SIRIUS XM RADIO INC.
Form 10-K
March 10, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR FISCAL YEAR ENDED DECEMBER 31, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 0-24710

SIRIUS XM RADIO INC.

(Exact name of registrant as specified in its charter)

Delaware	**52-1700207**
(State or other jurisdiction of incorporation of organization)	**(I.R.S. Employer Identification Number)**

1221 Avenue of the Americas, 36th Floor

New York, New York	**10020**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

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

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No 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 ¨

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

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

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨

(Do not check if a smaller
reporting company)

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

The aggregate market value of the registrant s common stock held by non-affiliates of the registrant on June 30, 2008 was $2,882,173,089. 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 March 6, 2009 was 3,855,397,393.

Documents Incorporated by Reference

Information included in our definitive proxy statement for our 2009 annual meeting of stockholders scheduled to be held on Wednesday, May 27, 2009 is incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this report.

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SIRIUS XM RADIO INC.

2008 FORM 10-K ANNUAL REPORT

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

Unless otherwise indicated,

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

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

Special Note Regarding Forward-Looking Statements

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

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

- the substantial indebtedness of SIRIUS, XM Holdings and XM, and the need to refinance substantial portions of the SIRIUS, XM Holdings and XM debt in the near term, which, in the current economic environment, may not be available on favorable terms, or at all;
- the possibility that the benefits of the July 2008 merger with XM Holdings may not be fully realized or may take longer to realize; and the risks associated with the undertakings made to the FCC and the effects of those undertakings on the business of XM and SIRIUS in the future;
- the useful life of our satellites, which have experienced component failures including, with respect to a number of satellites, failures on their solar arrays, and, in certain cases, are not insured;

our dependence upon automakers, many of which have experienced a dramatic drop in sales and are in financial distress, and other third parties, such as manufacturers and distributors of satellite radios, retailers and programming providers; and

the competitive position of SIRIUS and XM versus other forms of audio and video entertainment including terrestrial radio, HD radio, internet radio, mobile phones, iPods and other MP3 devices, and emerging next-generation networks and technologies.

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

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PART I

ITEM 1. BUSINESS

We broadcast in the United States our music, sports, news, talk, entertainment, traffic and weather channels for a subscription fee through our proprietary satellite radio systems the SIRIUS system and the XM system. On July 28, 2008, our wholly owned subsidiary, Vernon Merger Corporation, merged (the Merger) with and into XM Satellite Radio Holdings Inc. and, as a result, XM Satellite Radio Holdings Inc. is now our wholly owned subsidiary. The SIRIUS system consists of three in-orbit satellites, approximately 120 terrestrial repeaters that receive and retransmit signals, satellite uplink facilities and studios. The XM system consists of four in-orbit satellites, over 700 terrestrial repeaters that receive and retransmit signals, satellite uplink facilities and studios. Subscribers can also receive certain of our music and other channels over the Internet.

Our satellite radios are primarily distributed through automakers (OEMs); at more than 19,000 retail locations; and through our websites. We have agreements with every major automaker to offer SIRIUS or XM satellite radios as factory or dealer-installed equipment in their vehicles. SIRIUS and XM radios are also offered to customers of rental car companies, including Hertz and Avis.

As of December 31, 2008, we had 19,003,856 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 prepaid subscriptions included in the sale or lease price of a new vehicle; active SIRIUS radios under our agreement with Hertz; active XM radios under our agreement with Avis; subscribers to SIRIUS Internet Radio and XM Internet Radio, our Internet services; and certain subscribers to our weather, traffic, data and video services.

Our primary source of revenue is subscription fees, with most of our customers subscribing on an annual, semi-annual, quarterly or monthly basis. We offer discounts for prepaid and long-term subscriptions as well as discounts for multiple subscriptions on each platform. In 2009, we increased the discounted price for additional subscriptions from $6.99 per month to $8.99 per month. We also derive revenue from activation fees, the sale of advertising on select non-music channels, the direct sale of satellite radios and accessories, and other ancillary services, such as our Backseat TV, data and weather services.

Since October 1, 2008, we have entered into a series of transactions to improve our liquidity and strengthen our balance sheet, including:

- the issuance of an aggregate of 539,611,513 shares of our common stock for $128,412,000 aggregate principal amount of our 2 1/2% Convertible Notes due 2009;

- the exchange of $172,485,000 aggregate principal amount of outstanding 10% Convertible Senior Notes due 2009 of XM Holdings for a like principal amount of XM Holdings Senior PIK Secured Notes due June 2011; and

- the execution of agreements with Liberty Media Corporation and its affiliate, Liberty Radio LLC, pursuant to which they have invested an aggregate of $350,000,000 in the form of loans to us, are committed to invest an additional $180,000,000 in loans to us, and have received a significant equity interest in us.

See Note 19 to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for additional information on certain of these transactions.

Sirius Satellite Radio Inc. was incorporated in the State of Delaware as Satellite CD Radio, Inc. on May 17, 1990. On December 7, 1992, Satellite CD Radio, Inc. changed its name to CD Radio Inc., and Satellite CD Radio, Inc. was formed as a wholly owned subsidiary. On November 18, 1999, CD Radio Inc. changed its name to Sirius Satellite Radio Inc. On August 5, 2008, we changed our name from Sirius Satellite Radio Inc. to Sirius XM Radio Inc. XM Satellite Radio Holdings Inc., together with its subsidiaries, is operated as an unrestricted subsidiary under the agreements governing our existing indebtedness. As an unrestricted subsidiary, transactions between the companies are required to comply with various covenants in our respective debt instruments.

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Programming

We offer a dynamic programming lineup of approximately 135 channels on each of the SIRIUS platform and the XM platform: 117 channels are available to subscribers on both platforms 63 channels of commercial-free music and 54 channels of sports, news, talk, entertainment, and traffic and weather. The channel line-ups for the SIRIUS service and the XM service vary in certain respects. The channel line-up for the services can be found at sirius.com and xmradio.com.

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

Subscribers with a la carte-capable radios may customize the programming they receive through our a la carte subscription packages. We also offer family friendly, mostly music and mostly sports, news and talk packages.

Our programming lineup changes from time to time as we strive to attract new subscribers and create content that appeals to a broad range of audiences and to our existing subscribers.

Music Programming

Our music channels 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 from time to time provide special features, such as our *Artist Confidential* series which provides interviews and performances from some of the biggest names in music, and pop up channels hosted by and/or featuring the music of a diverse array of artists.

Sports Programming

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

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

Talk and Entertainment Programming

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

In January 2006, Howard Stern moved his radio show to SIRIUS from terrestrial radio as part of two channels programmed by Howard Stern. Our agreement with Stern expires on December 31, 2010. Our talk radio offerings also feature dozens of popular talk personalities, most creating radio shows that air exclusively on SIRIUS and/or XM, including POTUS, Senator Bill Bradley, Deepak Chopra, doctors from the NYU Langone Medical Center, Martha Stewart, Mark Thompson, Barbara Walters and Oprah Winfrey.

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

Our religious programming includes The Catholic Channel, which is programmed with the Archdiocese of New York; EWTN, a Global Catholic Radio Network; Family Talk and Family Net Radio, programmed by Family Net, the official broadcast voice of the Southern Baptist

Convention.

News and Information Programming

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

We also offer continuous, local traffic reports for 22 metropolitan markets throughout the United States on the XM service, and 20 metropolitan markets throughout the United States on the SIRIUS service. We broadcast these reports, together with local weather reports from The Weather Channel.

Distribution of Radios

Automakers

Our primary means of distributing satellite radios is through the sale and lease of new vehicles. We have agreements with every major automaker Acura/Honda, Aston Martin, Audi, Automobili Lamborghini, Bentley, BMW, Chrysler, Dodge, Ferrari, Ford, General Motors, Honda, Hyundai, Infiniti/Nissan, Jaguar, Jeep, Kia, Land Rover, Lincoln, Lexus/ Toyota/Scion, Maybach, Mazda, Mercedes-Benz, Mercury, MINI, Mitsubishi, Porsche, Rolls-Royce, Volvo and Volkswagen to offer either SIRIUS or XM satellite radios as factory or dealer-installed equipment in their vehicles. As of December 31, 2008, satellite radios were available as a factory or dealer-installed option in substantially all vehicle models 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.

Retail

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

Our Satellite Radio Systems

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

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

Our satellite radio systems have three principal components:

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

Satellites, Terrestrial Repeaters and Other Satellite Facilities

SIRIUS Satellites. SIRIUS owns and operates three orbiting satellites, and owns a spare satellite that is in storage. Space Systems/Loral delivered SIRIUS three operating satellites in 2000 and delivered its fourth, spare satellite to ground storage in April 2002. Space Systems/Loral is now constructing a fifth and sixth satellite for use in the SIRIUS system. SIRIUS expects to launch its fifth satellite during the second quarter of 2009 and its sixth satellite in the fourth quarter of 2011. The SIRIUS satellites are of the Loral FS-1300 model series. SIRIUS does not maintain in-orbit insurance for its satellites.

