SIRIUS XM RADIO INC.
Form 10-Q
October 24, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2013
OR	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM __________ TO ________

COMMISSION FILE NUMBER 001-34295

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

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

Registrant’s telephone number, including area code: (212) 584-5100
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

(Class)	(Outstanding as of October 22, 2013)	
COMMON STOCK, $0.001 PAR VALUE	6,135,513,195	SHARES

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(in thousands, except per share data)	2013	2012	2013	2012
Revenue:				
Subscriber revenue	$834,053	$757,672	$2,432,113	$2,188,199
Advertising revenue	21,918	20,426	63,886	59,881
Equipment revenue	17,989	17,813	54,588	51,183
Other revenue	87,549	71,449	248,430	210,362
Total revenue	961,509	867,360	2,799,017	2,509,625
Operating expenses:				
Cost of services:				
Revenue share and royalties	162,627	141,834	467,017	409,371
Programming and content	72,322	69,938	217,313	205,203
Customer service and billing	76,322	77,768	237,006	212,635
Satellite and transmission	19,853	18,319	59,041	53,980
Cost of equipment	5,340	6,345	17,809	19,301
Subscriber acquisition costs	125,457	112,418	371,560	348,014
Sales and marketing	75,638	60,676	209,594	176,457
Engineering, design and development	13,007	13,507	42,901	32,468
General and administrative	67,881	68,235	184,613	193,786
Depreciation and amortization	58,533	66,571	192,966	199,481
Total operating expenses	676,980	635,611	1,999,820	1,850,696
Income from operations	284,529	231,749	799,197	658,929
Other income (expense):				
Interest expense, net of amounts capitalized	(54,629)	(70,035)	(150,531)	(219,777)
Loss on extinguishment of debt and credit facilities, net	(107,971)	(107,105)	(124,348)	(132,726)
Interest and investment income (loss)	1,716	(321)	3,648	(3,192)
Other income (loss)	407	113	909	(637)
Total other expense	(160,477)	(177,348)	(270,322)	(356,332)
Income before income taxes	124,052	54,401	528,875	302,597
Income tax (expense) benefit	(61,158)	20,113	(216,857)	3,013,860
Net income	$62,894	$74,514	$312,018	$3,316,457
Foreign currency translation adjustment, net of tax	(11)	—	(292)	(38)
Total comprehensive income	$62,883	$74,514	$311,726	$3,316,419
Net income per common share:				
Basic	$0.01	$0.01	$0.05	$0.52
Diluted	$0.01	$0.01	$0.05	$0.49
Weighted average common shares outstanding:				
Basic	6,184,216	4,034,122	6,265,981	3,870,031
Diluted	6,287,353	6,577,654	6,446,082	6,848,230

See accompanying notes to the unaudited consolidated financial statements.

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SIRIUS XM RADIO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)	September 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$716,784	$520,945
Accounts receivable, net	102,778	106,142
Receivables from distributors	80,819	104,425
Inventory, net	14,242	25,337
Prepaid expenses	130,794	122,157
Related party current assets	11,141	13,167
Deferred tax asset	887,182	923,972
Other current assets	7,525	12,037
Total current assets	1,951,265	1,828,182
Property and equipment, net	1,542,887	1,571,922
Long-term restricted investments	5,718	3,999
Deferred financing fees, net	29,377	38,677
Intangible assets, net	2,482,367	2,519,610
Goodwill	1,815,365	1,815,365
Related party long-term assets	29,385	44,954
Long-term deferred tax asset	1,036,708	1,219,256
Other long-term assets	13,240	12,878
Total assets	$8,906,312	$9,054,843
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$528,173	$587,652
Accrued interest	53,918	33,954
Current portion of deferred revenue	1,522,513	1,474,138
Current portion of deferred credit on executory contracts	3,904	207,854
Current maturities of long-term debt	489,492	4,234
Current maturities of long-term related party debt	49,383	—
Related party current liabilities	6,121	6,756
Total current liabilities	2,653,504	2,314,588
Deferred revenue	145,656	159,501
Deferred credit on executory contracts	2,339	5,175
Long-term debt	3,161,372	2,222,080
Long-term related party debt	10,948	208,906
Related party long-term liabilities	16,884	18,966
Other long-term liabilities	80,941	86,062
Total liabilities	6,071,644	5,015,278
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, par value $0.001; 50,000,000 authorized at September 30, 2013 and December 31, 2012:		
Convertible perpetual preferred stock, series B-1 (liquidation preference of $0.001 per share); 0 and 6,250,100 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	—	6

Common stock, par value $0.001; 9,000,000,000 shares authorized; 6,134,596,655 and 5,262,440,085 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	6,135	5,263
Accumulated other comprehensive (loss) income, net of tax	(172)	120
Additional paid-in capital	8,828,077	10,345,566
Accumulated deficit	(5,999,372)	(6,311,390)
Total stockholders' equity	2,834,668	4,039,565
Total liabilities and stockholders' equity	$8,906,312	$9,054,843

See accompanying notes to the unaudited consolidated financial statements.

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

	Convertible Perpetual Preferred Stock, Series B-1		Common Stock				Treasury Stock		
(in thousands, except share data)	Shares	Amount	Shares	Amount	Accumulated Other Comprehensive Income (Loss)	Additional Paid-in Capital	Shares	Amount	Accumulated Deficit
Balance at December 31, 2012	6,250,100	$6	5,262,440,085	$5,263	$120	$10,345,566	—	$—	$(6,311,390)
Comprehensive income, net of tax	—	$—	—	$—	$(292)	$—	—	$—	$312,018
Share-based payment expense	—	$—	—	$—	$—	$49,774	—	$—	$—
Exercise of options and vesting of restricted stock units	—	$—	27,505,245	$28	$—	$19,251	—	$—	$—
Minimum withholding taxes on net share settlement of stock-based compensation	—	$—	—	$—	$—	$(28,413)	—	$—	$—
Conversion of preferred stock to common stock	(6,250,100)	$(6)	1,293,509,076	$1,293	$—	$(1,287)	—	$—	$—
Conversion of Exchangeable Notes to common stock	—	$—	27,687,850	$28	$—	$45,069	—	$—	$—
Common stock repurchased	—	$—	—	$—	$—	$—	476,545,601	$(1,602,360)	$—
Common stock retired	—	$—	(476,545,601)	$(477)	$—	$(1,601,883)	(476,545,601)	$1,602,360	$—
Balance at September 30, 2013	—	$—	6,134,596,655	$6,135	$(172)	$8,828,077	—	$—	$(5,999,372)

See accompanying notes to the unaudited consolidated financial statements.

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

	For the Nine Months Ended September 30,	
(in thousands)	2013	2012
Cash flows from operating activities:		
Net income	$312,018	$3,316,457
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	192,966	199,481
Non-cash interest expense, net of amortization of premium	16,506	30,786
Provision for doubtful accounts	28,571	24,953
Amortization of deferred income related to equity method investment	(2,082)	(2,082)
Loss on extinguishment of debt and credit facilities, net	124,348	132,726
(Gain) loss on unconsolidated entity investments, net	(2,831)	4,014
Dividend received from unconsolidated entity investment	17,707	—
Loss on disposal of assets	128	567
Share-based payment expense	49,774	46,361
Deferred income taxes	219,184	(3,017,021)
Other non-cash purchase price adjustments	(206,786)	(220,336)
Changes in operating assets and liabilities:		
Accounts receivable	(25,207)	(26,211)
Receivables from distributors	23,606	(2,956)
Inventory	11,095	888
Related party assets	2,077	6,905
Prepaid expenses and other current assets	(6,665)	(26,367)
Other long-term assets	(363)	24,454
Accounts payable and accrued expenses	(58,680)	(27,384)
Accrued interest	19,964	(5,940)
Deferred revenue	34,530	52,777
Related party liabilities	(635)	(1,314)
Other long-term liabilities	(4,968)	2,774
Net cash provided by operating activities	744,257	513,532
Cash flows from investing activities:		
Additions to property and equipment	(118,235)	(73,546)
Purchases of restricted and other investments	(1,719)	—
Net cash used in investing activities	(119,954)	(73,546)
Cash flows from financing activities:		
Proceeds from exercise of stock options	21,819	89,250
Taxes paid in lieu of shares issued for stock-based compensation	(27,913)	—
Proceeds from long-term borrowings and revolving credit facility, net of costs	2,532,137	393,687
Payment of premiums on redemption of debt	(116,410)	(100,615)
Repayment of long-term borrowings and revolving credit facility	(1,085,737)	(914,028)
Repayment of related party long-term borrowings	(150,000)	(126,000)
Common stock repurchased and retired	(1,602,360)	—
Net cash used in financing activities	(428,464)	(657,706)
Net increase (decrease) in cash and cash equivalents	195,839	(217,720)
Cash and cash equivalents at beginning of period	520,945	773,990
Cash and cash equivalents at end of period	$716,784	$556,270

See accompanying notes to the unaudited consolidated financial statements.

