

- the value consumers perceive in our service;
- our ability to add and retain compelling programming;
- the increasing competition we experience from terrestrial and Internet radio and other entertainment providers; and
- pricing and other offers we may make to attract new subscribers and retain existing subscribers.

If we are unable to consistently attract new subscribers, and retain our current subscribers, at a sufficient level of revenue to be profitable, the value of our common stock could decline, and without sufficient cash flow we may not be able to make the required payments on our indebtedness and could ultimately default on our commitments.
Royalties for music rights have increased and may continue to do so in the future.
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, BMI and SESAC through 2016. There can be no assurance that the royalties we pay to ASCAP, SESAC and BMI will not increase upon expiration of these arrangements.
Under the Digital Performance Right in Sound Recordings Act of 1995 and the Digital Millennium Copyright Act of 1998, we pay royalties to copyright owners of sound recordings. Those royalty rates may be established through negotiation or, if negotiation is unsuccessful, by the CRB. Owners of copyrights in sound recordings have created SoundExchange, a collective organization, to collect and distribute royalties. SoundExchange is exempt by statute from certain U.S. antitrust laws and exercises significant market power in the licensing of sound recordings.
New royalty rates for our use of sound recordings during the five-year period beginning in January 2013 were announced by the CRB in December 2012. Under the terms of the CRB's decision, we will pay a royalty based on gross revenues, subject to certain exclusions, of 9.0% for 2013, 9.5% for 2014, 10.0% for 2015, 10.5% for 2016, and 11% for 2017. The rate for 2012 was 8.0%.

Our business could be adversely affected if we fail to attract and retain qualified executive officers.

Our former Chief Executive Officer terminated his employment with us in December 2012. A committee of our board of directors is currently conducting a search for a permanent successor to our former Chief Executive Officer. In addition, the employment agreement with our current Chief Executive Officer, who is serving on an interim basis, expires at the end of October 2013, and he has negotiated a right to retire prior to the expiration of his employment agreement. We face intense competition for executive talent from a variety of sources, including from competing entertainment providers, and we might not be able to find a replacement on a timely basis or with the same level of skill and experience. Our continued success is dependent, in part, upon our ability to attract and retain superior executive officers. Similarly, our business and the value of our common stock could be adversely affected if we are unable to attract and retain qualified executive personnel, including a permanent Chief Executive Officer.

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

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

Rapid technological and industry changes could adversely impact our services.

The audio entertainment industry is characterized by rapid technological change, frequent product innovations, changes in customer requirements and expectations, and evolving standards. If we are unable to keep pace with these changes, our business may not succeed. Products using new technologies, or emerging industry standards, could make our technologies less competitive in the marketplace.

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

Our business depends, in part, on 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;
- 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.

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

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

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

We engage in extensive marketing efforts to attract and retain subscribers to our services. We employ a wide variety of communications tools as part of our marketing campaigns, including telemarketing efforts; print, television, radio and online advertising; and email solicitations.

Consumer protection laws, rules and regulations are extensive and have developed rapidly, particularly at the state level. Consumer protection laws in certain jurisdictions cover nearly all aspects of our marketing efforts, including the content of our advertising, the terms of consumer offers and the manner in which we communicate with subscribers and prospective subscribers. We are engaged in considerable efforts to ensure that all our activities comply with federal and state laws, rules and regulations relating to consumer protection, including laws relating to privacy. Modifications to federal and state laws, rules and regulations concerning consumer protection, including decisions by federal and state courts and agencies interpreting these

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laws, could have an adverse impact on our ability to attract and retain subscribers to our services. While we monitor the changes in and interpretations of these laws in consumer-related settlements and decisions, and while we believe that we are in material compliance with applicable laws, there can be no assurances that new laws or regulations will not be enacted or adopted, preexisting laws or regulations will not be more strictly enforced or that our varied operations will continue to comply with all applicable laws, which might adversely affect our operations.

A Multistate Working Group of 31 State Attorneys General, led by the Attorney General of the State of Ohio, is investigating certain of our consumer practices. The investigation focuses on practices relating to the cancellation of subscriptions; automatic renewal of subscriptions; charging, billing, collecting, and refunding or crediting of payments from consumers; and soliciting customers. Separate investigations into our consumer practices are being conducted by the Attorneys General of the State of Florida and New York.

Failure to comply with FCC requirements could damage our business.

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

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

The terms of our licenses, the order of the FCC approving the Merger, and the consent decrees we entered into with the FCC require us to meet certain conditions. Non-compliance with these conditions could result in fines, additional license conditions, license revocation or other detrimental FCC actions.

Other existing or future government laws and regulations could harm our business.

We are subject to many other federal, state and local laws. These laws and regulations cover issues such as user privacy, behavioral advertising, automatic renewal of agreements, pricing, fraud, electronic waste, mobile and electronic device communications, quality of products and services, taxation, advertising, intellectual property rights and information security. The expansion of these laws, both in terms of their number and their applicability, could harm our business. Similarly, new disclosure and reporting requirements, established under existing or new state or federal laws, such as regulatory rules regarding requirements to disclose efforts to identify the origin and existence of certain “conflict minerals” or abusive labor practices in portions of our supply chain, could increase the cost of doing business, adversely affecting our results of operations.

Interruption or failure of our information technology and communications systems could negatively impact our results and our brand.

We operate a complex and growing business. We offer a wide variety of subscription packages at different price points. Our business is dependent on the operation and availability of our information technology and communication systems and those of certain third party service providers. Any degradation in the quality, or any failure, of our systems could reduce our revenues, cause us to lose customers and damage our brand. Although we have implemented practices designed to maintain the availability of our information technology systems and mitigate the harm of any unplanned interruptions, we do not have complete redundancy for all of our information technology systems, and our disaster recovery planning cannot anticipate all eventualities. We occasionally experience unplanned outages or technical difficulties. We could also experience loss of data or processing capabilities, which could cause us to lose customers and could materially harm our reputation and our operating results.

We are involved in continuing efforts to upgrade and maintain our information technology systems. These maintenance and upgrade activities are costly, and problems with the design or implementation of system enhancements could harm our business and our results of operations.

Our data centers and our information technology and communications systems are vulnerable to damage or interruption from natural disasters, malicious attacks, fire, power loss, telecommunications failures, computer viruses or other attempts to harm our systems.

If hackers were able to circumvent our security measures, we could lose proprietary information or personal information or experience significant disruptions. If our systems become unavailable or suffer a security breach, we may be required to expend significant resources to address these problems, including notification under various federal and state data privacy regulations, and our reputation and operating results could suffer.

We rely on internal systems and external systems maintained by manufacturers, distributors and service providers to take, fulfill and handle customer service requests and host certain online activities. Any interruption or failure of our internal or external systems could prevent us from servicing customers or cause data to be unintentionally disclosed.

If we fail to protect the security of personal information about our customers, we could be subject to costly government enforcement actions or private litigation and our reputation could suffer.

The nature of our business involves the receipt and storage of personal information about our subscribers. If we experience a data security breach, we could be exposed to government enforcement actions and private litigation. In addition, our subscribers and potential customers could lose confidence in our ability to protect their personal information, which could cause them to discontinue usage of our services. Such events could lead to lost future sales and adversely affect our results of operations.

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

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

Our indebtedness could adversely affect our operations and could limit our ability to react to changes in the economy or our industry.

As of December 31, 2012, we had an aggregate principal amount of approximately $2.5 billion of indebtedness. We also have entered into a senior secured revolving credit facility with a syndicate of financial institutions for $1.25 billion, which had not been drawn upon as of December 31, 2012. Our indebtedness has important consequences. For example, it:

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

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

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

An earthquake, tornado, flood, terrorist attack or other catastrophic event could damage our broadcast studios, terrestrial repeater networks or satellite uplink facilities, interrupt our service and harm our business.

Any damage to the satellites that transmit to our terrestrial repeater networks would likely result in degradation of the affected service for some subscribers and could result in complete loss of service in certain or all areas. Damage to our satellite

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uplink facilities could result in a complete loss of either of our services until we could transfer operations to suitable back-up facilities.

Our principal stockholder has significant influence over our management and over actions requiring stockholder approval and its interests may differ from the interests of other holders of common stock.
As of January 17, 2013, Liberty Media Corporation beneficially owned approximately 50.21% of our common stock. Five current Liberty Media executives are members of our board of directors, and Liberty Media has designated an additional three members of our board of directors.
As a result, Liberty Media has the ability to control our affairs, policies and operations, such as the appointment of management, future issuances of our common stock or other securities, the payment of dividends, if any, on our common stock, the incurrence of debt by us, amendments to our certificate of incorporation and bylaws and the entering into of extraordinary transactions, and their interests may not in all cases be aligned with the interests of other stockholders. In addition, Liberty Media will be able to determine the outcome of all matters requiring stockholder approval and will be able to cause or prevent a change of control of our company or a change in the composition of our board of directors and could preclude any unsolicited acquisition of our company. The concentration of ownership could deprive our stockholder's of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

We are a "controlled company" within the meaning of the NASDAQ listing rules and, as a result, qualify for, and rely on, exemptions from certain corporate governance requirements.
We are considered a "controlled company" for the purposes of the NASDAQ Stock Market listing rules. As such, we have elected not to comply with certain NASDAQ corporate governance requirements that a majority of the board of directors consist of independent directors and that we have independent director oversight over director nominations. As a result, we do not have a majority of independent directors, and our compensation committee and nominating and corporate governance committee may not consist entirely of independent directors.

Our business may be impaired by third-party intellectual property rights.
Development of our systems has depended upon the intellectual property that we have developed, as well as intellectual property licensed from third parties. If the intellectual property that we have developed or use is not adequately protected, others will be permitted to and may duplicate portions of our systems or services without liability. In addition, others may challenge, invalidate, render unenforceable or circumvent our intellectual property rights, patents or existing licenses or we may face significant legal costs in connection with defending and enforcing those intellectual property rights. Some of the know-how and technology we have developed, and plan to develop, is not now, nor will it be, covered by U.S. patents or trade secret protections. Trade secret protection and contractual agreements may not provide adequate protection if there is any unauthorized use or disclosure. The loss of necessary technologies could require us to substitute technologies of lower quality performance standards, at greater cost or on a delayed basis, which could harm us.
Other parties may have patents or pending patent applications, which will later mature into patents or inventions that may block our ability to operate our system or license technologies. We may have to resort to litigation to enforce our rights under license agreements or to determine the scope and validity of other parties' proprietary rights in the subject matter of those licenses. This may be expensive and we may not succeed in any such litigation.
Third parties may assert claims or bring suit against us for patent, trademark or copyright infringement, or for other infringement or misappropriation of intellectual property rights. Any such litigation could result in substantial cost, and diversion of effort and adverse findings in any proceeding could subject us to significant liabilities to third parties; require us to seek licenses from third parties; block our ability to operate our systems or license our technology; or otherwise adversely affect our ability to successfully develop and market our satellite radio systems.

Special Note About Forward-Looking Statements

We have made various statements in this Annual Report on Form 10-K that may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may also be made in our other reports filed with or furnished to the SEC, in our press releases and in other documents. In addition, from time to time, we, through our management, may make oral forward-looking statements. Forward-looking statements are subject to risks and uncertainties, including those identified above, which could cause actual results to differ materially from such statements. The words "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "believe," "intend," "plan," "may," "should," "could," "would," "likely," "projection," "outlook" an expressions are intended to identify forward-looking statements. We caution you that the risk factors described above are not exclusive. There may also be other risks that we are unable to predict at this time that may cause actual results to differ materially from those in forward-looking statements. New factors emerge from time to time, and it is not possible for us to predict which will arise or to assess with any precision the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statements.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

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
Farmington Hills, MI	Office and technical/engineering facilities	Lease
Nashville, TN	Studio/production facilities	Lease
Vernon, NJ	Technical/engineering facilities	Own
Ellenwood, GA	Technical/engineering facilities	Lease
Los Angeles, CA	Studio/production facilities	Lease

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

In addition, we lease or license space at approximately 650 locations for use in connection with the terrestrial repeater networks that support our satellite radio services. In general, these leases and licenses are for space on building rooftops and communications towers. None of these individual arrangements are material to our business or operations.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, we are a defendant or party to various claims and lawsuits, including those discussed below. These claims are at various stages of arbitration or adjudication.

State Consumer Investigations. A Multistate Working Group of 31 State Attorneys General, led by the Attorney General of the State of Ohio, is investigating certain of our consumer practices. The investigation focuses on practices relating to the cancellation of subscriptions; automatic renewal of subscriptions; charging, billing, collecting, and refunding or crediting of payments from consumers; and soliciting customers.

A separate investigation into our consumer practices is being conducted by the Attorneys General of the State of Florida and the State of New York. We are cooperating with these investigations and believe our consumer practices comply with all applicable federal and state laws and regulations.
One Twelve, Inc. and Don Buchwald v. Sirius XM Radio Inc. In March 2011, One Twelve, Inc., Howard Stern's production company, and Don Buchwald, Stern's agent, commenced an action against us in the Supreme Court of the State of New York, County of New York. The action alleged that, upon the Merger, we failed to honor our obligations under the performance-based compensation provisions of our prior agreement dated October 2004 with One Twelve and Buchwald, as agent; One Twelve and Buchwald each assert a claim of breach of contract. In April 2012, the Court granted our motion for summary judgment and dismissed with prejudice the suit. The Court found the agreement unambiguous. One Twelve and Buchwald have appealed this decision.
Other Matters. In the ordinary course of business, we are a defendant in various other lawsuits and arbitration proceedings, including derivative actions; actions filed by subscribers, both on behalf of themselves and on a class action basis; former employees; parties to contracts or leases; and owners of patents, trademarks, copyrights or other intellectual property. None of these other actions are, in our opinion, likely to have a material adverse effect on our business, financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES
Not applicable.

PART II
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES
Price Range of Common Stock
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, 2011		
First Quarter	$1.88	$1.49
Second Quarter	$2.44	$1.62
Third Quarter	$2.35	$1.44
Fourth Quarter	$1.92	$1.27
Year Ended December 31, 2012		
First Quarter	$2.36	$1.80
Second Quarter	$2.41	$1.78
Third Quarter	$2.64	$1.84
Fourth Quarter	$3.01	$2.55

Holders of Common Stock
On February 1, 2013, the closing sales price of our common stock on the NASDAQ Global Select Market was $3.23 per share. On February 1, 2013, there were approximately 11,290 record holders of our common stock.

