Before the
UNITED STATES COPYRIGHT ROYALTY BOARD
LIBRARY OF CONGRESS
Washington, D.C.

In The Matter Of:	
Adjustment of Rates and Terms for Preexisting Subscription and Satellite Digital Audio Radio Services	Docket No. 2006-1 CRB DSTRA

Testimony of

MARK J. VENDETTI

Senior Vice President of Corporate Finance, XM Satellite Radio Inc.

FINAL

Witness for XM Satellite Radio Inc.

XM Exhibit 4

Before the
LIBRARY OF CONGRESS
Copyright Royalty Board

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	)

DIRECT TESTIMONY OF MARK J. VENDETTI
(ON BEHALF OF XM SATELLITE RADIO INC.)

Overview

1. My name is Mark J. Vendetti. I am currently employed by XM Satellite Radio Inc. ("XM") as Senior Vice President of Corporate Finance, and have been employed by XM in this capacity since May 2005. My testimony will address XM's financial performance. The financial data in my testimony is based on published XM results through 2005. The data for 2006 and beyond is based on an average of forecasts from 19 analysts who cover XM.

2. XM's creation of its satellite radio service from scratch has required enormous investment, expected to total over $6.3 billion for capital and operating expenditures through the end of 2006. Creating a new industry for satellite radio (along with Sirius) has been unavoidably capital-intensive and risky, requiring both up-front costs and substantial ongoing expenses. Indeed, before XM could even attempt to sign up its first customer, it had to purchase rights to the broadcast spectrum, design and launch a technologically complex satellite system and terrestrial repeater broadcast system from the ground up, build a state-of-the-art broadcast operations center, develop compelling programming that consumers would be willing to

purchase, gain access to key distribution channels through deals with automakers and retailers, and develop the first satellite radio receivers. Moreover, since XM has launched this unprecedented new service, XM has made ongoing investments to compete in the marketplace, maintain and improve its infrastructure, technology and programming. In 2005 alone, for example, XM incurred over $1.3 billion of necessary operating and capital expenses.

3. Unfortunately, XM does not yet generate revenue sufficient to cover these costs. XM's cumulative investments since inception were over $3.7 billion at the end of 2005. While XM has been making progress slowing down the rate at which its losses accumulate, the average loss remains $1.9 million per day, based on analysts' forecasts. In addition to these net losses, XM currently carries $1.3 billion in debt that it must repay, convert to equity, or refinance starting in 2009.

4. This multi-billion dollar investment has produced many positive results, as evidenced by XM's growing customer base of over 7 million subscribers. Given current projections of subscriber growth and assuming the 0.88% royalty rate proposed by the services, XM is forecast to be profitable for the first time in 2010. During the next six years, a 0.88% royalty rate is estimated to generate payments exceeding $106 million from XM for the record labels.

5. A higher royalty rate will give XM three basic options – absorb the higher costs while keeping revenue and other costs where they are, attempt to increase revenue by charging higher monthly subscription fees, or attempt to decrease other costs – and all three may delay or disrupt XM's path to profitability. Keeping revenue and other costs where they are while increasing the cost of royalties paid to the record labels will directly delay the date XM becomes profitable. Alternatively, attempting to increase revenue or cut other costs could negatively impact subscriber growth (*e.g.*, less marketing or higher monthly fees would lead to fewer new

subscribers) which is a key driver of XM's financial performance. This result, in turn, also could delay the date XM becomes profitable and make it more difficult and potentially more expensive for XM to repay or refinance its debt.

6. One way to put these multi-billion dollar aggregate numbers in perspective is to look at costs and revenue on a per subscriber basis. In 2009, for example, XM is predicted to spend approximately $90 to acquire a new subscriber, and is expected to realize $3.47 in profit per month from the average subscriber. This means the new subscriber must remain a subscriber for over four years ($90 up front cost / $3.47 monthly net revenue, taking into account XM's subscriber "churn" rate) in order for XM to make any profit. A "payback period" of this length is not sustainable; the good news is that the "payback period" has been shrinking over time as the cost to acquire a new subscriber has decreased or remained flat and average subscriber profit per month has increased. However, XM will remain in a difficult financial situation until this period shrinks to a reasonable timeframe.

7. In summary, XM has made substantial investments to launch and operate a brand new service and successfully attract over 7 million paying subscribers. However, given forecasted losses of $1.9 million per day, XM remains in a financially challenging "start-up" phase and is still several years from profitability and must repay, convert, or refinance its $1.3 billion in debt while achieving that profitability. In my opinion, a royalty rate higher than 0.88% will put XM at greater financial risk by delaying the date when XM becomes profitable and could impact XM's ability to pay off its debt and attract new capital.

Financial and Accounting Work Experience

8. I have more than 20 years of experience in financial and accounting positions at major corporations. After receiving my undergraduate degree at Amherst College and an MBA at Harvard in 1989, I joined Procter & Gamble ("P&G") as a financial analyst. In 1991, I was promoted to accounting manager for a P&G manufacturing operation. In 1993, I became project manager for Worldwide Finance and Accounting Systems. In that capacity, I led a finance team that created P&G's first global reporting and executive information system. I continued up the ranks at P&G, managing the forecast and strategic planning for P&G's largest unit. From 1999 until I left P&G in 2001, I was Associate Finance Director for the Home Care division, which consisted of ten P&G brands with combined sales of $1.5 billion.

9. In 2001, I left P&G and went to Sears Credit Card division (now part of Citigroup). I was recruited to develop and lead the Business Analysis group. My responsibilities included financial planning for the Sears Gold MasterCard Portfolio, which had $13 billion in receivables, and management of the $200 million Marketing, Risk and Pricing budgets across the portfolio. Budget and financial analysis for direct mail acquisition and retail credit programs was added to my responsibilities shortly after joining Sears Credit. I led Sears Credit due diligence efforts during the acquisition of the Lands' End portfolio and a potential bid on another major portfolio.

10. In April 2003, I was promoted to the Senior Finance Executive for the Sears Credit division. My responsibilities included directing finance activities such as forecasting, analysis, reporting and accounting for the entire credit business, which had $29 billion in receivables and $5 billion in revenue. I supervised 17 managers. In November 2003, Sears sold the credit division to Citigroup. During the transition from Sears Credit to Citigroup, I was finance leader for Sears and, upon the sale to Citigroup in November 2003, became Vice President of Finance

for the acquiring company. Among my responsibilities was to work with the marketing department to implement a new acquisition strategy.

11. I joined XM in 2005. My responsibilities include directing finance activities such as forecasting, analysis, reporting and budgeting. I have a staff of 45 to assist me. As Senior Vice President of Corporate Finance, I have a global understanding of XM's business, and the expenses and revenues involved with every aspect of the business. I track XM's revenue and revenue projections, the majority of which are derived from subscriber activation and subscription fees, advertising sales, and equipment sold directly by XM to consumers. I also track XM's expenses by department and function. This would include all costs associated with XM's Washington, D.C. broadcast, operating and administrative facilities, its studios in New York, Nashville, and Chicago, and its Florida-based Research and Development department. I report directly to Joseph J. Euteneuer, XM's Executive Vice President and Chief Financial Officer. My resume is attached as Vendetti Exhibit 1.

XM Has Invested Billions To Create Satellite Radio Service

12. XM started its satellite radio service from scratch, which required substantial investment in spectrum licenses, infrastructure, technology, programming, and distribution/marketing. From inception through the end of 2006, XM is predicted to make total investments of over $6.3 billion in capital and operating expenditures. *See* Vendetti Exhibit 2. These costs include an up-front investment of approximately $1.5 billion expended before the service was even launched as well as ongoing operational costs and additional capital expenditures subsequent to launch. As shown on Vendetti Exhibit 2, XM's cumulative investments have increased over 320%, from $1.5 billion, in the past five years. This trend is projected to continue, with XM's cumulative investment expected to total almost $14 billion by 2010.

13. In addition to these cumulative costs, XM currently is carrying $1.3 billion of debt that was incurred to launch and operate XM's service. As set forth in Vendetti Exhibit 3, 30% of this debt matures in 2009, and therefore must be retired, converted to equity, or refinanced by then. [ ] Satellites and repeaters, like all electronic equipment, eventually wear out. [ ] XM also is developing a new satellite, XM-5, during the next [ ], and I expect that the total capital expenditures associated with XM-5 could [ ].

Despite Improvement, XM Remains Unprofitable

14. These costs incurred by XM to date have far exceeded revenue. For example, comparing cumulative investment to cumulative revenue on Vendetti Exhibit 2 shows that XM's investments through 2006 are expected to exceed revenue by more than $4.5 billion. This cumulative deficit is projected to decline after 2008, but to remain over $4.8 billion in 2010.

15. Unfortunately, XM has yet to be profitable. Since the launch of its service in 2001, XM's annual net losses have ranged from a minimum of $284 million in the first year to a net loss of $667 million last year. *See* Vendetti Exhibit 4. See also Exhibits 5 through 11, which are the Form 10K Annual Reports that XM filed with the Securities and Exchange Commission. Losses have continued in 2005. Analysts predict an annual loss of $696 million, which translates to an average loss of $1.9 million every single day of the year.

16. Given XM's current financial trends, projections suggest XM will achieve profitability for the first time in 2010. As noted above, however, even with profits in 2010, XM's investments through 2010 will outstrip XM's cumulative revenues by more than $4.8 billion. Moreover, XM will have to retire, convert to equity, or refinance $400 million of debt in 2009, prior to achieving profitability. Both this life-to-date deficit and substantial debt load will continue to put financial pressure on XM for some time after it achieves profitability.

Under The Rate Proposed By The Satellite Radio Services, XM Would Pay The Record Labels At Least $106 Million

17. The royalties that XM pays for the rights subject to this proceeding are a substantial expense. When calculated on a percentage of revenue basis, these costs also grow with revenue, so the projected increase in XM's revenue means XM would have to pay an increasing amount of royalties.

18. In this proceeding, the satellite radio services have proposed a royalty rate of 0.88% of revenue. As depicted in Vendetti Exhibit 12, this would require royalty payments from XM totaling $64 million over the next four years, including a payment of $21 million alone in 2010. While I understand that a royalty rate set in this proceeding would apply for six years, most analysts have forecasted XM's revenues only through 2010, so I cannot calculate a royalty payment for 2011 and 2012. Given the upward trend of XM's revenue, however, I assume the royalty payment for those two years would exceed the $21 million payment, resulting in a total six year payment of at least $106 million.

A Higher Royalty Rate Would Further Delay Profitability

19. As I mentioned earlier, XM is predicted to be profitable for the first time in 2010. However, a royalty rate higher than 0.88 percent will delay and disrupt XM's path to profitability

at a critical stage in the business's evolution. Absorbing a high royalty cost will clearly delay profitability. Trying to offset a higher royalty cost by increasing the monthly subscription fees charged to consumers could also slow subscriber growth, which is a key driver of XM's overall financial performance. Furthermore, XM has a large fixed cost base due to the significant infrastructure required to support its complex business. This leaves only variable costs to cut to offset a higher royalty fee. Cutting important variable costs in key areas like customer service, technology and especially marketing could also have a negative impact on our business. Considering the enormous investment made to date by the company, I believe that a 0.88 percent royalty rate will generate more than $106 million in compensation to the labels while allowing XM to continue on its path to profitability.

20. With respect to an attempt to increase revenue in response to a higher royalty rate, Steve Cook testifies that even if raising monthly subscription rates was possible it would decrease subscriber growth. With respect to cutting costs in response to a higher royalty rate, XM would have to cut from line items in one or more of the following categories: (a) marketing and sales costs; (b) programming and broadcast costs; (c) depreciation and amortization; (d) other costs such as interest expense; (e) general corporate costs, including research and development; or (f) revenue sharing and royalty payments. Tony Masiello (broadcast operations), Eric Logan (programming), and Steve Cook (marketing) testify in detail about the role of these categories in XM's business.

21. To provide a better understanding of their testimony, I will describe the components of these cost categories. Specifically, I will address each of six major cost categories comprising XM's $1.2 billion of total costs in 2005 that are shown on Vendetti Exhibit 13. I will also breakdown XM's $558 million of revenue realized in 2005. In this context, I want to note that I

have reviewed the allocations that Dr. Woodbury has made of line items in Exhibit 13 (although I have not reviewed Dr. Woodbury's testimony in its entirety). Based upon this review and my analysis of these costs, I believe that Dr. Woodbury's allocations are conservative (*i.e.*, he over-allocates these costs to what he calls "Hand-off Provider Costs").

22. Before I begin, however, I want to clarify the accounting concept of "depreciation and amortization" that I use in this description. As you know, depreciation and amortization represent the costs associated with a capital expenditure, spread out relatively evenly over the purchased asset's useful life rather than accounting for an expenditure all at once. For example, a capital expense of $100 million for a factory that has a 10 year useful life typically would not appear in the financials as a $100 million charge in the first year, but rather would appear as "depreciation and amortization" in each of the 10 years of the factory's useful life (e.g., $10 million per year). Vendetti Exhibit 14 demonstrates how XM capital expenditures actually occurred disproportionately as up-front expenditures, although as an accounting matter XM reflects these costs spread out over time using depreciation and amortization.

a. XM's Annual Marketing and Sales Costs

23. Steve Cook describes XM's Marketing and Sales Costs, and why they are vital to subscriber growth. *See* Direct Testimony of Steve Cook. XM's costs relating to Marketing and Sales activity were $604 million in 2005. This is what XM must pay to distribute and sell its radios and subscription service in its automotive OEM, retail, and direct channels as well as handle customer service. As set forth in Vendetti Exhibit 15, these costs are comprised of subsidies and distribution to OEMs and retailers (44%), advertising and marketing (27%), customer care and billing operations (13%), cost of merchandise sold by XM (7%), amortizing

XM's guaranteed payments to GM over the life of the contract (6%), and marketing retention and support (4%).

24. Subsidies & Distribution. Costs of subsidies and distributions were $265 million for 2005. These costs include the subsidization of radios manufactured, commissions for the sale and activation of radios, and certain promotional costs. This is what XM must spend to encourage the manufacturers to keep the retail price of an XM radio attractive to the consumer. These costs are primarily driven by the volume of XM-enabled vehicles and aftermarket radios manufactured, sold and activated through our automotive OEM partners and retail channel, and promotional activity.

25. Advertising & Marketing. Advertising and marketing costs were $163 million for 2005. During the year, XM has featured advertising with popular figures such as Derek Jeter, Ellen DeGeneres, David Bowie, and Snoop Dogg. These activities build XM brand awareness, recognition, sales, and subscriber growth. XM has achieved success in these areas through coordinated marketing campaigns that include advertising and marketing through various media, as well as through promotional marketing relationships with partners such as DirecTV and AOL. These costs are driven by XM's advertising needs and contractual obligations to XM's content providers. In addition XM invests heavily in cooperative advertising with OEMs and retailers. These include both contractual and discretionary marketing development funds that XM's distribution partners use for Sunday circulars, in-store promotions, and OEM dealer marketing and training. These costs are driven by XM's contractual relationships with its distribution partners.

26. Customer Care & Billing Operations. Costs of customer care and billing operations were $76 million for 2005. These include expenses from customer care functions as well as internal

information technology costs associated with subscriber and billing applications. These costs are primarily driven by the size and rate of growth of our subscriber base. The quality of our customer care operations significantly affect subscriber retention: no subscription-based business survives without keeping its customers satisfied, and these expenditures keep the help-line phones ringing with friendly staff to answer.

27. Costs of merchandise/equipment sold directly by XM. The costs of merchandise/equipment sold directly by XM to future subscribers were $41 million for 2005. XM sells merchandise directly to consumers through XM's online store, customer care, in cooperation with many of our partners, and at XM-owned kiosks. Costs of merchandise consist primarily of the costs of radios and accessories, including hardware manufacturer subsidies, and related fulfillment costs associated with the direct sale of this merchandise. These costs are primarily driven by the volume of radio sales as well as the cost of promotional programs used to sell the radios.

28. Amortization of GM liability. Costs associated with amortizing XM's liability to GM were $37 million for 2005. This is what XM has paid under contract to GM to secure GM's participation as an early partner in XM's venture. These costs are driven by XM's contractual obligations to GM.

29. Retention and Support Expenses. Retention and support are the fixed costs associated with XM's Marketing Department, consisting primarily of headcount and related overhead expenses for the staff responsible for driving all of XM's consumer marketing activities. Retention and support costs were $22 million for 2005.

b. XM's Annual Programming and Broadcast Costs

30. Eric Logan details XM's programming and content acquisition strategies and Tony Masiello describes XM's broadcast operations and satellite and terrestrial facilities. *See* Direct Testimony of Eric Logan; Direct Testimony of Anthony J. Masiello. XM's costs relating to its programming and broadcast totaled $160 million in 2005. As set forth in Vendetti Exhibit 16, these costs comprise of, as a percentage of the foregoing total costs, programming and content (63%), satellite and terrestrial (26%), and broadcast operations (10%).

31. Programming and Content. Costs of programming and content were $101 million for 2005. This includes both music and non-music programming costs. The costs of music programming are associated with the 69 commercial-free music channels on XM. This includes costs of programming staff, on-air talent, and payments for third party content. It also includes the costs of exclusive XM music programming like the Artist Confidential series. It does not include copyright royalties or advertising revenue shares paid to content providers. The costs of non-music programming includes not only getting access to the news, talk, and sports that XM broadcasts, but also the expert presentation, arrangement, commentary, and variety that make XM unique. These line items include the creative, production and licensing costs associated with the approximately 100 non-music channels of XM-original and third party content. Much of this programming is either exclusive to XM or branded.

32. Satellite & Terrestrial Repeater Operations. Tony Masiello details the effort required to develop, launch, operate, and maintain the XM service, including information regarding XM's satellite and terrestrial repeater network. *See* Direct Testimony of Anthony J. Masiello. Costs of satellite and terrestrial repeater operations were $42 million for 2005. This is the cost of keeping the satellites on course and the ground repeaters humming. These costs include telemetry,

tracking and control of XM's 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 as well as XM's personnel costs.

33. Broadcast Operations. Costs of broadcast operations – such as getting content feeds to XM so they can be sent up to the satellites – amounted to $17 million for 2005. This line item includes costs associated with the management and maintenance of systems and facilities, software, hardware, production and performance studios used in the creation and distribution of XM-original and third party content via satellite broadcast, the Web, and other new distribution platforms. The advertising trafficking (scheduling and insertion) functions also are included.

c. XM's Depreciation and Amortization

34. Depreciation and amortization. Costs of depreciation and amortization were $146 million for 2005. This figure represents the portion XM had to expense in 2005 of all capital expenditures put into service to develop, build, launch, and bring online its satellite and terrestrial repeater network as well as information technology hardware and software.

d. XM's Other Costs

35. XM's other costs totaled $111 million for 2005. As set forth in Vendetti Exhibit 17, these costs are comprised of net interest expense (76%), other loss (24%), and equity loss (0%).

36. Net Interest Expense. Net interest expense was $84 million in 2005. It is comprised of interest that XM must pay on its over $1 billion of debt, less the interest that XM earns from its cash balances.

37. Other Loss. Other losses were $27 million for 2005. This line item consists mainly of de-leveraging expenses, which are the cost to XM of incentives for early conversion of XM's debt.

During 2006, XM replaced its existing debt structure, moving from higher-rate secured debt to lower-rate unsecured debt.

38. Equity Loss. There were no equity losses in 2005. However, beginning in 2006, XM will realize losses associated with its 23% equity investment in Canadian Satellite Radio.

e. XM's Annual General Corporate Costs

39. XM's costs relating to general corporate operations totaled $110 million in 2005. As set forth in Vendetti Exhibit 18, costs are comprised of general and administrative costs (40%), research and development (28%), information technology and facilities administration (22%), and advertising sales (9%).

40. General & Administrative. General and administrative costs were $44 million in 2005. General & administrative expense primarily include management's salaries and benefits, professional and legal fees, general business insurance, as well as other corporate expenses. These costs have been predominantly driven by personnel costs and infrastructure expenses to support our growing subscriber base. As XM's subscribership grows, so do its administrative responsibilities.

41. Research & Development. Tony Masiello describes XM's research and development approach, including the decision to develop consumer equipment in-house. *See* Direct Testimony of Steve Cook. Costs of research and development were $31 million for 2005. Unlike terrestrial radio broadcasters, XM had to design almost every aspect of its technology, from the satellites to the design of the radio receivers. XM's in-house Innovation Center continues to develop and enhance new applications and hardware devices to leverage XM service-delivery infrastructure. These initiatives drive R&D expenses going forward. In

addition, XM's Innovation Center plays a key role in assisting automotive OEM partners in coming on-line with factory-activated units.

42. Information technology and facilities administration. These costs were $24 million for 2005. These costs include direct operating expenses associated with new system development and maintenance of existing infrastructure for all of the information technology at XM. This accounts for back office operations, general corporate operations, and IT infrastructure – everything from data storage to phones. Also included are all facilities costs associated with the maintenance and upkeep of all XM locations, including salaries and benefits associated with the facilities team,

43. Ad Sales Expenses. XM's ad sales expenses were $10 million for 2005. These expenses are the direct costs to support the ad sales group that sells XM's inventory of advertising, primarily on XM's non-music channels. These costs include items such as salary, benefits, sales commissions, travel, trade media, event marketing, training or demonstration radios, promotional items, partner events, partner marketing, marketing research & analysis, printing, office supplies, office space rental, computer, and telecommunications. They exclude the content provider revenue share with those third parties that get a percentage of XM's ad sales revenue.

f. XM's Annual Revenue Share and Royalties

44. Revenue Share and Royalties. Revenue share and royalty costs were $94 million for 2005. These expenses consist of several items. First, they include shares of subscription fees that XM pays to some of the distribution partners who directly cause XM to acquire those subscribers. XM's revenue share arrangements vary by retail and OEM partners. Without financial arrangements such as these with its distribution partners, those partners would have little incentive to market XM radios and service the consumers that are essential to XM's business.

These costs will grow as our subscriber base grows. Second, they include copyright royalties which are the cost of the payments XM makes to composers, music publishers, performing artists, and record labels for public performances of their creative works broadcast on XM. These expenses typically are driven by the royalty rates and XM's revenue. Third, they include content provider revenue share costs paid to content providers such as Fox News. These costs are driven by ad sales revenue generated on third-party channels. Finally, they include technology royalties that are paid to radio technology providers and revenue share expenses associated with the licensing of technology (for example, the technology in our chipsets). These costs are driven by XM's subscriber base and volume of units produced or activated.

g. XM's Annual Revenue

45. XM's revenue is expected to total $558 million for 2005. As set forth in Vendetti Exhibit 19, this revenue is comprised mainly of subscription revenue (90%), with a small amount of revenue from other sources. I describe these revenue components of XM's operating income immediately below.

46. Subscription Revenue. Subscription revenue was $503 million for 2005. This revenue consists primarily of the monthly subscription fees XM charges for its satellite radio and data services. As Steve Cook describes, the undiscounted standard subscription fee is $12.95 per month, and the monthly fee for data services ranges broadly from approximately $30 to over $100 depending upon the data services at issue. Subscription revenue growth is predominantly driven by the growth in our subscriber base but is affected by fluctuations in the percentage of subscribers in our various discount plans and rate changes. Additionally, the timing of subscriber additions affects comparability between time periods given that this revenue is recognized as the service is provided.

47. Net Ad Sales. Revenue from net ad sales was $20 million for 2005. This revenue consists of sales of advertisements and program sponsorships, primarily on XM's non-music channels, that are recognized in the period in which they are broadcast. Net ad sales revenue includes advertising aired in exchange for goods and services, which is recorded at fair value. Net ad sales revenue is presented net of agency commissions.

48. Revenue from direct sales of equipment by XM. Revenue generated by direct equipment sales was $18 million for 2005. This is what XM receives from its own sales of satellite radio receivers. This revenue is recognized at the time of shipment or delivery of the equipment. Discounts on equipment sold with service are allocated to equipment and service based on the relative fair values of delivered items.

49. Activation Fees. Activation fees were $10 million for 2005. These are one-time fees that range from $9.99 to $14.95. They are non-refundable and recognized ratably over a 40-month period.

50. Royalties & Other Revenue. Royalties and other revenue were $7 million for 2005. This includes gross receipt taxes, broadcast/recording activities, and invoicing fees, as well as revenue generated through XM's relationship with Canadian Satellite Radio. In 2006, an increasing portion will be driven by syndication arrangements such as with Opie & Anthony.

XM's Current "Payback Period" For A New Subscriber Is Prohibitively Long, But Is Decreasing

51. Another way to analyze XM's financial performance is on a per subscriber basis. Specifically, by comparing the cost to add new subscribers to the profit generated by those subscribers, it is possible to determine how many months or years subscribers needs to remain signed up for XM before they generate a profit (the "payback period").

52. A metric XM uses to measure the cost of adding a new subscriber is Cost Per Gross Addition ("CPGA"). As XM has achieved scale by successfully growing its customer base to over 7 million subscribers, CPGA has declined from $430 in 2002 to $109 in 2005. *See* Vendetti Exhibit 20. This means that on average XM spent $109 on total distribution and marketing costs to add each subscriber in 2005. CPGA is forecasted to fall even further by 2010, to $90.

53. To determine profitability, XM also has to analyze the profit or loss generated by the average new subscriber. This per subscriber profit or loss is different from the $12.95 monthly subscription fee. First, there is a reduction for the discounts XM offers, such as the multi-year discount and family plan. This reduced the average monthly subscriber revenue to $9.82 in 2005. *See* Vendetti Exhibit 21. Next, costs are subtracted out. This converts the gross revenue to a profit or loss. In 2005 it was a loss of $3.93. This per subscriber per month figure is forecast to become increasingly positive over the next five years, however, turning into a profit of $2.24 by 2008 and growing to a profit of $4.26 in 2010.

54. By simply dividing the costs of acquiring a new subscriber ($93 in 2008) by the profit generated by the new subscriber ($2.24 per month in 2008), it is possible to determine how many months a new subscriber must keep subscribing until the profit they generate "pays back" the costs incurred by XM to acquire them. Using analysts' 2008 cost and profit figures this payback period is 41 months, or about 3½ years. *See* Vendetti Exhibit 22. As noted above, this is too long a payback period upon which to build a sustainable subscription service. Fortunately, however, the length of this period has been getting shorter, as CPGA has been decreasing and profit per subscriber has been increasing. These positive trends are projected to continue and result in a payback period of only 21 months by 2010. *See* Vendetti Exhibit 22. During this transition, however, XM's financial performance on a per subscriber basis remains challenging.

Moreover, until there is a profit on a per subscriber per month basis in 2007, the payback period is not meaningful (*i.e.*, because the average subscriber is generating monthly losses instead of profits XM cannot recover the CPGA expended to acquire the subscriber).

55. In sum, XM has needed to invest billions of dollars supplied by investors and creditors to create and operate a brand new service for consumers, and will require substantial additional investment for ongoing operations and capital expenditures during the next several years. Although XM has succeeded in attracting over 7 million subscribers and is forecast to achieve profitability by 2010, to date it still has yet to achieve a profit either on an aggregate or per subscriber basis. The 0.88% royalty rate proposed by the services already would result in a payment by XM to the record labels of at least $106 million over 6 years. A higher rate would further delay XM's profitability and potentially impact its ability to access the financial markets. In my opinion, this could put XM at greater financial risk.

56. XM also proposes a set of associated terms along with the rate proposal. I have reviewed these terms. While compliance with these terms could impose significant administrative burden and expense on XM, XM would support adoption of these terms in this proceeding.

Certification

I declare under penalty of perjury that the foregoing is true and correct.

Dated: Washington, DC
October 30, 2006

Mark J. Vendetti

Senior Vice President of Corporate Finance,
XM Satellite Radio Inc.

37 CFR 351.10(c) Statement For Exhibits to Testimony of **Mark J. Vendetti:**

Exhibit 1	Résumé of Mark Vendetti
Exhibit 2	XM Cumulative Revenue and Investment
Exhibit 3	XM's Debt
Exhibit 4	XM's Annual Profit and Loss
Exhibit 5	XM's Form 10-K, Filed March 16, 2000
Exhibit 6	XM's Form 10-K, Filed March 15, 2001
Exhibit 7	XM's Form 10-K405, Filed March 19, 2002
Exhibit 8	XM's Form 10-K, Filed March 31, 2003
Exhibit 9	XM's Form 10-K, Filed March 15, 2004
Exhibit 10	XM's Form 10-K, Filed March 4, 2005
Exhibit 11	XM's Form 10-K, Filed March 3, 2006
Exhibit 12	XM's Proposed SoundExchange Payments
Exhibit 13	XM's Annual Cost and Revenue (2005)
Exhibit 14	XM's Capital Spending v. Deprectiation and Amortization
Exhibit 15	XM's Marketing and Sales Costs (2005)
Exhibit 16	XM's Programming and Broadcast Costs (2005)
Exhibit 17	XM's Other Costs (2005)
Exhibit 18	XM's General Corporate Costs (2005)
Exhibit 19	XM's Revenue (2005)
Exhibit 20	XM"s Cost Per Gross Addition (CPGA)
Exhibit 21	XM's Profit Performance per Subscriber per Month
Exhibit 22	XMs Payback Period per Subscriber (# of Months)
Exhibit 23	Customers' Emails re Music Purchasing Habits

MARK J. VENDETTI

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Results oriented Senior Finance Executive who has driven business improvements.

Business unit CFO in Financial Services and Consumer Products. Extensive finance and accounting experience in business unit, corporate, manufacturing and global settings. Managed P&L, balance sheet and capital investments. Successfully partnered with business leadership teams to drive revenue and profit growth. Evaluated and promoted marketing programs and new brand launches improving ROI. Skilled in valuation, divestiture and business transition. Directed forecasting, planning and analysis activities. Successfully led multi-functional teams and corporate system implementations. Demonstrated analysis and problem solving capabilities. Built diverse high performing teams.

PROFESSIONAL EXPERIENCE:

CITIGROUP (formerly SEARS CREDIT DIVISION), HOFFMAN ESTATES, IL 2001 to 2004

VICE PRESIDENT OF FINANCE, CREDIT CARD PRODUCTS (2003 to 2004)
Promoted in April 2003 to the Senior Finance Executive for Sears Credit Card division with profit and balance sheet responsibility for a business with $29 billion in receivables, $5 billion in revenue and $1.4 billion in pre-tax profit. Directed the division's finance activities including forecasting, analysis, reporting and accounting. Supervised 17 managers. After the unit was sold in November 2003, moved to the acquiring company (Citigroup) to assist new management team effectively integrate the acquisition. Took a leadership role in shaping strategy by focusing the business on most profitable activities. Unit exceeded profit target by 5% in 2003 and 40% in 2004.

- Key member of the core Sears finance team (one of four) in the sale of the Sears Credit portfolio to Citigroup. Involved in all aspects of the transaction including due diligence, offering memorandum preparation and deal structure. Sale agreement was completed within 4 months from first public announcement. Transaction was the largest credit card portfolio sale with receivables sold at a 10% premium and incentive payments to Sears of over $400 million annually.
- Finance leader for all Sears integration activities after the Credit sale to Citigroup was announced in July 2003. Successful integration and business sale occurred in November 2003.
- Assessed the impact of the new Sears / Citi program agreement on existing account acquisition and retail strategies. Exploited this knowledge while working with Marketing to implement a new acquisition strategy and several new retail programs which increased new accounts by 16% vs. 2003 and grew credit share penetration over the last 6 months of 2004, reversing a multi-year declining trend.
- Designed a decision support data warehouse consisting of key profitability and portfolio measures at the account level (over 50 million accounts). The design is considered a best practice within the Citigroup credit card organization.
- Completed a comprehensive MasterCard segmentation analysis in 2004. Used the analysis to identify $50 million of pricing revenue and convince the new Citigroup senior management team to continue existing product migration strategies developed under my leadership while at Sears.

FINANCE DIRECTOR, BUSINESS ANALYSIS, CREDIT CARD PRODUCTS (2001 to 2003)
Recruited by the Vice President of Finance, Credit Card Products to develop and lead the Business Analysis group. Responsible for decision analysis on business initiatives, financial planning on the Sear Gold MasterCard Portfolio ($13 billion in receivables) and management of Marketing, Risk, and pricing budgets ($200 million) across the entire portfolio. Oversaw 7 professionals.

- Only Finance Director invited to participate in the Sears High Potential development program in February 2003 in recognition of strong achievement and potential to report to the CEO.
- Led pricing of high risk accounts in 2003 generating over a $100 million annual pre-tax profit increase.
- Implemented behavior and risk based pricing beginning in the fall of 2001 on Sears Gold MasterCard migration program improving NPV on 10 million accounts by $50 per account vs. earlier programs.
- Developed new bad debt allowance model in response to external auditors' concerns over portfolio quality.
- Led Sears Credit due diligence on Lands' End acquisition and potential AARP portfolio bid.
- Employed Activity Based Costing (ABC) to more accurately allocate operating expenses in portfolio segmentation.
- Responsibilities significantly expanded in October 2001 to include budget and financial analysis for direct mail acquisition and retail credit programs. Budget responsibility was increased by $60 million.

PROCTER & GAMBLE, CINCINNATI, OH 1989 to 2001

ASSOCIATE FINANCE DIRECTOR, HOME CARE (1999 to 2001)
Only business unit CFO at the Associate Director level to have regional (North America) and global brand (Cascade and Febreze) profit and capital responsibility. North American unit consisted of 10 brands with combined sales of $1.5 billion and 2 manufacturing locations. North American unit achieved record sales (+23% vs. YA) and operating profit (+9% vs. YA) in FY 2000. Supervised 10 professionals.

- Led North America Home Care through a portfolio evaluation process. Outcome was a decision to divest several brands and focus on new brands. Liaison with Corporate M&A group during the divestiture.
- Designed and implemented initiative tracking process to provide general manager with key diagnostics on major initiatives allowing for early reaction and plan changes to maximize results. Adopted as a best practice and implemented globally by the Home Care division.

ASSOCIATE FINANCE DIRECTOR, GENERAL ADVERTISING FINANCE (1996 to 1999)
Administered U.S. advertising and corporate marketing budgets (over $1.0 billion). Owned global marketing accounting policy, insured compliance with GAAP, and worked with the company's external auditors. Directed several projects that were part of P&G's reorganization from regional to global product management. Oversaw 10 managers.

- Led breakthrough development of P&G North America's first integrated advertising and marketing measurement tool that brands could use to improve the ROI of their marketing spending.

GROUP MANAGER, FINANCIAL ANALYSIS, US LAUNDRY (1995 to 1996)
Managed the forecast and led strategic planning processes for P&G's largest operating unit with sales of over $2.5 billion. Operating unit finished the fiscal year within .2% of company profit commitment. Analyzed category market growth causing the business to evaluate existing operating plans and adopt several new plans.

PROJECT MANAGER, WORLDWIDE FINANCE AND ACCOUNTING SYSTEMS (1993 to 1995)
Led finance team that created the company's first global reporting and executive information system. Coordinated activities of 5 finance and 8 IT managers. Project completed on time and to specifications.

- Team received one of eleven Global Finance and Accounting Leadership Awards in 1995.

PLANT ACCOUNTING MANAGER, KANSAS CITY, KS (1991 to 1993)
Owned accounting and financial analysis activities for $100 million manufacturing operation and $8 million shutdown reserve for one of the plant's modules. Directed accounting staff of 4.

- Used total quality and ABC analysis to reduce costs by $4 million annually.
- Analyzed production and costs leading to the consolidation of two manufacturing operations into Kansas City.

FINANCIAL ANALYST / PROFIT FORECASTER, US LAUNDRY AND CLEANING, (1989 to 1991)
Managed the profit forecast, coordinated activities across several different forecast groups, reconciled actual results vs. the forecast, recommended forecast changes and communicated changes to senior managers. Implemented new processes that improved accuracy of forecasts with FY year miss of .2% of profit commitment.

EDUCATION:

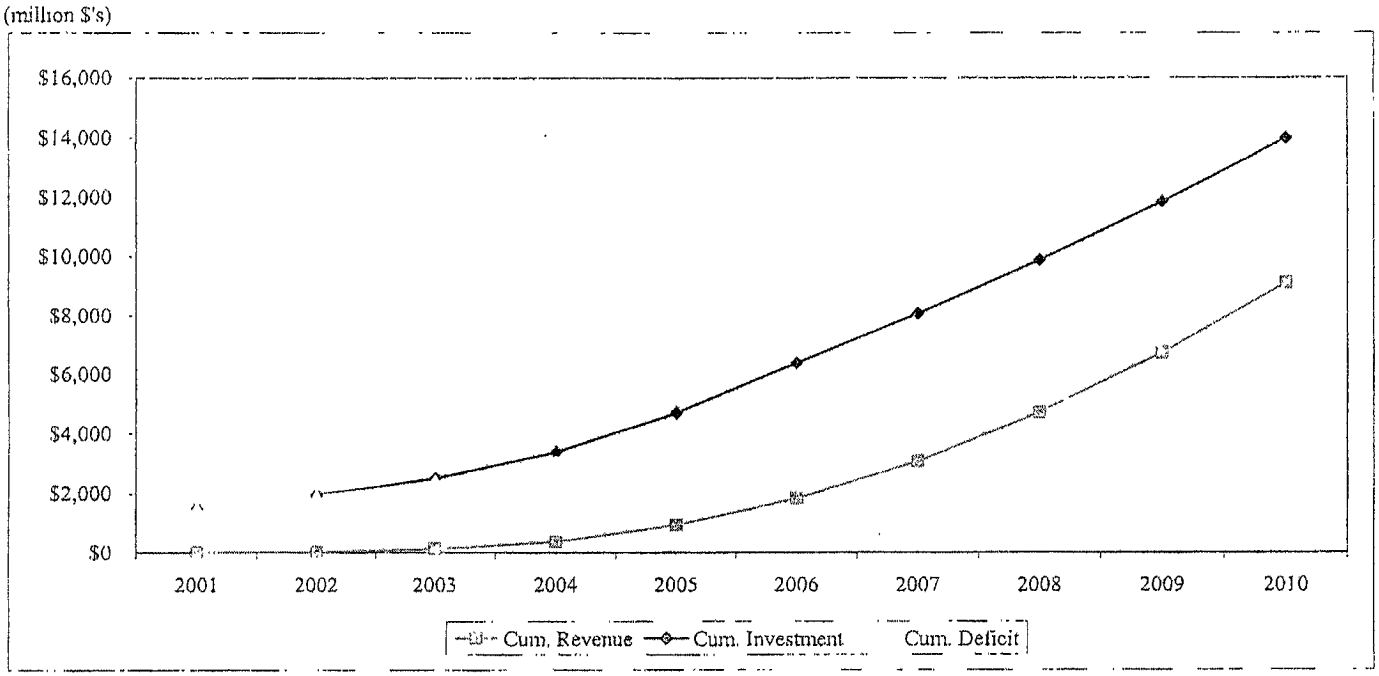
M.B.A., Harvard Graduate School of Business Administration, Boston, MA, 1989

B.A., Mathematics, Amherst College, Amherst, MA, 1983

Continuing Education Programs:

- **SEC Institute Seminars**
  Implementing SOX 404 Internal Control Reporting (April 2005)
- **Total Quality Training** (2002)
  Several multi-day workshops in total quality and Six-Sigma while at Sears
- **General Electric Financial Management Program** (1983 to 1986)
  Completed one of the premier company run finance and accounting training programs consisting of rotational assignments and college level classroom studies in accounting and auditing.

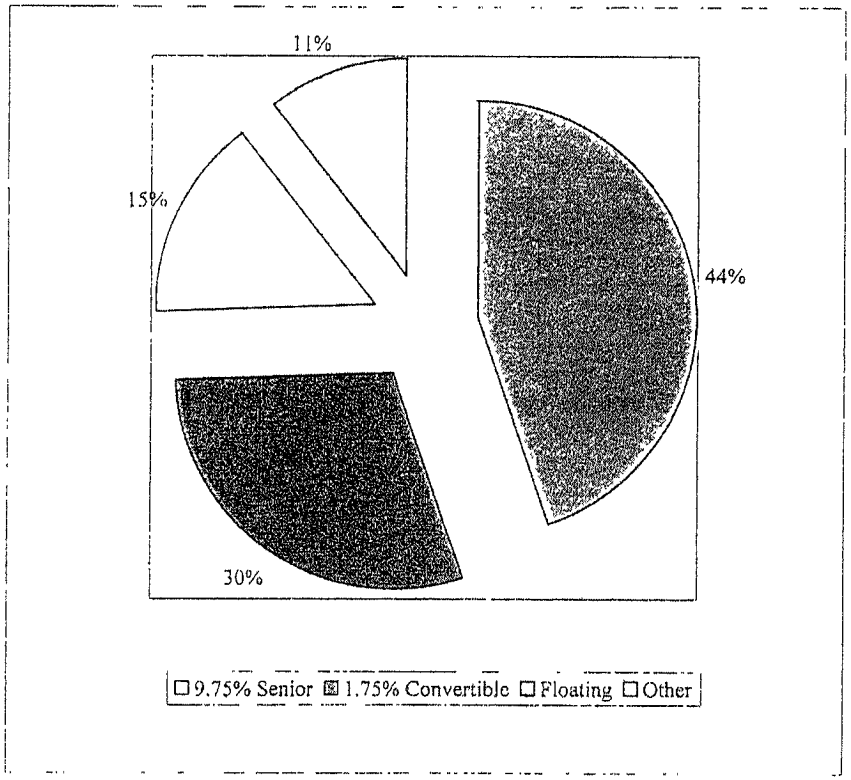
XM's Cumulative Revenue and Investment



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Cum. Revenue	$1	$21	$112	$357	$915	$1,832	$3,071	$4,705	$6,715	$9,084
Cum. Investment	$1,492	$1,931	$2,505	$3,379	$4,698	$6,388	$8,065	$9,861	$11,838	$13,982
Cum. Deficit	$1,491	$1,911	$2,393	$3,022	$3,782	$4,556	$4,994	$5,156	$5,124	$4,898

Data through 2005 is based on published XM results. Data for 2006 and forward is based on an average of 19 analysts that cover XM.

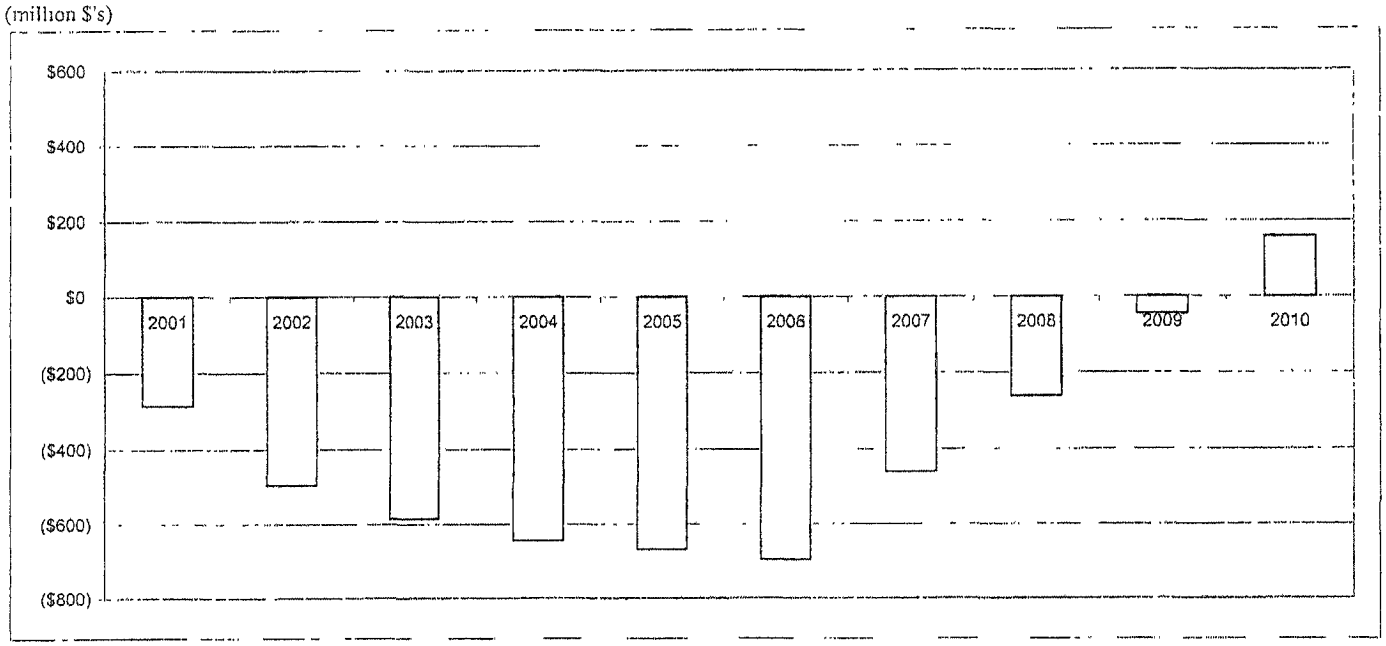
XM's Debt (As of 6/30/06)



Component	Maturity	%	$M'
9.75% Senior	May 2014	45%	$600
1.75% Convertible	Dec 2009	30%	$400
Floating	May 2013	15%	$200
Other	Various	11%	$141
Total		100%	$1,341

Data through 2005 is based on published XM results. Data for 2006 and forward is based on an average of 19 analysts that cover XM.

XM's Annual Profit and Loss



($M)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenue	$1	$20	$92	$244	$558	$917	$1,239	$1,633	$2,010	$2,370
Costs	$285	$515	$676	$887	$1,225	$1,612	$1,700	$1,894	$2,055	$2,211
P / (L)	($284)	($495)	($585)	($642)	($667)	($696)	($460)	($261)	($45)	$159
P / (L) day	($0.8)	($1.4)	($1.6)	($1.8)	($1.8)	($1.9)	($1.3)	($0.7)	($0.1)	$0.4

Data through 2005 is based on published XM results. Data for 2006 and forward is based on an average of 19 analysts that cover XM.

10kWIZARD
SEC POWER SEARCH

FORM 10-K

XM SATELLITE RADIO HOLDINGS INC - XMSR

Filed: March 16, 2000 (period: December 31, 1999)

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

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SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended: December 31, 1999

Commission File Number: 0-27441

XM Satellite Radio Holdings Inc.

(Exact name of registrant as specified in its charter)

Delaware	54-1878819
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1250 23rd Street, N.W. Washington, DC	20037-1100
(Address of principal executive offices)	(Zip Code)

(202) 969-7100
(Registrant's telephone number, including area code)

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

Not Applicable

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

Title of Class

Class A Common Stock, par value $.01 per share
8.25% Series B Convertible Redeemable Preferred Stock, par value $.01 per share

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]

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

The aggregate market value of common stock held by non-affiliates of the registrant, based upon the closing price of the registrant's Class A common stock as of March 10, 2000 is $42.50.

As of March 10, 2000, there were 32,156,738 shares of the registrant's Class A common stock and 16,557,262 shares of the registrant's Class B common stock outstanding.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

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Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

Except for any historical information, the matters we discuss in this Form 10-K concerning our company contain forward-looking statements. Any statements in this Form 10-K that are not statements of historical fact, are intended to be, and are, "forward-looking statements" under the safe harbor provided by Section 27(a) of the Securities Act of 1933. Without limitation, the words "anticipates," "believes," "estimates," "expects," "intends," "plans" and similar expressions are intended to identify forward-looking statements. The important factors we discuss below and under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as other factors identified in our filings with the SEC and those presented elsewhere by its management from time to time, could cause actual results to differ materially from those indicated by the forward-looking statements made in this Form 10-K.

PART I

ITEM 1. BUSINESS

Unless the context otherwise requires, the terms "we," "our" and "us" refer to XM Satellite Radio Holdings, Inc. and its subsidiaries, including XM Satellite Radio Inc. XM Satellite Radio Inc. was incorporated in Delaware in 1992. XM Satellite Radio Holdings Inc. was incorporated in Delaware and became a holding company for XM Satellite Radio Inc. in early 1997.

Overview

We seek to become a premier nationwide provider of audio entertainment and information programming. We will transmit our XM Radio service by satellites to vehicle, home and portable radios. We own one of two FCC licenses to provide a satellite digital radio service in the United States. We will offer a wide variety of music, news, talk, sports and other specialty programming on up to 100 distinct channels. We believe that customers will be attracted to our service because of its wide variety of formats, digital quality sound and coast-to-coast coverage.

We are constructing our satellite system and have contracts with third party programmers, vendors and other partners. Key milestones achieved include the following:

- $865.0 million of equity proceeds raised to date, net of expenses, interest reserve and repayment of debt, including an initial public offering; an offering of subordinated convertible notes to several strategic and financial investors, including General Motors, Clear Channel Communications, DIRECTV, Telcom Ventures, Columbia Capital and Madison Dearborn Partners, which converted into equity at the time of our initial public offering; concurrent follow-on offerings of Class A common stock and Series B convertible redeemable preferred stock; and the private placement of units consisting of senior secured notes and warrants to purchase shares of Class A common stock;

- Contract with Hughes for construction and in-orbit delivery of two high-powered satellites and long lead items for a ground spare;

- Contracts with LCC International for design of our international repeater network and Hughes for the design and manufacture of the terrestrial repeaters;

- Long-term agreement with the OnStar division of General Motors covering the installation and exclusive marketing and distribution of XM Radio service in General Motors vehicles;

- Contracts with Delphi-Delco Electronics, Sony, Motorola, Pioneer, Alpine, Mitsubishi, Audiovox, Clarion and SHARP to manufacture and distribute XM radios;

- Agreement with STMicroelectronics, a leading digital audio chipset manufacturer, for the design and production of chipsets for XM radios;

- Agreement with Lucent Digital Radio to provide coding technology for our audio signals;

- Agreements with leading specialty programmers, for many of which we will be the exclusive satellite radio platform, covering at least 24 channels, including AsiaOne, Black Entertainment Television (BET), BBC World Service, Bloomberg News Radio, Clear Channel, CNN en Espanol, CNNfn, CNN

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

Sports Illustrated, C-SPAN, DIRECTV, Hispanic Broadcasting Corporation (formerly Heftel), NASCAR, One-on-One Sports, Radio One, Salem Communications, Sporting News, Weather Channel and USA Today;

- Engaged Premiere Radio Networks to be our advertising sales representative;

- Entered into marketing arrangements with SFX Entertainment and NASCAR;

- Letter of intent with Freightliner Corporation to install XM radios in Freightliner trucks; and

- Agreement with Sirius Radio to develop a unified standard for satellite radios, which will facilitate the ability of consumers to purchase an interoperable radio capable of receiving both our and Sirius Radio's service.