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Each of SIRIUS three orbiting satellites travels in a figure eight pattern extending above and below the equator, and spends approximately 16 hours per day north of the equator. At any time, two of our three orbiting satellites operate north of the equator while the third satellite does not transmit as it traverses the portion of the orbit south of the equator. This orbital configuration yields high signal elevation angles, reducing service interruptions from signal blockage. SIRIUS fifth satellite will complement its existing in-orbit satellites and will be launched into a geostationary orbit. The redundancy of the resulting constellation configuration is expected to provide enhanced coverage and performance.

SIRIUS expects to replace the SIRIUS satellite constellation in the ordinary course of business. SIRIUS may elect to begin the process of replacing its constellation of operating satellites with its spare satellite, the SIRIUS satellites presently being manufactured or with new satellites that it may purchase to meet its business needs. SIRIUS has entered into an agreement with International Launch Services to secure two satellite launches on Proton rockets. This agreement provides the flexibility to defer the second of these launch dates and to cancel either launch upon the payment of a cancellation fee if SIRIUS chooses. Decisions regarding the SIRIUS satellite constellation may affect the estimated useful life of its existing satellites, and we may modify the depreciable life accordingly. The cost of replacing SIRIUS satellites will be substantial.

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

XM also expects to expand or replace the XM satellite constellation to meet its business needs. Space Systems/Loral is constructing a fifth satellite, XM-5, for use in the XM system. XM-5 is a Loral FS-1300 model satellite. XM has entered into an agreement with Sea Launch to secure a launch for XM-5. XM expects to launch XM-5 during late 2009 or early 2010.

XM currently has in-orbit insurance on XM-3 and XM-4, its primary operating satellites, but does not carry insurance coverage for XM-1 and XM-2, its in-orbit spare satellites. These policies provide coverage for a total, constructive total or partial loss of the satellites that occurs during annual (or multi-year) in-orbit periods. The XM insurance does not cover the full cost of constructing, launching and insuring new satellites, nor will it protect XM from the adverse effect on its business operations due to the loss of a satellite. The policies contain standard commercial satellite insurance provisions, including coverage exclusions.

Terrestrial Repeaters. In some areas with high concentrations of tall buildings, such as urban centers, signals from our satellites may be blocked and reception of satellite signals can be adversely affected. In many of these areas, XM and SIRIUS have deployed terrestrial repeaters to supplement satellite coverage. SIRIUS operates approximately 120 terrestrial repeaters; XM currently operates over 700 terrestrial repeaters.

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

Studios

The programming on the SIRIUS and XM systems originates from studios in New York City, Washington D.C., Nashville and Chicago. The New York City broadcast studio houses our corporate headquarters and, together with our Washington D.C. studio, houses facilities for programming origination, programming personnel and facilities to transmit programming.

Satellite Radios

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

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

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

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

- Portable or wearable radios offer live satellite radio on the go and recorded satellite, MP3 and WMA content. The Pioneer XMp3, introduced in October 2008, allows consumers to record up to one hundred hours of XM and Best of Sirius programming, and is capable of recording up to five channels simultaneously. The Stiletto 2 allows consumers to record up to 100 hours of SIRIUS and Best of XM programming and can connect to the SIRIUS Internet Radio service through an accessible Wi-Fi network.

SIRIUS and XM home units that provide our satellite services to home and commercial audio systems are also available. Products that provide access to our internet radio services in the home without the need for a personal computer are also available to consumers.

We have introduced an interoperable radio, called MiRGE, containing both SIRIUS and XM chip sets. This radio has a unified control interface allowing for easy switching between the two satellite radio networks.

International

Canada. We have an interest in the satellite radio services offered in Canada. SIRIUS Canada, a Canadian corporation that we jointly own with Canadian Broadcasting Corporation and Slaight Communications Inc., offers a satellite radio service in Canada. SIRIUS Canada offers 120 channels of commercial-free music and news, sports, talk and entertainment programming, including 11 channels offering Canadian content. XM Canada, a Canadian corporation in which we have an ownership interest, also offers satellite radio service in Canada. XM Canada offers 130 channels of music and news, sports, talk and entertainment programming. Subscribers to the SIRIUS Canada service and the XM Canada service are not included in our subscriber count.

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

Other Services

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

Satellite Television Services. We offer music channels as part of certain programming packages of the DISH Network satellite television service and the DirecTV satellite television service. Subscribers to these networks are not included in our subscriber count.

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

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

Internet Radio. Both SIRIUS and XM simulcast music channels and select non-music channels over the Internet. We are transitioning SIRIUS Internet Radio and XM online from services offered for no additional charge as part of our base subscription price to services that we offer to subscribers for a fee.

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

SIRIUS Travel Link. In 2008, SIRIUS launched SIRIUS Travel Link, a suite of data services that includes real-time traffic, tabular and graphical weather, fuel prices, sports schedules and scores, and movie listings.

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

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

FCC Conditions

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

Programming

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

- 50 channels are available for $6.99 a month. Additional channels can be added for 25 cents each, with premium programming priced at additional cost. However, in no event will a customer subscribing to this a la carte option pay more than $12.95 per month for this programming.

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

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

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

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

Discounted Family-Friendly Programming: We offer consumers a family-friendly version of existing SIRIUS or XM programming at a cost of $11.95 a month, representing a discount of $1.00 per month. We also offer SIRIUS and XM customers a family-friendly version of the best of both programming. This programming costs $14.99 per month, representing a discount of $2.00 per month from the cost of the best of programming.

Public Interest and Qualified Entity Channels

We have agreed to set aside four percent of the full-time audio channels on the SIRIUS platform and on the XM platform for non-commercial, educational and informational programming within the meaning of the FCC rules that govern similar obligations of direct broadcast satellite providers. We have agreed not to select a programmer to fill more than one non-commercial, educational or informational channel on each of the SIRIUS and XM platforms as long as demand by programming providers for such channels exceeds available supply.

In addition, we have agreed to enter into long-term leases or other agreements to provide to a Qualified Entity or Entities, defined as an entity or entities that are majority-owned by persons who are African American, not of Hispanic origin; Asian or Pacific Islanders; American Indians or Alaskan Natives; or Hispanics, rights to four percent of the full-time audio channels on the SIRIUS platform and on the XM platform. As digital compression technology enables us to broadcast additional full-time audio channels, we will ensure that four percent of full-time audio channels on the SIRIUS platform and the XM platform are reserved for a Qualified Entity or Entities.

The Qualified Entity or Entities will not be required to make any lease payments for such channels. We will have no editorial control over these channels. We expect the FCC to inform us how it plans to select these Qualified Entities in the future. In February 2009, the FCC commenced a proceeding to determine the method to select these Qualified Entities.

Equipment

We are required to provide, on commercially reasonable terms, our intellectual property necessary to permit any device manufacturer to develop equipment that can deliver our satellite radio services. Chip sets for satellite radios, which include the encryption, conditional access and security technology necessary to access our satellite radio services, may be purchased by licensees from manufacturers in negotiated transactions with such manufacturers. We will not enter into any agreement that grants, or that would have the effect of granting, a device manufacturer an exclusive right to manufacture, market and sell equipment that can deliver our satellite radio services.

We will also not execute any agreement or take any other action that would bar, or have the effect of barring, a car manufacturer or other third party from including non-interfering HD radio chips, iPod compatibility, or other audio technology in an automobile or audio device.

Subscription Rates

We have agreed not to raise the retail price for, or reduce the number of channels in, our basic $12.95 per month subscription package, the a la carte programming packages or the new programming packages described above until July 28, 2011. After July 29, 2009 we may pass through cost increases incurred since the filing of our FCC merger application as a result of statutorily or contractually required payments to the music, recording and publishing industries for the performance of musical works and sound recordings or for device recording fees. We will provide customers, either on individual bills or on our website, a summary of the costs passed through to consumers pursuant to the preceding sentence.

Service to Puerto Rico

We have filed an application with the FCC to provide the SIRIUS satellite radio service to the Commonwealth of Puerto Rico using terrestrial repeaters and will, upon grant of the necessary permanent authorizations, promptly introduce the SIRIUS satellite radio service to the Commonwealth.

Interoperable Radios

We have agreed to offer for sale an interoperable receiver, and recently began offering such receiver.

Local Programming and Advertising

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

Transactions between SIRIUS, XM Holdings and XM

SIRIUS and XM have begun to integrate their operations, and have agreed to share the costs of certain day-to-day functions. For example, XM transferred its employees to SIRIUS, and SIRIUS, in turn, has agreed to provide various services to both companies necessary to support their business, such as product development, sales, marketing, finance, accounting, information technology, programming, human resources, public relations, investor relations, legal and other general management services. XM and SIRIUS will share equally the costs of these employees. SIRIUS and XM have also agreed to share programming and rationalize their channel line-ups, and to share equally the costs of certain programming that appears on both platforms. In addition, SIRIUS and XM have agreed to jointly market radios and coordinate rebate, warranty and customer support programs to subscribers who purchase radios at retail or via their websites. In general, SIRIUS and XM share equally the costs of this marketing and sales coordination.