2012 Dividend

On December 28, 2012, we paid a special cash dividend of $0.05 per share of common stock. This was the first cash dividend paid to our stockholders. Our Series B-1 Preferred Stock held by Liberty Radio, LLC, a wholly-owned subsidiary of Liberty Media Corporation, participated in this cash dividend on an as-converted basis in accordance with its terms. The total amount of this dividend was approximately $327 million.

The dividend reflects the board's desire to return value to stockholders and its confidence in the long-term growth prospects of our business. We currently do not intend to declare recurring dividends on our common stock. Our board of directors has not made any determination whether similar special cash dividends will be paid in the future.

Our ability to pay dividends on our common stock is currently limited by covenants under our debt agreements. We retain sufficient capital capacity to continue making long-term investments in our programming, research and development initiatives and overall operations as well as pursue strategic opportunities which may arise. See Note 12 to our consolidated financial statements included in this Annual Report on Form 10-K.

Stock Repurchase Program

In December 2012, we announced that our board of directors had approved a $2 billion common stock repurchase program, which we will begin utilizing in 2013. Shares of common stock may be purchased from time to time on the open market or in privately negotiated transactions.

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, 2007 to December 31, 2012. The graph assumes that $100 was invested on December 31, 2007 in each of our common stock, the S&P 500 and the NASDAQ Telecommunications Index. Dividends were declared in 2012 only.

Stockholder Return Performance Table

	NASDAQ Telecommunications Index	S&P 500 Index	Sirius XM Radio Inc.
December 31, 2007	$100.00	$100.00	$100.00
December 31, 2008	$57.02	$61.51	$3.96
December 31, 2009	$84.52	$75.94	$19.80
December 31, 2010	$87.84	$85.65	$53.80
December 31, 2011	$76.75	$85.65	$60.07
December 31, 2012	$78.29	$97.13	$95.38

Equity Compensation Plan Information

(shares in thousands)	Column (a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Column (b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Column (c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding Securities Reflected in Column (a))
Plan Category			
Equity compensation plans approved by security holders	292,967	$1.96	143,243
Equity compensation plans not approved by security holders	—	—	—
Total	292,967	$1.96	143,243

ITEM 6. SELECTED FINANCIAL DATA

Our selected financial data set forth below with respect to the consolidated statements of comprehensive income for the years ended December 31, 2012, 2011 and 2010, and with respect to the consolidated balance sheets at December 31, 2012 and 2011, 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 comprehensive income for the years ended December 31, 2009 and 2008, and with respect to the consolidated balance sheets at December 31, 2010, 2009 and 2008 are derived from our audited consolidated financial statements, which are not included in this Annual Report on Form 10-K. This selected financial data should be read in conjunction with the Consolidated Financial Statements and related notes thereto included in Item 8 of this Annual Report on Form 10-K and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this Annual Report on Form 10-K.

	As of and for the Years Ended December 31,				
	2012	2011	2010	2009 (1)	2008 (1) (2)
(in thousands, except per share data)					
Statements of Comprehensive Income Data:					
Total revenue	$3,402,040	$3,014,524	$2,816,992	$2,472,638	$1,663,992
Net income (loss)	$3,472,702	$426,961	$43,055	$(538,226)	$(5,316,910)
Net income (loss) per share – basic (3)	$0.55	$0.07	$0.01	$(0.15)	$(2.45)
Net income (loss) per share – diluted	$0.51	$0.07	$0.01	$(0.15)	$(2.45)
Weighted average common shares outstanding – basic	4,209,073	3,744,606	3,693,259	3,585,864	2,169,489
Weighted average common shares outstanding – diluted	6,873,786	6,500,822	6,391,071	3,585,864	2,169,489
Cash dividends per share (4)	$0.05	$—	$—	$—	$—
Balance Sheet Data:					
Cash and cash equivalents	$520,945	$773,990	$586,691	$383,489	$380,446
Restricted investments	$3,999	$3,973	$3,396	$3,400	$141,250
Total assets	$9,054,843	$7,495,996	$7,383,086	$7,322,206	$7,527,075
Long-term debt, net of current portion	$2,430,986	$3,012,351	$3,021,763	$3,063,281	$2,820,781
Stockholders' equity	$4,039,565	$704,145	$207,636	$95,522	$75,875

(1)

The 2009 and 2008 results and balances reflect the adoption of ASU 2009-15, Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing.

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

(3) The net income (loss) per share-basic calculations were corrected for an immaterial error for the years ended December 31, 2011 and 2010. See Notes 3 and 17 to our consolidated financial statements included in this Annual Report on Form 10-K.

(4) A special cash dividend was paid during 2012.

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

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results and the timing of events could differ materially from those projected in forward-looking statements due to a number of factors, including those described under "Item 1A - Risk Factors" and elsewhere in this Annual Report. See "Special Note Regarding Forward-Looking Statements."

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

Executive Summary

We broadcast our music, sports, entertainment, comedy, talk, news, traffic and weather channels, as well as infotainment services in the United States on a subscription fee basis through our two proprietary satellite radio systems. Subscribers can also receive our music and other channels, plus new features such as SiriusXM On Demand, over the Internet, including through applications for mobile devices.

We have agreements with every major automaker ("OEMs") to offer satellite radios as factory- or dealer-installed equipment in their vehicles from which we acquire the majority of our subscribers. We also acquire subscribers through the sale or lease of previously owned vehicles with factory-installed satellite radios. Additionally, we distribute our satellite radios through retail locations nationwide and through our website. Satellite radio services are also offered to customers of certain daily rental car companies.

As of December 31, 2012, we had 23,900,336 subscribers of which 19,570,274 were self-pay subscribers and 4,330,062 were paid promotional subscribers. Our subscriber totals include subscribers under our regular pricing plans; discounted pricing plans; subscribers that have prepaid, including payments either made or due from automakers for subscriptions included in the sale or lease price of a vehicle; certain radios activated for daily rental fleet programs; subscribers to our Internet services who do not also have satellite radio subscriptions; and certain subscribers to our weather, traffic, data and Backseat TV services.

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

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

As of January 17, 2013, Liberty Media Corporation beneficially owned, directly and indirectly, over 50% of the outstanding shares of our common stock. Liberty Media owns interests in a broad range of media, communications and entertainment businesses, including its subsidiaries Atlanta National League Baseball Club, Inc. and TruePosition, Inc., its interests in Live Nation Entertainment, Barnes & Noble, and minority equity investments in Time Warner Inc. and Viacom.

We also have an equity interest in Sirius XM Canada which offers satellite radio services in Canada. Subscribers to the Sirius XM Canada service are not included in our subscriber count.

Results of Operations

Set forth below are our results of operations for the year ended December 31, 2012 compared with the year ended December 31, 2011 and the year ended December 31, 2011 compared with the year ended December 31, 2010.

	For the Years Ended December 31,			2012 vs 2011 Change		2011 vs 2010 Change	
	2012	2011	2010	Amount	%	Amount	%
Revenue:							
Subscriber revenue	$2,962,665	$2,595,414	$2,414,174	$367,251	14 %	$181,240	8 %
Advertising revenue, net of agency fees	82,320	73,672	64,517	8,648	12 %	9,155	14 %
Equipment revenue	73,456	71,051	71,355	2,405	3 %	(304)	— %
Other revenue	283,599	274,387	266,946	9,212	3 %	7,441	3 %
Total revenue	3,402,040	3,014,524	2,816,992	387,516	13 %	197,532	7 %
Operating expenses:							
Cost of services:							
Revenue share and royalties	551,012	471,149	435,410	79,863	17 %	35,739	8 %
Programming and content	278,997	281,234	305,914	(2,237)	(1)%	(24,680)	(8)%
Customer service and billing	294,980	259,719	241,680	35,261	14 %	18,039	7 %
Satellite and transmission	72,615	75,902	80,947	(3,287)	(4)%	(5,045)	(6)%
Cost of equipment	31,766	33,095	35,281	(1,329)	(4)%	(2,186)	(6)%
Subscriber acquisition costs	474,697	434,482	413,041	40,215	9 %	21,441	5 %
Sales and marketing	248,905	222,773	215,454	26,132	12 %	7,319	3 %
Engineering, design and development	48,843	53,435	45,390	(4,592)	(9)%	8,045	18 %
General and administrative	261,905	238,738	240,970	23,167	10 %	(2,232)	(1)%
Depreciation and amortization	266,295	267,880	273,691	(1,585)	(1)%	(5,811)	(2)%
Restructuring, impairments and related costs	—	—	63,800	—	nm	(63,800)	nm
Total operating expenses	2,530,015	2,338,407	2,351,578	191,608	8 %	(13,171)	(1)%
Income from operations	872,025	676,117	465,414	195,908	29 %	210,703	45 %
Other income (expense):							
Interest expense, net of amounts capitalized	(265,321)	(304,938)	(295,643)	39,617	13 %	(9,295)	(3)%
Loss on extinguishment of debt and credit facilities, net	(132,726)	(7,206)	(120,120)	(125,520)	nm	112,914	94 %
Interest and investment income (loss)	716	73,970	(5,375)	(73,254)	(99)%	79,345	nm
Other (loss) income	(226)	3,252	3,399	(3,478)	(107)%	(147)	(4)%
Total other expense	(397,557)	(234,922)	(417,739)	(162,635)	(69)%	182,817	44 %
Income before income taxes	474,468	441,195	47,675	33,273	8 %	393,520	825 %
Income tax benefit (expense)	2,998,234	(14,234)	(4,620)	3,012,468	nm	(9,614)	(208)%
Net income	$3,472,702	$426,961	$43,055	$3,045,741	713 %	$383,906	892 %

nm - not meaningful

Total Revenue

Subscriber Revenue includes subscription, activation and other fees.

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, subscriber revenue was $2,962,665 and $2,595,414, respectively, an increase of 14%, or $367,251. The increase was primarily attributable to a 9% increase in daily weighted average number of subscribers, the increase in certain of our subscription rates beginning in January 2012, and an increase in subscriptions to premium services, including Premier packages, data services and Internet streaming. The increase was partially offset by subscription discounts offered through customer acquisition and retention programs.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, subscriber revenue was $2,595,414 and $2,414,174, respectively, an increase of 8%, or $181,240. The increase was primarily attributable to an increase of 8% in daily weighted average number of subscribers and an increase in subscriptions to premium services, including Premier packages, data services and Internet subscriptions, partially offset by the impact of subscription discounts offered through customer acquisition and retention programs.

We expect subscriber revenues to grow based on the growth of our subscriber base, promotions, plan mix, subscription prices and identification of additional revenue streams from subscribers.

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

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, advertising revenue was $82,320 and $73,672, respectively, an increase of 12%, or $8,648. The increase was primarily due to a greater number of advertising spots sold and broadcast, as well as increases in rates charged per spot.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, advertising revenue was $73,672 and $64,517, respectively, an increase of 14%, or $9,155. The increase was primarily due to a greater number of advertising spots sold and broadcast, as well as increases in rates charged per spot.

We expect our advertising revenue to grow as advertisers are attracted to our platform by the increase in our subscriber base.

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

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, equipment revenue was $73,456 and $71,051, respectively, an increase of 3%, or $2,405. The increase was driven by royalties from higher OEM production, offset by lower direct to consumer sales.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, equipment revenue was $71,051 and $71,355, respectively, a decrease of $304. The decrease was driven by a reduction in aftermarket hardware subsidies earned, partially offset by increased royalties from higher OEM production.

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

Other Revenue includes amounts earned from subscribers for the U.S. Music Royalty Fee, revenue from our Canadian affiliate and ancillary revenues.

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, other revenue was $283,599 and $274,387, respectively, an increase of 3%, or $9,212. The increase was driven by revenues from the U.S. Music Royalty Fee as the number of subscribers increased, and higher royalty revenue from Sirius XM Canada.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, other revenue was $274,387 and $266,946, respectively, an increase of 3%, or $7,441. The increase was primarily due to higher royalty revenue from Sirius XM Canada. While the number of subscribers subject to the U.S. Music Royalty Fee increased, that increase was offset by a reduction in December 2010 in the rate charged on primary subscriptions.

Other revenue is dependent upon the U.S. Music Royalty Fee and the royalty from our Canadian affiliate. We expect other revenue to increase as our subscriber base drives higher U.S. Music Royalty Fees and as the performance of our Canadian affiliate improves.

Operating Expenses

Revenue Share and Royalties include distribution and content provider revenue share, advertising revenue share, and broadcast and web streaming royalties. Advertising revenue share is recognized in revenue share and royalties in the period in which the advertising is broadcast.

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, revenue share and royalties were $551,012 and $471,149, respectively, an increase of 17%, or $79,863, and increased as a percentage of total revenue. The increase was primarily attributable to greater revenues subject to royalty and/or revenue sharing arrangements and a 7% increase in the statutory royalty rate for the performance of sound recordings, partially offset by an increase in the benefit to earnings from the amortization of deferred credits on executory contracts initially recognized in purchase price accounting associated with the Merger.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, revenue share and royalties were $471,149 and $435,410, respectively, an increase of 8%, or $35,739. For the year ended December 31, 2011, revenue share and royalties remained flat as a percentage of total revenue. The increase in revenue share and royalties was primarily attributable to a 14% increase in our revenues subject to royalty and/or revenue sharing arrangements and a 7% increase in the statutory royalty rate for the performance of sound recordings, partially offset by a $18,974 increase in the benefit to earnings from the amortization of deferred credits on executory contracts initially recognized in purchase price accounting associated with the Merger.

We expect our revenue share and royalty costs to increase as our revenues grow. Under the terms of the Copyright Royalty Board's decision, we paid royalties of 8.0% and 7.5% of gross revenues, subject to certain exclusions, for the years ended December 31, 2012, and 2011, respectively, and will pay 9.0% in 2013. The deferred credits on executory contracts initially recognized in purchase price accounting associated with the Merger are expected to provide increasing benefits to revenue share and royalties through the expiration of the acquired executory contracts in 2013.