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

	For the Nine Months Ended September 30,	
(in thousands)	2013	2012
Supplemental Disclosure of Cash and Non-Cash Flow Information		
Cash paid during the period for:		
Interest, net of amounts capitalized	$109,476	$188,997
Non-cash investing and financing activities:		
Capital lease obligations incurred to acquire assets	8,870	12,781
Conversion of Series B preferred stock to common stock	1,293	1,294
Conversion of 7% Exchangeable Notes to common stock, net of debt issuance and deferred financing costs	45,097	—
Goodwill reduced for the exercise and vesting of certain stock awards	—	19,183

See accompanying notes to the unaudited consolidated financial statements.

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

(1) Business & Basis of Presentation

Business

We broadcast our music, sports, entertainment, comedy, talk, news, traffic and weather channels, as well as infotainment services in the United States on a subscription fee basis through our two proprietary satellite radio systems. Subscribers can also receive music and other channels, plus new features such as SiriusXM On Demand and MySXM, over the Internet, including through applications for mobile devices. We have agreements with every major automaker (“OEMs”) to offer satellite radios as factory or dealer-installed equipment in their vehicles from which we acquire a majority of our subscribers. We also acquire subscribers through marketing campaigns to owners of factory-installed satellite radios that are not currently subscribing to our services. Additionally, we distribute our satellite radios through retail locations nationwide and through our website. Satellite radio services are also offered to customers of certain daily rental car companies.

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

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

On August 14, 2013, we entered into a Stock Purchase Agreement with Agero, Inc. ("Agero"), pursuant to which we agreed to acquire the connected vehicle business of Agero for an aggregate purchase price of approximately $530,000 in cash. Agero's connected vehicle business is a leader in implementing the next generation of connected vehicle services. The business offers a portfolio of location-based services through two-way wireless connectivity, including safety, security, convenience, maintenance and data services and remote vehicle diagnostics. The transaction is expected to close in the fourth quarter of 2013 subject to the expiration or early termination of the Hart-Scott-Rodino antitrust waiting period and other customary closing conditions.

Liberty Media Corporation beneficially owned as of September 30, 2013, directly and indirectly, over 50% of the outstanding shares of our common stock. Liberty Media owns interests in a broad range of media, communications and entertainment businesses, including its subsidiaries, Atlanta National League Baseball Club, Inc. and TruePosition, Inc., its interests in Charter Communications, Live Nation and Barnes & Noble, and minority equity investments in Time Warner, Inc. and Viacom.

Principles of Consolidation

The accompanying consolidated financial statements of Sirius XM Radio Inc. and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), the instructions to Form 10-Q and Article 10 of Regulation S-X of the United States Securities and Exchange Commission (“SEC”) for interim financial reporting. Certain information and footnote disclosures normally included in the financial statements presented in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations.

Basis of Presentation

Certain numbers in our prior period consolidated financial statements have been reclassified to conform to our current period presentation. All significant intercompany transactions have been eliminated in consolidation. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of our unaudited consolidated financial statements as of September 30, 2013 and for the three and nine months ended September 30, 2013 and 2012 have been made.

Interim results are not necessarily indicative of the results that may be expected for a full year. This Quarterly Report on Form 10-Q should be read together with our Annual Report on Form 10-K for the year ended December 31, 2012, which was filed with the SEC on February 6, 2013.

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

We have evaluated events subsequent to the balance sheet date and prior to the filing of this Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2013 and have determined that no events have occurred that would require adjustment to our unaudited consolidated financial statements. For a discussion of subsequent events refer to Note 17.

Use of Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes. Estimates, by their nature, are based on judgment and available information. Actual results could differ materially from those estimates.

Significant estimates inherent in the preparation of the accompanying unaudited consolidated financial statements include assessments of asset impairment, depreciable lives of our satellites, share-based payment expense and income taxes.

(2) Summary of Significant Accounting Policies
Fair Value of Financial Instruments
The fair value for publicly traded instruments is determined using quoted market prices while the fair value for non-publicly traded instruments is based upon estimates from a market maker and brokerage firm. As of September 30, 2013 and December 31, 2012, the carrying value of our debt was $3,711,195 and $2,435,220, respectively, and the fair value approximated $4,304,922 and $3,055,076, respectively. The carrying value of our investment in Sirius XM Canada was $28,589 and $37,983 as of September 30, 2013 and December 31, 2012, respectively; the fair value approximated $385,000 and $290,900 as of September 30, 2013 and December 31, 2012, respectively.
Accumulated Other Comprehensive Income (Loss)
Accumulated other comprehensive loss of $172 was primarily comprised of the cumulative foreign currency translation adjustments related to our interest in Sirius XM Canada. During the three months ended September 30, 2013, we recorded a foreign currency translation adjustment loss of $11, net of a tax benefit of $15; during the nine months ended September 30, 2013, we recorded a foreign currency translation adjustment loss of $292, net of a tax benefit of $155.
Recent Accounting Pronouncements
In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220), Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, to require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. An entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. This standard was effective for interim and annual periods beginning after December 15, 2012 and is to be applied on a prospective basis. We adopted ASU 2013-02 and will disclose significant amounts reclassified out of accumulated other comprehensive income as such transactions arise. ASU 2013-02 affects financial statement presentation only and has no impact on our results of operations or unaudited consolidated financial statements.

(3) Earnings per Share

We utilize the two-class method in calculating basic net income per common share, as our Series B Preferred Stock was considered to be participating securities through January 18, 2013. On January 18, 2013, Liberty Media converted its remaining 6,250,100 outstanding shares of Series B Preferred Stock into 1,293,509,076 shares of common stock. Basic net income per common share is calculated by dividing the income available to common stockholders by the weighted average common shares outstanding during each reporting period. Diluted net income per common share adjusts the weighted average number of common shares outstanding for the potential dilution that could occur if common stock equivalents (convertible debt, preferred stock, warrants, stock options and restricted stock units) were exercised or converted into common stock, calculated using the treasury stock method.

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

Common stock equivalents of approximately 323,615,000 and 451,577,000 for the three months ended September 30, 2013 and 2012, respectively, and 354,938,000 and 144,014,000 for the nine months ended September 30, 2013 and 2012, respectively, were excluded from the calculation of diluted net income per common share as the effect would have been anti-dilutive.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(in thousands, except per share data)	2013	2012	2013	2012
Numerator:				
Net income	$62,894	$74,514	$312,018	$3,316,457
Less:				
Allocation of undistributed income to Series B Preferred Stock	—	(27,825)	(4,190)	(1,309,647)
Net income available to common stockholders for basic net income per common share	$62,894	$46,689	$307,828	$2,006,810
Add back:				
Allocation of undistributed income to Series B Preferred Stock	—	27,825	4,190	1,309,647
Effect of interest on assumed conversions of convertible debt	—	—	—	28,875
Net income available to common stockholders for diluted net income per common share	$62,894	$74,514	$312,018	$3,345,332
Denominator:				
Weighted average common shares outstanding for basic net income per common share	6,184,216	4,034,122	6,265,981	3,870,031
Weighted average impact of assumed Series B Preferred Stock conversion	—	2,404,143	85,286	2,525,588
Weighted average impact of assumed convertible debt	—	—	—	293,333
Weighted average impact of other dilutive equity instruments	103,137	139,389	94,815	159,278
Weighted average shares for diluted net income per common share	6,287,353	6,577,654	6,446,082	6,848,230
Net income per common share:				
Basic	$0.01	$0.01	$0.05	$0.52
Diluted	$0.01	$0.01	$0.05	$0.49

