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Form 10-K

XM SATELLITE RADIO HOLDINGS INC - XMSR

Filed: March 01, 2007 (period: December 31, 2006)

Annual report which provides a comprehensive overview of the company for the past year

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PART I

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egistrant'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 each registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

XM Satellite Radio Holdings Inc.	Large Accelerated Filer ☒	Accelerated Filer ☐	Non-Accelerated Filer ☐
XM Satellite Radio Inc.	Large Accelerated Filer ☐	Accelerated Filer ☐	Non-Accelerated Filer ☒

Indicate by check mark whether each registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes ☐ No ☒

The aggregate market value of common stock held by non-affiliates of XM Satellite Radio Holdings Inc., based upon the closing price of its Class A common stock as of June 30, 2006, is $3,929,035,815.

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 January 31, 2007)
XM SATELLITE RADIO HOLDINGS INC.	
CLASS A COMMON STOCK, $0.01 PAR VALUE	305,813,114 SHARES
XM SATELLITE RADIO INC.	
COMMON STOCK, $0.10 PAR VALUE	
(all shares are issued to XM Satellite Radio Holdings Inc.)	125 SHARES

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the Annual Meeting of Stockholders of XM Satellite Radio Holdings Inc. to be held on May 25, 2007, to be filed within 120 days after the end of XM Satellite Radio Holdings Inc.'s fiscal year, are incorporated by reference into Part III, Items 10-14 of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: This Form 10-K contains forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Without limitation, the words "anticipates," "believes," "estimates," "expects," "intends," "plans," "will" and similar expressions are intended to identify forward-looking statements. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future — including statements relating to growth, expected levels of expenditures and statements expressing general optimism about future operating results — are forward-looking statements. Similarly, statements that describe the Company's business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements. All such forward-looking statements including those presented elsewhere by our management from time to time are subject to certain risks and uncertainties that could cause actual results to differ materially from those in forward-looking statements. These risks and uncertainties include, but are not limited to, those described in Part I, "Item 1A. Risk Factors" of this Form 10-K. These cautionary statements should not be construed by you to be exhaustive and are made only as of the date of this filing. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

ITEM 1. BUSINESS

We are America's leading satellite radio service company, providing music, news, talk, information, entertainment and sports programming for reception by vehicle, home and portable radios nationwide and over the Internet to over 7.7 million subscribers. Our basic monthly subscription fee is $12.95. We believe XM Radio appeals to consumers because of our innovative and diverse programming, nationwide coverage, many commercial-free music channels and digital sound quality.

Our channel lineup includes more than 170 digital channels of choice from coast to coast. We broadcast from our studios in Washington, DC, New York City, including Jazz at Lincoln Center, and the Country Music Hall of Fame in Nashville. We have added new and innovative programming to our core channel categories of music, sports, news, talk and entertainment. Also included in the XM Radio service, at no additional charge, are the XM customizable sports and stock tickers available to users of certain receivers and other online services.

Our target market includes the more than 240 million registered vehicles including the 16.5 million new cars sold each year as well as the over 110 million households in the United States. In addition, some of our recent and upcoming product offerings focus on the portable and wearable audio segments. Broad distribution of XM Radio through new automobiles and through mass market retailers is central to our business strategy. We are the leader in satellite-delivered entertainment and data services for new automobiles through partnerships with General Motors, Honda/Acura, Toyota/Lexus/Scion, Hyundai, Nissan/Infiniti, Porsche, Suzuki and Isuzu and available in more than 140 different vehicle models for model year 2007. XM radios are available under the Delphi, Pioneer, Samsung, Alpine, Audiovox, Sony, Polk and other brand names at national consumer electronics retailers, such as Best Buy, Circuit City, Wal-Mart, Target and other national and regional retailers. These mass market retailers support our expanded line of car stereo, home stereo, plug and play and portable handheld products. According to Greystone Communications, we have one of the fastest growing consumer electronics products having reached 5 million subscribers faster than new technology introductions such as cable television, Internet, cell phones and MP3 players.

Proposed Merger

On February 19, 2007, XM and Sirius Satellite Radio Inc. ("SIRIUS") entered into an Agreement and Plan of Merger (the "Merger Agreement"), pursuant to which XM and SIRIUS will combine our businesses through a merger of XM and a newly formed, wholly owned subsidiary of SIRIUS (the "Merger"). The Merger is discussed more fully below under the caption "Proposed Merger with SIRIUS."

Our Programming

The full XM channel lineup as of January 31, 2007 includes over 170 channels, featuring 69 commercial-free music channels; 5 commercial music channels, 37 news, talk and entertainment channels; 38 sports channels; 21 Instant Traffic & Weather channels; and one emergency alert channel. We broadcast from our studios in Washington, DC, New York City, including Jazz at Lincoln Center, and the Country Music Hall of Fame in Nashville. Our programming includes channels designed to appeal to different segments, including urban and rural listeners of different demographics and to specific groups that our research has shown are most likely to subscribe to our service, thereby aggregating a large potential audience for our service. In addition to providing radio formats that are appealing to different groups, in every format we deliver we strive to provide an entertaining or informative listening experience and make XM the audio service of choice for consumers. We continue to add new and innovative programming to our core channel categories of music, sports, news, talk and entertainment. Also included in the XM Radio service, at no additional charge, are the XM customizable sports and stock tickers available to users of certain receivers.

Hallmarks of our programming include:

Broad range of commercial-free music genres and live radio entertainment. XM offers commercial-free music channels covering genres including Decades, Country, Pop & Hits, Christian, Rock, Hip-Hop/Urban, Jazz & Blues,

XM Deportivo, our 24x7 Hispanic sports channel, provided exclusive coverage of the 2006 FIFA World Cup™. We also offer PGA Tour and Majors golf play-by-play and analysis on our PGA Tour® Network channel, including 2006 Ryder Cup coverage.

News/Talk/Information/Entertainment Programming. In September 2006, we launched our Oprah & Friends channel, which features Oprah Winfrey's live weekly call-in radio program "Talk to Me." The channel also includes regular segments hosted by Gayle King, Bob Green, Dr. Mehmet Oz, Jean Chatzky, Dr. Robin Smith and Dr. Maya Angelou. The channel also includes weekly highlights from The Oprah Winfrey TV Show, and daily and weekly features and highlights. Oprah & Friends is also available on XM Online. Oprah & Friends complements our current women's interest channel, Take Five, which features the Ellen DeGeneres Show, the Tyra Banks Show, the Food Network, HGTV and the Good Morning America Radio Show.

We offer premium news/talk/information programming including Fox News, Fox Talk, CNN, CNN Headline News and ABC News & Talk. We feature business news from CNBC and Bloomberg as well as public affairs programming on our XM Public Radio channel, featuring The Bob Edwards Show, BBC Worldservice and C-SPAN. We serve the African American audience with The Power and Hispanic audience with CNN en Español. We offer four comedy channels, including the recent launch of National Lampoon Radio, as well as The Virus, which features The Opie & Anthony Show.

Local Traffic and Weather Programming. Our Instant Traffic & Weather service consists of 21 audio channels dedicated to keeping listeners informed with real-time in-depth updates on traffic and weather conditions in major metropolitan markets. Each market is served by a dedicated channel. These channels repeat weather and traffic information and issue traffic alerts in a pattern familiar to listeners. We create the audio for the channels from our headquarters facility in Washington, DC. The data is provided by Traffic.com for traffic information and by The Weather Channel for weather information. We believe this is a valuable part of our service offering and that it offers several key advantages over what is currently available on terrestrial radio. These advantages include greater in-depth updates, near instant availability due to the pattern of repeating information frequently, 24x7 availability of the service, certain major interstate corridor and beach traffic reports and wider availability as compared to terrestrial broadcasts available only to drivers within the coverage area.

A wide range of popular talk radio stars. Over the last two decades talk radio has emerged as a major component of radio listening. We showcase many well-known talk radio personalities on our channels, including Bob Edwards, Larry King, Paula Zahn, Anderson Cooper, Bill O'Reilly, Sean Hannity, Alan Colmes, G. Gordon Liddy, Dr. Laura Schlessinger, Greta Van Susteren, Michael Reagan, Bob Costas, Laura Ingraham, and many others.

State-of-the-art facilities. We create and distribute XM-original and third party content for satellite broadcast, streaming and other new distribution platforms from our studio facilities in Washington, DC, locations in midtown Manhattan in New York City, including Jazz at Lincoln Center, in Nashville at the Country Music Hall of Fame, and in Chicago at Harpo Productions. These interconnected facilities comprise an all digital radio complex that is one of the world's largest, with over 90 sound-proof studios of different configurations. We produce most of our music channels and many of our sports, talk and entertainment channels from these facilities. From these studios, our music programmers tap a centralized digital database of over 250,000 CDs and more than 2 million recordings. We also have two performance studios at our Washington, DC facilities, and utilize the performance venues at Jazz at Lincoln Center in New York City, for visiting artist interviews and performances.

Superior digital sound quality. Our digital signal transmitted via satellite and our terrestrial repeater network provides nationwide, virtually uninterrupted coverage. Through a partnership with Neural Audio Corporation, a leading provider of digital signal processing and surround sound technology for the broadcast industry, we broadcast select channels in 5.1 Surround Sound twenty-four hours a day. XM HD Surround provides our listeners with six discrete channels of digital full fidelity audio. In addition, a variety of special shows and live musical performances at the XM studios are broadcast in XM HD Surround.

Channel updates. We regularly review and update our channel line up to revise our overall offerings. In 2006, we added certain new channels, including additional commercial-free music channels, to slightly increase our total number of commercial-free music channels. In addition, commercial advertisements resumed on music programming currently provided to us by Clear Channel.

Harley-Davidson. In 2005, we entered into the motorcycle market with Harley-Davidson's exclusive 2006 FLHTCUSE Screamin' Eagle Ultra Classic Electra Glide, the first ever motorcycle model equipped with a standard XM Satellite Radio, and continue to be installed on the 2007 model. Our service can also be added as an accessory feature on 12 other Harley-Davidson bikes in its 2007 touring lineup.

Other Automobile and Truck Manufacturers. Isuzu, Lotus, Subaru, and Suzuki offer XM Radio as either a dealer and/or factory-installed option in numerous popular makes and models. We are educating automobile dealers about XM Radio to develop sales and promotional campaigns that promote XM radios to new car buyers. In addition, we have relationships with Freightliner Corporation and Pana Pacific, and XM radios are available in Freightliner and Peterbilt trucks.

Aftermarket

XM radios are available in the aftermarket under the Audiovox, Delphi, Pioneer, AGT, Alpine, Sony, Polk, and etón/Grundig brand names at national consumer electronics retailers, such as Best Buy, Circuit City, Wal-Mart and other national and regional retailers. These mass market retailers support our expanded line of car stereo, home stereo, plug and play and portable handheld products. We develop in-store merchandising materials, including end-aisle displays for several retailers, and train the sales forces of all major retailers.

We further expanded our product line in 2006:

XM2go Portable, Handheld Products. In 2006, we and Pioneer introduced the Pioneer Inno™, the next-generation portable XM2go satellite radio that plays live satellite radio "on the go" and both MP3s and WMAs. The Inno™ includes a feature that allows the user to "bookmark" songs heard on XM, connect the Inno™ to a personal computer, and instantly purchase the songs from the XM + Napster online service. In 2005, Pioneer and Tao each introduced new XM2go models to follow up on the 2004 introduction of the XM Delphi XM2go MyFi, the first personal, portable satellite radio. The XM2go hand-held models enable users to enjoy XM Radio in two ways: a "live" listening mode that enables users to listen live to all of XM's channels and a "memory" mode that allows users to store five hours or more of XM content, even when the unit is not in use. XM2go models also feature customizable sports and stock tickers, as well as a clock and alarm.

Plug-and-Play XM Radios. In August 2005, we introduced the Roady XT, a small, lightweight unit with a built-in FM transmitter that can make any FM radio an XM radio by wirelessly transmitting XM Satellite Radio to any one of its 100 FM radio frequencies. The Roady XT has a customizable sports ticker that displays the latest scores and schedules for professional and college sports. It also has a customizable stock ticker for keeping track of up to 20 stocks, and the popular TuneSelect feature, which alerts the listener when favorite songs and artists are played on any XM channel. The Audiovox Xpress is the smallest satellite radio to offer a five-line display screen and also features customizable sports and stock tickers. The Delphi SkyFi2 has an innovative pause and replay function, a customizable sports and stock ticker and TuneSelect with a built-in FM transmitter. In the fall of 2006, we introduced the Delphi SkyFi3, the next generation in the SkyFi family. While providing similar features to that of the SkyFi2, the SkyFi3 is more compact and provides for 10 hours of storage of XM programming.

Connect-and-Play and Passport Technologies. Our "Connect-and-Play" and "Passport" technologies integrate into a broad range of home devices such as stereo receivers and DVD players by allowing the listener to simply plug an XM Connect-and-Play antenna into an XM-ready receiver. Yamaha offers XM-ready products including home receivers and home theater systems. Other manufacturers of our Connect-and-Play home equipment include etón/Grundig, Pioneer, Denon, Harmon Kardon, LG Electronics, Onkyo, Thomson/RCA, Polk Audio and Boston Acoustics.

Advanced Applications. In addition to TuneSelect and the customizable sports and stock tickers, we also offer XM NavTraffic, the nation's first satellite traffic data service, which provides continuously updated real-time traffic information for 44 major metropolitan cities across the United States for a monthly fee. For aviation and marine, the XM WX satellite weather service provides real-time graphical weather data for advanced situational awareness in prevailing weather conditions. At the 2007 International Consumer Electronics Show ("CES"), XM demonstrated the next steps in advanced applications featuring XM WeatherLink, providing real time weather information for vehicle and portable navigation systems (including a preview of the Bushnell ONIX 400, the first handheld device to feature the service), XM ParkingLink for dynamic parking space availability information for navigation systems, conversational speech interaction and video technology.

To facilitate attractive pricing for retail radio and automobile consumers, we have financial arrangements with certain radio manufacturers that include our subsidizing of certain radio component parts. We are pursuing additional arrangements for the manufacture and distribution of XM radios for the home and portable markets.

into our programming.

Our first two satellites, XM-1 and XM-2, experienced progressive solar array degradation issues and serve as in-orbit spares in their current capacity. We launched our third satellite, XM-3, in February 2005, at 85° West Longitude orbital location, and our fourth satellite, XM-4, in October 2006, at 115° West Longitude orbital location, to mitigate the issues with XM-1

Communications traffic between the various XM Radio facilities is controlled by the network operating center. The network operating center monitors satellite signals and the terrestrial repeater network to ensure that the XM Radio system is operating properly. We have designed and installed fault detection diagnostic systems to detect various system failures before they significantly impact our quality of service. We have a remote backup central production and broadcast facility that is able to originate all of our music channels as well as all third party programming.

Terrestrial Repeaters. Our terrestrial repeater system of approximately 800 repeaters in approximately 60 markets supplements the coverage of our satellites. In some areas, satellite signals may be subject to blockages from tall buildings and other obstructions. Due to the satellites' longitudinal separation, in most circumstances where reception is obscured from one satellite, XM Radio is still available from the other satellite. In some urban areas with a high concentration of tall buildings, however, line-of-sight obstructions to both satellites may be more frequent. In such areas, we have installed and may continue to install terrestrial repeaters to facilitate signal reception. Terrestrial repeaters are ground-based electronics equipment installed on rooftops or existing tower structures, where they receive the signal from one of the satellites, amplify it and retransmit it at significantly higher signal strength to overcome any satellite signal obstruction.

System Technology

We own the design of our system, including aspects of the technology used in communicating from the satellites, the design of the repeater network and certain aspects of the design of and features that may be used in our radios. We have joint ownership of a license to use the technology developed by the radio and chipset manufacturers. We also license various other technologies used in our system. We have not acquired any intellectual property rights in the technology used in constructing and launching our satellites.

Our system design, our repeater system design and the specifications we supplied to our radio and chipset manufacturers incorporate or may in the future incorporate some intellectual property licensed to us on a non-exclusive basis by WorldSpace, who has used this technology in its own non-United States satellite radio system. We also have the right to sublicense the licensed technology to any third party, including chipset manufacturers, terrestrial repeater manufacturers and receiver manufacturers in connection with the XM Radio system. During 2005, XM acquired an interest in WorldSpace in exchange for $25 million.

We believe that the intellectual property rights used in our system were independently developed or duly licensed by us or by the technology companies who supplied portions of our system. We cannot assure you, however, that third parties will not bring suit against us for patent or other infringement of intellectual property rights.

We have an agreement with SIRIUS Radio to develop a common receiver platform for satellite radios enabling consumers to purchase one radio capable of receiving both SIRIUS Radio's and our services. The technology relating to the common receiver platform is being jointly developed and funded by the two companies, who will share ownership of it. The development of this common receiver platform is consistent with FCC rules requiring designs for interoperable receivers with both licensed satellite radio systems. As part of the agreement, each company has licensed to the other its intellectual property relating to the common receiver platform and its respective system.

We currently own 45 patents relating to various aspects of our system, XM radios and their features, and have numerous other patents pending before the United States Patent and Trademark Office.

Copyrights to Programming

We must maintain music programming royalty arrangements with and pay license fees to Broadcast Music, Inc. ("BMI"), the American Society of Composers, Authors and Publishers ("ASCAP") and SESAC, Inc. ("SESAC"). These organizations negotiate with copyright users, collect royalties and distribute them to songwriters and music publishers. Agreements establish the license fee amounts payable to those entities. In July 2006, we entered into a new five-year music licensing agreement with ASCAP. All of our other agreements expired in 2006, and the royalty arrangements will need to be re-negotiated. 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, have the royalty rate established by a copyright royalty board. We had an agreement with the Recording Industry Association of America ("RIAA"), through its division SoundExchange, establishing royalty payment arrangements for these performance rights through 2006. We are participating in a Copyright Royalty Board (CRB) proceeding in order to set the royalty rate for the six year period starting in January 2007 (see "*Legal Proceedings*" in Item 3. to Part I of this Form 10-K).

- source frequency;
- audience characteristics;
- local program acceptance; and
- the number and characteristics of other radio stations in the market.

Although traditional AM/FM radio stations typically broadcast by means of analog signals, rather than digital transmission, a significant number of radio stations have begun broadcasting their primary signal using digital transmission technology such as that offered by iBiquity. A group of major broadcast radio networks recently created a coalition to jointly market digital radio services. According to this coalition, more than 3,000 U.S. radio stations have committed to broadcasting in the HD Radio format. More than 1,000 radio stations are currently broadcasting primary signals with HD Radio technology, available to 80% of the U.S. population, and manufacturers, including Alpine, Delphi, Panasonic, Polk and Yamaha, are creating digital receivers. To the extent that traditional AM/FM radio stations adopt digital transmission technology such as that offered by iBiquity and to the extent such technology allows signal quality that rivals our own, any competitive advantage that we enjoy over traditional radio because of our digital signal would be lessened. In addition, the widespread introduction of terrestrial digital radios could lessen our competitive advantage. Traditional AM/FM broadcasters are also aggressively entering the Internet radio and wireless distribution with e-commerce.

Downloading Devices

The Apple iPod• is a portable digital music player that sells for approximately $80-$350 and allows users to download and purchase music through Apple's iTunes• Music Store, which features over 4 million songs, 100,000 podcasts, 20,000 audio books, 5,000 music videos, 250 feature films and 350 television shows, as well as convert music on compact disc to digital files. Apple sold over 39 million iPods• during its fiscal 2006 year. The iPod• enables consumers to buy and store up to 20,000 songs. In addition, iPods• are compatible with certain car stereos and various home speaker systems, and certain automobile manufacturers 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. Although presently available formats have drawbacks such as hardware requirements and download bandwidth constraints, which we believe could make XM Radio a more attractive option to consumers, Internet-based audio formats are becoming increasingly competitive as quality improves and costs are reduced.

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, America Online (which includes a number of XM channels) and Yahoo make near CD-quality digital streams available through the Internet for free or in some case for a fraction of the cost of a satellite radio subscription. 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 our XM Radio Online service and, through the use of home stereo media adapters or media-centric PCs, with our home line of products.

Direct Broadcast Satellite and Cable Audio

A number of companies provide specialized audio service 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 therefore generally do not pay an additional monthly charge for the audio service.