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

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, programming and content expenses were $278,997 and $281,234, respectively, a decrease of 1%, or $2,237, and decreased as a percentage of total revenue. The decrease was primarily due to savings in content agreements, partially offset by increases in personnel costs and reductions in the benefit to earnings from purchase price accounting adjustments associated with the Merger attributable to the amortization of the deferred credit on acquired programming executory contracts.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, programming and content expenses were $281,234 and $305,914, respectively, a decrease of 8%, or $24,680, and decreased as a percentage of total revenue. The decrease was primarily due to savings in content agreements and production costs, partially offset by increases in personnel costs and an $8,394 reduction in the benefit to earnings from purchase price accounting adjustments associated with the Merger attributable to the amortization of the deferred credit on acquired programming executory contracts.

Excluding the impact from purchase accounting adjustments, based on our current programming offerings, we expect our programming and content expenses to decrease as agreements expire and are renewed or replaced on more cost effective terms. The impact of purchase price accounting adjustments associated with the Merger attributable to the amortization of the deferred credit on acquired programming executory contracts will continue to decline, in absolute

amount and as a percentage of reported programming and content costs, through 2015. Substantially all of the deferred credits on executory contracts will be amortized by the end of 2013.

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

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, customer service and billing expenses were $294,980 and $259,719, respectively, an increase of 14%, or $35,261, but remained flat as a percentage of total revenue. The increase was primarily due to longer average handle time per call and higher subscriber volume driving increased subscriber contacts and higher technology costs.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, customer service and billing expenses were $259,719 and $241,680, respectively, an increase of 7%, or $18,039, but remained flat as a percentage of total revenue. The increase was primarily attributable to an 8% increase in daily weighted average number of subscribers which drove higher call volume, billing and collection costs, transaction fees, as well as increased handle time per call and personnel costs. This increase was partially offset by lower agent rates, fewer contacts per subscriber and lower general operating costs.

We expect our customer service and billing expenses to increase as our subscriber base grows.

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

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, satellite and transmission expenses were $72,615 and $75,902, respectively, a decrease of 4%, or $3,287, and decreased as a percentage of total revenue. The decrease was primarily due to a reduction of satellite in-orbit insurance expense as we elected not to renew insurance policies on certain older satellites.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, satellite and transmission expenses were $75,902 and $80,947, respectively, a decrease of 6%, or $5,045, and decreased as a percentage of total revenue. The decrease was due to savings in repeater expenses from network optimization along with favorable lease renewals, a reduction of satellite in-orbit insurance expense, and a transition to more cost-effective approaches to satellite and broadcast operations.

We expect overall satellite and transmission expenses to increase as we enhance our Internet-based service and add functionality, launch our FM-6 satellite and incur in-orbit insurance costs, and extend our terrestrial repeater network.

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

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, cost of equipment was $31,766 and $33,095, respectively, a decrease of 4%, or $1,329, and decreased as a percentage of equipment revenue. The decrease was primarily due to lower direct to consumer sales, partially offset by higher inventory reserves.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, cost of equipment was $33,095 and $35,281, respectively, a decrease of 6%, or $2,186, and decreased as a percentage of equipment revenue. The decrease was primarily due to lower volume of direct to consumer sales.

We expect cost of equipment to vary with changes in sales, supply chain management and inventory valuations.

Subscriber Acquisition Costs include hardware subsidies paid to radio manufacturers, distributors and automakers, including subsidies paid to automakers who include a satellite radio and subscription to our service in the sale or lease price of a new vehicle; subsidies paid for chip sets and certain other components used in manufacturing radios; device royalties for certain radios and chip sets; commissions paid to automakers as incentives to purchase, install and activate satellite radios; product warranty obligations; freight; and provisions for inventory allowances attributable to inventory consumed in our OEM and retail distribution channels. The majority of subscriber acquisition costs are incurred and expensed in advance of, or concurrent with, acquiring a subscriber. Subscriber acquisition costs do not include advertising, marketing, loyalty payments to distributors and dealers of satellite radios or revenue share payments to automakers and retailers of satellite radios.

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, subscriber acquisition costs were $474,697 and $434,482, respectively, an increase of 9%, or $40,215, and decreased as a percentage of total revenue. The increase was primarily a result of higher subsidies related to increased OEM installations occurring in advance of acquiring the subscriber, partially offset by improved OEM subsidy rates per vehicle and increases in the benefit to earnings from the amortization of the deferred credit for acquired executory contracts recognized in purchase price accounting associated with the Merger.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, subscriber acquisition costs were $434,482 and $413,041, respectively, an increase of 5%, or $21,441, and decreased as a percentage of total revenue. The increase was primarily a result of the 12% increase in gross subscriber additions and higher subsidies related to

increased OEM installations occurring in advance of acquiring the subscriber, partially offset by improved OEM subsidy rates per vehicle and a $6,052 increase in the benefit to earnings from the amortization of the deferred credit for acquired executory contracts recognized in purchase price accounting associated with the Merger.

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

Sales and Marketing includes costs for advertising, media and production, including promotional events and sponsorships; cooperative marketing; customer acquisition and retention, and personnel. Cooperative marketing costs include fixed and variable payments to reimburse retailers and automakers for the cost of advertising and other product awareness activities performed on our behalf. Customer acquisition and retention costs include expenses related to direct mail, outbound telemarketing and email.

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, sales and marketing expenses were $248,905 and $222,773, respectively, an increase of 12%, or $26,132, and remained flat as a percentage of total revenue. The increase was primarily due to additional subscriber communications and retention programs associated with a greater number of subscribers and promotional trials, and higher OEM cooperative marketing.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, sales and marketing expenses were $222,773 and $215,454, respectively, an increase of 3%, or $7,319, and decreased as a percentage of total revenue. The increase was primarily due to increased subscriber communications and retention programs associated with a greater number of subscribers and promotional trials, partially offset by reductions in consumer advertising and event marketing.

We anticipate that sales and marketing expenses will increase as we launch seasonal advertising and promotional initiatives to attract new subscribers, and launch and expand programs to retain our existing subscribers and win-back former subscribers. The impact of purchase price accounting adjustments associated with the Merger attributable to the amortization of the deferred credit on acquired sales and marketing contracts will continue to decline, in absolute amount and as a percentage of reported sales and marketing costs, through 2013.

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

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, engineering, design and development expenses were $48,843 and $53,435, respectively, a decrease of 9%, or $4,592, and decreased as a percentage of total revenue. The decrease was driven primarily by a reversal of certain non-recurring engineering charges, partially offset by higher product development costs, costs related to the development of enhanced subscriber features and functionality for our service and higher personnel costs.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, engineering, design and development expenses were $53,435 and $45,390, respectively, an increase of 18%, or $8,045, and remained flat as a percentage of total revenue. The increase was primarily due to higher product development costs and costs related to enhanced subscriber features and functionality, partially offset by lower share-based payment expenses.

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

General and Administrative includes executive management, rent and occupancy, finance, legal, human resources, information technology, and insurance costs.

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, general and administrative expenses were $261,905 and $238,738, respectively, an increase of 10%, or $23,167, but remained flat as a percentage of total revenue. The increase was primarily due to higher personnel costs, including share-based payment expenses, office rent expenses and professional fees, partially offset by lower litigation settlement charges.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, general and administrative expenses were $238,738 and $240,970, respectively, a decrease of 1%, or $2,232, and decreased as a percentage of total revenue. The decrease was primarily due to lower share-based payment expense, as well as lower general operating expenses, including rent, insurance and information technology costs.

We expect our general and administrative expenses to increase in future periods as a result of, among other things, enhanced information technology and personnel costs to support the growth of our business.

Depreciation and Amortization represents the systematic recognition in earnings of the acquisition cost of assets used in operations, including our satellite constellations, property, equipment and intangible assets, over their estimated service lives.

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, depreciation and amortization expense was $266,295 and $267,880, respectively, a decrease of 1%, or $1,585, and decreased as a percentage of total revenue. The decrease was driven by reductions in the amortization of subscriber relationships and depreciation recognized on assets placed in-service as certain assets reached the end of their estimated service lives.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, depreciation and amortization expense was $267,880 and $273,691, respectively, a decrease of 2%, or $5,811, and decreased as a percentage of total revenue. The decrease was primarily due to a reduction in the amortization of subscriber relationships, partially offset by depreciation recognized on additional assets placed in service.

We expect depreciation expense to increase in future periods as we launch our FM-6 satellite, which will be partially offset by reduced amortization associated with the stepped-up basis in assets acquired in the Merger (including intangible assets, satellites, property and equipment) through the end of their estimated service lives, principally through 2017.
Restructuring, Impairments and Related Costs represents charges related to the reorganization of our staff and restructuring of contracts, as well as charges related to the impairment of assets when those costs are deemed to provide no future benefit.

- 2012 vs. 2011: In 2012 and 2011, we did not record any restructuring, impairments and related costs.
- 2011 vs. 2010: For the year ended December 31, 2010, restructuring, impairments and related costs were $63,800 primarily due to the impairment of our FM-4 satellite as a result of the launch of our XM-5 satellite in 2010 and contract terminations.

Other Income (Expense)

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

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, interest expense was $265,321 and $304,938, respectively, a decrease of 13%, or $39,617. The decrease was primarily due to a lower average outstanding debt balance and a mix of outstanding debt with lower interest rates.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, interest expense was $304,938 and $295,643, respectively, an increase of 3%, or $9,295. The increase was primarily due to lower capitalized interest related to the construction of our satellites and related launch vehicles, partially offset by outstanding debt with lower interest rates.

We expect interest expense to decrease in future periods due to debt retirements at maturity, redemptions and repurchases in 2012. The decrease will be partially offset by a decrease in capitalized interest following the launch of

our FM-6 satellite.

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

- 2012 vs. 2011: For the year ended December 31, 2012, loss on extinguishment of debt and credit facilities, net, was $132,726. The loss was recorded on the repayment of our 13% Senior Notes due 2013 and our 9.75% Senior Secured Notes due 2015. During the year ended December 31, 2011, a $7,206 loss was recorded on the repayment of our 11.25% Senior Secured Notes due 2013 and our 3.25% Convertible Notes due 2011.

- 2011 vs. 2010: For the year ended December 31, 2011, loss on extinguishment of debt and credit facilities, net, was $7,206. During the year ended December 31, 2010, a $120,120 loss was recorded on the repayment of our Senior Secured Term Loan due 2012 and 9.625% Senior Notes due 2013 and XM's 10% Senior PIK Secured Notes due 2011 and 9.75% Senior Notes due 2014, as well as the partial repayment of XM's 11.25% Senior Secured Notes due 2013 and our 3.25% Convertible Notes due 2011.

Interest and Investment Income (Loss) includes realized gains and losses, dividends, interest income, our share of Sirius Canada’s and XM Canada’s pre-Merger net losses, and our share of the income (loss) of Sirius XM Canada.

- 2012 vs. 2011: For the year ended December 31, 2012, interest and investment income was $716 compared to $73,970 in 2011. The interest and investment income for 2012 was primarily due to interest on our investments and our share of Sirius XM Canada's net income, partially offset by the amortization expense related to our equity method intangible assets. The interest and investment income for 2011 was primarily due to income from our interests in Sirius XM Canada due to the realized net gain from the Canada Merger in the second quarter of 2011.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, interest and investment income (loss) was $73,970 and $(5,375), respectively, an increase of $79,345. The increase was attributable to a net gain realized as a result of the Canada Merger. This transaction resulted in the recognition of a $75,768 gain recorded in interest and investment income. The gain was partially offset by our share of net losses at our Canadian affiliate.

Income Taxes

Income Tax Benefit (Expense) includes the reversal of substantially all of our deferred income tax valuation allowance, the change in our deferred tax liability related to the difference in accounting for our FCC licenses, which are amortized over 15 years for tax purposes but not amortized for book purposes in accordance with GAAP, foreign withholding taxes on royalty income, and the effect of changes in certain state laws related to the utilization of net operating losses ("NOLs").

- 2012 vs. 2011: For the year ended December 31, 2012, income tax benefit was $2,998,234 compared to income tax expense of $(14,234) for 2011. For the year ended December 31, 2012, we released $3,195,651 of valuation allowance due to the cumulative positive evidence that it is more likely than not that our deferred tax assets will be realized.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, income tax expense was $14,234 and $4,620, respectively, an increase of 208%, or $9,614, primarily due to an increase in the applicable state effective tax rates, foreign withholding taxes on royalty income and the state tax impact of the suspension of NOL use in California and Illinois.

As of December 31, 2012, the deferred tax asset valuation allowance of $9,835 relates to deferred tax assets that are not likely to be realized due to certain state NOL limitations.

Subscriber Data

The following table contains subscriber data for the years ended December 31, 2012, 2011 and 2010, respectively:

	Unaudited		
	For the Years Ended December 31,		
	2012	2011	2010
Beginning subscribers	21,892,824	20,190,964	18,772,758
Gross subscriber additions	9,617,771	8,696,020	7,768,827
Deactivated subscribers	(7,610,259)	(6,994,160)	(6,350,621)
Net additions	2,007,512	1,701,860	1,418,206
Ending subscribers	23,900,336	21,892,824	20,190,964
Self-pay	19,570,274	17,908,742	16,686,799
Paid promotional	4,330,062	3,984,082	3,504,165
Ending subscribers	23,900,336	21,892,824	20,190,964
Self-pay	1,661,532	1,221,943	982,867
Paid promotional	345,980	479,917	435,339
Net additions	2,007,512	1,701,860	1,418,206
Daily weighted average number of subscribers	22,794,170	20,903,908	19,385,055
Average self-pay monthly churn	1.9%	1.9%	1.9%
New vehicle consumer conversion rate	45%	45%	46%

Note: See pages 39 through 45 for glossary.

Subscribers. At December 31, 2012, we had 23,900,336 subscribers, an increase of 2,007,512 subscribers, or 9%, from the 21,892,824 subscribers as of December 31, 2011.