Market Opportunity

We believe that there is a significant market for our satellite radio service. Market studies show strong demand for radio service, as evidenced by radio listening trends, data relating to sales and distribution of radios and the general growth in radio advertising. In addition, we note that in many markets audio programming choices are limited to mass appeal formats. We believe our national subscription service will complement traditional local radio. Moreover, the success of subscription entertainment services in other media such as cable television and market research further indicate potential for significant consumer demand for satellite radio services.

Radio Listening

On average, adults listen to the radio 3.2 hours a day, with the amount of radio listening fairly evenly distributed across gender and age groups. The percentage of people listening to radio is also high. Market data show that over 75% of the entire United States population age 12 and older listen to the radio daily, and over 95% listen on a weekly basis (Radio Marketing Guide and Factbook for Advertisers, Radio Advertising Bureau, Fall 1999 to Spring 2000).

In addition, more people listen to radio than to other comparable audio entertainment formats. The popularity of radio versus these other formats appears particularly strong in the car, where we will be targeting our service initially. An estimated 69% of consumers chose radio as their most listened to format in the car as compared to 15% for cassettes and 9% for CDs (Radio Listening Habits, CEMA 1999).

Radio Sales and Distribution

A large number of radios are sold in the United States on an annual basis. In 1999, radio manufacturers sold over 29 million car radios, including 17 million original equipment automobile radios and 11 million aftermarket automobile radios, as well as 1.2 million aftermarket automobile CD changers. Original equipment radios are installed in new cars; aftermarket radios are installed in the automobile after purchase. Based on these statistics, each additional one million subscribers would represent less than 3.5% of the new original equipment manufacturer and aftermarket car radios brought to market annually and would generate incremental subscription revenues, at $9.95 per month, of approximately $120 million.

Radio Advertising

The continued popularity of radio is also reflected in the growth of radio advertising. The Radio Advertising Bureau estimates that radio advertising revenue in 1999 climbed to $17.7 billion, an increase of 15% over 1998. Veronis, Suhler & Associates projects a compound annual increase of 9.7% through 2003. This growth rate exceeds the projected increase in advertising spending for television, newspapers, magazines, yellow pages and outdoor advertising (Communications Industry Forecast, 1999).

Current Limitations on Programming Choice

Many consumers have access to a limited number of stations and programming formats offered by traditional AM/FM radio. Our service is expected to be attractive to underserved radio listeners who want expanded radio choices.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

Limited Number of Radio Stations. The number of radio stations available to many consumers in their local market is limited in comparison to the up to 100 channels we expect to offer on a nationwide basis. In 1998, there were only 47 AM/FM radio stations as listed by Arbitron broadcasting in New York City, the largest radio market in the United States. In fact, many metropolitan areas outside the largest 50 markets, such as Jacksonville, FL, Louisville, KY, and Oklahoma City, OK, have 30 or fewer AM/FM radio stations as listed by Arbitron (American Radio, Spring 1999 Ratings Report, Duncan's American Radio, 1999).

We estimate that our coast-to-coast service will reach over 98 million listeners age 12 and over who are beyond the range of the largest 50 markets as measured by Arbitron. Of these listeners, 36 million live beyond the largest 276 markets (Census data and Fall 1999 Market Rankings, The Arbitron Company). In addition, there are 22 million people age 12 and above who receive five or fewer stations (The Satellite Report 1999, C. E. Unterberg, Towbin).

Limited Programming Formats. We believe that there is significant demand for a satellite radio service that expands the current programming choices available to these potential listeners. Over 52% of all commercial radio stations use one of only three general programming formats--country, adult contemporary and news/talk/sports (Veronis, Schuler & Associates Communications Industry Forecast 1999). Over 71% of all commercial radio stations use one of only five general formats--the same three, plus oldies and religion. The small number of available programming choices means that artists representing niche music formats likely receive little or no airtime in many markets. Radio stations prefer featuring artists they believe appeal to the broadest market. However, according to the Recording Industry Association of America, recorded music sales of niche music formats such as classical, jazz, movie and Broadway soundtracks, new age, children's programming and others comprised up to 21% of total recorded music sales in 1998 (1998 Consumer Profile).

Demand for Subscription Services and Products

Penetration data relating to cable, satellite television, and premium movie channels suggest that consumers are willing to pay for services that dramatically expand programming choice or enhance quality. As of 1999, over 67% of TV households subscribe to basic cable television at an average monthly cost of $29, and over 11% of TV households subscribe to satellite television at an average monthly cost of $51 (National Cable Television Association website and DBSdish.com website). Also in 1999, according to Paul Kagan Associates, subscribers to cable and satellite services purchased more than 75 million premium channel units, such as HBO, Showtime, and Cinemax, for which they paid an extra monthly charge on top of the basic monthly fee.

Demand for Satellite Radio Services

Several studies have been conducted demonstrating the demand for satellite radio service.

In June 1999, we commissioned Strategic Marketing And Research Techniques, (SMART), a leading market research company and Dr. Frank M. Bass, a leading authority on the diffusion of new products and inventor of the Bass curve, to estimate the demand for satellite radio based on survey data and historical information. SMART surveyed 1,800 people ages 16 and over. The study concluded that as many as 49 million people may subscribe to satellite radio by 2012, assuming $9.95 as a monthly subscription fee and a radio price point of $150-$399, depending upon the type of car or home unit chosen. The study also anticipated that satellite radio will grow even faster than DBS.

In December 1998, we commissioned SMART to conduct a study based on one-on-one interviews with over 1,000 licensed drivers ages 16 to 64 in ten geographically dispersed markets. The study concluded that approximately 50% of aftermarket radio purchases would be for AM/FM/satellite radio units with a single-disc CD player. This assumed a radio price point of $399, a $75 installation fee and a $10 monthly subscription fee for the service. The same study also found that consumers are more likely to buy satellite radio units that offer at least 80 channels.

In November 1998, we commissioned Yankelovich Partners to gauge consumer interest in satellite radio. This involved surveying 1,000 people via telephone and correlating the results with the Yankelovich MONITOR

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

study, which is the longest standing tracking study of consumer values and attitudes in the United States. The study indicated that 18% of people age 16 and older were "definitely" or "probably" willing to pay $9.99 per month to receive satellite radio and an additional $150 for a satellite radio when buying a new car.

The XM Radio Service

We are designing the XM Radio service to address the tastes of each of our targeted market segments through a combination of niche and broad appeal programming. We believe that our distinctive approach to programming, combined with digital quality sound and virtually seamless signal coverage throughout the continental United States, will position us to become the leading provider of the next generation in radio.

We Will Differentiate XM Radio from Traditional AM/FM Radio

Local radio stations, even those which are part of national networks, focus on maximizing listener share within local markets. This limits the types of programming they can profitably provide to mass appeal formats. In contrast, our nationwide reach and ability to provide up to 100 channels in each radio market will allow us to aggregate listeners from markets across the country, expanding the types of programming we can provide. The following chart indicates differences between XM Radio and traditional AM/FM radio.

	XM Radio	Traditional AM/FM Radio
Convenience: go anywhere capability	Virtually seamless signal coverage in the United States	Local area coverage
Choice: wide variety/number of stations	Up to 100 channels with a wide variety of programming	Limited formats in many markets
Improved audio quality	Digital quality sound	Analog AM/FM quality sound
Fewer commercials	Average 6-7 minutes per hour; some channels commercial free	Average 13-17 minutes per hour
More information about music	Text display with title/name of song/artist	No visual display

We plan to further differentiate XM Radio from traditional AM/FM radio in the following ways.

Provide music formats unavailable in many markets. XM Radio will offer many music formats that are popular but currently unavailable in many markets. More than 52% of all commercial radio stations in markets measured by Arbitron use one of only three programming formats: country; adult contemporary; or news/talk/sports. There are many types of music with significant popularity, as measured by recorded music sales and concert revenues, that are unavailable in many traditional AM/FM radio markets. Such music could include classical recordings or popular blues and rap music that have retail appeal but are not commonly played on traditional AM/FM radio. This music also includes special recordings such as the Irish dance soundtrack "Riverdance" and the "Three Tenors" concerts which generate millions of CD sales, yet are not typically played on today's AM/FM stations. Additionally, heavy metal and dance are two of the more popular musical styles not currently broadcast in many small and medium sized markets. Even major markets do not always offer a full complement of formats.

Superserve popular music formats. We will be able to offer more specific programming choices than traditional AM/FM radio generally offers for even the most popular listening formats. For example, on traditional AM/FM radio oldies music is often generalized on a single format. We will be able to segment this category by offering several dedicated, era-specific formats. We also plan to offer up to six dedicated channels with urban formats and four distinct country music formats.

Use more extensive playlists. Traditional AM/FM radio stations frequently use limited playlists that focus on artists and specific music that target the largest audience. With our large channel capacity and focus on

specific formats, we have the ability to provide more variety to attract listeners dissatisfied with repetitive and/or limited playlist selection offered by traditional radio.

Deliver a wide range of ethnic and informational programming. We will provide a variety of formats that target specific ethnic and special interest groups who are rarely served by traditional AM/FM radio. We believe by using our national platform to aggregate geographically disparate groups through affinity programming, we will provide advertisers a valuable way to market products and services to these groups by advertising on our affinity channels.

Develop promotional opportunities with record companies, recording artists and radio personalities. Because of our nationwide coverage and resulting economies of scale, we will be able to deliver a variety of national promotions and events that would not be cost effective or efficient on a market-by-market basis through traditional AM/FM radio distribution. Also, we will seek to hire and develop high profile talk and disc jockey talent capable of becoming the next generation of national radio stars with an influence on radio similar to the impact that the new breed of cable TV talk hosts have had on the television industry.

Respond quickly when major music and cultural events occur. XM Radio programmers will respond quickly to changing musical tastes, seasonal music and emerging popular cultural events, such as Bruce Springsteen and Ricky Martin tours, by providing listeners with extensive coverage utilizing our large channel capacity.

Take advantage of digital's higher quality signal. There are several music formats that have strong demand but have been relegated to AM stations with weaker signals due to lack of available FM frequencies. Such AM formats include traditional country music, big band/nostalgia and gospel formats that we will be able to deliver with superior sound quality.

Focus on special demands of mobile listeners. A significant percentage of radio listeners, such as truckers, routinely travel through two or more radio markets on a frequent basis. According to the U.S. Department of Transportation, there were over three million truckers in the United States in 1997. We believe these listeners will be attracted to a radio service with national coast-to-coast coverage. We are seeking to specifically identify and target the listening demands of this audience.

Availability of commercial-free and limited-advertising channels. We believe that a significant portion of the listening market would pay to subscribe to a radio service that provided commercial-free channels and channels with reduced advertising, as demonstrated by the appeal of limited periods of non-stop music used by some traditional AM/FM stations. Therefore, we plan to target this audience with a number of commercial-free music channels covering popular music formats. In addition, we expect that our limited-advertising channels will carry less than half the advertising spots of typical AM/FM stations.

Use cross-promotion capability to market XM Radio. We will dedicate a percentage of our advertising inventory across our channels to promote specific programming and brand loyalty. AM/FM radio stations traditionally promote on a single channel basis to build awareness.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

Representative XM Radio Channel List

The following table is a list of representative channels we may offer. Channels in italics represent contractual commitments with content providers.

Representative Channels of XM Radio

ROCK MUSIC
Classic Rock
Classic Hard Rock
New Hard Rock
New Alternative
Classic Alternative
Soft Rock
ECLECTIC MUSIC
Contemporary Christian (Salem)
Traditional Christian (Salem)
Blues
Traditional Jazz
Reggae/Island
World Music
American Folk
Pop Classical
Traditional Classical
Modern Jazz
Progressive/Fusion
POP MUSIC
Top 20 Contemporary Hits
Disco/Dance
Broadway Show Tunes
Modern Adult Contemporary
Classic Vocalists
All Request Contemporary Hits
SPORTS
Sports Headlines (CNN/Sports)
Sports Talk (One-On-One Sports, Sporting News)
Sportsman Channel
Automotive (NASCAR)
COUNTRY MUSIC
Mainstream Country
Classic Country
Bluegrass/Traditional Country
All Request Country

INFORMATION
All News (USA Today)
All News (Bloomberg)
Public Affairs (C-SPAN)
Financial News (CNNfn)
News/Information (BBC World Service)
Home & Garden
Love/Relationship Line
Farm/Rural
Health/Fitness
Comedy
Audio Books
Consumer Classified
Soap Operas
For Truckers Only
Movie Soundtrack Channel
Relationship Classified (-18)
Relationship Classified (19-30)
Relationship Classified (31-50)
Relationship Classified (51+)
Lifestyles
Celebrity Gossip
Entertainment News
Game Show/Contest
URBAN MUSIC
Hip Hop/Rap (BET/Radio One)
Urban Dance Mix (Radio One)
Classic Soul (BET/Radio One)
Gospel (BET/Radio One)
Adult Urban (BET/Radio One)
Top 20 Urban
ENVIRONMENTAL MUSIC
Soft Jazz
New Age
Electronic
Environmental (Earth Sounds)
Beautiful Instrumentals

HISPANIC
Tejano (Hispanic Broadcasting Corp.)
Caribbean (Hispanic Broadcasting Corp.)
Regional Mexican (Hispanic Broadcasting Corp.)
Rock en Espanol (Hispanic Broadcasting Corp.)
Hispanic Ballads (Hispanic Broadcasting Corp.)
Hispanic News (CNN en Espanol)
OLDIES MUSIC
40's Oldies
50's Oldies
60's Oldies
70's Oldies
80's Oldies
90's Oldies
Love Songs
TALK
African American Talk (BET/Radio One)
Asian/Indian Talk (AsiaOne)
Christian/Family Talk (Salem)
Mandarin Talk (AsiaOne)
Conservative Talk
Liberal Talk
Senior Citizen Talk
Rock Talk
Hispanic Talk
Teen Talk
CHILDREN'S MUSIC
Pre-School
Grade School/pre-teen
SPECIAL/EVENTS
Reserved Channels

Key Elements of Our Business

We have developed a business strategy to become a premier nationwide provider of audio entertainment and information programming in the vehicle, home and portable markets. Our strategy includes the following elements.

Programming

We believe that the quality and diversity of our programming will be a key driver of consumer interest in our service. To that end, we have developed a unique programming strategy that offers consumers

- Original music and information channels created by XM Originals, our in-house programming unit;
- Channels created by well-known providers of brand name programming; and
- The availability of commercial-free and advertiser-supported channels.

XM Originals. Through a programming unit in XM Radio called "XM Originals", we will create a significant number of original channel formats with content focusing on popular music such as oldies, rock and country, and on new and innovative formats, including jazz, blues, reggae and pop classical. These formats will include artists with strong music sales and concert revenue who do not get significant airplay on traditional AM/FM radio stations. We also intend to brand individual channels creating a specific station personality and image using compelling on-air talent and other techniques to attract listeners in our target market segments. We have hired a team of programming professionals with a proven track record of introducing new radio formats and building local and national listenership.

Brand Name Programming Partners. We intend to complement our original programming with a variety of unique and diverse content provided to us by brand name programming providers. We have signed contracts representing at least 24 channels with numerous well-known specialty and niche programmers that will provide brand name content for XM Radio. These companies include:

Media	Radio
-- Bloomberg News Radio	-- Hispanic Broadcasting Corporation (formerly Heftel)
-- USA Today	-- Clear Channel Communications
-- CNNfn	-- Radio One
-- CNN en Espanol	-- Salem Communications
-- CNN Sports Illustrated	-- AsiaOne
-- C-SPAN Radio	-- One-On-One Sports
-- Black Entertainment Television	-- BBC World Service
-- DIRECTV	-- NASCAR
-- Weather Channel	
-- Sporting News	

Availability of Commercial-Free and Limited-Advertising Channels. We will provide a number of commercial-free music channels covering popular music formats. In addition, our limited-advertising channels will carry less than half the advertising of a typical AM/FM radio station. We expect the diversity of our programming line-up will appeal to a large audience, including urban and rural listeners of all ages, ethnicities, economic groups and specialty interests. We expect to tailor our programming and marketing to appeal to specific groups within those audiences that research has shown are most likely to subscribe to our satellite radio service. Initially, we plan to concentrate our programming efforts on listeners who are most receptive to innovative entertainment services, so-called early adopters, and new car buyers. According to our research, 16-34 years old adults will compose a high percentage of our early adopters; we will therefore focus a significant portion of our programming and marketing efforts to appeal to them. In addition, we will develop programming and marketing specifically to appeal to other market segments such as baby boomers who are 35-53 years old, seniors who are 54 years old and older, African-Americans, Asian-Americans and Hispanics.

Future Content Arrangements. Under our agreement with Sirius Radio, all new arrangements with providers of programming or content, including celebrity talent, must be non-exclusive and may not reward any provider for not providing content to the other party.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

Marketing and Distribution

Our marketing strategy will be designed to build awareness and demand among potential subscribers in our target markets and the advertising community. In addition, we expect to work closely with radio and automotive manufacturers and retail distributors to promote rapid market penetration.

Establish Broad Distribution Channels for XM Radios

We plan to market our satellite radio service through several distribution channels including national electronics retailers, car audio dealers, mass retailers and automotive manufacturers. In addition, we will support our distribution channels by building awareness of XM Radio with a substantial introductory launch campaign, including national and local advertising.

Exclusive Distribution Agreement with General Motors. We have an agreement with the OnStar division of General Motors whereby, for a 12-year period, General Motors will exclusively distribute and market the XM Radio service and install XM radios in General Motors vehicles beginning in 2001. General Motors sold over 4.9 million automobiles in 1999, which represented more than 29% of the United States automobile market. Under the agreement, we have substantial payment obligations to General Motors, including among others, certain guaranteed, annual, fixed payment obligations. While we have discussed with General Motors certain installation projections, General Motors is not required to meet any minimum targets for installing XM radios in General Motors vehicles. In addition, certain of the payments to be made by us under this agreement will not be directly related to the number of XM radios installed in General Motors vehicles. Our contract with General Motors is described in more detail under the caption "Certain Relationships and Related Transactions--Distribution Agreement with General Motors and OnStar." We are currently in discussions with other car manufacturers regarding additional distribution agreements.

Distribution through Radio Manufacturers. We have signed contracts with Delphi-Delco, Motorola, Pioneer, Alpine, Mitsubishi, Audiovox and Clarion for the development, manufacture and distribution of XM radios for use in cars and a contract with Sony Electronics to design, manufacture and market XM radios for the portable, home, aftermarket and original equipment manufacture car stereo markets. One of these manufacturers, Delco Electronics Corporation, a subsidiary of Delphi Automotive Systems, is the leading original equipment manufacturer of radios for the automobile industry, producing more than 33% of car radios manufactured for installation in new automobiles in the United States in 1997. Delphi-Delco is also the leading manufacturer of car radios sold in General Motors vehicles and has signed a contract to build our radios for General Motors. Sony is the leader in sales of portable CD players by a large margin and one of the top three sellers of shelf systems. Sony has agreed to assist with marketing XM Radios and has agreed to incentive arrangements that condition its compensation on use of XM Radios manufactured by Sony or containing Sony hardware. Motorola is a leading supplier of integrated electronics systems to automobile manufacturers. Mitsubishi Electronic Automotive America, together with its parent corporation Mitsubishi Electronic Corp., is the largest Japanese manufacturer of factory- installed car radios in the United States. Clarion is a leader in the car audio and mobile electronics industry. Two of our other manufacturers, Pioneer Electronics Corporation and Alpine Electronics, together sold over 31% of aftermarket car radios sold in the United States in 1999. We have also signed a contract with SHARP to manufacture and distribute XM radios for home and portable use. We are pursuing additional agreements for the manufacture and distribution of XM radios, subject to contract limitations on the number of manufacturer distributors during the early years of service. We also plan to meet with automobile dealers to educate them about XM Radio and develop sales and promotional campaigns to promote XM radios to new car buyers.

These leading radio manufacturers have strong retail and dealer distribution networks in the United States. We expect to have access to the distribution channels and direct sales relationships of these distributors, including national electronics retailers, car audio dealers and mass retailers.

We do not intend to manufacture or hold inventory of XM radios. Radio distribution likely would be handled by fulfillment centers, which hold inventory for the radio manufacturers and ship products directly to listeners at the manufacturers' request.

Rural Market Distribution/Alternative Distribution. We intend to market our satellite radio service in rural counties, using distribution channels similar to satellite television, to penetrate rural households not served by traditional electronic retailers. In addition, we plan to pursue alternative distribution opportunities such as catalog/direct marketing, the Internet and marketing through affinity groups.

Future Distribution Arrangements. We have signed an agreement with Sirius Radio to develop a unified standard for satellite radios to facilitate the ability of consumers to purchase one radio capable of receiving both our and Sirius Radio's services. Both companies expect to work with their automobile and radio manufacturing partners to integrate the new standard. Future agreements with automakers and radio manufacturers will specify the unified satellite radio standard. Furthermore, future agreements with retail and automotive distribution partners and content providers will be on a non-exclusive basis and may not reward any distribution partner for not distributing the satellite radio system of the other party.

In addition, we have signed a letter of intent with Freightliner Corporation to install XM radios in Freightliner trucks.

Maximize Revenue Through Dual Sources

As with other subscription-based entertainment media such as cable television, we expect to generate revenue by charging a monthly subscription fee and selling limited advertising time. We will earn all of the revenue from advertising on our own programming and a portion of the revenues from advertising on third party programming. XM Radio offers a new national radio platform for advertisers that solves many of the problems associated with buying radio advertising nationally on a spot or syndicated basis. We believe the attractiveness of one-stop national radio advertising buys will provide a significant source of income as our subscriber base grows.

Subscriber Development and Expansion

We expect to promote XM Radio as a national brand name with an exciting image. Several months prior to service commencement, we will launch an advertising campaign in several United States markets to test and generate early feedback on the product offerings and stimulate early demand. Promotional activities currently under consideration include distributing sample programming at retail outlets, concert venues and on the Internet to generate initial interest. For instance, we have entered into an agreement with SFX Entertainment to be the exclusive satellite radio advertiser at live concerts and sporting events presented by, and live entertainment venues managed by, SFX.

Although XM Radio will be available nationwide upon commencement of operations, we will initially concentrate promotional activities in several key markets and rapidly expand to other large markets. This phased roll-out strategy, similar to that employed by consumer electronics manufacturers and special services such as DIRECTV and Web TV, will enable us to refine our launch implementation throughout the roll-out period. The advertising will consist of both branding and promotion efforts for XM Radio, as well as separate campaigns to promote and brand individual channels. Initially, we will focus marketing efforts on the various channels targeting young adults, who we believe are more likely to drive early penetration. We also expect to benefit from free local media coverage as XM Radio is first offered in each new market.

XM Radio will promote subscriber acquisition activities with both original equipment and aftermarket radio manufacturers. This might include

- promotional campaigns directed towards automobile manufacturers and dealers;
- promotional campaigns for free months of service with purchase of an XM radio or free installations for aftermarket car radios;
- incentive programs for retailer sales forces;
- in-store promotional campaigns, including displays located in electronics, music and other retail stores, rental car agencies and automobile dealerships, and
- jointly funded local advertising campaigns with retailers.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

Advertiser Development and Acquisition

Our ability to aggregate various local niche market segments into national audiences will be attractive to national advertisers and agencies. We have held extensive meetings with media directors, planners and buyers at advertising and media buying agencies to develop advertiser awareness of the benefits of satellite radio. We expect to have advertising sales offices in seven major media markets to sell directly to advertising agencies and media buying groups and have engaged Premiere Radio Networks to be our advertising sales representative. We will also work with ratings agencies in our advertising-supported business. Statistical Research, Inc., which produces Radar reports, has agreed to work with us to develop other ratings methodologies for satellite radio.

During our early years of service, we do not expect to have a listener base sufficient to attract substantial national advertising dollars on individual channels at competitive rates. Thus, we plan initially to attract national advertisers and agencies with the following kinds of incentives.

Charter Advertising Agreements. We have contracts with several advertisers, advertising agencies and media buying companies offering charter advertising packages at reduced rates for a limited time. Each charter advertiser will purchase a minimum amount of advertising from us during the period that the reduced rates are in effect. We intend to sign additional contracts on similar terms.

Foreign Language Advertising. We and our programmers plan to offer foreign language advertising on specific foreign language-based channels. Several major national advertisers have expressed strong interest in the ability to advertise to these hard-to-reach customer segments.

The XM Radio System

We are designing our system to provide satellite radio to the continental United States and coastal waters using radio frequencies allocated by the FCC for satellite radio. These radio frequencies are within a range of frequencies called the S-Band. The XM Radio system will be capable of providing high quality satellite services to XM radios in automobiles, trucks, recreation vehicles and pleasure craft, as well as to fixed or portable XM radios in the home, office or other fixed locations. The XM Radio system design uses a network consisting of an uplink facility, two high-power satellites and, where necessary, ground-based repeaters to provide digital audio service to XM radios.

Space Segment

Satellite Construction. Under our satellite contract with Hughes, Hughes is building and will launch two HS 702 high-power satellites for the XM Radio system. Hughes has also agreed to provide, at our option, one ground spare satellite, to be available in the event of a failed launch of any satellite or to accommodate our satellite system growth.

We believe that the HS 702 model will provide higher quality performance than other satellite options. The first HS 702 satellite was successfully launched in the fourth quarter of 1999 and a total of three HS 702 satellites are currently scheduled for launch before the launch of our satellites.

Hughes has also contracted to provide us with launch and operations support services, equipment and software. Under our contract, Hughes must deliver the first satellite no later than December 31, 2000 and the second satellite no later than April 11, 2001.

Hughes has engaged Alcatel to provide the communications payload electronics for our satellites. The communications payload electronics are designed to make best use of technologies that have already been developed or used in previous satellite programs. The design includes significant redundancy and protective measures to prevent loss of service.

Satellite Transmission. We anticipate that our two satellites will be deployed at 85 West Longitude and 115 West Longitude. After reaching their designated orbital location, the satellites will receive audio signals from our programming center and retransmit the signals across the continental United States. The satellites will be 30(degrees) apart in longitude in order to enhance the probability of clear line-of-sight communication between the satellites and XM mobile radios.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

The transmission coverage areas, or footprints, of our satellites encompass the 48 contiguous states and nearby coastal waters. We have tailored these footprints to provide nearly uniform availability over the United States and to minimize transmission spillage across the United States borders into Canada and Mexico. However, because coverage does extend to the Gulf of Mexico, the California coast and the Atlantic coast, we also expect to be able to provide XM Radio to the cruise ships, cargo vessels and leisure boats which frequent these waters.

Our satellites will transmit audio programming within a 12.5 MHz range of S-Band radio frequencies that have been allocated by the FCC for our exclusive use. Megahertz is a unit of measurement of frequency. This 12.5 MHz bandwidth will be subdivided to carry the transmission of six signals, two signals to be transmitted from each of our two satellites and two signals to be transmitted by the terrestrial repeater network. The audio programming for XM Radio will be carried on two satellite signals, and the remaining two satellite signals and the terrestrial repeater signals will repeat the audio programming to enhance overall signal reception. The transmission of higher quality sound requires the use of more kilobits per second than the transmission of lesser quality sound. In order to provide high-quality digital sound, we expect that music channels will require approximately 56 to 64 kilobits per second depending on the type of compression technology used, whereas talk channels will require significantly less band width. We expect to use our allocated bandwidth in such a way as to provide up to 100 channels of programming, with our music channels having a high bandwidth allocation so as to provide high-quality digital sound.

Launch Services. Hughes has signed an agreement with Sea Launch Limited Partnership, a joint venture in which Boeing Commercial Space Company has a controlling 40% interest, to provide the launch services for our satellites. The launch vehicle uses a new rocket called the Zenit-3SL, which is based on a flight-proven two-stage rocket called the Zenit-2, plus a stage which is the flight-proven upper stage of a Russian-developed rocket called the Proton rocket. The Zenit-2 vehicle has been successfully launched 30 times in 35 attempts, for an 86% success rate. The upper stage has successfully flown in 186 flights on various rockets with five failures, for a 97% success rate.

Sea Launch has developed a new launch system to launch rockets from an ocean-based platform. Sea Launch will perform all rocket and satellite processing at the Sea Launch home port in Long Beach, California. Sea Launch will move the platform to its launch position in the South Pacific Ocean near the equator, where the satellites can be launched more efficiently by avoiding the requirement to conduct an orbital plane change. In March 1999, Sea Launch successfully launched a rocket carrying an inert payload into geo-stationary orbit. Sea Launch also successfully launched its first commerical satellite, DIRECTV 1-R, in October 1999. As of December 31, 1999, Sea Launch had contracts for an additional 18 launches. In March 2000 a satellite launch by Sea Launch experienced an anomaly that resulted in the loss of the communications satellite payload. An investigation is currently underway by Boeing and its Sea Launch partners to determine the cause of the failure. We understand that Sea Launch will resume launches after the anomaly has been investigated and rectified. While there can be no assurances, given the anticipated Sea Launch turn around window between launches, as well as our placement on the launch manifest, with two others ahead of us, we do not expect any significant delay with our launch schedule.

Insurance. We bear the risk of loss for each of the satellites from the time of launch, subject to exceptions set forth in our agreement with Hughes, and we intend to obtain insurance to cover that risk. We intend to purchase launch and in-orbit insurance policies from global space insurance underwriters. The insurance premiums for both satellites are expected to cost us approximately $50 million. We cannot predict the status of the insurance market near the time of launch, which is the customary time for purchasing satellite insurance. We expect that the policies we obtain will indemnify us for a total, constructive total or partial loss of either of the satellites that occurs from the time of launch through each satellite's expected lifetime. We intend to obtain coverage which will exceed all hardware, insurance and launch service costs related to the in-orbit replacement of a lost satellite. However, any insurance we may obtain will not protect us from the adverse effect on our business operations due to the loss of a satellite. We expect that these policies will contain standard commercial satellite insurance provisions, including standard coverage exclusions.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

Ground Segment

Satellite Control. Each of our satellites will be monitored by a telemetry, tracking and control station, and both satellites will be controlled by a satellite control station. Each of the stations will have a backup station. We have a contract with an experienced satellite operator to perform the telemetry, tracking and control functions.

Programming and Business Center. Programming from both our studios and external sources will be sent to our programming center, which will package and retransmit signals to our satellites through the uplink station. Financial services and certain administrative support will be carried on at our business center. Communications traffic between the various XM Radio facilities will be controlled by the network monitoring center. The network monitoring center will monitor satellite signals and the terrestrial repeater network to ensure that the XM Radio system is operating properly. We plan to design and install fault detection systems to detect various system failures before they cause significant damage.

Terrestrial Repeaters. We intend to install a terrestrial repeater system to supplement the coverage of our satellites. Terrestrial repeaters are ground-based electronics equipment which receive and re-transmit the satellite signals. We have signed a contract with LCC International, a wireless service site planner, for the design and deployment of our terrestrial repeater network. LCC International has completed initial site planning for 70 markets. The contract with LCC International is described in more detail under the caption "Certain Relationships and Related Transactions--Engineering Contract with LCC International." We have entered into a contract with Hughes Electronics Corporation for the design, development and manufacture of the terrestrial repeaters. The contract is described in greater detail under the caption "Certain Relationships and Related Party Transactions-Contracts with Hughes."

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 will still be 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 will install terrestrial repeaters to facilitate signal reception. We will install terrestrial repeaters on rooftops and existing tower structures where they will receive the satellite signals, amplify them and retransmit them at a significantly higher signal strength than is possible directly from the satellites. Before we may install many of our planned terrestrial repeaters, we must obtain roof rights in suitable locations and on acceptable terms. We do not expect this to present a serious problem to our construction of a terrestrial repeater network.

The high power levels and proprietary signal design of the terrestrial signals may allow XM radios to receive signals when a terrestrial repeater is not in view, including within buildings and other structures which can be penetrated by the terrestrial repeater signal. In some indoor locations which cannot receive the repeater signal, users will need to use small externally mounted antennas that will receive the signal from one of the two satellites.

We have contracted to purchase 1,550 terrestrial repeaters and may install as many as 1,700 terrestrial repeaters to cover urban areas in approximately 70 markets. We expect that this system will be operational by the second quarter of 2001. We estimate that the largest urban markets may require in excess of 100 repeaters, while smaller cities with fewer tall buildings may require as few as one to three repeaters. We also intend to use additional small repeaters in areas such as tunnels, where reception would otherwise be severely restricted. Our placement of terrestrial repeaters will be guided by a newly developed radio frequency analysis technique which, employing technology similar to that used in certain cellular telephone systems, analyzes the satellite footprint to discover areas likely to have impaired reception of XM Radio.

We expect to benefit from the expertise gained by American Mobile with its ARDIS terrestrial two-way data network consisting of approximately 1,700 base stations sites serving cities throughout the United States. We may use a portion of these sites in our system.

XM Radios. We will transmit XM Radio throughout the continental United States to vehicle, portable, home and plug and play radios. Our radios will be capable of receiving both XM Radio and traditional AM/FM stations. We believe prototypes will be available and limited production will begin by December 2000, and radios will be commercially available by commencement of commercial operation.

We have signed a contract with STMicroelectronics to design and produce chips which will decode the XM Radio signal. Additionally, some of the design elements in the chipsets currently being made for the WorldSpace International system, which operates in a different frequency band, will be integrated into our chipsets. Lucent Digital Radio has agreed to provide coding technology for our audio signals.

Delphi-Delco, Motorola, Pioneer, Alpine, Mitsubishi, Audiovox and Clarion have signed contracts with us to develop, manufacture and distribute XM radios which can be used in the car and we have signed a contract with Sony Electronics to design, manufacture and market XM radios for the portable, home, aftermarket and original equipment manufacture car stereo markets. We have also signed a contract with SHARP to manufacture XM radios for home and portable use.

Unified Standard for Satellite Radio. On February 16, 2000, we signed an agreement with Sirius Radio to develop a unified standard for satellite radios to facilitate the ability of consumers to purchase one radio capable of receiving both our and Sirius Radio's services. The technology relating to this unified standard will be jointly developed, funded and owned by the two companies In addition, we will work together with Sirius Radio to proliferate the new standard by creating a service mark for satellite radio. This unified standard is intended to meet FCC rules that require interoperability with both licensed satellite radio systems.

As part of the agreement, each company has licensed to the other its intellectual property relating to its system; the value of this license will be considered part of each company's contribution toward the joint development. In addition, each company has agreed to license its non-core technology, including non-essential features of its system, to the other at commercially reasonable rates. In connection with this agreement, the pending patent litigation against XM Radio has been resolved.

We anticipate that it will take several years to develop radios capable of receiving both services. At the commercial launch of our service, we anticipate that our consumers will be able to purchase radios only capable of receiving our service.

Both companies expect to work with their automobile and radio manufacturing partners to integrate the new standard. Future agreements with automakers and radio manufacturers will specify the unified satellite radio standard. Furthermore, future agreements with retail and automotive distribution partners and content providers will be on a non-exclusive basis.

We and Sirius Radio have also agreed to negotiate in good faith to provide service to each other's subscribers in the event of a catastrophic failure of the XM Radio system or the Sirius Radio system.

Competition

We expect to face competition for both listeners and advertising dollars.

Sirius Satellite Radio

Our direct competitor in satellite radio service is likely to be Sirius Satellite Radio, the only other FCC licensee for satellite radio service in the United States. Since October 1997, Sirius Satellite Radio's common stock has traded on the Nasdaq National Market. Sirius Satellite Radio plans to deploy three satellites in a North American elliptical orbit and a network of terrestrial repeaters. Sirius Satellite Radio has announced in recent SEC filings that it has arrangements for the construction, implementation and distribution of its service and that it expects to begin receiving revenue from operations in early 2001, which is slightly ahead of our planned commencement of commercial operations in the second quarter of 2001.

Traditional AM/FM Radio

Our competition will also include traditional AM/FM radio. Unlike XM Radio, traditional AM/FM radio already has a well established market for its services and generally offers free broadcast reception paid for by commercial advertising rather than by a subscription fee. Also, many radio stations offer information programming of a local nature, such as traffic and weather reports, which XM Radio initially will be unable to offer as effectively as local radio, or at all The AM/FM radio broadcasting industry is highly competitive.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

Radio stations compete for listeners and advertising revenues directly with other radio stations within their markets on the basis of a variety of factors, including

- program content;
- air talent;
- transmitter power;
- source frequency;
- audience characteristics;
- local program acceptance; and
- the number and characteristics of other radio stations in the market.

Currently, traditional AM/FM radio stations broadcast by means of analog signals, not digital transmission. We believe, however, that in the future traditional AM/FM radio broadcasters may be able to transmit digitally into the bandwidth occupied by current AM/FM stations.

Internet Radio

There are a growing number of Internet radio broadcasts which provide listeners with radio programming from around the country and the world. Internet radio can be heard through a personal computer equipped with a modem, sound card and speakers. One of the largest Internet radio providers, Broadcast.com Inc., currently provides a large number of stations on the Internet and has recently completed an initial public offering of stock, indicating growth in the industry. Announcements have been made about plans by one or more companies to deliver Internet radio to cars or portable radios using satellites. Although we believe that the current sound quality of Internet radio is below standard and may vary depending on factors such as network traffic, which can distort or interrupt the broadcast, we expect that improvements from higher bandwidths, faster modems and wider programming selection may make Internet radio a more significant competitor in the future.

There are a number of Internet-based audio formats in existence or in development which could compete directly with XM Radio. For example, Internet users with the appropriate hardware and software can download sound files for free or for a nominal charge and play them from their personal computers or from specialized portable players. In addition, prominent members of the music and computer industry have supported an initiative known as the Secure Digital Music Initiative to become a standard for fee-based electronic distribution of copyrighted sound recordings. Although presently available formats have drawbacks such as hardware requirements and download bandwidth constraints, which we believe would make XM Radio a more attractive option to consumers, Internet-based audio formats may become increasingly competitive as quality improves and costs are reduced.

Direct Broadcast Satellite and Cable Audio

A number of companies provide specialized audio service through either direct broadcast satellite and 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 generally an add-on service to the higher priced video service.

Regulatory Matters

XM Radio and Sirius Radio received licenses from the FCC in October 1997 to construct and operate satellite radio service. The FCC has allocated 25 MHz for the new service in a range of radio frequencies known as the S-Band.

As an owner of one of two FCC licenses to operate a commercial satellite radio service in the United States, we will continue to be subject to regulatory oversight by the FCC. Our development, implementation and eventual operation of our system will be subject to significant regulation by the FCC under authority granted under the Communications Act and related to 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 support our business plan.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

One of the two losing bidders in the satellite radio license auction filed an application for review of the order granting our FCC license, but the challenge was denied. The losing bidder is seeking review by the FCC. The losing bidder has argued that WorldSpace had effectively taken control of us without FCC approval and that WorldSpace has circumvented the FCC's application cut-off procedures. WorldSpace is no longer a stockholder in our company. We have opposed this appeal and have denied the allegations contained in the challenge. The FCC's order granting our license remains in effect during the pendency of the application for review. Although we believe that the award of the license to us will continue to be upheld, we cannot predict the ultimate outcome of this challenge. If this challenge is successful, the FCC could take a range of actions, any of which could harm our ability to proceed with our planned satellite radio service.

Our license, which is held by a subsidiary wholly owned by us, has a term of eight years from commencement of our operations and may be renewed. The FCC requires the satellite radio licensees, including us, to adhere to certain milestones in the development of their systems, including a requirement that the licensees begin full operation by October 2003.

Our FCC license requires us to meet the following milestones:

Deadline	Milestone	Status
October 1998	Complete contracting for first satellite	Completed March 1998
October 1999	Complete contracting for second satellite	Completed March 1998
October 2001	Begin in-orbit operation of at least one satellite	Expected Fourth Quarter 2000
October 2003	Begin full operation of the XM Radio system	Expected Second Quarter 2001

While we have already fulfilled the first two milestones, we may not meet the remaining two milestones, in part because we depend on third parties to build and launch our satellites. If we fail to meet these milestones, the FCC could take a range of actions, any of which may harm our business.

For business and technical reasons, we have decided to modify certain aspects of the satellite radio system described in our May 1997 amended application to the FCC. Specifically, we intend to

- increase the satellites' transmission power;
- eliminate coverage of Alaska and Hawaii; and
- change the total number of signals carried by the satellites and terrestrial repeaters.

We will subdivide our 12.5 MHz of allocated bandwidth to carry six signals instead of five as previously stated in our FCC application. Two signals will be transmitted by each of the two satellites, and two signals will be transmitted by our terrestrial repeaters We have filed an application requesting that the FCC allow us to modify the XM Radio system to incorporate these changes. In response to our application, one commenter expressed concern that a grant of XM Radio's request to operate its satellites at higher power could have an adverse effect on international frequency coordination with the government of Mexico. We discuss the coordination of the XM Radio system with systems operating in the same frequency bands in adjacent countries below in this section. While the FCC regularly approves modifications to commercial licenses, it may not approve our request.

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.

The FCC's rules require interoperability with all licensed satellite radio systems that are operational or under construction. The FCC conditioned our license on certification by us that our final receiver design is interoperable with the final receiver design of the other licensee, Sirius Radio, which plans to use a different transmission technology than we plan to use. Because of uncertainty regarding the design of Sirius Radio's systems, we may face difficulties initially in meeting this interoperability requirement. We have signed an agreement with Sirius Radio to develop a unified standard for satellite radios, but we anticipate that it will take

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

several years to develop the technologies necessary for radios that will be capable of receiving both our service and Sirius Radio's service. Accordingly, we may not be able to meet the FCC's interoperability requirements by the time we launch our commercial operations and may need to obtain an extension of time or modification of this requirement from the FCC. Furthermore, complying with the interoperability requirement could make the radios more difficult and costly to manufacture.

The FCC is currently conducting a rulemaking proceeding to establish rules for terrestrial repeater transmitters, which we plan to deploy to fill in gaps in satellite coverage. The FCC has proposed to permit us to deploy these facilities. Specifically, the FCC has proposed a form of blanket licensing for terrestrial repeaters and service rules which would prohibit satellite radio licensees from using terrestrial repeating transmitters to originate local programming or transmit signals other than those received from the satellite radio satellites. Various parties, including the National Association of Broadcasters, have asked the FCC to

- delay consideration of terrestrial repeater rules until our company and Sirius Radio provide additional information regarding planned terrestrial repeaters;
- require individual licensing of each terrestrial repeater;
- limit the number of repeaters that may be deployed; and
- impose a waiting period on the use of repeaters in order to determine if signal reception problems can be resolved through other means.

Our plans to deploy terrestrial repeaters in our system may be impacted, possibly materially, by whatever rules the FCC issues in this regard.

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 will need to coordinate the XM Radio system with systems operating in the same frequency bands in adjacent countries. Canada and Mexico are the countries whose radio systems are most likely to be affected by satellite radio. The United States government, which conducts the coordination process, has resolved the issue with Canada and has begun discussions with the Mexican government. However, the negotiations with Mexico could be complicated by that country's interest in developing a similar digital satellite radio service that might operate on the same frequencies as XM Radio will use in the United States. Although we are optimistic that the FCC will coordinate satellite radio frequency use with Mexico without compromising our ability to operate as planned, it may not be able to do so, which could materially affect XM Radio.

We will operate the communication uplinks between our own earth station and our satellites in a band of radio frequencies that are used for several other services. These services are known under FCC rules as fixed services, broadcast auxiliary services, electronic news gathering services, and mobile satellite services for uplink station networks. Although we are optimistic that we will succeed in coordinating domestic uplink station networks, we may not be able to coordinate use of this spectrum in a timely manner, or at all.

We also need to protect our system from out-of-band emissions from licensees operating in adjacent frequency bands. Wireless Communication Service licensees operating in frequency bands adjacent to the satellite radio's S-Band allocation must comply with certain out-of-band emission limits imposed by the FCC to protect satellite radio systems. These limits, however, are less stringent than those we proposed. In addition, in April 1998, the FCC proposed to amend its rules to allow for new radio frequency lighting devices that would operate in an adjacent radio frequency band. We opposed the proposal on the grounds that the proliferation of this new kind of lighting and its proposed emission limits, particularly if used for street lighting, may interfere with XM Radio. However, the FCC may not rule in our favor, a decision which could adversely affect our signal quality.

The FCC order granting our license determined that because we are a private satellite system providing a subscription service on a non-common carrier basis, we would not be subject to the FCC's foreign ownership restrictions. However, such restrictions would apply to us if we were to offer non subscription services, which may appear more lucrative to potential advertisers than subscription services. The FCC also stated in its order that it may reconsider its decision not to subject satellite radio licensees to its foreign ownership restrictions.

Sea Launch, Alcatel and other vendors are subject to United States export regulations. Our vendors will need approval from the State Department under technology export statutes and regulations for the launch of our satellites. Although these are not new requirements, the export of technology has received considerable attention in response to concerns about the export of technology to China by the United States defense contractors. The negative publicity may lead the United States Congress to alter the relevant laws or regulations, or may change the State Department's policy in enforcing the regulations. Any change in applicable law or policy may result in delay of our satellite launch.

Intellectual Property

System Technology

We have contracted with several technology companies to implement portions of the XM Radio system. These technology companies include Hughes and Alcatel (satellites); Delphi-Delco, Sony, Motorola, Pioneer, Alpine, Mitsubishi, Audiovox, Clarion and SHARP (car and home radios); STMicroelectronics (chipsets); Lucent Digital Radio (audio coding technology); Fraunhofer Institute (various technologies) and LCC International (design of repeater network). We will not acquire any intellectual property rights in the satellites. We will have joint ownership of or a license to use the technology developed by the radio and chipset manufacturers. We will own the design of our system, including aspects of the technology used in communicating from the satellites and the design of the repeater network.

Our system design, our repeater system design and the specifications we supplied to our radio and chipset manufacturers incorporates or may in the future incorporate some intellectual property licensed to us on a non-exclusive basis by WorldSpace Management. WorldSpace Management 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. Under our agreement with WorldSpace Management we must pay one time, annual or percentage royalty fees or reimburse WorldSpace Management for various costs for various elements of the licensed technology that we decide to use in the XM Radio system. We have incurred costs of $6.7 million to WorldSpace Management under this agreement through December 31, 1999. We will not be required to pay royalties to WorldSpace Management for licensed technology that we do not use in our system. We anticipate that the Fraunhofer Institute will continue to provide various development services for us in connection with the design of our system.

American Mobile has granted us a royalty-free license with respect to certain ground segment communications technology and antenna technology.

American Mobile and WorldSpace Management have also granted us royalty-free, non-exclusive and irrevocable licenses to use and sublicense all improvements to their technology. The technology licenses from American Mobile and WorldSpace Management renew automatically on an annual basis unless terminated for a breach which has not been or cannot be remedied.

We believe that the intellectual property rights we have licensed under our technology license were independently developed or duly licensed by American Mobile or WorldSpace International, as the case may be. We cannot assure you, however, that third parties will not bring suit against us for patent or other infringement of intellectual property rights.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

We have signed an agreement with Sirius Radio to develop a unified standard for satellite radios to facilitate the ability of consumers to purchase one radio capable of receiving both our and Sirius Radio's services. The technology relating to this unified standard will be jointly developed, funded and owned by the two companies. As part of the agreement, each company has licensed to the other its intellectual property relating to the unified standard and to its system; the value of this license will be considered part of its contribution toward the joint project. In addition, each company has agreed to license its non-core technology, including non-essential features of its system, to the other at commercially reasonable rates. Each party will be entitled to license fees or a credit towards its obligation to fund one half of the development cost of the technologies used to develop a unified standard for satellite radios. The amount of the fees or credit will be based upon the validity, value, use, importance and available alternatives of the technology each contributes and will be determined over time by agreement of the parties or by arbitration. We cannot predict at this time the amount of license fees, if any, payable by or to XM or Sirius Radio of the size or the credits to XM and Sirius Radio from the use of their technology. This may require additional capital, which could be significant.

Prior Litigation with Sirius Radio; Technology License

On January 12, 1999, Sirius Radio, the other holder of an FCC satellite radio license, commenced an action against us in the United States District Court for the Southern District of New York, alleging that we were infringing or would infringe three patents assigned to Sirius Radio. In its complaint, Sirius Radio sought money damages to the extent we manufactured, used or sold any product or method claimed in their patents and injunctive relief. This suit was resolved in February 2000 in accordance with the terms of a joint development agreement between us and Sirius Radio in which both companies agreed to develop a unified standard for satellite radios and license our respective intellectual property, including the patents that were the subject of the suit, for use in this joint development. If this agreement is terminated before the value of the licenses has been determined due to our failure to perform a material covenant or obligation, then this suit could be refiled.

If this litigation were recommenced, we believe based on the planned design of our system, our knowledge of the differences between our system and the claims of the Sirius Radio patents and on advice we have previously received from our patent counsel, that a court would find that we have not and will not infringe any Sirius Radio patents. However, the litigation could harm us, even if we were successful. It would divert our management's attention and might make it more difficult for us to raise financing or enter into other agreements with third parties. In addition, even if we prevailed, the Sirius Radio litigation might prevent us from moving forward with the development of the XM Radio system in a timely manner. The Sirius Radio patents involved in the litigation relate to certain aspects of signal and reception methodologies that may be employed by a satellite radio system. If this suit were refiled and we lost all or part of this litigation, we could become liable to Sirius Radio for money damages and subject to an injunction preventing us from using certain technology in the XM Radio system. Any such injunction could force us to engineer technology which would not be subject to the injunction, license or develop alternative technology, or seek a license from, and pay royalties to, Sirius Radio. If any of these strategies becomes necessary, it could be costly and time-consuming and would likely delay any implementation of our system. If we could not accomplish any strategy, or could not do so in a timely manner at an acceptable cost, our business would be harmed.