(4) Accounts Receivable, net

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

Accounts receivable, net, consists of the following:

	September 30, 2013	December 31, 2012
Gross accounts receivable	$114,300	$117,853

Allowance for doubtful accounts	(11,522)	(11,711)
Total accounts receivable, net	$102,778	$106,142

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

Receivables from distributors include billed and unbilled amounts due from OEMs for services included in the sale or lease price of vehicles, as well as billed amounts due from retailers. We have not established an allowance for doubtful accounts for our receivables from distributors as we have historically not experienced any significant collection issues with our OEMs. Receivables from distributors consist of the following:

	September 30, 2013	December 31, 2012
Billed	$30,583	$53,057
Unbilled	50,236	51,368
Total	$80,819	$104,425

(5) Inventory, net

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

Inventory, net, consists of the following:

	September 30, 2013	December 31, 2012
Raw materials	$12,505	$17,717
Finished goods	16,800	23,779
Allowance for obsolescence	(15,063)	(16,159)
Total inventory, net	$14,242	$25,337

(6) Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired in business combinations. Our annual impairment assessment is performed as of the fourth quarter of each year, and an assessment is performed at other times if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset below its carrying value. If the carrying value of goodwill exceeds its fair value, an impairment loss is recognized.

As of September 30, 2013, there were no indicators of impairment, and no impairment loss was recorded for goodwill during the three and nine months ended September 30, 2013 and 2012. During the nine months ended September 30, 2012, with the release of the deferred income tax valuation allowance, we reduced goodwill by $19,183 related to the subsequent exercise of certain stock options and vesting of certain restricted stock units that were recorded at fair value in connection with the July 2008 merger between our wholly owned subsidiary, Vernon Merger Corporation, and XM Satellite Radio Holdings Inc. (“the Merger”). As of September 30, 2013, the cumulative balance of goodwill impairments recorded since the Merger was $4,766,190, which was recognized during the year ended December 31, 2008.

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

(7) Intangible Assets

As a result of the Merger, certain intangible assets formerly held by XM Satellite Radio Holdings Inc. were recorded at fair value. Intangible assets consist of the following:

		September 30, 2013			December 31, 2012		
	Weighted Average Useful Lives	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Indefinite life intangible assets:							
FCC licenses	Indefinite	$2,083,654	$ —	$2,083,654	$2,083,654	$ —	$2,083,654
Trademark	Indefinite	250,000	—	250,000	250,000	—	250,000
Definite life intangible assets:							
Subscriber relationships	9 years	380,000	(262,217)	117,783	380,000	(233,317)	146,683
Licensing agreements	9.1 years	78,289	(51,682)	26,607	78,489	(44,161)	34,328
Proprietary software	6 years	16,552	(13,236)	3,316	16,552	(12,777)	3,775
Developed technology	10 years	2,000	(1,033)	967	2,000	(883)	1,117
Leasehold interests	7.4 years	132	(92)	40	132	(79)	53
Total intangible assets		$2,810,627	$ (328,260)	$2,482,367	$2,810,827	$ (291,217)	$2,519,610

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

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

FCC satellite licenses	Expiration year
SIRIUS FM-1	2017
SIRIUS FM-2	2017
SIRIUS FM-3	2017
SIRIUS FM-5	2017
SIRIUS FM-6 (1)	
XM-1	2014
XM-2	2014
XM-3	2021
XM-4	2014
XM-5	2018

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

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

In connection with the Merger, $250,000 of the purchase price was allocated to the XM trademark. As of September 30, 2013, there were no legal, regulatory or contractual limitations associated with the XM trademark.

Our annual impairment assessment of our indefinite intangible assets is performed as of the fourth quarter of each year. An assessment is performed at other times if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset below its carrying value. If the carrying value of the intangible assets exceeds its fair value, an impairment loss is recognized. As of September 30, 2013, there were no indicators of impairment, and no impairment loss was recorded for intangible assets with indefinite lives during the three and nine months ended September 30, 2013 and 2012.

(Dollar amounts in thousands, unless otherwise stated)

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

Amortization expense for all definite life intangible assets was $12,107 and $13,198 for the three months ended September 30, 2013 and 2012, respectively, and $37,043 and $40,775 for the nine months ended September 30, 2013 and 2012, respectively. Expected amortization expense for the remaining period in 2013, each of the fiscal years 2014 through 2017 and for periods thereafter is as follows:

Year ending December 31,	Amount
2013 (remaining)	$10,278
2014	38,877
2015	35,561
2016	32,546
2017	19,582
Thereafter	11,869
Total definite life intangible assets, net	$148,713

(8) Interest Costs

We capitalized a portion of the interest on funds borrowed as part of the cost of constructing our satellites and related launch vehicle. We are currently capitalizing the interest associated with our FM-6 satellite and related launch vehicle and will continue to do so until the satellite is placed into operation. We also incur interest costs on our debt instruments and on our satellite incentive agreements. The following is a summary of our interest costs:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest costs charged to expense	$54,629	$70,035	$150,531	$219,777
Interest costs capitalized	7,915	8,005	23,923	24,087
Total interest costs incurred	$62,544	$78,040	$174,454	$243,864

Included in interest costs incurred is non-cash interest expense, consisting of amortization related to original issue discounts, premiums and deferred financing fees of $5,574 and $9,755 for the three months ended September 30, 2013 and 2012, respectively, and $16,506 and $30,786 for the nine months ended September 30, 2013 and 2012, respectively.

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(9) Property and Equipment

Property and equipment, net, consists of the following:

	September 30, 2013	December 31, 2012
Satellite system	$1,943,537	$1,943,537
Terrestrial repeater network	112,516	112,482
Leasehold improvements	46,070	44,938
Broadcast studio equipment	57,717	55,823
Capitalized software and hardware	257,419	232,753
Satellite telemetry, tracking and control facilities	63,790	62,734
Furniture, fixtures, equipment and other	66,345	76,028
Land	38,411	38,411
Building	58,011	57,816
Construction in progress	511,715	417,124
Total property and equipment	3,155,531	3,041,646
Accumulated depreciation and amortization	(1,612,644)	(1,469,724)
Property and equipment, net	$1,542,887	$1,571,922

Construction in progress consists of the following:

	September 30, 2013	December 31, 2012
Satellite system	$431,513	$376,825
Terrestrial repeater network	24,888	17,224
Other	55,314	23,075
Construction in progress	$511,715	$417,124

Depreciation expense on property and equipment was $46,426 and $53,373 for the three months ended September 30, 2013 and 2012, respectively, and $155,923 and $158,706 for the nine months ended September 30, 2013 and 2012, respectively.

We retired property and equipment of $13,130 and $4,633 and recognized a loss on disposal of assets of $128 and $567 during the nine months ended September 30, 2013 and 2012, respectively.

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Satellites

We currently own a fleet of nine orbiting satellites. The chart below provides certain information on these satellites:

Satellite Designation	Year Delivered	Estimated End of Depreciable Life
FM-1*	2000	2013
FM-2*	2000	2013
FM-3	2000	2015
FM-5	2009	2024
XM-1*	2001	2013
XM-2*	2001	2013
XM-3	2005	2020
XM-4	2006	2021
XM-5	2010	2025

* Satellite was fully depreciated as of September 30, 2013 but is still in operation.

We own four orbiting satellites for use in the Sirius system. We own five orbiting satellites for use in the XM system. Four of these satellites were manufactured by Boeing Satellite Systems International, Inc., and five were manufactured by Space Systems/Loral.

During the three months ended September 30, 2013 and 2012, we capitalized expenditures, including interest, of $28,608 and $8,219, respectively, and $44,982 and $25,224 during the nine months ended September 30, 2013 and 2012, respectively, related to the construction of our FM-6 satellite and related launch vehicle.

(10) Related Party Transactions

We had the following related party balances at September 30, 2013 and December 31, 2012:

	Related party current assets		Related party long-term assets		Related party current liabilities		Related party long-term liabilities		Related party debt	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Liberty Media	$—	$ —	$405	$ 757	$1,845	$ 3,980	$—	$ —	$60,331	$ 208,906
Sirius XM Canada	11,141	13,167	28,980	44,197	4,276	2,776	16,884	18,966	—	—
Total	$11,141	$ 13,167	$29,385	$ 44,954	$6,121	$ 6,756	$16,884	$ 18,966	$60,331	$ 208,906

Liberty Media

In February and March 2009, we entered into several transactions to borrow up to $530,000 from Liberty Media Corporation and its affiliates. All of these loans were repaid in 2009.