Digital Media Services

We face or expect to face competition from businesses that plan to deliver entertainment and media content through cell phones and other wireless devices. Sprint Nextel, Comcast, Time Warner Cable, Cox Communications and Advance/Newhouse Communications have announced a joint venture to work toward accelerating the convergence of video entertainment, wireline and wireless data and communications products and services to provide customers throughout the United States access to advanced integrated entertainment, including streaming television programming, music, video clips, games and pre-recorded DVR programs, communications and wireless products. QUALCOMM has announced that its wholly owned subsidiary, MediaFLO USA, will offer interactive wireless multimedia services to consumers in cooperation with U.S. wireless operators through a nationwide network that will deliver multimedia content to mobile devices in the

700 MHz spectrum for which QUALCOMM holds licenses with a nationwide footprint. In December 2005, QUALCOMM and Verizon Wireless announced that QUALCOMM and MediaFLO USA are working together with Verizon Wireless to bring customers real-time mobile video over the MediaFLO multicasting network in the United States. QUALCOMM and Verizon Wireless expect to launch mobile TV services over the MediaFLO network in approximately half the markets already covered by Verizon Wireless' CDMA2000 1xEV-DO-based broadband network, enabling Verizon Wireless to offer real-time mobile TV services to its subscribers. Crown Castle has announced that it plans to deliver live mobile video in partnership with wireless operators through its Modeo subsidiary. It will provide the service over 5MHz of its licensed spectrum in the 1670-1675 MHz band and plans to commercially launch in select major U.S. markets, including New York City. Other wireless network competitors include Broadcast Networks and HiWire.

Traffic News Services

A number of providers also compete with the XM NavTraffic service. SIRIUS partners with NAVTEQ, the same partner used by XM for data behind XM NavTraffic, to provide real-time traffic data to vehicles over its satellite radio network for 44 metropolitan markets. The service will provide regularly updated traffic information and help select alternative routes. Clear Channel and Tele Atlas are able to deliver nationwide traffic information for the top 50 markets to in-vehicle navigation systems using RDS/TMC, the radio broadcast standard technology for delivering traffic and travel information to drivers. 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 un-desirable to many users.

Regulatory Matters

Satellite Licenses

XM Radio and SIRIUS Radio received licenses from the FCC in October 1997 to construct and operate satellite digital audio radio service systems. The FCC allocated 25 MHz for the service in a range of radio frequencies known as the S-Band, divided equally between the two licensees.

As the holder of one of two FCC licenses to operate a commercial satellite radio service in the United States, we are subject to regulatory oversight by the FCC. The operation of our system is subject to significant regulation by the FCC under authority granted through the Communications Act and related federal law. Non-compliance by us with FCC rules and regulations could result in fines, additional license conditions, license revocation or other detrimental FCC actions. Any of these FCC actions may harm our business. There is no guarantee that the rules and regulations of the FCC will continue to be favorable to our business plan. Any assignment or transfer of control of our FCC license or other FCC authorizations we hold must be approved in advance by the FCC.

Our FCC licenses, including our satellite licenses, are held by a subsidiary wholly owned by XM Radio. We are authorized to operate four satellites at specified orbital locations. The license to operate the XM-2 satellite at 115° West Longitude expires in March 2009. The license to operate the XM-1 satellite at 85° West Longitude expires in May 2009. In February 2004, we applied to the FCC for authority to launch and operate XM-3 and XM-4. The FCC granted this application in January 2005. The license to operate the XM-3 satellite at 85° West Longitude expires in April 2013. The license to operate the XM-4 satellite at 115° West Longitude expires in December 2014. We will be required to apply for a renewal or extension of our FCC license for each of these satellites prior to the expiration of the license term. We anticipate that, absent significant misconduct on our part, the FCC will renew or extend our license for each satellite to permit operation of each satellite for its approximate 15 year useful life, and grant a license for any replacement satellites. From time to time, we may seek authority from the FCC to operate our satellites at orbital locations other than those authorized in the licenses for those satellites. The U.S. government is responsible for coordinating our satellites through the International Telecommunication Union ("ITU") and must make periodic filings on our behalf at the ITU.

The FCC has indicated that it may in the future impose public service obligations, such as channel set-asides for educational programming, on satellite radio licensees. Some entities have asked the FCC to impose public service obligations on satellite radio licensees.

In November 2005, the FCC released a decision extending Emergency Alert System ("EAS") obligations to satellite radio operators. These obligations became effective on December 31, 2006. In December 2005, we asked the FCC to reconsider its decision by relaxing its requirements for testing of EAS alerts and for transmitting EAS codes and attention signals on certain channels. Our reconsideration request is pending.

On November 1, 2001, the FCC issued a further request for comments on various proposals for permanent rules for the operation of terrestrial repeaters. We have opposed some of these proposals. Some of the FCC's proposals and proposals made by other parties, if adopted by the FCC, could impact our ability to operate terrestrial repeaters, including requiring us to reduce the power of some of our current repeaters, and subject us to monetary liability to compensate other FCC licensees that claim they receive interference from our repeaters.

As noted above, we are currently operating terrestrial repeaters pursuant to STA. This STA authorizes us to operate our terrestrial repeaters for commercial service on a non-interference basis. Because the STA was conditioned in this manner, we are required either to reduce power or cease operating a repeater upon receipt of a written complaint of interference. In 2001, one party that opposed XM Radio's request for STA filed an application for review of the decision granting us an STA, asking the FCC to reverse the decision and deny XM Radio's STA request. This Application for Review is still pending.

On November 26, 2003, we applied for an STA to operate an additional forty-nine repeaters in new markets that were not authorized under our September 2001 STA. This request was opposed by a coalition of WCS licensees claiming that grant of this request would result in interference and would prejudice the outcome of the final rules governing repeaters. Our request was granted in September 2004 over these objections. Our grants of STA to operate all of our terrestrial repeaters have expired by their terms, but pursuant to the FCC's rules, we are allowed to and have continued to operate these terrestrial repeaters under STA pending a final determination on our extension request.

In October 2006, we disclosed to the FCC that several hundred of our repeaters were not built pursuant to the exact terms of our STAs. These differences include some repeaters not being built in the exact locations, or with the same antenna heights, power levels, or antenna characteristics set forth in the STAs. A number of repeaters were built without an obviously applicable authorization. We brought a number of these repeaters into full compliance with our authorizations by turning down their power levels. We also discontinued operation of some repeaters. As a result, we believe that service quality in portions of the affected metro areas has been somewhat reduced, including in terms of more frequent interruptions and/or occasional outages to the service. There has been no impact on the satellite signal. Immediately following our disclosure to the FCC we filed for both a 30-day STA and a 180-day STA with respect to our terrestrial repeater network. In these STA requests, we are seeking authority to continue to operate our entire repeater network, as built, despite the variances we disclosed. We have held meetings with the staff of the FCC regarding these matters. NAB has opposed our STA requests and has asked the FCC to initiate an investigation into our deployment of repeaters and to impose sanctions. A coalition of WCS licensees has also opposed our STA requests and has asked the FCC to require us to immediately reduce the power of any unauthorized repeaters to no more than 2000 Watts peak EIRP. The WCS licensees also dispute whether the power levels the FCC has authorized for our repeater operations are with regard to peak power or average power. We have interpreted our FCC authorizations to be in terms of average power and a contrary interpretation would have a significant impact on operations. Our deployment of terrestrial repeaters may be affected by the FCC's further actions, when taken. In February 2007, we received a letter of inquiry from the FCC relating to these matters. This proceeding may result in the imposition of financial penalties against us or adverse changes to our repeater network resulting from having repeaters turned off or otherwise modified in a manner that would reduce service quality in the affected areas. There can be no assurance regarding the ultimate outcome of this matter, or its significance to our business, consolidated results of operations or financial position. These recent STA requests are distinct from (and if granted would replace) the STAs originally granted by the FCC relating to our commencing and continuing operation of the repeater network.

The FCC also may adopt limits on emissions of terrestrial repeaters to protect other services using nearby frequencies. While we believe that we will meet any reasonable non-interference standard for terrestrial repeaters, the FCC has no specific standard at this time, and the application of such limits might increase our cost of using repeaters. Although we are optimistic that we will be able to construct and use terrestrial repeaters as needed, the development and implementation of the FCC's ultimate rules might delay this process or restrict our ability to do so. We believe that it is not likely that an FCC order would materially impact the terrestrial repeater system design currently in operation.

Coordination and Interference Matters

We are required to coordinate the XM Radio system with systems operating in the same frequency bands in adjacent countries, particularly Canada and Mexico. The United States government, which conducts the coordination process, has entered into coordination agreements with both the Canadian and Mexican governments. XM Canada, our exclusive Canadian licensee, received a license to operate a satellite radio service in Canada using our existing satellites, which provide coverage of the densely populated regions of Canada.

Our board of directors and the board of directors of SIRIUS has approved the merger.

The merger agreement contains representations and warranties which the parties thereto made to, and solely for, the benefit of each other. The assertions embodied in those representations and warranties are qualified by information in confidential disclosure schedules that the parties have exchanged in connection with signing the merger agreement and that modify, qualify and create exceptions to the representations and warranties contained in the merger agreement. We and SIRIUS each have made covenants in the merger agreement about continuing our or their business in the ordinary course.

The foregoing description of the merger does not purport to be complete and is qualified in its entirety by reference to the Current Report on Form 8-K, filed February 21, 2007 and the merger agreement filed as an exhibit to that Form 8-K and incorporated into this report by reference.

Satisfaction of the closing conditions could take several months or longer. There can be no assurance that the conditions to completion of the merger will be met, or that the merger will be completed.

Statements made in this Form 10-K relating to our business strategies, operating plans, planned expenditures, expected capital requirements and other forward-looking statements regarding our business do not take into account potential future impacts of our proposed merger with SIRIUS.

Personnel

As of December 31, 2006, we had 860 employees. In addition, we rely upon a number of consultants, other advisors and outsourced relationships. The extent and timing of any increase in staffing will depend on the availability of qualified personnel and other developments in our business. None of our employees are represented by a labor union, and we believe that our relationship with our employees is good.

You could lose money on your investment because our expenses exceed our revenues.

Unless we continue to increase our revenues, we may not be able to operate our business and service our indebtedness and you could lose money on your investment. Our ability to continue to increase our revenues and ultimately to become profitable will depend upon several factors, including:

- whether we can attract and retain enough subscribers to XM Radio;
- our ability to maintain the costs of obtaining and retaining subscribers and programming;
- whether we compete successfully; and
- whether our XM Radio system continues to operate at an acceptable level.

Our cumulative expenditures and losses have been significant and are expected to grow.

As of December 31, 2006, we had incurred capital expenditures of $1.7 billion and cumulative net losses approximating $3.5 billion from our inception through December 31, 2006. We expect our cumulative net losses and cumulative negative cash flows to grow as we make payments under our various distribution and programming contracts, incur marketing and subscriber acquisition costs and make interest payments on our outstanding indebtedness. If we are unable ultimately to generate sufficient revenues to become profitable and generate positive cash flow, you could lose money on your investment.

Demand for our service may be insufficient for us to become profitable.

Because we offer a relatively new service, we cannot estimate with any certainty whether consumer demand for our service will be sufficient for us to continue to increase the number of subscribers at projected rates or the degree to which we will meet that demand. Over the past year, we have had to lower our guidance with regard to the number of subscribers we expected to add during that year; and there can be no assurance that our guidance will not have to be revised in the future.

Among other things, continuing and increased consumer acceptance of XM Radio will depend upon:

- whether we obtain, produce and market high quality programming consistent with consumers' tastes;
- the willingness of consumers, on a mass-market basis, to pay subscription fees to obtain radio service;
- the cost and availability of XM radios; and
- the marketing and pricing strategies that we employ and that are employed by our competitors.

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

We may need additional funding for our business plan and additional financing might not be available.

Although we believe we have sufficient cash and credit facilities available to fund our operations through when we expect our business to generate positive cash flow on an ongoing basis, we may need additional financing due to future developments or changes in our business plan. In addition, our actual funding requirements could vary materially from our current estimates. If additional financing is needed, we may not be able to raise sufficient funds on favorable terms or at all. Failing to obtain any necessary financing on a timely basis could result in a number of adverse effects that includes defaulting on our commitment to creditors, which might cause us to seek a purchaser of our business or assets.

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

during the fourth quarter of 2005. The SEC has sent us letters asking for information relating to our subscriber targets, costs associated with attempting to reach these targets during the third and fourth quarters of 2005, the departure of one of our board members, our historic practices regarding stock options and certain other matters. We also are a party to a suit brought by a number of major record companies alleging that recently introduced XM radios that also have MP3 functionality infringe upon plaintiffs' copyrighted sound recordings. We are participating in a Copyright Royalty Board (CRB) proceeding in order to set the royalty rate payable by XM under the statutory license covering our performance of sound recordings over the XM system for the six year period starting in January 2007. We intend to cooperate fully with the governmental investigations and to vigorously defend all of our litigation matters. However, we cannot assure 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.

Large payment obligations under our agreements with General Motors and other automobile manufacturers, suppliers of programming and others may prevent us from becoming profitable.

We have significant payment obligations under our agreements with automobile manufacturers, third-party suppliers of programming and licensors of program royalties. Although we recently paid General Motors approximately $237 million to eliminate obligations to pay approximately $320 million during 2007, 2008 and 2009, we still have significant remaining payment obligations under our long-term distribution agreement with General Motors. We also have or in the future will have payment obligations under agreements with other automobile manufacturers, and we will need to negotiate new or replacement agreements with these or other manufacturers over the next several years. Under our multi-year agreement with Major League Baseball• ("MLB") for the rights to broadcast MLB games live nationwide and be the Official Satellite Radio provider of Major League Baseball•, we are obligated to pay $60 million per year through 2012. We have many other agreements and must negotiate renewal or replacement agreements with third-party suppliers of programming. Our payment obligations could increase when agreements are renewed or replaced, and will increase under the terms of certain existing agreements as the number of our subscribers increases. Changes in the cost of certain programming or other factors could cause changes to our channel line-up in the future. These payment obligations could significantly delay our becoming profitable.

We must maintain and pay license fees for music rights, and we may have disputes with copyright holders.

We must maintain music programming royalty arrangements with and pay license fees to Broadcast Music, Inc. ("BMI"), the American Society of Composers, Authors and Publishers ("ASCAP") and the Society of European Stage Authors and Composers, Inc. ("SESAC"). These organizations represent copyright users, collect royalties and distribute them to songwriters and music publishers. We have a new five year agreement with ASCAP which establishes the license fee amounts payable, but need to renegotiate the license fees under our agreements with the other entities. 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, have the royalty rate established by a copyright royalty board. New royalties with the Recording Industry Association of America ("RIAA"), through its subsidiary, SoundExchange, need to be set, and over the next year that royalty is to be set by the copyright royalty board. We are participating in a Copyright Royalty Board (CRB) proceeding in order to set the royalty rate payable by XM under the statutory license covering our performance of sound recordings over the XM system for the six year period starting in January 2007. We cannot assure you that royalty fees will remain at current levels or that arbitration or litigation, in addition to the CRB proceeding, will not arise in connection with royalty arrangements, and we cannot predict what the royalty rates and other costs to our company from any such proceeding, or a settlement of such a dispute or disputes, might be.

We have been sued by several companies in the recording industry alleging that XM radios that also have MP3 functionality infringe upon plaintiffs' copyrighted sound recordings. We believe these new XM radios, which have various functionalities widely available to consumers, comply with applicable copyright law, including the Audio Home Recording Act. Our motion to dismiss this matter was denied. However, there can be no assurance regarding the ultimate outcome of this matter, or the significance, if any, to the Company's business, consolidated results of operations or financial position.

Our inability to retain customers, including those who purchase or lease vehicles that include a subscription to our service, could adversely affect our financial performance.

We cannot predict how successful we will be at retaining customers who purchase or lease vehicles that include a subscription to our service as part of the promotion of our product. Over the past several quarters we have retained

- the development and manufacture of XM radios and other XM-compatible devices; and
- the availability of XM radios for sale to the public by consumer electronics retailers.

The sale of vehicles with XM radios is an important source of subscribers for us. To the extent sales of vehicles by our distribution partners slow, our subscriber growth could be adversely impacted. We do not manufacture satellite radios or accessories, and we depend on manufacturers and others for the production of these radios and their component parts. If one or more manufacturers raises the price of the radios or does not produce radios in a sufficient quantity to meet demand, or if such radios were not to perform as advertised or were to be defective, sales of our service and our reputation could be adversely affected. Our business or reputation also could be harmed in the event our retailing partners were to fail to make XM radios available to the public in sufficient quantities, in a timely manner or at attractive prices.

Failure to comply with FCC requirements could damage our business.

As an owner of one of two FCC licenses to operate a commercial satellite radio service in the United States, an operator of a terrestrial repeater system and the holder of authorizations for the production of certain satellite radios, we are subject to FCC rules and regulations and the terms of our licenses and other authorizations. We are required, among other things, to operate only within specified frequencies and other limitations, and to meet certain conditions such as the availability of radios interoperable with both our system and the other licensed satellite radio system; coordination of our satellite radio service with radio systems operating in the same range of frequencies in neighboring countries; and coordination of our communications links to our satellites with other systems that operate in the same frequency band. Non-compliance by us with these requirements or conditions could result in fines, additional license conditions, license revocation or other detrimental FCC actions.

The FCC has not issued final rules authorizing terrestrial repeaters.

The FCC has not yet issued final rules permitting us to deploy terrestrial repeaters to fill gaps in satellite coverage. We are operating our repeaters on a non-interference basis pursuant to grants of Special Temporary Authority ("STA") from the FCC, which have expired. We have applied for extensions of these STAs and can continue to operate our terrestrial repeaters pending a final determination on these requests. We have made filings with the Federal Communications Commission (FCC) to update the information underlying our Special Temporary Authority (STA) with respect to our repeater network, including repeater power levels, locations and antenna characteristics. We have held meetings with the staff of the FCC regarding these matters. In February 2007, we received a letter of inquiry from the FCC relating to these matters. One grant of STA and our request to update are currently being opposed by operators of terrestrial wireless systems and others. This proceeding may result in the imposition of financial penalties against us or adverse changes to our repeater network resulting from having repeaters turned off or otherwise modified in a manner that would reduce service quality in the affected areas.

One of our major business partners is experiencing financial difficulties.

On October 8, 2005, Delphi and 38 of its domestic U.S. subsidiaries, which we refer to collectively as Delphi, filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. Delphi manufactures, in factories outside the United States, XM radios for installation in various brands of GM vehicles. Delphi also distributes to consumer electronics retailers various models of XM radios manufactured abroad. Pursuant to an order of the Bankruptcy Court dated January 5, 2007, Delphi Corporation secured replacement debtor-in-possession financing up to an aggregate principal amount of $4.5 billion. The financing is guaranteed by all of the other Delphi entities, which are debtors in the Delphi bankruptcy cases and is to be used in part to repay in full certain outstanding pre-bankruptcy loans and all loans and obligations under Delphi's original debtor-in-possession financing. Delphi has also stated that its overall liquidity (including funds on hand outside the United States that Delphi does not plan to repatriate to fund U.S. operations) will support its global operations outside the U.S. and help assure the continued adequacy of working capital throughout Delphi's global business units. Delphi has stated that its plants should continue normal operations and GM has stated that Delphi expects no disruption in its ability to supply GM with the systems, components and parts GM needs. Delphi has advised us that it expects no disruption in the continued supply of XM radios. However, we cannot estimate with any reasonable assurance the impact, if any, on XM or GM that may ultimately result from Delphi's petition for reorganization under Chapter 11.

Interference from other users could damage our business.

We may be subject to interference from adjacent radio frequency users, such as RF lighting and ultra-wideband ("UWB") technology, if the FCC does not adequately protect us against such interference in its rulemaking process.

Our service network or other ground facilities could be damaged by natural catastrophes.

Since our ground-based network is attached to towers, buildings and other structures around the country, an earthquake, tornado, flood or other catastrophic event anywhere in the United States could damage our network, interrupt our service and harm our business in the affected area. We have backup central production and broadcast facilities; however, we do not have replacement or redundant facilities that can be used to assume the functions of our repeater network in the event of a catastrophic event. Any damage to our repeater network would likely result in degradation of our service for some subscribers and could result in the complete loss of service in affected areas. Damage to our central production and broadcast facility would restrict our production of programming to our backup facilities.

Consumers could steal our service.

Like all radio transmissions, the XM Radio signal is subject to interception. Pirates may be able to obtain or rebroadcast XM Radio without paying the subscription fee. Although we use encryption technology to mitigate the risk of signal theft, such technology may not be adequate to prevent theft of the XM Radio signal. If widespread, signal theft could harm our business.

We need to obtain rights to programming, which are expensive and could be more costly than anticipated.

Third-party content is an important part of the marketing of the XM Radio service and obtaining third-party content can be expensive. We have a multi-year agreement with Major League Baseball• ("MLB") to broadcast MLB games live nationwide, and to become the Official Satellite Radio provider of Major League Baseball•, for which we have paid or will pay $60 million for 2006 and $60 million per year thereafter through 2012. We have many other agreements and must negotiate new agreements with third-party suppliers of programming. Such programming is expensive, and may be more expensive in the future, given the growth of the satellite radio industry and amounts paid for other programming. Changes in the cost of certain programming or other factors may cause changes to our channel line-up in the future. Our ability to obtain necessary third-party content at a reasonable cost and re-negotiate programming agreements successfully will impact our financial performance and results of operations.