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, net additions were 2,007,512 and 1,701,860, respectively, an increase of 18%, or 305,652. The improvement was due to the increase in gross subscriber additions, primarily resulting from higher new vehicle shipments and light vehicle sales, as well as an increase in the number of conversions from unpaid promotional trials and returning subscriber activations, including consumers in previously owned vehicles. This increase in gross additions was partially offset by an increase in deactivations. The increase in deactivations was primarily due to paid promotional trial deactivations stemming from the growth of paid trials and increased self-pay deactivations from our larger subscriber base.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, net additions were 1,701,860 and 1,418,206, respectively, an increase in net additions of 20%, or 283,654. The improvement was due to the 12% increase in gross subscriber additions, primarily resulting from an increase in U.S. light vehicle sales, new vehicle penetration, and returning subscriber activations including previously owned car acquisitions. This increase in gross additions was partially offset by the 10% increase in deactivations, which was primarily due to an increase in paid promotional trial volume along with growth in our subscriber base.

Average Self-pay Monthly Churn for the year is derived from the average of the quarterly average self-pay monthly churn during the year. Average self-pay monthly churn for a quarter is derived by dividing the monthly average of self-pay deactivations for a quarter by the average self-pay subscriber balance for a quarter. (See accompanying glossary on pages 39 through 45 for more details.)

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, our average self-pay monthly churn rate was 1.9%.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, our average self-pay monthly churn rate was 1.9%.

New Vehicle Consumer Conversion Rate is the percentage of owners and lessees of new vehicles that receive our service and convert to become self-paying subscribers after an initial promotional period. The metric excludes rental and fleet vehicles. (See accompanying glossary on pages 39 through 45 for more details).

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, the new vehicle consumer conversion rate was 45%.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, the new vehicle consumer conversion rate was 45% and 46%, respectively. The decrease was primarily due to the changing mix of sales among OEMs and operational issues impacting the timing of the receipt of customer information and prompt marketing communications with buyers and lessees of vehicles.

Adjusted Results of Operations

In this section, we present certain financial performance measures that are not calculated and presented in accordance with generally accepted accounting principles in the United States of America (“Non-GAAP”). These Non-GAAP financial measures include: average monthly revenue per subscriber, or ARPU; customer service and billing expenses, per average subscriber; subscriber acquisition cost, or SAC, per gross subscriber addition; free cash flow; and adjusted EBITDA. These measures exclude the impact of certain purchase price accounting adjustments. We use these Non-GAAP financial measures to manage our business, to set operational goals and as a basis for determining performance-based compensation for our employees.

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

Our adjusted EBITDA also reallocates share-based payment expense from functional operating expense line items to a separate line within operating expenses. We believe the exclusion of share-based payment expense from functional operating expenses is useful given the significant variation in expense that can result from changes in the fair value as determined by the Black-Scholes-Merton model, which varies based on assumptions used for the expected life, expected stock price volatility and risk-free interest rates, the effect of which is unrelated to the operational conditions that give rise to variations in the components of our operating costs.

Free cash flow is a metric that our management and board of directors use to evaluate the cash generated by our operations, net of capital expenditures and other investment activity. In a capital intensive business, with significant historical and current investments in satellites, we look at our operating cash flow, net of these investing cash outflows, to determine cash available for future subscriber acquisition and capital expenditures, to repurchase or retire debt, to acquire other companies and to evaluate our ability to return capital to stockholders. We believe free cash flow is an indicator of the long-term financial stability of our business. Free cash flow, which is reconciled to “Net cash provided by operating activities”, is a non-GAAP financial measure. This measure can be calculated by deducting amounts under the captions "Additions to property and equipment" and deducting or adding Restricted and other investment activity from "Net cash provided by operating activities" from the consolidated statements of cash flows. Free cash flow should be used in conjunction with other GAAP financial performance measures and may not be comparable to free cash flow measures presented by other companies. Free cash flow should be viewed as a supplemental measure rather than an alternative measure of cash flows from operating activities, as determined in accordance with GAAP. Free cash flow is limited and does not represent remaining cash flows available for discretionary expenditures due to the fact that the measure does not deduct the payments required for debt maturities. We believe free cash flow provides useful supplemental information to investors regarding our current and projected

cash flow, along with other GAAP measures (such as cash flows from operating and investing activities), to determine our financial condition, and to compare our operating performance to other communications, entertainment and media companies.

We believe these Non-GAAP financial measures provide useful information to investors regarding our financial condition and results of operations. We believe investors find these Non-GAAP financial performance measures useful in evaluating our core trends because it provides a direct view of our underlying contractual costs. We believe investors use our current and projected adjusted EBITDA to estimate our current or prospective enterprise value and to make investment decisions. By providing these Non-GAAP financial measures, together with the reconciliations to the most directly comparable GAAP measure, we believe we are enhancing investors' understanding of our business and our results of operations.

These Non-GAAP financial measures should be viewed in addition to, and not as an alternative for or superior to, our reported results prepared in accordance with GAAP. Please refer to the glossary (pages 39 through 45) for a further discussion of such Non-GAAP financial measures and reconciliations to the most directly comparable GAAP measure.

The following table contains our key operating metrics based on our adjusted results of operations for the years ended December 31, 2012, 2011 and 2010, respectively:

	Unaudited Adjusted For the Years Ended December 31,		
(in thousands, except for per subscriber amounts)	2012	2011	2010
ARPU	$12.00	$11.58	$11.73
SAC, per gross subscriber addition	$54	$55	$59
Customer service and billing expenses, per average subscriber	$1.07	$1.03	$1.03
Free cash flow	$709,446	$415,742	$210,481
Adjusted EBITDA	$920,343	$731,018	$626,288

Note: See pages 39 through 45 for glossary.

ARPU is derived from total earned subscriber revenue, net advertising revenue and other subscription-related revenue, net of purchase price accounting adjustments, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. (See accompanying glossary on pages 39 through 45 for more details.)

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, ARPU was $12.00 and $11.58, respectively. The increase was driven primarily by the increase in certain of our subscription rates beginning in January 2012, and an increase in subscriptions to premium services, partially offset by subscription discounts offered through customer acquisition and retention programs and a decrease in the contribution from the U.S. Music Royalty Fee.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, ARPU was $11.58 and $11.73, respectively. The decrease was driven primarily by an increase in subscription discounts offered through customer acquisition and retention programs and a decrease in the contribution from the U.S. Music Royalty Fee, partially offset by an increase in subscriptions to our premium services, including Premier packages, data services and Internet subscriptions.

SAC, Per Gross Subscriber Addition, is derived from subscriber acquisition costs and margins from the sale of radios, components and accessories, excluding share-based payment expense and purchase price accounting adjustments, divided by the number of gross subscriber additions for the period. (See accompanying glossary on pages 39 through 45 for more details.)

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, SAC, per gross subscriber addition, was $54 and $55, respectively. The decrease was primarily due to improved OEM subsidy rates per vehicle, partially offset by higher subsidies related to increased OEM installations occurring in advance of acquiring the subscriber.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, SAC, per gross subscriber addition, was $55 and $59, respectively. The decrease was primarily due to lower per radio subsidy rates for certain OEMs and growth in subscriber reactivations and royalties from radio manufacturers.

Customer Service and Billing Expenses, Per Average Subscriber, is derived from total customer service and billing expenses, excluding share-based payment expense and purchase price accounting adjustments, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. (See accompanying glossary on pages 39 through 45 for more details.)

• 2012 vs. 2011: For the years ended December 31, 2012 and 2011, customer service and billing expenses, per average subscriber, were $1.07 and $1.03, respectively. The increase was primarily due to longer average handle time per call and higher technology costs.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, customer service and billing expenses, per average subscriber, were $1.03.

Free Cash Flow includes the net cash provided by operations, additions to property and equipment, and other investing activity. (See accompanying glossary on pages 39 through 45 for more details.)

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, free cash flow was $709,446 and $415,742, respectively, an increase of $293,704. The increase was primarily driven by higher net cash provided by operating activities resulting from improved operating performance and higher collections from subscribers and distributors, as well as a decrease in capital expenditures resulting from lower satellite and related launch vehicle construction costs.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, free cash flow was $415,742 and $210,481, respectively, an increase of $205,261. The increase was primarily driven by higher net cash provided by operating activities resulting from improved operating performance, cash received from the Canada Merger, higher collections from subscribers and distributors, and the repayment in the first quarter of 2010 of liabilities deferred in 2009, as well as a decrease in capital expenditures for the year ended December 31, 2011 resulting from decreased satellite construction and launch expenditures due to the launch in 2010 of our XM-5 satellite, an increase in restricted and other investment activities driven by the return of capital resulting from the Canada Merger; partially offset by proceeds from the sale of investment securities in the year ended December 31, 2010.

Adjusted EBITDA. EBITDA is defined as net income before interest and investment income (loss); interest expense, net of amounts capitalized; income tax benefit (expense) and depreciation and amortization. Adjusted EBITDA removes the impact of other income and expense, losses on extinguishment of debt as well as certain other charges, such as goodwill impairment; restructuring, impairments and related costs; certain purchase price accounting adjustments and share-based payment expense. (See the accompanying glossary on pages 39 through 45 for more details):

- 2012 vs. 2011: For the years ended December 31, 2012 and 2011, adjusted EBITDA was $920,343 and $731,018, respectively, an increase of 26%, or $189,325. The increase was primarily due to increases in adjusted revenues, partially offset by increases in expenses included in adjusted EBITDA. The increase in adjusted revenues was primarily due to the increase in our subscriber base and the increase in certain of our subscription rates. The increase in expenses was primarily driven by higher revenue share and royalties expenses associated with growth in revenues, higher subscriber acquisition costs related to increased gross subscriber additions and subsidies related to increased OEM installations, customer service and billing costs related to longer average handle times and higher subscriber volume, and higher sales and marketing costs related to subscriber communications and cooperative marketing, partially offset by lower programming and content costs.

- 2011 vs. 2010: For the years ended December 31, 2011 and 2010, adjusted EBITDA was $731,018 and $626,288, respectively, an increase of 17%, or $104,730. The increase was primarily due to an increase in adjusted revenues, partially offset by an increase in expenses included in adjusted EBITDA. The increase in adjusted revenues was primarily due to the increase in our subscriber base. The increase in expenses was primarily driven by higher revenue share and royalties expenses associated with growth in revenues, increased customer service and billing expenses associated with subscriber growth and higher subscriber acquisition costs related to the 12% increase in gross additions, partially offset by lower programming and content costs.

Liquidity and Capital Resources

Cash Flows for the Year Ended December 31, 2012 Compared with the Year Ended December 31, 2011 and Year Ended December 31, 2011 Compared with the Year Ended December 31, 2010

As of December 31, 2012, 2011 and 2010, we had $520,945, $773,990 and $586,691, respectively, of cash and cash equivalents. The following table presents a summary of our cash flow activity for the periods set forth below:

	For the Years Ended December 31,				
	2012	2011	2010	2012 vs. 2011	2011 vs. 2010
Net cash provided by operating activities	$806,765	$543,630	$512,895	$263,135	$30,735
Net cash used in investing activities	(97,319)	(127,888)	(302,414)	30,569	174,526
Net cash used in financing activities	(962,491)	(228,443)	(7,279)	(734,048)	(221,164)
Net (decrease) increase in cash and cash equivalents	(253,045)	187,299	203,202	(440,344)	(15,903)
Cash and cash equivalents at beginning of period	773,990	586,691	383,489	187,299	203,202
Cash and cash equivalents at end of period	$520,945	$773,990	$586,691	$(253,045)	$187,299

Cash Flows Provided by Operating Activities

Cash provided by operating activities increased by $263,135 to $806,765 for the year ended December 31, 2012 from $543,630 for the year ended December 31, 2011. Cash provided by operating activities increased by $30,735 to $543,630 for the year ended December 31, 2011 from cash provided by operating activities of $512,895 for the year ended December 31, 2010. The primary driver of our operating cash flow growth has been improvements in profitability.

- Our net income was $3,472,702, $426,961 and $43,055 for the years ended December 31, 2012, 2011 and 2010, respectively. Excluding the $3,001,818 non-cash deferred tax valuation allowance reversal in 2012, our increase in net income was primarily driven by an increase in our subscriber revenues of $367,251, or 14%, and $181,240, or 8%, for the years ended December 31, 2012 and 2011, respectively, attributable to the increase in daily weighted average subscribers, an increase in certain of our subscription rates beginning in January 2012, and an increase in subscriptions to premium services, including Premier packages, data services and streaming. Our growth in revenue was partially offset by an increase in our operating expenses of $191,608, or 8%, for the year ended December 31, 2012. Operating expenses for the year ended December 31, 2011 were flat compared December 31, 2010. The increase in operating expenses for the year ended December 31, 2012 was primarily driven by higher revenue share and royalties expenses associated with growth in revenues, higher subscriber acquisition costs related to an 11% increase in gross subscriber additions and subsidies related to increased OEM installations, customer service and billing costs related to longer average handle times and higher subscriber volume, and higher sales and marketing costs related to subscriber communications and cooperative marketing.

- Net non-cash adjustments to net income were $(2,758,067), $66,975 and $357,743 for the years ended December 31, 2012, 2011 and 2010, respectively. Significant components of non-cash expenses, and their impact on cash flows from operating activities, include the following:

	For the Years Ended December 31,		
	2012	2011	2010
Depreciation and amortization	$266,295	$267,880	$273,691
Restructuring, impairments and related costs	$—	$—	$66,731
Loss on extinguishment of debt and credit facilities, net	$132,726	$7,206	$120,120
Gain on merger of unconsolidated entities	$—	$(75,768)	$—

Share-based payment expense	$63,822	$53,190	$60,437
Deferred income taxes	$(3,001,818)	$8,264	$2,308
Other non-cash purchase price adjustments	$(289,050)	$(275,338)	$(250,727)

Depreciation and amortization expense is expected to increase in future periods as we recognize depreciation expense upon the launch of our FM-6 satellite.

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

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

Gain on merger of unconsolidated entities represents the gain on the Canada Merger which closed in June 2011.

Share-based payment expense is expected to increase in future periods as we grant equity awards to our employees and directors. Compensation expense for share-based awards is recorded in the financial statements based on the fair value of the underlying equity awards.

Deferred income taxes includes a benefit related to a reversal of substantially all of our deferred income tax valuation allowance as the cumulative positive evidence outweighed the historical negative evidence regarding the likelihood that our deferred tax asset will be realized.

Other non-cash purchase price adjustments include liabilities recorded as a result of the Merger related to executory contracts with an OEM and certain programming providers, as well as amortization resulting from changes in the value of deferred revenue as a result of the Merger.