As part of the transactions with Liberty Media, in February 2009, we entered into an investment agreement (the "Investment Agreement") with Liberty Radio, LLC, an indirect wholly-owned subsidiary of Liberty Media. Pursuant to the Investment Agreement, we issued to Liberty Radio, LLC 12,500,000 shares of our Convertible Perpetual Preferred Stock, Series B-1 (the "Series B Preferred Stock") with a liquidation preference of $0.001 per share in partial consideration for the loan investments. The Series B Preferred Stock was convertible into approximately 40% of our outstanding shares of common stock (after giving effect to such conversion).

In September 2012, Liberty Radio, LLC converted 6,249,900 shares of the Series B Preferred Stock into 1,293,467,684 shares of our common stock. In January 2013, the Federal Communications Commission granted Liberty Media approval to acquire de jure control of us, and Liberty Radio, LLC converted its remaining Series B Preferred Stock into 1,293,509,076 shares of our common stock. In addition, Liberty Media, indirectly through its subsidiaries, purchased an additional 50,000,000 shares of our common stock. As a result of these conversions of Series B Preferred Stock and additional purchases of shares of our common stock, Liberty Media beneficially owned, directly and indirectly, over 50% of our outstanding common stock as of September 30, 2013.

(Dollar amounts in thousands, unless otherwise stated)

Two current Liberty Media executives and one Liberty Media director are members of our board of directors. Gregory B. Maffei, the President and Chief Executive Officer of Liberty Media, is the Chairman of our board of directors.

Liberty Media has advised us that as of September 30, 2013 and December 31, 2012 it also owned the following:

	September 30, 2013	December 31, 2012
7% Exchangeable Senior Subordinated Notes due 2014	$11,000	$11,000
8.75% Senior Notes due 2015	—	150,000
7.625% Senior Notes due 2018	50,000	50,000
Total principal debt	61,000	211,000
Less: discounts	669	2,094
Total carrying value of debt	$60,331	$208,906

During the three months ended September 30, 2013, we redeemed $150,000 of our 8.75% Senior Notes due 2015 held by Liberty Media as part of the redemption of these Notes in their entirety. For a discussion of subsequent events refer to Note 17.

As of September 30, 2013 and December 31, 2012, we recorded $1,845 and $3,980, respectively, related to accrued interest with Liberty Media to Related party current liabilities. We recognized Interest expense associated with debt held by Liberty Media of $3,619 and $8,242 for the three months ended September 30, 2013 and 2012, respectively, and $12,978 and $26,260 for the nine months ended September 30, 2013 and 2012, respectively.

Sirius XM Canada

We own approximately 46,700,000 Class A shares on a converted basis of Sirius XM Canada Holdings Inc., the parent company of Sirius XM Canada, representing a 37.6% equity interest and a 25.0% voting interest.

We had the following Related party current asset balances attributable to Sirius XM Canada at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Deferred programming costs and accrued interest	$3,390	$4,350
Dividends receivable	—	6,176
Chip set and other services reimbursement	4,069	2,641
Fair value of host contract of debenture	3,682	—
Fair value of embedded derivative of debenture	—	—
Total	$11,141	$13,167

We provide Sirius XM Canada with chip sets and other services and we are reimbursed for these costs.

We hold an investment in CAD $4,000 face value of 8% convertible unsecured subordinated debentures issued by Sirius XM Canada Holdings, Inc., for which the embedded conversion feature is bifurcated from the host contract. As of September 30, 2013, the debentures are classified as a Related party current asset since they mature in September

2014. The host contract is accounted for at fair value as an available-for-sale security with changes in fair value recorded to Accumulated other comprehensive income (loss), net of tax. The embedded conversion feature is accounted for at fair value as a derivative with changes in fair value recorded in earnings as Interest and investment income (loss).

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Related party long-term asset balances attributable to Sirius XM Canada consisted of the following:

	September 30, 2013	December 31, 2012
Non-interest bearing note, principal	$391	$404
Fair value of host contract of debenture	—	3,877
Fair value of embedded derivative of debenture	—	9
Investment balance*	28,589	37,983
Deferred programming costs and accrued interest	—	1,924
Total	$28,980	$44,197

* The investment balance includes equity method goodwill and intangible assets of $26,524 and $27,615 as of September 30, 2013 and December 31, 2012, respectively.

We hold a non-interest bearing note issued by Sirius XM Canada Holdings Inc. Our interest in Sirius XM Canada is accounted for under the equity method. The excess of the cost of our ownership interest in the equity of Sirius XM Canada over our share of the net assets is recognized as goodwill and intangible assets and is included in the carrying amount of our investment. Equity method goodwill is not amortized. We periodically evaluate this investment to determine if there has been an other than temporary decline below carrying value. Equity method intangible assets are amortized over their respective useful lives, which is recorded in Interest and investment income (loss).

In July 2013, Sirius XM Canada declared a quarterly cash dividend of CAD $0.1050 per Class A share and CAD $0.0350 per Class B share for shareholders of record on July 22, 2013. We received $4,727 and $12,209 of quarterly dividends which were recorded as a reduction of our investment balance in Sirius XM Canada for the three and nine months ended September 30, 2013, respectively.

Related party liabilities attributable to Sirius XM Canada consisted of the following:

	September 30, 2013	December 31, 2012
Deferred revenue for NHL licensing fees	$1,500	$—
Carrying value of deferred revenue	19,660	21,742
Total	$21,160	$21,742

In 2005, XM entered into agreements to provide XM Canada, now Sirius XM Canada, with the right to offer XM satellite radio service in Canada. The agreements have an initial ten-year term, and Sirius XM Canada has the unilateral option to extend the agreements for an additional five-year term. We receive a 15% royalty for all subscriber fees earned by XM Canada each month for its basic service and an activation fee for each gross activation of an XM Canada subscriber on XM's system. Sirius XM Canada is obligated to pay us a total of $70,300 for the rights to broadcast and market National Hockey League ("NHL") games for a ten-year term. We recognize these payments on a gross basis as a principal obligor pursuant to the provisions of ASC 605, Revenue Recognition. The estimated fair value of deferred revenue from XM Canada as of the Merger date was approximately $34,000, which is amortized on a straight-line basis through 2020, the end of the expected term of the agreements.

(Dollar amounts in thousands, unless otherwise stated)

We recorded the following revenue from Sirius XM Canada as Other revenue in our unaudited consolidated statements of comprehensive income:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Royalty income	$8,611	$7,924	$26,081	$23,425
Amortization of Sirius XM Canada deferred income	694	694	2,082	2,082
Licensing fee revenue	1,170	1,500	3,512	4,500
Advertising and other reimbursements	194	—	2,305	833
Total revenue from Sirius XM Canada	$10,669	$10,118	$33,980	$30,840

Our share of net earnings or losses of Sirius XM Canada are recorded to Interest and investment income (loss) in our unaudited consolidated statements of comprehensive income on a one month lag. Our share of Sirius XM Canada's net income (loss) was $1,813 and $(182) for the three months ended September 30, 2013 and 2012, respectively, and $3,922 and $(3,403) for the nine months ended September 30, 2013 and 2012, respectively. We recorded amortization expense related to the equity method intangible assets of $364 and $363 for the three months ended September 30, 2013 and 2012, respectively, and $1,091 and $611 for the nine months ended September 30, 2013 and 2012, respectively.

(11) Investments

Long Term Restricted Investments
Restricted investments relate to reimbursement obligations under letters of credit issued for the benefit of lessors of our office space. As of September 30, 2013 and December 31, 2012, our Long-term restricted investments were $5,718 and $3,999, respectively. During the three months ended September 30, 2013, a new letter of credit for $1,719 associated with additional office space was issued for our benefit.