We depend on certain on-air talent and other people 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. We cannot assure that our on-air talent will remain with us or will be able to retain their respective audiences. If we lose the services of one or more of these individuals, and fail to attract comparable on-air talent with similar audience loyalty, the attractiveness of our service to subscribers and advertisers could decline, and our business could be adversely affected. We also depend on the continued efforts of our executive officers and key employees, who have specialized technical knowledge regarding our satellite and radio systems and business knowledge regarding the radio industry and subscription services. If we lose the services of one or more of them, or fail to attract qualified replacement personnel, it could harm our business and our future prospects.

The market price of our securities could be hurt by substantial price and volume fluctuations.

Historically, securities prices and trading volumes for growth stocks fluctuate widely for a number of reasons, including some reasons that may be unrelated to their businesses or results of operations. This market volatility could depress the price of our securities without regard to our operating performance. In addition, our operating or financial results may be below the expectations of public market analysts and investors. If this were to occur, the market price of our securities would likely decrease, and such decreases could be significant.

Future issuances or sales of our Class A common stock could lower our stock price or impair our ability to raise funds in new stock offerings.

Class A common stock outstanding. As of December 31, 2006, we had outstanding approximately 306 million shares of Class A common stock. On a pro forma basis as of December 31, 2006, if we issued all shares issuable upon conversion or exercise of outstanding securities, we would have had approximately 360 million shares of Class A common stock outstanding on that date. Issuances of a large number of additional shares could adversely affect the market price of our Class A common stock. Most of the shares of our Class A common stock that are not already publicly-traded, including those held by affiliates, have been registered by us for resale into the public market. The sale into the public market of a large number of privately-issued shares also could adversely affect the market price of our Class A common stock and could impair our ability to raise funds in additional stock offerings.

It may be hard for a third party to acquire us, and this could depress our stock price.

We are a Delaware company with unissued preferred stock, the terms of which can be set by our board of directors. Our shareholder rights plan, which includes a waiver in respect of our proposed merger with SIRIUS, could make it difficult for a third party to acquire us, even if doing so would benefit our security holders. The rights issued under the plan have certain anti-takeover effects. The rights will cause substantial dilution to a person or group that attempts to acquire us in a manner or on terms not approved by our board of directors. The rights should not deter any prospective offeror willing to negotiate in good faith with our board of directors. Nor should the rights interfere with any merger or other business combination approved by our board of directors. However, anti-takeover provisions in Delaware law and the shareholder rights plan could depress our stock price and may result in entrenchment of existing management, regardless of their performance.

to vigorously defend the matter. 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.

locations, or with the same antenna heights, power levels, or antenna characteristics than set forth in the earlier STAs. Prior to making these recent filings, we reduced the power or discontinued operation of certain repeaters. As a result, we believe that service quality in portions of the affected metro areas has been somewhat reduced, including in terms of more frequent interruptions and/or occasional outages to the service. There has been no impact on the satellite signal. We have recently held meetings with the staff of the FCC regarding these matters. In February 2007, we received a letter of inquiry from the FCC relating to these matters. This proceeding may result in the imposition of financial penalties against us or adverse changes to our repeater network resulting from having repeaters turned off or otherwise modified in a manner that would reduce service quality in the affected areas. There can be no assurance regarding the ultimate outcome of this matter, or its significance to our business, consolidated results of operations or financial position.

These recent STA requests are distinct from (and if granted would modify) the STAs originally granted by the FCC relating to our commencing and continuing operation of the repeater network. As we have been disclosing for many years, the FCC has not yet issued final rules permitting us (or SIRIUS) to deploy terrestrial repeaters, and we have been deploying and operating our repeater network based on those early STAs and requests we have filed previously to extend the time periods of those STAs, which have expired. We (and SIRIUS) and others have been requesting that the FCC establish final rules for repeater deployment.

Federal Trade Commission ("FTC")

FTC Inquiry — On April 25, 2006, we received a letter from the Federal Trade Commission stating that they are conducting an inquiry into whether our activities are in compliance with various acts, including the FTC Act, the Telemarketing Sales Rule, the Truth in Lending Act and the CAN-SPAM Act. This letter requests information about a variety of our marketing activities, including free trial periods, rebates, telemarketing activities, billing and customer complaints.

We have been submitting documents to the agency in response to the letter and are cooperating fully with this inquiry. 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.

Securities and Exchange Commission ("SEC")

SEC Inquiry — As previously disclosed, by letter dated August 31, 2006 and subsequent follow-up letters, the Staff of the Securities and Exchange Commission ("SEC") requested that we voluntarily provide documents to the Staff, including information relating to our subscriber targets, costs associated with attempting to reach those targets during the third and fourth quarters of 2005, the departure of Mr. Roberts from our board of directors, our historic practices regarding stock options and certain other matters. In this connection we retained outside counsel, who engaged an independent accounting advisor, to conduct a review of our stock option practices. The inquiry did not reveal the existence of material errors in any prior financial statements.

We have been submitting documents to the SEC in response to their requests and are cooperating fully with this inquiry. There can be no assurance regarding the ultimate outcome of these SEC matters, or the significance, if any, to our business, consolidated results of operations or financial position.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2006.

Purchases of Equity Securities

The following purchases of the Company's Class A common stock were completed during the three months ended December 31, 2006.

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 - October 31, 2006	—	$ —	—	—
November 1, 2006 - November 30, 2006	5,502	$ 14.03	—	—
December 1, 2006 - December 31, 2006	—	$ —	—	—

(1) Represents the number of shares acquired as payment by employees of applicable statutory minimum withholding taxes owed upon vesting of restricted stock granted under the Company's 1998 Shares Award Plan.

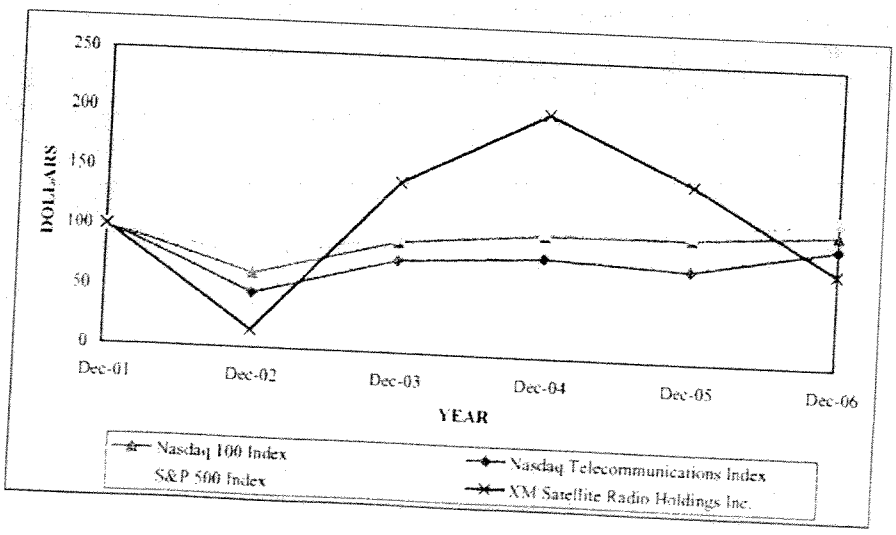
Stockholder Return Performance Graph

The following graph shows the cumulative total stockholder return on the Company's Class A common stock compared to the Standard & Poor's 500 Stock Index, the NASDAQ Telecommunications Index, composed of publicly traded companies which are principally in the telecommunications business, and the NASDAQ 100 Stock Index for the periods between December 31, 2001 and December 31, 2006. The Company has included the NASDAQ 100 Stock Index, which represents the largest non-financial companies listed on The NASDAQ Stock Market based on market capitalization, because it was added to this index in December 2004. The graph assumes $100 was invested on December 31, 2001 in (1) the Company's Class A common stock, (2) the Standard & Poor's 500 Stock Index, (3) the NASDAQ Telecommunications Index and (4) the NASDAQ 100 Index. Total stockholder return is measured by dividing total dividends, assuming dividend reinvestment, plus share price change for a period by the share price at the beginning of the measurement period.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*

AMONG XM SATELLITE RADIO HOLDINGS INC., THE S&P 500 INDEX,

THE NASDAQ TELECOMMUNICATIONS INDEX AND THE NASDAQ 100 INDEX



* $100 invested on 12/31/2001 in stock or index-including reinvestment of dividends. Fiscal year ending December 31.

Stockholder Return Performance Table

	Nasdaq Telecommunications Index Index	S&P 500 Index	Nasdaq 100 Index	XM Satellite Radio Holdings Inc.
December 31, 2001	$ 100.00	$ 100.00	$ 100.00	$ 100.00
December 31, 2002	45.97	76.63	62.42	14.65
December 31, 2003	77.58	96.85	93.08	143.19
December 31, 2004	83.78	105.56	102.79	204.90
December 31, 2005	77.74	108.73	104.32	148.58
December 31, 2006	99.32	123.54	111.40	78.70

The calculation of Adjusted EBITDA is shown below (in thousands):

	Years ended December 31,				
	2006	2005	2004	2003	2002
Reconciliation of Net loss to Adjusted EBITDA:					
Net loss as reported	$ (718,872)	$ (666,715)	$ (642,368)	$ (584,535)	$ (495,012)
Add back Net loss items not included in EBITDA:					
Interest income	(21,664)	(23,586)	(6,239)	(3,066)	(5,111)
Interest expense	121,304	107,791	85,757	110,349	63,573
Depreciation & amortization	168,880	145,870	147,165	158,317	118,588
(Benefit from) provision for deferred income taxes	(14)	2,330	27,317	—	—
EBITDA	(450,366)	(434,310)	(388,368)	(318,935)	(317,962)
Add back EBITDA items not included in Adjusted EBITDA:					
Loss from de-leveraging transactions	122,189	27,552	76,621	24,749	—
Loss from impairment of investments	76,572	—	—	—	—
Equity in net loss of affiliate	23,229	482	—	—	—
Other (income) expense	(5,842)	(3,389)	(2,129)	(1,955)	(2,230)
Stock-based compensation	68,046	5,966	2,020	3,003	1,509
Adjusted EBITDA	$ (166,172)	$ (403,699)	$ (311,856)	$ (293,138)	$ (318,683)

(2) We consider subscribers to be those who are receiving and have agreed to pay for our service, either by credit card or by invoice, including those that are currently in promotional periods paid in part by vehicle manufacturers, as well as XM activated radios in vehicles for which we have a contractual right to receive payment for the use of our service. Radios that are revenue generating are counted individually as subscribers. Promotional periods generally include the period of trial service plus 30 days to handle the receipt and processing of payments.

(3) In addition to the Cash and cash equivalents available to the Company, the Company has a $250 million credit facility with a group of banks and a $150 million credit facility with GM.

(4) We have not declared or paid any dividends on our Class A common stock since our date of inception.

- Subscriber Acquisition Costs (SAC) remained flat at $64 for 2005 and 2006.
- Cost Per Gross Acquisition (CPGA) decreased from $109 in 2005 to $108 in 2006.
- Our Adjusted EBITDA loss decreased from $403.7 million in 2005 to $166.2 million in 2006.

Financing Highlights

- We completed an $800 million private debt offering consisting of $600 million of unsecured 9.75% Senior Notes due 2014 and $200 million of unsecured Senior Floating Rate Notes due 2013 with an initial interest rate of 9.6%. These proceeds were used to repurchase or redeem an aggregate $486.5 million of secured notes (with interest rates ranging from 10.63% to 14%) and to retire at a discount approximately $320 million of the remaining fixed payment obligations under our distribution agreement with General Motors.
- We incentivized the conversion of $119.5 million aggregate carrying value, or $146.6 million aggregate fully accreted face value at maturity of our 10% senior secured discount convertible notes due 2009 by issuing approximately 48.8 million shares of Class A common stock. Following these conversions, $33.2 million of our 10% notes remain, representing one holder.
- We entered into a new $250 million revolving credit facility with a group of banks. Following the incentivized conversion of some of our 10% notes in October 2006, we have full borrowing capacity under the facility.
- As part of the amendment to our distribution agreement with GM, our credit facility was increased from $100 million to $150 million.
- We repurchased all remaining shares of our 8.25% Series B convertible redeemable preferred stock for approximately $24.0 million.
- We converted all remaining shares of our 8.25% Series C convertible redeemable preferred stock by issuing 14.5 million shares of our Class A common stock.

Market Conditions

- Overall demand for satellite radio continued to grow during 2006 and XM gross subscriber additions remained relatively flat with 2005 levels.
- The mix of gross subscriber additions has been shifting increasingly towards the OEM channels, and the conversion rate of our OEM promotional subscribers has been decreasing.
- Growth in net ad sales continued through 2006, which reflects advertisers' desire to market to the growing subscriber base of satellite radio.

Results of Operations

(in thousands, except percentages)	Years Ended December 31, 2006	2005	2004	2006 - 2005 $	%	2005 - 2004 $	%
Revenue:							
Subscription	$ 825,626	$ 502,612	$ 220,468	$ 323,014	64%	$ 282,144	128%
Activation	16,192	10,066	4,814	6,126	61%	5,252	109%
Merchandise	21,720	18,182	7,261	3,538	19%	10,921	150%
Net ad sales	35,330	20,103	8,485	15,227	76%	11,618	137%
Other	34,549	7,303	3,415	27,246	373%	3,888	114%
Total revenue	933,417	558,266	244,443	375,151	67%	313,823	128%
Variable costs of revenue(1):							
Revenue share & royalties	149,010	93,874	50,676	55,136	59%	43,198	85%
Customer care & billing operations	104,871	76,222	40,887	28,649	38%	35,335	86%
Cost of merchandise	48,949	40,707	11,557	8,242	20%	29,150	252%
Ad sales	15,961	10,058	6,165	5,903	59%	3,893	63%
Total variable cost of revenue	318,791	220,861	109,285	97,930	44%	111,576	102%
Non-variable costs of revenue(2):							
Satellite & terrestrial	49,019	42,355	35,922	6,664	16%	6,433	18%
Broadcast & operations:							
Broadcast	23,049	16,609	10,832	6,440	39%	5,777	53%
Operations	34,683	24,460	13,192	10,223	42%	11,268	85%
Total broadcast & operations	57,732	41,069	24,024	16,663	41%	17,045	71%
Programming & content	165,196	101,008	32,704	64,188	64%	68,304	209%
Total non-variable cost of revenue	271,947	184,432	92,650	87,515	47%	91,782	99%
Total cost of revenue	590,738	405,293	201,935	185,445	46%	203,358	101%
Other operating expenses:							
Research & development	37,428	31,218	23,513	6,210	20%	7,705	33%
General & administrative	88,626	43,864	28,555	44,762	102%	15,309	54%
Retention & support	31,842	22,275	13,286	9,567	43%	8,989	68%
Subsidies & distribution	241,601	264,719	165,704	(23,118)	-9%	99,015	60%
Advertising & marketing	147,640	163,312	88,076	(15,672)	-10%	75,236	85%
Amortization of GM liability	29,760	37,250	37,250	(7,490)	-20%	—	0%
Depreciation & amortization	168,880	145,870	147,165	23,010	16%	(1,295)	-1%
Total other operating expenses	745,777	708,508	503,549	37,269	5%	204,959	41%
Total operating expenses	1,336,515	1,113,801	705,484	222,714	20%	408,317	58%
Operating loss	(403,098)	(555,535)	(461,041)	152,437	-27%	(94,494)	20%
Other income (expense):							
Interest income	21,664	23,586	6,239	(1,922)	-8%	17,347	278%
Interest expense	(121,304)	(107,791)	(85,757)	(13,513)	13%	(22,034)	26%
Loss from de-leveraging transactions	(122,189)	(27,552)	(76,621)	(94,637)	343%	49,069	-64%
Loss from impairment of investments	(76,572)	—	—	(76,572)	NM	—	0%
Equity in net loss of affiliate	(23,229)	(482)	—	(22,747)	NM	(482)	0%
Other income (expense)	5,842	3,389	2,129	2,453	72%	1,260	59%
Net loss before income taxes	(718,886)	(664,385)	(615,051)	(54,501)	8%	(49,334)	8%
Benefit from (provision for) deferred income taxes	14	(2,330)	(27,317)	2,344	-101%	24,987	-91%

	Years ended December 31,			2006 - 2005		2005 - 2004	
	2006	2005	2004	$	%	$	%
Reconciliation of Net loss to Adjusted EBITDA:							
Net loss as reported	$ (718,872)	$ (666,715)	$ (642,368)	$ (52,157)	8%	$ (24,347)	4%
Add back Net loss items not included in EBITDA:							
Interest income	(21,664)	(23,586)	(6,239)	1,922	-8%	(17,347)	278%
Interest expense	121,304	107,791	85,757	13,513	13%	22,034	26%
Depreciation & amortization	168,880	145,870	147,165	23,010	16%	(1,295)	-1%
(Benefit from) provision for deferred income taxes	(14)	2,330	27,317	(2,344)	-101%	(24,987)	-91%
EBITDA(3)	(450,366)	(434,310)	(388,368)	(16,056)	4%	(45,942)	12%
Add back EBITDA items not included in Adjusted EBITDA:							
Loss from de-leveraging transactions	122,189	27,552	76,621	94,637	343%	(49,069)	-64%
Loss from impairment of investments	76,572	—	—	76,572	NM	—	0%
Equity in net loss of affiliate	23,229	482	—	22,747	NM	482	0%
Other (income) expense	(5,842)	(3,389)	(2,129)	(2,453)	72%	(1,260)	59%
Stock-based compensation	68,046	5,966	2,020	62,080	1041%	3,946	195%
Adjusted EBITDA(3)	$ (166,172)	$ (403,699)	$ (311,856)	$ 237,527	-59%	$ (91,843)	29%

NM — Not Meaningful

(1) Variable costs of revenue are costs that vary with fluctuations in revenue generating activity such as changes in the number of subscribers, the number of advertising spots sold, the quantity of merchandise sold or changes in rates.

(2) Non-variable costs of revenue are costs of revenue that generally do not vary with fluctuations in revenue generating activity such as changes in the number of subscribers, the number of advertising spots sold, the quantity of merchandise sold or changes in rates.

(3) Net loss before interest income, interest expense, income taxes, depreciation and amortization is commonly referred to in our business as "EBITDA." Adjusted EBITDA is defined as EBITDA excluding loss from de-leveraging transactions, loss from impairment of investments, equity in net loss of affiliate, other income (expense) and stock-based compensation. We believe that Adjusted EBITDA provides a better measure of our core business operating results and improves comparability. This non-GAAP measure should be used in addition to, but not as a substitute for, the analysis provided in the statement of operations. We believe Adjusted EBITDA is a useful measure of our operating performance. Adjusted EBITDA is a significant basis used by management to measure our success in acquiring, retaining and servicing subscribers because we believe this measure provides insight into our ability to grow revenues in a cost-effective manner. Adjusted EBITDA is a calculation used as a basis for investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performances and value of similar companies in our industry.

Because we have funded the build-out of our system through the raising and expenditure of large amounts of capital, our results of operations reflect significant charges for depreciation, amortization and interest expense. We believe Adjusted EBITDA provides helpful information about the operating performance of our business, apart from the expenses associated with our physical plant or capital structure. We believe it is appropriate to exclude depreciation, amortization and interest expense due to the variability of the timing of capital expenditures, estimated useful lives and fluctuation in interest rates. We exclude income taxes due to our tax losses and timing differences, certain periods will reflect a tax benefit, while others an expense, in which neither are reflective of our operating results. Because of the variety of equity awards used by companies, the varying methodologies for determining stock-based compensation expense and the subjective assumptions involved in those determinations, we believe excluding stock-based compensation expense enhances the ability of management and investors to compare our core operating results with those similar companies in our industry.

Equity in net loss of affiliate represents our share of losses in an affiliate in which we exercise significant influence, but do not control. Management believes it is appropriate to exclude this loss when evaluating the performance of our core business operations. Additionally, we exclude loss from de-leveraging transactions, loss from impairment of investments and other income (expense) because these items represent activity outside of our core business operations.

There are limitations associated with the use of Adjusted EBITDA in evaluating our company compared with net loss, which reflects overall financial performance. These limitations include the inclusion of (1) interest income, (2) interest expense, (3) income taxes, (4) depreciation and amortization, (5) loss from de-leveraging transactions, (6) loss from impairment of investments, (7) equity in net loss of affiliate, (8) other income (expense) and (9) stock-based compensation in the computation of net loss. Users that wish to compare and evaluate our company based on our net loss should refer to our Consolidated Statements of Operations. Adjusted EBITDA does not purport to represent operating loss or cash flow from operating activities, as those terms are defined under United States generally accepted accounting principles, and should not be considered as an alternative to those measurements as an indicator of our performance. In addition, our measure of Adjusted EBITDA may not be comparable to similarly titled measures of other companies.