Copyrights to Programming

We must negotiate and enter into music programming royalty arrangements with performing rights societies such as the American Society of Composers, Authors and Publishers, Broadcast Music, Inc., and SESAC, Inc. These organizations collect royalties and distribute them to songwriters and music publishers and negotiate fees with copyright users based on a percentage of revenues. Radio broadcasters currently pay a combined total of approximately 3-4% of their revenues to these performing rights societies. We expect to negotiate or establish by arbitration royalty arrangements with these organizations, but such royalty arrangements may be more costly than anticipated or unavailable. 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 owners of the sound

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

recordings. The Recording Industry Association of America will negotiate licenses and collect royalties on behalf of copyright owners for this performance right in sound recordings. Cable audio services currently pay a royalty rate of 6.5% of gross subscriber revenue. This rate was set by the Librarian of Congress, which has statutory authority to decide rates through arbitration, and was affirmed on May 21, 1999 by the United States Court of Appeals for the District of Columbia. Although we believe we can distinguish XM Radio sufficiently from the cable audio services in order to negotiate a lower statutory rate, we may not be able to do so.

The XMTM Trademark

We believe that XM Radio will be seen as the complement to AM and FM radio. We have an application pending in the United States Patent and Trademark Office for the registration of the trademark "XM" in connection with the transmission services offered by our company and expect that our brand name and logo will be prominently displayed on the surface of XM radios together with the radio manufacturer's brand name. This will identify the equipment as being XM Radio- compatible and build awareness of XM Radio. We intend to maintain our trademark and the anticipated registration. We are not aware of any material claims of infringement or other challenges to our right to use the "XM" trademark in the United States.

Personnel

As of January 31, 2000, we had 67 employees. In addition, we rely upon a number of consultants and other advisors. 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 is represented by a labor union, and we believe that our relationship with our employees is good.

ITEM 2. PROPERTIES

Our executive offices are located at 1250 23rd Street, N.W., Suite 57, Washington, D.C. 20037-1100, and are leased pursuant to a lease agreement that will expire on October 31, 2000. We have entered into a ten year lease of approximately 120,000 square feet of additional space in Washington, D.C. to be used as our headquarters office, as well as for our studio and production facilities.

ITEM 3. LEGAL PROCEEDINGS

Except for the FCC proceeding described under the caption "Business--Regulatory Matters," we are not a party to any material litigation or other proceedings.

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 1999.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRICE RANGE OF COMMON STOCK

Our Class A common stock has been quoted on the Nasdaq National Market under the symbol "XMSR" since our initial public offering on October 5, 1999. The following table presents, for the period indicated, the high and low sales prices per share of our Class A common stock as reported on the Nasdaq National Market.

	High	Low
1999:		
Fourth Quarter (beginning October 5, 1999)	$44.75	$11.625

On March 10, 2000, the last reported bid price for our Class A common stock on the Nasdaq National Market was $42.50. As of March 10, 2000, there were 76 holders of record of our Class A common stock.

DIVIDEND POLICY

We have not declared or paid any dividends since our date of inception. We do not intend to pay cash dividends on our common stock in the foreseeable future. We anticipate we will retain any earnings for use in our operations and the expansion of our business. We are obligated to pay dividends on our Series B convertible redeemable preferred stock, which we may pay in cash or in shares of our Class A common stock, at our option.

RECENT SALES OF UNREGISTERED SECURITIES

None.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

In considering the following selected consolidated financial data, you should also read our consolidated financial statements and notes and the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations." The consolidated statements of operations data for the three-year period ended December 31, 1999, and for the period from December 15, 1992 (date of inception) to December 31, 1999, and the consolidated balance sheets data as of December 31, 1997, 1998 and 1999 are derived from our consolidated financial statements. These statements have been audited by KPMG LLP, independent certified public accountants. KPMG's report contains a paragraph stating that we have not begun operations and are dependent upon additional debt or equity financing, and that these factors raise substantial doubt about our ability to continue as a going concern. The selected consolidated financial data do not include any adjustments that might result from the outcome of that uncertainty.

	Years Ended December 31,			December 15, 1992 (Date of Inception) to December 31,
	1997	1998	1999	1999 (1)
	(In thousands, except share data)			
Consolidated Statements of Operations Data:				
Revenue	$ --	$ --	$ --	$ --
Operating expenses:				
Research and development	--	6,941	4,274	11,215
Professional fees	1,090	5,242	9,969	16,301
General and administrative	20	4,010	16,448	20,478
Total operating expenses	1,110	16,193	30,691	47,994
Operating loss	(1,110)	(16,193)	(30,691)	(47,994)
Other expense--interest income (expense), net	(549)	26	(6,205)	(6,728)
Net loss	$ (1,659)	$ (16,167)	$ (36,896)	$(54,722)
Net loss per share--basic and diluted	$(0.26)	$(2.42)	$(2.40)	
Weighted average shares used in computing net loss per share--basic and diluted	6,368,166	6,689,250	15,344,102	

	December 31,		
	1997	1998	1999
	(In thousands)		
Consolidated Balance Sheets Data:			
Cash, cash equivalents and short-term investments	$ 1	$ 310	$120,170
System under construction	91,932	169,029	362,358
Total assets	91,933	170,485	515,189
Total debt	82,504	140,332	212
Total liabilities	82,949	177,668	30,172
Stockholders' equity (deficit)	8,984	(7,183)	485,017

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(1) Business activity for the period from December 15, 1992, which was our date of inception, through December 31, 1996 was insignificant.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

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

The following discussion and analysis provides information which we believe is relevant to an assessment and understanding of our financial condition and consolidated results of operations This discussion should be read together with our consolidated financial statements and related notes beginning on page F-1 of this report.

Introduction

XM Satellite Radio Inc. was incorporated in Delaware in 1992 as a wholly-owned subsidiary of American Mobile. XM Satellite Radio Holdings Inc. became a holding company for XM Satellite Radio Inc. in connection with a strategic investment by a former shareholder in early 1997. In July 1999, following our repayment of $75.0 million in debt owed to the former shareholder, it conveyed all of its interest in us to a trust. American Mobile then acquired all of that interest from the trust, making American Mobile our only stockholder at that time. Also, in July, we issued $250.0 million of Series A subordinated convertible notes. In October 1999, we completed an initial public offering and exercised an overallotment option for a cumulative total of 10,241,000 shares of Class A common stock, yielding net proceeds of $114.1 million. Concurrent with the closing of our initial public offering, the $250.0 million of Series A subordinated convertible notes, together with associated accrued interest of $6.8 million, converted into 10,786,504 shares of Series A convertible preferred stock and 16,179,755 shares of Class A common stock. Additionally, the $21.4 million and $81.7 million of convertible notes issued to American Mobile, together with associated accrued interest of $3.8 million, converted into 11,182,926 shares of Class B common stock. In the first quarter of 2000, we completed a follow-on offering of 4,370,000 shares of Class A common stock, yielding net proceeds of $132.2 million, a concurrent offering of 2,000,000 shares of our Series B convertible redeemable preferred stock, which yielded net proceeds of $96.3 million, and a private placement of 325,000 units, each consisting of $1,000 principal amount of 14% senior secured notes due 2010 and one warrant to purchase 8.024815 shares of Class A common stock at $49.50 per share that provided net proceeds of $191.0 million excluding $123.0 million for an interest reserve.

We are in the development stage. Since our inception in December 1992, we have devoted our efforts to establishing and commercializing the XM Radio system. Our activities were fairly limited until 1997, when we pursued and obtained regulatory approval from the FCC to provide satellite radio service. Our principal activities to date have included

- designing and developing the XM Radio system;
- negotiating contracts with satellite and launch vehicle operators, specialty programmers, radio manufacturers and car manufacturers;
- developing technical standards and specifications;
- conducting market research; and
- securing financing for working capital and capital expenditures.

We have incurred substantial losses to date and expect to continue to incur significant losses for the foreseeable future as we continue to design, develop and deploy the XM Radio system and for some period following our commencement of commercial operations.

We intend to capitalize all costs related to our satellite contract and our FCC license, including all applicable interest. These capitalized costs will be depreciated over the estimated useful lives of the satellites and ground control stations. Depreciation of our satellites will commence upon in-orbit delivery. Depreciation of our satellite control facilities and terrestrial repeaters and the amortization of our FCC license will commence upon commercial operations.

After we begin commercial operations, which we are targeting for the second quarter of 2001, we anticipate that our revenues will consist primarily of customers' subscription fees and advertising revenues.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

Results of Operations

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Research and Development. Research and development expenses decreased to $4.3 million in 1999, compared with $6.9 million in 1998. The decrease in research and development expenses resulted from the completion of the development of some of our system technology during 1998.

Professional Fees. Professional fees increased to approximately $10.0 million in 1999, compared with $5.2 million in 1998. The increase primarily reflects additional legal, regulatory and marketing expenses.

General and Administrative. General and administrative expenses increased to $16.4 million in 1999, compared with $4.0 million in 1998. The increase primarily reflects increased headcount and facility expenses to begin program management and operations. We also commenced the amortization of our goodwill and intangibles resulting from American Mobile's acquisition of a former investor's interest in us during 1999. We have granted certain key executives stock options and incurred a non-cash compensation charge of approximately $4.1 million in the fourth quarter of 1999 primarily for performance-based stock options. We will continue to incur quarterly non-cash compensation charges over the vesting period depending on the market value of our Class A common stock.

Interest Income. Interest income increased to $2.9 million in 1999, compared with 1998, which was insignificant. The increase was the result of higher average balances of cash and short-term investments during 1999 due to the proceeds from the issuance of Series A convertible notes in the third quarter of 1999 exceeding the amounts of expenditures for satellite and launch vehicle construction, other capital expenditures and operating expenses.

Interest Expense. As of December 31, 1999 and 1998, we owed $0 and $140.2 million, respectively, including accrued interest, under various debt agreements which we entered into for the purpose of financing the XM Radio system. Our capitalized interest costs were $15.3 million and $11.8 million associated with our FCC license and the XM Radio system during 1999 and 1998, respectively. We expensed interest costs of $9.1 million and $0 during 1999 and 1998, respectively. We incurred a one-time $5.5 million charge to interest due to the beneficial conversion feature of the new American Mobile note. We also exceeded our interest capitalization threshold by $3.6 million.

Net Loss. The net loss for 1999 and 1998 was $36.9 million and $16.2 million, respectively. The increase in net losses for 1999, compared with 1998, primarily reflects an increase in net interest expense as discussed above and additional general and administration expenses, primarily due to increased headcount and facility expenses, in preparation for commercial operations and the commencement of amortization of goodwill and intangibles.

Year Ended December 31, 1998 Compared with Year Ended December 31, 1997

Research and Development. Research and development expenses amounted to approximately $6.9 million for the year ended December 31, 1998. Research and development expenses for the year ended December 31, 1997 were insignificant. The increase in research and development expenses resulted from the development of some of our system technology during 1998.

Professional Fees. Professional fees increased to approximately $5.2 million for the year ended December 31, 1998, compared with $1.1 million for the year ended December 31, 1997. The increase primarily reflects legal, regulatory and marketing expenses.

General and Administrative. General and administrative expenses increased to $4.0 million for the year ended December 31, 1998, compared with $20,000 for the year ended December 31, 1997. The increase primarily reflects increased headcount and facility expenses to begin program management and operations.

Interest Expense. As of December 31, 1998 and 1997, we owed $140.2 million and $82.5 million, respectively, including accrued interest, under various debt agreements which we entered into for the purpose of

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

financing the XM Radio system. We capitalized interest costs of $11.8 million and $1.9 million associated with our FCC license and the XM Radio system during the year ended December 31, 1998 and 1997, respectively. We expensed interest costs of $0.5 million during the year ended December 31, 1997

Net Loss. The net loss for the years ended December 31, 1998 and 1997 was $16.2 million and $1.7 million, respectively, primarily reflecting research and development activities, professional fees and general and administrative expenses.

Liquidity and Capital Resources

At December 31, 1999, we had a total of cash, cash equivalents and short-term investments of $120.2 million and working capital of $94.7 million, compared with cash and cash equivalents of $0.3 million and working capital of $(130.3) million at December 31, 1998. The increases in the respective balances are due primarily to the proceeds from the issuance of Series A subordinated convertible notes in July 1999 (see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Funds Required for XM Radio Through Commencement of Commercial Operations--Sources of Funds") exceeding capital expenditures and operating expenses for 1999, which was off-set by a $75 million payment to retire loans payable, and the conversion of current loans payable to a former shareholder into the non-current American Mobile new convertible note. In October 1999, we successfully completed an initial public offering, which raised $114.1 million in net proceeds, and converted the Series A subordinated convertible notes into Series A convertible preferred stock and Class A common stock.

Funds Required for XM Radio Through Commencement of Commercial Operations

We estimate that we will require approximately $1.1 billion to develop and implement the XM Radio system from our inception through the commencement of commercial operations, which we are targeting for the second quarter of 2001. We will have raised an aggregate of $865.0 million since our inception net of expenses, interest reserve and repayment of debt. We will require substantial additional funding, approximately $235.0 million, to finish building the XM Radio system, to provide working capital and fund operating losses until we commence commercial operations. The funds raised to date are expected to be sufficient in the absence of additional financing to cover our funding needs into the third quarter of 2000.

We currently expect to satisfy our funding requirements by selling debt or equity securities and by obtaining loans or other credit lines from banks or other financial institutions. In addition, we plan to raise funds through vendor financing arrangements associated with our terrestrial repeater project. If we are successful in raising additional financing, we anticipate that a significant portion of future financing will consist of debt. We are actively considering possible financings, and because of our substantial capital needs we may consummate one or more financings at any time. Often, high yield debt securities are issued as part of units with warrants to purchase common stock. If warrants were issued in any debt placement by us, the amount of common stock that may be purchased and the price at which stock would be purchased under the warrants would depend upon market conditions at that time.

American Mobile is our controlling stockholder. American Mobile has certain rights regarding the election of persons to serve on our board of directors and as of the date of this report, holds 61.0% of the voting power of Holdings, or 50.5% giving effect to the conversion of all of Holdings' outstanding common stock equivalents. American Mobile cannot relinquish its position as our controlling shareholder without obtaining the prior approval of the FCC. Accordingly, prior to our obtaining FCC approval of the transfer of control from American Mobile, we will only be able to issue a limited amount of voting securities or securities convertible into voting securities unless certain of our stockholders holding nonvoting convertible securities agree not to convert them into voting securities or we take other steps to permit voting securities on a basis consistent with FCC rules. Certain holders of our nonvoting securities have agreed not to convert their securities if it would cause American Mobile not to hold a majority of our voting stock or a lesser percentage approved by the FCC, until we obtain approval by the FCC of a change in control. In return, Holdings has agreed not to issue new voting securities, other than the units issued on March 15, 2000 and other than up to 2,000,000 shares of Class A common stock (except upon conversion or exercise of existing securities or under our employee stock plans), if it would make these holders unable to convert any of their non-voting securities. We intend to seek appropriate FCC approvals in the near future. We may not be able to obtain FCC

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

approval or it may take a long period of time to obtain such approval and there may be conditions imposed in connection with such approval which may be unfavorable to us. The inability to raise capital opportunistically, or at all, could adversely affect our business plan.

We may not be able to raise any funds or obtain loans on favorable terms or at all. Our ability to obtain the required financing depends on several factors, including future market conditions; our success or lack of success in developing, implementing and marketing our satellite radio service; our future creditworthiness; and restrictions contained in agreements with our investors or lenders. If we fail to obtain any necessary financing on a timely basis, a number of adverse effects could occur. Our satellite construction and launch and other events necessary to our business could be materially delayed or their costs could materially increase. We could default on our commitments to our satellite construction or launch contractors, creditors or others, leading to termination of construction or inability to launch our satellites Finally, we may not be able to launch our satellite radio service as planned and may have to discontinue operations or seek a purchaser for our business or assets.

Our expected sources and uses of funds through commencement of commercial operations are as follows:

Inception Through Commercial Launch
(in millions)

Sources of Funds	
Total funds raised to date	$ 865.0
Future capital requirements	235.0
Total sources	$1,100.0
Uses of Funds	
Satellites and launch	$ 472.6
Launch insurance	50.0
Terrestrial repeater system	263.3
Ground segment	65.9
Total system	851.8
FCC license	90.0
Operating expenses and working capital requirements	158.2
Total uses	$1,100.0

The sources and uses chart for inception through commercial launch assumes that we will commence full commercial operations in the second quarter of 2001 and does not include net interest income or expense of any future offerings or other financings. We anticipate that we will need substantial further funding after commencement of operations to cover our cash requirements before we generate positive cash flow from operations. Many factors, including our ability to generate significant revenues, could affect this estimate. See "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Total funds raised to date in the chart above include proceeds of

- $9.2 million in equity contributions and an additional $157.8 million in equity from converted debt instruments funded by American Mobile and by a former investor who sold its investment to American Mobile.
- $238.7 million in net proceeds from convertible notes which were converted to Class A common stock and Series A convertible preferred stock on October 8, 1999 as a result of our initial public offering. $75 million of these proceeds were used to repay outstanding debt.
- $114.1 million in net proceeds from our initial public offering.
- $132.2 million in net proceeds from a Class A common stock offering in the first quarter of 2000.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

- $96.3 million in net proceeds from a Series B convertible preferred stock offering in the first quarter of 2000.

- $191.0 million in net proceeds from a private placement on March 15, 2000, of 325,000 units, each unit consisting of $1,000 principal amount of 14% senior secured notes due 2010 and one warrant to purchase 8.024815 shares of Class A common stock at $49.50 per share, excluding $123.0 million for an interest reserve.

- $0.4 million in proceeds from the sale of stock under the employee stock purchase plan and the exercise of stock options.

The use of funds for satellites and launch in the chart above includes $472.6 million for satellites, launch and long-lead items, including certain financing costs associated with the satellites, and for an option to complete the ground spare satellite under our satellite contract with Hughes. As of December 31, 1999, $183.9 million has been paid under the satellite contract.

The anticipated $65.9 million in costs for ground segment are intended to cover the satellite control facilities, programming production studios and various other equipment and facilities. As of December 31, 1999, we had incurred 7.6 million in costs in deploying the ground segment.

Other operating expenses and working capital requirements in the chart above include cumulative historical operating losses through December 31, 1999 of $54.7 million.

Sources of Funds. To date, we have raised approximately $865.0 million of equity proceeds, net of expenses, interest reserve and repayment of debt. These funds have been used to acquire our FCC license, make required payments under our satellite contract with Hughes, and for working capital and operating expenses. Of the $865.0 million raised to date, approximately $167.0 million, excluding the Class A common stock acquired as part of our initial public offering, has been raised through the issuance of equity to, and receipt of loans from, our current stockholder, American Mobile, and a former stockholder. Of this amount, approximately $90.7 million and $46.0 million was raised in 1997 and 1998, respectively, and $30.3 million was raised in January 1999.

In July 1999, we issued $250.0 million of Series A subordinated convertible notes to six strategic and financial investors--General Motors, $50.0 million; Clear Channel Communications, $75.0 million; DIRECTV, $50.0 million; and Columbia Capital, Telcom Ventures, L.L.C. and Madison Dearborn Partners, $75.0 million in the aggregate. Using part of the proceeds from the issuance of the Series A subordinated convertible notes, we paid a former stockholder $75.0 million in July 1999 to redeem an outstanding loan. We incurred fees and expenses totalling $11.3 million in connection with these transactions

In October 1999, we raised $114.1 million from the issuance of 10.2 million shares of Class A common stock at a price of $12 per share less $8.8 million in underwriting discounts and commissions and estimated expenses. The Series A convertible notes, together with related accrued interest, automatically converted into 16,179,755 shares of our Class A common stock and 10,786,504 shares of our Series A preferred stock. Also, the American Mobile notes, together with related accrued interest, automatically converted into 11,182,926 shares of our Class B common stock. As a result of these transactions, substantially all of our indebtedness converted into equity.

In the first quarter of 2000, we completed a follow-on offering of 4,370,000 shares of Class A common stock, yielding net proceeds of $132.2 million. At the same time, we completed an offering of 2,000,000 shares of our Series B convertible redeemable preferred stock, which yielded net proceeds of $96.3 million. We also completed a private placement on March 15, 2000 of 325,000 units, each unit consisting of $1,000 principal amount of 14% senior secured notes due 2010 and one warrant to purchase 8.024815 shares of Class A common stock at $49.50 per share that provided net proceeds of $191.0 million, excluding $123.0 million for an interest reserve.

Uses of Funds. Of the approximately $1.1 billion of funds to be used through commencement of commercial operations, an estimated $569.4 million are expected to be incurred under contracts presently in place and for our FCC license, which has already been paid for in full. Total capital expenditures from our inception to December 31, 1999, totaled $295.5 million.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

Satellite Contract. Under our satellite contract, Hughes will deliver two satellites in orbit and if we exercise our option, complete construction of a ground spare satellite. Hughes will also provide ground equipment and software to be used in the XM Radio system and certain launch and operations support services. We expect that by commencement of commercial operations in the second quarter of 2001, we will have had to pay an aggregate amount of approximately $472.6 million for these items and for Hughes to complete the optional ground spare satellite. This amount does not include incentive payments, which will depend in part on projected satellite performance at the acceptance date. Such payments could total up to an additional $68.7 million over the useful lives of the satellites. As of December 31, 1999, we had paid approximately $183.9 million under our satellite contract and recognized an additional $15.5 million in accrued milestone payments which were paid subsequently.

Launch Insurance. Based on current industry estimates, we expect that launch insurance for both satellites will cost an aggregate of approximately $50.0 million. As of December 31, 1999, we had not incurred any costs with respect to launch insurance.

Terrestrial Repeater System. Based on the current design of the XM Radio system and preliminary bids, we estimate that through our expected commencement of operations in the second quarter of 2001 we will incur aggregate costs of approximately $263.3 million for a terrestrial repeater system. We expect these costs to cover the capital cost of the design, development and installation of a system of terrestrial repeaters to cover approximately 70 cities and metropolitan areas. As of December 31, 1999, we had incurred costs with respect to the terrestrial repeater buildout of $10.1 million which we paid. In August 1999, we signed a contract calling for payments of approximately $115.0 million for engineering and site preparation. We entered into a contract effective October 22, 1999, with Hughes Electronics Corporation for the design, development and manufacture of the terrestrial repeaters. Payments under this contract are expected to be approximately $128.0 million. As of December 31, 1999, we have paid $3.5 million under this contract.

Ground Segment. Based on the design of the XM Radio system, available research, preliminary bids and actual contract costs, we expect to incur aggregate ground segment costs through the expected commencement of operations in the second quarter of 2001 of approximately $65.9 million. We expect these costs will cover the satellite control facilities, programming production studios and various other equipment and facilities. As of December 31, 1999, we had incurred $5.6 million in costs with respect to the ground segment.

FCC License. In October 1997, we received one of two satellite radio licenses issued by the FCC. We have paid approximately $90.0 million for this license, including the initial bid right. No additional payments have been made relating to the license.

Operating Expenses and Working Capital Requirements. In addition to the above capital needs, we will require funds for working capital, operating expenses and royalty payments currently estimated to be approximately $158.2 million through our targeted commercial launch in the second quarter of 2001. From our inception through December 31, 1999, we have incurred total expenses of $36.9 million. Total cash used in operating activities was $18.8 million. The difference between the loss incurred to date and cash used in operations is principally due to a $5.5 million beneficial conversion charge, $12.5 million in amounts due to related parties and $3.6 million in accrued interest.

Joint Development Agreement Funding Requirements. In addition to the above capital needs, we may require funds to pay license fees or make contributions towards the development of the technologies used to develop a unified standard for satellite radios under our joint development agreement with Sirius Radio. Each party is obligated to fund one half of the development cost for such technologies. Each party will be entitled to license fees or a credit towards its one half of the cost based upon the validity, value, use, importance and available alternatives of the technology it contributes. The amounts of these fees or credits will be determined over time by agreement of the parties or by arbitration. We cannot predict at this time the amount of license fees or contribution payable by XM or Sirius Radio or the size of the credits to XM and Sirius Radio from the use of their technology. This may require significant additional capital.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

Funds Required for XM Radio Following Commencement of Commercial Operations

Even after commencement of commercial operations, we expect to need significant additional funds to cover our cash requirements before we generate sufficient cash flow from operations to cover our expenses. We cannot accurately estimate the amount of additional funds needed, since it will depend on business decisions to be made in the future and revenues received from operations, but we expect the amount to be substantial. Funds will be needed to cover operating expenses, marketing and promotional expenses including an extensive marketing campaign in connection with the launch of our service, distribution expenses, programming costs and any further development of the XM Radio system that we may undertake after operations commence. Marketing and distribution expenses are expected to include joint advertising and joint development with and manufacturing subsidies of certain costs of some of our manufacturers and distribution partners. We cannot estimate accurately the total amount of these operational, promotional, subscriber acquisition, joint development and manufacturing costs and expenses, but they are expected to be substantial.

We will have significant payment obligations after commencement of operations under our distribution agreement with General Motors. We will pay an aggregate of approximately $35 million in the first four years following commencement of commercial service. After that, through 2009, we will have additional fixed annual payments ranging from less than $35 million to approximately $130 million, aggregating approximately $400 million. In order to encourage the broad installation of XM radios, we have agreed to subsidize a portion of the cost of XM radios and to make incentive payments to General Motors when the owners of General Motors vehicles with installed XM radios become subscribers for the XM Radio service. We must also share with General Motors a percentage of the subscription revenue attributable to General Motors vehicles with installed XM radios. This percentage increases until there are more than eight million General Motors vehicles with installed XM radios. This agreement is subject to renegotiation if General Motors does not achieve and maintain specified installation levels, starting with 1.24 million units after four years and thereafter increasing by the lesser of 600,000 units per year and amounts proportionate to our share of the satellite digital radio market.

We currently expect to satisfy our funding requirements for the period following commencement of commercial operations in substantially the same manner as our requirements prior to commencement of commercial operations.

Year 2000 Readiness

Many currently installed computer systems and software products are coded to accept only two-digit entries in the date code field. Many such systems will need to accept four-digit entries in order to distinguish 20th century dates from 21st century dates. As a result, by the end of 1999, computer systems and software used by many companies have been upgraded to comply with these Year 2000 requirements. Otherwise these systems may cause miscalculations that will interfere with business activities or simply fail to work. When we use the terms "Year 2000 Ready" or "Year 2000 Readiness," we mean that customers will not experience any material difference in performance and functionality of our networks as a result of the date being prior to, during or after the Year 2000.

We began to assess our Year 2000 Readiness in mid-1998. We have completed the identification, necessary modification and testing of all our current systems, which we believe are Year 2000 compliant. This required no significant expense. Because we are a development stage company and do not expect to commence commercial operations until the second quarter of 2001, as of the date of this report, we have not experienced and do not expect any significant operational or financial problems for our company as a result of Year 2000 issues. Our existing technology development contracts require Year 2000 Readiness, and we require Year 2000 Readiness in all new contracts that we enter.

In addition to our internal review process, we have had communications with certain significant third parties with which we do business to

- evaluate their Year 2000 Readiness and state of compliance; and

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

- determine the extent to which our systems may be affected if they fail to remediate their own Year 2000 issues.

To date, we have not identified any system which demonstrates symptoms of not being Year 2000 Ready or for which a suitable alternative cannot be implemented.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 1999, we do not have any derivative financial instruments and do not intend to use derivatives. We invest our cash in short-term commercial paper and investment-grade corporate and government obligations and money market funds. All of our indebtedness was automatically converted into equity upon completion of our initial public offering. As a result, 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 our consolidated balance sheets as of December 31, 1998 and 1999, and consolidated statements of operations, consolidated statements of cash flows, and consolidated statements of stockholders' equity (deficit) for the three-year period ended December 31, 1999, and for the period from December 15, 1992 (date of inception) to December 31, 1999 and notes to the consolidated financial statements, together with a report thereon of KPMG LLP, dated February 16, 2000, except for Note 14 which is as of March 15, 2000, are attached hereto as pages F-1 through F-25.

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

None

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information is incorporated herein by reference to our definitive 2000 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information is incorporated herein by reference to our definitive 2000 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information is incorporated herein by reference to our definitive 2000 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information is incorporated herein by reference to our definitive 2000 Proxy Statement.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

PART IV

ITEM 14. EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1)The following Consolidated Financial Statements of and report of independent public accountants are included in Item 8 of this Form 10-K:

Report of Independent Auditors.

Consolidated Balance Sheets as of December 31, 1998 and 1999.

Consolidated Statements of Operations for the years ended December 31, 1997, 1998 and 1999, and for the period from December 15, 1992 (date of inception) to December 31, 1999.

Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 1997, 1998 and 1999, and for the period from December 15, 1992 (date of inception) to December 31, 1999.

Consolidated Statements of Cash Flows for the years ended December 31, 1997, 1998 and 1999, and for the period from December 15, 1992 (date of inception) to December 31, 1999.

Notes to Consolidated Financial Statements.

(a)(2)The following consolidated financial statement schedule is filed as part of this report and is attached hereto as page S-1:

Schedule I--Valuation and Qualifying Accounts.

All other schedules for which provision is made in the applicable accounting regulations of the Commission either have been included in the Consolidated Financial Statements of XM Satellite Radio Holdings Inc. or the notes thereto, are not required under the related instructions or are inapplicable, and therefore have been omitted.

(a)(3)The following exhibits are either provided with this Form 10-K or are incorporated herein by reference:

Exhibit Index

Exhibit No.	Description
3.1+	Restated Certificate of Incorporation of XM Satellite Radio Holdings Inc.
3.2+	Restated Bylaws of XM Satellite Radio Holdings Inc.
4.1+	Form of Certificate for our Class A common stock (incorporated by reference to Exhibit 3 to the XM Satellite Radio Holdings Inc. Registration Statement on Form 8-A, filed with the SEC on September 23, 1999).
4.2++	Form of Certificate for our 8.25% Series B Convertible Redeemable Preferred Stock.
4.3	Certificate of Designation Establishing the Voting Powers, Designations, Preferences, Limitations, Restrictions and Relative Rights of 8.25% Series B Convertible Redeemable Preferred Stock due 2012.
10.1+	Shareholders' Agreement, dated as of July 7, 1999, by and among XM Satellite Radio Holdings Inc., American Mobile Satellite Corporation, Baron Asset Fund, Clear Channel Investments, Inc., Columbia XM Radio Partners, LLC, DIRECTV Enterprises, Inc., General Motors Corporation, Madison Dearborn Capital Partners III, L.P., Special Advisors Fund I, LLC, Madison Dearborn Special Equity III, L.P., and Telcom-XM Investors, L.L.C.
10.2+	Registration Rights Agreement, dated July 7, 1999, by and among XM Satellite Radio Holdings Inc., American Mobile Satellite Corporation, the Baron Asset Fund series of Baron Asset Fund, and the holders of Series A subordinated convertible notes of XM Satellite Radio Holdings Inc.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

Exhibit No.	Description
10.3+	Note Purchase Agreement, dated June 7, 1999, by and between XM Satellite Radio Holdings Inc., XM Satellite Radio Inc., Clear Channel Communications, Inc., DIRECTV Enterprises, Inc., General Motors Corporation, Telcom-XM Investors, L.L.C., Columbia XM Radio Partners, LLC, Madison Dearborn Capital Partners III, L.P., Madison Dearborn Special Equity III, L.P., and Special Advisors Fund I, LLC (including form of Series A subordinated convertible note of XM Satellite Radio Holdings Inc. attached as Exhibit A thereto).
10.4+*	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.
10.5+*	Technical Services Agreement between XM Satellite Radio Holdings Inc. and American Mobile Satellite Corporation, dated as of January 1, 1998, as amended by Amendment No. 1 to Technical Services Agreement, dated June 7, 1998.
10.6+*	Satellite Purchase Contract for In-Orbit Delivery, by and between XM Satellite Radio Inc. and Hughes Space and Communications International Inc., dated July 21, 1999.
10.7+*	Amended and Restated Agreement by and between XM Satellite Radio, Inc and STMicroelectronics Srl, dated September 27, 1999.
10.8+*	Distribution Agreement, dated June 7, 1999, between OnStar, a division of General Motors Corporation, and XM Satellite Radio Inc.
10.9+*	Operational Assistance Agreement, dated as of June 7, 1999, between XM Satellite Radio Inc. and DIRECTV, INC.
10.10+*	Operational Assistance Agreement, dated as of June 7, 1999, between XM Satellite Radio Inc. and Clear Channel Communication, Inc.
10.11+*	Operational Assistance Agreement, dated as of June 7, 1999, between XM Satellite Radio Inc. and TCM, LLC.
10.12+	Agreement, dated as of July 16, 1999 between XM Satellite Radio Holdings Inc. and Gary Parsons.
10.13+	Employment Agreement, dated as of June 1, 1998, between XM Satellite Radio Holdings Inc. and Hugh Panero.
10.14+	Letter Agreement with Lee Abrams dated May 22, 1998.
10.15+	Letter Agreement with Stelios Patsiokas dated September 14, 1998
10.16+	Letter Agreement with Heinz Stubblefield dated May 22, 1998.
10.17+	Form of Indemnification Agreement between XM Satellite Radio Holdings Inc. and each of its directors and executive officers.
10.18+	1998 Shares Award Plan (incorporated by reference to the Registrant's Registration Statement on Form S-8, File No. 333-92049).
10 19+	Form of Employee Non-Qualified Stock Option Agreement.
10.20+	Firm Fixed Price Contract #001 between XM Satellite Radio Inc. and the Fraunhofer Gesellschaft zur Foderung Der angewandten Forschung e.V., dated July 16, 1999.
10.21+*	Contract for Engineering and Construction of Terrestrial Repeater Network System by and between XM Satellite Radio Inc. and LCC International, Inc., dated August 18, 1999.
10.22	Employee Stock Purchase Plan (Incorporated by reference to the Registrant's Registration Statement on Form S-8, File No. 333-92049).
10.23+	Non-Qualified Stock Option Agreement between Gary Parsons and XM Satellite Radio Holdings Inc., dated July 16, 1999.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

Exhibit No.	Description
10.24+	Non-Qualified Stock Option Agreement between Hugh Panero and XM Satellite Radio Holdings Inc., dated July 1, 1998, as amended.
10.25+	Form of Director Non-Qualified Stock Option Agreement.
10 26+	Lease between Consortium One Eckington, L.L.C. and XM Satellite Radio Inc., dated September 29, 1999
10.27++	Letter Agreement with Stephen Cook dated January 12, 1999
10.28**	Contract for the Design, Development and Purchase of Terrestrial Repeater Equipment by and between XM Satellite Radio Inc. and Hughes Electronics Corporation, dated February 14, 2000.
21.1++	Subsidiaries of XM Satellite Radio Holdings Inc.
23.1	Consent of KPMG LLP.
27.1	Financial Data Schedule.

+ Incorporated by reference to the Registrant's Registration Statement on Form S-1, File No. 333-83619.
++ Incorporated by reference to the Registrant's Registration Statement on Form S-1, File No. 333-93529.
* Pursuant to the Commission's Order Granting Confidential Treatment under Rule 406 of the Securities Act of 1933, certain confidential portions of this Exhibit were omitted by means of redacting a portion of the text.
** Certain portions of this Exhibit were omitted by means of redacting a portion of the text. This Exhibit has been filed separately with the Secretary of the Commission with such text pursuant to our Application Requesting Confidential Treatment under Rule 246-2 under the Securities Exchange Act of 1934.

(b) Reports on Form 8-K.

On February 25, 2000, the Company filed a Current Report on Form 8-K that contained audited, consolidated financial statements substantially the same as those contained herein. The Company also filed certain other information with respect to its business and financial condition that the Company deemed of importance to its stockholders.

(c) Exhibits.

XM Satellite Radio Holdings Inc. hereby files as part of this Form 10-K the Exhibits listed in the Index to Exhibits.

(d) Consolidated Financial Statement Schedule.

The following consolidated financial statement schedule is filed herewith:

Schedule I--Valuation and Qualifying Accounts.

Schedules not listed above have been omitted because they are inapplicable or the information required to be set forth therein is provided in the Consolidated Financial Statements of XM Satellite Radio Holdings Inc. or notes thereto.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

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 in the District of Columbia, on the 16th day of March, 2000.

XM Satellite Radio Holdings Inc.

By: /s/ Hugh Panero

Name: Hugh Panero
Title: President and Chief Executive Officer

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

Signature	Title	Date
/s/ Hugh Panero Hugh Panero	President Chief Executive Officer, and Director (Principal Executive Officer)	March 16, 2000
/s/ Heinz Stubblefield Heinz Stubblefield	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 16, 2000
/s/ Gary M. Parsons Gary M. Parsons	Chairman of the Board of Directors	March 16, 2000
/s/ Nathaniel A. Davis Nathaniel A. Davis	Director	March 16, 2000
/s/ Thomas J. Donohue Thomas J. Donohue	Director	March 16, 2000
/s/ Randall T. Mays Randall T. Mays	Director	March 16, 2000
/s/ Randy S. Segal Randy S. Segal	Director	March 16, 2000
/s/ Ronald L. Zarrella Ronald L. Zarrella	Director	March 16, 2000

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

Independent Auditors' Report on Consolidated Financial Statement Schedule

The Board of Directors
XM Satellite Radio Holdings Inc. and Subsidiaries:

Under date of February 16, 2000, except for Note 14 which is as of March 15, 2000, we reported on the consolidated balance sheets of XM Satellite Radio Holdings Inc. and Subsidiaries (a development stage company) as of December 31, 1998 and 1999, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 1999 and for the period from December 15, 1992 (date of inception) to December 31, 1999, which are included in this Annual Report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated financial statement schedule based on our audits.

In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The audit report on the consolidated financial statements of XM Satellite Radio Holdings Inc. and Subsidiaries referred to above contains an explanatory paragraph that states that the Company has not commenced operations and is dependent upon additional debt or equity financing, which raises substantial doubt about its ability to continue as a going concern. The consolidated financial statement schedule included in the registration statement does not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

McLean, VA
February 16, 2000, except
for Note 14, which is
as of March 15, 2000

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

Description	Balance January 1	Additions (Deductions) Charged to Costs and Expenses	Charged to Other Accounts -- Describe	Write-Offs/ Payments/ Other	Balance December 31
Year Ended December 31, 1997					
Deferred Tax Assets-- Valuation allowance...	$ --	746	--	--	746
Year Ended December 31, 1998					
Deferred Tax Assets-- Valuation allowance...	$ 746	7,232	--	--	7,978
Year Ended December 31, 1999					
Deferred Tax Assets-- Valuation allowance...	$7,978	(3,159)	--	--	4,819

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
(A Development Stage Company)
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Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
XM Satellite Radio Holdings Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of XM Satellite Radio Holdings Inc. and subsidiaries (a development stage company) as of December 31, 1998 and 1999, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 1999, and for the period from December 15, 1992 (date of inception) to December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of XM Satellite Radio Holdings Inc. and subsidiaries (a development stage company) as of December 31, 1998 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999 and for the period from December 15, 1992 (date of inception) to December 31, 1999, in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 11 to the consolidated financial statements, the Company has not commenced operations and is dependent upon additional debt or equity financing, which raises substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters is also described in note 11. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

McLean, VA
February 16, 2000, except
for Note 14, which is
as of March 15, 2000

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
(A Development Stage Company)

CONSOLIDATED BALANCE SHEETS
December 31, 1998 and 1999

	1998	1999
	(in thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 310	$ 50,698
Short-term investments	--	69,472
Prepaid and other current assets	172	1,077
Total current assets	482	121,247
Other assets:		
System under construction	169,029	362,358
Property and equipment, net of accumulated depreciation and amortization of $57 and $347	449	2,551
Goodwill and intangibles, net of accumulated amortization of $0 and $1,220	--	25,380
Other assets	525	3,653
Total assets	$ 170,485	$ 515,189
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 23,125	$ 23,338
Accrued expenses	444	1,514
Due to related parties	13,767	62
Accrued interest on loans payable	1,907	--
Loans payable due to related parties	91,546	--
Royalty payable	--	1,646
Term loan	34	--
Total current liabilities	130,823	26,560
Term loan, net of current portion	53	--
Subordinated convertible notes payable due to related party	45,583	--
Accrued interest on subordinated convertible notes payable due to related party	1,209	--
Royalty payable, net of current portion	--	3,400
Capital lease, net of current portion	--	212
Total liabilities	177,668	30,172
Stockholders' equity (deficit):		
Preferred stock, par value $0.01; 60,000,000 shares authorized, 15,000,000 shares designated Series A, no shares and 10,786,504 issued and outstanding at December 31, 1998 and 1999	--	108
Class A common stock, par value $0.01; 180,000,000 shares authorized, no and 26,465,333 shares issued and outstanding at December 31, 1998 and 1999	--	265
Class B common stock, par value $0.01; 30,000,000 shares authorized, 125 (6,689,250 post split) and 17,872,176 shares issued and outstanding at December 31, 1998 and 1999	--	179
Class C common stock, par value $0.01, 30,000,000 shares authorized, no shares issued and outstanding at December 31, 1998 and 1999	--	--
Additional paid-in capital	10,643	539,187
Deficit accumulated during development stage	(17,826)	(54,722)
Total stockholders' equity (deficit)	(7,183)	485,017
Commitments and contingencies (notes 11 and 12)		
Total liabilities and stockholders' equity (deficit)	$170,485	$515,189

See accompanying notes to consolidated financial statements.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 1997, 1998 and 1999, and for the period from December 15, 1992 (date of inception) to December 31, 1999

	1997	1998	1999	December 15, 1992 (date of inception) to December 31, 1999
	(in thousands, except share data)			
Revenue	$ --	$ --	$ --	$ --
Operating expenses:				
Research and development	--	6,941	4,274	11,215
Professional fees	1,090	5,242	9,969	16,301
General and administrative	20	4,010	16,448	20,478
Total operating expenses	1,110	16,193	30,691	47,994
Operating loss	(1,110)	(16,193)	(30,691)	(47,994)
Other income (expense):				
Interest income	--	26	2,916	2,942
Interest expense	(549)	--	(9,121)	(9,670)
Net loss	$ (1,659)	$ (16,167)	$ (36,896)	$ (54,722)
Net loss per share:				
Basic and diluted	$ (0.26)	$ (2.42)	$ (2.40)	
Weighted average shares used in computing net loss per share-basic and diluted	6,368,166	6,689,250	$15,344,102	

See accompanying notes to consolidated financial statements.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
Years ended December 31, 1997, 1998 and 1999, and for the period from December 15, 1992 (date of inception) to December 31, 1999

	Series A Preferred Stock		Class A Common Stock		Class B Common Stock		Class C Common Stock		Additional Paid-in Capital	Deficit Accumulated During Development Stage	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
	(in thousands, except share data)										
Issuance of common stock (December 15, 1992)	--	$ --	--	$ --	100	$ --	--	$--	$ --	$ --	$ --
Balance at December 31, 1992	--	--	--	--	100	--	--	--	--	--	--
Net loss	--	--	--	--	--	--	--	--	--	--	--
Balance at December 31, 1993	--	--	--	--	100	--	--	--	--	--	--
Net loss	--	--	--	--	--	--	--	--	--	--	--
Balance at December 31, 1994	--	--	--	--	100	--	--	--	--	--	--
Net loss	--	--	--	--	--	--	--	--	--	--	--
Balance at December 31, 1995	--	--	--	--	100	--	--	--	--	--	--
Net loss	--	--	--	--	--	--	--	--	--	--	--
Balance at December 31, 1996	--	--	--	--	100	--	--	--	--	--	--
Contributions to paid-in capital	--	--	--	--	--	--	--	--	143	--	143
Issuance of common stock and capital contributions	--	--	--	--	25	--	--	--	9,000	--	9,000
Issuance of options	--	--	--	--	--	--	--	--	1,500	--	1,500
Net loss	--	--	--	--	--	--	--	--	--	(1,659)	(1,659)
Balance at December 31, 1997	--	--	--	--	125	--	--	--	10,643	(1,659)	8,984
Net loss	--	--	--	--	--	--	--	--	--	(16,167)	(16,167)
Balance at December 31, 1998	--	--	--	--	125	--	--	--	10,643	(17,826)	(7,183)
53,514-for-one stock split	--	--	--	--	6,689,125	67	--	--	(67)	--	--
Initial public offering	--	--	10,241,000	102	--	--	--	--	114,032	--	114,134
Conversion of Series A convertible debt	10,786,504	108	16,179,755	162	--	--	--	--	246,079	--	246,349
Conversion of subordinated convertible notes payable to related party	--	--	--	--	11,182,926	112	--	--	106,843	--	106,955
Issuance of shares to key executive	--	--	14,716	--	--	--	--	--	140	--	140
Issuance of shares through exercise of stock options	--	--	1,071	--	--	--	--	--	10	--	10
Issuance of shares through the employee stock purchase plan	--	--	28,791	1	--	--	--	--	293	--	294
Increase in FCC license, goodwill and intangibles from WorldSpace Transaction	--	--	--	--	--	--	--	--	51,624	--	51,624
Charge for beneficial conversion feature of note issued to Parent	--	--	--	--	--	--	--	--	5,520	--	5,520
Non-cash stock compensation	--	--	--	--	--	--	--	--	4,070	--	4,070
Net loss	--	--	--	--	--	--	--	--	--	(36,896)	(36,896)

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

Balance at December 31, 1999	10,786,504	$108	26,465,333	$265	17,872,176	$179	--	$--	$539,187	$(54,722)	$485,017

See accompanying notes to consolidated financial statements.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 1997, 1998 and 1999, and for the period from December 15, 1992 (date of inception) to December 31, 1999

	1997	1998	1999	December 15, 1992 (date of inception) to December 31, 1999
	(in thousands)			
Cash flows from operating activities:				
Net loss	$ (1,659)	$(16,167)	$ (36,896)	$ (54,722)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	33	57	1,987	2,077
Non-cash stock compensation	--	--	4,210	4,210
Non-cash charge for beneficial conversion feature of note issued to Parent	--	--	5,520	5,520
Changes in operating assets and liabilities:				
Increase in prepaid and other current assets	--	(212)	(905)	(1,117)
Decrease in other assets	--	--	43	43
Increase in accounts payable and accrued expenses	--	1,701	7,519	9,220
Increase (decrease) in amounts due to related parties	445	13,322	(1,316)	12,451
Increase (decrease) in accrued interest	517	(2)	3,053	3,568
Net cash used in operating activities	(664)	(1,301)	(16,785)	(18,750)
Cash flows from investing activities:				
Purchase of property and equipment	--	(506)	(2,008)	(2,514)
Additions to system under construction	(90,031)	(43,406)	(159,510)	(292,947)
Purchase of short-term investments	--	--	(69,472)	(69,472)
Other investing activities	--	--	(3,422)	(3,422)
Net cash used in investing activities	(90,031)	(43,912)	(234,412)	(368,355)
Cash flows from financing activities:				
Proceeds from sale of common stock and capital contribution	9,143	--	114,428	123,571
Proceeds from issuance of loan payable to related party	80,053	337	--	80,390
Proceeds from issuance of options	1,500	--	--	1,500
Proceeds from issuance of subordinated convertible notes to related parties	--	45,583	22,966	68,549
Proceeds from issuance of convertible notes	--	--	250,000	250,000
Repayment of loan payable	--	--	(75,000)	(75,000)
Payments for deferred financing costs	--	(393)	(10,725)	(11,118)
Other investing activities	--	(5)	(84)	(89)
Net cash provided by financing activities	90,696	45,522	301,585	437,803
Net increase in cash and cash equivalents	1	309	50,388	50,698
Cash and cash equivalents at beginning of period	--	1	310	--

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

Cash and cash equivalents at end of period.....	$ 1	$ 310	$ 50,698	$ 50,698

(Continued)

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS--(Continued)
Years ended December 31, 1997, 1998 and 1999, and for the period from December 15, 1992 (date of inception) to December 31, 1999

	1997	1998	1999	December 15, 1992 (date of inception) to December 31, 1999
	(in thousands)			
Supplemental cash flow disclosure:				
Increase in FCC license, goodwill and intangibles from WorldSpace Transaction	$ --	$ --	$ 51,624	$ 51,624
Liabilities exchanged for new convertible note to Parent	--	--	81,676	81,676
Non-cash interest capitalized	1,901	11,824	15,162	28,887
Interest converted into principal note balance	501	9,157	4,601	14,259
Accrued expenses transferred to loan balance	--	--	7,405	7,405
Accrued system milestone payments	--	21,867	15,500	15,500
Property acquired through capital leases	--	--	470	470
Conversion of debt to equity	--	--	353,315	353,315

See accompanying notes to consolidated financial statements.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the period from December 15, 1992 (date of inception) to December 31, 1999

(1) Summary of Significant Accounting Policies and Practices

(a) Nature of Business

XM Satellite Radio Inc. ("XMSR"), formerly American Mobile Radio Corporation, was incorporated on December 15, 1992 in the State of Delaware as a wholly owned subsidiary of American Mobile Satellite Corporation ("AMSC" or "Parent") for the purpose of procuring a digital audio radio service ("DARS") license. Business activity for the period from December 15, 1992 through December 31, 1996 was insignificant. Pursuant to various financing agreements entered into in 1997 between AMSC, XMSR and WorldSpace, Inc. ("WSI"), WSI acquired a 20 percent interest in XMSR.

On May 16, 1997, AMSC and WSI formed XM Satellite Radio Holdings Inc. (the "Company"), formerly AMRC Holdings Inc., as a holding company for XMSR in connection with the construction, launch and operation of a domestic communications satellite system for the provision of DARS. AMSC and WSI exchanged their respective interests in XMSR for equivalent interests in the Company, which had no assets, liabilities or operations prior to the transaction.

On July 7, 1999, AMSC acquired WSI's 20 percent interest in the Company, which is discussed in note 4.

(b) Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of XM Satellite Radio Holdings Inc. and its subsidiaries, XM Satellite Radio Inc. and XM Radio Inc. All significant intercompany transactions and accounts have been eliminated. The Company's management has devoted substantially all of its time to the planning and organization of the Company, obtaining its DARS license, and to the process of addressing regulatory matters, initiating research and development programs, conducting market research, initiating construction of the satellite system, securing content providers, and securing adequate debt and equity capital for anticipated operations and growth. The Company has not generated any revenues and planned principal operations have not commenced. Accordingly, the Company's financial statements are presented as those of a development stage enterprise, as prescribed by Statement of Financial Accounting Standards ("SFAS") No. 7, Accounting and Reporting by Development Stage Enterprises.