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Our debt consists of the following:

	Conversion Price (per share)	September 30, 2013	December 31, 2012
7% Exchangeable Senior Subordinated Notes due 2014	$1.841	$502,370	$550,000
Less: discount		(2,374)	(4,112)
8.75% Senior Notes due 2015	N/A	—	800,000
Less: discount		—	(7,056)
7.625% Senior Notes due 2018	N/A	539,551	700,000
Less: discount		(6,661)	(9,647)
4.25% Senior Notes due 2020	N/A	500,000	—
Less: discount		(5,366)	—
5.875% Senior Notes due 2020	N/A	650,000	—
Less: discount		(7,296)	—
5.75% Senior Notes due 2021	N/A	600,000	—
Less: discount		(5,644)	—
5.25% Senior Notes due 2022	N/A	400,000	400,000
Less: discount		(5,473)	(5,826)
4.625% Senior Notes due 2023	N/A	500,000	—
Less: discount		(5,459)	—
Senior Secured Revolving Credit Facility	N/A	40,000	—
Other debt:			
Capital leases	N/A	17,547	11,861
Total debt		3,711,195	2,435,220
Less: total current maturities*		538,875	4,234
Total long-term		3,172,320	2,430,986
Less: long-term related party		10,948	208,906
Total long-term, excluding related party		$3,161,372	$2,222,080

*This balance includes $49,383 in related party current maturities.

7% Exchangeable Senior Subordinated Notes due 2014
In August 2008, we issued $550,000 aggregate principal amount of 7% Exchangeable Senior Subordinated Notes due 2014 (the “Exchangeable Notes”). The Exchangeable Notes are senior subordinated obligations and rank junior in right of payment to our existing and future senior debt and equally in right of payment with our existing and future senior subordinated debt. Substantially all of our domestic wholly-owned subsidiaries guarantee our obligations under the Exchangeable Notes on a senior subordinated basis.

The Exchangeable Notes are exchangeable at any time at the option of the holder into shares of our common stock at an exchange rate of 543.1372 shares of common stock per $1,000 principal amount of Exchangeable Notes, which is equivalent to an approximate exchange price of $1.841 per share of common stock. Interest is payable semi-annually in arrears on June 1 and December 1 of each year at a rate of 7% per annum. The Exchangeable Notes mature on December 1, 2014.

In connection with the fundamental change that occurred on January 17, 2013 and the subsequent offer that was made to each holder of the Exchangeable Notes on February 1, 2013, $47,630 in principal amount of the Exchangeable Notes were converted resulting in the issuance of 27,687,850 shares of our common stock. As a result of this conversion, we retired $47,630 in principal amount of the Exchangeable Notes and recognized a proportionate share of unamortized discount and deferred financing fees of $2,533 to Additional paid-in capital. No loss was recognized as a result of the exchange.

During the three and nine months ended September 30, 2013 and the three months ended September 30, 2012, the common stock reserved for conversion in connection with the Exchangeable Notes were considered to be anti-dilutive in our calculation of diluted net income per share. During the nine months ended September 30, 2012, the Exchangeable Notes were considered to be dilutive.

7.625% Senior Notes due 2018
In October 2010, we issued $700,000 aggregate principal amount of 7.625% Senior Notes due 2018 (the “7.625% Notes”). Interest is payable semi-annually in arrears on May 1 and November 1 of each year at a rate of 7.625% per annum.

During the three and nine months ended September 30, 2013, we purchased $59,799 and $160,449, respectively, in aggregate principal amount of the 7.625% Notes for an aggregate purchase price, including premium and interest, of $66,782 and $179,351, respectively. We recognized an aggregate loss on the extinguishment of these 7.625% Notes of $6,908 and $19,530, during the three and nine months ended September 30, 2013, respectively, consisting primarily of unamortized discount, deferred financing fees and repayment premium, to Loss on extinguishment of debt and credit facilities, net.

On September 25, 2013, we called for the redemption of the remaining $539,551 outstanding principal balance of the 7.625% Notes on October 25, 2013. The 7.625% Notes have been classified as a current liability within our unaudited consolidated balance sheet as of September 30, 2013. For a discussion of subsequent events refer to Note 17.

4.25% Senior Notes due 2020
In May 2013, we issued $500,000 aggregate principal amount of 4.25% Senior Notes due 2020 (the “4.25% Notes”). Interest is payable semi-annually in arrears on May 15 and November 15 of each year at a rate of 4.25% per annum. The 4.25% Notes mature on May 15, 2020. Substantially all of our domestic wholly-owned subsidiaries guarantee our obligations under the 4.25% Notes on a senior unsecured basis. The 4.25% Notes were issued for $494,375, resulting in an aggregate original issuance discount of $5,625.

5.875% Senior Notes due 2020
In September 2013, we issued $650,000 aggregate principal amount of 5.875% Senior Notes due 2020 (the "5.875% Notes"). Interest is payable semi-annually in arrears on April 1 and October 1 of each year at a rate of 5.875% per annum. The 5.875% Notes mature on October 1, 2020. Substantially all of our domestic wholly-owned subsidiaries guarantee our obligations under the 5.875% Notes on a senior unsecured basis. The 5.875% Notes were issued for $642,688, resulting in an aggregate original issuance discount of $7,312.

5.75% Senior Notes due 2021
In August 2013, we issued $600,000 aggregate principal amount of 5.75% Senior Notes due 2021 (the "5.75% Notes"). Interest is payable semi-annually in arrears on February 1 and August 1 of each year at a rate of 5.75% per annum. The 5.75% Notes mature on August 1, 2021. Substantially all of our domestic wholly-owned subsidiaries guarantee our obligations under the 5.75% Notes on a senior unsecured basis. The 5.75% Notes were issued for

$594,263, resulting in an aggregate original issuance discount of $5,737.

5.25% Senior Notes due 2022

In August 2012, we issued $400,000 aggregate principal amount of 5.25% Senior Notes due 2022 (the “5.25% Notes”). Interest is payable semi-annually in arrears on February 15 and August 15 of each year at a rate of 5.25% per annum. The 5.25% Notes mature on August 15, 2022. Substantially all of our domestic wholly-owned subsidiaries guarantee our obligations under the 5.25% Notes on a senior unsecured basis.

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4.625% Senior Notes due 2023
In May 2013, we issued $500,000 aggregate principal amount of 4.625% Senior Notes due 2023 (the “4.625% Notes”). Interest is payable semi-annually in arrears on May 15 and November 15 of each year at a rate of 4.625% per annum. The 4.625% Notes mature on May 15, 2023. Substantially all of our domestic wholly-owned subsidiaries guarantee our obligations under the 4.625% Notes on a senior unsecured basis. The 4.625% Notes were issued for $494,375, resulting in an aggregate original issuance discount of $5,625.

Senior Secured Revolving Credit Facility
In December 2012, we entered into a five-year Senior Secured Revolving Credit Facility (the “Credit Facility”) with a syndicate of financial institutions for $1,250,000. Our obligations under the Credit Facility are guaranteed by certain of our material domestic subsidiaries and are secured by a lien on substantially all of our assets and the assets of our material domestic subsidiaries. Borrowings under the Credit Facility are used for working capital and other general corporate purposes, including dividends, financing of acquisitions and share repurchases. Interest on borrowings is payable on a quarterly basis and accrues at a rate based on LIBOR plus an applicable rate. We are also required to pay a variable fee on the average daily unused portion of the Credit Facility which is currently 0.35% per annum and is payable on a quarterly basis. The Credit Facility contains customary covenants, including a maintenance covenant, and events of default. The Credit Facility contains incremental facilities which would allow us to increase or obtain new commitments and/or incur new term loans, subject to the terms of the Credit Facility.

As of September 30, 2013, $1,210,000 was available for future borrowing under the Credit Facility. Our outstanding borrowings under the Credit Facility are classified as Long-term debt within our unaudited consolidated balance sheet as of September 30, 2013 due to the long-term maturity of this debt.

Retired Debt

8.75% Senior Notes due 2015
In March 2010, we issued $800,000 aggregate principal amount of 8.75% Senior Notes due 2015 (the “8.75% Notes”). The 8.75% Notes were issued for $786,000, resulting in an aggregate original issuance discount of $14,000. The 8.75% Notes would have matured on April 1, 2015. Substantially all of our domestic wholly-owned subsidiaries guaranteed our obligations under the 8.75% Notes on a senior unsecured basis.