Effective for the three months ended March 31, 2007, we will consolidate our disclosures to present Adjusted operating loss and eliminate the use of EBITDA and Adjusted EBITDA. The calculation will be shown as follows:

Subscribers

Subscribers — Subscribers are those who are receiving and have agreed to pay for our service, either by credit card or by invoice, including those who are currently in promotional periods paid in part by vehicle manufacturers, as well as XM activated radios in vehicles for which we have a contractual right to receive payment for the use of our service. Radios that are revenue generating are counted individually as subscribers. Aftermarket subscribers consist primarily of subscribers who purchased their radio at retail outlets, distributors, or through XM's direct sales efforts. OEM subscribers are self-paying subscribers whose XM radio was installed by an OEM and are not currently in OEM promotional programs. OEM promotional subscribers are subscribers who receive a fixed period of XM service where XM receives revenue from the OEM for the trial period following the initial purchase or lease of the vehicle. In situations where XM receives no revenue from the OEM during the trial period, the subscriber is not included in XM's subscriber count. Currently, at the time of sale, vehicle owners generally receive a three month prepaid trial subscription. Promotional periods generally include the period of trial service plus 30 days to handle the receipt and processing of payments. The automated activation program provides activated XM radios on dealer lots for test drives but XM does not include these vehicles in their subscriber count. XM's OEM partners generally indicate the inclusion of three months free of XM service on the window sticker of XM-enabled vehicles. XM, historically and including the 2006 model year, receives a negotiated rate for providing audio service to rental car companies. Beginning with the 2007 model year, XM has entered into marketing arrangements with rental car companies which govern the rate which XM receives for providing audio service. Data services subscribers are those subscribers that are receiving services that include stand-alone XM WX Satellite Weather service, stand-alone XM Radio Online service and stand-alone NavTraffic service. Stand-alone XM WX Satellite Weather service packages range in price from $29.99 to $99.99 per month. Stand-alone XM Radio Online service is $7.99 per month. Stand-alone NavTraffic service is $9.95 per month.

Subscribers are the primary source of our revenues. We target the over 240 million registered vehicles and over 110 million households in the United States. As of December 31, 2006, we had over 7.6 million subscribers, which includes 7,068,024 self-paying subscribers, 555,094 subscribers in OEM promotion periods (typically ranging from three months to one year in duration) paid in part by the vehicle manufacturers and 5,434 paying XM activated vehicles with rental car companies. The rate of growth of our aftermarket subscriber base fluctuates with our promotional activities as well as the impact of seasonality. OEM subscriber growth is driven primarily by the number of XM-enabled vehicles manufactured and with OEM promotional activity.

OEM Promotional Subscribers — OEM promotional subscribers are subscribers who receive a fixed period of XM service where XM receives revenue from the OEM for the trial period following the initial purchase or lease of the vehicle. In situations where XM receives no revenue from the OEM during the trial period, the subscriber is not included in XM's subscriber count. Currently, at the time of sale, vehicle owners generally receive a three month prepaid trial subscription. Promotional periods generally include the period of trial service plus 30 days to handle the receipt and processing of payments. We measure the success of these promotional programs included in our OEM promotional subscriber count based on the percentage of promotional subscribers that elect to receive the XM service and convert to self-paying subscribers after the initial promotion period. We refer to this as the "conversion rate." We measure conversion rate three months after the period in which the trial service ends. Based on our experience it may take up to 90 days after the trial service ends for subscribers to respond to our marketing communications and become self-paying subscribers. As of December 31, 2006, XM was available on over 140 vehicle models, with over 50 of those as standard equipment and over 100 of those offered as OEM factory-installed options. At December 31, 2006, XM's OEM partners represented approximately 60% of the U.S. auto market.

- *Twelve Months Ended: December 31, 2006 vs. December 31, 2005.* Gross subscriber additions for 2006 were 3,866,481 compared to 4,130,437 for 2005. Net subscriber additions for 2006 were 1,695,595 compared to 2,703,833 for 2005. The churn rate increased to 1.77% from 1.46%.

Retail Subscribers — Gross retail subscriber additions for 2006 were 1,781,085 compared to 2,214,063 for 2005. Gross additions were negatively impacted by a reduction in product availability as a result of actions taken to bring XM devices into compliance with applicable FCC emission limits (see " *Legal Proceedings* " in Item 3. to Part I of this Form 10-K), a general weakening demand for satellite radio and competitive pressures. Net retail subscriber additions for 2006 were 811,661 compared to 1,723,006 for 2005. We attribute the decrease in net retail subscriber additions to churn on a larger subscriber base, a higher churn rate and fewer gross retail subscriber additions. We partially attribute the increase in the churn rate to the termination of our previous customer service provider and transition to a new customer service provider.

OEM Subscribers — Gross OEM subscriber additions for 2006 were 2,085,396 compared to 1,916,374 for 2005. Net OEM subscriber additions for the 2006 were 883,934 compared to 980,827 for 2005. We attribute the decrease in net OEM subscriber additions primarily to churn on a larger subscriber base and a higher churn rate. We partially attribute the increase in the churn rate to the termination of our previous customer service provider and transition to

Average Monthly Subscription Revenue Per Subscriber ("ARPU") — Average monthly subscription revenue per subscriber is derived from the total of earned subscription revenue (net of promotions and rebates) divided by the monthly weighted average number of subscribers for the period reported. Average monthly revenue per subscriber is a measure of operational performance and not a measure of financial performance under United

States generally accepted accounting principles. Average monthly subscription revenue per subscriber will fluctuate based on promotions, changes in our rates, as well as the adoption rate of annual and multi-year prepayment plans, multi-radio discount plans (such as the family plan) and premium services.

- *Twelve Months Ended: December 31, 2006 vs. December 31, 2005.* ARPU increased as a result of the addition of new subscribers at the new rates as well as the effect of the transition of existing subscribers to the new rates. The increase in the monthly subscription price became effective for all billing cycles on or after April 2, 2005, and therefore, was being implemented over time. The effect of the April 2005 basic plan rate increase was diluted partially by an increase in the percentage of subscribers on discount plans (annual, multi-year and family) as well as the revenue impact of certain marketing campaigns, which costs are treated as a reduction to revenue. The percentage of subscribers at December 31, 2006 on 'annual and multi-year plans' and family plans increased to 44.2% and 22.5% from 42.4% and 19.0%, respectively, compared to December 31, 2005.

- *Twelve Months Ended: December 31, 2005 vs. December 31, 2004.* ARPU increased as a result of the addition of new subscribers at the new rates as well as the transition of existing subscribers to the new rate. The increase in the monthly subscription price is effective for all billing cycles on or after April 2, 2005, and therefore, will be implemented over time. The percentage of subscribers at December 31, 2005 on 'annual and multi-year plans' and family plans increased to 42.4% and 19.0% from 23.9% and 11.6%, respectively, compared to December 31, 2004.

Revenue Share & Royalties — Revenue share & royalties includes performance rights obligations to composers, artists, and copyright owners for public performances of their creative works broadcast on XM, and royalties paid to radio technology providers and revenue share expenses associated with manufacturing and distribution partners and content providers. These costs are driven primarily by the growth in our subscriber revenue and net ad sales and subscriber base and to a lesser extent other contracts with various partners. We expect these costs to continue to increase with the growth in subscription and net ad sales revenue and the growth in overall subscribers; but may fluctuate throughout the year based on new agreements, the renegotiation of existing contracts and the resolution of the pending CRB proceeding.

- *Twelve Months Ended: December 31, 2006 vs. December 31, 2005.* These costs increased $55.1 million or 59%, and have increased on an average cost per subscriber basis, while decreasing as a percentage of total revenue during 2006 as compared to 2005. The dollar increase was primarily driven by an increase in shared revenue with distribution partners and increase in royalties due to increased subscription and net ad sales revenue and increased subscribers.

- *Twelve Months Ended: December 31, 2005 vs. December 31, 2004.* These costs increased $43.2 million or 85%, but have decreased as a percentage of total revenue and on an average cost per subscriber basis during 2005 as compared to 2004. This dollar increase was primarily driven by an increase in shared revenue with distribution partners due to increased subscribers and revenue. Additionally, royalties increased due to increased subscription and net ad sales revenue, and increased subscribers.

Customer Care & Billing Operations — Customer care & billing operations includes expenses from customer care functions as well as internal information technology costs associated with subscriber management applications. These costs are primarily driven by the growth of our subscriber base. We expect these costs to continue to increase in total dollars as well as on a per subscriber basis as we add subscribers and continue to drive improvements in service levels.

- *Twelve Months Ended: December 31, 2006 vs. December 31, 2005.* These costs increased $28.6 million or 38%, but have decreased as a percentage of total revenue and on an average cost per subscriber basis during 2006 as compared to 2005. The increase was driven primarily by our subscriber growth and resulted in increased support costs, bad debt expense and credit card processing fees and to a lesser extent, a change in customer service providers for which we incurred certain termination and transition costs.

- *Twelve Months Ended: December 31, 2005 vs. December 31, 2004.* These expenses increased $35.3 million or 86%, but have decreased as a percentage of total revenue and on an average cost per subscriber basis during 2005 as compared to 2004. The increase was driven by our subscriber growth and resulted in increased costs associated with customer care functions, credit card processing fees, bad debt expense and internal information technology.

- *Twelve Months Ended: December 31, 2006 vs. December 31, 2005.* Other revenue increased $27.2 million or 373% during 2006 as compared to 2005. This growth was primarily driven by a $15.8 million increase related to the various agreements with XM Canada and $4.4 million in content licensing fees. For a further discussion of our agreements with XM Canada, see Note 7 under the heading " *Equity Method Investment* ," of the Notes to the Consolidated Financial Statements in Item 8. of this Form 10-K.

- *Twelve Months Ended: December 31, 2005 vs. December 31, 2004.* Other revenue increased $3.9 million or 114% during 2005 as compared to 2004.

Non-variable Cost of Revenue

Satellite & Terrestrial — Satellite & terrestrial includes costs related to: telemetry, tracking and control of our satellites, in-orbit satellite insurance and incentive payments, satellite uplink, and all costs associated with operating our terrestrial repeater network such as power, maintenance and operating lease payments. We expect these costs to continue to increase, but by lesser amounts, due to the launch and operation of our fourth satellite as well as any expansion of our terrestrial repeater network. However, we expect that these costs will remain relatively flat as a percentage of total revenue and on an average cost per subscriber basis in 2007.

- *Twelve Months Ended: December 31, 2006 vs. December 31, 2005.* These costs increased $6.7 million or 16%, but have decreased as a percentage of total revenue and on an average cost per subscriber basis during 2006 as compared to 2005. This dollar increase was primarily the result of an increase in in-orbit satellite insurance expense, operating costs, and performance incentives related to XM-3, which was launched in February 2005, as well as such expenses related to XM-4, which was launched in October 2006. In addition, we recognized $2.6 million in Satellite & terrestrial expense for stock-based compensation pursuant to the adoption of SFAS 123R effective January 1, 2006.

- *Twelve Months Ended: December 31, 2005 vs. December 31, 2004.* These costs increased $6.4 million or 18%, but have decreased as a percentage of total revenue and on an average cost per subscriber basis during 2005 as compared to 2004. This dollar increase was primarily the result of an increase in in-orbit satellite insurance expense and performance incentives related to XM-3, which was launched in the first quarter of 2005.

Broadcast & Operations — Broadcast and operations include costs associated with the management and maintenance of systems and facilities as well as information technology expense. Broadcast expenses include costs associated with the management and maintenance of the systems, software, hardware, production and performance studios used in the creation and distribution of XM-original and third party content via satellite broadcast, web, wireless and other new distribution platforms. The advertising trafficking (scheduling and insertion) functions are also included. We expect these costs to continue to increase, but by lesser amounts, as we continue to enhance our lineup and expand to new distribution platforms. However, we expect that these costs will remain relatively flat on an average cost per subscriber basis in 2007. Operations expense includes facilities and information technology expense.

- *Twelve Months Ended: December 31, 2006 vs. December 31, 2005.* These costs increased $16.7 million or 41%, but have remained relatively flat as a percentage of revenue and on an average cost per subscriber basis during 2006 as compared to 2005. This dollar increase in Broadcast expenses was driven by $3.8 million in increased costs associated with new content initiatives and enhancements to and maintenance of the broadcast systems infrastructure. Operations expenses increased $7.9 million mainly due to an increase in the general operating costs associated with expanded facilities and accompanying infrastructure. In addition, we recognized $2.9 million and $2.4 million in Broadcast expense and Operations expense, respectively, for stock-based compensation pursuant to the adoption of SFAS 123R effective January 1, 2006.

- *Twelve Months Ended: December 31, 2005 vs. December 31, 2004.* These costs increased $17.0 million or 71%, but have decreased as a percentage of total revenue and on an average cost per subscriber basis during 2005 as compared to 2004. This dollar increase in Broadcast expenses was driven by $5.5 million in increased costs associated with enhancements to and maintenance of the broadcast systems infrastructure. Operations expenses increased $11.2 million mainly due to an increase in the general operating costs associated with the newly expanded corporate facility and accompanying infrastructure.

Programming & Content — Programming & content includes the creative, production and licensing costs associated with our over 170 channels of XM-original and third party content. We view Programming & content expenses as a cost of attracting and retaining subscribers. Programming & content includes staffing costs and fixed payments for third party

Subsidies & Distribution — These direct costs include the subsidization of radios manufactured, commissions for the sale and activation of radios and certain promotional costs. These costs are primarily driven by the volume of XM-enabled vehicles manufactured, the sales and activations of radios through our retail channel as well as promotional activity associated with the sale of XM radios. We expect these costs to increase during 2007 as we add gross subscribers, but may fluctuate throughout the year, with changes in the volume of the manufacture, sale and activation of radios, which historically has been significant during the fourth quarter.

- *Twelve Months Ended: December 31, 2006 vs. December 31, 2005.* These costs decreased $23.1 million or 9%, and have decreased as a percentage of total revenue to 26% from 47% and on an average cost per subscriber basis during 2006 as compared to 2005. This dollar decrease was driven primarily by a reduction in the number of retail radios sold and activated.
- *Twelve Months Ended: December 31, 2005 vs. December 31, 2004.* These costs increased $99.0 million or 60%, but have decreased as a percentage of total revenue to 47% from 68% and on an average cost per subscriber basis during 2005 as compared to 2004. This dollar increase was driven primarily by the 60% increase in gross subscribers.

Subscriber Acquisition Costs — Subscriber acquisition costs include Subsidies & distribution (excluding on-going loyalty payments to distribution partners) and the negative gross profit on merchandise revenue. Subscriber acquisition costs are divided by the appropriate gross additions or units manufactured to calculate what we refer to as "SAC."

Effective for the three months ended March 31, 2007, we will revise our current definition of SAC to allow for the direct calculation of this metric using certain line items from our Results of Operations and Key Metrics tables in Item 7. of this Form 10-K. We will reclassify amounts from Subsidies and distribution to Advertising and marketing related to on-going loyalty payments. The revised calculation will be as follows: Subsidies & distribution plus Cost of merchandise less Merchandise revenue, divided by gross subscriber additions. In future filings, we will show the calculation of SAC for comparative periods, as well as the previously reported amount.

- *Twelve Months Ended: December 31, 2006 vs. December 31, 2005.* During 2006 and 2005, we incurred subscriber acquisition costs of $251.9 million and $266.9 million, respectively. SAC for 2006 and 2005 remained unchanged at $64.
- *Twelve Months Ended: December 31, 2005 vs. December 31, 2004.* During 2005 and 2004, we incurred subscriber acquisition costs of $266.9 million and $157.5 million, respectively. SAC for 2005 and 2004 was $64 and $62, respectively. The increase in SAC is primarily the result of the increase in negative margins on direct hardware sales, subsidies and promotions during the fourth quarter of 2005 as a result of our response to control retail hardware price points to compete with the launch of Howard Stern by our competitor, as well as the mix of radios sold and distribution channels during the quarter.

Advertising & Marketing — Advertising & marketing includes advertising, media and other discretionary marketing expenses. These activities drive our sales, establish our brand recognition, and facilitate our growth. We achieve success in these areas through coordinated marketing campaigns that include retail advertising through various media, cooperative advertising with our retail and OEM partners, sponsorships and ongoing market research. We expect these costs to increase during 2007 due to increased spending on consumer media advertising, but may fluctuate throughout the year, based on the timing of these activities, which historically has been significant during the fourth quarter.

- *Twelve Months Ended: December 31, 2006 vs. December 31, 2005.* These costs decreased $15.7 million or 10%, and have decreased as a percentage of total revenue to 16% from 29% and on an average cost per subscriber basis during 2006 as compared to 2005. This dollar decrease was primarily driven by a decrease in media spending during 2006 as compared to the 2005, which included a substantial increase to counter competitive pressures.
- *Twelve Months Ended: December 31, 2005 vs. December 31, 2004.* These costs increased $75.2 million or 85%, but have decreased as a percentage of total revenue to 29% from 36% and on an average cost per subscriber basis during 2005 as compared to 2004. This dollar increase was primarily driven by competitive pressures which resulted in increased spending in retail media expenses and a broadening of our presence, particularly during the 4th quarter of 2005, in radio, television, print, Internet, stores, and malls.

Cost Per Gross Addition ("CPGA") — CPGA costs include the amounts in SAC, as well as Advertising & marketing and on-going loyalty payments to distribution partners. CPGA costs do not include marketing staff

was primarily the result of $16.5 million increase in de-leveraging related costs recognized as Interest expense. During 2006, we recorded de-leveraging charges of $122.2 million to retire debt with carrying values, including accrued interest, of $568.2 million. During 2006, we recognized impairment losses on our investments in WorldSpace, Inc. ("WSI") and XM Canada and recorded our proportional share of XM Canada's results. We reduced the carrying values of our investments in WSI and XM Canada, during 2006, due to decreases in fair values that were considered to be other than temporary and recorded impairment charges of $18.9 million and $57.6 million, respectively. During the fourth quarter of 2005, we began recognizing our 23.33% proportional share of XM Canada's results, which for 2006, resulted in the recognition of a $23.2 million net loss.

- *Twelve Months Ended: December 31, 2005 vs. December 31, 2004.* Interest expense increased $22.0 million, which was offset by a $17.3 million increase in Interest income and a $49.1 million decrease in de-leveraging charges. The increase in Interest expense during 2005 was primarily the result of $7.3 million increase in de-leveraging related costs recognized as Interest expense in 2005, $7.7 million reduction in interest costs capitalized in 2005, and the increase in Interest expense associated with the $400 million 1.75% convertible senior notes due 2009 aggregate issuance in November 2004 and January 2005. The increase in Interest income was primarily attributable to higher average balances of cash and cash equivalents during 2005. During 2005, we recorded de-leveraging charges of $27.6 million to retire debt with carrying values including accrued interest of $80.0 million.

Adjusted EBITDA

Adjusted EBITDA — Net loss before interest income, interest expense, income taxes, depreciation and amortization is commonly referred to in our business as "EBITDA." Adjusted EBITDA is defined as EBITDA excluding loss from de-leveraging transactions, loss from impairment of investments, equity in net loss of affiliate, other income (expense) and stock-based compensation. We believe that Adjusted EBITDA provides a better measure of our core business operating results and improves comparability. This non-GAAP measure should be used in addition to, but not as a substitute for, the analysis provided in the statement of operations. We believe Adjusted EBITDA is a useful measure of our operating performance. Adjusted EBITDA is a significant basis used by management to measure our success in acquiring, retaining and servicing subscribers because we believe this measure provides insight into our ability to grow revenues in a cost-effective manner. Adjusted EBITDA is a calculation used as a basis for investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performances and value of similar companies in our industry.

Because we have funded the build-out of our system through the raising and expenditure of large amounts of capital, our results of operations reflect significant charges for depreciation, amortization and interest expense. We believe Adjusted EBITDA provides helpful information about the operating performance of our business, apart from the expenses associated with our physical plant or capital structure. We believe it is appropriate to exclude depreciation, amortization and interest expense due to the variability of the timing of capital expenditures, estimated useful lives and fluctuation in interest rates. We exclude income taxes due to our tax losses and timing differences, certain periods will reflect a tax benefit, while others an expense, in which neither are reflective of our operating results. Because of the variety of equity awards used by companies, the varying methodologies for determining stock-based compensation expense and the subjective assumptions involved in those determinations, we believe excluding stock-based compensation expense enhances the ability of management and investors to compare our core operating results with those similar companies in our industry.

Equity in net loss of affiliate represents our share of losses in an affiliate in which we exercise significant influence, but do not control. Management believes it is appropriate to exclude this loss when evaluating the performance of our core business operations. Additionally, we exclude loss from de-leveraging transactions, loss from impairment of investments and other income (expense) because these items represent activity outside of our core business operations.

There are limitations associated with the use of Adjusted EBITDA in evaluating our company compared with net loss, which reflects overall financial performance. These limitations include the inclusion of (1) interest income, (2) interest expense, (3) income taxes, (4) depreciation and amortization, (5) loss from de-leveraging transactions, (6) loss from impairment of investments, (7) equity in net loss of affiliate, (8) other income (expense) and (9) stock-based compensation in the computation of net loss. Users that wish to compare and evaluate our company based on our net loss should refer to our Consolidated Statements of Operations. Adjusted EBITDA does not purport to represent operating loss or cash flow from operating activities, as those terms are defined under United States generally accepted accounting principles, and should not be considered as an alternative to those measurements as an indicator of our performance. In addition, our measure of Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Adjusted EBITDA loss is continuing to decrease as a percentage of total revenue and on an average per subscriber basis.