Changes in operating assets and liabilities increased operating cash flows for the years ended December 31, 2012, 2011 and 2010 by $92,130, $49,694 and $112,097, respectively. As we continue to grow our subscriber and revenue base, we expect that deferred revenue and amounts due from customers and distributors will continue to increase. Amounts payable to vendors are also expected to increase as our business grows. The timing of payments to vendors and related parties are based in part on contractual commitments.

Cash Flows Used in Investing Activities

Cash used for investing activities consists primarily of capital expenditures for property and equipment. We will continue to incur significant costs to improve our terrestrial repeater network and broadcast and administrative infrastructure. In addition, we will continue to incur capital expenditures associated with our FM-6 satellite. After the launch of our FM-6 satellite, we anticipate no significant satellite capital expenditures for several years until it becomes necessary to replace satellites in our fleet.

- The decrease in cash used for investing activities was primarily due to lower satellite and related launch vehicle construction costs associated with our FM-6 satellite which is expected to launch in mid-2013 and following the launch of our XM-5 satellite in 2010.

Cash Flows Used in Financing Activities

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

- Cash flows used in financing activities in 2012 were primarily due to the repayment of the remaining balance of our 13% Senior Notes due 2013 and our 9.75% Senior Secured Notes due 2015, partially offset by the issuance of our

5.25% Senior Notes due 2022 and the exercise of stock options. The cash flows used in financing activities in 2011 were the result of the repayment of the remaining balance of our 11.25% Senior Secured Notes due 2013 and 3.25% Convertible Notes due 2011. In 2010, we repaid our Senior Secured Term Loan due 2012, 9.625% Senior Notes due 2013, XM's 10% Senior PIK Secured Notes due 2011 and 9.75% Senior Notes due 2014. We also partially repaid XM's 11.25% Senior Secured Notes due 2013 and our 3.25% Convertible Notes due 2011 and paid a special cash dividend of approximately $327,000 during the fourth quarter of 2012 described below under "Special Dividend". We issued the following new debt in 2010: our 8.75% Senior Notes due 2015 and 7.625% Senior Notes due 2018.

Financings and Capital Requirements

We have historically financed our operations through the sale of debt and equity securities.

Future Liquidity and Capital Resource Requirements

We have entered into various agreements to design, construct and launch our satellites in the normal course of business. As disclosed in Note 15 to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K, as of December 31, 2012, we expect to incur satellite and transmission related expenditures of approximately $67,170 and $27,620 in 2013 and 2014, respectively, and an additional $42,043 thereafter, the majority of which is attributable to the construction and expected launch of our FM-6 satellite and related launch vehicle in 2013.

Based upon our current business plans, we believe that we have sufficient cash, cash equivalents and marketable securities to cover our estimated short-term and long-term funding needs. In 2012, we entered into a five year Senior Secured Revolving Credit Facility ("Credit Facility") which will be used for working capital and other general corporate purposes, including financing acquisitions, share repurchases and dividends. We expect to fund operating expenses, capital expenditures, working capital requirements, interest payments, taxes and scheduled maturities of our debt with existing cash, cash flow from operations and our Credit Facility, which we believe will be sufficient to meet our cash requirements.

Our ability to meet our debt and other obligations depends on our future operating performance and on economic, financial, competitive and other factors. We continually review our operations for opportunities to adjust the timing of expenditures to ensure that sufficient resources are maintained.

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

Special Dividend

On December 28, 2012, we paid a special cash dividend of $0.05 per share of common stock. This was the first cash dividend ever paid to our stockholders. Our Series B-1 Preferred Stock held by Liberty Radio, LLC, a wholly-owned subsidiary of Liberty Media Corporation, participated in this cash dividend on an as-converted basis in accordance with its terms. The total amount of this special dividend was approximately $327,000.

The dividend reflects the board's desire to return value to stockholders and its confidence in the long-term growth prospects of our business. We currently do not intend to declare recurring dividends on our common stock. Our board of directors has not made any determination whether similar special cash dividends will be paid in the future.

Our ability to pay dividends on our common stock is currently limited by covenants under our debt agreements. We retain sufficient capital capacity to continue making long-term investments in our programming, research and development initiatives and overall operations as well as pursue strategic opportunities which may arise. See Note 12 to our consolidated financial statements included in this Annual Report on Form 10-K.

Stock Repurchase Program

In December 2012, we announced that our board of directors approved a $2,000,000 common stock repurchase program, which we will begin utilizing in 2013. Shares of common stock may be purchased from time to time on the open market or in privately negotiated transactions.

7% Exchangeable Senior Subordinated Notes due 2014

As a result of Liberty Media Corporation's beneficial ownership, a Fundamental Change occurred on January 17, 2013 under the indenture governing the Exchangeable Notes. In accordance with the indenture, on February 1, 2013, we made an offer to each holder of Exchangeable Notes to: (i) have the Company repurchase his or her Exchangeable Notes at a purchase price in cash equal to $1,000 per $1,000 principal amount of the Notes (plus accrued and unpaid interest to, but excluding March 1, 2013); or (ii) exchange his or her Exchangeable Notes for our common stock, at an exchange rate of 581.3112 shares per $1,000 principal amount of Notes, on or prior to March 1, 2013. This exchange rate is a benefit to the holders compared to

an exchange rate of 543.1372 shares of common stock in effect prior to occurrence of such Fundamental Change. A holder of the Exchangeable Notes may also elect to retain his or her Notes pursuant to their terms through maturity on December 1, 2014, or otherwise transfer or exchange them in the ordinary course. We believe that we have sufficient resources to fund any required repurchases of the Exchangeable Notes.

Debt Covenants

The indentures and the credit agreement governing our debt include restrictive covenants. As of December 31, 2012, we were in compliance with the indentures and credit agreement governing our debt. For a discussion of our “Debt Covenants”, refer to Note 12 to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

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

Contractual Cash Commitments

For a discussion of our “Contractual Cash Commitments,” refer to Note 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 Notes 10 and 18 to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods. Accounting estimates require the use of significant management assumptions and judgments as to future events, and the effect of those events cannot be predicted with certainty. The accounting estimates will change as new events occur, more experience is acquired and more information is obtained. We evaluate and update our assumptions and estimates on an ongoing basis and use outside experts to assist in that evaluation when we deem necessary. We have disclosed all significant accounting policies in Note 2 to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Goodwill. Goodwill represents the excess of the purchase price over the estimated fair value of net tangible and identifiable intangible assets acquired in business combinations. Our annual impairment assessment of our single reporting unit is performed as of the fourth quarter of each year. Assessments are performed at other times if events or circumstances indicate it is more likely than not that the asset is impaired. Step one of the impairment assessment compares the fair value of the entity to its carrying value and if the fair value exceeds its carrying value, goodwill is not impaired. If the carrying value exceeds the fair value, the implied fair value of goodwill is compared to the carrying value of goodwill; an impairment loss will be recorded for the amount the carrying value exceeds the implied fair value. At the date of our annual assessment for 2012, the fair value of our single reporting unit substantially exceeded its carrying value and therefore was not at risk of failing step one of ASC 350-20, Goodwill. Subsequent to our annual evaluation of the carrying value of goodwill, there were no events or circumstances that triggered the need for an interim evaluation for impairment. As a result, there were no impairment charges to our goodwill during the

years ended December 31, 2012 and 2011.

Long-Lived and Indefinite-Lived Assets. We carry our long-lived assets at cost less accumulated amortization and depreciation. We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset is not recoverable. At the time an impairment in the value of a long-lived asset is identified, the impairment is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Our annual impairment assessment of indefinite-lived assets, our FCC licenses and trademark, is performed as of the fourth quarter of each year and an assessment is made at other times if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment, establishes an option to first perform a qualitative assessment to determine whether it is more likely than not that an asset is

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impaired. If the qualitative assessment supports that it is more likely than not that the fair value of the asset exceeds its carrying value, a company would not be required to perform a quantitative impairment test. If the qualitative assessment does not support the fair value of the asset, then a quantitative assessment is performed. During the fourth quarter of 2012, a qualitative impairment analysis was performed and we determined that the fair value of our FCC licenses and trademark substantially exceeded the carrying value and therefore was not at risk of impairment. Our qualitative assessment includes the consideration of our long term financial projections, current and historical weighted average cost of capital and liquidity factors, legal and regulatory issues and industry and market pressures. Subsequent to our annual evaluation of the carrying value of our long-lived assets, there were no events or circumstances that triggered the need for an impairment evaluation.

During the year ended December 31, 2011, we used independent appraisals to assist in determining the fair value of our FCC licenses and trademark. The income approach, which is commonly called the “Jefferson Pilot Method” or the “Greenfield Method”, was used to estimate the fair value of our FCC licenses and the “Relief from Royalty” method valuation approach was utilized to value our trademark.

There were no changes in the carrying value of our indefinite life intangible assets during the years ended December 31, 2012 and 2011.

Useful Life of Broadcast/Transmission System. Our satellite system includes the costs of our satellite construction, launch vehicles, launch insurance, capitalized interest, spare satellite, terrestrial repeater network and satellite uplink facilities. We monitor our satellites for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset is not recoverable.

We currently expect our first two in-orbit Sirius satellites launched in 2000 to operate effectively through 2013, our FM-3 satellite, which was also launched in 2000, to operate effectively through 2015, and our FM-5 satellite, launched in 2009, to operate effectively through 2024. In December 2010, we recorded an other than temporary charge for our FM-4 satellite, the ground spare held in storage since 2002. We operate five in-orbit XM satellites, three of which function as in-orbit spares. Two of the three in-orbit spare satellites were launched in 2001 and the other in 2010 while the other two satellites were launched in 2005 and 2006. We estimate that our XM-3, XM-4 and XM-5 satellites will meet their 15 year predicted depreciable lives, and that the depreciable lives of XM-1 and XM-2 will end in 2013.

Certain of our in-orbit satellites have experienced circuit failures on their solar arrays. We continue to monitor the operating condition of our in-orbit satellites. If events or circumstances indicate that the depreciable lives of our in-orbit satellites have changed, we will modify the depreciable life accordingly. If we were to revise our estimates, our depreciation expense would change. For example, a 10% decrease in the expected depreciable lives of satellites and spacecraft control facilities during 2012 would have resulted in approximately $20,616 of additional depreciation expense.

Income Taxes. Deferred income taxes are recognized for the tax consequences related to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. In determining the period in which related tax benefits are realized for book purposes, excess share-based compensation deductions included in net operating losses are realized after regular net operating losses are exhausted; excess tax compensation benefits are recorded off balance-sheet as a memo entry until the period the excess tax benefit is realized through a reduction of taxes payable. A valuation allowance is recognized when, based on the weight of all available evidence, it is considered more likely than not that all, or some portion, of the deferred tax assets will not be realized. Income tax expense is the sum of current income tax plus the change in deferred tax assets and liabilities.

As of December 31, 2012, we have a valuation allowance of $9,835 which relates to deferred tax assets that are not likely due to certain state net operating loss limitations.

Recent Accounting Pronouncements

Information regarding accounting pronouncements is included in Note 2 to the consolidated financial statements.

Glossary

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

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

	Unaudited		
	For the Years Ended December 31,		
	2012	2011	2010
Net income (GAAP):	$3,472,702	$426,961	$43,055
Add back items excluded from Adjusted EBITDA:			
Purchase price accounting adjustments:			
Revenues (see pages 41-43)	7,479	10,910	21,906
Operating expenses (see pages 41-43)	(289,278)	(277,258)	(261,832)
Share-based payment expense, net of purchase price accounting adjustments	63,822	53,369	63,309
Depreciation and amortization (GAAP)	266,295	267,880	273,691
Restructuring, impairments and related costs (GAAP)	—	—	63,800
Interest expense, net of amounts capitalized (GAAP)	265,321	304,938	295,643
Loss on extinguishment of debt and credit facilities, net (GAAP)	132,726	7,206	120,120
Interest and investment (income) loss (GAAP)	(716)	(73,970)	5,375
Other loss (income) (GAAP)	226	(3,252)	(3,399)
Income tax (benefit) expense (GAAP)	(2,998,234)	14,234	4,620
Adjusted EBITDA	$920,343	$731,018	$626,288

Adjusted Revenues and Operating Expenses - We define this Non-GAAP financial measure as our actual revenues and operating expenses adjusted to exclude the impact of certain purchase price accounting adjustments and share-based payment expense. We use this Non-GAAP financial measure to manage our business, to set operational goals and as a basis for determining performance-based compensation for our employees. The following tables reconcile our actual revenues and operating expenses to our adjusted revenues and operating expenses for the years ended December 31, 2012, 2011 and 2010:

	Unaudited For the Year Ended December 31, 2012			
(in thousands)	As Reported	Purchase Price Accounting Adjustments	Allocation of Share-based Payment Expense	Adjusted
Revenue:				
Subscriber revenue	$2,962,665	$228	$—	$2,962,893
Advertising revenue, net of agency fees	82,320	—	—	82,320
Equipment revenue	73,456	—	—	73,456
Other revenue	283,599	7,251	—	290,850
Total revenue	$3,402,040	$7,479	$—	$3,409,519
Operating expenses				
Cost of services:				
Revenue share and royalties	$551,012	$146,601	$—	$697,613
Programming and content	278,997	37,346	(6,120)	310,223
Customer service and billing	294,980	—	(1,847)	293,133
Satellite and transmission	72,615	—	(3,329)	69,286
Cost of equipment	31,766	—	—	31,766
Subscriber acquisition costs	474,697	90,503	—	565,200
Sales and marketing	248,905	14,828	(10,310)	253,423
Engineering, design and development	48,843	—	(6,238)	42,605
General and administrative	261,905	—	(35,978)	225,927
Depreciation and amortization (a)	266,295	—	—	266,295
Share-based payment expense	—	—	63,822	63,822
Total operating expenses	$2,530,015	$289,278	$—	$2,819,293

(a) Purchase price accounting adjustments included above exclude the incremental depreciation and amortization associated with the $785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the year ended December 31, 2012 was $53,000.