SIRIUS and XM have also begun to seek opportunities to jointly increase revenues. SIRIUS and XM have agreed to offer their respective subscribers programming packages that include best of programming from the other service. Each of SIRIUS and XM retain all the respective revenue generated from their respective best of programming packages.

XM Holdings and XM are operated as unrestricted subsidiaries under the agreements governing SIRIUS existing debt. As unrestricted subsidiaries, transactions among the companies are required to comply with various contractual provisions in our respective debt instruments. The agreements between XM and SIRIUS are intended to permit both companies to share in

the benefits of the inter-company arrangements in approximately equal proportion. The terms of the agreements between XM and SIRIUS are intended to be no more favorable to one company or the other than those that could be obtained at the time in an arm s-length dealing with a firm or person that was not affiliated.

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

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, the companies compete with the following providers of radio or other audio services:

Traditional AM/FM Radio

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

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

HD Radio

Many radio stations have begun broadcasting digital signals, which have a clarity similar to our signals. A group of major broadcast radio networks have created a coalition to jointly market digital radio services. According to this coalition, more than 1,750 radio stations are currently broadcasting primary signals with HD Radio technology, and manufacturers are marketing and distributing digital receivers. To the extent that traditional AM/FM radio stations adopt digital transmission technology, any competitive advantage that we enjoy over traditional radio because of our clearer digital signal would be lessened. Traditional AM/FM broadcasters are also aggressively entering Internet radio and wireless internet-based distribution arrangements.

Internet Radio

Internet radio broadcasts have no geographic limitations and can provide listeners with radio programming from around the country and the world. Major media companies including Clear Channel, CBS, America Online and Yahoo! make near CD-quality digital streams available through the Internet for free or, in some cases, for a fraction of the cost of a satellite radio subscription. In addition, an Internet based radio product was recently announced for vehicles. The past few years have seen a steady increase in the audio quality of Internet radio streams and in the amount of audio content available via the Web, resulting in a steady increase in Internet radio audience metrics. We expect that improvements from higher bandwidths, faster modems and wider programming selection are likely to continue making Internet radio an increasingly significant competitor in the near future. These services already compete directly with SIRIUS and XM s Internet offerings and, through the use of home stereo media adapters or media-centric PCs, with the companies home line of products.

Downloading Devices

The Apple iPod® is a portable digital music player that allows users to download and purchase music through Apple s iTunes® Music Store, as well as convert music on compact disc to digital files. Apple has sold over 170 million iPods®. iPods® are compatible with certain car stereos and various home speaker systems, and certain automakers have entered into arrangements with manufacturers of portable media players that are expected to enhance this compatibility. Availability of music in the public MP3 audio standard has been growing in recent years with sound files available on the websites of online music retailers, artists and record labels and through numerous file sharing software programs. These MP3 files can be played instantly, burned to a compact disc or stored in various portable players available to consumers. Internet-based audio formats are becoming increasingly competitive as quality improves and costs are reduced.

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Direct Broadcast Satellite and Cable Audio

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

Digital Media Services

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

Traffic News Services

A number of providers also compete with the XM and SIRIUS traffic services. Clear Channel and Tele Atlas deliver nationwide traffic information for the top 50 markets to in-vehicle navigation systems using RDS/TMC, the radio broadcast standard technology for delivering traffic and travel information to drivers. There are also services that provide real-time traffic information to Internet-enabled cell phones or other hand held devices, but these are available only in limited markets and the associated data plan costs in addition to normal cell phone rates may make the offering undesirable to many users.

Government Regulation

As operators of a privately owned satellite systems, 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.

In 1997, XM and SIRIUS was each a winning bidder for an FCC license to operate a satellite digital audio radio service and provide other ancillary services. SIRIUS FCC license for most of its satellites expires in 2010 and the licenses for one of its new satellites expires eight years after SIRIUS certifies the satellite is operating; XM s FCC licenses for its satellites expire on various dates from 2009 to 2014. Prior to the expirations, the companies will be required to apply for a renewal of our FCC licenses. XM currently has two such applications on file for licenses expiring on March 31, 2009 and May 31, 2009. We anticipate that, absent significant misconduct on our part, the FCC will renew our licenses to permit operation of our satellites for their useful lives, and grant a license for any replacement satellites.

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

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

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

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

Changes in law or regulations relating to communications policy or to matters affecting our services could adversely affect our ability to retain our FCC license 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, or songs, and holders of copyrights in sound recordings records, cassettes, compact discs and audio files.

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.

Under the Digital Performance Right in Sound Recordings Act of 1995 and the Digital Millennium Copyright Act of 1998, we also have to negotiate royalty arrangements with the copyright owners of the sound recordings, or if negotiation is unsuccessful, the royalty rate is established by the Copyright Royalty Board (the CRB) of the Library of Congress. 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. In January 2008, the CRB issued a decision regarding the royalty rate payable by SIRIUS and XM under the statutory license covering the performance of sound recordings over their satellite radio services for the six-year period starting January 1, 2007 and ending December 31, 2012. Under the terms of the CRB s decision, SIRIUS and XM paid a royalty of 6.0% of gross revenues, subject to certain exclusions, for 2007 and 2008, and will pay a royalty of 6.5% of gross revenues, subject to certain exclusions, for 2009, 7.0% for 2010, 7.5% for 2011 and 8.0% for 2012. SoundExchange has appealed the decision of the CRB to the United States Court of Appeals for the District of Columbia Circuit. Final briefs in this matter were submitted to the court in February 2009 and oral argument is scheduled for March 2009.

In August 2006, XM was sued in the United States District Court for the Southern District of New York in three separate lawsuits by various record labels and music publishers in actions seeking monetary damages and equitable relief alleging that certain XM radios that have advanced recording functionality infringe upon plaintiffs copyrighted sound recordings. We believe these allegations are without merit and these products comply with applicable copyright law, including the Audio Home Recording Act. We are vigorously defending these matters.

Trademarks

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

XM has registered, and intends to maintain, the trademark XM with the PTO in connection with the transmission services offered by it. XM is not aware of any material claims of infringement or other challenges to its right to use the

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XM trademark in the United States. XM also has registered, and intends to maintain, trademarks for the names of certain of its channels. XM has also registered the trademark, XM , and the logo, in Canada. XM has granted a license to use its trademark in Canada to XM Canada.

Personnel

As of December 31, 2008, we had 1,640 full-time employees. In addition, we rely upon a number of part-time employees, consultants, other advisors and outsourced relationships. None of our employees is represented by a labor union, and we believe that our employee relations are good.

Corporate Information

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

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

Executive Officers of the Registrant

Certain information regarding our executive officers is provided below:

Name	Age	Position
Mel Karmazin	65	Chief Executive Officer
Scott A. Greenstein	49	President, Chief Content Officer
James E. Meyer	54	President, Sales and Operations
Dara F. Altman	50	Executive Vice President and Chief Administrative Officer
Patrick L. Donnelly	47	Executive Vice President, General Counsel and Secretary
David J. Frear	52	Executive Vice President and Chief Financial Officer

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

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

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

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

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

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

Employment Agreements

Mel Karmazin

In November 2004, we entered into a five-year agreement with Mel Karmazin to serve as our Chief Executive Officer. We pay Mr. Karmazin an annual salary of $1,250,000, and annual bonuses in an amount determined each year by the Compensation Committee of our board of directors.

Pursuant to our agreement with Mr. Karmazin, his stock options and shares of restricted stock will vest upon his termination of employment for good reason, upon his death or disability and in the event of a change in control. In the event Mr. Karmazin s employment is terminated by us without cause, his unvested stock options and shares of restricted stock will vest and become exercisable, and he will receive his current base salary for the remainder of the term and any earned but unpaid annual bonus.

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

Scott A. Greenstein

Mr. Greenstein has agreed to serve as our President, Chief Content Officer, through July 2009. We pay Mr. Greenstein an annual salary of $850,000, and annual bonuses in an amount determined each year by the Compensation Committee of our board of directors.

If Mr. Greenstein s employment is terminated without cause or he terminates his employment for good reason, he is entitled to receive a lump sum payment equal to the sum of (1) his base salary in effect from the termination date through July 2009 and (2) any annual bonuses, at a level equal to 60% of his base salary, that would have been customarily paid

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during the period from the termination date through July 2009. In the event Mr. Greenstein s employment is terminated without cause or he terminates his employment for good reason, we are also obligated to continue his medical, dental and life insurance benefits for 18 months following his termination.

If, following the occurrence of a change in control, Mr. Greenstein is terminated without cause or he terminates his employment for good reason, we are obligated to pay Mr. Greenstein the lesser of (1) four times his base salary and (2) 80% of the multiple of base salary, if any, that our Chief Executive Officer would be entitled to receive under his or her employment agreement if he or she was terminated without cause or terminated for good reason following such change in control. We are also obligated to continue Mr. Greenstein s medical, dental and life insurance benefits, or pay him an amount sufficient to replace these benefits, until the third anniversary of his termination date.