Operating Activities — Operating activities primarily consist of net loss adjusted for certain non-cash items including depreciation, amortization, accretion of interest, net non-cash loss on conversion of notes, non-cash loss on equity-based investments, stock-based compensation and the effect of changes in working capital.

- During 2006, net cash used in operating activities was $462.1 million, consisting of a net loss of $718.9 million adjusted for net non-cash expenses of $505.6 million, $4.5 million gain on sale of fixed assets and $244.3 million used in working capital as well as other operating activities. Included in cash used in working capital is a $102.2 million decrease in Accounts payable, accrued expenses and other liabilities due primarily to the effort to reduce our previous year's balance to more normative levels, a $206.6 million increase in Prepaid and other assets due primarily to the $237 million prepayment of our liability to GM and a $37.5 million increase in Accounts receivable; partially offset by a $66.6 million increase in Subscriber deferred revenue, as a result of subscribers signing up for discounted annual and multi-year pre-payment plans and a $37.6 million decrease in Prepaid programming content.

- During 2005, net cash used in operating activities was $166.7 million, consisting of a net loss of $666.7 million adjusted for net non-cash expenses of $266.3 million and $233.7 million provided by working capital as well as other operating activities. Included in cash provided by working capital is a $208.3 million increase in Subscriber deferred revenue, as a result of subscribers signing up for discounted annual and multi-year pre-payment plans, $125.8 million increase in current trade liabilities and accruals due to the expansion of general business operations, partially offset by a $101.3 million increase in Prepaid and other assets primarily for programming during 2005.

- During 2004, net cash used in operating activities was $75.2 million, consisting of a net loss of $642.4 million adjusted for net non-cash expenses of $328.3 million and $238.9 million provided by working capital as well as other operating activities. Included in cash provided by working capital are a $98.5 million increase in Subscriber deferred revenue and an $82.8 million increase in amounts Due to related parties.

Investing Activities — Investing activities primarily consist of capital expenditures and proceeds from the sale of equipment.

- During 2006, net cash used in investing activities was $264.4 million, primarily consisting of $275.0 million in capital expenditures for the construction of XM-4, computer systems infrastructure and building improvements, offset by $7.2 million in proceeds received from the sale of terrestrial repeaters to XM Canada and $3.4 million in proceeds received from the maturity of restricted investments.

- During 2005, cash used in investing activities was $206.1 million, primarily consisting of $179.8 million in capital expenditures and $25.3 million used to purchase an equity investment. Capital expenditures consisted primarily of expenditures for the construction and launch of XM-3 and the construction and launch of XM-4, computer systems infrastructure and broadcast facilities, and the construction of the backup uplink facility during 2005.

- During 2004, net cash used in investing activities was $36.3 million, primarily consisting of $169.9 million of capital expenditures, offset partially by $133.9 million of the satellite insurance settlement discussed below.

July 2004 Satellite Insurance Settlement — In July 2004, the Company reached agreement with insurers covering 80% of the aggregate sum insured at a settlement equal to 44.5% of the proportionate amount covered by each of these insurers, representing a total settlement of $142 million. The total settlement included $133.9 million in cash claim receipts and $8.4 million cash and non-cash adjustments. For a further discussion, see Note 17 of the Notes to the Consolidated Financial Statements in Item 8. of this Form 10-K.

Financing Activities — Financing activities primarily consist of proceeds from debt and equity financings, issuance of common stock pursuant to stock option exercises, and repayments of debt.

- During 2006, net cash provided by financing activities was $233.8 million; primarily consisting of $600.0 million provided by the issuance of unsecured 9.75% Senior Notes due 2014, $200.0 million provided by the issuance of unsecured Senior Floating Rate Notes due 2013 and $6.4 million in proceeds from the exercise of warrants and stock options; offset primarily by the repayment of $186.5 million of 14% Senior Secured Discount Notes due 2009, $100.0 million of 12% Senior Secured Notes due 2010 and $200.0 million of Senior Secured Floating Rate Notes due 2009, as well as $27.4 million in premiums associated with the above-mentioned retired debt. In addition to the debt repayment, all shares of Series B preferred stock were redeemed for $24.0 million and $21.5 million of deferred financing costs were paid in conjunction with the new debt issuances.

- During 2005, net cash provided by financing activities was $366.0 million, primarily consisting of net proceeds of $300.0 million provided by the issuance of approximately 9.7 million shares of Class A common stock, $100.0

Contractual Obligations and Commercial Commitments — We are obligated to make significant payments under a variety of contracts and other commercial arrangements, including the following:

- *Lease obligations* — We have noncancelable operating leases for terrestrial repeater sites, office space, and software and noncancelable capital leases for equipment that expire over the next fifteen years. For a further discussion of leases, see Notes 17 and 20 of the Notes to the Consolidated Financial Statements in Item 8. of this Form 10-K.

- *Customer Service Providers* — We have entered into agreements with service providers for customer care functions to subscribers of our service. Employees of these service providers have access to our customer care systems to establish customer accounts, activate radios, update program and account information and respond to general inquiries from subscribers. We pay an hourly rate for each customer care representative supporting our subscribers. During the years ended December 31, 2006, 2005 and 2004, we incurred $50.7 million, $29.7 million, and $21.5 million, respectively, in relation to services provided for customer care functions.

- *Programming Agreements* — We have also entered into various long-term programming agreements. Under the terms of these agreements, we are obligated to provide payments to other entities that may include fixed payments, advertising commitments and revenue sharing arrangements. During the years ended December 31, 2006, 2005 and 2004, we incurred expenses of $158.0 million, $90.8 million and $26.5 million, respectively, in relation to these agreements. The amount of these costs will vary in future years, but is expected to increase next year as the full year impact of new 2006 contracts are recognized and as new contracts are added in 2007. The amount of future costs related to these agreements cannot be estimated, but are expected to be substantial. Of these amounts, $16.1 million, $5.6 million and $1.5 million, are included in Revenue Share & Royalties, and $17.5 million, $10.2 million, and $10.2 million, are included in Advertising & Marketing during the years ended December 31, 2006, 2005 and 2004, respectively.

- Major League Baseball® — The Company has a multi-year agreement with Major League Baseball® to broadcast MLB games live nationwide and those payments are included in the above disclosure of our commitments. The Company paid $50 million for the 2005 season, $60 million (which included $10 million paid in October 2004) for the 2006 season and will pay $60 million per year thereafter through 2012. MLB has the option to extend the agreement for the 2013, 2014 and 2015 seasons at the same $60 million annual compensation rate. The Company will also make incentive payments to MLB for XM subscribers obtained through MLB and baseball club verifiable promotional programs. No stock or warrants were included in this agreement. The agreement requires the Company to deposit $120 million into escrow or furnish other credit support in such amount. In July 2006, the Company furnished a $120 million surety bond to MLB as part of an amendment to the agreement with MLB that permitted the Company to provide various types of credit support in lieu of its $120 million escrow deposit requirement.

- *Royalty Agreements* — We have entered into fixed and variable revenue share payment agreements with performance rights organizations that generally expire at the end of 2006. During the years ended December 31, 2006, 2005 and 2004, we incurred expenses of $37.5 million, $22.0 million and $13.7 million, respectively, in relation to these agreements. For a further discussion of license fees for music rights, see above under the heading "*Risk Factors — We must maintain and pay license fees for music rights, and we may have disputes with copyright holders*".

- *Marketing & Distribution Agreements* — We have entered into various joint sales, marketing and distribution agreements. Under the terms of these agreements, we are obligated to provide incentives, subsidies and commissions to other entities that may include fixed payments, per-unit radio and subscriber amounts and revenue sharing arrangements. We subsidize the manufacture of certain component parts of XM radios in order to provide attractive pricing to our customers. The subsidies are generally charged to expense when the radios are activated with XM service. The amount of these operational, promotional, subscriber acquisition, joint development, and manufacturing costs related to these agreements cannot be estimated, but are expected to be substantial future costs. During the years ended December 31, 2006, 2005 and 2004, we incurred expenses of $176.4 million, $198.8 million and $94.5 million, respectively, in relation to these agreements, excluding expenses related to GM.

- *General Motors Distribution Agreement* — We have a long-term distribution agreement with General Motors. The agreement had been assigned by GM to its subsidiary OnStar, but was assigned back to GM in June 2006. During the term of the agreement, which expires twelve years from the commencement date of our commercial operations in 2001, GM has agreed to distribute the service to the exclusion of other S-band satellite digital radio services. The agreement was amended in June 2002 and January 2003 to clarify certain terms in the agreement, including extending the dates when certain initial payments were due to GM and confirming the date of our commencement of commercial operations, and to provide that we could make certain payments to GM in shares of our Class A

The following table represents our cash contractual obligations as of December 31, 2006:

	Payments Due by Period						
(in thousands)	2007	2008	2009	2010	2011	2012 and Beyond	Total
Long-term debt(1) (2)	$ 14,487	$ 11,505	$ 438,554	$ 3,539	$ 8,097	$ 829,655	$ 1,305,837
Major League Baseball® agreement(3)	60,000	60,000	60,000	60,000	60,000	60,000	360,000
Satellites(4)	115,189	40,712	—	—	—	—	155,901
Other operating agreements(5)	101,707	94,443	68,545	38,285	35,250	71,333	409,563
Operating lease obligations	18,614	16,507	16,427	13,618	3,622	4,512	73,300
Total	$ 309,997	$ 223,167	$ 583,526	$ 115,442	$ 106,969	$ 965,500	$ 2,304,601

(1) The above amounts do not include interest, which in some cases is variable in amount.
(2) The above amounts do not include the effects of our sale-leaseback transaction, consummated in February 2007, as further discussed in Note 20 of the Notes to the Consolidated Financial Statements in Item 8. of this Form 10-K.
(3) Excludes up to $180 million payable in the event Major League Baseball® ("MLB") exercises its option to extend the Agreement by up to three additional years.
(4) Excludes financing charges, in-orbit incentives and launch insurance.
(5) Other operating agreements include programming, marketing and royalty agreements.

The long-term debt payments due in 2009 include the maturity of our $400.0 million aggregate principal amount at maturity of 1.75% Convertible Senior Notes due 2009. The long-term debt payments due in 2011 include the maturity of our remaining outstanding $6.0 million of mortgage loan to finance the purchase of our headquarters data center. The long-term debt payments due in 2012 and beyond include the maturity of our $600.0 million aggregate principal amount at maturity of 9.75% Senior Notes due 2014, the maturity of our $200.0 million aggregate principal amount at maturity of Senior Floating Notes due 2013 and the remaining outstanding $29.7 million of mortgage loan to finance the purchase of our headquarters facility.

Related Party Transactions

For a discussion of related party transactions, see Note 14 of the Notes to the Consolidated Financial Statements in Item 8. of this Form 10-K.

Critical Accounting Estimates

The Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Critical accounting estimates are those estimates and assumptions that may be material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change. Senior management has discussed with the audit committee of the board of directors the development and selection of estimates and assumptions for the following:

- *Useful Life of Satellites and Spacecraft Control Facilities* — Following the launches of XM-1 and XM-2, we extended their expected useful lives from the initial design life 15 years to 17.5 years based upon updated technical estimates from our satellite provider. Subsequently, based on degradation trends, we adjusted the estimated useful life of XM-1 and XM-2 down through the first quarter of 2008 or to approximately 6.75 years from launch. We continue to monitor the situation and may need to re-adjust the estimated useful lives of XM-1 and XM-2 based on future information. Prior to the completion of its construction, XM-3 was modified to correct the solar array degradation issues experienced by XM-1 and XM-2, was launched in February 2005, and is being depreciated over a useful life of 15 years. On February 13, 2007, the Company entered into a sale-leaseback transaction with respect to the transponders on the XM-4 satellite, which was launched in October 2006 and placed into service during December 2006. At December 31, 2006, the combined carrying value of XM-1, XM-2, XM-3 and XM-4 is $549.8 million. We are not recording an impairment at this time, due to our forecasted cash flows (which are sufficient to recover the system assets); however, should we reduce or not meet our forecasted cash flows or reduce further the estimated useful lives of the satellites, we may be required to record an impairment (which may be substantial) at that time. Impairment, if any, would be calculated as the amount by which the carrying value of the assets exceeds

the fair value of the assets. We have not adjusted the estimated useful lives of our spacecraft control facilities, as we believe that these facilities will continue to be used in our XM system. A significant decrease in the estimated useful life of our satellites and spacecraft control facilities could have a material adverse impact on our operating results in the period in which the estimate is revised and in subsequent periods.

- *DARS License* — We determined that our DARS license was an intangible asset having an indefinite useful life. While the DARS license has a renewable eight-year term, we believe that the administrative fees necessary to renew the license are expected to be de minimis compared to the initial fee to obtain the license, and we have met all of the established milestones specified in the DARS license agreement. We also anticipate no difficulties in renewing the license as long as we continue to adhere to the various regulatory requirements established in the license grant. Although we face competition from a variety of sources, we do not believe that the risk of the technology becoming obsolete or that a decrease in demand for the DARS service is significant. Further, we believe that our license is comparable with the licenses granted to other broadcasters, which are also classified as indefinite lived intangible assets. We understand that there continues to be deliberations concerning the application of this standard regarding the effect of the costs to renew FCC licenses. Our application of this standard could change depending upon the results of these deliberations.

- *Rebates* — We estimate and record reserves related to various promotional activities that include rebates to retailer and end-users related to XM radios and accessories. An incentive given to a retailer or end-user related to the sale of an XM radio or accessory for which there is no direct revenue to XM or contingency attached to subscribe to our service is accounted for as an expense. Our reserves for retailer and end-user rebates are estimated based on the terms and conditions of the promotional programs, actual sales during the promotion, amount of actual redemptions received, historical redemption trends by product and by type of promotional program, and the value of the rebate. We also consider current market conditions and economic trends when estimating our reserves for rebates. If we made different estimates, material differences may result in the amount and timing of our expenses for any period presented.

Recent Accounting Pronouncements

For a discussion of recently issued accounting pronouncements, see Note 2 of the Notes to the Consolidated Financial Statements in Item 8. of this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Fair Value of Financial Instruments — The carrying value of the following financial instruments approximates fair value because of their short maturities: cash and cash equivalents, accounts receivable, due from related parties, accounts payable, accrued expenses, accrued satellite liability, due to related parties and restricted investments.

The estimated fair value of our long-term debt is determined by discounting the future cash flows of each instrument at rates currently offered to the Company for similar debt instruments of comparable maturities by the Company's bankers or quoted market prices at the reporting date for the traded debt securities. As of December 31, 2006, the carrying value of our long-term debt was $1,300 million, compared to an estimated fair value of $1,364 million. The estimated fair value of our long-term debt is not necessarily indicative of the amount which could be realized in a current market exchange.

Interest Rate Risk — At December 31, 2006, we had approximately $1,300 million of total debt, of which $1,100 million was fixed-rate debt and $200 million was variable-rate debt. Under our current policies, we do not use interest rate derivative instruments to manage our exposure to interest rate fluctuations. An increase of 100 basis points in the interest rate applicable to the $200 million of variable-rate debt at December 31, 2006 would result in an increase of approximately $2 million in our annual interest expense. We believe that our exposure to interest rate risk is not material to our results of operations.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements of XM Satellite Radio Holdings Inc., including Consolidated Balance Sheets as of December 31, 2006 and 2005, and Consolidated Statements of Operations, Consolidated Statements of Stockholders' Equity (Deficit) and Consolidated Statements of Cash Flows for the three-year period ended December 31, 2006 and Notes to the Consolidated Financial Statements, and Consolidated Financial Statement Schedule together with reports thereon of KPMG LLP, dated March 1, 2007, are attached hereto as pages F-1 through F-59.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information is incorporated herein by reference to our definitive 2007 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information is incorporated herein by reference to our definitive 2007 Proxy Statement.

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

The information is incorporated herein by reference to our definitive 2007 Proxy Statement.

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

The information is incorporated herein by reference to our definitive 2007 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information is incorporated herein by reference to our definitive 2007 Proxy Statement.

Statement on Form S-1, File No. 333-39176).

4.4 Form of Warrant (incorporated by reference to XM's Registration Statement on Form S-1, File No. 333-39176).

Exhibit No.	Description
10.1*	Third Amended and Restated Shareholders and Noteholders Agreement, dated as of June 16, 2003, by and among XM Satellite Radio Holdings Inc. and certain shareholders and noteholders named therein (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
10.2	Second Amended and Restated Registration Rights Agreement, dated as of January 28, 2003, by and among XM Satellite Radio Holdings Inc. and certain shareholders and noteholders named therein (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003).
10.3^*	Technology Licensing Agreement by and among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc., WorldSpace Management Corporation and American Mobile Satellite Corporation, dated as of January 1, 1998, amended by Amendment No. 1 to Technology Licensing Agreement, dated June 7, 1999.
10.4*	Second Amended and Restated Distribution Agreement, dated as of January 28, 2003, by and among XM Satellite Radio Holdings Inc., XM Satellite Radio Inc. and OnStar Corporation, a division of General Motors Corporation (incorporated by reference to XM's Current Report on Form 8-K filed on January 29, 2003).
10.5^	Form of Indemnification Agreement between XM Satellite Radio Holdings Inc. and each of its directors and executive officers.
10.6	1998 Shares Award Plan (incorporated by reference to XM's Registration Statement on Form S-8, File No. 333-106827).
10.7^	Form of Employee Non-Qualified Stock Option Agreement.
10.8	Employee Stock Purchase Plan (incorporated by reference to XM's Registration Statement on Form S-8, File No. 333-106827).
10.9^	Non-Qualified Stock Option Agreement between Gary Parsons and XM Satellite Radio Holdings Inc., dated July 16, 1999.
10.10^	Non-Qualified Stock Option Agreement between Hugh Panero and XM Satellite Radio Holdings Inc., dated July 1, 1998, as amended.
10.11^	Form of Director Non-Qualified Stock Option Agreement.
10.12*	Joint Development Agreement, dated February 16, 2000, between XM Satellite Radio Inc. and Sirius Satellite Radio Inc. (incorporated by reference to XM's quarterly report on Form 10-Q for the quarter ended March 31, 2000).
10.13	XM Satellite Radio Holdings Inc. Talent Option Plan (incorporated by reference to XM's Registration Statement on Form S-8, File No. 333-65022).
10.14	Assignment and Novation Agreement, dated as of December 5, 2001, between Holdings, XM Satellite Radio Inc. and Boeing Satellite Systems International Inc. (incorporated by reference to XM's Current Report on Form 8-K filed on December 6, 2001).
10.15*	Third Amended and Restated Satellite Purchase Contract for In-Orbit Delivery, dated as of May 15, 2001, between XM Satellite Radio Inc. and Boeing Satellite Systems International Inc. (incorporated by reference to Amendment No. 1 to XM's Registration Statement on Form S-3, File No. 333-89132).
10.16*	Amendment to the Satellite Purchase Contract for In-Orbit Delivery, dated as of December 5, 2001, between XM Satellite Radio Inc. and Boeing Satellite Systems International Inc. (incorporated by reference to Holdings' Current Report on Form 8-K filed on December 6, 2001).
10.17	Amended and Restated Note Purchase Agreement, dated as of June 16, 2003, by and among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc. and certain investors named therein (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
10.18	Amendment No. 1 to Note Purchase Agreement, dated as of January 28, 2003, by and among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc. and certain investors named therein (incorporated by reference to XM's Current Report on Form 8-K filed on January 29, 2003).