(in thousands)	Unaudited For the Year Ended December 31, 2011 As Reported	Purchase Price Accounting Adjustments	Allocation of Share-based Payment Expense	Adjusted
Revenue:				
Subscriber revenue	$2,595,414	$3,659	$—	$2,599,073
Advertising revenue, net of agency fees	73,672	—	—	73,672
Equipment revenue	71,051	—	—	71,051
Other revenue	274,387	7,251	—	281,638
Total revenue	$3,014,524	$10,910	$—	$3,025,434
Operating expenses				
Cost of services:				
Revenue share and royalties	$471,149	$126,941	$—	$598,090
Programming and content	281,234	49,172	(6,212)	324,194
Customer service and billing	259,719	18	(1,502)	258,235
Satellite and transmission	75,902	313	(2,678)	73,537
Cost of equipment	33,095	—	—	33,095
Subscriber acquisition costs	434,482	85,491	—	519,973
Sales and marketing	222,773	15,233	(8,193)	229,813
Engineering, design and development	53,435	31	(4,851)	48,615
General and administrative	238,738	59	(29,933)	208,864
Depreciation and amortization (a)	267,880	—	—	267,880
Share-based payment expense (b)	—	—	53,369	53,369
Total operating expenses	$2,338,407	$277,258	$—	$2,615,665

(a) Purchase price accounting adjustments included above exclude the incremental depreciation and amortization associated with the $785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the year ended December 31, 2011 was $59,000.

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

Programming and content	$6,185	$27	$—	$6,212
Customer service and billing	1,484	18	—	1,502
Satellite and transmission	2,659	19	—	2,678
Sales and marketing	8,166	27	—	8,193
Engineering, design and development	4,820	31	—	4,851
General and administrative	29,874	59	—	29,933
Total share-based payment expense	$53,188	$181	$—	$53,369

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

(a) Purchase price accounting adjustments included above exclude the incremental depreciation and amortization associated with the $785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the year ended December 31, 2010 was $68,000.

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

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

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

	Unaudited		
	For the Years Ended December 31,		
	2012	2011	2010
Subscriber revenue (GAAP)	$2,962,665	$2,595,414	$2,414,174
Add: net advertising revenue (GAAP)	82,320	73,672	64,517
Add: other subscription-related revenue (GAAP)	237,868	231,902	234,148
Add: purchase price accounting adjustments	228	3,659	14,655
	$3,283,081	$2,904,647	$2,727,494
Daily weighted average number of subscribers	22,794,170	20,903,908	19,385,055
ARPU	$12.00	$11.58	$11.73

Average self-pay monthly churn - is defined as the monthly average of self-pay deactivations for the period divided by the average number of self-pay subscribers for the period.

Customer service and billing expenses, per average subscriber - is derived from total customer service and billing expenses, excluding share-based payment expense and purchase price accounting adjustments associated with the Merger, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. We believe the exclusion of share-based payment expense in our calculation of customer service and billing expenses, per average subscriber, is useful given the significant variation in expense that can result from changes in the fair market value of our common stock, the effect of which is unrelated to the operational conditions that give rise to variations in the components of our customer service and billing expenses. Purchase price accounting adjustments associated with the Merger include the elimination of the benefit associated with incremental share-based payment arrangements recognized at the Merger date. Customer service and billing expenses, per average subscriber, is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited		
	For the Years Ended December 31,		
	2012	2011	2010
Customer service and billing expenses (GAAP)	$294,980	$259,719	$241,680
Less: share-based payment expense, net of purchase price accounting adjustments	(1,847)	(1,502)	(2,207)
Add: purchase price accounting adjustments	—	18	281
	293,133	258,235	239,754
Daily weighted average number of subscribers	22,794,170	20,903,908	19,385,055
Customer service and billing expenses, per average subscriber	$1.07	$1.03	$1.03

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

	Unaudited		
	For the Years Ended December 31,		
	2012	2011	2010
Cash Flow information			
Net cash provided by operating activities	$806,765	$543,630	$512,895
Net cash used in investing activities	$(97,319)	$(127,888)	$(302,414)
Net cash used in financing activities	$(962,491)	$(228,443)	$(7,279)
Free Cash Flow			
Net cash provided by operating activities	$806,765	$543,630	$512,895
Additions to property and equipment	(97,293)	(137,429)	(311,868)
Restricted and other investment activity	(26)	9,541	9,454
Free cash flow	$709,446	$415,742	$210,481

New vehicle consumer conversion rate - is defined as the percentage of owners and lessees of new vehicles that receive our service and convert to become self-paying subscribers after the initial promotion period. At the time satellite radio enabled vehicles are sold or leased, the owners or lessees generally receive trial subscriptions ranging from three to twelve months. Promotional periods generally include the period of trial service plus 30 days to handle the receipt and processing of payments. We measure conversion rate three months after the period in which the trial service ends. The metric excludes rental and fleet vehicles.

Subscriber acquisition cost, per gross subscriber addition - or SAC, per gross subscriber addition, is derived from subscriber acquisition costs and margins from the sale of radios and accessories, excluding share-based payment expense and purchase price accounting adjustments, divided by the number of gross subscriber additions for the period. Purchase price accounting adjustments associated with the Merger include the elimination of the benefit of amortization of deferred credits on executory contracts recognized at the Merger date attributable to an OEM. SAC, per gross subscriber addition, is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited		
	For the Years Ended December 31,		
	2012	2011	2010
Subscriber acquisition costs (GAAP)	$474,697	$434,482	$413,041
Less: margin from direct sales of radios and accessories (GAAP)	(41,690)	(37,956)	(36,074)
Add: purchase price accounting adjustments	90,503	85,491	79,439
	$523,510	$482,017	$456,406
Gross subscriber additions	9,617,771	8,696,020	7,768,827
SAC, per gross subscriber addition	$54	$55	$59

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

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

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

fluctuations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements contained in Item 15 herein.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Controls and Procedures

As of December 31, 2012, an evaluation was performed under the supervision and with the participation of our management, including James E. Meyer, our Chief Executive Officer, and David J. Frear, our Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as that term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act). Based on that evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of December 31, 2012. There has been no change in our internal control over financial reporting (as that term is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act) during the year ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. We have performed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our internal control over financial reporting. Our management used the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations to perform this evaluation. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our internal control over financial reporting was effective as of December 31, 2012.

KPMG LLP, an independent registered public accounting firm, which has audited and reported on the consolidated financial statements contained in this Annual Report on Form 10-K, has issued its report on the effectiveness of our internal control over financial reporting which follows this report.

Audit Report of the Independent Registered Public Accounting Firm

The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their audit report appearing on page F-2 of this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 is incorporated in this report by reference to the applicable information in our definitive proxy statement for the 2013 annual meeting of stockholders set forth under the captions Stock Ownership, Governance of the Company, Item 1. Election of Directors and Item 2. Ratification of Independent Registered Public Accountants, which we expect to file with the Securities and Exchange Commission prior to April 30, 2013.

Code of Ethics

We have adopted a code of ethics that applies to all employees, including executive officers, and to directors. The Code of Ethics is available on the Corporate Governance page of our website at www.siriusxm.com. If we ever were to amend or waive any provision of our Code of Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or any person performing similar functions, we intend to satisfy our disclosure obligations with respect to any such waiver or amendment by posting such information on our internet website set forth above rather than filing a Form 8-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is incorporated in this report by reference to the applicable information in our definitive proxy statement for the 2013 annual meeting of stockholders set forth under the captions Item 1. Election of Directors and Item 2. Ratification of Independent Registered Public Accountants, which we expect to file with the Securities and Exchange Commission prior to April 30, 2013.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Certain information required by this item is set forth under the heading “Equity Compensation Plan Information” in Part II, Item 5, of this report.

The additional information required by this Item 12 is incorporated in this report by reference to the applicable information in our definitive proxy statement for the 2013 annual meeting of stockholders set forth under the caption Stock Ownership, which we expect to file with the Securities and Exchange Commission prior to April 30, 2013.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 is incorporated in this report by reference to the applicable information in our definitive proxy statement for the 2013 annual meeting of stockholders set forth under the captions Governance of the Company and Item 1. Election of Directors which we expect to file with the Securities and Exchange Commission prior to April 30, 2013.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 is incorporated in this report by reference to the applicable information in our definitive proxy statement for the 2013 annual meeting of stockholders set forth under the captions Item 2. Ratification of Independent Registered Public Accountants - Principal Accountant Fees and Services, which we expect to file with the Securities and Exchange Commission prior to April 30, 2013.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Documents filed as part of this report:

(1) Financial Statements. See Index to Consolidated Financial Statements appearing on page F-1.
(2) Financial Statement Schedules. See Index to Consolidated Financial Statements appearing on page F-1.
(3) Exhibits. See Exhibit Index following this report, which is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 6th day of February 2013.

SIRIUS XM RADIO INC.

By: /s/ DAVID J. FREAR
David J. Frear
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ EDDY W. HARTENSTEIN (Eddy W. Hartenstein)	Chairman of the Board of Directors and Director	February 6, 2013
/s/ JAMES E. MEYER (James E. Meyer)	Chief Executive Officer and Director (Principal Executive Officer)	February 6, 2013
/s/ DAVID J. FREAR (David J. Frear)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 6, 2013
/s/ THOMAS D. BARRY (Thomas D. Barry)	Senior Vice President and Controller (Principal Accounting Officer)	February 6, 2013
/s/ JOAN L. AMBLE (Joan L. Amble)	Director	February 6, 2013
/s/ MARK D. CARLETON (Mark D. Carleton)	Director	February 6, 2013
/s/ DAVID J. A. FLOWERS (David J. A. Flowers)	Director	February 6, 2013
/s/ JAMES P. HOLDEN (James P. Holden)	Director	February 6, 2013
/s/ GREGORY B. MAFFEI (Gregory B. Maffei)	Director	February 6, 2013
/s/ JOHN C. MALONE (John C. Malone)	Director	February 6, 2013
/s/ JAMES F. MOONEY (James F. Mooney)	Director	February 6, 2013
/s/ ROBIN S. PRINGLE (Robin S. Pringle)	Director	February 6, 2013
/s/ CHARLES Y. TANABE (Charles Y. Tanabe)	Director	February 6, 2013
/s/ CARL VOGEL (Carl Vogel)	Director	February 6, 2013
/s/ VANESSA WITTMAN (Vanessa Wittman)	Director	February 6, 2013

SIRIUS XM RADIO INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Sirius XM Radio Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule listed in Item 15(2). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sirius XM Radio Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sirius XM Radio Inc. and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 6, 2013 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP
New York, New York
February 6, 2013

Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
Sirius XM Radio Inc. and subsidiaries:

We have audited Sirius XM Radio Inc. and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Sirius XM Radio Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Sirius XM Radio Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sirius XM Radio Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and our report dated February 6, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
New York, New York
February 6, 2013

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

	For the Years Ended December 31,		
(in thousands, except per share data)	2012	2011	2010
Revenue:			
Subscriber revenue	$2,962,665	$2,595,414	$2,414,174
Advertising revenue, net of agency fees	82,320	73,672	64,517
Equipment revenue	73,456	71,051	71,355
Other revenue	283,599	274,387	266,946
Total revenue	3,402,040	3,014,524	2,816,992
Operating expenses:			
Cost of services:			
Revenue share and royalties	551,012	471,149	435,410
Programming and content	278,997	281,234	305,914
Customer service and billing	294,980	259,719	241,680
Satellite and transmission	72,615	75,902	80,947
Cost of equipment	31,766	33,095	35,281
Subscriber acquisition costs	474,697	434,482	413,041
Sales and marketing	248,905	222,773	215,454
Engineering, design and development	48,843	53,435	45,390
General and administrative	261,905	238,738	240,970
Depreciation and amortization	266,295	267,880	273,691
Restructuring, impairments and related costs	—	—	63,800
Total operating expenses	2,530,015	2,338,407	2,351,578
Income from operations	872,025	676,117	465,414
Other income (expense):			
Interest expense, net of amounts capitalized	(265,321)	(304,938)	(295,643)
Loss on extinguishment of debt and credit facilities, net	(132,726)	(7,206)	(120,120)
Interest and investment income (loss)	716	73,970	(5,375)
Other (loss) income	(226)	3,252	3,399
Total other expense	(397,557)	(234,922)	(417,739)
Income before income taxes	474,468	441,195	47,675
Income tax benefit (expense)	2,998,234	(14,234)	(4,620)
Net income	$3,472,702	$426,961	$43,055
Unrealized gain on available-for-sale securities	—	—	469
Realized loss on XM Canada investment foreign currency adjustment	—	6,072	—
Foreign currency translation adjustment, net of tax	49	(140)	251
Total comprehensive income	$3,472,751	$432,893	$43,775
Net income per common share:			
Basic	$0.55	$0.07	$0.01
Diluted	$0.51	$0.07	$0.01
Weighted average common shares outstanding:			
Basic	4,209,073	3,744,606	3,693,259
Diluted	6,873,786	6,500,822	6,391,071

See accompanying notes to the consolidated financial statements.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2012	2011
(in thousands, except share and per share data)		
ASSETS		
Current assets:		
Cash and cash equivalents	$520,945	$773,990
Accounts receivable, net	106,142	101,705
Receivables from distributors	104,425	84,817
Inventory, net	25,337	36,711
Prepaid expenses	122,157	125,967
Related party current assets	13,167	14,702
Deferred tax asset	923,972	132,727
Other current assets	12,037	6,335
Total current assets	1,828,182	1,276,954
Property and equipment, net	1,571,922	1,673,919
Long-term restricted investments	3,999	3,973
Deferred financing fees, net	38,677	42,046
Intangible assets, net	2,519,610	2,573,638
Goodwill	1,815,365	1,834,856
Related party long-term assets	44,954	54,953
Long-term deferred tax asset	1,219,256	—
Other long-term assets	12,878	35,657
Total assets	$9,054,843	$7,495,996
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$587,652	$543,193
Accrued interest	33,954	70,405
Current portion of deferred revenue	1,474,138	1,333,965
Current portion of deferred credit on executory contracts	207,854	284,108
Current maturities of long-term debt	4,234	1,623
Related party current liabilities	6,756	14,302
Total current liabilities	2,314,588	2,247,596
Deferred revenue	159,501	198,135
Deferred credit on executory contracts	5,175	218,199
Long-term debt	2,222,080	2,683,563
Long-term related party debt	208,906	328,788
Deferred tax liability	69	1,011,084
Related party long-term liabilities	18,966	21,741
Other long-term liabilities	85,993	82,745
Total liabilities	5,015,278	6,791,851
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, par value $0.001; 50,000,000 authorized at December 31, 2012 and 2011:		
Series A convertible preferred stock; no shares issued and outstanding at December 31, 2012 and 2011	—	—
	6	13