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

James E. Meyer

Mr. Meyer has agreed to serve as our President, Sales and Operations, until April 2010. We pay Mr. Meyer an annual salary of $950,000, and annual bonuses in an amount determined each year by the Compensation Committee of our board of directors.

In the event Mr. Meyer s employment is terminated without cause or he terminates his employment for good reason after July 28, 2009, we will pay him a lump sum payment equal to the sum of (1) his annual base salary in effect on the termination date and (2) the greater of (x) a bonus equal to 60% of his annual base salary or (y) the prior year s annual bonus actually paid to him (the Designated Amount). Pursuant to his employment agreement, Mr. Meyer may elect to retire in April 2010. In the event he elects to retire, we have agreed to pay him a lump sum payment equal to the Designated Amount. In the event Mr. Meyer s employment is terminated without cause or he terminates his employment for good reason, we are also obligated to continue his medical and dental insurance benefits for 18 months following his termination and to continue his life insurance benefits for twelve months following his termination. If Mr. Meyer s employment is terminated due to a scheduled retirement, we are obligated to continue his medical, dental and life insurance benefits for 12 months following his termination.

If Mr. Meyer is terminated without cause or he terminates his employment for good reason prior to July 28, 2009, we will pay him a lump sum payment equal to two times the Designated Amount. In such event, we are also obligated to continue his medical, dental and life insurance benefits for 24 months following his termination.

Upon the expiration of Mr. Meyer s employment agreement in April 2010 or following his retirement, we have agreed to offer Mr. Meyer a one-year consulting agreement. We expect to reimburse Mr. Meyer for all of his reasonable out-of-pocket expenses associated with the performance of his obligations under this consulting agreement, but do not expect to pay him any cash compensation. Mr. Meyer s stock options will continue to vest and will be exercisable during the term of this consulting agreement.

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

Dara F. Altman

On September 26, 2008, we entered into a three year employment agreement with Dara F. Altman to serve as our Executive Vice President and Chief Administrative Officer. We pay Ms. Altman an annual salary of $446,332, and annual bonuses in an amount determined each year by the Compensation Committee of our board of directors.

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

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

Patrick L. Donnelly

Mr. Donnelly has agreed to serve as our Executive Vice President, General Counsel and Secretary, through April 2010. We pay Mr. Donnelly an annual base salary of $525,000, and annual bonuses in an amount determined each year by the Compensation Committee of our board of directors.

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

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

David J. Frear

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

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

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

Additional information regarding the compensation for Messrs. Karmazin, Greenstein, Meyer, Donnelly and Frear and Ms. Altman will be included in our definitive proxy statement for our 2009 annual meeting of stockholders scheduled to be held on Wednesday, May 27, 2009.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of Forms 4 furnished to us during our most recent fiscal year, we know of no director, executive officer or beneficial owner of more than ten percent of our common stock who failed to file on a timely basis reports of beneficial ownership of our common stock as required by Section 16(a) of the Securities Exchange Act of 1934, as amended, other than a late filing by Ms. Dara Altman and Mr. James Rhyu, our former Senior Vice President and Chief Accounting Officer, in connection with the sale of certain common stock to pay federal and state taxes associated with the vesting of restricted stock in December 2008.

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ITEM 1A. RISK FACTORS

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

Our business and our financial condition is being affected by general economic conditions.

We believe that our business and our financial condition is being adversely affected by general economic conditions in a variety of ways. For example:

- As a result of the conditions in the capital markets, we may not be able to access funding. An inability to access replacement or additional sources of liquidity to fund our cash needs or to refinance or otherwise fund the repayment of our maturing debt, could adversely affect our growth, our financial condition, our results of operations, and our ability to make payments on our debt, and could force us to seek the protection of the bankruptcy laws.

- Tightening credit policies could adversely affect our liquidity by making it more difficult or costly for our customers to access credit, and may result in changes to our payment arrangements by credit card companies and other credit providers.

- The purchase of a satellite radio subscription is discretionary. The weakening economy affected our net subscriber additions in 2008 and will likely affect the growth of our business and results of operations in 2009.

- The sale and lease of vehicles with satellite radios is an important source of subscribers for us. The dramatic slowdown in auto sales negatively impacted our subscriber growth in 2008 and will likely significantly impact subscriber growth in 2009. A bankruptcy filing by one or more of the major automakers could also seriously affect our business.

We need to refinance portions of our debt in the next two years, which refinancing may not be available.

We have approximately $537 million of debt maturing in 2009 and 2010, including;

- at SIRIUS, $1.744 million of 8 3/4% Convertible Subordinated Notes that mature on September 29, 2009;

- at XM Holdings, approximately $227.5 million of 10% Convertible Senior Notes that mature on December 1, 2009;

- at XM Holdings and XM (as co-obligors), $33.2 million of 10% Senior Secured Discount Convertible Notes that mature on December 31, 2009; and

- at XM, a $350 million credit facility, which is fully drawn and $100 million of which is due in 2009, $175 million is due by May 5, 2010 and $75 million is due in May 2011.

As a result of the May 2010 maturities, our existing cash balances and our cash flows from operating activities may not be sufficient to fund our projected cash needs at that time. We may not be able to access additional sources of refinancing on similar terms or pricing as those that are currently in place, or at all, or otherwise obtain other sources of funding. An inability to access replacement or additional sources of liquidity to fund our cash needs or to refinance or otherwise fund the repayment of our maturing debt could adversely affect our growth, our financial condition, our results of operations, and our ability to make payments on our debt, and could force us to seek the protection of the bankruptcy laws. It will be more difficult to obtain additional financing if prevailing instability in the credit and financial markets continues.

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

Our operations will also be affected by the FCC order approving the Merger. In addition, our future liquidity may be adversely affected by, among other things, changes in our operations or business plans, or by the nature and extent of the benefits, if any, achieved by operating XM as a wholly-owned subsidiary.

Our substantial indebtedness is adversely affecting us.

As of December 31, 2008, we had an aggregate principal amount of approximately $3.3 billion of indebtedness.

Our substantial indebtedness has important consequences. For example, it:

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

Interest costs related to our debt are substantial and, as a result, the demands on our cash resources are significant.

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

XM is required to maintain a minimum cash balance of $75 million under its credit facilities, and SIRIUS is required to maintain a minimum cash balance of $35 million under those credit facilities. If XM s or SIRIUS cash balance falls below these amounts, the companies would need to obtain a waiver from the lenders to avoid a default. No assurance can be given that XM and SIRIUS would be able to obtain such a waiver or otherwise avoid a default under its credit facilities.

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

The sale and lease of vehicles with satellite radios is an important source of subscribers for the XM and SIRIUS satellite radio services. We have agreements with every major automaker to include satellite radios in new vehicles, although these agreements do not require automakers to install specific quantities of radios.

Current economic conditions, particularly the dramatic slowdown in auto sales, negatively impacted subscriber growth for both the SIRIUS and XM services in 2008 and is expected to significantly impact subscriber growth in 2009. In addition, some of the major automakers are experiencing extreme financial difficulties and are seeking government assistance.

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

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

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

- manufacturers that build and distribute satellite radios;

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

If one or more of these third parties does not perform in a sufficient or timely manner, our business will be adversely affected.

In October 2005, Delphi Corporation and 38 of its domestic U.S. subsidiaries filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code. Delphi manufactures, in factories outside the United States, satellite radios for installation in various brands of vehicles. Delphi also distributes to retailers certain models of XM radios. It is unclear whether Delphi will ever emerge from bankruptcy or will be liquidated.

In November 2008, Circuit City and its wholly-owned United States and Puerto Rican subsidiaries filed voluntary petitions for reorganization relief under Chapter 11 of the U.S. Bankruptcy Code. In January 2009, Circuit City liquidated all of its assets as part of its Chapter 11 proceeding and ceased doing business. In 2008, Circuit City marketed and sold a substantial number of satellite radios and promoted subscriptions to our service. The liquidation of Circuit City reduced our retail points-of-presence and contributed, in part, to the decline we experienced in sales through retailers in 2008.

We do not manufacture satellite radios or accessories, and we depend on manufacturers and others for the production of radios and their component parts. If one or more manufacturers does not produce radios in a sufficient quantity to meet demand, or if such radios do not perform as advertised or are defective, sales of our services and our reputation could be adversely affected.

We design, establish specifications for, source or specify parts and components for, 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.

Failure of our satellites would significantly damage our business.

We operate seven in-orbit satellites, three supporting the SIRIUS service and four supporting the XM service. The useful lives of these satellites will vary and depend on a number of factors, including:

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

The three orbiting SIRIUS satellites were launched in 2000. We estimate that two of the SIRIUS in-orbit satellites will have a 13 year useful life and the third in-orbit satellite will have a 15 year useful life from the time of launch. SIRIUS operating results would be materially adversely affected if the useful life of its satellites is significantly shorter than expected, whether as a result of a satellite failure or technical obsolescence, and SIRIUS fails to launch replacement satellites in a timely manner.