As discussed in Note 6, on September 9, 1999, the Company effected a 53,514-for-1 stock split. The effect of the stock split has been reflected as of December 31, 1999 in the consolidated balance sheet and consolidated statement of stockholders' equity (deficit), however, the activity in prior periods was not restated in those statements. All references to the number of common shares and per share amounts in the consolidated financial statements and notes thereto have been restated to reflect the effect of the split for all periods presented.

(c) Cash and Cash Equivalents

The Company considers short-term, highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company had the following cash and cash equivalents balances (in thousands):

	December 31,	
	1998	1999
Cash on deposit	$ 28	$ 66
Money market funds	282	10,620
Commercial paper	--	40,012
	$310	$50,698

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

(d) Short-term Investments

The Company holds commercial paper with maturity dates of less than one year that is stated at amortized cost, which approximates fair value.

(e) Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated using the straight-line method over the following estimated useful lives:

Furniture, fixtures and computer equipment	3 years
Machinery and equipment	7 years
Leasehold improvements	Remaining lease

(f) System Under Construction

The Company is currently developing its satellite system. Costs related to the project are being capitalized to the extent that they have future benefits. As of December 31, 1999, all amounts recorded as system under construction relate to costs incurred in obtaining a Federal Communications Commission ("FCC") license and approval as well as the system development. The FCC license will be amortized using the straight line method over an estimated useful life of fifteen years. Amortization of the license will begin on commercial launch. Depreciation of the Company's satellites will commence upon in-orbit delivery. Depreciation of the Company's ground stations will commence upon commercial launch. The satellites and the ground stations will be depreciated over their estimated useful lives.

On October 16, 1997, the FCC granted XMSR a license to launch and operate two geostationary satellites for the purpose of providing DARS in the United States in the 2332.5-2345 Mhz (space-to-earth) frequency band, subject to achieving certain technical milestones and international regulatory requirements. The license is valid for eight years upon successful launch and orbital insertion of the satellites. The Company's license requires that it comply with a construction and launch schedule specified by the FCC for each of the two authorized satellites. 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. The Company believes that the exercise of such authority to rescind the license is unlikely.

System under construction consists of the following (in thousands):

	December 31,	
	1998	1999
License	$ 90,031	$115,055
Satellite system	63,273	204,083
Terrestrial system	--	6,578
Spacecraft control facilities	2,000	2,000
Broadcast facilities and other	--	5,574
Capitalized interest	13,725	29,068
	$169,029	$362,358

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

The Company's policy is to review its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(g) Goodwill and Intangible Assets

Goodwill and intangible assets, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over the expected periods to be benefited, generally 15 years. The Company assesses the recoverability of its intangible assets by determining whether the amortization of the goodwill and intangible assets balance over its remaining life can be recovered through undiscounted future operating cash flows. The amount of goodwill and intangible assets impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

(h) Stock-Based Compensation

The Company accounts for stock-based compensation arrangements in accordance with the provisions of Accounting Principle Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and related interpretations, and complies with the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation. Under APB 25, compensation expense is based upon the difference, if any, on the date of grant, between the fair value of the Company's stock and the exercise price. All stock-based awards to non-employees are accounted for at their fair value in accordance with SFAS No. 123.

(i) Research and Development

Research and development costs are expensed as incurred.

(j) Net Income (Loss) Per Share

The Company computes net income (loss) per share in accordance with SFAS No. 128, Earnings Per Share and SEC Staff Accounting Bulletin No. 98 ("SAB 98"). Under the provisions of SFAS No. 128 and SAB 98, basic net income (loss) per share is computer by dividing the net income (loss) available to common stockholders (after deducting preferred dividend requirements) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) available per share is computed by dividing the net income (loss) available to common stockholders for the period by the weighted average number of common and dilutive common equivalent shares outstanding during the period. The Company has presented historical basic and diluted net income (loss) per share in accordance with SFAS No. 128. As the Company had a net loss in each of the periods presented, basic and diluted net income (loss) per share is the same.

(k) Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and the financial reporting amounts at each year-end, based on enacted tax laws

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the sum of tax payable for the period and the change during the period in deferred tax assets and liabilities.

(l) Comprehensive Income

In December 1998, the Company adopted SFAS No. 130, Reporting Comprehensive Income (SFAS 130). This statement establishes standards for reporting and displaying comprehensive income and its components in the financial statements. This statement is effective for all interim and annual periods with the year ended December 31, 1998. The Company has evaluated the provisions of SFAS 130 and has determined that there were no transactions that have taken place during the years ended December 31, 1997, 1998 and 1999 that would be classified as other comprehensive income.

(m) Accounting Estimates

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. The estimates involve judgments with respect to, among other things, various future factors which are difficult to predict and are beyond the control of the Company. Significant estimates include valuation of the Company's investment in the DARS license, goodwill and intangible assets, and the valuation allowances against deferred tax assets. Accordingly, actual amounts could differ from these estimates.

(n) Reclassifications

Certain fiscal year 1997 and 1998 amounts have been reclassified to conform to the fiscal 1999 consolidated financial statement presentation.

(o) Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The new standard establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. This statement, as amended, is effective for all fiscal quarters beginning after June 15, 2000. The Company does not expect SFAS No. 133 to have a material affect on its financial position or results of operations.

(2) Related Party Transactions

The Company had related party transactions with the following shareholders:

(a) AMSC

In 1997, AMSC contributed $143,000 for the Company to establish the original application for the FCC license. On March 28, 1997, the Company received $1,500,000 as a capital contribution from AMSC. During 1998 and 1999, AMSC incurred general and administrative costs and professional fees for the Company and established an intercompany balance of $458,000 and $62,000, respectively, (see note 3). Effective January 15, 1999, the Company issued a convertible note maturing on September 30, 2006 to AMSC for $21,419,000. (See note 4(d)).

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

(b) WSI

On March 28, 1997, the Company received $1,500,000 as a capital contribution from WSI. The Company issued WSI 25 (6,689,250 post split) shares of common stock for this consideration.

On April 16, 1997, the Company received $15,000,000 from WSI, which represented $6,000,000 as an additional capital contribution and $9,000,000 as a six-month bridge loan (see note 4).

On May 16, 1997, the Company obtained a $1,000,000 working capital loan facility from WSI. During 1997, the Company drew down $663,000 against the facility with the remaining $337,000 drawn in 1998 (see note 4).

On October 16, 1997, the Company received $71,911,000 from WSI, which represented an additional $13,522,000 under the bridge loan and $58,389,000 under the additional amounts loan (see note 4).

On April 1, 1998, the Company entered into an agreement with WSI to issue $54,536,000 in subordinated convertible notes. During 1998 and 1999, the Company drew down $45,583,000 and $8,953,000, respectively, under the agreement (see note 4).

As discussed in note 4(c) all amounts due to WSI under the debt agreements were acquired by AMSC or repaid on July 9, 1999.

In July 1998, the Company acquired furniture and equipment from WSI for $104,000 and established a due to WSI for the balance (see note 3).

In addition to financing, the Company has relied upon certain related parties for legal and technical services. Total expenses incurred in transactions with related parties are as follows (in thousands):

	Year Ended December 31, 1997		
	WSI	AMSC	Total
Professional fees	$ 960	$ 130	$ 1,090
General and administrative	--	20	20
Total	$ 960	$ 150	$ 1,110

	Year Ended December 31, 1998		
	WSI	AMSC	Total
Research and development	$ 6,624	$ --	$ 6,624
Professional fees	2,529	353	2,882
General and administrative	903	60	963
Total	$ 10,056	$ 413	$ 10,469

	Year Ended December 31, 1999		
	WSI	AMSC	Total
Research and development	$ 50	$ --	$ 50
Professional fees	--	219	219
General and administrative	--	5	5
Total	$ 50	$ 224	$ 274

Source. XM SATELLITE RADIO H, 10-K, March 16, 2000

Additionally, during 1998 and 1999 the Company incurred $925,000 and $0, respectively, of WSI project management costs that were capitalized to the satellite system. With the WorldSpace Transaction, which is discussed in note 4, on July 7, 1999, WSI ceased to be a related party; therefore, the expenses reflected for WSI are representative of the period from January 1, 1999 through July 7, 1999.

(3) Due to Related Parties

Due to related parties included the following amounts (in thousands):

	December 31,	
	1998	1999
Advances from WSI	$ 7,405	$--
Due to WSI	5,904	--
Due to AMSC	458	62
	$13,767	$ 62

Advances represented funding provided by WSI for 30 days. If amounts were not repaid within this time period, additional subordinated convertible notes were issued.

(4) Debt

(a) Loans Payable Due to Related Party

In March 1997, XMSR entered into a series of agreements (the "Participation Agreement") with AMSC and WSI in which both companies provided various equity and debt funding commitments to XMSR for the purpose of financing the activities of XMSR in connection with the establishment of a DARS satellite system in the United States. On May 16, 1997, certain portions of the Participation Agreement were subsequently ratified with substantially the same terms and conditions under the Bridge Loan, Additional Amounts Loan and Working Capital Credit Facility (the "Loan Agreement").

The Company had loans payable of $91,546,000 at December 31, 1998 outstanding with WSI as follows (in thousands):

	1998
Bridge loan	$25,556
Additional amounts loan	64,875
Working capital loan	1,115
	$91,546

As discussed in note 4(c) all amounts due to WSI under the debt agreements were acquired by AMSC or repaid on July 7, 1999.

Bridge Loan

The Company executed the bridge loan with WSI in two tranches. On April 16, 1997, the Company received proceeds of $8,479,000 for a loan with a face amount of $9,000,000. On October 16, 1997, the

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

For the period from December 15, 1992 (date of inception) to December 31, 1999 Company received proceeds of $12,771,000 for a loan with a face amount of $13,522,000. The first tranche was a six-month loan at LIBOR plus five percent per annum, equaling 11.03 percent. The first tranche was rolled over with the establishment of the second tranche, which is a six-month loan at LIBOR plus five percent per annum, equaling 9.94 percent at December 31, 1998. Interest of $3,034,000 had been converted into additional loan balance through December 31, 1998.

Additional Amounts Loan

On October 16, 1997, the Company executed the additional amounts loan with WSI and received proceeds of $58,219,000 for a loan with a face amount of $58,389,000. This loan is a six-month loan at LIBOR plus five percent per annum, equaling 9.94 percent at December 31, 1998. Interest of $6,486,000 had been converted into additional loan balance through December 31, 1998.

Working Capital Loan

On May 16, 1997, the Company executed the working capital loan with WSI whereby the Company would receive proceeds of $920,000 for a loan with a face amount of $1,000,000. The Company drew down $663,000 and $337,000 against the line of credit through December 31, 1997 and 1998, respectively. This loan is a six-month loan at LIBOR plus five percent per annum, with an interest rate of 10.19 percent at December 31, 1998. Interest of $115,000 had been converted into additional loan balance through December 31, 1998.

(b) Subordinated Convertible Notes Payable Due to Related Party

Effective April 1, 1998, the Company entered into a convertible note agreement maturing on September 30, 2006 with WSI that provided for a maximum of $54,536,000 through the issuance of subordinated convertible notes. The notes carried an interest rate of LIBOR plus five percent per annum, which was 10.15 percent as of December 31, 1998. Under the terms of the note agreement, WSI shall have the right to convert all or a portion of the aggregate principal amount of the notes into shares of common stock at a conversion price of $16.35 per share. As of December 31, 1998 and July 7, 1999, $45,583,000 and $54,536,000, respectively, had been drawn through the issuance of subordinated convertible notes. As discussed in note 4(c), all amounts due to WSI under the debt agreements were acquired by AMSC or repaid on July 7, 1999.

(c) Exchange of WSI's Interest in the Company (WorldSpace Transaction)

On July 7, 1999, AMSC acquired WSI's remaining debt and equity interests in the Company in exchange for approximately 8.6 million shares of AMSC's common stock. Additionally, the Company issued an aggregate $250.0 million of Series A subordinated convertible notes (see note 4(e)) to several new investors and used $75.0 million of the proceeds it received from the issuance of these notes to redeem certain outstanding loan obligations owed to WSI. As a result of these transactions, as of July 7, 1999, AMSC owned all of the issued and outstanding stock of the Company. Concurrent with AMSC's acquisition of the remaining interest in the Company, the Company recognized goodwill and intangibles of $51,624,000, which has been allocated as follows (in thousands):

FCC license	$25,024
Goodwill	13,738
Programming agreements	8,000
Receiver agreements	4,600
Other intangibles	262
	$51,624

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

(d) Notes to Related Party

On January 15, 1999, the Company issued a convertible note maturing on September 30, 2006 to AMSC for $21,419,000. This note carried an interest rate of LIBOR plus five percent per annum and was convertible at a price of $16.35 per share. On July 7, 1999 the Company amended the convertible note agreement with AMSC to change the maturity date to December 31, 2004, modified the conversion provisions to Class B common stock at a price of $16.35 per share and the conversion of the accrued interest in Class B common stock at a price of $9.52 per share.

Following the WorldSpace Transaction, the Company issued a convertible note maturing December 31, 2004 to AMSC for $81,676,000 in exchange for the $54,536,000 subordinated convertible notes payable, $6,889,000 in demand notes, $20,251,000 in accrued interest and all of WSI's outstanding options to acquire the Company's common stock. This note bore interest at LIBOR plus five percent per annum. The note was convertible at AMSC's option at $8.65 per Class B common share. The Company took a one-time $5,520,000 charge to interest due to the beneficial conversion feature of the new AMSC note.

These notes, along with $3,870,000 of accrued interest were converted into 11,182,926 shares of Class B common stock upon the initial public offering.

(e) Issuance of Series A Subordinated Convertible Notes of the Company to New Investors

At the closing of the WorldSpace Transaction, the Company issued an aggregate $250.0 million of Series A subordinated convertible notes to six new investors--General Motors Corporation, $50.0 million; Clear Channel Investments, Inc., $75.0 million; DIRECTV Enterprises, Inc., $50.0 million; and Columbia Capital, Telcom Ventures, L.L.C. and Madison Dearborn Partners, $75.0 million. The Series A subordinated convertible notes issued by the Company are convertible into shares of the Company's Series A convertible preferred stock (in the case of notes held by General Motors Corporation and DIRECTV) or Class A common stock (in the case of notes held by the other investors) at the election of the holders or upon the occurrence of certain events, including an initial public offering of a prescribed size The conversion price is $9.52 aggregate principal amount of notes for each share of the Company's stock. These notes, along with $6,849,000 of accrued interest, were converted into 16,179,755 shares of Class A common stock and 10,786,504 shares of Series A preferred stock upon the initial public offering.

(5) Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, short-term investments, receivables, accounts payable, accrued expenses, royalty payable and the term loan approximate their fair market value because of the relatively short duration of these instruments as of December 31, 1998 and 1999, in accordance with SFAS No. 107, Disclosures about Fair Value of Financial Instruments.

The fair value of the loans and subordinated convertible notes due to related party at December 31, 1998 could not be estimated as such amounts are due to the Company's stockholders.

(6) Equity

(a) Recapitalization

Concurrent with the WorldSpace Transaction discussed in note 4, the Company's capital structure was reorganized. The Company's common stock was converted into the newly authorized Class B common stock,

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

For the period from December 15, 1992 (date of inception) to December 31, 1999 which has three votes per share. The Company also has authorized Class A common stock, which is entitled to one vote per share and non-voting Class C common stock. The Class B common stock is convertible into Class A common stock on a one for one basis, as follows: (1) at any time at the discretion of AMSC, (2) following the Company's initial public offering, at the direction of the holders of a majority of the then outstanding shares of Class A common stock (which majority must include at least 20 percent of the public holders of Class A common stock), and (3) on or after January 1, 2002, at the direction of the holders of a majority of the then outstanding shares of the Company's Class A common stock. Such conversion will be effected only upon receipt of FCC approval of AMSC's transfer of control of the Company to a diffuse group of shareholders.

The Company also authorized 60,000,000 shares of preferred stock, of which 15,000,000 shares are designated Series A convertible preferred stock, par value $0.01 per share. The Series A convertible preferred stock is convertible into Class A common stock at the option of the holder. The Series A preferred stock is non-voting and receives dividends, if declared, ratably with the common stock.

On September 9, 1999, the board of directors of the Company effected a stock split providing 53,514 shares of stock for each share owned.

(b) Initial Public Offering

On October 8, 1999, the Company completed an initial public offering of 10,000,000 shares of Class A common stock at $12.00 per share. The offering yielded net proceeds of $111,437,000.

On October 17, 1999, the underwriters of the Company's initial public offering exercised the over-allotment option for an additional 241,000 shares of Class A common stock at $12.00 per share This exercise yielded net proceeds of $2,697,000.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

(c) Stock-Based Compensation

The Company operates two separate stock option plans, the details of which are described below.

1998 Shares Award Plan

On June 1, 1998, the Company adopted the 1998 Shares Award Plan (the "Plan") under which employees, consultants, and non-employee directors may be granted options to purchase shares of Class A common stock of the Company. The Company initially authorized 1,337,850 shares of common stock under the Plan, which was increased to 2,675,700 in July 1999. The options are exercisable in installments determined by the compensation committee of the Company's board of directors. The options expire as determined by the committee, but no later than ten years from the date of grant. On July 8, 1999, the Company's board of directors voted to reduce the exercise price of the options outstanding in the shares award plan from $16.35 to $9.52 per share, which represented the fair value of the stock on the date of repricing. Transactions and other information relating to the Plan for the year ended December 31, 1998 and 1999 are summarized below:

	Outstanding Options	
	Number of Shares	Weighted-Average Exercise Price
Balance, January 1, 1998	--	--
Options granted	787,297	$16.35
Options canceled or expired	--	--
Options exercised	--	--
Balance, December 31, 1998	787,297	$16.35
Options granted	2,188,988	10.50
Option repricing	818,339	16.35
Options canceled or expired	57,786	13.91
Options exercised	1,071	9.52
Balance, December 31, 1999	2,099,089	$10.32

The following table summarizes information about stock options outstanding at December 31, 1998 and 1999:

	Options Outstanding			Options Exercisable		
	Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
1998	$16 35	787,297	9.5 years	$16.35	--	$16.35
1999	$9.52-$12.00	2,099,089	9.24 years	$10.32	416,294	$ 9.52

There were no and 416,294 stock options exercisable at December 31, 1998 and 1999, respectively. There were 575,540 shares available under the plan for future grants at December 31, 1999. At December 31, 1999, all options have been issued to employees, officers and directors.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

The per share weighted-average fair value of employee options granted during the year ended December 31, 1998 and 1999 was $10.54 and $6.21, respectively, on the date of grant using the Black-Scholes Option Pricing Model with the following weighted-average assumptions:

	December 31,	
	1998	1999
Expected dividend yield	0%	0%
Volatility	56.23%	63.92%
Risk-free interest rate range	4.53% to 5.57%	5.47% to 5.97%
Expected life	7.5 years	5 years

Employee Stock Purchase Plan

In 1999, the Company established an employee stock purchase plan that provides for the issuance of 300,000 shares of Class A common stock. All employees whose customary employment is more than 20 hours per week and for more than five months in any calendar year are eligible to participate in the stock purchase plan, provided that any employee who would own five percent or more of the Company's total combined voting power immediately after an offering date under the plan is not eligible to participate. Eligible employees must authorize the Company to deduct an amount from their pay during offering periods established by the compensation committee. The purchase price for shares under the plan will be determined by the compensation committee but may not be less than 85 percent of the lesser of the market price of the common stock on the first or last business day of each offering period. As of December 31, 1999, 28,791 shares had been issued by the Company under this plan.

The per share weighted-average fair value of purchase rights granted during the year was $3 30 for the year ended December 31, 1999. The estimates were calculated at the grant date using the Black-Scholes Option Pricing Model with the following assumptions at December 31, 1999:

Expected dividend yield	0%
Volatility	63.92%
Risk-free interest rate range	4.73%
Expected life	0.23 years

The Company applies APB 25 in accounting for stock-based compensation for both plans and, accordingly, no compensation cost has been recognized for its stock options in the financial statements other than for performance based stock options and for options granted with exercise prices below fair value on the date of grant. During 1999, the Company incurred $4,070,000 in compensation cost for these options. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS 123, the Company's net loss and net loss per share would have been increased to the pro forma amounts indicated below (in thousands):

	Year ended December 31,	
	1998	1999
Net loss;		
As reported	$ 16,167	$ 36,896
Pro forma	17,508	37,706
As reported--net loss per share--basic and diluted	(2.42)	(2.40)
Pro forma--net loss per share--basic and diluted	(2.62)	(2.46)

Source. XM SATELLITE RADIO H, 10-K, March 16, 2000

(7) WSI Options

In 1997, the Company issued WSI three options. Under the first option, WSI could have purchased 5,202,748 shares of common stock at $4.52 per share to acquire common stock. The option could have been exercised in whole or in incremental amounts between April 16, 1998 and October 16, 2002. Under certain circumstances, AMSC could have required WSI to exercise the option in whole. The Company allocated $1,250,000 to the option. Under the second option, WSI could have purchased 6,897,291 shares at $8.91 per share. The option could have been exercised between October 16, 1997 and October 16, 2003. The Company allocated $170,000 to the option. Under the third option, WSI could have purchased 187,893 shares of common stock at $5.32 per share. The option could have been exercised between October 16, 1997 and October 17, 2002. The Company allocated $80,000 to the option.

The options were acquired by AMSC and exchanged for the $81,676,000 note to AMSC as part of the WorldSpace Transaction (see note 4(d)).

(8) Profit Sharing and Employee Savings Plan

On July 1, 1998, the Company adopted a profit sharing and employee savings plan under Section 401(k) of the Internal Revenue Code. This plan allows eligible employees to defer up to 15 percent of their compensation on a pre-tax basis through contributions to the savings plan. The Company contributed $0.50 in 1998 and 1999 for every dollar the employees contributed up to 6 percent of compensation, which amounted to $14,000 and $164,000, respectively.

(9) Interest Cost

The Company capitalizes a portion of interest cost as a component of the cost of the FCC license and satellite system under construction. The following is a summary of interest cost incurred during December 31, 1997, 1998 and 1999, and for the period from December 15, 1992 (date of inception) to December 31, 1998 (in thousands):

	1997	1998	1999	December 15, 1992 (date of inception) to December 31, 1999
Interest cost capitalization....	$1,901	$11,824	$15,343	$29,068
Interest cost charged to expense..	549	--	9,120	9,669
Total interest cost incurred..	$2,450	$11,824	$24,463	$38,737

Interest costs incurred prior to the award of the license were expensed in 1997. During 1999, the Company exceeded its capitalization threshold by $3,600,000 and incurred a charge to interest of $5,520,000 for the beneficial conversion feature of the new AMSC note.

(10) Income Taxes

For the period from December 15, 1992 (date of inception) to October 8, 1999, the Company filed consolidated federal and state tax returns with its majority stockholder AMSC. The Company generated net operating losses and other deferred tax benefits that were not utilized by AMSC. As no formal tax sharing agreement has been finalized, the Company was not compensated for the net operating losses. Had the Company filed on a stand-alone basis for the three-year period ending December 31, 1999, the Company's tax provision would be as follows:

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the period from December 15, 1992 (date of inception) to December 31, 1999

Taxes on income included in the statements of operations consists of the following (in thousands):

	December 31,		
	1997	1998	1999
Current taxes:			
Federal	$ --	$ --	$ --
State	--	--	--
Total current taxes	--	--	--
Deferred taxes:			
Federal	--	--	--
State	--	--	--
Total deferred taxes	--	--	--
Total tax expense (benefit)	$ --	$ --	$ --

A reconciliation of the statutory tax expense, assuming all income is taxed at the statutory rate applicable to the income and the actual tax expense is as follows (in thousands):

	December 31,		
	1997	1998	1999
Income before taxes on income, as reported in the statements of income	$(1,659)	$(16,167)	$(36,896)
Theoretical tax on the above amount at 35%	(581)	(5,658)	(12,914)
State tax, net of federal benefit	(165)	(1,605)	701
Increase in taxes resulting from permanent differences, net	--	31	2,120
Adjustments arising from differences in the basis of measurement for tax purposes and financial reporting purposes and other	--	--	13,252
Change in valuation allowance	746	7,232	(3,159)
Taxes on income for the reported year	$ --	$ --	$ --

At December 31, 1997, 1998 and 1999, deferred income tax consists of future tax assets/(liabilities) attributable to the following (in thousands):

	December 31,		
	1997	1998	1999
Deferred tax assets:			
Net operating loss/other tax attribute carryovers	$ 36	$ 477	$ 2,650
Start-up costs	710	7,501	17,605
Gross total deferred tax assets	746	7,978	20,255
Valuation allowance for deferred tax assets	(746)	(7,978)	(4,819)
Net deferred assets	--	--	15,436
Deferred tax liabilities:			
Fixed assets	--	--	(51)
FCC license	--	--	(10,160)
Other intangible assets	--	--	(5,225)
Net deferred tax liabilities	--	--	(15,436)
Deferred income tax, net	$ --	$ --	$ --

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

(11) Accumulated Deficit

The Company is devoting its efforts to develop, construct and expand a digital audio radio network. This effort involves substantial risk and future operating results will be subject to significant business, economic, regulatory, technical, and competitive uncertainties and contingencies. These factors individually or in the aggregate could have an adverse effect on the Company's financial condition and future operating results and create an uncertainty as to the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

In order to commence satellite-based radio broadcasting services, the Company will require substantial funds to develop and construct the DARS system, develop and launch radio communications satellites, retire debt incurred in connection with the acquisition of the DARS license and to sustain operations until it generates positive cash flow.

At the Company's current stage of development, economic uncertainties exist regarding successful acquisition of additional debt and equity financing and ultimate profitability of the Company's proposed service. The Company is currently constructing its satellites and will require substantial additional financing before construction is completed. Failure to obtain the required long-term financing will prevent the Company from realizing its objective of providing satellite-delivered radio programming. Management's plan to fund operations and capital expansion includes the additional sale of debt and equity securities through public and private sources. There are no assurances, however, that such financing will be obtained.

(12) Commitments and Contingencies

(a) FCC License

The FCC has established certain system development milestones that must be met for the Company to maintain its license to operate the system. The Company believes that it is proceeding into the system development as planned and in accordance with the FCC milestones.

(b) Application for Review of FCC License

One of the losing bidders for the DARS licenses filed an Application for Review by the full FCC of the Licensing Order which granted the Company its FCC license. The Application for Review alleges that WSI had effectively taken control of the Company without FCC approval. The FCC or the U.S. Court of Appeals has the authority to overturn the award of the FCC license should they rule in favor of the losing bidder. Although the Company believes that its right to the FCC license will withstand the challenge as WSI is no longer a stockholder in the Company, no prediction of the outcome of this challenge can be made with any certainty.

(c) Technical Services

Effective January 1, 1998, the Company entered into agreements with AMSC and WorldSpace Management Corporation ("WorldSpace MC"), an affiliate of WSI, in which AMSC and WorldSpace MC would provide technical support in areas related to the development of a DARS system. Payments for services provided under these agreements are made based on negotiated hourly rates. These agreements may be terminated by the parties on or after the date of the commencement of commercial operation following the launch of the Company's first

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

satellite. There are no minimum services purchase requirements. The Company incurred costs of $413,000 and $224,000 under its agreement with AMSC during 1998 and 1999, respectively. The Company incurred costs of $4,357,000 and $0 under its agreement with WorldSpace MC during 1998 and 1999, respectively.

(d) Technology Licenses

Effective January 1, 1998, XMSR entered into a technology licensing agreement with AMSC and WorldSpace MC by which as compensation for certain licensed technology currently under development to be used in the XM Radio system, XMSR will pay up to $14,300,000 to WorldSpace MC over a ten-year period. XMSR incurred costs of $6,624,000 and $50,000, payable to WorldSpace MC, under the agreement during 1998 and 1999, respectively. Any additional amounts to be incurred under this agreement are dependent upon further development of the technology, which is at XMSR's option. No liability exists to AMSC or WorldSpace MC should such developments prove unsuccessful. The Company maintains an accrual of $5,046,000, payable to WorldSpace MC, for quarterly royalty payments to be made. In addition, XMSR agreed to pay 1.2 percent of quarterly net revenues to WorldSpace MC and a royalty of $0.30 per chipset, payable to WorldSpace MC, for equipment manufactured using certain source encoding and decoding signals technology.

(e) Satellite Contract

During the first half of 1999, the Company and Hughes Space and Communications, Inc. ("Hughes") amended the satellite contract to construct and launch the Company's satellites to implement a revised work timetable, payment schedule to reflect the timing of the receipt of additional funding, and technical modifications. The Company expects to incur total payment obligations under this contract of approximately $541,300,000, which includes amounts the Company expects to pay pursuant to the exercise of the option to build the ground spare satellite and certain financing costs and in- orbit incentive payments. As of December 31, 1998 and 1999, the Company had paid $40,481,250 and $183,918,000, respectively, under this contract.

(f) LCC International Services Contract

In August 1999, the Company signed a contract with LCC International, Inc., a related party, for the engineering for its terrestrial repeater network. Payments by the Company under this contract are expected to aggregate approximately $115,000,000 through April 15, 2001. As of December 31, 1999, the Company has paid $6,578,000 under this contract.

(g) General Motors Distribution Agreement

The Company has signed a long-term distribution agreement with the OnStar division of General Motors providing for the installation of XM radios in General Motors vehicles. During the term of the agreement, which expires 12 years from the commencement date of the Company's commercial operations, General Motors has agreed to distribute the service to the exclusion of other S-band satellite digital radio services. The Company will also have a non-exclusive right to arrange for the installation of XM radios included in OnStar systems in non-General Motors vehicles that are sold for use in the United States. The Company has significant annual, fixed payment obligations to General Motors for four years following commencement of commercial service. These payments approximate $35,000,000 in the aggregate during this period. Additional annual fixed payment obligations beyond the initial four years of the contract term range from less than $35,000,000 to approximately $130,000,000 through 2009, aggregating approximately $400,000,000. In order to encourage the broad installation of XM radios in General Motors vehicles, the Company has agreed to subsidize a portion of the cost of XM radios, and to make incentive payments to General Motors when the owners of General Motors

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

vehicles with installed XM radios become subscribers for the Company's service. The Company must also share with General Motors a percentage of the subscription revenue attributable to General Motors vehicles with installed XM radios, which percentage increases until there are more than 8 million General Motors vehicles with installed XM radios. The Company will also make available to General Motors bandwidth on the Company's systems. The agreement is subject to renegotiations at any time based upon the installation of radios that are compatible with a unified standard or capable of receiving Sirius Satellite Radio's (formerly known as CD Radio) service. The agreement is subject to renegotiations if, four years after the commencement of XM Radio's commercial operations and at two-year intervals thereafter GM does not achieve and maintain specified installation levels of General Motors vehicles capable of receiving the Company's service, starting with 1,240,000 units after four years, and thereafter increasing by the lesser of 600,000 units per year and amounts proportionate to target market shares in the satellite digital radio service market. There can be no assurances as to the outcome of any such renegotiations. General Motors' exclusivity obligations will discontinue if, four years after the Company commences commercial operations and at two-year intervals thereafter, the Company fails to achieve and maintain specified minimum market share levels in the satellite digital radio service market.

(h) Terrestrial Repeater Contract

In February 2000, the Company entered into a contract with Hughes Electronics Corporation, a related party, for the design, development and purchase of terrestrial repeater equipment. The total contract value is $128,000,000 and the Company incurred and paid $3,500,000 under a letter agreement in anticipation of this contract through December 31, 1999.

(i) Joint Development Agreement

On February 16, 2000, the Company signed an agreement with Sirius Satellite Radio ("Sirius Radio"), a competitor of the Company, to develop a unified standard for satellite radios to facilitate the ability of consumers to purchase one radio capable of receiving both the Company's and Sirius Radio's services. The technology relating to the unified standard will be jointly developed, funded and owned by the two companies. As part of the agreement, each company has licensed to the other its intellectual property relating to its system; the value of this license will be considered part of its contribution toward the joint development. In addition, each company has agreed to license its non-core technology, including non-essential features of its system, to the other at commercially reasonable rates.

(j) Sony Warrant

In February 2000, the Company issued a warrant to Sony exercisable for shares of the Company's Class A common stock. The warrant will vest at the time that we attain our millionth customer, and the number of shares underlying the warrant will be determined by the percentage of XM Radios that have a Sony brand name as of the vesting date. If Sony achieves its maximum performance target, it will receive 2% of the total number of shares of the Company's Class A common stock on a fully-diluted basis upon exercise of the warrant. The exercise price of the Sony warrant will equal 105% of fair market value of the Class A common stock on the vesting date, determined based upon the 20-day trailing average.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

(k) Leases

The Company has three noncancelable operating leases for office space and two noncancelable capital leases for equipment that expire over the next ten years. The future minimum lease payments under noncancelable leases as of December 31, 1999 are (in thousands):

	Operating leases	Capital leases
Year ending December 31:		
2000	$ 755	$172
2001	2,113	172
2002	2,180	86
2003	2,248	--
2004	2,281	--
Thereafter	14,354	--
Total	$23,931	$430
Less amount representing interest		(52)
Present value of net minimum lease payments		378
Less current maturities		(139)
Long-term obligations		$239

Rent expense for 1997, 1998 and 1999 was $0, $231,000 and $649,000, respectively.

In January 2000, the Company established a $3,400,000 letter of credit as a security deposit for one of its leases for office space.

(l) *Prior Litigation*

On January 12, 1999, Sirius Radio, the other holder of an FCC satellite radio license, commenced an action against the Company in the United States District Court for the Southern District of New York, alleging that the Company was infringing or would infringe three patents assigned to Sirius Radio. In its complaint, Sirius Radio sought money damages to the extent the Company manufactured, used or sold any product or method claimed in their patents and injunctive relief. On February 16, 2000, this suit was resolved in accordance with the terms of a joint development agreement between the Company and Sirius Radio and both companies agreed to cross-license their respective property (see note 12(i)). However, if this agreement is terminated before the value of the license has been determined due to the Company's failure to perform a material covenant or obligation, then this suit could be refiled.

(13) *Secondary Offering and Sale of Series B Convertible Redeemable Preferred Stock*

On January 31, 2000, the Company closed on a secondary offering of its Class A common stock and newly designated Series B convertible redeemable preferred stock. The Company sold 4,000,000 shares of its Class A common stock for $32.00 per share, which yielded net proceeds of approximately $121,000,000. The Company concurrently sold 2,000,000 shares of its Series B convertible redeemable preferred stock for $50.00 per share, which yielded net proceeds of approximately $96,300,000. The Series B convertible redeemable preferred stock

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

provides for 8.25% cumulative dividends that may be paid in Class A common stock or cash. The Series B convertible redeemable preferred stock is convertible into Class A common stock at a conversion price of $40 per share and is redeemable in Class A common stock on February 3, 2003.

On February 9, 2000, the underwriters exercised a portion of the over-allotment option for 370,000 shares of Class A common stock, which yielded net proceeds of approximately $11,233,000.

(14) Private Units Offering

On March 15, 2000 the Company closed a private placement of 325,000 units, each unit consisting of $1,000 principal amount of 14% senior secured notes due 2010 of its subsidiary XM Satellite Radio Inc. and one warrant to purchase 8,024,115 shares of the Company's Class A common stock at a price of $49.50 per share. The Company realized net proceeds of $191.0 million, excluding $123.0 million used to acquire securities which will be used to pay interest payments due under the notes for the first three years.

(15) Quarterly Data (Unaudited)

	1997			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(in thousands, except for per share data)			
Revenues	$ --	$ --	$ --	$ --
Operating loss	--	51	185	874
Loss before income taxes	--	270	459	930
Net loss	--	270	459	930
Net loss per share--basis and diluted	$ --	$(0.04)	$(0.07)	$(0.14)

	1998			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ --	$ --	$ --	$ --
Operating loss	3,100	5,032	3,865	4,196
Loss before income taxes	3,100	5,032	3,857	4,178
Net loss	3,100	5,032	3,857	4,178
Net loss per share--basis and diluted	$(0.46)	$(0.75)	$(0.58)	$(0.62)

	1999			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ --	$ --	$ --	$ --
Operating loss	4,421	4,020	9,374	12,876
Loss before income taxes	4,367	3,999	17,402	11,128
Net loss	4,367	3,999	17,402	11,128
Net loss per share--basis and diluted	$(0.65)	$(0.60)	$(2.60)	$(0.27)

The sum of quarterly per share net losses do not necessarily agree to the net loss per share for the year due to the timing of stock issuances.

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Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

Exhibit 4.3

XM SATELLITE RADIO HOLDINGS INC.
CERTIFICATE OF DESIGNATION

establishing the

Voting Powers, Designations, Preferences, Limitations,
Restrictions, and Relative Rights of

8.25% Series B Convertible Redeemable Preferred Stock due 2012

Pursuant to Section 151 of the
General Corporation Law of the State of Delaware

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

XM SATELLITE RADIO HOLDINGS INC., a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Issuer"), does hereby certify that (i) pursuant to authority conferred upon the Board of Directors of the Issuer by its Restated Certificate of Incorporation, as amended to date, and pursuant to the provisions of Section 151 of the General Corporation Law of the State of Delaware, the Board of Directors authorized the creation and issuance of the Issuer's 8.25% Series B Convertible Redeemable Preferred Stock (the "Preferred Stock"), and (ii) the following resolution fixing the designations, preferences and rights of such Preferred Stock, which was duly adopted by the Board of Directors, on January 25, 2000, remains in full force and effect. Certain capitalized terms used herein are defined in Article 10.

RESOLVED, that pursuant to the authority expressly granted to and vested in the Board of Directors of the Issuer by the provisions of the Restated Certificate of Incorporation, as amended from time to time (the "Certificate of Incorporation"), and pursuant to Section 151(g) of the General Corporation Laws of the State of Delaware, there be from the 60,000,000 shares of preferred stock, $0.01 par value, of the Issuer, authorized to be issued pursuant to the Certificate of Incorporation, a series of preferred stock, consisting of 3,000,000 shares of 8.25% Series B Convertible Redeemable Preferred Stock (referred to herein as the "Preferred Stock"), having the number of shares and, to the extent that the designations, powers, preferences and relative and other special rights and the qualifications, limitations and restrictions of such Preferred Stock are not stated and expressed in the Certificate of Incorporation, the powers, preferences and relative and other special rights and the qualifications, limitations and restrictions thereof, as follows:

1. Designation and Number of Shares

1.1 The series will be known as the 8.25% Series B Convertible Redeemable Preferred Stock.

1.2 The Preferred Stock will be a series consisting of 3,000,000 shares with a liquidation preference of $50 per share of the authorized but unissued preferred stock of the Issuer.

2. Dividends

2.1 Payment of Dividends

(a) Holders of Preferred Stock will be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available therefor, cumulative dividends from the issue date of the Preferred Stock (the "Issuance Date") accruing at the rate per annum equal to 8.25% of the liquidation preference per share, payable quarterly in arrears on February 1, May 1, November 1 and August 1 of each year (each such date being referred to herein as a "Dividend Payment Date"), commencing May 1, 2000. All dividends will be cumulative, whether or not earned or declared

(b) Each distribution in the form of a dividend shall be payable in arrears to Holders of record as they appear on the stock books of the Issuer on each record date as

established by the Board of Directors of the Issuer (the "Dividend Payment Record Date") not more than 60 nor less than ten days preceding a Dividend Payment Date.

(i) Dividends payable on the Preferred Stock for each full dividend period will be computed by dividing the annual dividend rate by four. Dividends payable on the Preferred Stock for any period less than a full dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months.

(ii) The Preferred Stock will not be entitled to any dividends, whether payable in cash, property or securities, in excess of the full cumulative dividends.

(iii) No interest, or sum of money in lieu of interest, will be payable in respect of any accumulated and unpaid dividends which may be in arrears.

(c) Dividends, to the extent declared by the Issuer's Board of Directors may, at the option of the Issuer, be paid in cash, by delivery of fully paid and nonassessable shares of the Issuer's Class A common stock (the "Common Stock"), or a combination thereof. If the Issuer elects to pay dividends in shares of Common Stock, such shares of Common Stock shall be valued for such purpose:

(i) If on the date of such payment, such shares of Common Stock are freely tradable, such shares of Common Stock shall be valued at 95% of Average Market Value.

(ii) If on the date of such payment, such shares of Common Stock are not freely tradable, such shares of Common Stock shall be valued at 90% of Average Market Value.

2.2 Declaration of Dividends

(a) No dividends or other distributions (other than a dividend or distribution in Junior Securities) may be declared, made or paid or funds set apart for payment on the Junior Securities or Parity Securities, and no Junior Securities or any Parity Securities, including the Preferred Stock, may be repurchased, redeemed or otherwise acquired for any consideration (or any money paid to or made available for a sinking fund for the redemption of any shares of any such stock) by the Issuer (except by conversion into or exchange for Junior Securities or in the case that monies for such dividends, distributions, redemptions, purchases, or other acquisitions are derived from the proceeds of a substantially concurrent offering of such securities), unless full cumulative dividends shall have been or contemporaneously are paid or declared and a sum sufficient for the payment thereof is set apart for such payment on all outstanding shares of Preferred Stock for all Dividend Payment Dates on or prior to such declaration, payment, redemption, purchase or acquisition.

(b) No dividends may be declared, made or paid or funds set apart for the payment of dividends upon any outstanding share of Preferred Stock with respect to any dividend period unless all dividends for all preceding periods have been paid or declared and a sum sufficient for the payment thereof is set apart for the payment of such dividend upon all outstanding shares of Senior Securities.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

(c) The holder of record of a share of Preferred Stock at the close of business on a record date with respect to the payment of dividends on the Preferred Stock will be entitled to receive such dividends with respect to such share of Preferred Stock (except that Holders of shares called for redemption or conversion on a Redemption Date or Conversion Date between the record date and a date which is two days after the Dividend Payment Date will be entitled to receive such dividend on such Redemption Date as indicated in Section 5.1 hereof or such Conversion Date as indicated in Section 4 hereof, as applicable) on the corresponding Dividend Payment Date, notwithstanding the conversion of such share after such record date and prior to such Dividend Payment Date. A share of Preferred Stock surrendered for conversion during the period from the close of business on any record date for the payment of dividends to the opening of business of the corresponding Dividend Payment Date must be accompanied by a payment in cash, Common Stock or a combination thereof, depending on the method of payment that the Issuer may choose to pay the dividend, in an amount equal to the dividend payable on such dividend payment date, unless such share of Preferred Stock has been called for redemption on a redemption date occurring during the period from the close of business on any record date for the payment of dividends to the close of business on the business day immediately following the corresponding Dividend Payment Date The dividend payment with respect to a share of Preferred Stock called for redemption on a date during the period from the close of business on any record date for the payment of dividends to the close of business on the business day immediately following the corresponding dividend payment date will be payable on such Dividend Payment Date to the record holder of such share on such record date, notwithstanding the conversion of such share after such record date and prior to such dividend payment date or the Issuer's default in payment of the dividend due on that Dividend Payment Date. No payment or adjustment will be made upon conversion of shares of Preferred Stock for accumulated and unpaid dividends or for dividends with respect to the Common Stock issued upon such conversion.

(d) Except as provided in Section 2.2(b) and in Section 4.2, the Issuer shall make no payment or allowance for unpaid dividends, whether or not in arrears, on converted shares or for dividends on the shares of Common Stock issued upon conversion.

(e) The Issuer will take all actions required or permitted under Delaware corporate law to permit the payment of dividends on the Preferred Stock, including, without limitation, through the revaluation of its assets in accordance with Delaware General Corporation Laws.

3. Ranking

3.1 The Preferred Stock will, with respect to dividend distributions and distributions upon the liquidation, winding up or dissolution of the Issuer, rank:

(a) senior to all classes of Common Stock, Series A Convertible Preferred Stock and each other class of Capital Stock or series of preferred stock issued by the Issuer, which is established after the date of this Certificate of Designation, the terms of which do not expressly provide that such class or series will rank senior to or on a parity with the Preferred Stock as to dividend distributions and distributions upon the liquidation, winding up or

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

dissolution of the Issuer (collectively, with the Common Stock, referred to as the "Junior Securities");

(b) on a parity with any class of Capital Stock or series of preferred stock issued by the Issuer, which is established after the date of this Certificate of Designation by the Board of Directors, the terms of which expressly provide that such class or series will rank on a parity with the Preferred Stock as to dividend distributions and distributions upon the liquidation, winding up or dissolution of the Issuer (collectively referred to as "Parity Securities"); and

(c) junior to each class of Capital Stock or series of preferred stock issued by the Issuer, which is established after the date of this Certificate of Designation by the Board of Directors, the terms of which expressly provide that such class or series will rank senior to the Preferred Stock as to dividend distributions and distributions upon liquidation, winding-up or dissolution of the Issuer (collectively referred to as "Senior Securities").

3.2 Except as otherwise provided herein, the Issuer is entitled to amend its Certificate of Incorporation to authorize one or more additional series of preferred stock, file certificates of designation, and issue without restriction from time to time, any series of Junior Securities, Parity Securities, or Senior Securities.

4. Conversion

4.1 Conversion Rights

(a) Each Holder of Preferred Stock shall have the right, at its option, at any time and from time to time to convert, subject to the terms and provisions of this Article 4, any or all of such Holder's shares of Preferred Stock. In such case, the shares of Preferred Stock shall be converted into such whole number of fully paid and nonassessable shares of Common Stock as is equal, subject to Section 4.3, to:

the product of the number of shares of Preferred Stock being so converted multiplied by the quotient of (i) the Liquidation Preference divided by (ii) the Conversion Price then in effect,

except that with respect to any share which shall be called for redemption such right shall terminate at the close of business on the Business Day prior to the Redemption Date unless the Issuer shall default in making the payment due upon redemption thereof.

(b) The conversion right of a Holder of Preferred Stock shall be exercised by the Holder by the surrender of the certificate representing shares to be converted to the Issuer or to the Transfer Agent accompanied by the Conversion Notice.

(i) Immediately prior to the close of business on the Conversion Date, each converting Holder of Preferred Stock shall be deemed to be the Holder of record of Common Stock issuable upon conversion of such Holder's Preferred Stock notwithstanding that the share register of the Issuer shall then be closed or that certificates representing such Common Stock shall not then be actually delivered to such person.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

(ii) Upon notice from the Issuer, each Holder of Preferred Stock so converted shall promptly surrender to the Issuer or the Transfer Agent certificates representing the shares so converted (if not previously delivered), duly endorsed in blank or accompanied by proper instruments of transfer.

(iii) On any Conversion Date, all rights with respect to the shares of Preferred Stock so converted, including the rights, if any, to receive notices, will terminate, except the rights of Holders thereof to: (1) receive certificates for the number of shares of Common Stock into which such shares of Preferred Stock have been converted; (2) receive the payment in cash or shares of Common Stock of any accumulated and unpaid dividends accrued thereon pursuant to Section 4.2 hereof; and (3) exercise the rights to which they are entitled as Holders of Common Stock.

(c) If the Conversion Date shall not be a Business Day, then such conversion right shall be deemed exercised on the next Business Day.

(d) When shares of Preferred Stock are converted pursuant to this Section 4.1, all accumulated and unpaid dividends, including dividends payable on the Conversion Date pursuant to Section 2.2, or liquidated damages (whether or not in arrears or currently payable) on the Preferred Stock so converted to (and not including) the Conversion Date shall immediately be due and payable, at the Issuer's option:

(i) in cash;

(ii) by delivery of the Issuer's Common Stock; or

(iii) a combination thereof.

4.2 The Conversion Price shall be subject to adjustment from time to time as follows:

(a) *Stock Splits and Combinations.* In case the Issuer shall at any time or from time to time after the Issuance Date (i) subdivide or split the outstanding shares of Common Stock, (ii) combine or reclassify the outstanding shares of Common Stock into a smaller number of shares or (iii) issue by reclassification of the shares of Common Stock any shares of capital stock of the Issuer, then, and in each such case, the Conversion Price in effect immediately prior to such event or the record date therefor, whichever is earlier, shall be adjusted so that the holder of any shares of Preferred Stock thereafter surrendered for conversion shall be entitled to receive the number of shares of Common Stock or other securities of the Issuer which such holder would have owned or have been entitled to receive after the occurrence of any of the events described above, had such shares of Preferred Stock been surrendered for conversion immediately prior to the occurrence of such event or the record date therefor, whichever is earlier. An adjustment made pursuant to this subparagraph (a) shall become effective at the close of business on the day upon which such corporate action becomes effective. Such adjustment shall be made successively whenever any event listed above shall occur.

(b) Stock Dividends in Common Stock. In case the Issuer shall at any time or from time to time after the Issuance Date pay a dividend or make a distribution in shares of Common Stock on any class of capital stock of the Issuer other than dividends or distributions of

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

shares of Common Stock or other securities with respect to which adjustments are provided in paragraph (a) above, the Conversion Price shall be adjusted so that the holder of each share of Preferred Stock shall be entitled to receive upon conversion thereof the number of shares of Common Stock determined by multiplying (1) the applicable Conversion Price by (2) a fraction, the numerator of which shall be the number of shares of Common Stock theretofore outstanding and the denominator of which shall be the sum of such number of shares and the total number of shares issued in such dividend or distribution.

(c) Issuance of Rights or Warrants. In case the Issuer shall issue to all holders of Common Stock rights or warrants entitling such holders to subscribe for or purchase Common Stock at a price per share less than the Current Market Price, the Conversion Price in effect immediately prior to the close of business on the record date fixed for determination of shareholders entitled to receive such rights or warrants shall be reduced by multiplying such Conversion Price by a fraction, the numerator of which is the sum of the number of shares of Common Stock outstanding at the close of business on such record date and the number of shares of Common Stock that the aggregate offering price of the total number of shares of Common Stock so offered for subscription or purchase would purchase at such Current Market Price, and the denominator of which is the sum of the number of shares of Common Stock outstanding at the close of business on such record date and the number of additional shares of Common Stock so offered for subscription or purchase. For purposes of this subparagraph (c), the issuance of rights or warrants to subscribe for or purchase securities convertible into Common Stock shall be deemed to be the issuance of rights or warrants to purchase the Common Stock into which such securities are convertible at an aggregate offering price equal to the sum of the aggregate offering price of such securities and the minimum aggregate amount (if any) payable upon conversion of such securities into Common Stock. Such adjustment shall be made successively whenever any such event shall occur.