Exhibit No.	Description
10.37	Form of 2004 Non-Qualified Stock Option Agreement (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
10.38	Form of Restricted Stock Agreement for executive officers (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005).
10.39	Employment Agreement, dated as of July 20, 2006, between XM Satellite Radio Holdings Inc. and XM Satellite Radio Inc. and Nathaniel A. Davis. (incorporated by reference to XM's Current Report on Form 8-K filed July 24, 2006).
10.40	Indenture, dated as of May 1, 2006, by and among XM Satellite Radio Holdings Inc., XM Satellite Radio Inc. and The Bank of New York, as trustee, relating to the 9.75% Senior Notes due 2014 (incorporated by reference to XM's Current Report on Form 8-K filed May 5, 2006).
10.41	Indenture, dated as of May 1, 2006, by and among XM Satellite Radio Holdings Inc., XM Satellite Radio Inc. and The Bank of New York, as trustee, relating to the Senior Floating Rate Notes due 2013 (incorporated by reference to XM's Current Report on Form 8-K filed May 5, 2006).
10.42	Form of 9.75% Senior Note due 2014 (incorporated by reference to XM's Current Report on Form 8-K filed May 5, 2006).
10.43	Form of Senior Floating Rate Note due 2013 (incorporated by reference to XM's Current Report on Form 8-K filed May 5, 2006).
10.44	Second Amendment to Second Amended and Restated Distribution Agreement, dated as of April 19, 2006, by and among General Motors Corporation, OnStar Corporation, XM Satellite Radio Holdings Inc. and XM Satellite Radio Inc. (incorporated by reference to XM's Current Report on Form 8-K filed May 5, 2006.)
10.45	Third Amendment to Credit Agreement, dated as of April 19, 2006, by and among XM Satellite Radio Holdings Inc., XM Satellite Radio Inc., General Motors Corporation and OnStar Corporation (incorporated by reference to XM's Current Report on Form 8-K filed May 5, 2006.)
10.46	Credit Agreement, dated May 5, 2006, among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc., the lenders party thereto, JPMorgan Chase Bank, National Association, as Administrative Agent, Credit Suisse Securities (USA) LLC, as Syndication Agent, and Citigroup Global Markets Inc., as Documentation Agent (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006).
10.47	Lease Agreement, dated as of February 13, 2007, by and between Wells Fargo Bank Northwest, as Owner Trustee, and XM Satellite Radio Inc. (incorporated by reference to XM's Current Report on Form 8-K filed February 14, 2007).
10.48	Participation Agreement, dated as of February 13, 2007, among XM Satellite Radio Holdings Inc., XM Satellite Radio Inc., Satellite Leasing (702-4), LLC, as Owner Participant, Wells Fargo Bank Northwest, as Owner Trustee and Lessor, and The Bank of New York, as Indenture Trustee, and the note purchasers named therein (incorporated by reference to XM's Current Report on Form 8-K filed February 14, 2007).
10.49	Transponder Purchase Agreement, dated as of February 13, 2007, by and between XM Satellite Radio Holdings Inc. and Wells Fargo Bank Northwest in its capacity as Owner Trustee (incorporated by reference to XM's Current Report on Form 8-K filed February 14, 2007).
10.50	Guaranty, dated as of February 13, 2007, made by XM Satellite Radio Holdings Inc., XM Equipment Leasing LLC and XM Radio Inc. (incorporated by reference to XM's Current Report on Form 8-K filed February 14, 2007).
10.51	Indenture, dated as of February 13, 2007, between Wells Fargo Bank Northwest, as Owner Trustee, and The Bank of New York, as Indenture Trustee (incorporated by reference to XM's Current Report on Form 8-K filed February 14, 2007).
10.52	Form of 10% senior secured note (incorporated by reference to XM's Current Report on Form 8-K filed February 14, 2007).
10.53^*	Operational Assistance Agreement, dated as of June 7, 1999, between XM Satellite Radio Inc. and Clear Channel Communications, Inc.

SIGNATURES

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

XM SATELLITE RADIO HOLDINGS INC.
By:

/s/ HUGH PANERO

Hugh Panero

Chief Executive Officer

Date: March 1, 2007

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

Signature	Title	Date
/s/ HUGH PANERO **Hugh Panero**	Chief Executive Officer and Director (Principal Executive Officer)	March 1, 2007
/s/ JOSEPH J. EUTENEUER **Joseph J. Euteneuer**	Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	March 1, 2007
/s/ GARY M. PARSONS **Gary M. Parsons**	Chairman of the Board of Directors	March 1, 2007
/s/ NATHANIEL A. DAVIS **Nathaniel A. Davis**	President, Chief Operating Officer and Director	March 1, 2007
/s/ JOAN AMBLE **Joan Amble**	Director	March 1, 2007
/s/ THOMAS J. DONOHUE **Thomas J. Donohue**	Director	March 1, 2007
/s/ EDDY HARTENSTEIN **Eddy Hartenstein**	Director	March 1, 2007
/s/ CHESTER A. HUBER, JR. **Chester A. Huber, Jr.**	Director	March 1, 2007
/s/ JOHN MENDEL **John Mendel**	Director	March 1, 2007
/s/ JARL MOHN **Jarl Mohn**	Director	March 1, 2007
/s/ JACK SHAW **Jack Shaw**	Director	March 1, 2007
/s/ JEFFREY ZIENTS **Jeffrey Zients**	Director	March 1, 2007

SIGNATURES

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

XM SATELLITE RADIO INC.
By:

/s/ HUGH PANERO

Hugh Panero

Chief Executive Officer

Date: March 1, 2007

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

Signature	Title	Date
/s/ HUGH PANERO **Hugh Panero**	Chief Executive Officer and Director (Principal Executive Officer)	March 1, 2007
/s/ JOSEPH J. EUTENEUER **Joseph J. Euteneuer**	Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	March 1, 2007
/s/ GARY M. PARSONS **Gary M. Parsons**	Chairman of the Board of Directors	March 1, 2007
/s/ NATHANIEL A. DAVIS **Nathaniel A. Davis**	President, Chief Operating Officer and Director	March 1, 2007
/s/ JOAN AMBLE **Joan Amble**	Director	March 1, 2007
/s/ THOMAS J. DONOHUE **Thomas J. Donohue**	Director	March 1, 2007
/s/ EDDY HARTENSTEIN **Eddy Hartenstein**	Director	March 1, 2007
/s/ CHESTER A. HUBER, JR. **Chester A. Huber, Jr.**	Director	March 1, 2007
/s/ JOHN MENDEL **John Mendel**	Director	March 1, 2007
/s/ JARL MOHN **Jarl Mohn**	Director	March 1, 2007
/s/ JACK SHAW **Jack Shaw**	Director	March 1, 2007
/s/ JEFFREY ZIENTS **Jeffrey Zients**	Director	March 1, 2007

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

XM Satellite Radio Holdings Inc.:

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that XM Satellite Radio Holdings Inc. (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, cash flows and stockholders' equity (deficit) for each of the years in the three-year period ended December 31, 2006, and our report dated March 1, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

McLean, VA

March 1, 2007

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS — (Continued)

(in thousands, except share and per share data)	Years Ended December 31, 2006	2005	2004
Other income (expense):			
Interest income	21,664	23,586	6,239
Interest expense	(121,304)	(107,791)	(85,757)
Loss from de-leveraging transactions	(122,189)	(27,552)	(76,621)
Loss from impairment of investments	(76,572)	—	—
Equity in net loss of affiliate	(23,229)	(482)	—
Other income (expense)	5,842	3,389	2,129
Net loss before income taxes	(718,886)	(664,385)	(615,051)
Benefit from (provision for) deferred income taxes	14	(2,330)	(27,317)
Net loss	(718,872)	(666,715)	(642,368)
8.25% Series B and C preferred stock dividend requirement	(6,127)	(8,597)	(8,802)
8.25% Series B preferred stock retirement loss	(755)	—	—
8.25% Series C preferred stock retirement loss	(5,938)	—	—
Net loss attributable to common stockholders	$ (731,692)	$ (675,312)	$ (651,170)
Net loss per common share: basic and diluted	$ (2.70)	$ (3.07)	$ (3.30)
Weighted average shares used in computing net loss per common share — basic and diluted	270,586,682	219,620,468	197,317,607

(1) These captions include non-cash stock-based compensation expense as follows:

(in thousands)	Years Ended December 31, 2006	2005	2004
Customer care & billing operations	$ 1,338	$ 45	$ —
Ad sales	2,397	234	—
Satellite & terrestrial	2,649	287	—
Broadcast	2,880	240	—
Operations	2,425	96	—
Programming & content	10,878	840	554
Research & development	8,655	1,029	140
General & administrative	28,124	1,741	1,326
Retention & support	8,700	1,454	—
Total stock-based compensation	$ 68,046	$ 5,966	$ 2,020

See accompanying Notes to the Consolidated Financial Statements.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS — (Continued)

(in thousands, except share and per share data)	December 31, 2006	December 31, 2005
Commitments and contingencies		
Stockholders' equity (deficit):		
Series A convertible preferred stock, par value $0.01 (liquidation preference of $51,370 at December 31, 2006 and 2005); 15,000,000 shares authorized, 5,393,252 shares issued and outstanding at December 31, 2006 and 2005	54	54
Series B convertible redeemable preferred stock, par value $0.01 (liquidation preference of $0 and $23,714 at December 31, 2006 and 2005, respectively); 3,000,000 shares authorized, zero and 474,289 shares issued and outstanding at December 31, 2006 and 2005, respectively	—	5
Series C convertible redeemable preferred stock, par value $0.01 (liquidation preference of $0 and $114,514 at December 31, 2006 and 2005, respectively); 250,000 shares authorized, zero and 79,246 shares issued and outstanding at December 31, 2006 and 2005, respectively	—	1
Series D preferred stock, par value $0.01 (liquidation preference of $0 at December 31, 2006 and 2005); 250,000 shares authorized, no shares issued and outstanding at December 31, 2006 and 2005	—	—
Class A common stock, par value $0.01; 600,000,000 shares authorized, 305,781,515 shares and 240,701,988 shares issued and outstanding at December 31, 2006 and 2005, respectively	3,058	2,407
Class C common stock, par value $0.01; 15,000,000 shares authorized, no shares issued and outstanding at December 31, 2006 and 2005	—	—
Accumulated other comprehensive income, net of tax	3,590	5,985
Additional paid-in capital	3,093,894	2,852,100
Accumulated deficit	(3,498,476)	(2,779,604)
Total stockholders' equity (deficit)	(397,880)	80,948
Total liabilities and stockholders' equity (deficit)	$ 1,840,618	$ 2,223,661

See accompanying Notes to the Consolidated Financial Statements.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

(in thousands)	Years Ended December 31, 2006	2005	2004
Cash flows from financing activities:			
Proceeds from sale of common stock	—	300,000	185,500
Proceeds from exercise of warrants and stock options	6,420	19,637	51,335
Proceeds from issuance of 9.75% senior notes due 2014	600,000	—	—
Proceeds from issuance of senior floating rate notes due 2013	200,000	—	—
Proceeds from issuance of 1.75% convertible senior notes	—	100,000	300,000
Proceeds from issuance of senior secured floating rate notes due 2009	—	—	200,000
Proceeds from refinancing of mortgage on corporate facility	—	—	33,300
Repayment of related party long-term debt	—	—	(81,194)
Repayment of related party credit facility	—	—	(103,034)
Repayment of 14% senior secured discount notes	(186,545)	(22,824)	(13,028)
Repayment of 12% senior secured notes due 2010	(100,000)	(15,000)	(70,000)
Repayment of senior secured floating rate notes due 2009	(200,000)	—	—
Payment of premiums on de-leveraging transactions	(27,398)	(3,398)	(10,347)
Payments on mortgages on corporate facilities	(578)	(381)	(28,247)
Payments on other borrowings	(12,725)	(9,651)	(40,174)
Repurchase of Series B convertible redeemable preferred stock	(23,960)	—	—
Deferred financing costs	(21,451)	(2,419)	(13,017)
Net cash provided by financing activities	233,763	365,964	411,094
Net (decrease) increase in cash and cash equivalents	(492,775)	(6,876)	299,560
Cash and cash equivalents at beginning of period	710,991	717,867	418,307
Cash and cash equivalents at end of period	$ 218,216	$ 710,991	$ 717,867

See accompanying Notes to the Consolidated Financial Statements.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) — (Continued)

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See accompanying Notes to the Consolidated Financial Statements.

The preparation of the Company's Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The estimates involve judgments with respect to, among other things,

Balance Sheets.

The Company recognizes advertising revenue from sales of advertisements in the period in which the advertisement is broadcast. Agency fees are presented as a reduction to revenue in the Consolidated Statements of Operations. Advertising

Accumulated other comprehensive income or loss is reported on the Consolidated Balance Sheets. Unrealized gains and losses on available-for-sale securities (see Note 7, under the heading " *WorldSpace* ") and foreign currency translation adjustments (see Note 7, under the heading " *Canadian Satellite Radio* ") are included in other comprehensive income or loss.

is effective as of the beginning of an entity's first fiscal year that begins after December 15, 2006. The Company will adopt this Interpretation effective January 1, 2007. Based on the Company's current evaluation of this Interpretation, the Company does not expect the adoption of FIN No. 48 to have a significant impact on its consolidated results of operations or financial position.

In September 2006, the FASB Emerging Issues Task Force issued EITF No. 06-1, *Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider,* which states how a service provider company that depends on specialized equipment should account for consideration paid to the manufacturers and resellers of such equipment. EITF No. 06-1 requires that the service provider recognize payments based on the form of benefit the end-customer receives from the manufacturer or reseller. If the form of benefit is "other than cash" or the service provider does not control the form of benefit provided to the customer, the consideration would be classified as an expense. If the form of benefit is cash, the consideration would be classified as an offset to revenue. The consensus would require retrospective application to all prior periods as of the beginning of the first annual reporting period beginning after June 15, 2007. This Issue is effective for the first annual reporting period beginning after June 15, 2007. The Company is currently evaluating the impact of the adoption of EITF No. 06-1 on its consolidated results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company will adopt this Statement effective January 1, 2008. Based on the Company's current evaluation of this Statement, the Company does not expect the adoption of SFAS No. 157 to have a significant impact on its consolidated results of operations or financial position.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Current Year Misstatements,* which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 establishes an approach that requires quantification of financial statement misstatements under both the income statement (rollover) and balance sheet (iron curtain) methods. SAB No. 108 permits initial adoption of its provisions either by (i) restating prior financial statements; or (ii) recording the cumulative effect adjustment, with an offsetting adjustment recorded to the opening balance of retained earnings in the year of adoption. SAB No. 108 is effective for annual financial statements issued for fiscal years ending after November 15, 2006. The Company adopted the provisions of SAB No. 108 during the fourth quarter of 2006. The adoption had no significant impact on its consolidated results of operations or financial position.

(3) Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants to sell the asset or transfer the liability. As of December 31, 2006 and 2005, the Company has determined that the carrying value of each of the financial instruments listed below approximates the fair value based on the reasons indicated.

The carrying amounts of the following financial instruments approximate fair value because of their short maturities: Cash and cash equivalents, accounts receivable, due from related parties, accounts payable, accrued expenses, accrued satellite liability, due to related parties and restricted investments.

The fair value of the Company's long-term debt is determined by either estimation by discounting the future cash flows of each instrument at rates currently offered to the Company for similar debt instruments of comparable maturities by the Company's bankers or quoted market prices at the reporting date for the traded debt securities. As of December 31, 2006 and

(6) DARS License

The Company's DARS license is valid for eight years upon successful launch and orbital insertion of the satellites and can be extended by the FCC. The DARS license requires that the Company comply with a construction and launch schedule specified by the FCC for each of the first two authorized satellites, which has occurred. The FCC has the authority to revoke the authorizations and in connection with such revocation could exercise its authority to rescind the Company's license (see Note 17).

- The Company receives a 15% royalty fee for all subscriber fees earned by XM Canada each month for its basic service and a nominal activation fee for each gross activation of an XM Canada subscriber on the Company's system. Beginning in 2006, XM began to accrue for, and record as revenue, royalties and activation fees related to XM Canada's subscribers. During the year ended December 31, 2006, XM accrued approximately $2,121,000 in subscriber revenue royalty and activation fees and recognized revenue of approximately $76,000, as Other revenue in the Consolidated Statements of Operations. The remaining unrecognized revenue was recorded as Deferred income and will be amortized on a straight-line basis into income over the remaining expected term of the Agreements in accordance with the EITF No. 00-21. As of December 31, 2006, the Deferred income balance related to the subscriber revenue royalty and activation fees was $2.0 million. In subsequent periods, the Company will recognize the pro-rata portion of the current period's accrued revenue in addition to the amortization for each previous periods' accrued revenue.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Cost Method Investment and Available-for-Sale Equity Securities

WorldSpace

On July 18, 2005, XM acquired 1,562,500 shares of Class A common stock of WorldSpace, Inc. ("WSI") and a warrant to purchase at WSI's initial public offering price of $21.00 an additional aggregate number of shares equal to $37.5 million, subject to certain operational vesting conditions, in exchange for $25 million. XM allocated its $25 million investment between the two financial instruments, $12.9 million to the Class A common stock and $12.1 million to the warrant. XM accounts for its investment in WSI Class A common stock as available-for-sale securities and accounts for its investment in the warrant under the cost method, subject to other than temporary impairment. WorldSpace provides XM certain programming in exchange for a fixed monthly fee under an amended programming agreement that extends through June 7, 2009.

During 2006, the Company reduced the carrying values of its investments in WSI common stock and warrant due to decreases in fair values that were considered to be other than temporary and recorded impairment charges of $7.3 million and $11.6 million, respectively, to Other expense in the Consolidated Statements of Operations. WorldSpace's shares trade publicly on the NASDAQ Stock Exchange under the symbol, "WRSP." The quoted market price on December 31, 2006 was $3.50. Based on the number of shares held by the Company, the fair value of the Company's investment in WSI common stock is $5.5 million on December 31, 2006. As of December 31, 2006, the carrying values of the Company's investments in WSI common stock and warrant were $5.5 million (which included $0.1 million of unrealized losses) and $0.5 million, respectively. As of December 31, 2005, the carrying value of the Company's investments in WSI common stock and warrant were $23.0 million (which included $6.0 million of unrealized gains) and $12.1 million, respectively.

(8) Deferred Financing Fees

Deferred financing fees consist of the following (in thousands):

	December 31,	
	2006	2005
14% senior secured discount notes due 2009	$ —	$ 3,486
12% senior secured notes due 2010	—	3,590
10% senior secured discount convertible notes due 2009	1,432	7,740
9.75% senior notes due 2014	16,091	—
Senior secured floating rate notes due 2009	—	4,814
Senior floating rate notes due 2013	5,354	—
1.75% convertible senior notes due 2009	10,066	10,066
Valuation of warrants issued to related party in conjunction with credit facilities	25,151	25,151
Valuation of warrants issued to related party in conjunction with the issuance of 10% senior secured discount convertible notes	540	2,288
Valuation of warrants issued to vendors	—	18
Mortgage	504	504
Total deferred financing fees	59,138	57,657
Accumulated amortization	(20,537)	(20,922)
Deferred financing fees, net	$ 38,601	$ 36,735

9) Long-Term Debt

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

financial ratios. The Company was in compliance with all of its covenants as of December 31, 2006. The Company's debt instruments and credit facilities permit the debt issued thereunder to be accelerated upon certain events, including the failure to pay principal when due under any of the Company's other debt instruments or credit facilities subject to materiality thresholds.

The following table presents a summary of the debt activity for the year ended December 31, 2006 (in thousands).

	December 31, 2005	Issuances/ Additions	Discount Amortization	Principal Payments	Retirements/ Extinguishments	December 31, 2006
14% senior secured discount notes due 2009	$ 186,545	$ —	$ —	$ —	$ (186,545)	$ —
Less: discount	(39,993)	—	2,390	—	37,603	—
12% senior secured notes due 2010	100,000	—	—	—	(100,000)	—
10% senior secured discount convertible notes due 2009	179,898	—	—	—	(146,649)	33,249
Less: discount	(36,426)	—	3,962	—	27,251	(5,213)
9.75% senior notes due 2014	—	600,000	—	—	—	600,000
Senior secured floating rate notes due 2009	200,000	—	—	—	(200,000)	—
Senior floating rate notes due 2013	—	200,000	—	—	—	200,000
1.75% convertible senior notes due 2009	400,000	—	—	—	—	400,000
Mortgages	39,455	—	—	(578)	—	38,877
Notes payable	3	—	—	(3)	—	—
Capital leases	13,710	32,723	—	(12,722)	—	33,711
Total debt	1,043,192	$ 832,723	$ 6,352	$ (13,303)	$ (568,340)	1,300,624
Less: current portion	7,608					14,445
Long-term debt, net of current portion	$ 1,035,584					$ 1,286,179

Future maturities of long-term debt, stated at fully accreted values, as of December 31, 2006 are as follows (in thousands):

Year ending December 31,	Amount
2007	$ 14,487
2008	11,505
2009	438,554
2010	3,539
2011	8,097
Thereafter	829,655
Total debt	$ 1,305,837

$800 million Private Debt Offering

On May 1, 2006, the Company announced that Inc. had completed an $800 million private debt offering consisting of $600 million of unsecured 9.75% Senior Notes due 2014 and $200 million of unsecured Senior Floating Rate Notes due 2013 with an initial interest rate of 9.6%. Inc. used the proceeds of the debt offering to repurchase or redeem existing secured notes due in 2009 and 2010 and to retire at a discount approximately $320 million of the remaining fixed payment obligations under Inc.'s distribution agreement with General Motors that would have come due in 2007, 2008 and 2009. The Company effectively replaced $486.5 million of senior secured debt with interest rates ranging from 10.63% to 14% and maturities in 2009 and 2010 (as well as covering redemption premiums and transaction costs) and $320 million of fixed payment obligations to General Motors due in 2007 through 2009, or $806.5 million of obligations, with $800 million of senior unsecured debt

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As part of the refinancing, the Company and Inc. conducted a cash tender offer for Inc.'s outstanding $186.5 million of 14% Senior Secured Discount Notes due 2009 ("14% Notes"), $100 million of 12% Senior Secured Notes due 2010 ("12% Notes") and $200 million of Senior Secured Floating Rate Notes due 2009 ("Floating Rate Notes"), with a current interest rate of 10.63% (collectively, the "Existing Notes"). On May 1, 2006, the Company and Inc. completed the initial repurchase of approximately $390 million of the Existing Notes, including $99.6 million of 12% Notes and approximately $290.7 million of the 14% Notes and existing Floating Rate Notes. Under the terms of the indentures governing those notes, Inc. had the right to force the mandatory redemption of the remaining 14% Notes and existing Floating Rate Notes, and completed those redemptions in May 2006. Subsequent to the completion of the cash tender offer and redemptions of the Floating Rate Notes and 14% Notes, the Company and Inc. retired all of the remaining 12% Notes. For a further discussion of the debt repayments by instrument, see Note 10.