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

If one of SIRIUS three satellites fails in orbit, the SIRIUS service would be impaired until such time as it successfully launches and commissions its spare satellite, which would take six months or more. If two or more of the SIRIUS satellites

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

SIRIUS has entered into an agreement with Space Systems/Loral to design and construct two new satellites. The first of these new satellites is expected to be launched in the second quarter of 2009. The second of these new satellites is expected to be launched in the fourth quarter of 2011. Satellite launches have significant risks, including launch failure, damage or destruction of the satellite during launch and failure to achieve a proper orbit or operate as planned. SIRIUS agreement with Space Systems/Loral does not protect it against the risks inherent in a satellite launch or in-orbit operations.

XM placed its XM-3 and XM-4 satellites into service during the second quarter of 2005 and during the fourth quarter of 2006, respectively. XM s XM-1 and XM-2 satellites experienced progressive degradation problems common to early Boeing 702 class satellites and now serve as in-orbit spares. We estimate that the XM-3 and XM-4 satellites will exceed their fifteen year predicted useful lives, and that XM-1 and XM-2 satellites useful lives will end in 2011. An operational failure or loss of XM-3 or XM-4 would, at least temporarily, affect the quality of XM s service, and could interrupt the continuation of its service and harm its business. XM likely would not be able to complete and launch its XM-5 satellite before late 2009 or early 2010. In the event of any satellite failure prior to that time, XM would need to rely on its back-up satellites, XM-1 and XM-2. There can be no assurance that restoring service through XM-1 and XM-2 would allow XM to maintain adequate broadcast signal strength through the in-service date of XM-5, particularly if XM-1 or XM-2 were to suffer unanticipated additional performance degradation or experience an operational failure.

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

In the ordinary course of operation, satellites experience failures of component parts and operational and performance anomalies. Components on our in-orbit satellites have failed and from time to time we have experienced anomalies in the operation and performance of these satellites. These failures and anomalies are expected to continue in the ordinary course, and it is impossible to predict if any of these future events will have a material adverse effect on our operations or the useful life of our existing in-orbit satellites.

Potential satellite losses may not be covered by insurance.

We do not maintain in-orbit insurance policies covering our satellites broadcasting the SIRIUS service. We maintain in-orbit insurance covering our primary satellites broadcasting the XM service, but not on the XM back-up satellites. Any insurance proceeds will not fully cover XM s losses. For example, the insurance covering the XM satellites does not cover the full cost of constructing, launching and insuring new satellites or XM s in-orbit spare satellites, nor will it cover and XM does not have protection against; business interruption, loss of business or similar losses. XM s 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, XM s policies are subject to limitations involving uninsured losses, large satellite performance deductibles and policy limits that may not be sufficient to cover losses. If XM experiences a loss that is uninsured or that exceeds policy limits, this may impair its ability to make timely payments on its outstanding debt and other financial obligations.

We may not be able to attract and/or retain our employees, and this may have an adverse effect on our ability to operate our business and achieve our business plan.

We compensate employees through a combination of base salary, annual bonuses and stock based compensation, such as stock options and restricted stock units. For many employees, any annual bonus has been paid one-half in shares of our common stock. We also have made matching contributions under the Sirius 401(k) savings plan in the form of shares of our common stock. As a result, the value of our common stock represents a large portion of an employees annual and long-term compensation.

The precipitous decline in the value of our common stock has resulted in a large number of our employees losing nearly all of the value of their prior annual bonuses, stock options, restricted stock units and employer matching contributions under

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the Sirius 401(k) savings plan. In addition, we have not paid our employees, in either cash or shares of our common stock, any annual bonuses for the year ended December 31, 2008.

The basic tenets of our compensation program may make it more difficult to motivate employees to integrate the two companies and to perform at levels necessary to operate our business and achieve our business plan. As a result, we also may experience a significant turnover or loss of employees and may have difficulty attracting new employees.

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 the FCC will not modify its rules and regulations in a manner that would have a material impact on our operations.

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

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

The anticipated benefits of the Merger may not be realized fully or may take longer to realize than expected.

The Merger involved the integration of two companies that have previously operated independently with principal offices in two distinct locations and technologically different satellite radio platforms. We are devoting significant management attention and resources to integrating the companies. Delays in this process could adversely affect our business, financial results and financial condition. Even if we are able to integrate the business operations of SIRIUS and XM successfully, there can be no assurance that this integration will result in the realization of the full benefits of synergies, cost savings, innovation and operational efficiencies that may be possible from this integration. In addition, the indentures and credit agreements governing SIRIUS indebtedness and the indebtedness of XM contain covenants that restrict the integration of these two operating companies, which may in certain instances impede the realization of cost savings.

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

In December 2008, our stockholders approved an amendment to our certificate of incorporation to effect a reverse stock split at a ratio of not less than one-for-ten and not more than one-for-fifty. Our board of directors has authority to select an

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exchange ratio within the approved range at any time prior to December 31, 2009. Our board of directors intends to effect the reverse stock split only if it determines the reverse split to be in the best interests of the company and its stockholders.

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

- if the reverse stock split is effected and the market price of our common stock declines, the percentage decline may be greater than would occur in the absence of a reverse stock split.

- there can be no assurance that the reverse stock split will result in any particular price for our common stock. As a result, the trading liquidity of our common stock may not necessarily improve.

- the total market capitalization of our common stock after the reverse stock split may be lower than the total market capitalization before the reverse stock split. Moreover, in the future, the market price of our common stock following the reverse stock split may not exceed or remain higher than the market price prior to the reverse stock split.

- because the number of issued and outstanding shares of common stock would decrease as result of the reverse stock split, the number of authorized but unissued shares of common stock may increase on a relative basis. If we issue additional shares of common stock, the ownership interest of our current stockholders would be diluted, possibly substantially.

- the proportion of unissued authorized shares to issued shares could, under certain circumstances, have an anti-takeover effect. For example, the issuance of a large block of common stock could dilute the stock ownership of a person seeking to effect a change in the composition of the board of directors or contemplating a tender offer or other transaction for the combination of the company with another company.

- the reverse stock split may result in some stockholders owning odd lots of less than 100 shares of common stock. Odd lot shares may be more difficult to sell, and brokerage commissions and other costs of transactions in odd lots are generally somewhat higher than the costs of transactions in round lots of even multiples of 100 shares.

- holders of common stock otherwise entitled to a fractional share as a result of the reverse stock split will receive a cash payment in lieu of such fractional share. As a result, the ownership interest in the company of certain small stockholders could be terminated.

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

We regularly evaluate our plans and strategy. These evaluations often result in changes to our plans and strategy, some of which may be material and significantly change our cash requirements. These changes in our plans or strategy may include: the acquisition 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 third parties that own programming, distribution, infrastructure, assets, or any combination of the foregoing.

Our business might never become profitable.

As of December 31, 2008, we had an accumulated deficit of approximately $9.7 billion.

We expect our cumulative net losses to grow as we make payments under various contracts, incur marketing and subscriber acquisition costs and make interest payments on existing debt. If we are unable ultimately to generate sufficient revenues to become profitable and generate positive cash flow, either or both of the companies could default on their commitments and there is a risk that SIRIUS, XM, or both, would be unable to make the required payments on their respective indebtedness.

Demand for our services may be insufficient for them to become profitable.

We cannot estimate with any certainty whether consumer demand for the SIRIUS and XM service will be sufficient for us to continue to increase the number of subscribers to the services. Our satellite radio services have experienced a significant decrease in new subscriptions from retail subscribers and most new subscription growth has come from automakers, many of which have experienced recent and dramatic decreases in sales.

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Among other things, continuing and increased consumer acceptance of the SIRIUS and XM service will depend upon:

- the willingness of consumers, on a mass-market basis, to pay subscription fees for radio;
- the cost, features and availability of radios; and
- the marketing and pricing strategies we employ and those employed by our competitors.

If demand for our products and service does not continue to increase, we may not be able to generate enough revenues to generate positive cash flow or to become profitable.

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

Third-party content is an important part of our satellite radio services, and we compete with many entities for content. We have entered into a number of important content arrangements, including agreements with Major League Baseball, the National Football League, Howard Stern and NASCAR, which require us to pay substantial sums. XM s agreement with MLB expires at the end of the 2012 baseball season. SIRIUS agreement with the NFL expires at the end of the 2010-2011 NFL season; its agreement with Howard Stern expires in December 2010; and its agreement with NASCAR expires in 2011. As these agreements expire, we may not be able to negotiate renewals of one or more of these agreements, or renew such agreements at costs we believe are attractive.

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

We must maintain and pay license fees for music rights.

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

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. We participated in a CRB proceeding in order to set the royalty rate payable by our satellite radio services under the statutory license covering the performance of sound recordings for the six-year period starting in January 2007. SoundExchange has appealed the decision of the CRB to the United States Court of Appeals for the District of Columbia Circuit. Final briefs in this matter were submitted to the court in February 2009 and oral argument is scheduled for March 2009.