(d) Distribution of Indebtedness, Securities or Assets. In case the Issuer shall distribute to all holders of Common Stock (whether by dividend or in a merger, amalgamation or consolidation or otherwise) evidences of indebtedness, shares of capital stock of any class or series, other securities, cash or assets (other than Common Stock, rights or warrants referred to in subparagraph (c) above or a dividend payable exclusively in cash and other than as a result of a Fundamental Change), the Conversion Price in effect immediately prior to the close of business on the record date fixed for determination of shareholders entitled to receive such distribution shall be reduced by multiplying such Conversion Price by a fraction, the numerator of which is the Current Market Price on such record date less the fair market value (as determined by the Board of Directors of the Issuer, whose determination in good faith shall be conclusive) of the portion of such evidences of indebtedness, shares of capital stock, other securities, cash and assets so distributed applicable to one share of Common Stock and the denominator of which is the Current Market Price. Such adjustment shall be made successively whenever any such event shall occur.

(e) Fundamental Changes. In case of any Fundamental Change, the holder of each share of Preferred Stock outstanding immediately prior to the occurrence of such Fundamental Change shall have the right upon any subsequent conversion to receive (but only out of legally available funds of the Issuer, to the extent required by applicable law) the kind and

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

amount of stock, other securities, cash and assets that such holder would have received if such share had been converted immediately prior thereto.

(f) Anything in the above sections (a)-(e) to the contrary notwithstanding, the Issuer shall not be required to give effect to any adjustment in the Conversion Price unless and until the net effect of one or more adjustments (each of which shall be carried forward until counted toward adjustment), determined as above provided, shall have resulted in a change of the Conversion Price by at least 1%, and when the cumulative net effect of more than one adjustment so determined shall be to change the Conversion Price by at least 1%, such change in the Conversion Price shall thereupon be given effect. In the event that, at any time as a result of the provisions of this Section, the holder of shares of Preferred Stock upon subsequent conversion shall become entitled to receive any shares of capital stock of the Issuer other than Common Stock, the number of such other shares so receivable upon conversion of shares of Preferred Stock shall thereafter be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions contained herein.

(g) There shall be no adjustment of the Conversion Price in case of the issuance of any stock of the Issuer in a merger, reorganization, acquisition, reclassification, recapitalization or other similar transaction except as set forth in the above paragraphs (a)-(e).

(h) In any case in which the above paragraphs (a)-(e) require that an adjustment as a result of any event become effective from and after a record date, the Issuer may elect to defer until after the occurrence of such event (i) issuing to the holder of any shares of Preferred Stock converted after such record date and before the occurrence of such event the additional shares of Common Stock issuable upon such conversion over and above the shares issuable on the basis of the Conversion Price in effect immediately prior to adjustment and (ii) paying to such holder any amount in cash in lieu of a fractional share of Common Stock.

(i) If the Issuer shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend or other distribution, and shall thereafter and before the distribution to shareholders thereof legally abandon its plan to pay or deliver such dividend or distribution, then thereafter no adjustment in the number of shares of Common Stock issuable upon exercise of the right of conversion granted by the above paragraphs (a)-(e) or in the Conversion Price then in effect shall be required by reason of the taking of such record.

4.3 Upon a Change of Control, each Holder of Preferred Stock will have the option, during the period commencing on the date that the applicable notice of such Change of Control is mailed to Holders of Preferred Stock and ending on the close of business on the 45/th/ day thereafter (the "Special Conversion Date") to convert all, but not less than all, of such Holder's shares of Preferred Stock into Common Stock at a conversion rate equal to the Liquidation Preference divided by the Special Conversion Price.

(a) Within fifteen days after a Change of Control, notice of such Change of Control shall be given by the Issuer by first-class mail to each record Holder of shares of Preferred Stock, at such Holder's address as the same appears on the books of the Issuer. Each such notice shall state: (i) that a Change of Control has occurred; (ii) the last day on which the Change of Control option may be exercised (the "Expiration Date"); (iii) the name and address of

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

the paying agent; and (iv) the procedures that Holders must follow to exercise the Change of Control option.

(b) On or before the Expiration Date, each Holder of shares of Preferred Stock wishing to exercise the Change of Control option shall surrender the certificate or certificates representing the shares of Preferred Stock to be converted, in the manner and at the place designated in the notice described in Section 4.3 and on such date the cash or shares of Common Stock due to such Holder shall be delivered to the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate shall be returned to authorized but unissued shares. Upon surrender (in accordance with the notice described in Section 4.3(a)) of the certificate or certificates representing any shares to be so converted (properly endorsed or assigned for transfer, if the Issuer shall so require and the notice shall so state), such shares shall be converted by the Issuer at the Conversion Price as adjusted.

(c) Exercise by a holder of such holder's special conversion right following a change of control is irrevocable, except that a holder may withdraw its election to exercise such holder's special conversion right at any time prior to the close of business on the Special Conversion Date by delivering a written or facsimile transmission notice to the transfer agent at the address or facsimile number specified in the change of control notice. Such notice, to be effective, must be received by the transfer agent prior to the close of business on the Special Conversion Date. All shares of Preferred stock tendered for conversion pursuant to holders' special conversion rights as described herein and not withdrawn will be converted at the close of business on the Special Conversion Date.

4.4 If, as a result of any Conversion Price Adjustment Event, a Holder of the Preferred Stock becomes entitled to receive upon conversion shares of two or more classes of Capital Stock, the Issuer shall determine the reasonable allocation of the adjusted Conversion Price between the classes of Capital Stock. After such allocation, the Conversion Price of each class of Capital Stock shall thereafter be subject to adjustment on terms applicable to the Preferred Stock in this Article 4.

4.5 The Issuer shall at all times reserve and keep available for issuance upon the conversion of the Preferred Stock such number of its authorized but unissued shares of Common Stock as will from time to time be sufficient to permit the conversion of all outstanding shares of Preferred Stock, and shall take all action required to increase the authorized number of shares of Common Stock if at any time there shall be insufficient authorized unissued shares of Common Stock to permit such reservation or to permit the conversion of all outstanding shares of Preferred Stock.

4.6 The issuance or delivery of certificates for Common Stock upon the conversion of shares of Preferred Stock shall be made without charge to the converting Holder of shares of Preferred Stock for such certificates or for any tax in respect of the issuance or delivery of such certificates or the securities represented thereby, and such certificates shall be issued or delivered in the respective names of, or in such names as may be directed by, the Holders of the shares of Preferred Stock converted; provided, however, that the Issuer shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any such certificate in a name other than that of the Holder of the shares of Preferred Stock

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

converted, and the Issuer shall not be required to issue or deliver such certificate unless or until the Person or Persons requesting the issuance or delivery thereof shall have paid to the Issuer the amount of such tax or shall have established to the reasonable satisfaction of the Issuer that such tax has been paid.

5. Redemption of Preferred Stock

5.1 Optional Redemption of the Preferred Stock

(a) Shares of the Preferred Stock may not be required to be redeemed prior to February 3, 2003.

(b) On or after February 3, 2003, the Preferred Stock may be redeemed for cash, in whole or in part, at the option of the Issuer, at the following Redemption Prices per share (expressed as percentages of the Liquidation Preference), in each case, together with accumulated and unpaid dividends (including an amount equal to a prorated dividend for any partial dividend period), if any, to the Redemption Date, upon not less than 30 nor more than 60 days' prior written notice (the "Redemption Notice"), if redeemed during each period set forth below, commencing on each of the dates set forth below:

Date	Redemption Price Per Share
February 3, 2003.....	105.775%
February 2, 2004..... ...	104.950%
February 2, 2005.....	104.125%
February 2, 2006.....	103.300%
February 2, 2007.....	102.475%
February 2, 2008.....	101.650%
February 2, 2009.....	100.825%
February 2, 2010 and thereafter....	100.000%

(c) In the event that fewer than all the outstanding shares of the Preferred Stock are to be redeemed, the shares to be redeemed will be determined pro rata or by lot, as determined by the Issuer.

(d) From and after the applicable Redemption Date (unless the Issuer shall be in default of payment of the Redemption Price), dividends on the shares of the Preferred Stock to be redeemed on such Redemption Date shall cease to accumulate, such shares shall no longer be deemed to be outstanding, and all rights of the Holders thereof as stockholders of the Issuer (except the right to receive the Redemption Price and accumulated dividend amounts and liquidation penalties, if any through the Redemption Date) will cease.

(e) No such optional redemption may be authorized or made unless, prior to giving the applicable Redemption Notice, all accumulated and unpaid dividends for periods ended prior to the date of such Redemption Notice shall have been paid in cash or Common Stock.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

5.2 (a) In the event the Issuer shall elect to redeem shares of the Preferred Stock pursuant to Section 5.1 hereof:

(i) The Issuer must make a public announcement of the redemption and provide the Holders with the Redemption Notice referred to in Section 5.1(b) not fewer than 30 days nor more than 60 days' prior to the Redemption Date.

(ii) On or before any Redemption Date, each Holder of shares of Preferred Stock to be redeemed shall surrender the certificate or certificates representing such shares of Preferred Stock (properly endorsed or assigned, or transferred, if the Issuer shall so require and the Redemption Notice shall so state) to the Issuer or the Redemption Agent (if appointed) in the manner and at the place designated in the Redemption Notice.

(iii) On the Redemption Date, the Issuer or the Redemption Agent, as applicable, shall pay or deliver to the Holder whose name appears on such certificate or certificates as the owner thereof, the full Redemption Price due such Holder in cash, in fully paid and nonassessable shares of Common Stock or in a combination thereof.

(iv) The shares represented by each certificate to be surrendered shall be automatically (and without any further action of the Issuer or the Holder) canceled as of the Redemption Date whether or not certificates for such shares are returned to the Issuer and returned to authorized but unissued shares of preferred stock of no series.

(v) If fewer than all the shares represented by any such certificate are to be redeemed, a new certificate shall be issued representing the unredeemed shares, without cost to the Holder, together with the amount of cash, if any, in lieu of fractional shares.

(b) If a Redemption Notice shall have been given as provided in Section 5.1, all rights of the Holders thereof as stockholders of the Issuer with respect to shares so called for redemption (except for the right to receive from the Issuer the Redemption Price) shall cease either (i) from and after the Redemption Date (unless the Issuer shall default in the payment of the Redemption Price, in which case such rights shall not terminate at the Redemption Date) or (ii) if the Issuer shall so elect and state in the Redemption Notice, from and after the time and date (which date shall be the Redemption Date or an earlier date not less than 20 days after the date of mailing of the Redemption Notice) on which the Issuer shall irrevocably deposit in trust for the Holders of the shares to be redeemed with a designated Redemption Agent as paying agent sufficient to pay at the office of such paying agent, on the Redemption Date, the Redemption Price. Any money or shares of Common Stock so deposited with such Redemption Agent which shall not be required for such redemption shall be returned to the Issuer forthwith. Subject to applicable escheat laws, any moneys or shares of Common Stock so set aside by the Issuer and unclaimed at the end of one year from the Redemption Date shall revert to the general funds of the Issuer, after which reversion the Holders of such shares so called for redemption shall look only to the general funds of the Issuer for the payment of the Redemption Price without interest. Any interest accrued on funds held by the Redemption Agent shall be paid to the Issuer from time to time.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

(c) In the event that fewer than all the outstanding shares of the Preferred Stock are to be redeemed, the shares to be redeemed shall be determined pro rata or by lot, as determined by the Issuer, except that the Issuer may redeem such shares held by any Holder of fewer than 100 shares (or shares held by Holders who would hold fewer than 100 shares as a result of such redemption), as may be determined by the Issuer.

5.3 Mandatory Redemption of Preferred Stock

(a) The Issuer will redeem all shares of Preferred Stock on February 1, 2012, at a Mandatory Redemption Price equaling 100% of the Liquidation Preference, together with any accumulated and unpaid dividends to the date of Mandatory Redemption, unless the Preferred Stock has already been redeemed or converted. The Issuer shall send notice of such redemption to Holders upon not less than 30 nor more than 60 days' prior written notice.

(b) The Issuer must make mandatory redemption payments on the Preferred Stock by delivery of shares of Common Stock and makes such payments as follows:

(i) If on the date of such payment, such shares of Common Stock are freely tradable, such shares of Common Stock shall be valued at 95% of Average Market Value.

(ii) If on the date of such payment, such shares of Common Stock are not freely tradable, such shares of Common Stock shall be valued at 90% of Average Market Value.

(c) If, as a matter of law, the Issuer is unable to issue Common Stock in payment of the Mandatory Redemption Price, then the Issuer shall cause the Preferred Stock to be converted on the date of such mandatory redemption into the same number of shares of Common Stock as could otherwise have been issued in satisfaction of the Mandatory Redemption Price, provided that the Issuer shall have given the Holders of Preferred Stock notice of the exercise of this option at least 30 days prior to the date of such mandatory redemption.

(d) The Issuer shall pay a Cash Adjustment, determined based on the proceeds received by the Transfer Agent from the sale of that number of shares of Common Stock, which the Issuer will deliver to the Transfer Agent for such purpose, equal to the aggregate of all such fractions rounded up to the nearest whole share, to each Holder that would otherwise be entitled to a fraction of a share of Common Stock.

(i) The Transfer Agent shall sell such shares of Common Stock at the best available prices and distribute the proceeds to the Holders in proportion to their respective interests therein.

(ii) The Issuer will pay the expenses of the Transfer Agent with respect to such sale, including brokerage commissions. Any portion of any such payment that is declared and not paid through the delivery of shares of Common Stock will be paid in cash. The Issuer shall make a public announcement no later than the close of business on the tenth business day prior to the record date for each dividend as to whether the Issuer

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

will pay such dividend and, if so, the form of consideration the Issuer will use to make such payment.

6. Liquidation Preference

6.1 Upon any voluntary or involuntary liquidation, dissolution or winding up of the Issuer or reduction or decrease in its capital stock resulting in a distribution of assets to the holders of any class or series of the Issuer's capital stock, Holders of the Preferred Stock will be entitled to be paid, out of assets of the Issuer available for distribution, the Liquidation Preference per share plus an amount in cash equal to all accumulated and unpaid dividends thereon to the date fixed for liquidation, dissolution or winding up (including an amount equal to a prorated dividend for the period from the last dividend payment date to the date fixed for liquidation, dissolution or winding up), before any distribution is made on any Junior Securities, including, without limitation, the Common Stock.

6.2 If, upon any voluntary liquidation, dissolution or winding-up of the Issuer, the amounts payable with respect to the liquidation performance of the Preferred Stock and all other Parity Securities are not paid in full, the Holders of the Preferred Stock and the Parity Securities will share pro rata in proportion to the full distribution to which each is entitled.

6.3 After payment of the full amount of the Liquidation Preference to which they are entitled, the Holders of shares of the Preferred Stock will have no right or claim to any of the remaining assets of the Issuer.

6 4 Neither the voluntary sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the property or assets of the Issuer nor the consolidation or merger of the Issuer with or into one or more entities will be deemed to be a voluntary or involuntary liquidation, dissolution or winding-up of the Issuer or reduction or decrease in capital stock, unless such sale, conveyance, exchange or transfer shall be in connection with a liquidation, dissolution or winding-up of the business of the Issuer or reduction or decrease in capital stock.

7. Voting Rights

7.1 Holders of the Preferred Stock have no voting rights with respect to general corporate matters except as provided by law or as set forth herein.

7.2 Special Voting Rights

(a) If dividends payable on the Preferred Stock are in arrears and unpaid for six quarterly periods, whether or not consecutive, the Holders of a majority of the outstanding Preferred Stock voting separately as a class with the shares of any other subsequently issued Parity Securities then titled to similar voting rights (the "Voting Rights Class") will be entitled at the next regular or special meeting of stockholders of the Issuer to elect such number of members to the board of directors constituting at least 20% of the then existing board of directors before such election, rounded to the nearest whole number, provided, however, that such number shall be no less than one nor greater than two, and the number of members of the board of directors will be immediately and automatically increased by one or two, as the case may be.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

(b) Such voting rights may be exercised at a special meeting of the holders of the shares of the Voting Rights Class, called as hereinafter provided, or at any annual meeting of stockholders held for the purpose of electing directors, and thereafter at each such annual meeting until such time as all dividends in arrears on the shares of Preferred Stock shall have been paid in full, at which time or times such voting rights and the term of the directors elected pursuant to Section 7.2(a) shall terminate and such directors shall be deemed to have resigned.

(c) At any time when such voting rights shall have vested in holders of shares of the Voting Rights Class described in Section 7.2(a), a proper officer of the Issuer may call, and, upon the written request of the record holders of shares representing twenty-five percent (25%) of the voting power of the shares then outstanding of the Voting Rights Class addressed to the Secretary of the Issuer, shall call a special meeting of the holders of shares of the Voting Rights Class. Such meeting shall be held at the earliest practicable date upon the notice required for annual meetings of stockholders at the place for holding annual meetings of stockholders of the Issuer, or, if none, at a place designated by the Board of Directors. Notwithstanding the provisions of this Section 7.2(c), no such special meeting shall be called during a period within the 60 days immediately preceding the date fixed for the next annual meeting of stockholders, in which such case the election of directors pursuant to Section 7.2(a) shall be held at such annual meeting of stockholders.

(d) At any meeting held for the purpose of electing directors at which the holders of the Voting Rights Class shall have the right to elect directors as provided herein, the presence in person or by proxy of the holders of shares representing more than fifty percent (50%) in voting power of the then outstanding shares of the Voting Rights Class shall be required and shall be sufficient to constitute a quorum of such class for the election of directors by such class.

(e) Any director elected pursuant to the voting rights created under this Section 7.2 shall hold office until the next annual meeting of stockholders (unless such term has previously terminated pursuant to Section 7.2(b)) and any vacancy in respect of any such director shall be filled only by vote of the remaining director so elected by holders of the Voting Rights Class, or if there be no such remaining director, by the holders of shares of the Voting Rights Class at a special meeting called in accordance with the procedures set forth in this Section 7.2, or, if no such special meeting is called, at the next annual meeting of stockholders. Upon any termination of such voting rights, the term of office of all directors elected pursuant to this Section 7 shall terminate and such directors shall be deemed to have resigned.

7.3 The affirmative vote or consent of the Holders of at least 50% of the outstanding Preferred Stock will be required for the issuance of any class of Senior Securities (or security convertible into Senior Securities or evidencing a right to purchase any shares or any class or series of Senior Securities), and amendments to this Certificate of Designation that would affect adversely the rights of Holders of Preferred Stock or authorize the issuance of any additional shares of Preferred Stock.

7.4 The affirmative vote or consent of the Holders of at least 66 2/3% of the outstanding Preferred Stock will be required for amendments to the Change of Control

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

provisions in this certificate. In all such cases each share of Preferred Stock shall be entitled to one vote.

7.5 Except as set forth in this Certificate of Designation, the creation, authorization or issuance of any shares of Junior Securities or Parity Securities or an increase or decrease in the amount of authorized Capital Stock of any class, including any preferred stock, shall not require the consent of the Holders of the Preferred Stock and shall not be deemed to affect adversely the rights, preferences, privileges or voting rights of Holders of shares of the Preferred Stock.

7.6 The consent of the Holders of Preferred Stock shall not be required to authorize (by way of reclassification or otherwise) or issue any Parity Securities or any obligation or security convertible into or exchangeable into or evidencing a right to purchase shares of any class or series of Parity Securities.

8. Merger, Consolidation and Sale of Assets

8.1 Without the vote or consent of the Holders of at least 50% of the then outstanding shares of Preferred Stock, the Issuer may not consolidate or merge with or into, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its assets to, any person unless (a) the entity formed by such consolidation or merger (if other than the Issuer) or to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made (in any such case, the "resulting entity") is a corporation organized and existing under the laws of the United States or any State thereof or the District of Columbia; (b) if the Issuer is not the resulting entity, the Preferred Stock is converted into or exchanged for and becomes shares of such resulting entity, having in respect of such resulting entity the same (or more favorable) powers, preferences and relative, participating, optional or other special rights thereof that the Preferred Stock had immediately prior to such transaction; and (c) immediately after giving effect to such transaction, no dividend arrearages which trigger voting rights have occurred and are continuing. The resulting entity of such transaction shall thereafter be deemed to be the issuer of the Preferred Stock or securities into which it is converted for all purposes of this Certificate of Designation.

9. Amendment, Supplement and Waiver

9.1 Without the consent of any Holder of the Preferred Stock, subject to the requirements of the Delaware General Corporation Law, the Issuer may amend or supplement this Certificate of Designation to cure any ambiguity, defect or inconsistency, to provide for uncertificated Preferred Stock in addition to or in place of certificated Preferred Stock, to provide for the assumption of the Issuer's obligations to Holders of the Preferred Stock in the case of a merger or consolidation, to make any change that would provide any additional rights or benefits to the Holders of the Preferred Stock or that does not adversely affect the legal rights under this Certificate of Designation of any such Holder.

10. Certain Definitions

Set forth below are certain defined terms used in this Certificate of Designation.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

10.1 "Act" means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

10.2 "Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as used with respect to any person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such person, whether through the ownership of voting securities, by agreement of or otherwise.

10.3 "Average Market Value" of Common Stock means the arithmetic average of the current market value of the Common Stock for the ten trading days ending on the fifth business day prior to (a) in the case of the payment of any dividend, the record date for such dividend and (b) in the case of the mandatory redemption payment, the date of such payment.

10.4 "Business Day" means any day other than a Legal Holiday.

10.5 "Capital Stock" means any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock or partnership or membership interests, whether common or preferred.

10.6 "Cash Adjustment" will be determined based on the proceeds received by the Transfer Agent from the sale of that number of shares of Common Stock, which the Issuer will deliver to the Transfer Agent for such purpose, equal to the aggregate of all such fractions rounded up to the nearest whole share.

10.7 "Closing Price" with respect to the Common Stock on any trading day, means the last reported regular-way sale price of the Common Stock on the NYSE, or if the Common Stock is not then listed on the NYSE, the last reported regular-way sale price of the Common Stock on the principal stock exchange or market of the Nasdaq Stock Market on which the Common Stock is then listed or traded, or if the Common Stock is not then listed or traded on any such stock exchange or market, the average of the closing bid and asked prices in the over-the-counter market as furnished by any NYSE member firm selected from time to time by the Issuer for that purpose.

10.8 "Change of Control" means: (a) the sale, lease, transfer, conveyance or other disposition of all or substantially all of the assets of the Issuer to any "person" or "group" (within the meaning of Sections 13(d)(3) and 14(d)(2) of the Exchange Act or any successor provision to either of the foregoing, including any group acting for the purpose of acquiring, holding or disposing of securities within the meaning of Rule 13d-5(b)(1) under the Exchange Act), in one transaction or a series of related transactions, other than a Permitted Owner or (b) the acquisition of beneficial ownership of shares of the Issuer's Capital Stock by any "person" or "group" (within a meaning of Sections 13(d)(3) and 14(d)(2) of the Exchange Act or any successor provision to either of the foregoing, including any group acting for the purpose of acquiring, holding or disposing of securities within the meaning of Rule 13d-5(b)(1) under the Exchange Act), other a Permitted Owner, by means of an exchange offer, liquidation, tender offer, consolidation,

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

merger, combination, reclassification, recapitalization or otherwise of more than fifty percent (50%) of the total voting power of all classes of the Voting Stock of the Issuer or a successor and/or warrants or options to acquire such Voting Stock, entitled to vote generally in elections of the Issuer's board of directors.

Notwithstanding clause (b) above, a merger or consolidation that would otherwise constitute a Change of Control hereunder shall not constitute a Change of Control if (i) the closing price per share of Common Stock for any five trading days within the period of ten consecutive trading days ending immediately after the announcement of such change of control equals or exceeds 105% of the conversion price of the Preferred Stock in effect on each such trading day or (ii) at least 90% of the consideration in the transaction or transactions constituting a change of control pursuant to this clause consists of shares of Common Stock traded or to be traded immediately following such change of control on a national securities exchange or the Nasdaq National Market and, as a result of such transaction or transactions, the Preferred Stock becomes convertible solely into such Common Stock (and any rights attached thereto).

However, a transaction of a type described above that results in the Common Stock no longer being listed on a stock exchange or traded on the Nasdaq National Market would also be treated as a change in control even if a Permitted Owner were involved.

10 9 "Common Stock" means the Issuer's authorized $.01 par value Class A Common Stock.

10.10 "Conversion Date" means the date the Issuer or the Transfer Agent receives the Conversion Notice.

10.11 "Conversion Notice" means written notice from the Holder to the Issuer stating that the Holder elects to convert all or a portion of the shares of Preferred Stock represented by certificates delivered to the Issuer or the Transfer Agent contemporaneously. The Conversion Notice will specify or include:

(i) The number of shares of Preferred Stock being converted by the Holder,

(ii) The name or names (with address and taxpayer identification number) in which a certificate or certificates for shares of Common Stock are to be issued,

(iii) A written instrument or instruments of transfer in form reasonably satisfactory to the Issuer or the Transfer Agent, duly executed by the Holder or its duly authorized legal representative, or in blank, and

(iv) Transfer tax stamps or funds thereof, if required pursuant to Section 4.6.

10.12 "Conversion Price" shall initially be $40.

10.13 "Conversion Price Adjustment Events" are any of those events specified in Section 4.2.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

10.14 "Current Market Price" means, as of any date, the average of the daily Closing Price for the five consecutive Trading Days selected by the Board of Directors beginning not more than 20 trading days before, and ending not later than the date of the applicable event described in Section 4.2(c) or 4.2(d) hereof and the date immediately preceding the record date fixed in connection with that event.

10.15 "Current Market Value" of Common Stock means the average of the high and low sale prices of the Common Stock as reported on the Nasdaq National Market or such other SEC-recognized national securities exchange or trading system which the Issuer may from time to time designate upon which the greatest number of shares of the Common Stock is then listed or traded, for the trading day in question.

10.16 "Dividend Payment Date" is as defined in Section 2.1, above.

10.17 "Dividend Payment Record Date" is as defined in Section 2.1, above.

10.18 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

10.19 "Expiration Date" is as defined in Section 4.4(a)(i), above.

10.20 "Fundamental Change" means any transaction or event, including, without limitation, any merger, consolidation, sale of assets, tender or exchange offer, reclassification, compulsory share exchange or liquidation, in which all or substantially all outstanding shares of the Issuer's Common Stock are converted into or exchanged for stock, other securities, cash or assets.

10.21 "Holder" means a Person in whose name shares of Capital Stock is registered.

10.22 "Issuance Date" is as defined in Section 2.1

10.23 "Issuer" means XM Satellite Radio Holdings Inc., a Delaware corporation.

10.24 "Junior Security" is as defined in Section 3.1, above.

10.25 "Legal Holiday" means a Saturday, a Sunday or a day on which banking institutions in the City of New York or at a place payment is to be received are authorized by law, regulation or executive order to remain closed. If a payment date is Legal Holiday at a place of payment, payment may be made at that place on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period.

10.26 "Liquidation Preference" means $50 per share of Preferred Stock.

10.27 "Mandatory Redemption Price" is as defined in Section 5.4(a), above

10.28 "Market Capitalization" means the product of the then-current market price times the total number of shares of Common Stock then outstanding.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

10.29 "Market Value" means the average of the Closing Prices of the Common Stock for the five trading days ending on the last trading day preceding the date of occurrence of a Change of Control.

10.30 "Notice Date" means the tenth day prior to a Deposit Payment Date.

10.31 "Parity Security" is as defined in Section 3.1, above.

10.32 "Permitted Owner" means American Mobile Satellite Corporation, General Motors Corporation, DIRECTV and Clear Channel Communications, Inc. and their respective affiliates.

10.33 "Person" means any individual, corporation, partnership, joint venture, association, joint-stock issuer, interest, trust or unincorporated organization (including any subdivision or ongoing business of any such entity or substantially all of the assets of any such entity, subdivision or business).

10.34 "Preferred Stock" means the Preferred Stock authorized in this Certificate of Designation.

10.35 "Redemption Agent" means that Person, if any, appointed by the Issuer to hold funds deposited by the Issuer in trust to pay to the Holders of shares to be redeemed.

10.36 "Redemption Date" means that certain date set forth in the Redemption Notice on which date the redemption of the Preferred Stock is completed.

10.37 "Redemption Notice" means that notice to be given by the Issuer to the Holders notifying the Holders as to the redemption, in whole or in part, of the Preferred Stock pursuant to Article 5 hereof. The Redemption Notice shall include the following information: (i) the Redemption Date and the time of day on such date; (ii) the total number of shares of Preferred Stock to be redeemed and, if fewer than all the shares held by such Holder are to be redeemed, the number of such shares to be redeemed from such Holder; (iii) the Redemption Price (whether to be paid in cash or shares of Common Stock); (iv) the place or places where certificates for such shares are to be surrendered for payment of the Redemption Price and delivery of certificates representing shares of Common Stock (if the Issuer so chooses); (v) that dividends on the shares to be redeemed will cease to accrue on such Redemption Date unless the Issuer defaults in the payment of the Redemption Price; and (vi) the name of any bank or trust company, if any, performing the duties of Redemption Agent. Redemption Notice shall be given by first-class mail to each record Holder of the shares to be redeemed, at such holder's address as the same appears on the books of the Issuer.

10.38 "Redemption Notice Date" means the date the Redemption Notice is first mailed or delivered to any Holder.

10.39 "Redemption Price" means that price established for redemption of the Preferred Stock established in Section 5.1(b) hereof.

10.40 "Special Conversion Date" is as defined in Section 4.3, above.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

10.41 "Special Conversion Price" is the higher of (a) the Market Value of the Common Stock and (b) $21.3333 per share, which amount, in the case of this clause (b), shall be adjusted each time that the conversion price is adjusted so that the ratio of such amount (as so adjusted) to the conversion price (as so adjusted) equals the ratio of $21.3333 to the initial conversion price.

10.42 "Subsidiary" means, with respect to any person, any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such person or one or more of the other Subsidiaries of such person or a combination thereof.

10.43 The "Transfer Agent" shall be as established pursuant to Article 11 hereof.

10.44 "Trading Day" means any business day on which the Nasdaq National Stock Market (or any U.S. national securities exchange or quotation system on which the Common Stock is then listed) is open for the transaction of business.

10.45 "Voting Stock" means with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

11. Transfer Agent and Registrar

The duly appointed Transfer Agent and registrar for the Preferred Stock shall be BankBoston, N.A. The Issuer may, in its sole discretion, remove the Transfer Agent in accordance with the agreement between the Issuer and the Transfer Agent; provided that the Issuer shall appoint a successor transfer agent who shall accept such appointment prior to the effectiveness of such removal.

12. Other Provisions

12.1 With respect to any notice to a Holder of shares of the Preferred Stock required to be provided hereunder, neither failure to mail such notice, nor any defect therein or in the mailing thereof, to any particular Holder shall affect the sufficiency of the notice or the validity of the proceedings referred to in such notice with respect to the other Holders or affect the legality or validity of any distribution, rights, warrant, reclassification, consolidation, merger, conveyance, transfer, dissolution, liquidation or winding up, or the vote upon any such action. Any notice which was mailed in the manner herein provided shall be conclusively presumed to have been duly given whether or not the Holder receives the notice.

12.2 Shares of Preferred Stock issued and reacquired will be retired and canceled promptly after reacquisition thereof and, upon compliance with the applicable requirements of Delaware law, have the status of authorized but unissued shares of preferred stock of the Issuer undesignated as to series and may with any and all other authorized but unissued shares of preferred stock of the Issuer be designated or redesignated and issued or reissued, as the case may be, as part of any series of preferred stock of the Issuer except that any issuance or reissuance of shares of Preferred Stock must be in compliance with this Certificate of Designation.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

12.3 In the Issuer's discretion, no fractional shares of Common Stock or securities representing fractional shares of Common Stock will be issued upon conversion, redemption, or as dividends payable in the Preferred Stock. Any fractional interest in a share of Common Stock resulting from conversion, redemption, or dividend payment will be paid in cash based on the last reported sale price of the Common Stock on the Nasdaq National Stock Market (or any national securities exchange or authorized quotation system on which the Common Stock is then listed) at the close of business on the trading day next preceding the date of conversion or such later time as the Issuer is legally and contractually able to pay for such fractional shares.

12.4 The shares of Preferred Stock shall be issuable in whole shares.

12.5 All notices periods referred to herein shall commence on the date of the mailing of the applicable notice.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

IN WITNESS WHEREOF, XM Satellite Radio Holdings Inc. caused this Certificate to be signed this 25/th/ day of January, 2000.

XM SATELLITE RADIO HOLDINGS INC.

By: /s/ Joseph M. Titlebaum

Name: Joseph M. Titlebaum
Title· Senior Vice President, General Counsel and Secretary

</TEXT>
</DOCUMENT>

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

EXHIBIT 10.28

CONFIDENTIAL

**** Confidential treatment has been requested for portions of this agreement The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as [*****]. A complete version of this agreement has been filed separately with the Securities and Exchange Commission.

CONTRACT FOR THE DESIGN, DEVELOPMENT AND PURCHASE OF TERRESTRIAL REPEATER EQUIPMENT

By and Between

XM SATELLITE RADIO INC.

and

HUGHES ELECTRONICS CORPORATION

CONFIDENTIALITY NOTICE

This attached Contract and the information contained herein is confidential to XM Satellite Radio Inc. and Hughes Electronics Corporation and shall not be published or disclosed to any third party without the express written consent of a duly authorized representative of XM Satellite Radio Inc. and Hughes Electronics Corporation.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

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Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

CONTRACT

FOR THE DESIGN, DEVELOPMENT AND PURCHASE
OF TERRESTRIAL REPEATER EQUIPMENT

By and Between

XM SATELLITE RADIO INC.

and

HUGHES ELECTRONICS CORPORATION

TERMS AND CONDITIONS

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

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CONTRACTFOR THE DESIGN, DEVELOPMENT AND PURCHASE OF
TERRESTRIAL REPEATER EQUIPMENT

THIS CONTRACT FOR THE DESIGN, DEVELOPMENT AND PURCHASE OF TERRESTRIAL REPEATER EQUIPMENT (the "Contract") is made this 14th day of February 2000 (the "Execution Date") by and between XM SATELLITE RADIO INC. ("Customer"), a Delaware corporation with offices located at 1250 23/rd/ Street, N.W., Suite 57, Washington, D.C. 20037, and HUGHES ELECTRONICS CORPORATION, a Delaware corporation by and through its division, Hughes Network Systems ("Contractor"), having a place of business at 10450 Pacific Center Ct., San Diego, CA 92121. As used in this Contract, "Party" means either Customer or Contractor and "Parties" means Customer and Contractor.

WHEREAS, Customer is implementing a satellite system designed to provide digital audio radio services to the continental United States; and

WHEREAS, Customer anticipates providing the business referred to above through two (2) geostationary satellites, a network of terrestrial repeaters located in various cities within the continental United States and end-user receivers; and

WHEREAS, Contractor has represented that it (together with its Subcontractors) is qualified to design, develop, engineer, manufacture, and deliver the terrestrial repeaters required for such networks and has the necessary skill and experience to perform such other services as described in this Contract in a cost-effective, professional and timely manner; and

WHEREAS, the Parties have reached agreement on the terms and conditions of procurement by Customer from Contractor of the design, development, engineering, and manufacturing services related to the terrestrial repeaters and to the other services and activities as set forth and further defined in this Contract.

NOW THEREFORE, in consideration of the mutual promises and undertakings contained herein, the Parties, intending to be legally bound, hereby agree as follows:

1. DEFINITIONS AND CONSTRUCTION

1.1 Certain Definitions.

(a) "Acceptance" means, with respect to any item to be delivered hereunder, written notification from Customer to Contractor stating that such item has satisfied the testing and acceptance criteria applicable to that item in accordance with Article 8 (Testing Criteria and Acceptance).

(b) "Affiliate" means, with respect to an entity, any other entity Controlling or Controlled by or under common Control with such entity.

(c) "Amendment to this Contract" or "Amendment" means a written agreement modifying the terms of this Contract executed in accordance with Article 28.3 (Amendments).

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

(d) "Approval" means written approval. This term is as defined, whether or not capitalized in this Contract.

(e) "Associates" means, with respect to an entity, its directors, officers, employees agents, consultants, and assigns.

(f) "Background Intellectual Property Rights" means all Intellectual Property Rights in or to the Work that came into existence prior to and/or apart from this Contract.

(g) "Business Day" means any day other than the following: a Saturday, Sunday, and any other day on which national banks are authorized to be closed in New York City, New York.

(h) "Calendar Day" means any day.

(i) "Change Directive" means a written directive executed by Customer directing Contractor to proceed with a change in the Work pending final determination of the appropriate change, if any, in the Contract Price and/or any applicable delivery dates hereunder.

(j) "Change Order" means a written document, executed by both Customer and Contractor, setting forth a change in the Work and agreement between Customer and Contractor as to the change in the Contract Price and/or any applicable delivery dates hereunder associated with such change in the Work.

(k) "Confidential Information" means all information, of any nature and in any form, whether written, oral or recorded or transmitted electronically or by tape or other similar manner, regarding the business, finances, operations, prospects, plans, or affairs of the Furnishing Party (including its Affiliates, Subcontractors, or Consultants), and all data, processes, materials, and software in source code and object code form, related documentation, and other technical data that is confidential and embodies trade secrets or other proprietary information of the Furnishing Party, which information is designated in writing by the Furnishing Party as confidential; provided, however, that if disclosed orally, such information must be confirmed and designated in writing in summary form as confidential within five (5) Business Days of the time at which oral disclosure took place. This Contract is deemed Confidential Information of each Party.

(l) "Consultant" means a person or organization retained by Customer to provide Customer with technical advice and related services and identified by Customer to Contractor.

(m) "Contract" means the written instrument herein dated the day and year first written above, including any Amendments made pursuant to Article 28.3 (Amendments), and Change Orders made pursuant to Article 10 (Changes in Scope of Work), embodying the agreement between Contractor and Customer and including the Terms and Conditions, attachments and Exhibits (and attachments thereto), annexed hereto and made a part of this Contract.

(n) "Contractor Facility" means each facility at or from which Contractor or its Subcontractors perform the Work.

(o) "Control" and its derivatives mean, with respect to an entity, the legal, beneficial, or equitable ownership, directly or indirectly, of fifty percent (50%) or more of the capital stock (or

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

other ownership interest if not a corporation) of such entity ordinarily having voting rights or the power to direct the management policies of such entity, whether through the ownership of voting stock, by contract, or otherwise.

(p) "Correction Plan" means a plan submitted by Contractor that details the means by which Contractor shall correct a failure to perform any material duty or obligation under this Contract

(q) "Customer Competitor" means any existing or future Satellite Digital Radio Services (SDARS) licensee, including CD Radio. "Customer Competitor" shall not include Contractor, Contractor's Affiliates or WorldSpace Satellite Company (to the extent Customer sublicenses the Foreground Intellectual Property Rights to WorldSpace).

(r) "Customer's Designated Representative" means Jack Wormington, Senior Vice President of Engineering and Operations, or his successor or designee in writing.

(s) "Customer Personnel" means Customer's employees, Consultants or representatives, or Customer's Consultants' employees.

(t) "Data and Documentation" means that data and documentation to be supplied by Contractor pursuant to the requirements of Exhibit B (Statement of Work).

(u) "Defect" and its derivatives (such as "defective") means any failure of any Repeater, the Network Management System or other deliverable item to operate in conformance with its applicable specifications as set forth in Exhibit A (Design Specifications) or in accordance with its applicable acceptance criteria as set forth in Article 8 (Testing Criteria and Acceptance). This term is as defined, whether or not capitalized in this Contract.

(v) "Delivery Requirements" means the delivery requirements for the Repeaters and other deliverables set forth in Exhibit D (Delivery Requirements and Schedule).

(w) "Detailed Delivery Schedule" means the detailed schedule for delivery of the Repeaters and other deliverables as may be set forth in Exhibit D (Delivery Requirements and Schedule)

(x) "Effective Date" or "EDC" has the meaning set forth in Article 4.1 (Effective Date of Contract and Conditions Precedent)

(y) "Enclosure Kit" means, in the case of Standard Repeaters, the Repeater enclosure with all equipment contained therein, the enclosure door with air conditioning unit and the plinth (the enclosure and enclosure door with air conditioning unit to be shipped in separate containers for a total of two (2) containers) and the plinths to be shipped, at Contractor's option, in a separate container or in bulk), and, in the case of High-Power Repeaters, the Repeater enclosure, including controller rack, coupler, transmit filter and all other equipment contained therein.

(z) "Escrowed Materials" has the meaning set forth in Article 13 (Technical Materials Escrow).

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

(aa) "Excusable Delay" has the meaning set forth in Article 7.9 (Excusable Delay Defined).

(bb) "Execution Date" means the date first set forth above.

(cc) "Financing Agreements" means any and all documents and agreements executed in connection with the debt or equity financing to be obtained by Customer from Financing Entities to provide all or a substantial portion of the funds to finance the Work, and all security instruments, mortgages, assignments and related documentation executed or delivered to secure repayment of such financing.

(dd) "Financing Entity" means any financial institution, bank, corporation, partnership or other entity (other than Contractor, its Affiliates or competitors of Contractor or Affiliates of such competitors), providing all or a substantial portion of the debt or equity financing to Customer to provide funds to finance the Work and any insurance companies or financial institutions providing commercial credit insurance in support of such financing.

(ee) "Foreground Intellectual Property Rights" means all Intellectual Property Rights in or to the Work which are not Background Intellectual Property Rights (including those Intellectual Property Rights in and to the Work first conceived of or first reduced to practice in the performance, execution and/or completion of the Work).

(ff) "Furnishing Party" means the Party who furnishes Confidential Information to the other Party.

(gg) "High-Power Installation Testing" has the meaning set forth in Article 8.2 (Acceptance of Repeaters).

(hh) "High-Power Redundant Repeater" means a High-Power Repeater that utilizes an omni-directional antenna and has a back-up high-power amplifier (HPA), as further described in Exhibit A (Design Specifications).

(ii) "High-Power Repeater" means a terrestrial repeater that has an RF power of 2000 Watts evenly divided between two (2) MCM carriers, as further described in Exhibit A (Design Specifications). High-Power Repeater refers collectively to both High-Power Redundant Repeaters and High-Power Sectored Redundant Repeaters.

(jj) "High-Power Sectored Redundant Repeater" means a High Power Repeater that utilizes paneled/phased-array antennas typically in a 120 degree application (e.g., an installation consisting of three paneled/phased-array antennas) and has a redundant high-power amplifier (HPA), as further described in Exhibit A (Design Specifications).

(kk) "Including" and its derivatives (such as "include" and "includes") means including without limitation. This term is as defined, whether or not capitalized in this Contract.

(ll) "Installation Site" means a building rooftop or other site (e.g., antenna site) located in any of various cities throughout continental United States at which a Repeater is to be installed.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

(mm) "Intellectual Property Rights" means any and all common law and statutory proprietary rights, including Patent Rights, Trademark Rights, Trade Secret Rights and Copyrights Rights (each term as defined below), existing from time to time under the intellectual property Laws of the United States, any state or foreign jurisdiction or international treaty regime. The term "Patent Rights" means any and all common law and statutory rights existing from time to time under the Laws of the United States, any state or foreign jurisdiction or international treaty regime with respect to patents, patent applications, and patent registrations. The term "Trademark Rights" means any and all common law and statutory rights existing from time to time under the Laws of the United States, any state or foreign jurisdiction or international treaty regime with respect to trademarks, service marks, trade names and trade dress. The term "Trade Secret Rights" means any and all common law and statutory rights existing from time to time under the Laws of the United States, any state or foreign jurisdiction or international treaty regime with respect to trade secrets and data rights. The term "Copyright Rights" means any and all common law and statutory rights existing from time to time under the Laws of the United States, any state or foreign jurisdiction or international treaty regime with respect to copyrights, mask work rights, moral rights and rights in visual works.

(nn) "Joint Intellectual Property Rights" means Foreground Intellectual Property Rights conceived or reduced to practice jointly by one or more employees or contractors of both Parties.

(oo) "Joint Inventions" means Joint Intellectual Property Rights for which patent protection may be sought.

(pp) "Jointly Owned" means, with respect to Joint Intellectual Property Rights, an equal, undivided interest in and to the Joint Intellectual Property Rights, as well as in and to patent applications and patents thereon in all countries, without any obligation of accounting to the other Party.

(qq) "Key Contractor Personnel" has the meaning set forth in Article 9.1 (Contractor Personnel).

(rr) "Key Tasks" has the meaning set forth in Article 24 (Default and Correction Plan).

(ss) "Klystron Kit" means two (2) Klystron power amplifier ("KPA") units.

(tt) "Law" or "Laws" means any and all laws, including rules, regulations, codes, injunctions, judgments, orders, ordinances, decrees, rulings, licenses, authorizations, approvals or consents and charges thereunder, of any federal, state, local or municipal government of any country (and all agencies thereof) having jurisdiction over any portion of the Work or the performance of any portion of the Work.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

(uu) "Losses" means all losses, liabilities, damages, royalty payments and claims, and all related costs and expenses (including reasonable legal fees and disbursements and costs of investigation, expert fees, litigation, settlement, judgment, interest, and penalties).

(vv) "Lowest Replaceable Unit" or "LRU" means each and any of the individual block components composing each Repeater as specified in Exhibit A (Design Specifications) and Exhibit B (Statement of Work).

(ww) "Material Adverse Effect" means any material adverse change in (i) the legality, validity, or enforceability of this Contract or (ii) the ability of Customer or Contractor to perform this Contract.

(xx) "Material Subcontract" has the meaning set forth in Article 9.2 (Material Subcontractors).

(yy) "Milestone" means a portion of the definitive, measurable Work, which shall be completed in accordance with this Contract including Exhibit C (Pricing, Milestones and Payment Plan) and upon completion of which a payment is to be made in accordance with such Exhibit C.

(zz) "Milestone Payment" means any of those payments listed as specific milestone payments in Exhibit C (Pricing, Milestones and Payment Plan).

(aaa) "Milestone Achievement Criteria" has the meaning set forth in Exhibit C (Pricing, Milestones and Payment Plan).

(bbb) "Network Management System" or "NMS" means the system, comprising hardware and Software, to be developed by Contractor to monitor the operation and maintenance of the Repeaters, which system is further described in Exhibit A (Design Specifications) and Exhibit B (Statement of Work).

(ccc) "Nominal Order" means Customer's initial order to purchase from Contractor 1,578 Repeaters (excluding Prototype Repeaters) consisting of [*****] High-Power Repeaters and [*****] Standard Repeaters.

(ddd) "Notice of Defects" means a written notice executed by Customer and delivered to Contractor identifying any Defects in the Work setting forth in reasonable detail a description of the Defect.

(zz) "PA Kit" has the meaning set forth in Article 2.3 (Weight and Size of Repeaters).

(eee) "Pattern Defect" has the meaning set forth in Article 17.13 (Pattern Defect).

(fff) "Payment Escrow Account" has the meaning set forth in Article 0 (Escrow Account and Payment).

(ggg) "Payment Escrow Agent" has the meaning set forth in Article 0 (Escrow Account and Payment).

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

(hhh) "Performance Award" has the meaning set forth in Article 7.7 (Performance Award).

(iii) "Permitted Lien" means any lien, security interest, mortgage, assignment, pledge, encumbrance or charge of any kind in favor of the Financing Entities under the Financing Agreements.

(jjj) "Prototype Repeater" means the terrestrial repeaters, as further described in Exhibit A (Design Specifications) and Exhibit B (Statement of Work), that Contractor shall develop for the test network to be established in Pittsburgh, Pennsylvania. Each Prototype Repeater shall include all working and fully operational LRUs.

(kkk) "Project Completion Date" means the date upon which the Network Management System, the last Repeater and all other deliverable items required to be provided hereunder have been delivered and have achieved Acceptance.

(lll) "Regional Inventory Storage Facility" means a facility to be maintained by Customer, or its designee(s), for storing an inventory of Lowest Replaceable Units or other components for the Repeaters for use by Customer, or its designee(s), in performing maintenance and repairs on installed Repeaters. As of the Effective Date of Contract, a Regional Inventory Storage Facility will be located in each of the following six (6) cities: San Francisco, California; Los Angeles, California; Dallas/Ft. Worth, Texas; New York, New York; Washington, DC; and Atlanta, Georgia.

(mmm) "Repeater" means collectively any Prototype Repeater, Standard Repeater, High-Power Repeater, or other terrestrial repeater, the LRUs and other components, parts and sub-parts contained therein, and any Software, all as required to be delivered by Contractor to Customer hereunder.

(nnn) "Repeater Design Verification Testing" has the meaning set forth in Article 8.2 (Acceptance of Repeaters).

(ooo) "Repeater In-Factory Testing" has the meaning set forth in Article 8.2 (Acceptance of Repeaters).

(ppp) "Rooftop Assembly" has the meaning set forth in Article 2.3 (Weight and Size of Repeaters).

(qqq) "Rooftop Testing" has the meaning set forth in Article 2.3 (Weight and Size of Repeaters).

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(rrr) "Software" means the machine readable computer code or embedded code, used to instruct a processor to perform a task or series of tasks in object code form including firmware, files, databases, interfaces, documentation and other materials related thereto necessary to make each deliverable item achieve its applicable specifications, as such Software may be revised, updated, corrected and enhanced from time-to-time and provided to Customer pursuant to this Contract.

(sss) "Staging Area" means each site to which Contractor shall deliver Repeaters. The cities in which the Staging Areas shall be located are as specified in Exhibit D (Delivery Requirements and Schedule).

(ttt) "Standard Non-Redundant Repeater" means a Standard Repeater that utilizes an omni-directional antenna and has no redundant/back-up LRUs, as further described in Exhibit A (Design Specifications).

(uuu) "Standard Repeater" means a terrestrial repeater that has an RF power of 200 Watts evenly divided between two (2) MCM carriers, as further described in Exhibit A (Design Specifications). Standard Repeater collectively refers to both Standard Non-Redundant Repeaters and Standard Sectored Non-Redundant Repeaters.