Convertible perpetual preferred stock, series B-1 (liquidation preference of $0.001 per share at December 31, 2012 and 2011); 6,250,100 and 12,500,000 shares issued and outstanding at December 31, 2012 and 2011, respectively		
Common stock, par value $0.001; 9,000,000,000 shares authorized at December 31, 2012 and 2011; 5,262,440,085 and 3,753,201,929 shares issued and outstanding at December 31, 2012 and 2011, respectively	5,263	3,753
Accumulated other comprehensive income, net of tax	120	71
Additional paid-in capital	10,345,566	10,484,400
Accumulated deficit	(6,311,390)	(9,784,092)
Total stockholders' equity	4,039,565	704,145
Total liabilities and stockholders' equity	$9,054,843	$7,495,996

See accompanying notes to the consolidated financial statements.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Series A Convertible Preferred Stock		Convertible Perpetual Preferred Stock, Series B-1		Common Stock					
(in thousands, except share data)	Shares	Amount	Shares	Amount	Shares	Amount	Accumulated Other Comprehensive Income	Additional Paid-in Capital	Accumulated Deficit	Tota Stoc Equi
Balance at January 1, 2010	24,808,959	$25	12,500,000	$13	3,882,659,087	$3,882	$(6,581)	$10,352,291	$(10,254,108)	$95,
Comprehensive income, net of tax	—	$—	—	$—	—	$—	$720	$—	$43,055	$43,
Issuance of common stock to employees and employee benefit plans, net of forfeitures	—	$—	—	$—	6,175,089	$6	$—	$5,265	$—	$5,2
Share-based payment expense	—	$—	—	$—	—	$—	$—	$52,229	$—	$52,
Exercise of options and vesting of restricted stock units	—	$—	—	$—	19,551,977	$20	$—	$10,819	$—	$10,
Conversion of preferred stock to common stock	(24,808,959)	$(25)	—	$—	24,808,959	$25	$—	$—	$—	$—
Balance at December 31, 2010	—	$—	12,500,000	$13	3,933,195,112	$3,933	$(5,861)	$10,420,604	$(10,211,053)	$20
Comprehensive income, net of tax	—	$—	—	$—	—	$—	$5,932	$—	$426,961	$43
Issuance of common stock to employees and employee benefit plans, net of forfeitures	—	$—	—	$—	1,882,801	$2	$—	$3,480	$—	$3,4

Share-based payment expense	—	$—	—	$—	—	$—	$—	$48,581	$—	$48,
Exercise of options and vesting of restricted stock units	—	$—	—	$—	13,401,048	$13	$—	$11,540	$—	$11,
Issuance of common stock upon exercise of warrants	—	$—	—	$—	7,122,951	$7	$—	$(7)	$—	$—
Return of shares under share borrow agreements	—	$—	—	$—	(202,399,983)	$(202)	$—	$202	$—	$—
Balance at December 31, 2011	—	$—	12,500,000	$13	3,753,201,929	$3,753	$71	$10,484,400	$(9,784,092)	$70
Comprehensive income, net of tax	—	$—	—	$—	—	$—	$49	$—	$3,472,702	$3,4
Issuance of common stock to employees and employee benefit plans, net of forfeitures	—	$—	—	$—	1,571,175	$2	$—	$3,521	$—	$3,5
Share-based payment expense	—	$—	—	$—	—	$—	$—	$60,299	$—	$60,
Exercise of stock options	—	$—	—	$—	214,199,297	$214	$—	$125,695	$—	$12
Cash dividends paid on common stock ($0.05)	—	$—	—	$—	—	$—	$—	$(262,387)	$—	$(26
Cash dividends paid on preferred stock on as-converted basis	—	$—	—	$—	—	$—	$—	$(64,675)	$—	$(64
Conversion of preferred stock to common stock	—	$—	(6,249,900)	$(7)	1,293,467,684	$1,294	$—	$(1,287)	$—	$—
Balance at December 31, 2012	—	$—	6,250,100	$6	5,262,440,085	$5,263	$120	$10,345,566	$(6,311,390)	$4,0

See accompanying notes to the consolidated financial statements.

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

	For the Years Ended December 31,		
(in thousands)	2012	2011	2010
Cash flows from operating activities:			
Net income	$3,472,702	$426,961	$43,055
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	266,295	267,880	273,691
Non-cash interest expense, net of amortization of premium	35,924	39,515	42,841
Provision for doubtful accounts	34,548	33,164	32,379
Restructuring, impairments and related costs	—	—	66,731
Amortization of deferred income related to equity method investment	(2,776)	(2,776)	(2,776)
Loss on extinguishment of debt and credit facilities, net	132,726	7,206	120,120
Gain on merger of unconsolidated entities	—	(75,768)	—
Loss on unconsolidated entity investments, net	420	6,520	11,722
Dividend received from unconsolidated entity investment	1,185	—	—
Loss on disposal of assets	657	269	1,017
Share-based payment expense	63,822	53,190	60,437
Deferred income taxes	(3,001,818)	8,264	2,308
Other non-cash purchase price adjustments	(289,050)	(275,338)	(250,727)
Distribution from investment in unconsolidated entity	—	4,849	—
Changes in operating assets and liabilities:			
Accounts receivable	(38,985)	(13,211)	(39,236)
Receivables from distributors	(19,608)	(17,241)	(11,023)
Inventory	11,374	(14,793)	(5,725)
Related party assets	9,523	30,036	(9,803)
Prepaid expenses and other current assets	647	8,525	75,374
Other long-term assets	22,779	36,490	17,671
Accounts payable and accrued expenses	46,043	(32,010)	5,420
Accrued interest	(36,451)	(2,048)	(884)
Deferred revenue	101,311	55,336	133,444
Related party liabilities	(7,545)	(1,542)	(53,413)
Other long-term liabilities	3,042	152	272
Net cash provided by operating activities	806,765	543,630	512,895
Cash flows from investing activities:			
Additions to property and equipment	(97,293)	(137,429)	(311,868)
Purchase of restricted investments	(26)	(826)	—
Sale of restricted and other investments	—	—	9,454
Release of restricted investments	—	250	—
Return of capital from investment in unconsolidated entity	—	10,117	—
Net cash used in investing activities	(97,319)	(127,888)	(302,414)
Cash flows from financing activities:			
Proceeds from exercise of stock options	123,369	11,553	10,839
Payment of premiums on redemption of debt	(100,615)	(5,020)	(84,326)
Repayment of long-term borrowings	(915,824)	(234,976)	(1,262,396)
Repayment of related party long-term borrowings	(126,000)	—	(142,221)
Long-term borrowings, net of costs	383,641	—	1,274,707
Related party long-term borrowings	—	—	196,118

Dividends paid	(327,062)	—	—
Net cash used in financing activities	(962,491)	(228,443)	(7,279)
Net (decrease) increase in cash and cash equivalents	(253,045)	187,299	203,202
Cash and cash equivalents at beginning of period	773,990	586,691	383,489
Cash and cash equivalents at end of period	$520,945	$773,990	$586,691

See accompanying notes to the consolidated financial statements.

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

	For the Years Ended December 31,		
(in thousands)	2012	2011	2010
Supplemental Disclosure of Cash and Non-Cash Flow Information			
Cash paid during the period for:			
Interest, net of amounts capitalized	$262,039	$258,676	$241,160
Income taxes paid	$4,935	$—	$—
Non-cash investing and financing activities:			
Conversion of Series B preferred stock to common stock	$1,294	$—	$—
Capital lease obligations incurred to acquire assets	$12,781	$—	$—
Common stock issuance upon exercise of warrants	$—	$7	$—
Goodwill reduced for exercise of certain stock options	$19,491	$—	$—
In-orbit satellite performance incentive	$—	$—	$21,450
Sale-leaseback of equipment	$—	$—	$5,305
Conversion of Series A preferred stock to common stock	$—	$—	$25

See accompanying notes to the consolidated financial statements.

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

(1) Business & Basis of Presentation
Business
We broadcast our music, sports, entertainment, comedy, talk, news, traffic and weather channels, as well as infotainment services in the United States on a subscription fee basis through our two proprietary satellite radio systems. Subscribers can also receive music and other channels, plus new features such as SiriusXM On Demand, over the Internet, including through applications for mobile devices. We have agreements with every major automaker ("OEMs") to offer satellite radios as factory- or dealer-installed equipment in their vehicles from which we acquire the majority of our subscribers. We also acquire subscribers through the sale or lease of previously owned vehicles with factory-installed satellite radios. Additionally, we distribute our satellite radios through retail locations nationwide and through our website. Satellite radio services are also offered to customers of certain daily rental car companies.

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

In certain cases, automakers include a subscription to our radio services in the sale or lease price of new and previously owned vehicles. The length of these prepaid subscriptions varies, but is typically three to twelve months. In many cases, we receive subscription payments from automakers in advance of the activation of our service. We also reimburse various automakers for certain costs associated with satellite radios installed in their vehicles.
Basis of Presentation
Our financial statements include the consolidated accounts for Sirius XM Radio Inc. and subsidiaries and have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP").

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes. Estimates, by their nature, are based on judgment and available information. Actual results could differ materially from those estimates. Significant estimates inherent in the preparation of the accompanying consolidated financial statements include asset impairment, depreciable lives of our satellites, share-based payment expense, and valuation allowances against deferred tax assets.

(2) Summary of Significant Accounting Policies
Cash and Cash Equivalents
Cash and cash equivalents consist of cash on hand, money market funds, in-transit credit card receipts and highly liquid investments purchased with an original maturity of three months or less.
Equity Method Investments
We hold an equity method investment in Sirius XM Canada. Investments in which we have the ability to exercise significant influence but not control are accounted for pursuant to the equity method of accounting. We recognize our proportionate share of earnings or losses of our affiliates as they occur as a component of Other income (expense) in our consolidated statements of comprehensive income.
The difference between our investment and our share of the fair value of the underlying net assets of our affiliates is first allocated to either finite-lived intangibles or indefinite-lived intangibles and the balance is attributed to goodwill. We follow ASC 350, Intangibles - Goodwill and Other, which requires that equity method finite-lived intangibles be amortized over their estimated useful life while indefinite-lived intangibles and goodwill are not amortized. The amortization of equity method finite-lived intangible assets is recorded in Interest and investment income (loss) in our

consolidated statements of comprehensive income. We periodically evaluate our equity method investments to determine if there has been an other than temporary decline below carrying value. Equity method finite-lived intangibles, indefinite-lived intangibles and goodwill are included in the carrying amount of the investment.

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

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

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

We review long-lived assets, such as property and equipment, and purchased intangibles subject to amortization for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds the estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the fair value of the asset. We did not record any impairments in 2012, 2011 or 2010.
Goodwill and Other Intangible Assets
Goodwill represents the excess of the purchase price over the estimated fair value of net tangible and identifiable intangible assets acquired in business combinations. Our annual impairment assessment of our single reporting unit is performed during the fourth quarter of each year, and an assessment is performed at other times if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset below its carrying value. Step one of the impairment assessment compares the fair value to its carrying value and if the fair value exceeds its carrying value, goodwill is not impaired. If the carrying value exceeds the fair value, the implied fair value of goodwill is compared to the carrying value of goodwill. If the implied fair value exceeds the carrying value then goodwill is not impaired; otherwise, an impairment loss will be recorded by the amount the carrying value exceeds the implied fair value. We did not record any impairments in 2012, 2011 or 2010.

The impairment test for other intangible assets not subject to amortization consists of a comparison of the fair value of the intangible asset with its carrying value. This test is performed during the fourth quarter of each year, and an assessment is performed at other times if events or circumstances indicate it is more likely than not that the asset is impaired. Our indefinite life intangibles include our FCC licenses and trademark. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment, established an option to first perform a qualitative assessment to determine whether it is more likely than not that an asset is impaired. If the qualitative assessment supports that it is more likely than not that the fair value of the asset exceeds its carrying value, a quantitative impairment test is not required. If the qualitative assessment does not support the fair value of the asset, then a quantitative assessment is performed. We completed a qualitative assessment during the fourth quarter of 2012 and determined that there was no impairment in 2012. We used independent appraisals to determine the fair value of our FCC licenses and trademark using the Income and the Relief from Royalty approaches, respectively, in 2011 and 2010 and no impairments were recorded.

Other intangible assets with finite lives consists primarily of customer relationships acquired in business combinations, licensing agreements, and certain information technology related costs. These assets are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment under the provisions of ASC 360-10-35, Property, Plant and Equipment/Overall/Subsequent Measurement. We review intangible assets subject to amortization for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected cash flows, undiscounted and without interest, is less than the carrying amount of the asset, an impairment loss

is recognized as the amount by which the carrying amount of the asset exceeds its fair value. We did not record any impairments relating to our intangible assets with finite lives in 2012, 2011 or 2010.

Revenue Recognition

We derive revenue primarily from subscribers, advertising and direct sales of merchandise.

Revenue from subscribers consists of subscription fees, daily rental fleet revenue and non-refundable activation and other fees. Revenue is recognized as it is realized or realizable and earned. We recognize subscription fees as our services are provided. At the time of sale, vehicle owners purchasing or leasing a vehicle with a subscription to our service typically receive between a three and twelve month prepaid subscription. Prepaid subscription fees received from certain automakers are recorded as deferred revenue and amortized to revenue ratably over the service period which commences upon retail sale and activation.

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

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

ASC 605, Revenue Recognition, provides guidance on how and when to recognize revenues for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. Revenue arrangements with multiple deliverables are required to be divided into separate units of accounting if the deliverables in the arrangement meet certain criteria. Consideration must be allocated at the inception of the arrangement to all deliverables based on their relative selling price, which has been determined using vendor specific objective evidence of selling price of self-pay customers.

Revenue Share

We share a portion of our subscription revenues earned from subscribers with certain automakers. The terms of the revenue share agreements vary with each automaker, but are typically based upon the earned audio revenue as reported or gross billed audio revenue. Revenue share is recorded as an expense in our consolidated statements of comprehensive income and not as a reduction to revenue.