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

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

We are experiencing, and expect to continue to experience, subscriber turnover, or churn. If we are unable to retain our current subscribers, or the costs of retaining subscribers are higher than we expect, our financial performance and operating results could be adversely affected. We cannot predict how successful we will be at retaining customers who purchase or lease vehicles that include a subscription to their satellite radio services. Over the past several quarters, XM has retained approximately 47% to 50% of the customers who received a promotional subscription as part of the purchase or lease of a new vehicle. Over a similar period, SIRIUS has retained approximately 41% to 43% of the customers who received a prepaid subscription in connection with the purchase or lease of a new vehicle.

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

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

Rapid technological and industry changes could make our services obsolete.

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

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

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

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

Consumers could pirate our services.

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

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. The companies are defending all claims against them. There can be no assurance regarding a favorable outcome of any of these proceedings, or that an unfavorable outcome would not have a material adverse effect on our business or financial results.

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

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

Other parties may have patents or pending patent applications, which will later mature into patents or inventions that may block our ability to operate the SIRIUS or XM system or license technologies. We may have to resort to litigation to

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enforce our rights under license agreements or to determine the scope and validity of other parties proprietary rights in the subject matter of those licenses. This may be expensive. Also, we may not succeed in any such litigation.

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

Electromagnetic interference from others could damage our business.

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

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

Liberty Media Corporation holds preferred stock that is convertible into 40% of the issued and outstanding shares of our common stock. Pursuant to the terms of the preferred stock held by Liberty Media we cannot take certain actions, such as issue equity or debt securities, without the consent of Liberty Media. Additionally, upon expiration of the waiting period under Hart-Scott-Rodino Act, Liberty Media has the right to designate six members of our fifteen-member Board of Directors. We expect Liberty Media to designate these directors shortly. As a result, Liberty Media has significant influence over business and affairs. The interests of Liberty Media may differ from the interests of other holders of our common stock. The extent of Liberty Media s stock ownership in us also may have the effect of discouraging offers to acquire control of us and may preclude holders of our common stock from receiving any premium above market price for their shares that may be offered in connection with any attempt to acquire control of us.

We depend on certain on-air talent with special skills. If we cannot retain these people, our business could suffer.

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

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
Washington, DC	Office and studio/production facilities	Own
Washington, DC	Data center	Own
Lawrenceville, NJ	Office and technical/engineering facilities	Lease
Deerfield Beach, FL	Office and technical/engineering facilities	Lease
New York, NY	Studio/production facilities @ Jazz at Lincoln Center	Lease
Farmington Hills, MI	Office and support facilities	Lease
Nashville, TN	Studio/production facilities @ the Country Music Hall of Fame	Lease
Chicago, IL	Studio/production facility	Lease
Vernon, NJ	Technical/engineering facilities	Own
Ellenwood, GA	Technical/engineering facilities	Lease

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

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

ITEM 3. LEGAL PROCEEDINGS

FCC Merger Order. On July 25, 2008, the FCC adopted an order approving the Merger. The order became effective immediately upon adoption. This order was published in the Federal Register on September 8, 2008. On September 4, 2008, Mt. Wilson FM Broadcasters, Inc. filed a Petition for Reconsideration of the FCC s merger order. This Petition for Reconsideration remains pending.

Appellate Review of FCC Merger and Consent Decree Orders. Two different parties, U.S. Electronics and Michael Hartleib, sought appellate review of the FCC s decision regarding the Merger. Each party also challenged the FCC s decision to enter into the consent decrees resolving the investigations by the FCC s Enforcement Bureau regarding certain non-compliant terrestrial repeaters and FM modulators contained in certain satellite radios. These matters were both filed in the United States Court of Appeals for the D.C. Circuit, and have been consolidated by the court. Subsequent to filing its initial request for appellate review, U.S. Electronics moved to both amend its original filing and submit an additional notice of appeal in order to comply with the statutory requirements for review of agency decisions. The FCC moved to dismiss both the Hartleib and the U.S. Electronics requests for review on the grounds that neither party has standing to challenge the merger order or the consent decrees, and further argued that the agency s decision to enter into a consent decree is not reviewable by the court in these circumstances. Separately, the court issued a show cause order on its own motion that requires U.S. Electronics to demonstrate why its additional notice of appeal should not be dismissed as untimely. In January 2009, the court dismissed the appeals of both U.S. Electronics and Michael Hartleib.

Copyright Royalty Board Proceeding. In January 2008, the Copyright Royalty Board, or CRB, of the Library of Congress issued its decision regarding the royalty rate payable by XM and SIRIUS under the statutory license covering the performance of sound recordings over their satellite digital audio radio services for the six-year period starting January 1, 2007 and ending December 31, 2012. Under the terms of the CRB s decision, we paid a royalty of 6.0% of gross revenues, subject to certain exclusions, for 2007 and 2008, we will pay 6.5% for 2009, 7.0% for 2010, 7.5% for 2011 and 8.0% for 2012. SoundExchange has appealed the decision of the CRB to the United States Court of Appeals for the District of Columbia Circuit. Final briefs in this matter were submitted to the United States Court of Appeals for the District of Columbia Circuit in February 2009 and oral argument is scheduled for March 2009.

U.S. Electronics Arbitration. In May 2006, U.S. Electronics Inc., a former licensed distributor and manufacturer of SIRIUS radios, commenced an arbitration proceeding against SIRIUS. U.S. Electronics alleged that SIRIUS breached its contract; failed to pay monies owed under the contract; tortiously interfered with U.S. Electronics relationships with retailers and manufacturers; and otherwise acted in bad faith. U.S. Electronics sought up to $133 million in damages. In August 2008, following a 20-day arbitration hearing, a panel of three arbitrators unanimously issued a 149-page Final Award dismissing with prejudice all of U.S. Electronics claims, including its claims for lost profits. U.S. Electronics has filed suit in the United States District Court for the Southern District of New York seeking to vacate the decision of the arbitrators.

Atlantic Recording Corporation, BMG Music, Capital Records, Inc., Elektra Entertainment Group Inc., Interscope Records, Motown Record Company, L.P., Sony BMG Music Entertainment, UMG Recordings, Inc., Virgin Records, Inc. and Warner Bros. Records Inc. v. XM Satellite Radio Inc. In May 2006, the plaintiffs filed this action in the United States District Court for the Southern District of New York. The complaint seeks monetary damages and equitable relief, and alleges that XM radios that include advanced recording functionality infringe upon plaintiffs copyrighted sound recordings. XM filed a motion to dismiss this matter, and that motion was denied in January 2007. XM has resolved the lawsuit with respect to Universal Music Group, Warner Music Group, Sony BMG Music Entertainment and EMI Group, and each of these parties has withdrawn as a party to the lawsuit and this lawsuit has been dismissed with respect to such parties.

Music publishing companies and certain other record companies also have filed lawsuits, purportedly on a class basis, with similar allegations. We believe these allegations are without merit and that our products comply with applicable copyright law, including the Audio Home Recording Act. We intend to vigorously defend this matter. There can be no assurance regarding the ultimate outcome of these matters, or the significance, if any, to our business, consolidated results of operations or financial position.

Matthew Enderlin v. XM Satellite Radio Holdings Inc. and XM Satellite Radio Inc. In January 2006, the plaintiff filed this action in the United States District Court for the Eastern District of Arkansas on behalf of a purported nationwide class of all XM subscribers. The complaint alleges that XM engaged in a deceptive trade practices under Arkansas and other state laws by representing that its music channels are commercial-free. The court stayed the litigation and directed the parties to arbitration. XM instituted arbitration with the American Arbitration Association pursuant to the compulsory arbitration clause in its customer service agreement. The plaintiff has filed a counterclaim in the arbitration on behalf of the class that he seeks to represent. We believe this matter is without merit and intend to vigorously defend the ongoing arbitration. There can be no assurance regarding the ultimate outcome of this matter, or the significance, if any, to our business, consolidated results of operations or financial position.

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

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

At our annual meeting of stockholders held on December 18, 2008, our stockholders voted to approve the four proposals described below.

1. The persons below were elected as directors. The relevant voting information for each person is set forth opposite such person s name:

	Votes Cast	
	For	**Against**
Joan L. Amble	2,677,297,164	143,136,915
Leon D. Black	2,072,456,456	748,607,623
Lawrence F. Gilberti	2,669,741,298	151,322,781
Eddy W. Hartenstein	2,677,789,644	143,274,435
James P. Holden	2,675,520,504	145,543,575
Chester A. Huber, Jr.	2,676,394,592	144,669,487
Mel Karmazin	2,668,323,864	152,740,215
John W. Mendel	2,677,187,748	143,876,331
James F. Mooney	2,673,460,965	147,603,114
Gary Parsons	2,678,408,452	142,655,628
Jack Shaw	2,682,345,716	138,718,364
Jeffrey D. Zients	2,681,335,235	139,728,844

2. An amendment to our certificate of incorporation to increase the number of authorized shares of our common stock from 4,500,000,000 to 8,000,000,000 shares was approved by a vote of 2,271,110,403 shares in favor, 530,216,379 shares against and 19,737,294 shares abstaining.