(vvv) "Standard Sectored Non-Redundant Repeater" means a Standard Repeater that utilizes paneled/phased-array antennas typically in a 120 degree application (e.g., an installation consisting of three paneled/phased-array antennas) and has no redundant/back-up LRUs, as further described in Exhibit A (Design Specifications).

(www) "Start of Production Date" means July 1, 2000, as such date may be adjusted by the Parties in accordance with this Contract.

(xxx) "Statement of Work" or "SOW" means the Work described in Exhibit B to this Contract which shall be provided and performed by Contractor.

(yyy) "Subcontract" means a contract awarded by Contractor to a Subcontractor or a contract awarded by a Subcontractor for a portion of the Work.

(zzz) "Subcontractor" means a person, firm, corporation, or business entity that has been awarded a Subcontract.

(aaaa) "Technical Materials" means the detailed technical, engineering and design information and specifications of any kind relating to the Prototype Repeaters, Standard Repeaters, High-Power Repeaters, each LRU, and the Network Management System, including Background and Foreground Intellectual Property, specifications, functional specifications, interface specifications, hardware and circuit diagrams, schematic diagrams, third-party supplier information (including name, address, and parts numbers), and associated documentation.

(bbbb) "Terrestrial Repeater Network System" means the two (2) geostationary satellites and the system of terrestrial repeater networks located in various cities within the continental United States owned and operated by Customer.

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(cccc) "Virus" means: (i) program code, programming instruction or set of instructions intentionally constructed with the ability to damage, interfere with or otherwise adversely affect the performance or operation of any deliverable item, including the Repeaters, any LRU, the Network Management System, computer programs, embedded code or chips, data files or operations; or (ii) other code typically designated to be a virus (including, for example, "worms," "Trojan horses" and similar items).

(dddd) "Work" means all services (including design, development, engineering, manufacturing, testing and management services), labor, equipment, materials, articles, matters, acts (including tests to be performed), and things to be furnished by Contractor, including Repeaters, and rights to be transferred by Contractor in the performance of this Contract, all as described in Exhibit B (Statement of Work) and Exhibit E (Test Plans and Procedures). "Work" also includes Contractor's warranty obligations set forth herein and any services and things to be furnished pursuant to any options that may be exercised by Customer hereunder.

(eeee) "Year 2000 Compliant" means, with respect to the Work, including Repeaters, that the Work (i) is capable of properly accepting, recording, storing, processing, displaying and outputting calendar dates falling before, on or after January 1, 2000, (ii) is either capable of (A) accepting, recording, storing, processing, displaying and outputting data containing a four-digit year date format without any loss of functionality and in a manner that correctly interprets the data or (B) responding to two-digit year inputs in a way that resolves any ambiguity as to the century in a disclosed, defined and pre-determined manner, (iv) includes date data century recognition calculations that accommodate same century and multi-century formulae and date values and date data interface values that reflect the century, and (v) is capable of accounting for the fact that the year 2000 is a leap year, as well as identifying subsequent leap years.

1.2 Other Terms.

Other terms in this Contract are defined in the context in which they are used and shall have the meanings there indicated.

1.3 Integration and Construction.

(a) The documents listed below in this Article 1.3 (Integration and Construction), including any Exhibits, attachments, and schedules, as amended from time to time in accordance with Article 28.3 (Amendments), constitute this Contract and shall be deemed to constitute one fully integrated agreement between the Parties. In the event of any conflict or inconsistency among the provisions of the various documents of this Contract, such conflict or inconsistency shall be resolved by giving a descending level of precedence to the documents in the order set forth below:

(1) Terms and Conditions

(2) Exhibit A - Design Specifications

(3) Exhibit B - Statement of Work (SOW)

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(4) Exhibit C - Pricing, Milestones and Payment Plan

(5) Exhibit D - Delivery Requirements and Schedule

(6) Exhibit E - Test Plans and Procedures

(7) Exhibit F - Quality Assurance Plan

(8) Exhibit G - Key Contractor Personnel

(9) Exhibit H - Technical Materials Escrow Agreement

(b) Exhibits A, B, C, D, E, F, G and H are attached to and incorporated into these Terms and Conditions.

1.4 Headings; Number and Gender.

The article headings are for convenience of reference only and shall not be considered in interpreting the text of this Contract. Words in the singular include the plural and vice versa, and words imputing the masculine gender include the feminine and neuter genders where the context so requires.

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***** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

2. SCOPE OF WORK

2.1 General Scope.

(a) In accordance with the requirements of this Contract, Contractor shall furnish and perform and Customer shall purchase the Work.

(b) Without limiting the generality of the foregoing, Contractor shall furnish the following in accordance with this Contract:

(1) Seven (7) Prototype Standard Repeaters;

(2) One (1) Prototype High-Power Repeater;

(3) [*****] Standard Repeaters;

(4) [*****] High-Power Repeaters;

(5) Training;

(6) Data and Documentation; and

(7) Network Management System.

2.2 Statement of Work.

The Statement of Work attached hereto as Exhibit B includes descriptions of certain of the Parties' roles and responsibilities with respect to the design, development, manufacture, delivery and testing of the Repeaters. Any role or responsibility not specifically described in Exhibit B (Statement of Work) that is implied by or required for the proper performance of any role or responsibility expressed in the Statement of Work shall be deemed included as part of such expressed role or responsibility.

2.3 Weight and Size of Standard Repeaters.

This Article 2 3 (Weight and Size of Standard Repeaters) applies only to Standard Repeaters.

(a) The Parties acknowledge and agree that the weight and dimensions for the Standard Repeaters as set forth in Exhibit A (Design Specifications) are heavier and larger than the Parties originally anticipated under the ATP and that each of the Parties has agreed to undertake certain responsibilities relating to the increased weight and dimensions to facilitate the installation of the Standard Repeaters by Customer's Terrestrial Repeater Network System integrator at Installation Sites.

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(b) Regarding Standard Repeaters, upon completion of the Repeater In-Factory Testing pursuant to Article 8.2(a)(2), Contractor shall disassemble the Repeaters so that the disassembled Repeaters may be shipped in multiple containers. The Standard Repeaters shall be disassembled into two (2) separate kits as follows:

(1) The Enclosure Kit; and

(2) The "PA Kit" which shall consist of the power amplifier (to be shipped separately), the filter and the coupler (to be shipped together).

(c) Contractor shall ship the plinths to the Staging Areas in accordance with Article 7.4 (Packing, Tracking and Shipping) as reasonably directed by Customer, or its designee, so that the plinths arrive at the Staging Areas on or before five (5) Business Days prior to the arrival of the balance of the Enclosure Kits to the Staging Areas to facilitate the early site preparation work being performed by Customer's Terrestrial Repeater Network System integrator. Contractor shall ship the Enclosure Kits (less the plinths) to the Staging Areas in accordance with Article 7.2 (Time and Place of Delivery) and Article 7.4 (Packing, Tracking and Shipping).

(d) Contractor shall ship the PA Kits in accordance with Article 7.4 (Packing, Tracking and Shipping) directly to the Installation Sites. Customer shall inform Contractor in writing on a weekly basis of the Installation Sites where an Enclosure Kit has been installed by Customer's Terrestrial Repeater Network System integrator. Customer shall arrange for such installation to include the assembly of the Repeater enclosure on the plinth and the reattachment of the enclosure door to the enclosure (without connection of the air conditioning unit). Within five (5) Business Days of Contractor's receipt of such notice, Contractor shall deliver the PA Kit to the Installation Site and perform all work necessary to reassemble the PA Kit with the Enclosure Kit (the "Rooftop Assembly") to allow the Repeater to function in accordance with the requirements set forth in Exhibit A (Design Specifications).

(e) To ensure that the Repeater functions in accordance with the requirements set forth in Exhibit A (Design Specifications), Contractor shall, immediately upon completion of the Rooftop Assembly, conduct Rooftop Testing. Such Rooftop Testing shall be performed by Contractor in accordance with Exhibit E (Test Plans and Procedures) (to be developed hereunder) and Article 8.2 (Acceptance of Repeaters) and shall be completed within the five (5) Business Day period set forth above.

(f) Contractor shall be responsible for the difference, if any, in the cost of a load spreader required to install the Repeater, at its actual weight, over and above the cost that would have been incurred for a load spreader required to install a 180 kg. Repeater. Such amount shall be determined without any mark-up or additional charge to Contractor and shall be treated as a credit pursuant to Article 6.1(b). If Customer believes a credit is due under this paragraph, then Customer shall provide, along with the written notice to Contractor required by Article 6.1(b), such supporting documentation as may be reasonably required to determine the amount of such credit.

(g) Contractor shall be responsible for the difference, if any, in the cost required to ship the Enclosure Kit, at its actual weight, from the Staging Areas to the Installation Sites over and

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above the cost that would have been incurred for shipping a 180 kg. Standard Repeater from the Staging Areas to the Installation Sites. Such amount shall be determined without any mark-up or additional charge to Contractor and shall be treated as a credit pursuant to Article 6.1(b). If Customer believes a credit is due under this paragraph, then Customer shall provide, along with the written notice to Contractor required by Article 6 1(b), such supporting documentation as may be reasonably required to determine the amount of such credit.

(h) The Parties believe that the need for structural analysis at the Installation Sites due to the increased weight of the Standard Repeaters will be greatly minimized if a proper load spreading device is used. Based on this belief, Customer agrees to assume the costs associated with such structural analyses; provided, however, if, after the first fifty (50) Installation Sites are selected by Customer's Terrestrial Repeater Network System integrator, it is determined that a structural analysis was required on in excess of seventy (70%) of such Installation Sites, the Parties agree to meet and discuss, in good faith, an equitable division of the costs associated with the increased need for such structural analyses.

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3. STRATEGIC RELATIONSHIP

3.1 Roof Rights.

In the event Customer desires to locate a Repeater on the roof of a building owned, leased or managed by Contractor, Customer shall make such request to Contractor in writing, indicating the location of such building Contractor shall promptly respond in writing to Customer's request to indicate whether Contractor is willing to grant such roof rights to Customer, in which event the Parties shall negotiate reasonable terms and conditions applicable to such roof rights.

3.2 Marketing Support.

Where requested by Customer, Contractor will provide reasonable technical marketing support to Customer, in accordance with Exhibit B (Statement of Work), including in support of Customer's business opportunities consistent with Contractor's other obligations.

3.3 Alignment of Interests.

Contractor agrees to cooperate with Customer and to take no materially adverse position (in trade associations, regulatory bodies, the press, and otherwise) with respect to the FCC spectrum assigned and designated for use by Customer.

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4. EFFECTIVE DATE OF CONTRACT ("EDC"); CONDITIONS PRECEDENT; TERM

4.1 Effective Date of Contract and Conditions Precedent.

(a) This Contract shall be effective as of October 22, 1999 ("Effective Date or "EDC").

(b) Contractor shall have no obligation to commence the Work until Contractor's receipt of Milestone Payment No. 1.

4.2 ATP.

The Parties acknowledge and agree that, as of the Execution Date of this Contract, (i) all Contractor effort in respect of the Work pursuant to the ATP shall be deemed performed under this Contract; (ii) there are no unfulfilled obligations or claims under the ATP; (iii) in the event the ATP has not expired or terminated as of the Execution Date of this Contract, the ATP is hereby terminated; and (iv) the provisions of this Contract shall govern the rights and obligations of the Parties with respect to matters arising under the ATP.

4.3 Term.

The term of this Contract shall commence on EDC and continue until all the Work is completed in accordance with this Contract, unless terminated earlier in accordance with Article 25 (Termination) (the "Term").

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5. PRICING

5.1 Contract Price.

In consideration of Contractor's performance of the Work in accordance with this Contract, Customer shall pay Contractor the amounts determined in accordance with Exhibit C (Pricing, Milestones and Payment Plan) (collectively the "Contract Price") and in accordance with the payment conditions and Milestones set forth therein, as may be adjusted pursuant to this Contract. For the Work provided or to be provided under this Contract, Customer shall not be obligated to pay Contractor any amounts in addition to the Contract Price, except as otherwise specifically provided in this Contract.

5.2 Changes in Contract Price.

Except pursuant to Article 10 (Changes in Scope of Work), Exhibit C (Pricing, Milestones and Payment Plan), or as otherwise expressly set forth in this Contract, the Contract Price is not subject to any escalation or to any adjustment or revision

5.3 Most-Favored Customer.

(a) If Contractor provides services to, or performs work for, another customer that are similar to the Work (in nature, scope, volume and duration) to be provided and performed hereunder, and the prices charged to such customer are lower than the prices charged to Customer under this Contract, the prices charged to Customer shall be equitably adjusted to provide to Customer the benefit of such lower prices. Such adjustment shall be retroactive to the first date on which the lower charges to such other customer became effective.

(b) Customer may from time to time conduct an audit to examine and assess Contractor's compliance with the provisions of paragraph (a) above, provided Customer engages an external auditor, at Customer's expense, to conduct such audit. Contractor shall cooperate with the audit initiated by Customer and shall provide the information reasonably requested by Customer to verify its compliance with paragraph (a) above, provided (i) Contractor shall only provide such information, including pertinent financial information, to Customer's designated external auditor and (ii) such external auditor shall execute a confidentiality agreement reasonably satisfactory to Contractor.

(c) In the event the external auditor determines that Contractor is providing services to, or is performing work for, another customer that are similar to the Work (in nature, scope, volume and duration) and the prices charged for such services or work for the other customer are lower than the prices charged to Customer hereunder, the external auditor shall provide notice, in writing, to both Contractor and Customer of its determination and shall include with such notice any supporting documentation of such pricing discrepancy. Such documentation provided to Customer shall be sufficiently redacted to conceal the identity of Contractor's other customer and shall only include such information as is directly pertinent to the determination made by the external auditor. Upon receipt of notice of such pricing discrepancy, Contractor shall promptly implement the lower price adjustment and provide Customer with appropriate credits in accordance with paragraph (a) above.

5.4 Taxes.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

(a) Contractor shall be responsible for any sales, use, excise, value-added, services, consumption and other taxes payable by Contractor on any goods or services used or consumed by Contractor in providing the Work where such tax is imposed on Contractor's acquisition or use of such goods or services and the amount of such tax is measured by Contractor's costs in acquiring such goods or services.

(b) Customer shall be responsible for any applicable sales and use taxes on any deliverable item, including Repeaters. Contractor shall include on each invoice, as a separate line item, any such applicable sales and/or use taxes and Contractor shall remit all such taxes to the appropriate taxing authorities without any mark-up or other additional charge to Customer. All other excise, value-added, services, consumption, export, import and other taxes, duties, fees or charges shall be included in the Contract Price.

(c) Contractor agrees to act as the "Importer of Record" for all the Work, if required or as applicable. This includes arranging for a customs broker to record the entry of the goods. As "Importer of Record," Contractor will be responsible for remitting to customs all appropriate duty and excise tax and all such duty and excise taxes are included in the Contract Price.

(d) Each Party shall consult and cooperate with the other to minimize the other's tax liability to the extent legally permissible.

(e) Each Party shall cooperate with the other in the settlement of any claim for taxes asserted by applicable taxing authorities.

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***** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

6. INVOICING AND PAYMENT

6.1 Invoicing.

(a) Contractor shall invoice Customer monthly for all Milestones completed in accordance with the applicable Milestone Achievement Criteria and all other applicable requirements of this Contract during the period covered by the invoice and any other charge permitted by this Contract; provided, however, with respect to [*****] Milestones set forth in Table 3.2 of Exhibit C (Pricing, Milestones and Payment Plan), Contractor may invoice Customer [*****] for Milestones completed during the applicable invoicing period. The invoice shall show details and supporting documentation as to amounts invoiced as reasonably required by Customer. Each invoice shall state the number of shipped Enclosure Kits and/or Accepted Repeaters and shall be accompanied by Contractor's written certification that the Milestone(s) to which the invoice relates was/were fully and successfully completed in accordance with the Milestone Achievement Criteria set forth in Exhibit C (Pricing, Milestones and Payment Plan). Such certification for Enclosure Kits shall also specify the applicable waybill number. Each invoice shall also be accompanied by conditional releases of claims and waivers of liens, in form and substance reasonably satisfactory to Customer, executed by Contractor and all Subcontractors with respect to the portion of Work for which payment is sought. With respect to invoices for shipped Enclosure Kits and Accepted Repeaters, each such invoice shall also specify the pertinent bar-coded serial number for the LRUs of each such shipped Enclosure Kit and/or the LRUs of each such Accepted Repeater, pursuant to Article 7.4(b) (Labeling and Electronic Tracking).

(b) In the event a Party determines a credit is due Customer pursuant to this Contract, such Party shall notify the other Party in writing. To the extent the Parties agree on the amount of the credit, if any, due to Customer, Contractor shall provide Customer with such credit against amounts then due and owing; if no further payments are due to Contractor, Contractor shall pay the amount of such credit to Customer within thirty (30) Calendar Days after such credit becomes due. To the extent the Parties do not agree on the amount of the credit due to Customer, the matter shall be resolved pursuant to Article 23 (Dispute Resolution).

(c) Contractor shall deliver a copy of each invoice and all details and supporting documentation to:

XM Satellite Radio Inc.
1250 23rd Street, NW
Suite 57
Washington, DC 20037
Tel: 202-969-7100
Fax: 202-969-7050
Attention: Chief Financial Officer

Copy to: Royce Kincaid

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6.2 Escrow Account and Payment.

(a) On or before [*****], Customer shall establish an interest-bearing escrow account (the "Payment Escrow Account") with a bank or other financial institution of Customer's choice, and Customer, Contractor and the agent (the "Payment Escrow Agent") for the Payment Escrow Account shall enter into an escrow agreement pursuant to which Customer shall pay amounts into the Payment Escrow Account in accordance with the schedule of escrow payments set forth in Exhibit C (Pricing, Milestones and Payment Plan). Customer shall maintain such escrow account until the earlier to occur of the following: (i) all amounts required to be deposited therein by Customer have been drawn down by Contractor, (ii) termination of this Contract and payment of Customer's obligations hereunder, or (iii) July 31, 2001. The costs of establishing and maintaining the Payment Escrow Account shall be shared equally by the Parties. Customer shall be entitled to retain all interest and income earned on amounts deposited into the escrow account.

(b) Customer shall pay Contractor [*****] Milestone Payment No. 1 within five (5) Business Days after the Execution Date provided Contractor first furnishes Customer with an invoice therefor. Subject to Article 6.5 (Withholding of Payment), with respect to [*****] Milestone Payment Nos. 2-5 set forth in Table 3.1 of Exhibit C (Pricing, Milestones and Payment Plan) and [*****] Milestone Payments 1-2 in Table 3.3 of Exhibit C, Customer shall pay Contractor within thirty (30) Calendar Days after receipt from Contractor of an invoice in accordance with the requirements of Article 6.1 (Invoicing). With respect to the [*****] Milestone Payments set forth in Table 3.2 of Exhibit C, and subject to Article 6.5 (Withholding of Payment), within three (3) Business Days after receipt of an invoice (and required supporting documentation) meeting the requirements of Article 6.1 (Invoicing) and, with respect to Accepted Repeaters, Article 8.2 (Acceptance of Repeaters), Customer shall authorize the Payment Escrow Agent to permit Contractor to draw down from the Payment Escrow Account the amount invoiced. With respect to invoices for any other charges hereunder, Customer shall pay Contractor within thirty (30) Calendar Days after receipt from Contractor of an invoice in accordance with the requirements of Article 6.1 (Invoicing). Notwithstanding the foregoing, all payments made under the Authorization to Proceed (ATP), executed by the Parties and dated October 22, 1999, shall be credited in full against the Milestone Payments set forth in Exhibit C (Pricing, Milestones and Payment Plan) until such ATP payments have been exhausted. Contractor may deliver its invoices and supporting documentation to Customer via facsimile.

(c) To secure Contractor's interest in Customer's payment of its obligations hereunder, Customer hereby grants to Contractor a security interest, which Customer represents and warrants is and shall at all times be a first priority security interest, in Customer's right, title and interest in and to amounts deposited by Customer into the Payment Escrow Account (but not interest or income thereon). Customer hereby agrees to take, at Contractor's expense, all such actions as may be reasonably requested by Contractor to create, perfect, maintain and preserve

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such security interest, including the execution and delivery of such uniform commercial code financing statements, continuation statements, if any, and similar documents or instruments as may be required by applicable law as Contractor may reasonably request. The security interest created herein shall terminate upon the earlier to occur of the following: (i) all amounts required to be deposited therein by Customer have been drawn down by Contractor, (ii) termination of this Contract and payment of Customer's obligations hereunder, or (iii) July 31, 2001. Upon termination of such security interest, Contractor shall release and terminate such security of record by filing termination statements or similar documents in accordance with applicable law. Customer hereby acknowledges and agrees that the provisions of this paragraph constitute a security agreement under the provisions of the uniform commercial code in effect in the jurisdiction applicable to this transaction pursuant to which Customer has granted a security interest in the Payment Escrow Account. Notwithstanding the foregoing, Contractor agrees that any security interest granted hereunder shall be structured in a manner reasonably satisfactory to the Financing Entities.

(d) Customer shall make, or shall instruct the Payment Escrow Agent to make, as applicable, payments on account of invoices by wire transfer to the following bank account (or to such other account as Contractor shall request by written instruction to Customer signed by Contractor's Chief Executive Officer or President):

Bank:	Allfirst (to the account of Hughes Network Systems)
Address:	Baltimore, MD 21203
Account No.:	[*****]
ABA No.:	[*****]

(e) No payment by Customer shall constitute an Acceptance of any Work not in accordance with this Contract.

(f) Customer shall have no obligation to pay or be responsible in any way for payment to a Subcontractor. Contractor shall pay each Subcontractor all undisputed amounts in accordance with the applicable Subcontract.

6.3 Set Off.

In the event Contractor has not paid Customer any amount due and payable to Customer under this Contract, or if Customer is entitled to a credit under this Contract (for example, for overcharges that have been paid by Customer), Customer shall have the right to set off such amount against payments due to Contractor.

6.4 Late Payment.

For any payment under this Contract that is overdue, the Party entitled to such payment shall also be entitled to interest on such payment for each Calendar Day the payment is overdue

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until the date payment is made, such interest to be calculated in accordance with Article 28.11 (Calculation of Interest), unless expressly provided otherwise in this Contract.

6.5 Withholding of Payment.

If Customer, in good faith, does not agree that a Milestone associated with an invoice has been completed in accordance with this Contract or that such invoice is otherwise inaccurate, (i) Customer shall pay or authorize payment of, as the case may be, the undisputed part of such invoice in the time period required by this Contract and (ii) Customer shall have the right to withhold payment or authorization of payment, as the case may be, of the disputed portion of such invoice provided Customer gives to Contractor written notice stating in reasonable detail the reason for withholding such amount within ten (10) Business Days after receipt by Customer of the applicable invoice. Upon receipt of such notice, the Parties shall initiate Dispute Resolution in accordance with Article 23 (Dispute Resolution).

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7. DELIVERY AND TIME FOR PERFORMANCE

7.1 Repeater Category Selection.

(a) On or before [*****], Customer shall provide to Contractor, in writing, a baseline estimate of the distribution of the Nominal Order over the four (4) categories of Repeaters (i.e., an estimate of how many of the total number of Standard Repeaters will be Standard Non-Redundant Repeaters and Standard Sectored Non-Redundant Repeaters and an estimate of how many of the total number of High-Power Repeaters will be High-Power Redundant Repeaters and High-Power Sectored Redundant Repeaters) (the "Initial Baseline Estimate").

(b) On or before [*****], Customer shall provide to Contractor, in writing, an update of the Initial Baseline Estimate, which updated Initial Baseline Estimate will reflect the definitive distribution of the Nominal Order over the four (4) categories of Repeaters (the "Definitive Baseline Estimate"). For each category of Repeater, the Definitive Baseline Estimate may differ from the Initial Baseline Estimate by up to plus or minus [*****]. By way of illustration and as an example only, if the Initial Baseline Estimate requires Contractor to manufacture and deliver [*****] Standard Sectored Non-Redundant Repeaters, Customer may increase or decrease that estimate in the Definitive Baseline Estimate by up to [*****], such that the Definitive Baseline Estimate may range from and including [*****] to and including [*****] Standard Sectored Non-Redundant Repeaters.

7.2 Time and Place of Delivery.

(a) Set forth in Exhibit D (Delivery Requirements and Schedule) are Customer's Delivery Requirements. The Parties acknowledge that as of the Effective Date of Contract, however, Customer is unable to establish a detailed Delivery Schedule for the Enclosure Kits that specifies the timing, quantity and type of Enclosure Kits to be delivered to each Staging Area in the case of Standard Repeaters and Installation Sites in the case of High-Power Repeaters. Accordingly, the Parties are attaching to Exhibit D (Delivery Requirements and Schedule) a model Delivery Schedule, which model Delivery Schedule shall be completed and updated from time to time as Customer is able to refine its Enclosure Kit delivery requirements As Customer completes and updates the model Delivery Schedule, it shall provide a copy to Contractor and each such completed and updated Delivery Schedule shall be called the Detailed Delivery Schedule, be added to Exhibit D and become a part of and modify this Contract; provided, however, (i) except as expressly provided in this Contract, including Article 7.3 (Rescheduling of Production), for each month, the total number of Enclosure Kits to be delivered in such month shall not exceed the total quantity of Enclosure Kits set forth in the Delivery Requirements for such month and (ii) in no month will the total number of Enclosure Kits for Standard Sectored Non-Redundant Repeaters and Enclosure Kits for High-Power Sectored Redundant Repeaters included in Customer's Monthly Delivery Notice (as defined in paragraph (b) below) to

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Contractor exceed in the aggregate [*****] for such month ((i) and (ii) together the "Delivery Schedule Restrictions"). With respect to any calendar month, the Detailed Delivery Schedule shall apply to that month provided Customer furnished the Detailed Delivery Schedule to Contractor not less than thirty (30) Calendar Days prior to the beginning of such month.

(b) Unless and until a Detailed Delivery Schedule is established with respect to the Nominal Order, Customer shall provide prior written notice to Contractor of not less than thirty (30) Calendar Days prior to the beginning of each month in which Enclosure Kits are to be delivered by Contractor pursuant to this Contract (each a "Monthly Delivery Notice"). Such notice shall specify the quantity of Enclosure Kits to be delivered to each of the specified Staging Areas in the case of Standard Repeaters and Installation Sites in the case of High-Power Repeaters in such month; provided, however, the notice shall comply with the Delivery Schedule Restrictions set forth in paragraph (a) above.

(c) Contractor shall use its best commercial efforts to deliver the Enclosure Kits in accordance with the Delivery Requirements set forth in Exhibit D (Delivery Requirements and Schedule) and, as applicable, the Detailed Delivery Schedule and each Monthly Delivery Notice provided by Customer pursuant to paragraph (b) above. In the case of Standard Repeaters, Contractor shall deliver the PA Kits in accordance with Article 2.3(d) above and in accordance with the Delivery Requirements set forth in Exhibit D (Delivery Requirements and Schedule). In the case of High-Power Repeaters, within thirty (30) Calendar Days after receipt of the Detailed Delivery Schedule or Monthly Delivery Notice provided by Customer pursuant to paragraph (b) above, Contractor shall (i) ship to, and install at, the Installation Sites identified in such schedule or notice the Enclosure Kit and Klystron Kit and (ii) successfully complete High-Power Installation Site Testing of the complete High-Power Repeater installed at such Installation Sites. Contractor shall deliver the Network Management System and other deliverables to be provided pursuant to this Contract in accordance with the Delivery Requirements set forth in Exhibit D (Delivery Requirements and Schedule). The Parties acknowledge and agree that the delivery times set forth in Exhibit D (Delivery Requirements and Schedule), as may be amended, are firm and time is of the essence.

(d) In the event Contractor is prepared to deliver Enclosure Kits earlier than required by the Delivery Requirements set forth in Exhibit D (Delivery Requirements and Schedule) or, as applicable, the Detailed Delivery Schedule or a Monthly Delivery Notice, Contractor shall promptly provide prior notice to Customer as to the quantity of Enclosure Kits available for early delivery by Contractor and the proposed delivery dates therefor. Customer shall, within five (5) Business Days following receipt of Contractor's notice, provide written notice to Contractor of Customer's agreement with or rejection of the early delivery of such Enclosure Kits, which agreement or rejection shall be in Customer's sole discretion. If Customer agrees to accept early delivery of such Enclosure Kits, Customer shall also specify in its notice to Contractor the Staging Area(s) and Installation Site(s) to which such Enclosure Kits should be delivered.

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(e) Contractor shall deliver the Enclosure Kits, in the case of Standard Repeaters, to the loading dock or other such delivery receiving area of each Staging Area as specified in the Detailed Delivery Schedule or each Monthly Delivery Notice, as applicable, and in the case of High-Power Repeaters, to the Installation Site specified in the Detailed Delivery Schedule or each Monthly Delivery Notice, as applicable. Contractor shall deliver the PA Kits to each of the Installation Sites as specified in Customer's notice as provided in Article 2.3(d). Contractor shall deliver the Klystron Kits as set forth in paragraph (c) above. Contractor shall deliver all other deliverables to the persons and at the address indicated in Article 28.8 (Notices), except as may otherwise be required and directed by Customer or specified in the Detailed Delivery Schedule.

7.3 Rescheduling of Production.

(a) Subject to paragraph (c) below and also in recognition of the potential for changes in Customer's business or logistical requirements, Contractor agrees to accommodate a rescheduling of the Start of Production Date for the Nominal Order of Repeaters to allow for a delay of the start of production of the Repeaters and an extension of the Start of Production Date for a period, at Customer's election, of one (1) to three (3) months, provided:

(1) Customer provides Contractor with prior written notice of its desire to delay the Start of Production Date, such notice to be given by no later than [*****]; and

(2) Customer takes delivery of the entire Nominal Order by no later than the last day of the [*****] month following the original Start of Production Date.

(b) Subject to paragraph (c) below, upon thirty (30) Calendar Days prior notice, Customer may direct Contractor to defer delivery of up to [*****] of the total number of Repeaters to be delivered in any month during the Term, provided that Customer agrees to take delivery of such deferred Repeaters by no later than the last day of the [*****] month following the Start of Production Date.

(c) Contractor shall in no event be required to manufacture or deliver to Customer in excess of [*****] Repeaters in any month during the Term of this Contract.

(d) In the event Customer exercises its right under this Article 7.3 (Rescheduling of Production) to delay the Start of Production Date, the applicable delivery dates hereunder and dates of Key Tasks shall be adjusted on a day-for-day basis, and the date of July 31, 2001 set forth in paragraphs (a) and (c) of Article 0 (Escrow Account and Payment) shall be adjusted on a day-for-day basis.

7.4 Packing, Tracking and Shipping.

(a) Packing. All deliveries pursuant to this Contract shall be preserved, packed and crated by Contractor to ensure safe delivery to their destinations without damage due to shipment.

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(b) Labeling and Electronic Tracking.

(1) On or before February 4, 2000, the Parties will agree upon appropriate labeling and electronic asset-tracking requirements and procedures. Such requirements and procedures will include at a minimum the labeling of Repeaters and LRUs with bar-coded serial numbers consistent with the Parties' business requirements and asset tracking practices. Contractor shall label each Repeater and LRU, container and packing documentation in accordance with such requirements and procedures.

(2) Contractor shall notify Customer at least thirty (30) Calendar Days in advance of any administrative changes with respect to any Repeater or LRU, such as changes in product part numbers or descriptions, product discontinuances or substitutions, and newly compatible or substitute components.

(c) Shipping. Unless otherwise instructed by Customer, Contractor shall:

(1) Arrange for the transportation and shipment of the Repeaters and other deliverables required to be delivered by Contractor pursuant to this Contract, such shipments to be made using fully licensed, bonded and insured common carriers, which carriers shall have substantial experience in the shipment of electronic equipment;

(2) Fully insure each Repeater against all risks, in accordance with Article 20 (Insurance), and maintain such insurance until the following times: in the case of Standard Repeaters, (i) until delivery of the Enclosure Kits to the loading dock or other such delivery receiving area of each Staging Area and (ii) during the period of Rooftop Assembly and Rooftop Testing until Acceptance; in the case of PA Kits, until Acceptance of the Standard Repeater in which the PA Kit is incorporated; and in the case of High-Power Repeaters, until Acceptance of such Repeaters;

(3) Enclose packing documentation with each shipment and, when more than one package is shipped, identify the one that contains the memorandum;

(4) Render invoices in duplicate or as otherwise specified by Customer;

(5) Verify that bills of lading match corresponding shipping invoices; and

(6) Forward applicable bills of lading and shipping notices with items shipped.

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7.5 Liquidated Damages for Late Delivery of Repeaters.

(a) The Parties acknowledge and agree that failure to meet the Liquidated Damages Schedule, as defined and set forth below, on or before the last day of the month in which delivery of Enclosure Kits is required pursuant to that Schedule will cause substantial financial loss to, or damage sustained by, Customer. The Parties further acknowledge and agree that the following liquidated damages are believed to represent a genuine estimate of the loss (due to non-productive time and increased cost of money) that would be suffered by Customer by reason of any such delay (which losses are difficult or impossible to calculate with reasonable certainty).

(b) Notwithstanding the Delivery Requirements set forth in Exhibit D (Delivery Requirements and Schedule) and for purposes of calculating liquidated damages only, in the event the sum of Enclosure Kits for Standard Repeaters Contractor delivers to Staging Areas plus Enclosure Kits with Klystron Kits for High-Power Repeaters Contractor ships to Installation Sites is less than the total number required by the monthly schedule set forth below (the "Liquidated Damages Schedule"), then, for each such Enclosure Kit in the case of Standard Repeaters and Enclosure Kit together with Klystron Kit in the case of High-Power Repeaters not so delivered or shipped, as applicable, Contractor shall pay Customer, as liquidated damages and not as a penalty, the daily amounts set forth in the Liquidated Damages Schedule for each Calendar Day following the last day of the month in which such Enclosure Kit in the case of Standard Repeaters and Enclosure Kit together with Klystron Kit in the case of High-Power Repeaters was to be delivered or shipped, as applicable, in accordance with the Liquidated Damages Schedule below until the date such Enclosure Kit in the case of Standard Repeaters and Enclosure Kit together with Klystron Kit in the case of High-Power Repeaters is delivered or shipped, as applicable.

Liquidated Damages Schedule		
Month	Total Quantity of Enclosure Kits and Enclosure Kits with Klystron Kits Subject to Liquidated Damages for Late Delivery/ Shipment if not delivered/ shipped by the last day of such Month	Daily Amount of the Liquidated Damages for Each Enclosure Kit Delivered/ Shipped after the Last Day of such Month
[*****]	[*****]	[*****]

(c) The monthly quantities of Enclosure Kits subject to liquidated damages shall not include (i) any Enclosure Kits in excess of the Nominal Order as may be ordered by Customer pursuant to Article 0 (Options) and (ii) any Enclosure Kits Customer requires to be delivered or shipped, as applicable, on an accelerated schedule as against the Delivery Requirements set forth in Exhibit D (Delivery Requirements and Schedule), provided that, in any event, the liquidated

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damages associated with the quantities set forth in the Liquidated Damages Schedule shall continue to apply with respect to any Enclosure Kits delivered/shipped late, as determined under such Liquidated Damages Schedule.

(d) The total amount of liquidated damages for which Contractor may be liable under paragraph (b) above shall not exceed Three Million Dollars ($3,000,000) in the aggregate.

(e) Customer may deduct any liquidated damages from any amounts due Contractor, or Customer may require Contractor to pay any liquidated damages that exceed amounts due Contractor, within thirty (30) Calendar Days after such request.

(f) As soon as Contractor anticipates or becomes aware of a delay in the delivery of any Enclosure Kit in the case of Standard Repeaters and/or shipment of Enclosure Kit together with Klystron Kit in the case of High-Power Repeaters, Contractor shall, as promptly as possible in the circumstances, notify Customer by telephone, to be followed by written notice, of such anticipated or actual delay in the delivery/shipment of any such Enclosure Kit. Such notice shall indicate the cause of the delay and the expected delivery date of the Enclosure Kit in the case of Standard Repeaters and shipment date for Enclosure Kit together with Klystron Kit in the case of High-Power Repeaters. Following delivery of such notice, Contractor shall provide frequent (e.g., daily) updates as to the status of and timeframe for delivery/shipment. Such notice of anticipated or actual delay shall in no way reduce Contractor's liability for liquidated damages, nor shall it reduce, eliminate, or modify any other rights or remedies available to Customer pursuant to this Contract or at law or equity.

7.6 Incentive for Timely Delivery of the Prototype Repeaters.

In the event that Contractor achieves timely delivery and Acceptance of all of the Prototype Repeaters in accordance with the requirements of this Contract on or before [*****], Customer shall award to Contractor an additional amount of [*****].

7.7 Performance Award.

(a) In Customer's reasonable discretion, Customer may pay to Contractor a monetary award in recognition of Contractor's exceptional performance under this Contract (the "Performance Award"). Such Performance Award may be in an amount up to, but shall not exceed, the sum of [*****] (the "Available Award Amount").

(b) In making its determination as to whether Contractor shall receive a Performance Award, Customer shall give consideration to certain factors with respect to Contractor's performance hereunder, including the following:

(1) Contractor's delivery of high quality Repeaters, Network Management System and other deliverables;

(2) Contractor's timely performance;

(3) Contractor's efforts and success in recovering from its failure to meet the applicable delivery dates hereunder;

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(4) Contractor's flexibility, creativity, support, accommodation and reasonableness in working with Customer and its third-party service providers (including the Terrestrial Repeater Network System integrator) to meet the applicable delivery dates hereunder or Customer's accelerated program requirements and to adapt to changes in the requirements of Customer's program;

(5) Contractor's demonstrated commitment to Customer's program; and

(6) Contractor's exceptional performance hereunder.

(c) Customer shall make its determination as to whether to make a Performance Award to Contractor promptly after the Project Completion Date. Contractor acknowledges and agrees that it is within Customer's sole reasonable discretion to award any or all of the Available Award Amount and Contractor has no contractual or legal right to receive a Performance Award. Customer shall pay to Contractor the Performance Award, if any, within sixty (60) Calendar Days after the Project Completion Date.

7.8 Suspension of Work by Customer.

Customer, in its sole discretion, may suspend performance of the Work, in whole or in part, upon written notice to Contractor, and Contractor shall suspend performance of the Work to the extent specified in such notice within twenty-four (24) hours thereof. If, within four (4) months of Customer's notice to suspend the Work, Customer fails to notify Contractor to resume performance of the Work suspended, Contractor may, at any time thereafter, terminate the Contract, but only to the extent the Work was suspended, upon ten (10) Business Days written notice to Customer and shall be entitled to the remedies set forth in Article 25.3(c) only to the extent of the Work so terminated. In the event of a suspension under this Article 7.8 (Suspension of Work by Customer), the Parties shall work together to minimize the impact of such suspension on the Contract Price, applicable delivery dates hereunder and Contractor's performance hereunder (and Customer's liability in the event of termination) and Contractor shall be entitled to an equitable adjustment in the Contract Price and applicable delivery dates hereunder.

7.9 Excusable Delay Defined.

(a) With respect to Contractor's performance of its obligations under this Contract, an "Excusable Delay" shall be any delay in the performance of the Work, in whole or in part, caused by an event that is beyond the reasonable control of Contractor, its Subcontractors or their respective Affiliates, including (i) war (whether declared or undeclared), outbreak of national hostilities, invasion or sabotage; (ii) fire, earthquake, flood, hurricane, tornado, cyclone, monsoon, epidemic, explosion, or quarantine restriction; (iii) strike or work slow-down (other than by the employees of Contractor or any Subcontractor at any Contractor Facility) not reasonably within Contractor's control; (iv) freight embargoes; (v) acts of God; (vi) governmental action in its sovereign capacity; and (vii) Customer's failure to perform its obligations hereunder; provided, however, that no delay shall be an Excusable Delay unless Contractor gives Customer prompt written notice of the delay and the reasons therefor and such

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delay could not have been either (x) avoided by Contractor, its Subcontractors or their respective Affiliates through the exercise of reasonable foresight or reasonable precautions or (y) circumvented by Contractor, its Subcontractors or their respective Affiliates through the use of reasonable efforts to establish work-around plans, alternate sources, or other means. Upon Customer's written request, Contractor shall provide Customer a Correction Plan. Contractor shall also provide Customer prompt written notice when the event constituting an Excusable Delay has ended.

(b) In the event Customer disputes any Excusable Delay asserted by Contractor, Customer shall notify Contractor in writing within ten (10) Business Days from the date of notice thereof and, if the Parties have not resolved the dispute within ten (10) Business Days of Contractor's receipt of written notice from Customer, the dispute shall be resolved pursuant to Article 23 (Dispute Resolution).

7.10 Contract Adjustments.

In the event of an Excusable Delay under Article 7.9 (Excusable Delay Defined), there shall be an equitable adjustment to the applicable delivery dates hereunder. Contractor acknowledges and agrees the occurrence of an Excusable Delay shall not entitle Contractor to an increase in the Contract Price, except for those Excusable Delays caused by Customer's failure to perform its obligations hereunder, in which case there shall be an equitable adjustment to the Contract Price.

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8. TESTING CRITERIA AND ACCEPTANCE

8.1 Testing.

Contractor shall develop and provide test plans and procedures in accordance with Exhibit B (Statement of Work) for Prototype Repeaters on or before February 28, 2000 and for all other Repeaters (i.e., production Repeaters) on or before March 31, 2000. Upon Customer's approval of the applicable test plans and procedures in accordance with Exhibit B, such test plans and procedures shall be attached hereto and incorporated herein as Exhibit E (Test Plans and Procedures). Contractor shall test each LRU, Repeater, the Network Management System and other deliverable items to be provided hereunder in accordance with such Exhibit E (Test Plans and Procedures).

8.2 Acceptance of Repeaters.

(a) A Repeater shall be deemed to have achieved Acceptance only upon the occurrence of the following events with respect to such Repeater ("Repeater Acceptance Criteria"):

(1) With respect to Standard and High-Power Repeaters (including all Prototype Repeaters), successful completion of Repeater design verification testing and review ("Repeater Design Verification Testing") in accordance with the requirements of Exhibit E (Test Plans and Procedures) (to be developed hereunder). Within five (5) Business Days following successful completion of the Repeater Design Verification Testing, Contractor shall provide to Customer its written certification, in accordance with Exhibit E, that the Repeater Design Verification Testing has been successfully completed, together with all test data, results and reports generated as a result of such Repeater Design Verification Testing. Unless subsequent design Defects or Pattern Defects are detected, once the Design Verification Testing has been successfully completed in accordance with Exhibit E and Contractor has provided its written certification pursuant to the preceding sentence, such Repeater Design Verification Testing shall be deemed to apply to each Repeater of the same type thereafter delivered by Contractor to Customer pursuant to this Contract and such Testing need not be re-performed on an individual basis for each Repeater of the same type;

(2) With respect to Standard Repeaters only (including Prototype Repeaters), successful completion of (i) a functionality test of each LRU incorporated in the Repeater and (ii) an overall, integrated system functionality test of the Repeater. Such functionality testing shall be performed by Contractor in accordance with Exhibit E (Test Plans and Procedures) (to be developed hereunder) prior to shipment of the Repeater from a Contractor Facility ("Repeater In-Factory Testing"). Contractor shall deliver with the applicable invoice, its written certification that Repeater In-Factory Testing has been successfully completed, together with all test data, results and reports generated as a result of such In-Factory Testing. Contractor's certification shall also indicate the pertinent Repeater's serial or other tracking number, as

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well as the serial or other tracking number of each LRU incorporated within that Repeater; and

(3) With respect to Standard Repeaters (including Prototype Repeaters) delivery of the Enclosure Kit and PA Kit relating to such Repeater as provided in Article 7.2 (Time and Place of Delivery) and successful completion of the Rooftop Assembly in accordance with Article 2.3 (Weight and Size of Repeaters) and successful completion of Rooftop Testing in accordance with Exhibit E (Test Plans and Procedures) (to be developed hereunder). Contractor shall provide to Customer with the applicable invoice its written certification that the Rooftop Testing has been successfully completed, together with all test data, results and reports generated as a result of such Rooftop Testing. Contractor's certification shall also include the pertinent Repeater's serial or other tracking number, as well as the serial or other tracking number of each LRU incorporated within that Repeater.

(4) With respect to High-Power Repeaters, delivery of the High-Power Repeater's kits (i.e., the Enclosure Kit and Klystron Kit) to the Installation Site, assembly of such kits at the Installation Site and successful completion of testing at the Installation Site ("High-Power Installation Site Testing") in accordance with Exhibit E (Test Plans and Procedures) (to be developed hereunder). Contractor shall provide to Customer with the applicable invoice its written certification that the High-Power Installation Site Testing has been successfully completed, together with all test data, results and reports generated as a result of such Testing. Contractor's certification shall also include the pertinent Repeater's serial or other tracking number, as well as the serial or other tracking number of each LRU incorporated within that Repeater.

(b) Customer may, at its election and expense, have its Associates, Consultants, or other designees attend the Repeater Design Verification Testing, any Repeater In-Factory Testing, any Rooftop Testing and any High-Power Installation Site Testing. Attendance by Customer shall be for purposes of monitoring and observation and shall be on a non-interference basis; provided, however, Customer may ask questions, make suggestions, or otherwise comment on the proceedings. Contractor shall notify Customer reasonably in advance of the time and place for any such testing activities and Customer shall promptly inform Contractor of its intent to attend the testing. Contractor shall make arrangements for Customer's entrance and access into Contractor Facility(ies) for purposes of attending the testing. Customer attendance at any such test shall in no way be construed or deemed to represent Customer's acceptance of the items being tested or Customer's waiver of any claims or rights hereunder.

(c) For each Repeater, Customer or its designee shall provide Contractor written notification of its acceptance or rejection of such Repeater within five (5) Business Days after receipt of Contractor's written certification that the Rooftop Testing or High-Power Installation Site Testing, as applicable, has been successfully completed in accordance with Exhibit E (Test Plans and Procedures) and provision of all certifications required by paragraph (a) above. Customer shall accept each Repeater if the Repeater meets the Repeater Acceptance Criteria as set forth in paragraph (a) above. In the event Customer provides to Contractor a notice of

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Customer's Acceptance of a Repeater, the Accepted Repeater shall be deemed Accepted as of the date of such notice.

(d) In the event Customer rejects a Repeater, Customer shall provide Contractor with a Notice of Defects. If Contractor disputes the contents of a Notice of Defects, Contractor shall notify Customer in writing of the basis for its dispute within five (5) Business Days of receipt of Customer's Notice of Defects.

(e) Where Customer fails to provide Contractor written Acceptance or Notice of Defects within the five (5) Business-Day Period specified in paragraph (c) above, that Repeater shall be deemed to have achieved Acceptance as of the date Contractor delivered the certifications required by paragraph (a) above.

(f) In the event Contractor does not dispute such Notice of Defects, Contractor shall promptly (but within no more than forty-eight (48) hours after receipt of the applicable Notice of Defects) ship the conforming replacement for the defective Repeater or defective LRU, as applicable, and all delivery dates hereunder shall remain in effect. The replacement Repeater shall be subject to the Repeater Acceptance Criteria and procedures set forth in this Article 8.2 (Acceptance of Repeaters). Any Repeater repaired or reconstructed with a replacement LRU shall also be subject to the Repeater Acceptance Criteria and procedures set forth in this Article 8.2 (Acceptance of Repeaters) (except the requirements of paragraph (a)(1) shall not apply). Such procedures shall be repeated until such time as Contractor delivers a Repeater that meets the Repeater Acceptance Criteria set forth herein. Contractor shall be responsible, at its expense, for packing, crating and shipping the defective Repeater or defective LRU for return to Contractor. Contractor shall be responsible for costs related to delivering any replacement Repeaters or LRUs to the appropriate Staging Area or Installation Site, as appropriate, including the costs of packing, crating, transportation, shipping and insurance. Upon receipt of a returned defective Repeater, Contractor may elect to correct its Defects, if possible, and deliver such corrected Repeater to Customer in satisfaction of a subsequent Repeater delivery requirement, subject to the Repeater Acceptance Criteria and procedures set forth in this Article 8.2 (Acceptance of Repeaters).

8.3 Acceptance of the Network Management System.

(a) Contractor shall test the Network Management System to be provided hereunder in accordance with Exhibit E (Test Plans and Procedures).

(b) The Network Management System shall be deemed to have achieved Acceptance only upon the occurrence of the following events with respect to such System ("NMS Acceptance Criteria"):

(1) Successful completion of NMS design verification testing ("NMS Design Verification Testing"), which testing shall be performed by Contractor in accordance with the requirements of Exhibit E (Test Plans and Procedures). Within five (5) Business Days following successful completion of the NMS Design Verification Testing, Contractor shall provide to Customer its written certification that the NMS Design Verification Testing has been successfully

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completed, together with all data, results and reports generated as a result of such NMS Design Verification Testing, also as specified in Exhibit E.

(2) Successful completion of system functionality test for the Network Management System to be performed by Contractor in accordance with Exhibit E (Test Plans and Procedures) prior to shipment of the Network Management System (the "NMS In-Factory Testing"). Contractor shall also deliver with the Network Management System its written certification that the NMS In-Factory Testing has been successfully completed, together with all test data, results and reports generated as a result of such NMS In-Factory Testing;

(3) Delivery of the Network Management System to the place and in the manner specified in Exhibit D (Delivery Requirements and Schedule), as may be amended in accordance with Article 7.2 (Time and Place of Delivery); and

(4) Successful completion of an overall, integrated system functionality test of the Network Management System following delivery of the System to Customer at the designated location and successful installation by Contractor (the "NMS Acceptance Testing"), which testing shall be performed by Customer or its designee in accordance with Exhibit E (Test Plans and Procedures); provided, however, that Contractor may, at its election and expense, have its representative present during such NMS Acceptance Testing.