During the three and nine months ended September 30, 2013, we purchased $770,987 and $800,000, respectively, in aggregate principal amounts of the 8.75% Notes for an aggregate purchase price, including premium and interest, of $894,883 and $927,860, respectively. We recognized an aggregate loss on the extinguishment of the 8.75% Notes of $101,063 and $104,818 during the three and nine months ended September 30, 2013, respectively, consisting primarily of unamortized discount, deferred financing fees and repayment premium, to Loss on extinguishment of debt and credit facilities, net.
9.75% Senior Secured Notes due 2015
During the three and nine months ended September 30, 2012, we purchased $186,112 and $257,000, respectively, of our then outstanding 9.75% Senior Secured Notes (the “9.75% Notes”) for an aggregate purchase price, including interest, of $204,258 and $281,698, respectively. We recognized an aggregate loss on the extinguishment of these 9.75% Notes of $14,352 and $22,184 during the three and nine months ended September 30, 2012, respectively, consisting primarily of unamortized discount, deferred financing fees and repayment premium, to Loss on extinguishment of debt and credit facilities, net.

13% Senior Notes due 2013

During the three and nine months ended September 30, 2012, we purchased $681,517 and $778,500, respectively, of our then outstanding 13% Senior Notes due 2013 (the “13% Notes”) for an aggregate purchase price, including interest, of $765,907 and $879,133, respectively. We recognized an aggregate loss on the extinguishment of these 13% Notes of $92,753 and $110,542 during the three and nine months ended September 30, 2012, respectively, consisting primarily of unamortized discount, deferred financing fees and repayment premium, to Loss on extinguishment of debt and credit facilities, net.

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Covenants and Restrictions
Under the Credit Facility, we must comply with a maintenance covenant that we not exceed a total leverage ratio, calculated as total consolidated debt to consolidated operating cash flow, of 5.0 to 1.0. Our 7.625% Notes and our 5.25% Notes generally require compliance with certain covenants that restrict our ability to, among other things, (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) merge or consolidate with another person, (vi) sell, assign, lease or otherwise dispose of all or substantially all of our assets, and (vii) make voluntary prepayments of certain debt, in each case subject to exceptions.
Our 4.25% Notes, 4.625% Notes, 5.75% Notes and 5.875% Notes are subject to covenants that, among other things, (i) limit our ability and the ability of our subsidiaries to (x) create certain liens; and (y) enter into sale/leaseback transactions; and (ii) limit our ability to merge or consolidate. The indentures relating to our 4.25% Notes, 4.625% Notes, 5.75% Notes and 5.875% Notes restrict our non-guarantor subsidiaries' ability to create, assume, incur or guarantee additional indebtedness without such non-guarantor subsidiary guaranteeing each such series of Notes on a pari passu basis.

Under our debt agreements, the following generally constitute an event of default: (i) a default in the payment of interest; (ii) a default in the payment of principal; (iii) failure to comply with covenants; (iv) failure to pay other indebtedness after final maturity or acceleration of other indebtedness exceeding a specified amount; (v) certain events of bankruptcy; (vi) a judgment for payment of money exceeding a specified aggregate amount; and (vii) voidance of subsidiary guarantees, subject to grace periods where applicable. If an event of default occurs and is continuing, our debt could become immediately due and payable.

At September 30, 2013 and December 31, 2012, we were in compliance with our debt covenants.

(13) Stockholders’ Equity

Common Stock, par value $0.001 per share
We were authorized to issue up to 9,000,000,000 shares of common stock as of September 30, 2013 and December 31, 2012. There were 6,134,596,655 and 5,262,440,085 shares of common stock issued and outstanding as of September 30, 2013 and December 31, 2012, respectively.

As of September 30, 2013, approximately 574,620,000 shares of common stock were reserved for issuance in connection with outstanding convertible debt, warrants, incentive stock awards and common stock to be granted to third parties upon satisfaction of performance targets.

Stock Repurchase Program
In December 2012, our board of directors approved a $2,000,000 common stock repurchase program. Shares of common stock may be purchased from time to time on the open market or in privately negotiated transactions.

During the nine months ended September 30, 2013, we repurchased 476,545,601 shares of our common stock for $1,602,360, including fees and commissions, on the open market and in privately negotiated transactions. Liberty Media did not participate in the common stock repurchases during the nine months ended September 30, 2013. All common stock repurchases settled and were retired as of September 30, 2013.

As of September 30, 2013, $397,640 remained available for purchase under our stock repurchase program approved in December 2012. For a discussion of subsequent events refer to Note 17.

Share Lending Arrangements

To facilitate the offering of the Exchangeable Notes, we entered into share lending agreements with Morgan Stanley Capital Services Inc. and UBS AG London Branch in July 2008. All loaned shares were returned to us as of October 2011, and the share lending agreements were terminated.

We recorded interest expense related to the amortization of the costs associated with the share lending arrangement and other issuance costs for our Exchangeable Notes of $3,178 and $3,139, respectively, for the three months ended

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September 30, 2013 and 2012, and $9,484 and $9,181, respectively, for the nine months ended September 30, 2013 and 2012, respectively. As of September 30, 2013, the unamortized balance of the debt issuance costs was $15,962, with $15,612 recorded in Deferred financing fees, net, and $350 recorded in Long-term related party assets. As of December 31, 2012, the unamortized balance of the debt issuance costs was $27,652, with $27,099 recorded in Deferred financing fees, net, and $553 recorded in Long-term related party assets. These costs will continue to be amortized until the debt is terminated. A portion of the unamortized debt issuance costs was recognized during the nine months ended September 30, 2013 in connection with the conversion of the Exchangeable Notes.

Preferred Stock, par value $0.001 per share
We were authorized to issue up to 50,000,000 shares of undesignated preferred stock as of September 30, 2013 and December 31, 2012, respectively.

There were 6,250,100 shares of Series B Preferred Stock issued and outstanding as of December 31, 2012 held by Liberty Media. In January 2013, Liberty Media converted its remaining shares of the Series B Preferred Stock into 1,293,509,076 shares of our common stock.

Warrants
We have issued warrants to purchase shares of our common stock in connection with distribution, programming and satellite purchase agreements. As of September 30, 2013 and December 31, 2012, approximately 18,455,000 warrants to acquire an equal number of shares of common stock were outstanding and fully vested. Warrants were included in our calculation of diluted net income per common share as the effect was dilutive for the three and nine months ended September 30, 2013. They were excluded from the calculation for the three and nine months ended September 30, 2012 as the effect would have been anti-dilutive. The warrants expire at various times through 2015. At September 30, 2013 and December 31, 2012, the weighted average exercise price of outstanding warrants was $2.55 per share. We did not incur warrant related expenses during the three and nine months ended September 30, 2013 and 2012.

(14) Benefit Plans

We recognized share-based payment expense of $19,762 and $17,492 for the three months ended September 30, 2013 and 2012, respectively, and $49,774 and $46,361 for the nine months ended September 30, 2013 and 2012, respectively.

2009 Long-Term Stock Incentive Plan
In May 2009, our stockholders approved the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan (the “2009 Plan”). Employees, consultants and members of our board of directors are eligible to receive awards under the 2009 Plan. The 2009 Plan provides for the grant of stock options, restricted stock, restricted stock units and other stock-based awards that the compensation committee of our board of directors may deem appropriate. Vesting and other terms of stock-based awards are set forth in the agreements with the individuals receiving the awards. Stock-based awards granted under the 2009 Plan are generally subject to a vesting requirement. Stock-based awards generally expire ten years from the date of grant. Each restricted stock unit entitles the holder to receive one share of common stock upon vesting. As of September 30, 2013, approximately 85,319,000 shares of common stock were available for future grants under the 2009 Plan.

Other Plans

We maintain four other share-based benefit plans — the XM 2007 Stock Incentive Plan, the Amended and Restated Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan, the XM 1998 Shares Award Plan and the XM Talent Option Plan. No further awards may be made under these plans.

The following table summarizes the weighted-average assumptions used to compute the fair value of options granted to employees and members of our board of directors:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Risk-free interest rate	1.5%	0.8%	1.4%	0.8%
Expected life of options — years	4.73	5.06	4.72	5.13
Expected stock price volatility	47%	49%	48%	53%
Expected dividend yield	0%	0%	0%	0%

There were no options granted to third parties during the three and nine months ended September 30, 2013 and 2012. We do not intend to pay regular dividends on our common stock. Accordingly, the dividend yield percentage used in the Black-Scholes-Merton option value is zero for all periods.