3. An amendment to our certificate of incorporation to (i) effect a reverse stock split of our common stock by a ratio of not less than one-for-ten and not more than one-for-fifty at any time prior to December 31, 2009, with the exact ratio to be set at a whole number within this range to be determined by our board of directors in its discretion, and (ii) reduce the number of authorized shares of our common stock as set forth in the proxy statement was approved by a vote of 2,418,481,007 shares in favor, 352,211,438 shares against and 50,371,632 shares abstaining.

4. The appointment of KPMG LLP as our independent auditors for the fiscal year ending December 31, 2008 was ratified by a vote of 2,703,178,043 shares in favor, 72,726,035 shares against and 45,176,858 shares abstaining.

Shortly following the annual meeting of stockholders, we filed an amendment to our certificate of incorporation with the Secretary of State of the State of Delaware to increase the number of authorized shares of our common stock to 8,000,000,000 shares.

PART II

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

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

	High	Low
Year ended December 31, 2007		
First Quarter	$ 4.26	$ 3.18
Second Quarter	3.25	2.66
Third Quarter	3.59	2.71
Fourth Quarter	3.94	2.76
Year ended December 31, 2008		
First Quarter	$ 3.89	$ 2.51
Second Quarter	2.92	1.80
Third Quarter	2.75	0.57
Fourth Quarter	0.69	0.08

On March 6, 2009, the closing sales price of our common stock on the Nasdaq Global Select Market was $0.14 per share. On March 6, 2009, there were approximately 850,000 beneficial holders of our common stock.

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

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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, 2003 to December 31, 2008. The graph assumes that $100 was invested on December 31, 2003 in each of our common stock, the S&P 500 and the NASDAQ Telecommunications Index and that all dividends were reinvested.

Stockholder Return Performance Table

	Nasdaq Telecommunications Index	S&P 500 Index	Sirius XM Radio Inc.
December 31, 2003	$ 100.00	$ 100.00	$ 100.00
December 31, 2004	$ 108.00	$ 108.99	$ 241.14
December 31, 2005	$ 100.21	$ 112.26	$ 212.03
December 31, 2006	$ 128.03	$ 127.55	$ 112.03
December 31, 2007	$ 139.77	$ 132.06	$ 95.89
December 31, 2008	$ 79.69	$ 81.23	$ 3.80

Equity Compensation Plan Information

(shares in thousands) **Plan category**	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	165,436	$ 4.42	160,223
Equity compensation plans not approved by security holders			
Total	165,436	$ 4.42	160,223

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ITEM 6. SELECTED FINANCIAL DATA

Our selected financial data set forth below with respect to the consolidated statements of operations for the years ended December 31, 2008, 2007 and 2006, and with respect to the consolidated balance sheets at December 31, 2008 and 2007, are derived from our audited consolidated financial statements included in Item. 8 of this Annual Report on Form 10-K. Our selected financial data set forth below with respect to the consolidated statements of operations for the years ended December 31, 2005 and 2004, and with respect to the consolidated balance sheets at December 31, 2006, 2005 and 2004 are derived from our audited consolidated financial statements, which are not included in this Annual Report. This selected financial data should be read in conjunction with the Consolidated Financial Statements and related notes thereto included in Item 8 of this Annual Report on Form 10-K and Management s Discussion and Analysis of Financial Condition and Results of Operations.

	For the Years Ended December 31,				
(in thousands, except share and per share data)	**2008 (1)**	**2007**	**2006**	**2005**	**2004**
Statements of Operations Data:					
Total revenue	$ 1,663,992	$ 922,066	$ 637,235	$ 242,245	$ 66,854
Net loss	(5,313,288)	(565,252)	(1,104,867)	(862,997)	(712,162)
Net loss per share (basic and diluted)	$ (2.45)	$ (0.39)	$ (0.79)	$ (0.65)	$ (0.57)
Weighted average common shares outstanding (basic and diluted)	2,169,489	1,462,967	1,402,619	1,325,739	1,238,585
Balance Sheet Data:					
Cash and cash equivalents	$ 380,446	$ 438,820	$ 393,421	$ 762,007	$ 753,891
Restricted investments	141,250	53,000	77,850	107,615	97,321
Total assets	7,490,695	1,694,149	1,658,528	2,085,362	1,957,613
Long-term debt, net of current portion	2,851,740	1,278,617	1,068,249	1,084,437	656,274
Stockholders (deficit) equity (2)	8,537	(792,737)	(389,071)	324,968	1,000,633

(1) The 2008 results and balances reflect the results and balances of XM Holdings from the date of the Merger and a $4,766,190 goodwill impairment charge.
(2) No cash dividends were declared or paid in any of the periods presented.

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

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

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

Executive Summary

We broadcast in the United States our music, sports, news, talk, entertainment, traffic and weather channels for a subscription fee through our proprietary satellite radio systems the SIRIUS system and the XM system. On July 28, 2008, our wholly owned subsidiary, Vernon Merger Corporation, merged (the Merger) with and into XM Satellite Radio Holdings Inc. and, as a result, XM Satellite Radio Holdings Inc. is now our wholly owned subsidiary. The SIRIUS system consists of three in-orbit satellites, approximately 120 terrestrial repeaters that receive and retransmit signals, satellite uplink facilities and studios. The XM system consists of four in-orbit satellites, over 700 terrestrial repeaters that receive and retransmit signals, satellite uplink facilities and studios. Subscribers can also receive certain of our music and other channels over the Internet.

Our satellite radios are primarily distributed through automakers (OEMs); through more than 19,000 retail locations; and through our websites. We have agreements with every major automaker to offer SIRIUS or XM satellite radios as factory or dealer-installed equipment in their vehicles. SIRIUS and XM radios are also offered to customers of rental car companies, including Hertz and Avis.

As of December 31, 2008, we had 19,003,856 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 prepaid subscriptions included in the sale or lease price of a new vehicle; active SIRIUS radios under our agreement with Hertz; active XM radios under our agreement with Avis; subscribers to SIRIUS Internet Radio and XM Internet Radio, our Internet services; and certain subscribers to our weather, traffic, data and video services.

Our primary source of revenue is subscription fees, with most of our customers subscribing on an annual, semi-annual, quarterly or monthly basis. We offer discounts for pre-paid and long-term subscriptions as well as discounts for multiple subscriptions on each platform. In 2009, we increased the discounted price for additional subscriptions from $6.99 per month to $8.99 per month. We also derive revenue from activation fees, the sale of advertising on select non-music channels, the direct sale of satellite radios and accessories, and other ancillary services, such as our Backseat TV, data and weather services.

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

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

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

Unaudited Pro Forma Information

The following discussion of our pro forma information includes non-GAAP financial results and measures that assume the Merger occurred on January 1, 2006. These financial results exclude the impact of purchase price accounting adjustments and refinancing transactions. We believe this non-GAAP financial information provides meaningful supplemental information regarding our operating performance and is used for internal management purposes, when publicly providing the

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business outlook, and as a means to evaluate period-to-period comparisons. Please refer to the footnotes (pages 55 to 69) following our discussion of results of operations for the definitions and further discussion of usefulness of such non-GAAP financial measures.

Subscriber and Key Operating Metrics. The following tables contain our pro forma subscribers and key operating metrics for the years ended December 31, 2008, 2007 and 2006:

Unaudited Pro Forma Annual Subscribers and Metrics:

	Unaudited Pro Forma For the Years Ended December 31,		
	2008	2007	2006
Beginning subscribers	17,348,622	13,653,107	9,249,517
Gross subscriber additions	7,710,306	8,077,674	7,629,645
Deactivated subscribers	(6,055,072)	(4,382,159)	(3,226,055)
Net additions	1,655,234	3,695,515	4,403,590
Ending subscribers	19,003,856	17,348,622	13,653,107
Retail	8,905,087	9,238,715	8,454,581
OEM	9,995,953	8,033,268	5,169,372
Rental	102,816	76,639	29,154
Ending subscribers	19,003,856	17,348,622	13,653,107
Retail	(333,628)	784,135	2,388,124
OEM	1,962,685	2,863,895	2,057,744
Rental	26,177	47,485	(42,278)
Net additions	1,655,234	3,695,515	4,403,590

	Unaudited Pro Forma For the Years Ended December 31,		
	2008	2007	2006
Average self-pay monthly churn (1)(7)	1.8%	1.7%	1.7%
Conversion rate (2)(7)	47.5%	50.9%	51.9%
ARPU (3)(7)	$ 10.51	$ 10.61	$ 10.82
SAC, as adjusted, per gross subscriber addition (4)(7)	$ 74	$ 86	$ 89
Customer service and billing expenses, as adjusted, per average subscriber (5)(7)	$ 1.11	$ 1.18	$ 1.31
Total revenue	$ 2,436,740	$ 2,058,608	$ 1,570,652
Free cash flow (6)(7)	$ (551,771)	$ (504,869)	$ (1,234,435)
Adjusted income (loss) from operations (8)	$ (136,298)	$ (565,452)	$ (679,312)
Net loss	$ (902,335)	$ (1,247,633)	$ (1,823,739)

Subscribers. We ended 2008 with 19,003,856 subscribers, an increase of 10% from the 17,348,622 subscribers as of December 31, 2007. Gross subscriber additions decreased approximately 5% during 2008 from 2007. Domestic auto sales fell 18% to 13.2 million in 2008 from 16.1 million in 2007. The growth in OEM gross additions was offset by declines in retail gross additions. Deactivation rates for self-pay subscriptions were 1.8%; deactivations due to non-conversions of subscribers in paid promotional trial periods increased as production penetration rates increased.