(c) Customer shall provide Contractor written notification of its Acceptance or rejection of the Network Management System within fourteen (14) Calendar Days after delivery of the Network Management System and provision of all certifications required by paragraph (b) above. Customer shall accept the Network Management System if the System meets the NMS Acceptance Criteria set forth in paragraph (b) above. In the event Customer provides to Contractor a notice of Customer's Acceptance of the Network Management System, the accepted System shall be deemed accepted as of the date of such notice.

(d) In the event Customer rejects the Network Management System, Customer shall provide Contractor with a Notice of Defects. If Contractor disputes the contents of a Notice of Defects, Contractor shall notify Customer in writing of the basis for its dispute within fourteen (14) Calendar Days of receipt of Customer's Notice of Defects.

(e) Where Customer fails to provide Contractor written Acceptance or Notice of Defects within the said fourteen (14) Calendar-Day Period specified in paragraph (c) above, the Network Management System shall be deemed accepted as of the date Contractor delivered and installed the Network Management System in accordance with this Article 8.3 (Acceptance of the Network Management System).

(f) In the event Contractor does not dispute such Notice of Defects, Contractor shall repair or replace the defective Network Management System promptly after receipt of the Notice of Defects and all delivery dates hereunder shall remain in effect. The repaired or replaced Network Management System shall be subject to the NMS Acceptance Criteria and procedures

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set forth in this Article 8.3 (Acceptance of the Network Management System) and such procedure shall be repeated until such time as Contractor delivers a Network Management System that meets the NMS Acceptance Criteria set forth herein. Contractor may repair the defective NMS at the location in which the NMS is installed, subject to advance notice to Customer so that Customer may make reasonable arrangements for access by Contractor. In the event the NMS is not repaired on site, Customer shall be responsible for packing and crating the Network Management System and making such System available to the common carrier or other shipper that delivered such System to Customer for return to Contractor, all at Contractor's expense, including the costs of de-installation, packing, crating, transportation, shipping and insurance. Contractor shall also be responsible for costs related to delivering the replacement or repaired NMS to Customer, including the costs of packing, crating, transportation, shipping, insurance and re-installation of the NMS.

8.4 Acceptance of Non-Repeater Deliverables.

(a) Customer shall provide Contractor written notification of its acceptance or rejection of each item to be furnished by Contractor to Customer pursuant to this Contract, but excluding Repeaters and the Network Management System (each, a "Non-Repeater Deliverable"), within fourteen (14) Calendar Days after Customer has received such item from Contractor. Customer shall accept each Non-Repeater Deliverable if such item is in a condition fully conforming to the provisions of this Contract. In the event Customer provides Contractor a written notice of Acceptance with respect to such Non-Repeater Deliverable, such item shall be deemed accepted as of the date of such notice.

(b) In the event Customer rejects a Non-Repeater Deliverable, Customer shall provide Contractor with a Notice of Defects. If Contractor disputes the contents of a Notice of Defects, Contractor shall notify Customer in writing of the basis for its dispute within fourteen (14) Calendar Days of receipt of Customer's Notice of Defects.

(c) Where Customer fails to provide Contractor written Acceptance or a Notice of Defects within the fourteen (14) Calendar-Day Period specified in paragraph (a) above, that Non-Repeater Deliverable shall be deemed accepted as of the date Contractor furnished such item to Customer in accordance with Article 7.2 (Time and Place of Delivery).

(d) In the event Contractor does not dispute such Notice of Defects, Contractor shall promptly correct any Defects in the Non-Repeater Deliverable and all delivery dates hereunder shall remain in effect. Upon correcting such Defect(s), Contractor shall re-submit the Non-Repeater Deliverable to Customer and the provisions of this Article 8.3 (Acceptance of Non-Repeater Deliverables) shall apply again.

8.5 Title and Risk of Loss.

(a) For each item of Work, title, free and clear of all liens and encumbrances of any kind (except for Permitted Liens), shall pass to Customer as provided below:

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(1) For each Enclosure Kit, upon shipment from Contractor's Facility in accordance with the Milestone Achievement Criteria applicable to [*****] set forth in Exhibit C (Pricing, Milestones and Payment Plan);

(2) For each PA Kit, upon Customer's Acceptance of the Repeater in which such PA Kit is incorporated in accordance with Article 8.2 (Acceptance of Repeaters);

(3) For each Klystron Kit, upon Customer's Acceptance of the Repeater in which such Klystron Kit is incorporated in accordance with Article 8.2 (Acceptance of Repeaters);

(4) For the Network Management System, upon Customer's Acceptance of the NMS in accordance with Article 8.3 (Acceptance of the Network Management System); and

(5) For any Non-Repeater Deliverables, upon Customer's Acceptance in accordance with Article 8.4 (Acceptance of Non-Repeater Deliverables).

(b) For each item of the Work, risk of loss or damage shall pass to Customer as provided below:

(1) For each Enclosure Kit for a Standard Repeater, upon delivery to the loading dock or other such delivery receiving area of the applicable Staging Area in accordance with Article 0 (Delivery and Time for Performance) until such time that Contractor performs the Rooftop Assembly and Rooftop Testing, during which time the risk of loss or damage shall pass back to Contractor and then the risk of loss or damage shall again pass to Customer upon completion of the Rooftop Assembly and Rooftop Testing by Contractor;

(2) For each PA Kit for a Standard Repeater, upon delivery to the appropriate Installation Site in accordance with Article 2.3 (Weight and Size of Repeaters) and Acceptance of the Repeater in which such PA Kit is incorporated in accordance with Article 8.2 (Acceptance of Repeaters);

(3) For each High-Power Repeater, upon delivery to the appropriate Installation Site in accordance with Article 0 (Delivery and Time for Performance) and Acceptance of such Repeater in accordance with Article 8.2 (Acceptance of Repeaters);

(4) For the Network Management System, upon Acceptance in accordance with Article 8.3 (Acceptance of the Network Management System); and

(5) For Non-Repeater Deliverables, upon delivery of such item to Customer, all deliveries in accordance with this Contract.

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9. PROJECT MANAGEMENT

9.1 Contractor Personnel.

(a) As of the Effective Date, Contractor shall appoint:

(1) a project executive with responsibility for Customer's account and who shall (i) be an officer of Contractor and (ii) have authority to act for and bind Contractor in connection with all aspects of this Contract (the "Contractor Project Executive");

(2) a business line manager with responsibility for Customer's account and who shall be the primary executive level contact point for Customer communications ("Contractor Business Line Manager");

(3) a project manager whose primary responsibility shall be to Customer's account and who shall (i) remain dedicated to managing Contractor's responsibilities under this Contract, (ii) serve as the single point of accountability for Contractor's performance under this Contract, (iii) serve as the point of contact for all Customer communications, (iv) have authority to act for Contractor in connection with all aspects of this Contract, and (v) have day-to-day authority for undertaking to ensure Customer satisfaction (the "Contractor Project Manager"); and

(4) a technical manager whose primary responsibility shall be to Customer's account and who shall (i) serve as the point of accountability for technical, design and operational issues, working in coordination with the Contractor Project Manager and (ii) have authority to act for Contractor with respect to technical issues (the "Contractor Technical Manager").

(b) The individuals filling the positions identified in paragraph (a) above shall be deemed to be "Key Contractor Personnel." The Key Contractor Personnel that have been approved as of the Effective Date are listed in Exhibit G (Key Contractor Personnel).

(c) In the event of any conflict between the commitments and responsibilities to Customer and the commitments or responsibilities to any other customers, the Contractor Business Line Manager, Contractor Project Manager and Contractor Technical Manager shall each give priority to his or her commitments and responsibilities to Customer.

(d) Before assigning an individual to any position described in Exhibit G (Key Contractor Personnel), whether as an initial assignment or a subsequent assignment, Contractor shall notify Customer of the proposed assignment, shall introduce the individual to appropriate Customer representatives, and shall provide Customer with a resume and other information about the individual as reasonably requested by Customer. If Customer in good faith objects to the proposed assignment, the Parties shall attempt to resolve Customer's concerns on a mutually agreeable basis. If the Parties have not been able to resolve Customer's concerns after engagement of senior management within five (5) Business Days, Contractor shall not assign the

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individual to that position and shall propose to Customer the assignment of another individual of suitable ability and qualifications. Key Contractor Personnel may not be transferred or re-assigned until a suitable replacement has been approved by Customer. Contractor shall conduct an exit interview with all Key Contractor Personnel who terminate their employment with Contractor to review their confidentiality and non-disclosure obligations as provided herein.

9.2 Material Subcontractors.

(a) Contractor has represented that in the performance of the Work, it will be necessary for Contractor to enter into the Subcontracts ("Material Subcontracts") listed below:

Name of Material Subcontractor	Description of Work
Unique Broadband Systems	High-Power Amplifier (HPA) development and manufacture
Unique Broadband Systems	Transcoder development and manufacture
Unique Broadband Systems	Filters

(b) Contractor shall provide Customer a copy of the technical content of all Material Subcontracts (with financial details redacted). Customer shall treat the information contained in such Subcontracts confidentially and shall execute any reasonable confidentiality agreement requested by the relevant Subcontractor.

(c) In the event Contractor desires to replace a Material Subcontractor, Contractor shall provide Customer with reasonable prior notice thereof, and shall consult with Customer concerning the selected replacement.

(d) Customer's consultation with Contractor concerning any Material Subcontractor shall not relieve Contractor from any obligations or responsibilities under this Contract.

9.3 Subcontractor Relations.

(a) Nothing in this Contract shall be construed as creating any contractual relationship between Customer and any Subcontractor, including Material Subcontractors. Contractor acknowledges and agrees that it is the prime contractor under this Contract and as such, assumes full responsibility and liability for the performance of all suppliers, Subcontractors, or third parties used by Contractor hereunder to the same extent as if such obligations were performed by Contractor. Further, Contractor is fully responsible to Customer for the acts or omissions of Subcontractors and all persons used by Contractor or a Subcontractor in connection with performance of the Work. Any failure by a Subcontractor to meet its obligations to Contractor shall not constitute a basis for Excusable Delay, except as expressly permitted in Article 7.9 (Excusable Delay Defined), and shall not relieve Contractor from meeting any of its obligations under this Contract. Without limiting the generality of the foregoing, Contractor shall be responsible for discharging any liens (including Subcontractor mechanic liens) or encumbrances placed by any Subcontractor on any component or part purchased by Customer hereunder.

(b) Contractor shall include in each of the Material Subcontracts and shall use commercially reasonable efforts to include in all other Subcontracts, that any such Subcontract

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include provisions substantially similar to Article 12 (Access to Work), Article 14 (Intellectual Property Rights), Article 15 (Confidentiality), and Article 23 (Dispute Resolution).

9.4 Customer Third-Party Services and Products.

Contractor agrees that during the Term of this Contract it shall provide all necessary and reasonable cooperation with the agents, Consultants, subcontractors and third-party suppliers of Customer as requested by Customer to achieve functional compatibility of the Repeaters with Customer's Terrestrial Repeater Network System.

9.5 Quality Assurance.

Contractor shall perform the Work in accordance with Exhibit F (Quality Assurance Plan) and all applicable industry standards, including applicable US Federal Communications Commission (FCC) regulations, NEBS (1, 2 and 3), Underwriters Laboratory, EIA/TIA, Bellcore, ANSI, IEEE, ATM-Forum, NESC, ITU-T, NEC, and ISO 9000 requirements, all as may be amended from time to time.

9.6 Accountability.

Notwithstanding anything to the contrary contained in this Contract, Customer's participation in, or approval of, the design or testing of Repeaters hereunder shall not be construed or interpreted as Customer having accountability for the Repeaters to perform in accordance with this Contract. Without limiting the generality of the preceding sentence, Contractor shall remain responsible for designing, developing, manufacturing, and delivering Repeaters that are compliant with this Contract.

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10. CHANGES IN SCOPE OF WORK

10.1 Changes Requested by Customer.

(a) Subject to Article 7 2 (Time and Place of Delivery) and paragraphs (b), (c) and (d) below, Customer shall be entitled to direct, during the performance of this Contract, any change within the general scope of this Contract, including any change that will add, delete, or change the Work, affect the design or construction of any Repeater, the time for performance of the Work and/or the delivery dates hereunder.

(b) Any changes directed by Customer as described in paragraph (a) above shall be submitted in writing to Contractor. Contractor shall respond to such directed change in writing to Customer within fourteen (14) Calendar Days after receipt of such directed change and shall include in such response the details of the impact of such change in the Work on the Contract Price and/or the delivery dates hereunder.

(c) If Customer and Contractor agree upon the change in the Contract Price and/or the delivery dates hereunder caused by the change in Work, Contractor shall proceed with the performance of this Contract as changed immediately upon the execution by both Parties of a Change Order reflecting such change.

(d) If the Parties cannot agree on a change to the Contract Price and/or the delivery dates hereunder, as occasioned by the additions or changes in the Work directed by Customer pursuant to paragraph (a) above, Customer may issue a Change Directive for such additions or changes. Contractor shall proceed with the Work in accordance with the Change Directive and Customer may dispute the reasonableness of Contractor's determination with respect to the appropriate change to the Contract Price and/or the delivery dates hereunder pursuant to Article 23 (Dispute Resolution). Pending resolution of such dispute, Customer shall pay Contractor a reasonable amount. If it is determined by written agreement of the Parties or pursuant to Article 23 (Dispute Resolution) that Contractor is entitled to an amount other than the amount paid by Customer, Customer shall pay to Contractor the amounts of the shortfall or Contractor shall refund to Customer the amount of the excess, as the case may be, with interest on such amount running from the date of initial payment by Customer to the date of additional payment or refund, as the case may be, at the interest rate set forth in Article 28.11 (Calculation of Interest).

10.2 Changes Requested by Contractor.

(a) Subject to paragraphs (b) and (c) below, Contractor may request, during the performance of this Contract, any change within the general scope of this Contract, including any change that will add or delete Work, cause a revision to the delivery dates hereunder or affect any other requirement of this Contract.

(b) Any changes as described in paragraph (a) above requested by Contractor shall be submitted in writing to Customer at least thirty (30) Calendar Days prior to the proposed date of the change. If such Contractor-requested change causes an increase or decrease or other impact on the Work, Contract Price, or delivery dates hereunder or other terms of this Contract,

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Contractor shall submit, with such request, a written proposal identifying such change and the impact thereof on the Contract Price, delivery dates hereunder, or other terms of this Contract.

(c) Customer may accept or reject such request in Customer's sole discretion. Customer shall notify Contractor in writing, within fourteen (14) Calendar Days after receipt of the requested change proposal. If Customer agrees with and accepts Contractor's requested change and such impact thereof, Contractor shall proceed with the performance of this Contract as changed upon the execution by both Parties of a written Change Order reflecting such changes. If Customer does not agree to the requested change, Contractor shall continue performance in accordance with this Contract without regard to such requested change.

10.3 Pricing of Changes.

(a) When calculating the change in the Contract Price caused by changes in the Work pursuant to this Article 10 (Changes in Scope of Work), such calculation shall be consistent with general administrative and overhead rates then in effect at the time of the change and Contractor's labor rates, which labor rates shall be subject to the most favored customer provisions of Article 5.3 (Most Favored Customer).

(b) Any adjustment made pursuant to this Article 10 (Changes in the Scope of Work) shall be set forth in an Amendment to this Contract in accordance with Article 28.3 (Amendments).

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11. SECURITY INTEREST

(a) To secure Customer's interest in the Work arising from Customer's payment of NRE Milestone Payment Nos. 1, 2, 3, 4 and 5 and all amounts due Customer under this Contract in the event of Contractor's default, Contractor hereby grants to Customer a security interest, which Contractor represents and warrants is and shall at all times be a first priority security interest, in Contractor's right, title and interest in, to and under this Contract and the Work. Contractor hereby agrees to take, at Customer's expense, all such actions as may be reasonably requested by Customer to create, perfect, maintain and preserve such security interest, including the execution and delivery of such uniform commercial code financing statements, continuation statements, if any, and similar documents or instruments as may be required by applicable law as Customer may reasonably request.

(b) The security interest created herein shall terminate upon Acceptance of the Work by Customer. Upon termination of such security interest, Customer shall release and terminate such security of record by filing termination statements or similar documents in accordance with applicable law.

(c) Contractor hereby acknowledges and agrees that the provisions of this Article 11 (Security Interest) constitute a security agreement under the provisions of the uniform commercial code in effect in the jurisdiction applicable to this transaction pursuant to which Contractor has granted a security interest in the collateral described in paragraph (a) above.

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12. ACCESS TO WORK

12.1 Access to Work.

Contractor shall provide Customer Personnel access to all Work (including Work-in-progress, documentation, and testing) at each Contractor Facility on a non-interference basis during business hours.

12.2 Documentation.

(a) Subject to Article 12.1 (Access to Work), Customer Personnel will at all times have access to (i) the Data and Documentation and (ii) Work-in-progress, technical and schedule data and documentation relevant to the Work. To facilitate Customer's rights hereunder, Contractor will allow Customer Personnel access to all indices related to the materials referenced in this paragraph (a).

(b) Where the materials described in paragraph (a) are necessary for evaluation of designs, performance considerations, assessment of test plans and test results, or for any other purpose connected with the design, qualification, testing, acceptance, or operation of the Work, or any part thereof, Contractor will, subject to Article 15 (Confidentiality), make available to Customer Personnel copies of such documentation on the reasonable request of Customer Personnel.

(c) Any data provided by a Party to the other Party in electronic form shall be embodied in, or be in a form compatible with, commercially available software.

12.3 Electronic Access.

With respect to electronically generated information, Contractor will provide Customer with a copy of and/or electronic access (via the Internet, Contractor's email, or as agreed upon) to such information as is necessary to keep Customer advised, on a current basis, of program issues, decisions, and problems.

12.4 Meetings.

(a) Contractor shall hold progress meetings in accordance with the requirements of Exhibit B (SOW).

(b) Customer Personnel shall be entitled, at Customer's expense, to participate in the meetings (including in person, or through teleconference, video conference or internet) of Contractor and of Contractor with any Subcontractor(s) where such meetings (or portions of such meetings) are related to the Work, and shall have the right to participate in and make recommendations, but not to control, give directions or assign actions, in all such meetings. Contractor shall provide Customer with reasonable prior written notice of the date and time of scheduled meetings.

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(c) In the event a meeting is convened at a Contractor Facility or another Contractor or Subcontractor controlled site, Contractor shall make appropriate arrangements to ensure the entry of Customer Personnel to the meeting place.

12.5 Financing Entities.

Each Financing Entity shall have access to the Work in the same manner and to the same extent as Customer Personnel under this Article 12 (Access to Work).

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13. TECHNICAL MATERIALS ESCROW

(a) Within thirty (30) Calendar Days following the Execution Date, Contractor, Customer and Escrow Agent will enter into a written escrow agreement substantially in the form attached hereto in Exhibit H (Technical Materials Escrow Agreement) pursuant to which Contractor will deposit with Escrow Agent all the Technical Materials available at that time (the "Escrowed Materials"). Customer shall pay the applicable escrow fees to Escrow Agent. Contractor represents and warrants that the Escrowed Materials shall, immediately upon the Start of Production Date, be sufficient for an individual reasonably experienced in the design and manufacture of terrestrial repeaters or similar electronic equipment technology to understand and utilize such materials to construct, manufacture, support and/or maintain the Repeaters, Network Management System and other deliverables as contemplated herein. During the Term, Contractor will maintain such Escrowed Materials current and provide updates thereto to Escrow Agent as appropriate. Escrow Agent will make the Escrowed Materials available to Customer upon Customer's notice to Escrow Agent that one of the following has occurred:

(1) the institution by Contractor of insolvency, receivership or bankruptcy proceedings;

(2) a general assignment by Contractor for the benefit of creditors;

(3) the appointment of a receiver for Contractor;

(4) the filing by creditors of Contractor of a petition in bankruptcy against Contractor that is not stayed or dismissed within sixty (60) Calendar Days; or

(5) Customer's termination of this Contract for cause in accordance with Article 25.2 (Termination for Contractor's Default).

(items (1) through (5) hereinafter referred to as the "Release Conditions").

(b) In accordance with Exhibit H (Technical Materials Escrow Agreement), Escrow Agent will give written notice to Contractor prior to the delivery of the Escrowed Materials to Customer. Notwithstanding the provisions of Article 23 (Dispute Resolution) of this Contract, disputes concerning whether or not the Release Condition set forth in paragraph (a)(5) (i.e., with respect to Article 25.2 (Termination for Contractor's Default)) has occurred shall be subject exclusively to the arbitration provisions and processes set forth below. Disputes and remedies relating to Article 25.2 (Termination for Contractor's Default) other than as set forth in the preceding sentence will remain subject to Article 23 (Dispute Resolution).

(1) In the event Customer is of the opinion that the Release Condition set forth in paragraph (a)(5) above has occurred, and Customer has given notice to Escrow Agent in accordance with the Technical Materials Escrow Agreement that Customer desires release of the Escrowed Materials from escrow upon the occurrence of that Release Condition, Escrow Agent shall deliver a notice to that effect to Contractor in accordance with the requirements of the Technical Materials Escrow Agreement.

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(2) If Contractor is of the opinion that it has a reasonable basis to challenge Customer's request for release of the Escrowed Materials, it shall deliver a notice ("Notice of Objection") setting out its objections to Customer's request to Customer and Escrow Agent simultaneously in accordance with the time limits set forth in the Technical Materials Escrow Agreement.

(3) Upon receipt of the Notice of Objection by Customer, an expedited arbitration process ("Escrow Arbitration") shall immediately be commenced for the purpose of establishing whether or not the alleged Release Condition pursuant to paragraph (a)(5) above has occurred. Customer shall be entitled to select any of the following arbitrators as the sole arbitrator ("Arbitrator") conducting the Escrow Arbitration:

Arbitrator 1	Arbitrator 2	Arbitrator 3
Kenneth R. Feinberg	Jonathan B. Marks	John E. Nolan
The Feinberg Group LLP	MarksADR, LLC	Steptoe & Johnson
Washington, DC	Washington, DC	Washington, DC

(4) If none of these three individuals is immediately available to conduct the Escrow Arbitration, Customer may ask any one of the said three individuals to appoint another individual as Arbitrator. However, under no circumstance shall any person be appointed as Arbitrator of the Escrow Arbitration unless the person: (A) has not previously been engaged by Customer, Contractor or any affiliate of either one of those two parties in any capacity (other than as a mediator or arbitrator for a third-party dispute); (B) has not had any relationship with Customer, Contractor or any affiliate of either of those two parties (other than as a mediator or arbitrator of a third-party dispute); and (C) has had a significant degree of prior experience in conducting commercial arbitration.

(5) respect to the Escrow Arbitration:

(i) If Contractor and Customer ("Arbitration Parties") cannot agree on a procedural matter on a timely basis to ensure completion of the arbitration within thirty (30) Calendar Days after Customer's selection of the Arbitrator, the matter shall be resolved expeditiously by the Arbitrator at the request of either Arbitration Party,

(ii) The Arbitrator's fees shall be paid for equally by the Arbitration Parties, unless otherwise ordered or directed by the Arbitrator;

(iii) The procedural rules and rules of evidence adopted for the Escrow Arbitration shall be determined by the Arbitrator with a view to affording both Arbitration Parties a fair hearing and always

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observing the strict timeframe for the completion of the Escrow Arbitration set out herein;

(iv) Article 28.7 (Applicable Law) shall apply to the Escrow Arbitration;

(v) The Escrow Arbitration hearing(s) shall take place at such time(s) and place(s) in Washington, DC as the Arbitrator determines;

(vi) The Arbitrator shall have all of the powers required to determine whether or not the pre-conditions for the conduct of the Escrow Arbitration have been met, to conduct the Escrow Arbitration, and he or she shall be empowered to make any necessary procedural or substantive rulings and may proceed with the Escrow Arbitration if an Arbitration Party refuses to participate or co-operate in the conduct of the Escrow Arbitration.

(vii) The Arbitrator's decision ("Award") shall be in writing, shall be accompanied by written reasons, shall be made within thirty (30) Calendar Days after the date that the Arbitrator is appointed to conduct the Escrow Arbitration, and shall be evidenced by a dated certificate bearing the signature of the Arbitrator issued within the same timeframe specifying whether or not the Release Condition specified in Customer's request for the release of the Escrowed Materials has occurred ("Escrow Arbitration Award Certificate");

(viii) The Arbitrator's Award shall be final and binding on the Arbitration Parties; and

(ix) The Arbitration proceedings are private and confidential, unless an appeal is taken to a court of competent jurisdiction.

(c) In any event, if it is determined that a Release Condition did not occur, Customer shall promptly return the Escrowed Materials to Escrow Agent; provided, however, Customer may retain any portion of the Technical Materials for which Customer has ownership or license rights as granted pursuant to Article 14 (Intellectual Property Rights).

(d) In the event a Release Condition has occurred (including as determined pursuant to Escrow Arbitration above), Customer shall be entitled to use, or have used, the Escrowed Materials as necessary to support and maintain its purchased Repeaters, Network Management System and other deliverables hereunder and to construct or manufacture, or have constructed or manufactured, such Repeaters, Network Management System and other deliverables. Such use shall include the right to copy, disclose, modify, enhance, upgrade, revise, and create derivative works of such Escrowed Materials. Customer shall be entitled to permit its Associates, Consultants, and third-party service providers to use the Escrowed Materials on behalf of Customer. With respect to Customer disclosures to third parties, Customer agrees to disclose the Escrowed Materials only to third parties that are working for Customer pursuant to a

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confidentiality agreement. Subject to Article 14 (Intellectual Property Rights), Customer will immediately return the Escrowed Materials, including all copies thereof, to Escrow Agent when Customer no longer requires the Escrowed Materials for the purposes permitted hereunder.

14. INTELLECTUAL PROPERTY RIGHTS

14.1 Ownership of Intellectual Property Rights.

(a) All Background Intellectual Property Rights of Contractor shall remain the sole and exclusive property of Contractor.

(b) All Background Intellectual Property Rights of Customer shall remain the sole and exclusive property of Customer.

(c) Notwithstanding the definition of "Joint Intellectual Property Rights", all Foreground Intellectual Property Rights first conceived or first reduced to practice solely by Contractor or Customer as part of the Work or otherwise pursuant to the Statement of Work, shall become Joint Intellectual Property Rights and shall be Jointly Owned.

14.2 Joint Inventions.

(a) An assignment of rights in all Joint Inventions shall be executed in the names and for the benefit of both Contractor and Customer, or their designees.

(b) With respect to Joint Inventions first conceived or reduced to practice by Contractor as part of the Work, Contractor shall have the first right of election to file patent applications in any country, including the selection of the attorney or agent to prepare the patent application, and Customer shall have a second right of election. Each Party in turn shall make its election at the earliest practicable time, and shall notify the other Party, in writing, of its decision.

(c) With respect to Joint Inventions first conceived or reduced to practice by Customer as part of the Work, Customer shall have the first right of election to file patent applications in any country, including the selection of the attorney or agent to prepare the patent application, and Contractor shall have a second right of election. Each party in turn shall make its election at the earliest practicable time, and shall notify the other Party, in writing, of its decision.

(d) The expenses for preparing, filing and securing each Joint Invention patent application subject to paragraphs (b) or (c) above, and for issuance of the respective patent, shall be borne by the Party that prepares and files the application. The other Party shall furnish the filing Party with all documents or other assistance that may be necessary for the filing and prosecution of each application. Where such Joint Invention application for patent is filed by either Party in a country that requires the payment of taxes, annuities or maintenance fees on a pending application or on an issued patent, the Party that files the application shall, prior to filing, request the other Party to indicate whether it will agree to pay one-half of such taxes, annuities or maintenance fees. If, within sixty (60) Calendar Days of receiving such request, the non-filing Party fails to assume in writing the obligation to pay its proportionate share of such taxes, annuities or maintenance fees, or if either Party subsequently fails to continue such payments within sixty (60) Calendar Days of demand, it shall forthwith relinquish to the other Party, providing that said other Party continues such payments, its share of the title to such application and patent, subject, however, to retention of an irrevocable, fully paid-up, non-exclusive, non-assignable, non-sublicensable license in favor of the relinquishing Party and its

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Affiliates to make, have made, use, lease and sell, apparatus and/or methods under said application and patent.

(e) With respect to Joint Inventions first conceived or reduced to practice jointly by Customer and Contractor, the Parties shall determine, on a case-by-case basis, the priority of election rights with respect to the filing of patent applications and responsibility for expenses therefor.

14.3 Intellectual Property Rights License Grant.

(a) Contractor hereby grants to Customer a non-transferable, perpetual, irrevocable, fully paid-up, royalty-free, non-exclusive, world wide license in and to Contractor's Background Intellectual Property Rights solely as necessary for Customer, its Affiliates or their respective designee(s) (only on Customer's or its Affiliates' behalf): (i) to use, copy, modify and/or prepare derivative works of the Work in connection with Customer's business as such is constituted from time to time; and (ii) to make, use, sell, import and export, operate, maintain, modify, prepare derivative works of, offer, market, display, reproduce and license the Repeaters, Network Management System and other deliverables hereunder and related equipment and services similar to such Repeaters, Network Management System and other deliverables hereunder, all in connection with Customer's business as such is constituted from time to time. Customer may sublicense its Affiliates and Customer and its Affiliates' respective designees, and Customer may not otherwise sublicense the rights granted under this paragraph (a) without the express written authorization of Contractor. Subject to Article 13 (Technical Materials Escrow) and notwithstanding anything to the contrary contained in this paragraph (a), the license in and to Contractor's Background Intellectual Property Rights shall not extend to the manufacturing for the marketing or sale by Customer or its Affiliates of Repeaters, the Network Management System and the other deliverable items hereunder, to any unrelated third parties.

(b) Customer hereby grants to Contractor a royalty-free, non-exclusive, world wide license to use Customer's Background Intellectual Property Rights and Customer's Foreground Intellectual Property Rights solely as necessary for Contractor's performance and/or execution of the Work, and solely as necessary to make, use, have made, sell, import and export the Repeaters, Network Management System and other deliverables hereunder on Customer's behalf. Contractor may not otherwise sublicense the rights granted under this paragraph without the express written authorization of Customer, which authorization may be granted or withheld at Customer's sole discretion.

14.4 Third-Party Intellectual Property Rights.

(a) Each Party hereby represents and warrants to the other that it will not knowingly design or otherwise incorporate any third-party Intellectual Property Rights into the Work, without: (i) a license to do so from the third party; and (ii) the express written authorization of the other Party. Customer hereby authorizes Contractor to incorporate into the Work the repeater design developed by Unique Broadband Systems, Inc. pursuant to the Interim Services Agreement by and between Customer and Unique Broadband Systems, Inc. dated August 9, 1999 to the extent Contractor obtains license rights from Unique Broadband Systems, Inc. to so incorporate such design.

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(b) In the event that either Party has secured a license to any third-party Intellectual Property Rights that are designed or otherwise incorporated into the Work, that Party shall offer to the other Party any such license rights that it is legally or contractually permitted to offer at terms no less favorable than its own license grant.

14.5 Contractor Restriction on Use of Foreground Intellectual Property Rights.

Notwithstanding any provision herein to the contrary, without the prior written approval of Customer, which approval Customer may grant or withhold in its sole discretion, neither Contractor, nor any Affiliate of Contractor, nor any other entity in which Contractor has an ownership interest, shall: (i) (A) license, lease or otherwise transfer, furnish or convey any of the Foreground Intellectual Property Rights to, (B) provide any equipment or services that use or require any of the Foreground Intellectual Property Rights to, or (C) otherwise provide any other benefits of use of the Foreground Intellectual Property Rights to, any existing or future Customer Competitor; or (ii) directly, or indirectly through any third party, contact, negotiate with or contract with any person, corporation, partnership, limited liability company or other entity for the purpose of (A) licensing, leasing or otherwise transferring, furnishing or conveying any of the Foreground Intellectual Property Rights to, (B) providing any equipment, services or other materials that use or require any of the Foreground Intellectual Property Rights to, or (C) otherwise providing any other benefits of use of the Foreground Intellectual Property Rights to, any existing or future Customer Competitor.

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15. CONFIDENTIALITY

15.1 Confidentiality Obligations.

(a) Any Confidential Information shall be maintained in strict confidence by the Receiving Party. Except as provided in this Article 15 (Confidentiality), the Receiving Party shall not use, or disclose in any manner to any third party, Confidential Information of the Furnishing Party without the prior express written consent of the Furnishing Party. The obligation of confidentiality shall not be limited in time except to the extent the Receiving Party can establish one of the exceptions set forth in Article 15.2 (Exceptions) below by clear and convincing evidence.

(b) Access to and use of the Furnishing Party's Confidential Information shall be restricted to those employees and persons within the Receiving Party's organization (including its Consultants, attorneys, Subcontractors, shareholders, representatives, and Financing Entities) with a need to use such Confidential Information for the purpose of performing this Contract or any transaction contemplated hereby or, in the case of Customer, obtaining debt or equity financing. The Receiving Party's Consultants, Subcontractors, shareholders and representatives and the Financing Entities may be included within the meaning of "persons within the Receiving Party's organization," provided that such persons have executed a non-disclosure or confidentiality agreement no less stringent than this Article 15 (Confidentiality). In addition, all information provided is to be subject to the provisions of paragraph (c) below.

(c) Each Party shall use the other's Confidential Information solely for the purpose of performing this Contract or any transaction contemplated hereby or, in the case of Customer, obtaining debt or equity financing.

(d) Data and Documentation shall be deemed Confidential Information and shall be subject to the obligations of this Article 15 (Confidentiality) with respect thereto.

15.2 Exceptions.

(a) Subject to paragraph (b) below, the obligations set forth in Article 15.1 (Confidentiality Obligations) shall not apply to information that is:

(1) Already known to or otherwise in the possession of the Receiving Party at the time of receipt from the Furnishing Party and that was not so known or received in violation of any confidentiality;

(2) Publicly available or otherwise in the public domain prior to disclosure by the Receiving Party or becomes publicly available or otherwise in the public domain after receipt by the Receiving Party without breach of this Contract;

(3) Rightfully obtained by the Receiving Party from any third party without restriction and without breach of any confidentiality obligation by such third party;

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(4) Developed by the Receiving Party independent of any disclosure hereunder, as evidenced by written records; or

(5) Disclosed pursuant to the order of a court or administrative body of competent jurisdiction or a government agency or required to be released pursuant to Law, or as the Receiving Party may reasonably determine advisable or necessary under the Securities Act of 1933, as amended, the Securities Act of 1934, as amended, NASDAQ, NYSE or any other national securities exchange, provided the Receiving Party shall notify the Furnishing Party prior to such disclosure and shall cooperate with the Furnishing Party in the event the Furnishing Party elects to contest legally, request confidential treatment, or otherwise avoid such disclosure.

(b) The burden shall be on the Receiving Party to demonstrate the applicability of one or more of the foregoing exceptions by documentary evidence in the event the Furnishing Party questions the applicability of any such exceptions.

15.3 No License.

Except as expressly provided in this Contract, nothing in this Contract shall be construed as granting the Receiving Party, whether by implication, estoppel, or otherwise, any license or any right to use any Confidential Information received from the Furnishing Party, or use any Intellectual Property Right now or hereafter owned or controlled by the Furnishing Party.

15 4 Return of Confidential Information.

All Confidential Information disclosed pursuant to this Contract is considered loaned for use solely in connection with this Contract. All Confidential Information in tangible form of expression that has been disclosed to or thereafter created, whether by copy or reproduction, by the Receiving Party shall be and remain the property of the Furnishing Party, except to the extent the Receiving Party has ownership or license rights in such Confidential Information pursuant to Article 14 (Intellectual Property Rights). All such Confidential Information and any and all copies and reproductions thereof shall, within thirty (30) Calendar Days of written request by the Furnishing Party, be either promptly returned to the Furnishing Party or destroyed at the Furnishing Party's direction, except to the extent the Receiving Party has ownership or license rights in such Confidential Information pursuant to Article 14 (Intellectual Property Rights). In the event of such requested destruction, the Receiving Party shall provide to the Furnishing Party written certification of compliance therewith within thirty (30) Calendar Days of such written request.

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15.5 Inconsistent Legends.

This Article 15 (Confidentiality) shall control in lieu of and notwithstanding any proprietary or restrictive legend or statements inconsistent with this Article that may be printed on or associated with any particular information disclosed pursuant to this Contract.

16. RECORDS RETENTION

Contractor will maintain and provide access upon request to the records, documents and other information required to meet Customer's access to work and audit rights under this Contract until the later of (i) three (3) years after expiration or termination of this Contract, (ii) all pending matters relating to this Contract (e.g., disputes) are closed, or (iii) such records, documents and other information are no longer required to meet Customer's records retention policy as such policy may be adjusted from time to time, which Customer record retention policy shall not exceed seven (7) years.

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17. REPRESENTATIONS AND WARRANTIES

17.1 Work Standards.

Contractor represents and warrants that it shall perform the Work hereunder in a manner to ensure that such Work is rendered with promptness and diligence and shall be executed in a workmanlike manner, in accordance with the practices and high professional standards used in well-managed operations performing Work similar to the Work performed hereunder. Contractor agrees that it shall use adequate numbers of qualified individuals with suitable training, education, experience, and skill to perform the Work.

17.2 Design and Performance Warranties.

(a) Contractor hereby represents and warrants for the benefit of Customer as follows:

(1) that the Work shall be free from Defects in design, material and workmanship;

(2) that the Network Management System and each Repeater shall conform to and operate in accordance with this Contract, including without the need for any additional equipment, software or other materials, except as expressly specified in Exhibit A (Design Specifications) or Exhibit B (Statement of Work);

(3) that the Network Management System and the Repeaters shall perform at normal levels with no more than the levels of standard and preventive maintenance as may be specified in Exhibit B (Statement of Work);

(4) that the Network Management System, Repeaters and LRUs provided hereunder (excluding as warranty replacements) shall be new and of recent manufacture, not refurbished;

(5) that each replacement Repeater, LRU or other component, part or sub-part supplied by Contractor in the performance of its warranty obligations hereunder shall conform to the requirements of this Contract as if it were an original part;

(6) subject to paragraphs (b) and (c) below, that it shall maintain the availability of LRUs, components, parts and sub-parts for a period of seven (7) years after the Project Completion Date and that replacement Repeaters and such replacement LRUs, parts and sub-parts shall be made available as needed in accordance with the requirements of Article 17.11 (Remedies (Repeaters));

(7) that all upgrades to the Network Management System, Repeaters and LRUs shall be backward compatible to the then-existing Repeaters in use by Customer; and

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(8) that the Technical Materials shall, at all times, be sufficient for an individual reasonably experienced in the design and manufacture of terrestrial repeaters or similar electronic equipment technology to understand and utilize such materials to support and/or manufacture the Repeaters.

(b) In the event Contractor (and not its suppliers or Subcontractors) is the manufacturer of any LRUs, components, parts and sub-parts of the Repeaters, Contractor shall continue to manufacture, and make available to Customer, such LRUs, components, parts and sub-parts for a period of seven (7) years as set forth in paragraph (a)(6) above; provided such items shall be available to Customer, without additional charge, during the Warranty Period in accordance with Article 17.11 (Remedies (Repeaters)).

(c) In the event an LRU, component, part or sub-part is manufactured or otherwise available by an entity other than Contractor, including Contractor's suppliers and Subcontractors, Contractor shall:

(1) Use best commercial efforts to include in each supplier agreement or Subcontract an obligation that the supplier or Subcontractor provide to Contractor reasonable advance notice of its decision to cease production, or otherwise limit or eliminate the availability, of the LRU, component, part or sub-part that such supplier or Subcontractor provides, including due to obsolescence of such item;

(2) Upon receipt of notice from a supplier or Subcontractor pursuant to paragraph (c)(1) above, Contractor shall promptly, but in no event later than the third (3/rd/) Business Day following the date of receipt of such notice from its supplier or Subcontractor, provide written notice to Customer of the impending unavailability of the LRU, component, part or sub-part related to the Repeaters, such notice to also include any other pertinent information related to the availability of such items prior to the impending date of unavailability;

(3) Advise Customer, in writing and at no charge to Customer, of commercially available alternatives to the LRUs, components, parts or sub-parts of the Repeaters, which commercially available alternative is technically and functionally compatible with the Repeaters and will cause the Repeaters to function in accordance with requirements specified in this Contract. Contractor shall so advise Customer from time to time during the Term of this Contract as it becomes aware of such alternatives, but also at the time Contractor gives notice to Customer pursuant to paragraph (c)(2) above of the impending unavailability of an LRU, component, part or sub-part;

(4) In the event there is no viable commercially available alternative to replace the unavailable LRU, component, part or sub-part, at Customer's request, Contractor shall design, engineer, develop and manufacture (or have manufactured) a viable alternative or other work-around solution to the unavailable LRU, component, part or sub-part, subject to the Parties'

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negotiation and agreement as to reasonable terms and conditions and charges therefor (except where such situation arises prior to the expiration of the applicable Warranty Period for the Repeaters).

(d) The warranties provided under this Article 17.2 (Design and Performance Warranties) do not cover defects or damage resulting from (i) the use of any Work in any manner which is not normal or customary; (ii) misuse, accident or neglect including dropping or spills of liquid; (iii) improper testing, operation, maintenance, installation or adjustment (unless performed by or on behalf of Contractor); or (iv) any alteration or modification of any kind (unless performed by or on behalf of Contractor).

17.3 Documentation.

Contractor represents and warrants that all Documentation provided by Contractor pursuant to this Contract shall be accurate, complete and written in a manner understood by Customer, and shall be updated from time to time to reflect any changes in the Work or to the Repeaters.

17.4 Inducements.

Contractor represents and warrants that it has not violated any applicable laws or regulations or any Customer policies of which Contractor has been given notice regarding the offering of unlawful inducements in connection with this Contract. If at any time during the Term of this Contract, Customer determines that the foregoing warranty is inaccurate, then, in addition to any other rights Customer may have at law or in equity, Customer shall have the right to terminate this Contract for cause without affording Contractor an opportunity to cure.

17.5 Viruses.

Contractor represents and warrants that it shall use its best commercial efforts to ensure that no Viruses are coded or introduced into the Work or in any systems used to perform the Work. Contractor agrees that, in the event a Virus is found to have been introduced into the systems used to perform the Work, Contractor shall use its best commercial efforts at no additional charge to eliminate the effects of the Virus and, if the Virus causes a loss of operational capability or efficiency of any Repeater, to use best efforts to mitigate and restore such losses.

17.6 Disabling Code.

Contractor represents and warrants that, without the prior written consent of Customer, Contractor shall not insert into the Work any code that would have the effect of disabling or otherwise shutting down the NMS or any Repeater. Contractor further represents and warrants that, with respect to any disabling code that may be part of any code (embedded or otherwise) to

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be delivered hereunder, Contractor shall not invoke such disabling code at any time, including upon expiration or termination of this Contract for any reason, without Customer's prior written consent.

17.7 Year 2000.

Contractor represents and warrants that the Work and all items to be delivered hereunder, including Repeaters, are and shall continue to be Year 2000 Compliant.

17.8 Compliance with Applicable Law.

Contractor represents and warrants that it shall perform its obligations in a manner that complies with all applicable Laws, including export, import and foreign controls, the Foreign Corrupt Practices Act, the U.S. Export Administration Act, and requirements of the FCC (including RF human exposure emission requirements and harmful interference standards), EPA, and OSHA, all as may be amended from time to time. If Contractor is charged with the failure to comply with any of such laws, Contractor shall promptly notify Customer of such charges in writing.

17.9 Warranty Disclaimer.

EXCEPT AS SPECIFICALLY SET FORTH IN THIS CONTRACT, NEITHER PARTY MAKES ANY OTHER WARRANTIES, WHETHER EXPRESS OR IMPLIED, INCLUDING ANY IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR ANY WARRANTY OF INTELLECTUAL PROPERTY NON-INFRINGEMENT.

17.10 Warranty Period.

(a) Subject to Article 17.11 (Remedies (Repeaters)) and Article 17.12 (Remedies (Network Management System)), Contractor shall be liable to Customer for a breach of the warranties set forth in Article 17.2 (Design and Performance Warranties) only if written notice of such alleged breach is given to Contractor prior to the expiration of the [*****] period following the Project Completion Date (the "Warranty Period").

(b) Upon Customer's written notice given to Contractor at least thirty (30) Calendar Days prior to the expiration of the applicable Warranty Period for each Repeater, Customer may elect to extend the Warranty Period for each Repeater for an additional [*****] period, subject to payment by Customer of the charges for such optional extended coverage as set forth in Exhibit C (Pricing, Milestones and Payment Plan). In the event Customer notifies Contractor of its interest in purchasing from Contractor additional extended warranty coverage for any period following the expiration of the [*****] optional warranty coverage period specified in the preceding sentence, Contractor shall propose, in writing within thirty (30) Calendar Days following the date of Customer's notice, a price for such extended warranty coverage, such price to take into account the actual annual failure rates in the deployed Repeaters experienced prior to Customer's request for additional extended warranty coverage.

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***** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

17.11 Remedies (Repeaters).

(a) In the event a Repeater requires maintenance or repair, Customer, or its designee(s), shall perform such maintenance or repair.

(b) Customer, or its designee(s), shall maintain, at the Regional Inventory Storage Facilities, an inventory of the Lowest Replaceable Units with respect to Repeaters, such inventory to be utilized by Customer, or its designee(s), to maintain or repair Repeaters. Customer, or its designee(s), shall be responsible, at Customer's expense, for returning to Contractor, in a reasonably prompt manner, any defective LRU, provided that Contractor, at Contractor's expense, shall provide Customer with all necessary and appropriate packing and crating materials. In the event Contractor tests the returned LRU and is able to demonstrate, to Customer's reasonable satisfaction, that the returned LRU is in good working order in accordance with its specifications (or, "no trouble found" ("NTF")), Customer shall pay Contractor the amount of [*****] for each returned LRU demonstrated to be NTF and shall reimburse Contractor for the actual costs incurred by Contractor with respect to the round-trip shipment of the LRU, as established by supporting shipping invoices.

(c) During the Warranty Period for each Repeater (as such period may be extended), Contractor shall provide the following items or perform the following services at no additional charge to Customer:

(1) Training in accordance with Exhibit B (Statement of Work);

(2) Subject to paragraph (d) below, an initial written inventory plan for inventories of replacement LRUs to be maintained by Customer, or its designee(s), pursuant to paragraph (b) above. Contractor shall propose such inventory plan to Customer on or before the ninetieth (90th) Calendar Day following EDC, and shall reasonably consider incorporating Customer's reasonable comments thereto. In no event shall Contractor's proposed inventory plan provide for a sparing level that is less than the preliminary sparing level set forth in Exhibit B (Statement of Work). Such plan shall specify the total number of LRUs to be maintained in Customer's inventory of spare LRUs, which Customer shall reasonably allocate among each of its Regional Inventory Storage Facilities. The total sparing level proposed by Contractor shall be sufficient so that appropriate LRUs are immediately available to Customer, or its designee, as they perform maintenance and repair on the Repeaters. Such inventory plan shall also specify the environmental and maintenance requirements for the proper storage of such LRUs;

(3) Replacement LRUs as may be actually required by Customer to repair defective Repeaters, even if the number of LRUs provided by Contractor exceeds the sparing levels indicated in the inventory plan;

(4) Re-stock of the LRU inventory on an as-needed basis to maintain the sparing levels indicated in the inventory plan, as it may be updated from time to time;

(5) On-going consultation services and advice to Customer, or its designee(s), on the proper methods of performing maintenance and repair functions for the Repeaters, including telephonic trouble-shooting of defective units and, if necessary, on-site diagnostic and remedial services;

(6) Repair or disposal of a defective LRU returned to Contractor by Customer or its designee(s). If Contractor repairs the returned LRU such that the LRU performs in accordance with its applicable technical specifications, Contractor may use such repaired LRU for inventory re-stocking purposes; and

(7) Replacement of Repeaters, if it is reasonably determined by Customer, or its designee(s), after consultation with Contractor, that repair of a Repeater cannot be accomplished using the LRUs or other components or parts available at the Regional Inventory Storage Facility. In such event, Customer may, at its option:

(i) require Contractor to ship a replacement Repeater, at its expense, within twenty-four (24) hours after receipt of notice of such determination so that the replacement Repeater shall arrive at the interior of its designated place of installation as soon as commercially practicable, but in no event later than fourteen (14) Calendar Days after the date of Customer's notice to Contractor; or

(ii) require Contractor to ship a replacement Repeater within twenty-four (24) hours after receipt of notice of such determination and use air shipment for delivery of such replacement Repeater so that the replacement Repeater is received by Customer as soon as commercially possible, provided that Customer shall reimburse Contractor for the incremental difference in the shipping charges incurred by Contractor for air shipment over Contractor's reasonable expenses for surface delivery; or

(iii) assemble a complete Repeater using the LRU's in stock at Customer's Regional Inventory Storage Facilities. Customer, or its designee, shall install the replacement Repeater and arrange for the return of the replaced Repeater to Contractor, subject to reimbursement by Contractor to Customer for the costs of shipping (including packing, crating, shipping, transportation and insurance).

(d) Following implementation of the inventory plan specified in paragraph (c)(2) above, Customer may, from time to time, propose changes to the inventory plan, provided such changes are based upon the actual failure rates experienced with respect to Repeaters or LRUs. Contractor shall revise the inventory plan to incorporate and accommodate Customer's proposed reasonable changes and shall promptly implement the revised inventory plan. Similarly, following Customer's initial allocation of spare LRUs among the Regional Inventory Storage Facilities, Contractor may, from time to time, propose changes to the manner in which Customer

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allocates such spare LRUs, provided such proposed changes are based upon actual LRU replacement requirements experienced with respect to the Repeaters. Customer shall revise the method of allocating spare LRUs among the Regional Inventory Storage Facilities to incorporate Contractor's proposed reasonable changes and shall promptly implement the revised allocation scheme.

(e) Customer may, in addition to the remedies provided by Contractor hereunder and at no additional charge to Customer,

(1) seek recourse pursuant to such other warranties as may be provided by the original equipment manufacturers (O.E.M.), Subcontractors, or other warranties on any materials or equipment furnished by Contractor, all in accordance with the respective terms of such warranties; and

(2) request Contractor and/or its Subcontractors to provide, and Contractor shall provide, reasonable on-site support at Customer's facilities or other system-related sites as necessary to complete the Work ("Field Support"), including to assist Customer in the identification and remediation of significant systems engineering problems relating to the Work and with respect to installed Repeaters.