9.75% Senior Notes due 2014

The aggregate principal balance of the unsecured 9.75% Senior Notes due 2014 outstanding as of December 31, 2006 is $600 million. Interest is payable semi-annually on May 1 and November 1 at a rate of 9.75% per annum. The notes are unsecured and will mature on May 1, 2014. The Company, at its option, may redeem the notes at declining redemption prices at any time on or after May 1, 2010, subject to certain restrictions. Prior to May 1, 2010, the Company may redeem the notes, in whole or in part, at a price equal to 100% of the principal amount thereof, plus a make-whole premium and accrued and unpaid interest to the date of redemption. The notes are subject to covenants that, among other things, limit Inc.'s ability and the ability of certain of Inc.'s subsidiaries to incur additional indebtedness; pay dividends on, redeem or repurchase Inc.'s capital stock; make investments; engage in transactions with affiliates; create certain liens; or consolidate, merge or transfer all or substantially all of Inc.'s assets and the assets of Inc.'s subsidiaries on a consolidated basis.

Senior Floating Rate Notes due 2013

The aggregate principal balance of the unsecured Senior Floating Rate Notes due 2013 outstanding as of December 31, 2006 is $200 million. Interest is payable quarterly on May 1, August 1, November 1 and February 1 at a rate currently set at 9.86% per annum through February 1, 2007. Thereafter, the rate is reset quarterly to 450 basis points over the three-month LIBOR. The notes are unsecured and will mature on May 1, 2013. The Company, at its option, may redeem the notes at declining redemption prices at any time on or after May 1, 2008, subject to certain restrictions. Prior to May 1, 2008, the Company may redeem the notes, in whole or in part, at a price equal to 100% of the principal amount thereof, plus a make-whole premium and accrued and unpaid interest to the date of redemption. The notes are subject to covenants that, among other things, limit Inc.'s ability and the ability of certain of Inc.'s subsidiaries to incur additional indebtedness; pay dividends on, redeem or repurchase Inc.'s capital stock; make investments; engage in transactions with affiliates; create certain liens; or consolidate, merge or transfer all or substantially all of Inc.'s assets and the assets of Inc.'s subsidiaries on a consolidated basis.

10% Senior Secured Discount Convertible Notes due 2009

The aggregate principal balance of the 10% Senior Secured Discount Convertible Notes due 2009 outstanding as of December 31, 2006 is $33.2 million. Interest accreted through December 31, 2005 and is thereafter payable semi-annually at a rate of 10% per annum, while the remaining principal balance is payable in December 2009. At any time, a holder of the notes may convert all or part of the accreted value of its notes at a conversion price of $3.18 per share. At any time on or after December 21, 2006, the Company may require holders of the notes to convert all, but not less than all of the notes at the conversion price of $3.18 per share if: (i) shares of Class A common stock have traded on the NASDAQ National Market or a national securities exchange for the previous 30 trading days at 200% of the conversion price, (ii) the Company reported earnings before interest income and expense, other income, taxes, depreciation (including amounts related to research and development) and amortization greater than $0 for the immediately preceding quarterly period for which the Company reports its financial results, (iii) immediately following such conversion, the aggregate amount of the Company and its subsidiaries' indebtedness is less than $250 million, and (iv) no shares of the Company's Series C convertible redeemable preferred stock remain outstanding.

which was classified as a de-leveraging charge.

The Company paid 2006 quarterly dividends on the 8.25% Series B convertible redeemable preferred stock on February 1, 2006 and May 1, 2006 by issuing 18,126 and 5,128 shares of Class A common stock, respectively, to the respective holders of record. The Company ceased the payment of dividends subsequent to the May 1, 2006 payment as all the remaining shares were repurchased by the Company (as discussed below).

Class A Common Stock Issuances

During 2006, 2005 and 2004, the Company issued 48.8 million, 18.3 million and 12.4 million shares, respectively, of Class A common stock to convert or redeem certain notes and 0.8 million, 2.5 million shares, 15.3 million, respectively, of Class A common stock related to the exercise of certain warrants. In addition, the Company issued 14.5 million shares in 2006 and 11.3 million shares in 2004 to convert certain preferred stock.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of the status of the Company's aggregate stock option awards under the 1998 Plan and the Talent Plan as of December 31, 2006, 2005 and 2004 is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding, January 1, 2004	11,965,038	$ 11.21		
Granted	4,945,285	$ 23.86		
Exercised	(1,531,458)	$ 11.27		
Forfeited, cancelled or expired	(692,704)	$ 12.75		
Outstanding, December 31, 2004	14,686,161	$ 15.37		
Granted	2,019,505	$ 29.21		
Exercised	(1,793,278)	$ 10.37		
Forfeited, cancelled or expired	(343,376)	$ 21.36		
Outstanding, December 31, 2005	14,569,012	$ 17.81		
Granted	2,764,249	$ 18.34		
Exercised	(600,017)	$ 7.53		
Forfeited, cancelled or expired	(838,810)	$ 26.76		
Outstanding, December 31, 2006	15,894,434	$ 17.81	6.68	$ 36,337
Vested and expected to vest, December 31, 2006	15,603,878	$ 17.81	6.68	$ 35,673
Exercisable, December 31, 2006	10,922,126	$ 15.89	5.84	$ 34,910

The per share weighted-average fair value of stock option awards granted during the years ended December 31, 2006, 2005 and 2004 was $9.36, $12.83 and $16.08, respectively, on the date of grant. The total intrinsic value on the date of exercise of stock option awards exercised during the years ended December 31, 2006, 2005 and 2004 was $7.2 million, $37.0 million and $30.3 million, respectively. As of December 31, 2006, there was $34.8 million of total unrecognized compensation cost related to stock option awards granted under the 1998 Plan and Talent Plan. The weighted-average period over which the compensation expense for these awards is expected to be recognized was 1.56 years.

	Years ended December 31,					
	2006		2005		2004	
	GM	Honda	GM	Honda	GM	Honda
Research & development	$ —	$ 5,000	$ —	$ 5,000	$ —	$ 9,579
Customer care & billing operations	149	—	242	—	363	—
Marketing	224,087	2,600	205,837	1,782	158,997	—
Total	$ 224,236	$ 7,600	$ 206,079	$ 6,782	$ 159,360	$ 9,579

Taxes on income for the reported year	$ (14)	$ 2,330	$ 27,317

The tax (benefit) expense results from the following required adjustments to the Company's valuation allowance (in thousands):

	Years ended December 31,		
	2006	2005	2004
Indefinite-lived assets (DARS license)	2,312	2,330	27,317
Currency translation adjustment from investment in XM Canada included in other comprehensive income	(2,326)	—	—
Tax expense (benefit) on income for the reported year	$ (14)	$ 2,330	$ 27,317

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

performance incentive payments of up to $25.9 million, excluding interest, based on the in-orbit performance of XM-3 over its design life of fifteen years. The Company has in-orbit insurance relating to XM-3 through February 2008.

XM-4 — Under its contracts with BSS and Sea Launch, the Company has committed to pay a total of $184.3 million for XM-4 and the associated launch services, excluding in-orbit performance incentives and financing charges on certain amounts deferred prior to launch. As of December 31, 2006, satellite construction and launch costs aggregating $184.3 million had been incurred, of which $183.8 million has been paid and $0.5 million was due and subsequently paid in February 2007.

After launch of XM-4 on October 30, 2006, BSS has the right to earn performance incentive payments of up to $12 million, plus interest, over the first twelve years of in-orbit life, up to $7.5 million for high performance (above baseline specifications) during the first fifteen years of in-orbit life, and up to $10 million for continued high performance across the five year period beyond the fifteen year design life. The Company has launch plus one year of in-orbit insurance for XM-4 and five years of in-orbit insurance for a portion of XM-4. These policies run concurrently.

XM-5 — During the second quarter of 2005, XM entered into a contract with SS/L to construct a spare satellite. Upon the award of the contract, SS/L began construction of the XM-5 satellite. Approximately two years before, on July 15, 2003, SS/L, its parent, Loral Space & Communications Ltd. and certain other affiliated entities (collectively, the "Debtors") commenced voluntary Chapter 11 bankruptcy cases under the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the "Court"), which cases are being jointly administered under lead case number 03-41710. Pursuant to an order entered on July 20, 2005, the Court approved the Company's contract with SS/L. On August 1, 2005, the Court entered an order confirming the Debtors' Fourth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the "Reorganization Plan"). The Reorganization Plan became effective on November 21, 2005. Pursuant to the terms of the Company's contract with SS/L, the Company is required to make construction payments on XM-5 into an escrow account until the occurrence of an "Emergence Date" as defined in the contract. Although the contractually-defined "Emergence Date" has not occurred, XM has authorized the escrow agent to release certain escrowed funds to SS/L to cover SS/L's costs incurred as is reasonably necessary for SS/L to continue performing work under the contract. As of December 31, 2006, with respect to XM-5, the Company has paid $40.0 million and deferred payment of construction costs of $64.9 million. The deferral is included in Accrued satellite liability, and bears interest of 8%. The deferred construction payment and accrued interest was paid in full in February 2007.

GM Distribution Agreement

The Company has a long-term distribution agreement with General Motors. The agreement had been assigned by GM to its subsidiary OnStar, but was assigned back to GM in June 2006. During the term of the agreement, which expires twelve years from the commencement date of the Company's commercial operations in 2001, GM has agreed to distribute the service to the exclusion of other S-band satellite digital radio services. The agreement was amended in June 2002 and January 2003 to clarify certain terms in the agreement, including extending the dates when certain initial payments were due to GM and confirming the date of the Company's commencement of commercial operations, and to provide that the Company could make certain payments to GM in shares of the Company's Class A common stock. The Company's total cash payment obligations were not increased. Under the distribution agreement, the Company is required to make a subscriber acquisition payment to GM for each person who becomes and remains an XM subscriber through the purchase of a GM vehicle.

In April 2006, the Company amended the distribution agreement pursuant to which the Company made a prepayment in May 2006 in the amount of $237 million to General Motors to retire at a discount approximately $320 million of the remaining fixed payment obligations that would have come due in 2007, 2008, and 2009. The April 2006 amendments eliminated the Company's ability to make up to $35 million of subscriber acquisition payments in shares of the Company's Class A common stock. In addition, the Company's credit facility with General Motors was increased from $100 million to $150 million. The facility will terminate, and all draws will become due, upon the earlier of December 31, 2009 and six months after the Company achieves investment grade status. The amendments also provide that the security arrangements on the GM facility will be unsecured until the first draw under the new credit facility and then secured on a second priority basis behind

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company believes these allegations are without merit and that these products comply with applicable copyright law, including the Audio Home Recording Act, and intends to vigorously defend the matter. There can be no assurance regarding the ultimate outcome of this matter, or the significance, if any, to the Company's business, consolidated results of operations or financial position.

Matthew Enderlin v. XM Satellite Radio Holdings Inc. and XM Satellite Radio Inc. — Plaintiff filed this action in the United States District Court for the Eastern District of Arkansas on January 10, 2006 on behalf of a purported nationwide class of all XM subscribers. The complaint alleges that the Company engaged in a deceptive trade practice under Arkansas and other state laws by representing that its music channels are commercial-free. The Company has filed an answer to the complaint, and instituted arbitration with the American Arbitration Association pursuant to the compulsory arbitration clause in its customer service agreement. The arbitration has been stayed pending judicial determination whether a court or the arbitrator decides arbitrability. The matter is currently pending before the United States Court of Appeals for the Eight Circuit from the denial of a stay by the district court. The Company believes the suit is without merit and intends to vigorously defend the matter. There can be no assurance regarding the ultimate outcome of this matter, or the significance, if any, to the Company's business, consolidated results of operations or financial position.

Copyright Royalty Board Arbitration — The Company is participating in a Copyright Royalty Board (CRB) proceeding in order to set the royalty rate payable by the Company under the statutory license covering its performance of sound recordings over the XM system for the six year period starting in January 2007. The Company and SIRIUS have recently filed their direct cases with the CRB proposing a rate of 0.88% of each of their adjusted gross revenues for this statutory license. SoundExchange, a collective operated on behalf of owners of copyrighted recordings, such as the major record labels, has filed a direct case proposing a rate increasing from 10% of adjusted gross revenues for the first year of the license increasing each year to over 23% during the final year of the license term; their requested guaranteed minimums could result in a rate in excess of the foregoing percentages. The Company is also participating in a concurrent proceeding to set the royalty rate payable by the Company under the statutory license covering its performance of sound recordings over XM channels transmitted over the DIRECTV satellite television system. The Company anticipates that hearings in these matters will take place in early 2007, and that the CRB will render its decision by the end of 2007. There can be no assurance regarding the ultimate outcome of these matters, or their significance to the Company's business, consolidated results of operations or financial position.

Satellite Insurance Settlement Update — In July 2004, the Company reached agreement with insurers covering 80% of the aggregate sum insured in connection with the progressive solar array power degradation issue that is common to the first six Boeing 702 class satellites put in orbit (XM-2 and XM-1 were the fifth and sixth Boeing 702s launched). The settlement was at a rate equal to 44.5% of the proportionate amount covered by each of these insurers, representing a total recovery of approximately $142 million from these insurers. The Company was notified that it was not successful in its arbitration claim against the remaining insurers, and will not receive any further insurance proceeds with regard to this issue. The result of this arbitration did not affect the July 2004 agreements with respect to the 80% of the aggregate sum insured.

Regulatory Matters and Inquiries

Federal Communications Commission ("FCC")

FCC Receiver Matter — As the Company has previously disclosed, it has received inquiries from, and responded to, the Federal Communications Commission regarding FM modulator wireless transmitters in various XM radios not in compliance with permissible emission limits. No health or safety issues have been involved with these wireless XM radios.

The Company has implemented a series of design and installation modifications, and through October 2006, the Company obtained new certifications for six models of modified XM radios using its new SureConnect technology. In addition, the Company has implemented a regulatory compliance plan, including the appointment of an FCC regulatory compliance officer, to monitor FCC regulatory compliance, specifically with reference to the design, verification/certification, and production of XM radio receivers.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company has been submitting documents to the SEC in response to their requests and is cooperating fully with this inquiry. There can be no assurance regarding the ultimate outcome of these SEC matters, or the significance, if any, to the Company's business, consolidated results of operations or financial position.

Sales, Marketing and Distribution Agreements

The Company has entered into various joint sales, marketing and distribution agreements. Under the terms of these agreements, the Company is obligated to provide incentives, subsidies and commissions to other entities that may include fixed payments, per-unit radio and subscriber amounts and revenue sharing arrangements. The amount of the operational, promotional, subscriber acquisition, joint development, and manufacturing costs related to these agreements cannot be estimated, but future costs are expected to be substantial. During the years ended December 31, 2006, 2005, and 2004, the Company incurred expenses of $176.4 million, $198.8 million, and $94.5 million respectively, in relation to these agreements, excluding the GM distribution agreement.

Programming Agreements

The Company has entered into various programming agreements. Under the terms of these agreements, the Company is obligated to provide payments to other entities that may include fixed payments, advertising commitments and revenue sharing arrangements. During the years ended December 31, 2006, 2005, and 2004, the Company incurred expenses of $158.0 million, $90.8 million and $26.5 million, respectively, in relation to these agreements. The amount of these costs will vary in future years, but is expected to increase in the next year as the number of subscribers and advertising revenue increase.

The Company has a multi-year agreement with Major League Baseball® to broadcast MLB games live nationwide. The Company paid $50 million for the 2005 season, $60 million (which included $10 million paid in October 2004) for the 2006 season and will pay $60 million per year thereafter through 2012. MLB has the option to extend the agreement for the 2013, 2014 and 2015 seasons at the same $60 million annual compensation rate. The Company will also make incentive payments to MLB for XM subscribers obtained through MLB and baseball club verifiable promotional programs. No stock or warrants were included in this agreement. The agreement requires the Company to deposit $120 million into escrow or furnish other credit support in such amount. In July 2006, the Company furnished a $120 million surety bond to MLB as part of an amendment to the agreement with MLB that permitted the Company to provide various types of credit support in lieu of its $120 million escrow deposit requirement.

Royalty Agreements

The Company has entered into fixed and variable revenue share payment agreements with performance rights organizations that generally expired at the end of 2006. The Company is participating in a Copyright Royalty Board proceeding in order to set the royalty rate payable by the Company under the statutory license covering our performance of sound recordings over the XM system for the six year period starting in January 2007. During the years ended December 31, 2006, 2005 and 2004, the Company incurred expenses of $37.5 million, $22.0 million and $13.7 million, respectively, in relation to these agreements.

Joint Development Agreement

Under the terms of a joint development agreement with SIRIUS Radio, the other holder of an FCC satellite radio license, each party is obligated to fund one half of the development cost for a common receiver platform for satellite radios. Pursuant to the joint development agreement, in November of 2003, XM and SIRIUS formed a limited liability company for this purpose. During the years ended December 31, 2006, 2005 and 2004, the Company incurred costs of $1.0 million, $1.3 million and $0.9 million, respectively, in relation to this agreement. These costs are being expensed as incurred in research and development.