The following table summarizes stock option activity under our share-based plans for the nine months ended September 30, 2013 (options in thousands):

	Options	Weighted-Average Exercise Price (1)	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2012	274,512	$1.92		
Granted	54,368	$3.58		
Exercised	(47,311)	$1.41		
Forfeited, cancelled or expired	(4,934)	$1.74		
Outstanding as of September 30, 2013	276,635	$2.34	7.24	$455,071
Exercisable as of September 30, 2013	120,836	$2.21	5.46	$232,449

(1) The weighted-average exercise price for options outstanding as of December 28, 2012 were adjusted in 2012 to reflect the reduction to the exercise price related to the December 28, 2012 special cash dividend.

The weighted average grant date fair value of options granted during the nine months ended September 30, 2013 and 2012 was $1.48 and $1.08, respectively. The total intrinsic value of stock options exercised during the nine months ended September 30, 2013 and 2012 was $104,785 and $237,521, respectively. Beginning in July 2013, we transitioned to a net-settlement method from a cashless option exercise method for stock options. During the three months ended September 30, 2013, the approximate number of shares which were issued in the market as a result of stock option exercises was 27,313,000.

We recognized share-based payment expense associated with stock options of $18,860 and $16,660 for the three months ended September 30, 2013 and 2012, respectively, and $48,661 and $43,350 for the nine months ended September 30, 2013 and 2012, respectively.

The following table summarizes the restricted stock unit activity under our share-based plans for the nine months ended September 30, 2013 (shares in thousands):

	Shares	Grant Date Fair Value

Nonvested as of December 31, 2012	429	$3.25
Granted	6,475	$3.58
Vested	(192)	$3.27
Forfeited	(37)	$3.61
Nonvested as of September 30, 2013	6,675	$3.56

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The weighted average grant date fair value of restricted stock units granted during the nine months ended September 30, 2013 was $3.58. The total intrinsic value of restricted stock units that vested during the nine months ended September 30, 2013 was $605. There were no restricted stock units granted to third parties during the three and nine months ended September 30, 2013 and 2012.

We recognized share-based payment expense associated with restricted stock units of $902 and $1,113 during the three and nine months ended September 30, 2013, respectively.

Total unrecognized compensation costs related to unvested share-based payment awards for stock options, restricted stock units and shares granted to employees and members of our board of directors at September 30, 2013 and December 31, 2012, net of estimated forfeitures, were $178,345 and $129,010, respectively. The total unrecognized compensation costs at September 30, 2013 are expected to be recognized over a weighted-average period of 3 years.

401(k) Savings Plan
We sponsor the Sirius XM Radio 401(k) Savings Plan (the "Sirius XM Plan") for eligible employees. The Sirius XM Plan allows eligible employees to voluntarily contribute from 1% to 50% of their pre-tax eligible earnings, subject to certain defined limits. We match 50% of an employee's voluntary contributions, up to 6% of an employee's pre-tax salary, in cash which is used to purchase shares of our common stock on the open market. During the three and nine months ended September 30, 2013, we contributed approximately $944 and $3,331, respectively, to the Sirius XM Plan in fulfillment of our matching obligation. During the three and nine months ended September 30, 2012, employer matching contributions were made in the form of shares of our common stock. Employer matching contributions under the Sirius XM Plan vest at a rate of 33.33% for each year of employment and are fully vested after three years of employment for all current and future contributions. Share-based payment expense resulting from the matching contribution to the Sirius XM Plan for the three and nine months ended September 30, 2012 was $832 and $3,011, respectively.

(15) Commitments and Contingencies

The following table summarizes our expected contractual cash commitments as of September 30, 2013:

	2013	2014	2015	2016	2017	Thereafter	Total
Long-term debt obligations	$540,605	$508,911	$6,593	$3,359	$40,000	$2,650,000	$3,749,468
Cash interest payments	60,895	179,741	143,596	143,403	144,103	537,875	1,209,613
Satellite and transmission	35,812	29,123	13,871	4,321	3,404	20,334	106,865
Programming and content	45,565	237,143	212,880	92,278	72,800	168,483	829,149
Marketing and distribution	6,276	22,252	14,166	9,301	6,650	12,775	71,420
Satellite incentive payments	2,117	12,377	11,478	12,311	13,259	69,066	120,608
Operating lease obligations	9,763	36,994	41,790	35,593	29,357	247,016	400,513
Other	19,227	34,243	9,072	2,879	829	390	66,640
Total (1)	$720,260	$1,060,784	$453,446	$303,445	$310,402	$3,705,939	$6,554,276

(1)

The table does not include our reserve for uncertain tax positions, which at September 30, 2013 totaled $1,432, as the specific timing of any cash payments cannot be projected with reasonable certainty.

Long-term debt obligations. Long-term debt obligations include principal payments on outstanding debt and capital lease obligations.

Cash interest payments. Cash interest payments include interest due on outstanding debt and capital lease payments through maturity.

Satellite and transmission. We have entered into agreements with third parties to operate and maintain the off-site satellite telemetry, tracking and control facilities and certain components of our terrestrial repeater networks. We have also entered into various agreements to design and construct a satellite and related launch vehicle for use in our systems.

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Programming and content. We have entered into various programming agreements. Under the terms of these agreements, our obligations include fixed payments, advertising commitments and revenue sharing arrangements. Our future revenue sharing costs are dependent upon many factors and are difficult to estimate; therefore, they are not included in our minimum contractual cash commitments.

Marketing and distribution. We have entered into various marketing, sponsorship and distribution agreements to promote our brand and are obligated to make payments to sponsors, retailers, automakers and radio manufacturers under these agreements. Certain programming and content agreements also require us to purchase advertising on properties owned or controlled by the licensors. We also reimburse automakers for certain engineering and development costs associated with the incorporation of satellite radios into vehicles they manufacture. In addition, in the event certain new products are not shipped by a distributor to its customers within 90 days of the distributor's receipt of goods, we have agreed to purchase and take title to the product.

Satellite incentive payments. Boeing Satellite Systems International, Inc., the manufacturer of four of XM's in-orbit satellites, may be entitled to future in-orbit performance payments with respect to two of XM's satellites. As of September 30, 2013, we have accrued $27,075 related to contingent in-orbit performance payments for our XM-3 and XM-4 satellites based on expected operating performance over their fifteen-year design life. Boeing may also be entitled to an additional $10,000 if our XM-4 satellite continues to operate above baseline specifications during the five years beyond the satellite's fifteen-year design life.

Space Systems/Loral, a manufacturer of our in-orbit satellites, may be entitled to future in-orbit performance payments. As of September 30, 2013, we have accrued $6,993 and $21,787 related to contingent performance payments for our FM-5 and XM-5 satellites, respectively, based on their expected operating performance over their fifteen-year design life.

Operating lease obligations. We have entered into both cancelable and non-cancelable operating leases for office space, equipment and terrestrial repeaters. These leases provide for minimum lease payments, additional operating expense charges, leasehold improvements and rent escalations that have initial terms ranging from one to fifteen years, and certain leases that have options to renew. The effect of the rent holidays and rent concessions are recognized on a straight-line basis over the lease term, including reasonably assured renewal periods.

Other. We have entered into various agreements with third parties for general operating purposes. In addition to the minimum contractual cash commitments described above, we have entered into agreements with other variable cost arrangements. These future costs are dependent upon many factors, including subscriber growth, and are difficult to anticipate; however, these costs may be substantial. We may enter into additional programming, distribution, marketing and other agreements that contain similar variable cost provisions.

We do not have any other significant off-balance sheet financing arrangements that are reasonably likely to have a material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Legal Proceedings
State Consumer Investigations. A Multistate Working Group of 32 State Attorneys General, led by the Attorney General of the State of Ohio, is investigating certain of our consumer practices. The investigation focuses on practices relating to the cancellation of subscriptions; automatic renewal of subscriptions; charging, billing, collecting, and refunding or crediting of payments from consumers; and soliciting customers.

A separate investigation into our consumer practices is being conducted by the Attorneys General of the State of Florida and the State of New York. We are cooperating with these investigations and believe our consumer practices comply with all applicable federal and state laws and regulations.