Programming Costs

Programming costs which are for a specified number of events are amortized on an event-by-event basis; programming costs which are for a specified season or period are amortized over the season or period on a straight-line basis. We allocate a portion of certain programming costs which are related to sponsorship and marketing activities to Sales and marketing expense on a straight-line basis over the term of the agreement.

Advertising Costs

Media is expensed when aired and advertising production costs are expensed as incurred. Market development funds consist of fixed and variable payments to reimburse retailers for the cost of advertising and other product awareness activities. Fixed market development funds are expensed over the periods specified in the applicable agreement; variable costs are expensed when the media is aired and production costs are expensed as incurred. During the years ended December 31, 2012, 2011 and 2010, we recorded advertising costs of $139,830, $116,694 and $110,050, respectively. These costs are reflected in Sales and marketing expense in our consolidated statements of comprehensive income.

Subscriber Acquisition Costs

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

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

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

Research & Development Costs

Research and development costs are expensed as incurred and primarily include the cost of new product development, chip set design, software development and engineering. During the years ended December 31, 2012, 2011 and 2010, we recorded research and development costs of $42,605, $48,574 and $40,043, respectively. These costs are reported as a component of Engineering, design and development expense in our consolidated statements of comprehensive income.

Share-Based Compensation

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

Fair value as determined using the Black-Scholes-Merton model varies based on assumptions used for the expected life, expected stock price volatility and risk-free interest rates. In 2012 and 2011, we estimated 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. In 2010, due to the lack of qualifying actively traded options on our common stock, we utilized a 100% weighting to observable historical volatility. The expected life assumption represents the weighted-average period stock-based awards are expected to remain outstanding. These expected life assumptions are established through a review of historical exercise behavior of stock-based award grants

with similar vesting periods. Where historical patterns do not exist, contractual terms are used. The risk-free interest rate represents the daily treasury yield curve rate at the grant date based on the closing market bid yields on actively traded U.S. treasury securities in the over-the-counter market for the expected term. Our assumptions may change in future periods.

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. In determining the period in which related tax benefits are realized for book purposes, excess share-based compensation deductions included in net operating losses are realized after regular net operating losses are exhausted; excess tax compensation benefits are recorded off balance-sheet as a memo entry until the period the excess tax benefit is realized through a reduction of taxes payable. A valuation allowance is recognized when, based on the weight of all available evidence, it is considered more likely than not that all, or some portion, of the deferred tax assets will not be realized. Income tax expense is the sum of current income tax plus the change in deferred tax assets and liabilities.

As of December 31, 2012, we maintained a valuation allowance of $9,835 relating to deferred tax assets that are not likely to be realized due to certain state net operating loss limitations. In 2011, we maintained a full valuation allowance of $3,360,740 against our deferred tax assets due to our prior history of pre-tax losses and uncertainty about the timing of and ability to generate taxable income in the future and our assessment that the realization of the deferred tax assets did meet the more likely than not criterion under ASC 740, Income Taxes.

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

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

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants. As of December 31, 2012 and 2011, the carrying amounts of cash and cash equivalents, accounts and other receivables, and accounts payable approximated fair value due to the short-term nature of these instruments.

ASC 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy for input into valuation techniques as follows: i) Level 1 input - unadjusted quoted prices in active markets for identical instrument; ii) Level 2 input - observable market data for the same or similar instrument but not Level 1; and iii) Level 3 input - unobservable inputs developed using management's assumptions about the inputs used for pricing the asset or liability. We use Level 3 inputs to fair value the 8% convertible unsecured subordinated debentures issued by Sirius XM Canada.

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

The fair value for publicly traded instruments is determined using quoted market prices while the fair value for non-publicly traded instruments is based upon estimates from a market maker and brokerage firm. As of December 31, 2012 and 2011, the carrying value of our debt was $2,435,220 and $3,013,974, respectively; and the fair value approximated $3,055,076 and $3,506,546, respectively.

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Accumulated Other Comprehensive Income

Accumulated other comprehensive income of $120 at December 31, 2012 was primarily comprised of foreign currency translation adjustments related to our interest in Sirius XM Canada. During the years ended December 31, 2012, 2011 and 2010, we recorded a foreign currency translation adjustment of $49, $(140) and $251, respectively, which is recorded net of taxes of $48, $11 and $63, respectively. In addition, during the year ended December 31, 2011, we recorded a loss on our XM Canada investment foreign currency translation adjustment of $6,072. During the year ended December 31, 2010, we recorded an unrealized gain on available-for-sale securities of $469.

Recent Accounting Pronouncements

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820) - Fair Value Measurement, to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. This standard is effective for interim and annual periods beginning after December 15, 2011 and is applied on a prospective basis. We adopted ASU 2011-04 as of January 1, 2012 and the impact was not material to our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220), Presentation of Comprehensive Income, to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. The standard does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. This standard is effective for interim and annual periods beginning after December 15, 2011 and is to be applied retrospectively. The FASB has deferred the requirement to present reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income. Companies are required to either present amounts reclassified out of other comprehensive income on the face of the financial statements or disclose those amounts in the notes to the financial statements. During the deferral period, there is no requirement to separately present or disclose the reclassification adjustments into net income. The effective date of this deferral was consistent with the effective date of ASU 2011-05. We adopted ASU 2011-05 as of January 1, 2012 and disclosed comprehensive income in our consolidated statements of comprehensive income. ASU 2011-05 affects financial statement presentation and has no impact on our results of consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. The guidance gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If the qualitative assessment supports that it is more likely than not the fair value of the asset exceeds its carrying amount, the company would not be required to perform a quantitative impairment test. If the qualitative assessment does not support the fair value of the asset, then a quantitative assessment is performed. ASU 2012-02 is effective for public entities for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. We early adopted ASU 2012-02 and performed a qualitative assessment to determine whether our indefinite-lived intangible assets were impaired as of the fourth quarter of 2012.

(3) Earnings per Share

We utilize the two-class method of calculating basic net income per common share, as our Series B Preferred Stock are considered participating securities. Basic net income per common share is calculated by dividing income available to common stockholders by the weighted average common shares outstanding during each reporting period. Diluted

net income per common share adjusts the weighted average common shares outstanding for the potential dilution that could occur if common stock equivalents (convertible debt and preferred stock, warrants, stock options, restricted stock and restricted stock units) were exercised or converted into common stock, calculated using the treasury stock method. Common stock equivalents of approximately 147,125,000, 419,752,000 and 689,922,000 for the years ended December 31, 2012, 2011 and 2010, respectively, were excluded from the calculation of diluted net income per common share as the effect would have been anti-dilutive.

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	For the Years Ended December 31,		
(in thousands, except per share data)	2012	2011	2010
Numerator:			
Net income	$3,472,702	$426,961	$43,055
Less:			
Allocation of undistributed income to Series B Preferred Stock	(1,084,895)	(174,449)	(17,735)
Dividends paid to preferred stockholders	(64,675)	—	—
Net income available to common stockholders for basic net income per common share	2,323,132	252,512	25,320
Add back:			
Allocation of undistributed income to Series B Preferred Stock	1,084,895	174,449	17,735
Dividends paid to preferred stockholders	64,675	—	—
Effect of interest on assumed conversions of convertible debt	38,500	—	—
Net income available to common stockholders for diluted net income per common share	$3,511,202	$426,961	$43,055
Denominator:			
Weighted average common shares outstanding for basic net income per common share	4,209,073	3,744,606	3,693,259
Weighted average impact of assumed Series B Preferred Stock conversion	2,215,900	2,586,977	2,586,977
Weighted average impact of assumed convertible debt	298,725	—	—
Weighted average impact of other dilutive equity instruments	150,088	169,239	110,835
Weighted average shares for diluted net income per common share	6,873,786	6,500,822	6,391,071
Net income per common share:			
Basic	$0.55	$0.07	$0.01
Diluted	$0.51	$0.07	$0.01

We identified and corrected an immaterial error affecting the historical presentation of basic earnings per share. The adjustment reflects the Series B Preferred Stock held by an affiliate of Liberty Media as participating securities as the holder of such preferred stock may participate in dividends and distributions ratably with the holders of our common stock on an as-converted basis. Net income per common share-basic for the year ended December 31, 2011 was previously reported as $0.11 and has been adjusted to be $0.07. There was no impact on the previously reported net income per common share-basic for the year ended December 31, 2010 and there was no impact on the previously reported diluted earnings per share for any period presented. The effects of the error were not material to any previously reported quarterly or annual period. The related corrections are reflected in the applicable prior periods.
In September 2012, Liberty Media converted 6,249,900 shares of the Series B Preferred Stock into 1,293,467,684 shares of common stock. For a discussion of subsequent events refer to Note 18.

(4) Accounts Receivable, net

Accounts receivable, net, are stated at amounts due from customers net of an allowance for doubtful accounts. Our allowance for doubtful accounts is based upon our assessment of various factors. We consider historical experience, the age of the receivable balances, current economic conditions and other factors that may affect the counterparty’s ability to pay. Bad debt is included in Customer service and billing expense in our consolidated statements of comprehensive income.

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Accounts receivable, net, consists of the following:

	December 31, 2012	December 31, 2011
Gross accounts receivable	$117,853	$111,637
Allowance for doubtful accounts	(11,711)	(9,932)
Total accounts receivable, net	$106,142	$101,705

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

	December 31, 2012	December 31, 2011
Billed	$53,057	$44,618
Unbilled	51,368	40,199
Total	$104,425	$84,817

(5) Inventory, net

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

Inventory, net, consists of the following:

	December 31, 2012	December 31, 2011
Raw materials	$17,717	$24,134
Finished goods	23,779	28,007
Allowance for obsolescence	(16,159)	(15,430)
Total inventory, net	$25,337	$36,711

(6) Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of net tangible and identifiable intangible assets acquired in business combinations. Our annual impairment assessment is performed as of the fourth quarter of each year, and an assessment is performed at other times if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset below its carrying value. At the date of our annual assessment for 2012 and 2011, the fair value of our single reporting unit substantially exceeded its carrying value and therefore was not at risk of failing step one of ASC 350-20, Goodwill.

As of December 31, 2012, there were no indicators of impairment and no impairment loss was recorded for goodwill during the years ended December 31, 2012, 2011 and 2010. The cumulative balance of goodwill impairment that has

been recorded since the Merger is $4,766,190, which was recognized during the year ended December 31, 2008.

During the year ended December 31, 2012, with the release of our deferred income tax valuation allowance, we reduced goodwill by $19,491 related to the subsequent exercise of certain stock options and vesting of certain restricted stock units that were recorded at fair value in connection with the Merger. There were no changes in the carrying value of our goodwill during the year ended December 31, 2011.

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(7) Intangible Assets

Intangible assets consist of the following:

		December 31, 2012			December 31, 2011		
	Weighted Average Useful Lives	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Indefinite life intangible assets:							
FCC licenses	Indefinite	$2,083,654	$ —	$2,083,654	$2,083,654	$ —	$2,083,654
Trademark	Indefinite	250,000	—	250,000	250,000	—	250,000
Definite life intangible assets:							
Subscriber relationships	9 years	380,000	(233,317)	146,683	380,000	(191,201)	188,799
Licensing agreements	9.1 years	78,489	(44,161)	34,328	78,897	(34,145)	44,752
Proprietary software	6 years	16,552	(12,777)	3,775	16,552	(11,507)	5,045
Developed technology	10 years	2,000	(883)	1,117	2,000	(683)	1,317
Leasehold interests	7.4 years	132	(79)	53	132	(61)	71
Total intangible assets		$2,810,827	$ (291,217)	$2,519,610	$2,811,235	$ (237,597)	$2,573,638

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

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

FCC satellite licenses	Expiration year
SIRIUS FM-1	2017
SIRIUS FM-2	2017
SIRIUS FM-3	2017
SIRIUS FM-5	2017
SIRIUS FM-6 (1)	
XM-1	2014
XM-2	2014
XM-3	2013
XM-4	2014
XM-5	2018

(1) We hold an FCC license for our FM-6 satellite, which will expire eight years from when this satellite is launched and placed into operation.

Prior to expiration, we are required to apply for a renewal of our FCC licenses. The renewal and extension of our licenses is reasonably certain at minimal cost, which is expensed as incurred. Each of the FCC licenses authorizes us to use the broadcast spectrum, which is a renewable, reusable resource that does not deplete or exhaust over time.

In connection with the Merger, $250,000 of the purchase price was allocated to the XM trademark. As of December 31, 2012, there were no legal, regulatory or contractual limitations associated with the XM trademark.

Our annual impairment assessment of our indefinite intangible assets is performed as of the fourth quarter of each year. An assessment is performed at other times if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset below its carrying value. At the date of our annual assessment for 2012, our qualitative impairment assessment of fair value of our indefinite intangible assets indicated that such assets substantially exceeded their carrying value and therefore was not at risk of impairment. In 2011, we utilized independent appraisals to assist in determining the fair value of our indefinite intangible assets.

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As of December 31, 2012, there were no indicators of impairment and no impairment loss was recorded for indefinite intangible assets during the years ended December 31, 2012, 2011 and 2010.

Definite Life Intangible Assets
Subscriber relationships are amortized on an accelerated basis over 9 years, which reflects the estimated pattern in which the economic benefits will be consumed. Other definite life intangible assets include certain licensing agreements, which are amortized over a weighted average useful life of 9.1 years on a straight-line basis.

Amortization expense for all definite life intangible assets was $53,620, $59,050 and $66,324 for the years ended December 31, 2012, 2011 and 2010, respectively. Expected amortization expense for each of the fiscal years 2013 through 2017 and for periods thereafter is as follows:

Year ending December 31,	Amount
2013	$47,330
2014	38,852
2015	37,526
2016	31,932
2017	18,968
Thereafter	11,348
Total definite life intangible assets, net	$185,956

(8) Interest Costs

We capitalized a portion of the interest on funds borrowed as part of the cost of constructing our satellites and related launch vehicle. We are currently capitalizing the interest associated with our FM-6 satellite and will continue to do so until its launch. During the year ended December 31, 2010, we also capitalized costs related to our XM-5 satellite and related launch vehicle. We also incur interest costs on all of our debt instruments and on our satellite incentive agreements. The following is a summary of our interest costs:

For the Years Ended December 31,
2012