Net loss attributable to common stockholders	(151,370)	(231,678)	(85,453)	(263,191)
Net loss per common share — basic and diluted	(0.60)	(0.87)	(0.32)	(0.91)

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

XM SATELLITE RADIO INC., SUBSIDIARIES AND AFFILIATES

CONDENSED CONSOLIDATING BALANCE SHEETS

AS OF DECEMBER 31, 2006

(in thousands)	XM Satellite Radio Inc.	XM Radio Inc.	XM Equipment Leasing LLC	XMSR Non-Guarantor Subsidiaries	Eliminations	Consolidated XM Satellite Radio Inc.	XM Satellite Radio Holdings Inc.	XM Holdings Non-Guarantor Subsidiaries	Eliminations	Consolidated XM Satellite Radio Holdings Inc.
Current assets:										
Cash and cash equivalents	$ 92,445	$ —	$ 32	$ —	$ —	$ 92,477	$ 125,593	$ 146	$ —	$ 218,216
Accounts receivable, net	62,293	—	—	—	—	62,293	—	—	—	62,293
Due from subsidiaries/affiliates	3,645	267,724	31,251	624,991	(927,582)	29	—	29,235	(29,264)	—
Due from related parties	13,991	—	—	—	—	13,991	—	—	—	13,991
Related party prepaid expenses	66,946	—	—	—	—	66,946	—	—	—	66,946
Prepaid programming content	28,172	—	—	—	—	28,172	—	—	—	28,172
Prepaid and other current assets	42,288	—	—	—	—	42,288	1,280	597	(1,125)	43,040
Total current assets	309,780	267,724	31,283	624,991	(927,582)	306,196	126,873	29,978	(30,389)	432,658
Restricted investments	386	—	—	—	—	386	—	1,712	—	2,098
System under construction	—	—	—	—	—	—	126,049	—	—	126,049
Property and equipment, net	475,521	—	26,895	—	—	502,416	311,767	40,578	(5,099)	849,662
Investment in subsidiary/affiliates	1,032,642	—	—	—	(1,032,642)	—	(379,419)	—	379,419	—
DARS license	—	141,387	—	—	—	141,387	—	—	—	141,387
Intangibles, net	4,640	—	—	—	—	4,640	—	—	—	4,640
Deferred financing fees, net	32,185	—	—	—	—	32,185	6,025	391	—	38,601
Related party prepaid expenses	160,712	—	—	—	—	160,712	—	—	—	160,712
Equity investments	—	—	—	—	—	—	80,592	—	—	80,592
Prepaid and other current assets	2,315	—	—	—	—	2,315	—	1,904	—	4,219
Total assets	$ 2,018,181	$ 409,111	$ 58,178	$ 624,991	$ (1,960,224)	$ 1,150,237	$ 271,887	$ 74,563	$ 343,931	$ 1,840,618
Current liabilities:										
Accounts payable	$ 51,634	$ —	$ —	$ —	$ —	$ 51,634	$ 210	$ —	$ —	$ 51,844
Accrued expenses	146,902	—	127	—	—	147,029	713	290	(441)	147,591
Accrued satellite liability	—	—	—	—	—	—	64,875	—	—	64,875
Accrued interest	15,277	—	—	—	—	15,277	3,001	204	—	18,482
Current portion of long-term debt	13,883	—	—	—	—	13,883	—	562	—	14,445
Due to related parties	46,459	—	—	—	—	46,459	—	—	—	46,459
Due to subsidiary/affiliates	900,055	245	2,226	25,062	(927,562)	26	29,235	112	(29,373)	—
Subscriber deferred revenue	340,711	—	—	—	—	340,711	—	—	—	340,711
Deferred income	—	—	—	—	—	—	9,915	—	—	9,915
Total current liabilities	1,514,921	245	2,353	25,062	(927,562)	615,019	107,949	1,168	(29,814)	694,322

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

XM SATELLITE RADIO INC., SUBSIDIARIES AND AFFILIATES

CONDENSED CONSOLIDATING BALANCE SHEETS

AS OF DECEMBER 31, 2005

(in thousands)	XM Satellite Radio Inc.	XM Radio Inc.	XM Equipment Leasing LLC	XMSR Non-Guarantor Subsidiaries	Eliminations	Consolidated XM Satellite Radio Inc.	XM Satellite Radio Holdings Inc.	XM Holdings Non-Guarantor Subsidiaries	Eliminations	Consolidated XM Satellite Radio Holdings Inc.
Current assets:										
Cash and cash equivalents	$ 57,598	$ —	$ 6	$ —	$ —	$ 57,604	$ 638,246	$ 15,141	$ —	$ 710,991
Accounts receivable, net	47,247	—	—	—	—	47,247	—	—	—	47,247
Due from subsidiaries/a	3,859	134,339	48,229	566,237	(752,021)	643	—	3,235	(3,878)	—
Due from related parties	8,629	—	—	—	—	8,629	—	—	—	8,629
Related party prepaid expenses	54,752	—	—	—	—	54,752	—	—	—	54,752
Prepaid programming content	65,738	—	—	—	—	65,738	—	—	—	65,738
Prepaid and other current assets	47,322	—	7,798	—	—	55,120	1,347	469	(1,125)	55,811
Total curren t	285,145	134,339	56,033	566,237	(752,021)	289,733	639,593	18,845	(5,003)	943,168
Restricted investments	375	—	—	—	—	375	—	5,063	—	5,438
System under construction	—	—	—	—	—	—	216,527	—	—	216,527
Property and equipment, net	541,300	—	39,817	—	—	581,117	55,045	42,609	(5,099)	673,672
Investment in subsidiary/affiliates	876,844	—	—	—	(876,844)	—	(304,165)	—	304,165	—
DARS license	—	141,276	—	—	—	141,276	—	—	—	141,276
Intangibles, net	5,902	—	—	—	—	5,902	—	—	—	5,902
Deferred financing fees, net	28,288	—	—	—	—	28,288	8,005	442	—	36,735
Related party prepaid expenses	9,809	—	—	—	—	9,809	—	—	—	9,809
Equity investments	—	—	—	—	—	—	187,403	—	—	187,403
Prepaid and other current assets	1,961	—	—	—	—	1,961	—	1,770	—	3,731
Total assets	$ 1,749,624	$ 275,615	$ 95,850	$ 566,237	$ (1,628,865)	$ 1,058,461	$ 802,408	$ 68,729	$ 294,063	$ 2,223,661
Current liabilities:										
Accounts payable	$ 126,353	$ —	$ 1	$ —	$ —	$ 126,354	$ 19,328	$ 9	$ —	$ 145,691
Accrued expenses	149,357	—	4,864	—	—	154,221	50	295	(441)	154,125
Accrued satellite liability	—	—	—	—	—	—	104,300	—	—	104,300

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

XM SATELLITE RADIO INC., SUBSIDIARIES AND AFFILIATES

CONDENSED CONSOLIDATING BALANCE SHEETS

AS OF DECEMBER 31, 2005

(in thousands)	XM Satellite Radio Inc.	XM Radio Inc.	XM Equipment Leasing LLC	XMSR Non-Guarantor Subsidiaries	Eliminations	Consolidated XM Satellite Radio Inc.	XM Satellite Radio Holdings Inc.	XM Holdings Non-Guarantor Subsidiaries	Eliminations	Consolidated XM Satellite Radio Holdings Inc.
Satellite liability, net of current portion	$ —	$ —	$ —	$ —	$ —	$ —	$ 23,285	$ —	$ —	$ 23,285
Long-term debt, net of current portion	596,537	—	—	—	—	596,537	400,000	39,047	—	1,035,584
Due to related parties, net of current portion	53,901	—	—	—	—	53,901	—	—	—	53,901
Subscriber deferred revenue, net of current portion	84,694	—	—	—	—	84,694	—	—	—	84,694
Deferred income, net of current portion	—	—	—	—	—	—	141,073	—	—	141,073
Other non-current liabilities	27,110	29,647	—	—	—	56,757	19,545	(1,316)	(34,968)	40,018
Tot[illegible]	2,112,337	29,781	6,692	24,365	(752,001)	1,421,174	721,460	39,430	(39,351)	2,142,713
Commitments and contingencies										
Stockholders' equity (deficit):										
Capital stock	—	—	—	—	—	—	2,467	—	—	2,467
Accumulated other comprehensive income	—	—	—	—	—	—	5,985	—	—	5,985
Additional paid-in-	2,438,561	146,271	97,018	286,765	(530,054)	2,438,561	2,852,100	10,802	(2,449,363)	2,852,100
Retained earnings	(2,801,274)	99,563	(7,860)	255,107	(346,810)	(2,801,274)	(2,779,604)	18,497	2,782,777	(2,779,604)
Tot[illegible]	(362,713)	245,834	89,158	541,872	(876,864)	(362,713)	80,948	29,299	333,414	80,948

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

XM SATELLITE RADIO INC., SUBSIDIARIES AND AFFILIATES

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2006

(in thousands)	XM Satellite Radio Inc.	XM Radio Inc.	XM Equipment Leasing LLC	XMSR Non-Guarantor Subsidiaries	Eliminations	Consolidated XM Satellite Radio Inc.	XM Satellite Radio Holdings Inc.	XM Holdings Non-Guarantor Subsidiaries	Eliminations	Consolidated XM Satellite Radio Holdings Inc.
Revenue	$ 923,327	$ 133,386	$ 10,942	$ —	$ (144,328)	$ 923,327	$ 10,081	$ 10,165	$ (10,156)	$ 933,417
Cost of revenue	597,068	—	7	—	476	597,551	—	806	(7,619)	590,738
Research & development	37,428	—	—	—	—	37,428	—	—	—	37,428
General & administrative	88,700	—	—	—	—	88,700	451	(25)	(500)	88,626
Marketing	450,843	—	—	—	—	450,843	—	—	—	450,843
Depreciation & amortization	149,264	—	13,067	—	—	162,331	4,542	2,007	—	168,880
To	1,323,303	—	13,074	—	476	1,336,853	4,993	2,788	(8,119)	1,336,515
Operating income (loss)	(399,976)	133,386	(2,132)	—	(144,804)	(413,526)	5,088	7,377	(2,037)	(403,098)
Other income (expense):										
Interest incom	3,956	—	754	58,754	(59,451)	4,013	17,226	425	—	21,664
Interest expens	(177,968)	—	—	(697)	59,451	(119,214)	(1,415)	(675)	—	(121,304)
Loss from de-levera ging transac	(121,564)	—	—	—	—	(121,564)	(625)	—	—	(122,189)
Loss from impair ment of invest ments	—	—	—	—	—	—	(76,572)	—	—	(76,572)
Equity in net loss of affiliat e	—	—	—	—	—	—	(23,229)	—	—	(23,229)
Other incom e	47,058	—	4,304	—	(47,254)	4,108	(639,359)	(59)	641,152	5,842
Net income (loss) before income taxes	(648,494)	133,386	2,926	58,057	(192,058)	(646,183)	(718,886)	7,068	639,115	(718,886)
Benefit from (provision for) deferred income taxes	—	(2,311)	—	—	—	(2,311)	14	—	2,311	14

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

XM SATELLITE RADIO INC., SUBSIDIARIES AND AFFILIATES

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2005

(in thousands)	XM Satellite Radio Inc.	XM Radio Inc.	XM Equipment Leasing LLC	XMSR Non-Guarantor Subsidiaries	Eliminations	Consolidated XM Satellite Radio Inc.	XM Satellite Radio Holdings Inc.	XM Holdings Non-Guarantor Subsidiaries	Eliminations	Consolidated XM Satellite Radio Holdings Inc.
Revenue	$ 558,266	$ 80,574	$ 10,529	$ —	$ (91,103)	$ 558,266	$ —	$ 9,317	$ (9,317)	$ 558,266
Cost of revenue	410,321	—	24	—	447	410,792	—	1,161	(6,660)	405,293
Research & development	31,218	—	—	—	—	31,218	—	—	—	31,218
General & administrative	43,196	—	—	—	—	43,196	618	538	(488)	43,864
Marketing	487,512	—	—	44	—	487,556	—	—	—	487,556
Depreciation & amortization	127,685	—	13,881	—	—	141,566	2,708	1,596	—	145,870
To	1,099,932	—	13,905	44	447	1,114,328	3,326	3,295	(7,148)	1,113,801
Operating income (loss)	(541,666)	80,574	(3,376)	(44)	(91,550)	(556,062)	(3,326)	6,022	(2,169)	(555,535)
Other income (expense):										
Interest incom	2,364	—	630	58,754	(59,325)	2,423	20,825	338	—	23,586
Interest expens	(161,784)	—	—	(572)	59,325	(103,031)	(4,006)	(754)	—	(107,791)
Loss from de-levera ging transac	(27,552)	—	—	—	—	(27,552)	—	—	—	(27,552)
Loss from impair ment of invest ments	—	—	—	—	—	—	—	—	—	—
Equity in net loss of affiliate	—	—	—	—	—	—	(482)	—	—	(482)
Other incom e	42,184	—	(23)	—	(42,063)	98	(679,726)	1,426	681,591	3,389
Net income (loss) before income taxes	(686,454)	80,574	(2,769)	58,138	(133,613)	(684,124)	(666,715)	7,032	679,422	(664,385)
Benefit from (provision for) deferred income taxes	—	(2,330)	—	—	—	(2,330)	—	—	—	(2,330)

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

XM SATELLITE RADIO INC., SUBSIDIARIES AND AFFILIATES

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2004

(in thousands)	XM Satellite Radio Inc.	XM Radio Inc.	XM Equipment Leasing LLC	XMSR Non-Guarantor Subsidiaries	Eliminations	Consolidated XM Satellite Radio Inc.	XM Satellite Radio Holdings Inc.	XM Holdings Non-Guarantor Subsidiaries	Eliminations	Consolidated XM Satellite Radio Holdings Inc.
Revenue	$ 244,443	$ 35,448	$ 10,513	$ —	$ (45,961)	$ 244,443	$ —	$ 8,189	$ (8,189)	$ 244,443
Cost of revenue	204,787	—	31	—	444	205,262	—	2,075	(5,402)	201,935
Research & development	23,513	—	—	—	—	23,513	—	—	—	23,513
General & administrative	28,366	—	—	—	—	28,366	497	120	(428)	28,555
Marketing	304,316	—	—	—	—	304,316	—	—	—	304,316
Depreciation & amortization	131,902	—	13,873	—	—	145,775	—	1,390	—	147,165
To	692,884	—	13,904	—	444	707,232	497	3,585	(5,830)	705,484
Operating income (loss)	(448,441)	35,448	(3,391)	—	(46,405)	(462,789)	(497)	4,604	(2,359)	(461,041)
Other income (expense):										
Interest income	1,592	—	571	58,995	(59,566)	1,592	4,543	104	—	6,239
Interest expens	(143,909)	—	—	(571)	59,566	(84,914)	(556)	(318)	31	(85,757)
Loss from de-leveraging transac	(76,621)	—	—	—	—	(76,621)	—	—	—	(76,621)
Loss from impairment of investments	—	—	—	—	—	—	—	—	—	—
Equity in net loss of affiliat	—	—	—	—	—	—	—	—	—	—
Other income (expen	17,346	—	48	—	(17,378)	16	(645,858)	—	647,971	2,129
Net income (loss) before income taxes	(650,033)	35,448	(2,772)	58,424	(63,783)	(622,716)	(642,368)	4,390	645,643	(615,051)
Benefit from (provision for) deferred income taxes	—	(27,317)	—	—	—	(27,317)	—	—	—	(27,317)

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

XM SATELLITE RADIO INC., SUBSIDIARIES AND AFFILIATES

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2006

(in thousands)	XM Satellite Radio Inc.	XM Radio Inc.	XM Equipment Leasing LLC	XMSR Non-Guarantor Subsidiaries	Eliminations	Consolidated XM Satellite Radio Inc.	XM Satellite Radio Holdings Inc.	XM Holdings Non-Guarantor Subsidiaries	Eliminations	Consolidated XM Satellite Radio Holdings Inc.
Net cash (used in) provided by operating activities	$ (479,536)	$ —	$ 5,569	$ —	$ —	$ (473,967)	$ 29,694	$ (17,818)	$ —	$ (462,091)
Cash flows from investing activities:										
Purchase of property and Equipment	(54,895)	—	—	—	—	(54,895)	—	—	—	(54,895)
Additions to system under construction	—	—	—	—	—	—	(220,124)	—	—	(220,124)
Proceeds from sale of assets	—	—	7,182	—	—	7,182	—	—	—	7,182
Net maturity (purchase) of restricted	(11)	—	—	—	—	(11)	—	3,401	—	3,390
Net cash (used in)	(54,906)	—	7,182	—	—	(47,724)	(220,124)	3,401	—	(264,447)
Cash flows from financing activities:										
Proceeds from exercise of warrants and stock options	—	—	—	—	—	—	6,420	—	—	6,420

Cash and cash equivalents at beginning of period	57,598	—	6	—	—	57,604	638,246	15,141	—	710,991
Cash and cash equivalents at end of period	$ 92,445	$ —	$ 32	$ —	$ —	$ 92,477	$ 125,593	$ 146	$ —	$ 218,216

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

XM SATELLITE RADIO INC., SUBSIDIARIES AND AFFILIATES

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2004

(in thousands)	XM Satellite Radio Inc.	XM Radio Inc.	XM Equipment Leasing LLC	XMSR Non-Guarantor Subsidiaries	Eliminations	Consolidated XM Satellite Radio Inc.	XM Satellite Radio Holdings Inc.	XM Holdings Non-Guarantor Subsidiaries	Eliminations	Consolidated XM Satellite Radio Holdings Inc.
Net cash provided by (used in) operating activities	$ (96,607)	$ —	$ 47	$ —	$ 15	$ (96,545)	$ 18,532	$ 2,808	$ —	$ (75,205)
Cash flows from investing activities:										
Purchase of property and equipment	(25,912)	—	—	—	—	(25,912)	(22)	—	—	(25,934)
Additions to system under construction	(116,537)	—	—	—	—	(116,537)	(27,441)	—	—	(143,978)
Net purchase/ maturity of restricted investments	119	—	—	—	—	119	(460)	—	—	(341)
Insurance proceeds from satellite recoveries	133,924	—	—	—	—	133,924	—	—	—	133,924
Net cash used in inv	(8,406)	—	—	—	—	(8,406)	(27,923)	—	—	(36,329)
Cash flows from financing activities:										
Proceeds from issuance of common stock	—	—	—	—	—	—	185,500	—	—	185,500
Proceeds from exercise of warrants and stock options	—	—	—	—	—	—	51,335	—	—	51,335

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(20) Subsequent Events

Sale-leaseback Transaction

On February 13, 2007, the Company entered into a sale-leaseback transaction with respect to the transponders on the XM-4 satellite, which was launched in October 2006 and placed into service during December 2006. The Company received net proceeds of $288.5 million from the transaction, of which $44 million (inclusive of interest) was used to retire outstanding mortgages on real property and the remainder of which provides additional liquidity available for working capital and general corporate purposes.

Summary of the Transaction. Under the sale-leaseback arrangement, the Company sold the XM-4 transponders to a trust owned by Satellite Leasing (702-4) LLC for $288.5 million, representing the fair market value based on an appraisal performed by satellite consulting and lease appraisal firms. A portion of the purchase price for the XM-4 transponders was financed by the equity owner of the sale-leaseback transaction, or owner participant.

XM Satellite Radio Inc., is leasing the transponders for a term of nine years with an early buy-out option in year five and a buy-out option at the end of the term. The lease will be recorded as a capital lease. These lease payment obligations, which are unconditional and guaranteed by XM Satellite Radio Holdings Inc., are senior unsecured obligations and rank equally in right of payment with existing and future senior unsecured obligations.

Throughout the term of the lease, at any time when the Company is not investment grade, the Company will provide to the owner participant credit support sufficient to cover the stipulated loss value of the equity at that time. To provide this credit support, the Company retired the existing mortgages on its headquarters and data center properties in Washington, D.C. and put into place new mortgage liens on those properties in favor of the owner participant.

The Company will have full operational control over the transponders for the lease term, absent default. The Company will continue to own the XM-4 satellite itself, subject to an obligation to sell the satellite to the lessor for a nominal sum in the event that the Company does not repurchase the transponders at the end of the term.

The Company has an early buyout option in year five and a buy-out right at the end of the lease term, each at prices representing the fair market value based on an appraisal performed by satellite consulting and lease appraisal firms. The Company has other rights to purchase the transponders or the equity interest in the lessor. The Company also has rights to cause the lessor to effect a refinancing of the notes, and any interest savings from the refinancing would result in reduced lease payments.

The Company can be required to repurchase the transponders upon the occurrence of specified events, including an event of loss of the satellite (subject to the right to substitute another satellite meeting equivalent or better value and functionality tests), changes in law that impose a material regulatory burden on the owner participant, changes of control and events resulting in the absence of another holder (other than the Company and its affiliates) of FCC satellite radio licenses in the frequency bands that can be served by the XM-4 satellite. The Company has agreed to provide indemnities in the event the owner participant shall lose or not be able to take certain tax positions relating to the transaction.

Planned Merger with Sirius Satellite Radio

On February 19, 2007, the Company and Sirius Satellite Radio Inc. ("SIRIUS") entered into an Agreement and Plan of Merger (the "Merger Agreement"), pursuant to which the Company and SIRIUS will combine their businesses through a merger of the Company and a newly formed, wholly owned subsidiary of SIRIUS (the "Merger").

Each of the Company and SIRIUS has made customary representations and warranties and covenants in the Merger Agreement. The completion of the Merger is subject to various closing conditions, including obtaining the approval of the Company's and SIRIUS's stockholders and receiving certain regulatory and antitrust

Schedule II—Valuation and Qualifying Accounts

(in thousands) Description	Balance January 1,	Charged to Costs and Expenses	Charged to Other Accounts	Write-offs/ Payments/ Other	Balance December 31,
2004					
Allowance for doubtful accounts	$ 796	$ 3,218	$ —	$ (2,463)	$ 1,551
Deferred tax assets — valuation allowance	533,078	210,453	53,416	—	796,947
2005					
Allowance for doubtful accounts	1,551	8,328	—	(6,157)	3,722
Deferred tax assets — valuation allowance	796,947	236,767	10,240	—	1,043,954
2006					
Allowance for doubtful accounts	3,722	15,223	—	(13,999)	4,946
Deferred tax assets — valuation allowance	1,043,954	237,455	(6,953)	—	1,274,456

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

Exhibit 31.1

CERTIFICATIONS

I, Hugh Panero, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of XM Satellite Radio Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2007

/s/ HUGH PANERO

Hugh Panero

Chief Executive Officer

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

Exhibit 31.3

CERTIFICATIONS

I, Joseph Euteneuer, Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of XM Satellite Radio Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2007

/s/ JOSEPH J. EUTENEUER

Joseph J. Euteneuer

Executive Vice President and Chief Financial Officer

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

Exhibit 32.1

Written Statement of Chief Executive Officer and Chief Financial Officer

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The certification set forth below is being submitted to the Securities and Exchange Commission solely for the purpose of complying with Section 1350 of Chapter 63 of Title 18 of the United States Code. This certification is not deemed to be filed pursuant to the Securities Exchange Act of 1934 and does not constitute a part of the Annual Report on Form 10-K accompanying this statement.

The undersigned, the Chief Executive Officer and the Executive Vice President and Chief Financial Officer of XM Satellite Radio Holdings Inc. ("Holdings"), each hereby certifies that, to his knowledge on the date hereof:

(a) the Form 10-K of Holdings for the period ended December 31, 2006 filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Holdings.

/s/ HUGH PANERO

Hugh Panero

Chief Executive Officer

March 1, 2007

/s/ JOSEPH J. EUTENEUER

Joseph J. Euteneuer

Executive Vice President and Chief Financial Officer

March 1, 2007

A signed original of this written statement required by Section 906 has been provided to Holdings and will be retained by Holdings and furnished to the Securities and Exchange Commission or its staff upon request.