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ARPU. Total ARPU for the year ended December 31, 2008 was $10.51 compared to $10.61 for the year ended December 31, 2007. The decrease was driven by an increase in the mix of discounted OEM promotional subscriptions, subscriber winback programs, second subscribers and a decline in net advertising revenue per average subscriber.

SAC, As Adjusted, Per Gross Subscriber Addition. SAC, as adjusted, per gross subscriber addition improved by 14% to $74 from $86 for the years ended December 31, 2008 and 2007, respectively. The decrease was primarily driven by lower retail and OEM subsidies due to better product economics and improved equipment margin.

Customer Service and Billing Expenses, As Adjusted, Per Average Subscriber. Customer service and billing expenses, as adjusted, per average subscriber improved 6% to $1.11 for the year ended December 31, 2008 compared with $1.18 for the year ended December 31, 2007. The decline was primarily due to efficiencies across a larger subscriber base.

Unaudited Pro Forma Results of Operations. Set forth below are certain pro forma items that give effect to the Merger as if it had occurred on January 1, 2006. The pro forma information below does not give effect to any adjustments as a result of the purchase price accounting for the Merger, nor the goodwill impairment charge taken during 2008. See footnote 8 for a reconciliation of net loss to adjusted income (loss) from operations.

	Unaudited Pro Forma For the Years Ended December 31,		
	2008	**2007**	**2006**
Total revenue	$ 2,436,740	$ 2,058,608	$ 1,570,652
Operating expenses:			
Satellite and transmission	99,185	101,721	105,768
Programming and content	446,638	401,461	352,968
Revenue share and royalties	477,962	403,059	218,928
Customer service and billing	244,195	217,402	179,183
Cost of equipment	66,104	97,820	84,182
Sales and marketing	342,296	413,084	414,984
Subscriber acquisition costs	577,126	654,775	644,578
General and administrative	267,032	271,831	172,785
Engineering, design and development	52,500	62,907	87,505
Depreciation and amortization	245,571	293,976	274,629
Share-based payment expense	124,619	165,099	505,964
Restructuring and related costs	10,434		
Total operating expenses	2,953,662	3,083,135	3,041,474
Loss from operations	(516,922)	(1,024,527)	(1,470,822)
Other expense	(381,425)	(221,610)	(350,866)
Loss before income taxes	(898,347)	(1,246,137)	(1,821,688)
Income tax expense	(3,988)	(1,496)	(2,051)
Net loss	$ (902,335)	$ (1,247,633)	$ (1,823,739)

Highlights for the Year Ended December 31, 2008. Our revenue grew 18%, or by $378,132, in the year ended December 31, 2008. This revenue growth was driven by our 17% growth in average subscribers. This increase, combined with lower fixed costs, particularly in the fourth quarter, resulted in improved adjusted loss from operations of ($136,298) in 2008 versus ($565,452) in 2007, as increases in our variable costs were more than offset by decreases in other operating expenses. Total operating expenses, excluding restructuring, depreciation and share-based payment expense and a $27,500 one-time Merger related payment to a programming provider, decreased by 3%, or $78,522, during 2008.

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Programming and content costs for the year ended December 31, 2008 increased 11%, or $45,177, including a one-time payment to a programming provider of $27,500 due upon completion of the Merger. Excluding this one-time payment, programming costs increased by 4% or $17,677.

Revenue share and royalties increased by 19%, or $74,903, over the prior year, maintaining a flat percentage of revenue of approximately 20% in 2008 and 2007. Customer service and billing costs increased 12%, or $26,793, from the prior year due to a larger subscriber base, mitigated by scale efficiencies. Cost of equipment declined by 32%, or $31,716, as compared to the prior year as a result of lower product costs. Sales and marketing costs declined 17%, or $70,788, due to reduced advertising and cooperative marketing spend, offset in part by higher customer retention spending. As a percentage of revenue, sales and marketing costs improved from 20% in 2007 to 14% in 2008.

Subscriber acquisition costs declined nearly 12%, or $77,649, and as a percentage of revenue improved from 32% to 24%. This improvement was primarily driven by a 14% improvement in SAC, as adjusted, per gross addition due to improved product economics and lower retail and OEM subsidies. Subscriber acquisition costs also declined as a result of the 5% decline in gross additions during 2008.

General and administrative costs decreased 2%, or $4,799, and declined as a percent of revenue, reflecting lower one time costs in connection with the Merger in the prior year and early integration savings in 2008. Engineering, design and development costs decreased 17%, or $10,407, due to fewer OEM platform launches and lower product development costs.

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

Unaudited Pro Forma Fourth Quarter Subscribers and Metrics:

The following tables contain our pro forma subscribers and key operating metrics for the three months ended December 31, 2008, 2007 and 2006:

	Unaudited Pro Forma For the Three Months Ended December 31,		
	2008	2007	2006
Beginning subscribers	18,920,911	16,234,070	12,305,181
Gross subscriber additions	1,713,210	2,336,640	2,292,172
Deactivated subscribers	(1,630,265)	(1,222,088)	(944,246)
Net additions	82,945	1,114,552	1,347,926
Ending subscribers	19,003,856	17,348,622	13,653,107
Retail	8,905,087	9,238,715	8,454,581
OEM	9,995,953	8,033,268	5,169,372
Rental	102,816	76,639	29,154
Ending subscribers	19,003,856	17,348,622	13,653,107
Retail	(131,333)	314,908	830,153
OEM	218,249	791,356	535,854
Rental	(3,971)	8,288	(18,081)
Net additions	82,945	1,114,552	1,347,926

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	Unaudited Pro Forma For the Three Months Ended December 31,		
	2008	2007	2006
Average self-pay monthly churn (1)(7)	1.8%	1.7%	1.7%
Conversion rate (2)(7)	44.2%	51.4%	49.8%
ARPU (7)(10)	$ 10.60	$ 10.42	$ 10.82
SAC, as adjusted, per gross subscriber addition (7)(11)	$ 70	$ 83	$ 90
Customer service and billing expenses, as adjusted, per average subscriber (7)(12)	$ 1.18	$ 1.30	$ 1.42
Total revenue	$ 644,108	$ 557,515	$ 450,502
Free cash flow (7)(13)	$ 25,877	$ 5,405	$ (33,788)
Adjusted income (loss) from operations (14)	$ 31,797	$ (224,143)	$ (236,628)
Net loss	$ (248,468)	$ (405,041)	$ (502,321)

Subscribers. We ended the fourth quarter 2008 with 19,003,856 subscribers, an increase of 10% from the 17,348,622 subscribers as of December 31, 2007. Gross subscriber additions decreased about 27% in the fourth quarter of 2008 from the fourth quarter of 2007. Gross additions in our OEM channel were approximately 13% lower in the fourth quarter versus the prior year period, with higher production penetration failing to offset declines in auto sales. Auto sales fell 35% in the fourth quarter of 2008 to 2.5 million from 3.8 million in the fourth quarter of 2007. The decline in OEM gross additions was also accompanied by declines in retail gross additions. Deactivations for self-pay subscriptions remained relatively consistent at 1.8% per month; deactivations due to non-conversions of subscribers in paid promotional trial periods increased as production penetration rates increased.

ARPU. Total ARPU for the three months ended December 31, 2008 was $10.60, compared to $10.42 for the three months ended December 31, 2007. The increase was driven by the start of our Best of package sales, most of which were at the $16.99 price point, and by lower OEM inventories. These factors were partially offset by an increase in the mix of discounted OEM promotional trials, subscriber winback programs, second subscribers and a decline in net advertising revenue per average subscriber.

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

Customer Service and Billing Expenses, As Adjusted, Per Average Subscriber. Customer service and billing expenses, as adjusted, per average subscriber declined 9% to $1.18 for the three months ended December 31, 2008 compared with $1.30 for the three months ended December 31, 2007. The decline was primarily due to efficiencies across a larger subscriber base.

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Unaudited Pro Forma Results of Operations. Set forth below are certain pro forma items that give effect to the Merger as if it had occurred on January 1, 2006. The pro forma information below does not give effect to any adjustments as a result the purchase price accounting for the Merger, nor the goodwill impairment charge taken during 2008. See footnote 14 for a reconciliation of net loss to adjusted income (loss) from operations.

	Unaudited Pro Forma For the Three Months Ended December 31,		
	2008	2007	2006
Total revenue	$ 644,108	$ 557,515	$ 450,502
Operating expenses:			
Satellite and transmission	22,851	23,697	23,609
Programming and content	105,215	109,076	97,990
Revenue share and royalties	122,711	163,541	64,467
Customer service and billing	67,036	65,006	53,980
Cost of equipment	18,084	37,334	42,630
Sales and marketing			