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

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(16) Income Taxes

Income tax (expense) benefit for the three months ended September 30, 2013 and 2012 was $(61,158) and $20,113, respectively, and $(216,857) and $3,013,860, for the nine months ended September 30, 2013 and 2012, respectively.

We estimate our annual effective tax rate for the year ending December 31, 2013 will be 38.4%. Our effective tax rates for the three and nine months ended September 30, 2013 were 49.2% and 41.0%, respectively, after factoring in changes in state tax rates, changes to certain state net operating loss limitations and return to provision adjustments during the three months ended September 30, 2013.

For the three months ended September 30, 2012, we did not have any federal income tax expense as it was offset by a corresponding release of the valuation allowances related to our deferred tax assets. The income tax benefit of $3,013,860 recognized in the nine months ended September 30, 2012 relates to the reversal of substantially all of our deferred income tax valuation allowance. As of September 30, 2013, there remains a valuation allowance related to deferred tax assets of $6,125 that are not likely to be realized due to certain state net operating loss limitations.

The increased ownership in us by Liberty Media to over 50% of our outstanding common stock did not create a change of control under Section 382 of the Internal Revenue Code.

(17) Subsequent Events

Share Repurchase Programs
On October 9, 2013, our board of directors approved an additional $2,000,000 common stock repurchase program. Shares of our common stock may be purchased from time to time on the open market and in privately negotiated transactions, including in transactions with Liberty Media and its affiliates.

Pursuant to this approval and as part of our share repurchase program, on October 9, 2013, we entered into an agreement to repurchase $500,000 of our common stock from Liberty Media through April 2014. Subject to the terms of the agreement with Liberty Media, shares are expected to be purchased in three installments, $130,000 in November 2013, $270,000 in January 2014 and $100,000 in April 2014. We may, with the consent of Liberty Media, elect to accelerate the purchase and sale of all or any portion of the shares expected to be purchased on any such repurchase date.

Upon consummation of our common stock repurchases from Liberty Media, we will have repurchased shares of our common stock for an aggregate purchase price of approximately $2,100,000.

Debt Redemption
On October 25, 2013, we will redeem $539,551 in principal amount of our remaining outstanding 7.625% Notes for an approximate purchase price of $618,000, including premium and accrued interest, which will result in the recognition of a Loss on extinguishment of debt and credit facilities, net, of approximately $66,000.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(All dollar amounts referenced in this Item 2 are in thousands, unless otherwise stated)

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 Quarterly Report on Form 10-Q 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 qua in their entirety by reference to the factors discussed throughout this Quarterly Report on Form 10-Q and in other reports and documents published by us from time to time, particularly the risk factors described under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012 and "Management's Discussion and Analysis of Financial Condition and Results or Operations" herein and in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2012.

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

- we face substantial competition and that competition is likely to increase over time;
- our business depends in large part upon automakers;
- general economic conditions can affect our business;
- failure of our satellites would significantly damage our business;
- our ability to attract and retain subscribers at a profitable level in the future is uncertain;
- royalties for music rights have increased and may continue to do so in the future;
- our business could be adversely affected if we fail to attract and retain qualified executive officers;
- the unfavorable outcome of pending or future litigation could have a material adverse effect;
- we may not realize the benefits of acquisitions or other strategic initiatives, including the acquisition of Agero's connected vehicle business;
- rapid technological and industry changes could adversely impact our services;
- failure of third parties to perform could adversely affect our business;
- changes in consumer protection laws and their enforcement could damage our business;
- failure to comply with FCC requirements could damage our business;
- other existing or future government laws and regulations could harm our business;
- interruption or failure of our information technology and communication systems could negatively impact our results and brand;
- if we fail to protect the security of personal information about our customers, we could be subject to costly government enforcement actions or private litigation and our reputation could suffer;
- we may from time to time modify our business plan, and these changes could adversely affect us and our financial condition;
- our indebtedness could adversely affect our operations and could limit our ability to react to changes in the economy or our industry;
- our broadcast studios, terrestrial repeater networks, satellite uplink facilities or other ground facilities could be damaged by natural catastrophes or terrorist activities;
- our principal stockholder has significant influence over our management and over actions requiring stockholder approval and its interests may differ from the interests of other holders of common stock;
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- we are a "controlled company" within the meaning of the NASDAQ listing rules and, as a result, qualify for, and rely on, exemptions from certain corporate governance requirements; and
- our business may be impaired by third-party intellectual property rights.

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

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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.

Executive Summary

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

We have agreements with every major automaker (“OEMs”) to offer satellite radios as factory or dealer-installed equipment in their vehicles from which we acquire a majority of our subscribers. We also acquire subscribers through marketing campaigns to owners of factory-installed satellite radios that are not currently subscribing to our services. Additionally, we distribute our satellite radios through retail locations nationwide and through our website. Satellite radio services are also offered to customers of certain daily rental car companies.

As of September 30, 2013, we had 25,582,066 subscribers of which 20,670,333 were self-pay subscribers and 4,911,733 were paid promotional subscribers. Our subscriber totals include subscribers under our regular pricing plans; discounted pricing plans; subscribers that have prepaid, including payments either made or due from automakers for subscriptions included in the sale or lease price of a vehicle; certain radios activated for daily rental fleet programs; subscribers to our Internet services who do not also have satellite radio subscriptions; and certain subscribers to our weather, traffic, data and Backseat TV services.

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

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

On August 14, 2013, we entered into a Stock Purchase Agreement with Agero, Inc. ("Agero"), pursuant to which we agreed to acquire the connected vehicle business of Agero for an aggregate purchase price of approximately $530,000 in cash. Agero's connected vehicle business is a leader in implementing the next generation of connected vehicle services. The business offers a portfolio of location-based services through two-way wireless connectivity, including safety, security, convenience, maintenance and data services and remote vehicle diagnostics. The transaction is expected to close in the fourth quarter of 2013 subject to the expiration or early termination of the Hart-Scott-Rodino antitrust waiting period and other customary closing conditions.

Liberty Media Corporation beneficially owned as of September 30, 2013, directly and indirectly, over 50% of the outstanding shares of our common stock. Liberty Media owns interests in a broad range of media, communications and entertainment businesses, including its subsidiaries, Atlanta National League Baseball Club, Inc. and TruePosition, Inc., its interests in Charter Communications, Live Nation and Barnes & Noble, and minority equity investments in Time Warner, Inc. and Viacom.

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

Our board of directors has approved a corporate reorganization that will create a new holding company structure. Sirius XM Radio Inc., its business operations and its subsidiaries, will operate as a wholly owned subsidiary of the new holding company, called Sirius XM Holdings Inc. The business operations of our company - Sirius XM Radio Inc. - and its subsidiaries will not change as a result of the reorganization. Outstanding shares of our common stock will be automatically converted, on a share for share basis, into identical shares of common stock of Sirius XM Holdings Inc. The certificate of incorporation, the bylaws, the executive officers and the board of directors of the new holding company will be the same as those of our company in effect immediately prior to the reorganization. The common stock of the holding company will

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continue to be listed on the NASDAQ Global Select Market. We expect to consummate this reorganization prior to December 31, 2013.

Results of Operations

Set forth below are our results of operations for the three and nine months ended September 30, 2013 compared with the three and nine months ended September 30, 2012.

	Unaudited				2013 vs 2012 Change			2013 vs 2012 Change		
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		Three Months			Nine Months		
	2013	2012	2013	2012	Amount	%		Amount	%	
Revenue:										
Subscriber revenue	$834,053	$757,672	$2,432,113	$2,188,199	$76,381	10	%	$243,914	11	%
Advertising revenue	21,918	20,426	63,886	59,881	1,492	7	%	4,005	7	%
Equipment revenue	17,989	17,813	54,588	51,183	176	1	%	3,405	7	%
Other revenue	87,549	71,449	248,430	210,362	16,100	23	%	38,068	18	%
Total revenue	961,509	867,360	2,799,017	2,509,625	94,149	11	%	289,392	12	%
Operating expenses:										
Cost of services:										
Revenue share and royalties	162,627	141,834	467,017	409,371	20,793	15	%	57,646	14	%
Programming and content	72,322	69,938	217,313	205,203	2,384	3	%	12,110		