17.12 Remedies (Network Management System).

Contractor shall maintain, repair or replace the Network Management System during the Warranty Period so that the Network Management System shall at all times be fully operational in accordance with all applicable specifications and warranties and available for use by Customer at all times. If circumstances arise where Contractor is unable to maintain or repair the NMS, or any part or portion thereof, so that it operates in accordance with the above standard, Contractor shall replace such item at Contractor's expense. Subject to Article 14 (Intellectual Property Rights), Customer shall own any such replacement item. For purposes hereof, Contractor shall be deemed to be unable to maintain or repair the NMS, or any part or portion thereof, if it fails more than three (3) times during any three (3) consecutive month period during the Warranty Period.

17.13 Pattern Defect.

(a) In addition to the other warranties and remedies set forth herein, in the event that any LRU is determined to have a Pattern Defect during the applicable Warranty Period, as may be extended, Contractor will promptly modify the design, material and/or manufacturing process such that the Pattern Defect is eliminated and deliver, at its expenses (including packing, crating, transportation, shipping and insurance) replacements for all affected LRUs to eliminate such Pattern Defect. During the period that any LRU is determined to have a Pattern Defect, Contractor shall regularly advise Customer of the status of remedial efforts being undertaken with respect to such problem. A "Pattern Defect" will be determined to exist in any LRU when three percent (3%) or more of the total number of Repeaters purchased hereunder experience failures with respect to such LRUs within any rolling three (3) month period, due to the same Defect in design, material or manufacturing process carried out by Contractor or its Subcontractors

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(b) Customer, or its designee, at Customer's expense, shall install the replacement LRU and shall pack and crate for return to Contractor the replaced LRU, provided that Contractor, at Contractor's expense, shall provide Customer with all necessary and appropriate packing and crating materials.

18. CONTRACTOR'S ADDITIONAL REPRESENTATIONS AND WARRANTIES

(a) Contractor additionally represents and warrants:

(1) Contractor is a corporation duly organized, validly existing and in good standing under the Laws of Delaware;

(2) it has all requisite power and authority to own and operate its material properties and assets and to carry on its respective business as now conducted in all material respects;

(3) it is duly qualified to transact business and is in good standing in each jurisdiction in which the failure to so qualify would have a Material Adverse Effect;

(4) it is, or at the time of performance of the Work will be, fully licensed and authorized to perform the Work in each jurisdiction in which the Work is to be performed;

(5) it has all requisite corporate power and authority to enter into this Contract and to carry out the transactions contemplated by this Contract;

(6) the execution, delivery, and performance of this Contract and the consummation of the transactions contemplated by this Contract have been duly authorized by all requisite corporate action of Contractor;

(7) this Contract is a valid and binding obligation of Contractor, enforceable in accordance with its terms, except Contractor makes no representation or warranty as to the enforceability of remedies due to applicable bankruptcy, insolvency, moratorium, reorganization, or similar laws relating to or affecting the enforcement of creditor's rights or by reason of general principles of equity;

(8) in the event Contractor becomes a party to any legal, administrative, arbitral, investigatory or other proceeding or controversy pending or, to the best of its knowledge, threatened, which reasonably would be expected to have a Material Adverse Effect, Contractor will notify Customer as soon as practicable; and

(9) it is not subject to any contractual or other obligation that would prevent it from entering into this relationship and the execution and delivery of this Contract by Contractor and the performance by Contractor of its obligations hereunder will not result in or constitute a breach or violation of, or a default under, any provision of any lease, license, contract, agreement or any other document to which it is a party or by which it is bound.

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(b) Contractor represents that it is not a party to any legal, administrative, arbitral, investigatory or other proceeding or controversy pending or, to the best of its knowledge, threatened, which reasonably would be expected to have a Material Adverse Effect.

19. CUSTOMER'S REPRESENTATIONS AND WARRANTIES

(a) Customer represents and warrants:

(1) it is duly organized, validly existing and in good standing under the Laws of the State of Delaware;

(2) it has all requisite power and authority to own and operate its material properties and assets and to carry on its respective business as now conducted in all material respects;

(3) it is duly qualified to transact business and is in good standing in each jurisdiction in which the failure to so qualify would have a Material Adverse Effect;

(4) it has all requisite corporate power and authority to enter into this Contract and to carry out the transactions contemplated by this Contract;

(5) the execution, delivery, and performance of this Contract and the consummation of the transactions contemplated by this Contract have been duly authorized by the requisite corporate action of Customer and do not conflict with any other agreement or obligation to which it is a party or which binds its assets;

(6) this Contract is a valid and binding obligation of Customer, enforceable in accordance with its terms, except Customer makes no representation or warranty as to the enforceability of remedies due to applicable bankruptcy, insolvency, moratorium, reorganization, or similar laws relating to or affecting the enforcement of creditor's rights or by reason of general principles of equity; and

(7) in the event Customer becomes a party to any legal, administrative, arbitral, investigatory or other proceeding or controversy pending, or to the best of its knowledge threatened, which reasonably would be expected to have a Material Adverse Effect, Customer will notify Contractor as soon as practicable.

(b) Customer represents that as of the Effective Date, except as otherwise set forth in the filing of the Registration Statement on Form S-1 by XM Satellite Radio Inc. with the U.S. Securities and Exchange Commission on July 23, 1999, Registration No. 333-38619, Customer is not a party to any legal, administrative, arbitral, investigatory or other proceeding or controversy pending or, to the best of its knowledge, threatened, which reasonably would be expected to have a Material Adverse Effect.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

20. INSURANCE

20.1 General.

(a) Contractor shall purchase and maintain primary insurance coverage from a company or companies licensed to do business in each state in which the Work shall be performed and such company or companies shall carry at least an A.M. Best's rating of A-/VIII; provided, however, Contractor's insurer, Lloyds of London, shall be deemed to meet the foregoing standard notwithstanding that Lloyds of London may not be so rated in each state in which the Work may be performed. Such insurance shall protect Contractor from claims set forth below that may arise out of or result from Contractor's operations under the Contract, whether due to sole or passive negligence or arising from a Subcontractor or by anyone directly or indirectly employed by any of them or by anyone for whose acts any of them are liable:

(1) claims for damages because of bodily injury, occupational sickness or disease, or death of its employees arising under workers' or workmen's compensation, disability benefit and/or other employee benefit acts;

(2) claims for damages because of bodily injury, sickness or disease, or death of any persons other than its employees;

(3) claims for damages insured by usual personal injury liability coverage;

(4) claims for damages, other than to the Work itself, because of injury to or destruction of tangible property, including loss of use resulting therefrom; and

(5) claims for damages because of bodily injury or death of any person or property damage arising out of the ownership, maintenance or use of any motor vehicle.

(b) Compliance by Contractor with the foregoing insurance requirements shall not limit Contractor's liability or relieve it of liability under this Contract or any Law

20.2 Specific Insurance Requirements.

The insurance required by this Article 20 (Insurance) shall be written for not less than the limits of liability specified in this Contract, or required by Law, whichever is greater. Before commencement of the Work and until the last payment made hereunder (except that product liability coverage shall continue in force until two years after the date of the last payment made hereunder), Contractor shall procure, deposit, and maintain for Customer's benefit, insurance satisfactory to Customer, as set forth in this Article 20.2 (Specific Insurance Requirements).

(a) Worker's Compensation as required by the Worker's Compensation Laws of the state(s) in which the Work is performed and Employer's Liability Insurance in an amount not less than $100,000/$500,000/$500,000 each accident, bodily injury by accident/policy limit, bodily injury by disease/each employee, bodily injury by disease.

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(b) Commercial General Liability Insurance, including products liability insurance, covering Bodily Injury, Personal Injury, Property Damage, and Advertising Injury, as follows.

(1) *Minimum Limits:* Such insurance shall be written for a combined single limit not less than the following:

General aggregate per project	$2,000,000
Products-Completed Operations Aggregate	$2,000,000
Personal & Advertising Injury	$1,000,000
Each occurrence	$1,000,000

(2) This insurance shall be written on an occurrence basis and on a coverage form at least equal to that provided under ISO CG 00 01, latest available edition, without overly restricting endorsements that reduce coverage.

(c) Automobile Liability Insurance covering Bodily Injury and Property Damage as follows:

(1) Minimum Limits: The Combined Single Limit for Bodily Injury and Property Damage shall be not less than $1,000,000 per accident.

(2) This insurance shall be written on a coverage form at least equal to that provided under ISO CA 00 01, latest available edition, without restricting endorsements that reduce coverage and shall cover all owned, operated and hired vehicles of Contractor and non-ownership protection for all employees of Contractor engaged in the performance of this Contract.

(d) Excess Liability Insurance, written on an occurrence basis, in the amount of not less than a combined single limit for Bodily Injury and Property Damage and Personal and Advertising Injury of $25,000,000 per occurrence or each offense/$25,000,000 in the aggregate following the form and amounts of the primary insurance described in paragraphs (a), (b) and (c) of this Article 20.2 (Specific Insurance Requirements).

(e) Contractor shall procure cargo/transit insurance adequate to cover the value of the Work. Contractor shall assume the risk of goods in transit. Such coverage shall be written on an "all risk" basis.

(f) All insurance maintained by Contractor shall provide:

(1) A Certificate of Insurance signed by the insurance broker stating the limits of liability and coverage effective dates shall be filed in triplicate with Customer before operations are begun. Such certificates not only shall name the types of policies provided, but also shall refer specifically to this Contract and Article. If the initial insurance expires prior to completion of the Work, renewal certificates shall be furnished by the date of expiration.

(2) Customer, its Affiliates and Associates shall be included in the Commercial General Liability and Excess Liability policies as "additional insureds" with

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the understanding that the liability to pay premiums shall be the sole obligation of Contractor and not that of any other insured.

(3) Except in the case of Worker's Compensation Insurance, proceeds for first party losses, if any, shall be adjusted by and payable to the party purchasing the insurance, except property insurance purchased by Contractor for the benefit of Contractor, Subcontractors and Customer, which shall be adjusted with and payable to Contractor, Subcontractors and Customer, as their interest may appear.

(4) The insurer thereunder waives all rights of subrogation against Customer, its Affiliates and Associates, as well as any rights of setoff and counterclaim and any other right to deduction whether by attachment or otherwise.

(5) Such insurance shall be primary without any right of contribution of any other insurance carried by or on behalf of Customer, its Affiliates and Associates.

(g) Contractor shall require each of its Subcontractors to procure and maintain, until the completion of that Subcontractor's work, adequate insurance in a form similar to the above.

20.3 Certificates of Insurance.

Certificates of Insurance in the "ACORD" form shall be provided to Customer on or before the Execution Date plus ten (10) Business Days; provided, however, the words "endeavor to" must be deleted from the cancellation section of the form. These Certificates, as well as insurance policies required by this Article 20 (Insurance), shall contain a provision that coverage shall not be canceled or allowed to expire until at least ninety (90) Calendar Days' prior written notice has been given to Customer; provided, however, ten (10) Calendar Days notice is permitted if the insurance is cancelled for non-payment reasons. Such Certificates shall also indicate that the Commercial General Liability and Excess Liability insurance policies have been endorsed to name Customer, its Affiliates and Associates as additional insureds as respects work performed by Contractor on their behalf.

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21. INDEMNIFICATION

21.1 Indemnity by Contractor.

Subject to Article 21.4 (Indemnification Procedures), Contractor shall indemnify, defend and hold harmless Customer and its Affiliates and their respective Associates, from any and all Losses arising from, in connection with, or based on allegations of, any of the following:

(a) any claims made by third parties for injury to person (including death) or loss or damage to tangible property arising out of any error, omission or negligent act of Contractor or its Subcontractors; and

(b) any claims arising out of or related to occurrences Contractor is required to insure against pursuant to Article 20 (Insurance).

21.2 Indemnity by Customer.

Subject to Article 21.4 (Indemnification Procedures), Customer shall indemnify, defend and hold harmless Contractor and its Affiliates and their respective Associates, from any and all Losses arising from, in connection with, or based on allegations of any of the following:

(a) any claims made by third parties for injury to person (including death) or loss or damage to tangible property arising out of any error, omission or negligent act of Customer; and

(b) any third-party allegations of infringement of any Intellectual Property Right, alleged to have occurred because of systems, designs, instructions, specifications or other resources provided by Customer directly or indirectly to Contractor for incorporation into the Repeaters, Network Management System or other deliverables; provided, however, Customer's total liability to Contractor or any third party with respect to such indemnity shall not, in the aggregate, exceed Seven Million, Five Hundred Thousand Dollars ($7,500,000).

21.3 Intellectual Property Infringement Indemnification.

(a) Contractor shall indemnify, defend, and hold harmless Customer from any and all Losses arising from, in connection with, or based on any allegations made by third parties (including Subcontractors of Contractor) that Customer's possession or use of the Work, or any part thereof, infringes any third-party Intellectual Property Right; provided, however, (i) Contractor's total liability to Customer or any third party with respect to such intellectual property infringement indemnity shall not exceed (A) Seven Million, Five Hundred Thousand Dollars ($7,500,000) with respect to claims related to Work performed by Contractor or any of its Subcontractors (except Unique Broadband Systems) hereunder and (B) One Million Dollars ($1,000,000) with respect to claims related to Work performed by Contractor's Material Subcontractor Unique Broadband Systems under this Contract, and (ii) Contractor's total aggregate liability under (i) shall not exceed Seven Million, Five Hundred Thousand Dollars ($7,500,000) Notwithstanding the foregoing, Contractor shall not be liable under this paragraph (a) to the extent Losses are caused by (i) the contributory infringement by Customer as described in paragraph (b) of Article 21.2 (Indemnity by Customer) or are based on claims related to work or deliverable items furnished by Unique Broadband Systems pursuant to the Interim Services Agreement with Customer, dated August 9, 1999; or (ii) modifications to the Work by any

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person other than Contractor or its Subcontractors unless otherwise directed by Contractor or its Subcontractors; or (iii) Customer's use of the Work in combination with items not provided by Contractor or its Subcontractors unless such non-deliverables are identified in Exhibit A (Design Specifications) as items with which the deliverables hereunder will be used in combination.

(b) If the use of the Work or any part thereof is enjoined, Contractor shall, or, if in Contractor's reasonable opinion the Work or any part thereof is likely to be enjoined, Contractor may, in either case at its expense, either procure for Customer the right to use the Work or infringing part thereof, as the case may be, or substitute an equivalent product reasonably acceptable to Customer, or modify the Work or infringing part thereof to render them non-infringing without materially affecting their utility or functionality. If Contractor determines that none of these alternatives is reasonably available or feasible, Contractor shall meet with Customer to address the matter and reach an equitable solution reasonably acceptable to Customer.

(c) Contractor's obligations under this Article 21.3 (Intellectual Property Infringement Indemnification) shall be subject to Article 21.4 (Indemnification Procedures).

21.4 Indemnification Procedures.

(a) Promptly after receipt by the indemnified Party of notice of the commencement or threatened commencement of any civil, criminal, administrative, or investigative action or proceeding involving a claim in respect of which the indemnified Party will seek indemnification pursuant to this Article 21 (Indemnification), the indemnified Party shall notify the indemnifying Party of such claim in writing. Failure to so notify the indemnifying Party shall not relieve the indemnifying Party of its obligations under this Contract except to the extent it can demonstrate it was prejudiced by such failure. Within fifteen (15) Calendar Days following receipt of written notice from the indemnified Party relating to any claim, but no later than ten (10) Calendar Days before the date on which any response to a complaint or summons is due, the indemnifying Party shall notify the indemnified Party in writing if the indemnifying Party elects to assume control of the defense or settlement of that claim (a "Notice of Election").

(b) If the indemnifying Party delivers a Notice of Election relating to any claim within the required notice period, so long as it is actively defending such claim, the indemnifying Party shall be entitled to have sole control over the defense and settlement of such claim; provided that (i) the indemnified Party shall be entitled to participate in the defense of such claim and to employ counsel at its own expense to assist in the handling of such claim; (ii) where the indemnified Party is so represented, the indemnifying Party shall keep the indemnified Party 's counsel informed of each step in the handling of any such claim; (iii) the indemnified Party shall provide, at the indemnifying Party's request and expense, such assistance and information as is available to the indemnified Party for the defense and settlement of such claim; and (iv) the indemnifying Party shall obtain the prior written approval of the indemnified Party before entering into any settlement of such claim or ceasing to defend against such claim. After the indemnifying Party has delivered a Notice of Election relating to any claim in accordance with the preceding paragraph, the indemnifying Party shall not be liable to the indemnified Party for any legal expenses incurred by the indemnified Party in connection with the defense of that claim; provided, however, the indemnifying Party shall be liable to the indemnified Party for

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such legal expenses if the indemnified Party chooses to participate in the defense and settlement of such claim because the indemnified Party reasonably concluded that the indemnifying Party had a conflict of interest and could not adequately represent the indemnified Party. In addition, the indemnifying Party shall not be required to indemnify the indemnified Party for any amount paid or payable by the indemnified Party in the settlement of any claim for which the indemnifying Party has delivered a timely Notice of Election if such amount was agreed to without the prior written consent of the indemnifying Party.

(c) If the indemnifying Party does not deliver a Notice of Election relating to any claim within the required notice period or fails actively to defend such claim, the indemnified Party shall have the right to defend and/or settle the claim in such manner as it may deem appropriate, at the cost and expense of the indemnifying Party. Provided that the indemnified Party acts in good faith, it may settle such claim on any terms it considers appropriate under the circumstances without in any way affecting its right to be indemnified hereunder. The indemnifying Party shall promptly reimburse the indemnified Party for all such costs and expenses.

21.5 Waiver of Subrogation.

If a Party insures against any loss or damage it may suffer in respect of which it is required to indemnify the other Party, its Affiliates and their respective Associates pursuant to this Article 21 (Indemnification), it shall be a condition that the insuring Party arrange for the insurer to waive its right of subrogation against such other Party and such other Party's Affiliates and their respective Associates. Each Party shall be entitled to require proof from time to time that the other Party has complied with its obligations under this Article 215 (Waiver of Subrogation). In the event a Party does not comply with such obligations, the indemnities referred to in Articles 21.1 (Indemnity by Contractor), 21.2 (Indemnity by Customer) and 21.3 (Intellectual Property Infringement Indemnification) shall extend to any claim that may be made by an insurer pursuant to an alleged right of subrogation.

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22. LIABILITY

22.1 General Intent.

Subject to the specific provisions of this Article 22 (Liability), it is the intent of the Parties that each Party shall be liable to the other Party for any actual damages incurred by the non-breaching Party as a result of the breaching Party's failure to perform its obligations in the manner required by this Contract.

22.2 Liability Restrictions.

(a) SUBJECT TO PARAGRAPH (c) BELOW, IN NO EVENT, SHALL A PARTY BE LIABLE IN CONTRACT, WARRANTY, STRICT LIABILITY, TORT OR OTHERWISE FOR INDIRECT, CONSEQUENTIAL, EXEMPLARY, PUNITIVE OR SPECIAL DAMAGES ARISING OUT OF, RESULTING FROM , OR IN ANY WAY CONNECTED TO THE PERFORMANCE OR BREACH OF THIS CONTRACT, EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES IN ADVANCE.

(b) SUBJECT TO PARAGRAPH (c) BELOW, EACH PARTY'S TOTAL CUMULATIVE LIABILITY TO THE OTHER PARTY HEREUNDER, WHETHER IN CONTRACT, WARRANTY, STRICT LIABILITY, TORT OR OTHERWISE, SHALL BE LIMITED TO AN AMOUNT EQUAL TO TEN MILLION DOLLARS ($10,000,000).

(c) The limitations set forth in paragraphs (a) and (b) above shall not apply with respect to claims that are the subject of indemnification pursuant to Articles 21.1(a), 21.1(b) and 21.2(a). In addition, the limitations set forth in paragraph (b) above shall not apply with respect to the Parties' respective liabilities specified in Article 25 (Termination). In addition, the limitations set forth in paragraph (a) above shall not apply to the liquidated damages remedy set forth in Article 7.5 (Liquidated Damages for Late Delivery of Repeaters).

(d) Each Party shall have a duty to mitigate damages for which the other Party is responsible.

22.3 Contractor Responsibility for Certain Claims.

(a) In the event any Subcontractor asserts a claim of non-payment against Customer, Contractor shall assume full responsibility for such claims and shall reimburse Customer for any settlements or judgments incurred by or assessed against Customer with respect to such claims and all related costs and expenses (including reasonable legal fees and disbursements), provided that Contractor is (i) given prompt notice of such claims (provided that failure to so notify Contractor shall not relieve Contractor of its responsibilities hereunder except to the extent it can demonstrate it was prejudiced by such failure) and (ii) permitted (but without obligation) to control the defense of such claims.

(b) With respect to any claims made by third parties arising out of Contractor's breach of the warranties set forth in Article 17.8 (Compliance with Applicable Law) and any claims by Customer or any third party with respect to a breach of the warranties and representations set

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forth in Article 18 (Contractor's Additional Representations and Warranties), Contractor shall assume full responsibility for such claims and shall reimburse Customer for any settlements or judgments incurred by or assessed against Customer with respect to such claims and all related costs and expenses (including reasonable legal fees and disbursements), provided that Contractor is (i) given prompt notice of such claims ((provided that failure to so notify Contractor shall not relieve Contractor of its responsibilities hereunder except to the extent it can demonstrate it was prejudiced by such failure) and (ii) permitted (but without obligation) to control the defense of such claims.

(c) Notwithstanding anything to the contrary herein, any liability arising pursuant to paragraphs (a) or (b) above shall not be subject to the limitation on Contractor's liability set forth in Article 22.2(b) hereof.

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23. DISPUTE RESOLUTION

Any dispute, claim, or controversy between the Parties arising out of or relating to this Contract ("Dispute"), including any Dispute with respect to the interpretation, performance, termination, or breach of this Contract or any provision thereof shall be resolved as provided in this Article 23 (Dispute Resolution).

23.1 Informal Dispute Resolution.

Prior to the initiation of formal dispute resolution procedures, the Parties shall first attempt to resolve their Dispute informally, in a timely and cost-effective manner, as follows:

(a) If, during the course of the Work, a Party believes it has a Dispute with the other Party, the disputing Party shall give written notice thereof, which notice will describe the Dispute and may recommend corrective action to be taken by the other Party. Contractor's Project Manager shall promptly consult with Customer's Project Manager in an effort to reach an agreement to resolve the Dispute.

(b) In the event agreement cannot be reached within five (5) Calendar Days of receipt of written notice, either Party may request the Dispute be escalated, and the respective positions of the Parties shall be forwarded to an executive level higher than that under paragraph (a) above for resolution of the Dispute, which in the case of Contractor, shall be the Contractor Business Line Manager identified in Article 9.1 (Contractor Personnel) above.

(c) In the event agreement cannot be reached under paragraphs (a) or (b) above within a total of ten (10) Calendar Days after receipt of the written notice described in paragraph (a) above, either Party may request the Dispute be escalated, and the respective positions of the Parties shall be forwarded to the Chief Executive Officer (CEO) of each Party, and such executives shall meet (in person or via telephone or video conference) during such time to resolve the Dispute.

(d) In the event agreement cannot be reached under paragraphs (a), (b) or (c) above within a total of twenty (20) Calendar Days after receipt of the written notice described in paragraph (a) above, either Party may proceed with arbitration in accordance with Article 232 (Arbitration).

23.2 Arbitration.

(a) Subject to the provisions of Article 23.1 (Informal Dispute Resolution) and Article 23.3 (Litigation), any Dispute shall be resolved by mandatory and binding arbitration in accordance with the then-effective Center for Public Resources Rules for Nonadministered Arbitration of Business Disputes, as may be amended from time to time (the "CPR Rules"), which are incorporated herein by reference. Notwithstanding the foregoing, to the extent any provision of this Article 23.2 (Arbitration) modifies, adds to, or is inconsistent with any provision of the CPR Rules, the provisions of this Article shall control.

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(b) The arbitration shall be conducted by a three-arbitrator tribunal (the "Tribunal"). Within thirty (30) Calendar Days after the commencement of the arbitration, each Party shall appoint one arbitrator, and those two arbitrators shall together appoint the third arbitrator as provided in CPR Rule 5.2. Each arbitrator appointed by the Parties shall be knowledgeable and experienced in contracting for technical systems and shall have senior management and/or legal/judicial experience.

(c) Unless otherwise limited by the Tribunal or the agreement of the Parties, the Parties shall be permitted to take discovery, if and as needed, by deposition upon oral examination, requests for production of documents and things, and requests for entry upon land for inspection and other purposes, as those discovery methods are described and defined in the Federal Rules of Civil Procedure; provided, however, that any limitations in the Federal Rules on the number, timing, or sequence of such discovery requests shall not apply. The scope of permissible discovery shall generally be as described in Federal Rule of Civil Procedure Rule 26(b)(1), but the Parties shall use their best efforts to focus and limit their discovery in accordance with the nature of the dispute and the need for expedited resolution. The Tribunal may expand or limit the scope of permissible discovery, establish the time period within which discovery responses must be served, and expand or limit the type and number of discovery methods and requests as it shall determine is appropriate in the circumstances, taking into account the needs of the Parties and the desirability of making discovery expeditious and cost-effective. The Tribunal may issue orders to protect the confidentiality of proprietary information, trade secrets, and other similar information disclosed in discovery and may order that discovery not be had or that discovery may be had only on specific terms and conditions.

(d) Time is of the essence in the initiation and completion of the arbitration. The arbitral hearing shall be commenced and conducted expeditiously. Unless the Tribunal orders otherwise, the Dispute should be submitted to the Tribunal for decision within three (3) months after the commencement of the arbitration, and the final award shall be rendered within one (1) month thereafter. The Parties and the Tribunal shall use their best efforts to comply with this schedule, and the Tribunal may impose any remedy it deems just for any Party's effort to unnecessarily delay, complicate or hinder the proceedings.

(e) The arbitration shall be held in Washington, D.C., USA.

(f) Any arbitration proceeding held pursuant to this Article shall be governed by the United States Arbitration Act, 9 U.S.C. (S)(S) 1 et seq., and judgment upon the award rendered by the Tribunal may be entered in any court having jurisdiction thereof.

(g) The Tribunal's award may grant any remedy or relief that the Tribunal deems just and equitable and within the scope of this Contract, including specific performance or other equitable relief. Notwithstanding the foregoing, the Tribunal shall have no power or authority to amend or disregard any provision of this Article 23.2 (Arbitration) or any other provision of this Contract; in particular, but without limiting the generality of the foregoing, the Tribunal shall not have the power or authority to exclude the right of a Party to terminate this Contract when a Party would otherwise have such right. The Tribunal also shall have no power or authority to award punitive or exemplary damages to any Party.

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(h) The non-prevailing Party, as determined by the Tribunal, shall pay the costs of the arbitration and the prevailing Party's fees and expenses incurred with respect to the arbitration, including reasonable attorneys' fees as determined by the Tribunal. In the event of an arbitration involving multiple claims with different Parties prevailing on each claim, the Tribunal shall apportion the expenses and fees between or among the Parties in such manner as it deems reasonable, taking into account the circumstances of the case, the nature of the claims, and the result of the arbitration.

(i) At any time more than ten (10) Calendar Days before the commencement of the hearing, any Party defending against any claim may serve upon the adverse Party an offer to allow an award to be entered against the defending Party on any claim for the money or property or to the effect specified in the offer. If within ten (10) Calendar Days after the service of the offer, the adverse Party serves written notice that it accepts the offer, either Party may file the offer and acceptance with the Tribunal, which will thereupon promptly enter an award on the claim as provided in the offer. An offer not accepted shall be deemed withdrawn and shall not be admissible into evidence except with respect to a determination of fees and expenses. If the award finally made on the claim is not equal to or more favorable than the offer, then for the purpose of apportioning expenses and fees pursuant to this Article 23.2 (Arbitration), the Party making the offer shall be deemed the Prevailing Party with respect to such claim.

(j) If at the time any Dispute arises, the Center for Public Resources no longer provides rules or services with respect to the arbitration of business disputes, then the Parties hereto agree that the arbitration shall be conducted before the American Arbitration Association ("AAA"). Such arbitration shall be conducted pursuant to the AAA's Commercial Arbitration Rules then effective, provided, however, that in the event of any inconsistency with the AAA rules and this Article, the provisions of this Article shall control.

23.3 Litigation.

(a) Notwithstanding the provisions of Article 23.1 (Informal Dispute Resolution) and Article 23.2 (Arbitration) above, if the Dispute requires that immediate equitable relief or relief in aid of arbitration be obtained, either Party shall have the right to bring suit at any time to obtain preliminary or temporary injunctive relief, including specific performance, but requests for permanent injunctive relief shall be arbitrated pursuant to Article 23.2 (Arbitration).

(1) Any such suit shall be brought in a court of competent jurisdiction in the State of Delaware and the Parties hereby waive any objection to venue in such court. The Parties hereby irrevocably consent to personal jurisdiction in the state and federal courts in the State of Delaware concerning any Dispute between the Parties. If, for any reason, the state and federal courts of Delaware do not have or refuse to exercise jurisdiction over the Dispute, then litigation as permitted herein may be brought in any court of competent jurisdiction in the United States of America, or if there is no such court, in any other nation.

(2) In the event a Party files a lawsuit pursuant to this Article 23.3 (Litigation), the Prevailing Party is entitled to an award of its costs and fees, including

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reasonable attorney's fees, incurred with respect to the lawsuit. The defendant in such litigation shall be regarded as the Prevailing Party if either the court denies the equitable relief sought on the merits or the court otherwise decides that equitable relief is not warranted or the matter should be resolved by arbitration.

(b) In the event an entity or person not subject to the provisions of this Article 23 (Dispute Resolution) commences any litigation or proceeding against any Party hereto in which the other Party hereto is an indispensable party, the Party against which the litigation or proceeding is brought may join or attempt to join the other Party in such litigation or proceeding notwithstanding the provisions of Article 23.2 (Arbitration). For the purposes of this provision, the other Party is an indispensable party in the lawsuit or proceeding if (i) in its absence, complete relief could not be accorded among those already a party to the lawsuit or proceeding; (ii) its absence may as a practical matter impair or impede its ability to protect its interests relating to the subject of the lawsuit or proceeding; or (iii) its absence may leave the Party against which the litigation or proceeding is brought subject to a substantial risk of incurring double, multiple, or otherwise inconsistent obligations by reason of the interest of the other Party relating to the subject of the lawsuit or proceeding.

(c) Nothing in this Contract precludes a Party prevailing on any claim, whether in arbitration or litigation, from initiating litigation in any appropriate forum to enter or enforce a judgment based on the Tribunal's or court's award on that claim.

23.4 Continued Performance.

Pending final resolution of any Dispute, each Party shall, unless directed otherwise by the other Party in writing, fulfill all of its obligations under this Contract, including the obligation to take all steps necessary during the pendency of the Dispute to ensure the Work will be performed within the time stipulated or within such extended time as may be allowed under this Contract, provided Customer shall continue to make payments of undisputed sums therefore in accordance with this Contract (including the dispute resolution provisions hereof).

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24. DEFAULT AND CORRECTION PLAN

24.1 Material Breach.

(a) In the event Contractor fails to complete a Key Task on or before the date identified or referenced in Article 0 (Key Tasks) or fails to perform a material obligation hereunder (in either case a "Failure"), Customer shall be entitled to deliver to Contractor a written demand that it correct such Failure. Contractor shall acknowledge receipt of Customer's demand within one (1) Business Day and shall submit to Customer, for Customer's review, comment and approval, a Correction Plan within ten (10) Business Days after the date of Customer's demand (or such longer time as Customer may establish, including as a result of Contractor's reasonable request for an extension of time to provide a Correction Plan).

(b) If the Correction Plan does not set forth a reasonable manner in which, or reasonable date by which, Contractor will correct or offset the Failure, Customer may reject the Correction Plan upon written notice to Contractor, which notice shall include, in reasonable detail, the deficiencies in the Correction Plan noted by Customer, and other relevant comments. Contractor shall revise the Correction Plan, including by incorporating Customer's reasonable comments, and shall re-submit the revised Correction Plan to Customer for its approval within seven (7) Business Days after receipt of Customer's comments. This process may be repeated until such time as Contractor provides a Correction Plan acceptable to Customer.

(c) If Customer approves the Correction Plan (or revision thereof) or does not reject the Correction Plan (or revision thereof) within thirty (30) Calendar Days after receipt thereof, this Contract shall be deemed modified in accordance with the Correction Plan (or revision thereof) and the Failure shall be deemed cured so long as Contractor complies with the terms of such Correction Plan (or revision thereof). Nothing herein shall be construed to release Contractor from its obligation to make liquidated damages payments as applicable in accordance with Article 7.5 (Liquidated Damages for Late Delivery of Repeaters).

(d) In the event Contractor does not submit a Correction Plan to Customer within fifteen (15) Business Days after receipt of a demand therefor, or if Contractor fails to submit a revised Correction Plan within seven (7) Business Days after receipt of Customer's notice of rejection of the original Correction Plan, or if Contractor fails to provide an acceptable Correction Plan within three (3) iterations thereof (including the first draft), or if Contractor fails to complete the Customer-approved Correction Plan within thirty (30) Calendar Days after Customer's approval of the Correction Plan (or such period as otherwise specified in the Correction Plan), Customer shall be entitled to terminate this Contract in accordance with the provisions of Article 25.2 (Termination for Contractor's Default).

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***** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

24.2 Key Tasks.

(a) For purposes of this Agreement, each of the following shall be a "Key Task":

Completion Date:	Key Task:
[*****]	[*****]

(b) A Key Task shall be deemed "completed" when each item of such Key Task has been completed in accordance with the requirements of this Contract.

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25. TERMINATION

25.1 Termination for Customer's Convenience.

(a) Customer may, upon written notice to Contractor, at any time, reduce the Nominal Order to the amounts indicated in paragraphs (d) and (e) below and Contractor shall immediately cease performance of the Work on the date specified in the notice to the extent reduced in the manner and to the extent specified below. Notwithstanding the foregoing, as long as Contractor provides the Work in accordance with the requirements of this Contract, Customer intends to obtain the Nominal Order of Repeaters from Contractor, except for reasons due to changes in its financial, technical or business needs.

(b) In the event of partial termination of the Work in accordance with this Article 25.1 (Termination for Customer's Convenience), Customer's notice of termination will specify the portion of the Work terminated and the remaining provisions of this Article 25.1 (Termination for Customer's Convenience) shall apply to such terminated portion. All other portions of the Work shall continue unaffected.

(c) Upon receipt of a notice of termination, as provided in paragraph (a) above, Contractor shall take the following actions:

(1) stop Work under this Contract on the date and to the extent specified in the notice of termination, except those services that are reasonably necessary to be provided in connection with a termination of this Contract;

(2) place no further orders or Subcontracts for materials, services, or facilities to the extent they relate to the performance of the Work terminated;

(3) terminate Subcontracts to the extent they relate to the performance of the Work terminated;

(4) settle all outstanding liabilities and all claims arising out of any termination of Subcontracts for materials, services, or facilities provided Customer pays amounts due under paragraph (e) below;

(5) take such action as may be reasonably necessary, or as Customer may direct, for the protection and preservation of the property related to this Contract that is in the possession of Contractor or any Subcontractor and in which Customer has or may acquire an interest; and

(6) complete wind-down activities within thirty (30) Calendar Days of the effective date of termination.

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***** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(d) From EDC up to and including [*****], Customer may reduce the Nominal Order to no less than [*****] Repeaters ([*****] High Power Repeaters and [*****] Standard Repeaters) with no impact on the unit pricing therefor (as set forth in Exhibit C (Pricing, Milestones and Payment Plan)) or the Delivery Requirements set forth in Exhibit D (Delivery Requirements and Schedule).

(e) Beginning [*****] and continuing throughout the Term of this Contract, Customer may reduce the Nominal Order without impact on the unit pricing therefor as follows:

(1) to no less than [*****] Repeaters ([*****] High-Power and [*****] Standard Repeaters), in which case Customer shall pay Contractor for Contractor's costs (if any) actually incurred, with respect to that part of the Nominal Order terminated, for termination of work-in-progress and termination of contracts for material supplies, plus [*****] of such costs (Customer's maximum liability for such costs (including the [*****] markup) shall not exceed [*****] for termination effective on or before [*****], [*****] for termination effective on or before [*****], [*****] for termination effective on or before [*****] and, [*****] for termination effective any date on or after [*****]), and

(2) to zero (that is, cancel the entire Nominal Order), in which case Customer shall pay Contractor (i) the amounts set forth in paragraph (1) above, (ii) plus the amounts set forth in the following table, (iii) less the sum of any amounts paid pursuant to the ATP and amounts paid under this Contract in respect of NRE Milestone Payment Nos. 1-5:

Termination Date	Amount
[*****]	[*****]
[*****]	[*****]
Feb. 1, 2000-Mar. 31, 2000	$8.0 million
Apr. 1, 2000 and thereafter	$14.0 million

(f) Contractor agrees to use best commercial efforts to minimize costs described in paragraph (e)(1) above. Contractor will provide Customer with documentation and audit rights with respect to such costs.

(g) Contractor shall submit an invoice to Customer for amounts due under this Article 25.1 (Termination for Customer's Convenience) within sixty (60) Calendar Days after the effective date of termination specified in the notice thereof. Contractor shall be entitled to payment by Customer of undisputed amounts in such invoice within thirty (30) Calendar Days after Customer's receipt of the invoice. Payment of such amount by any Financing Entity on behalf of Customer shall relieve Customer from its obligation to make such payment.

(h) Payment of the amount payable by Customer to Contractor pursuant to this Article 25.1 (Termination for Customer's Convenience) shall constitute a total discharge of Customer's

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liabilities to Contractor for termination pursuant to this Article 25.1 (Termination for Customer's Convenience).

(i) Upon payment in full of all amounts outstanding under this Contract, Customer may require Contractor immediately to transfer to Customer in the manner and to the extent directed by Customer, title to and possession of any items comprising all or any part of the Work terminated (including all Work-in-progress, parts and materials, and all inventories, Subcontracts and associated warranties) free and clear of all liens and encumbrances of any kind. Contractor shall, upon direction of Customer, use commercially reasonable efforts to protect and preserve property in the possession of Contractor or its Subcontractors in which Customer has an interest arising out of this Contract and shall facilitate access to and possession by Customer of items comprising all or part of the Work terminated; Customer shall be responsible for costs reasonably incurred by Contractor in protecting and preserving such property. In the event Customer neither takes possession of, nor directs Contractor to protect and preserve the Work, Customer shall be responsible for costs reasonably incurred by Contractor in storing the Work. Upon Customer's request, Contractor shall make a reasonable, good-faith effort to sell such items and to remit any sales proceeds to Customer, less a deduction for costs of disposition reasonably incurred by Contractor for such efforts provided the selling price shall be subject to Customer's prior written approval.

25.2 Termination For Contractor's Default.

(a) Customer may terminate this Contract upon service of written notice of default to Contractor at any time after the occurrence of any of the following:

(1) Contractor fails to deliver the Prototype Repeaters in accordance with the applicable delivery dates hereunder, and Contractor fails to cure such breach within thirty (30) Calendar Days of such delivery dates;

(2) Any of the conditions set forth in paragraph (d) of Article 24 (Default and Correction Plan);

(3) Contractor commits a material breach of any of its duties or obligations hereunder and, except as provided in paragraph (a)(4) below, Contractor fails to cure such breach within thirty (30) Calendar Days of notice thereof; or

(4) with respect to a breach that cannot with due diligence be cured within thirty (30) Calendar Days notice thereof, Contractor fails to proceed promptly and diligently to correct the breach (in which case Contractor shall notify Customer, in writing, within ten (10) Calendar Days of receipt of notice of the breach, describing in reasonable detail the reason such breach cannot be cured in such thirty (30) Calendar-Day period and setting forth a Correction Plan to cure such breach) or fails to cure the breach within sixty (60) Calendar Days of notice of breach or as otherwise agreed in such plan; or

(5) the breach is not subject to cure with due diligence within sixty (60) Calendar Days notice of the breach; or

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(6) Contractor commences a voluntary proceeding concerning itself under any applicable bankruptcy, insolvency, reorganization, adjustment of debt, relief of debtors, or similar law ("Insolvency Law"); or any involuntary proceeding commences against Contractor under an Insolvency Law and the petition has not been dismissed within ninety (90) Calendar Days after commencement of the proceeding; or a receiver or custodian is appointed for or takes charge of all or a substantial portion of the property of Contractor and such custodian or receiver has not been dismissed or discharged within sixty (60) Calendar Days; or Contractor has taken action toward the winding-up, dissolution, or liquidation of Contractor or its business; or Contractor has been adjudicated insolvent or bankrupt or an order for relief or any other order approving a case or proceeding under any Insolvency Law has been entered; or Contractor has made a general assignment for the benefit of creditors or becomes unable to pay its debts generally as they become due. Should Contractor become a debtor in any bankruptcy proceeding, Contractor shall move to assume or reject this Contract within forty-five (45) Calendar Days after the entry of any order for relief; or

(7) Contractor has purported to assign or transfer this Contract in violation of the provisions of Article 28.1 (Assignment) and Contractor fails to cure such unauthorized purported assignment or transfer within thirty (30) Calendar Days after receiving written notice from Customer of the unauthorized purported assignment or transfer.

(b) In the event Customer terminates this Contract pursuant to paragraph (a) above, (i) Customer shall be entitled to have the Work completed by another party or parties and Contractor shall be liable to Customer for damages resulting from such termination, including any reasonable re-procurement costs and commercially reasonable costs of "cover" incurred in connection therewith in excess of the Contract Price, such damages to be actually incurred and invoiced to Contractor in reasonable detail, and for all liquidated damages then due pursuant to Article 7.5 (Liquidated Damages for Late Delivery of Repeaters), and (ii) Customer shall be liable to Contractor for unpaid amounts invoiced hereunder for Milestones completed in accordance with this Contract through the effective date of termination. Nothing contained in this Contract shall be construed so as to obligate Customer to exercise such right to terminate for Contractor's benefit.

(c) Each Party shall submit an invoice to the other Party for amounts due under this Article 25.2 (Termination for Contractor's Default) within sixty (60) Calendar Days after the effective date of termination specified in the notice thereof, which invoice shall state the amounts due from such other Party. Each such invoice shall be deemed accepted by the Party receiving such invoice, unless written notice disputing such invoice is provided to the Party furnishing the invoice within fifteen (15) Business Days after receipt of such invoice. The amounts payable by a Party under this Article 25.2 (Termination for Contractor's Default) shall be verified at such Party's request and expense by a nationally recognized firm of certified public accountants appointed by such Party and reasonably acceptable to the other Party. Each Party's right to verification shall be without prejudice to the rights of either Party under Article 23 (Dispute

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Resolution). Each Party shall be entitled to payment of all undisputed amounts within thirty (30) Business Days after the other Party's receipt of such invoice.

(d) Customer may require Contractor to transfer to Customer in the manner and to the extent directed by Customer, title to and possession of any items comprising all or any part of the Work terminated (including all Work-in-progress, parts and materials, and all inventories, Subcontracts and warranties) free and clear of any liens and encumbrances of any kind. Contractor shall, upon direction of Customer and at Customer's expense, protect and preserve property in the possession of Contractor or its Subcontractors in which Customer has an interest arising out of this Contract and shall facilitate access to and possession by Customer of items comprising all or part of the Work terminated, such expenses to be reimbursed in accordance with the terms of Exhibit C (Pricing, Milestones and Payment Plan). In the event Customer neither takes possession nor directs Contractor to protect the Work, Customer shall be responsible for costs reasonably incurred by Contractor in restoring the Work. Upon Customer's request, Contractor shall make a reasonable good-faith effort to sell such items and to remit any sales proceeds to Customer, less a deduction for costs of disposition reasonably incurred by Contractor for such efforts, provided the selling price shall be subject to Customer's prior written approval.

(e) If, after termination of this Contract under the provisions of paragraph (a) above, it is determined by dispute resolution, pursuant to Article 23 (Dispute Resolution), or admitted in writing by Customer, that Contractor was not in default under the provisions of paragraph (a), or that any delay giving rise to the default was excusable under the provisions of Article 7.9 (Excusable Delay Defined), such termination shall be considered a Termination for Convenience by Customer and the provisions of Article 25.1 (Termination for Customer's Convenience) shall apply.

25.3 Termination for Customer's Default.

(a) Contractor may terminate this Contract upon service of written notice of default to Customer at any time after the occurrence of any of the following events of default:

(1) Customer fails to pay undisputed amounts due hereunder and fails to cure such nonpayment within thirty (30) Calendar Days of written notice thereof; or

(2) Customer commences a voluntary proceeding concerning itself under any applicable bankruptcy, insolvency, reorganization, adjustment of debt, relief of debtors, or similar law ("Insolvency Law"); or any involuntary proceeding commences against Customer under an Insolvency Law and the petition has not been dismissed within ninety (90) Calendar Days after commencement of the proceeding; or a receiver or custodian is appointed for or takes charge of all or a substantial portion of the property of Customer and such custodian or receiver has not been dismissed or discharged within sixty (60) Calendar Days; or Customer has taken action toward the winding-up, dissolution, or liquidation of Customer or its business; or Customer has been adjudicated insolvent or bankrupt or an order for relief or any other order approving a case

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or proceeding under any Insolvency Law has been entered; or Customer has made a general assignment for the benefit of creditors or becomes unable to pay its debts generally as they become due. Should Customer become a debtor in any bankruptcy proceeding, Customer shall move to assume or reject this Contract within forty-five (45) Calendar Days after the entry of any order for relief; or

(3) Customer has purported to assign or transfer this Contract in violation of the provisions of Article 28.1 (Assignment) and Customer fails to cure such purported unauthorized assignment or transfer within thirty (30) Calendar Days after receiving written notice.

(b) Upon the occurrence of an event of default under paragraph (a) above, Contractor shall take the following actions:

(1) stop Work immediately under this Contract and all obligations of Contractor shall terminate hereunder, except those services that are reasonably necessary to be provided in connection with a termination of this Contract;

(2) place no further orders or Subcontracts for materials, services, or facilities to the extent they relate to the performance of the Work;

(3) terminate orders and Subcontracts to the extent they relate to the performance of the Work;

(4) settle all outstanding liabilities and all claims arising out of such termination of orders and Subcontracts for materials, services, or facilities provided Customer pays amounts due under paragraph (c) below; and

(5) take such action as may be reasonably necessary, for the protection and preservation of the property related to this Contract that is in the possession of Contractor or any Subcontractor and in which Customer has or may acquire an interest.

(c) In the event Contractor terminates this Contract as provided in paragraph (a) above, Contractor shall be entitled to payment of the following amounts: (i) all unpaid amounts hereunder for Milestones completed in accordance with this Contract through the effective date of termination; (ii) all unpaid amounts for Work-in-progress on any Milestone that has not been completed as of the effective date of termination, with the payment equal to a percentage of the applicable Milestone Payment that is equal to the percentage of Work actually completed on the applicable Milestone; (iii) reasonable wind-down expenses incurred by Contractor as a result of early termination, including costs associated with terminating Subcontractor and other supplier agreements; and (iv) an amount equal to Contractor's profit reasonably allocable to the Work completed and the Work-in-progress as of the effective date of termination, provided (A) profits shall be reasonably allocable only to the extent Contractor can reasonably demonstrate the amount of profit it would have earned had the Work under the Contract been completed (excluding Work related to any unexercised option hereunder) and the portion of total profits

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claimed is in direct proportion to the amount of Work completed and Work-in-progress as of the effective date of termination compared to the total amount of Work under the Contract (excluding Work related to any unexercised option hereunder) and (B) such allocable profits have not been, or will not be, otherwise recovered by Contractor hereunder (for example, through amounts previously paid by Customer or amounts payable under (i) and (ii) above). In no event shall the amounts payable pursuant to this Article 25.3 (Termination for Customer's Default) exceed the Contract Price less amounts paid prior to termination.

(d) In the event Contractor terminates this Contract as provided in paragraph (a) above, the invoicing and payment provisions of paragraph (g) of Article 25.1 (Termination for Customer's Convenience) shall apply.

(e) Payment of the amount payable by Customer to Contractor pursuant to paragraph (c) above shall constitute a total discharge of Customer's liabilities to Contractor for termination pursuant to this Article 25.3 (Termination for Customer's Default).

(f) Upon payment in full of all amounts outstanding under this Contract, Customer may require Contractor immediately to transfer to Customer in the manner and to the extent directed by Customer, title to and possession of any items comprising all or any part of the Work terminated (including all Work-in-progress, parts and materials, and all inventories, Subcontracts and warranties) free and clear of any liens and encumbrances of any kind, and Contractor shall, upon direction of Customer, protect and preserve property in the possession of Contractor or its Subcontractors in which Customer has an interest arising out of this Contract and shall facilitate access to and possession by Customer of items comprising all or part of the Work terminated; Customer shall be responsible for costs reasonably incurred by Contractor in protecting and preserving such property. In the event Customer neither takes possession nor directs Contractor to protect the Work, Customer shall be responsible for costs reasonably incurred by Contractor in storing the Work. Upon Customer's request and at Customer's expense, Contractor shall make a reasonable, good-faith effort to sell such items and to remit any sales proceeds to Customer less a deduction for costs of disposition reasonably incurred by Contractor for such efforts.

(g) Except as expressly stated in this Article 25.3 (Termination for Customer's Default), Contractor shall have no right to terminate or suspend this Contract.

25.4 Termination/Expiration Assistance.

(a) Commencing upon notice of termination and continuing through the effective date of termination or expiration of this Contract, as applicable, Contractor shall provide to Customer, or at Customer's request to Customer's designee, the reasonable termination/expiration assistance requested by Customer to allow the Work to continue without interruption or adverse effect and to facilitate the orderly transfer of the Work to Customer or its designee; provided, however, that Customer has paid all outstanding invoices. Such assistance shall include the following:

(1) Contractor shall continue to perform all warranty services as set forth in Article 17 (Representations and Warranties) with respect to all materials and equipment furnished by Contractor hereunder;

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(2) Contractor shall assign, to the extent assignable, to Customer all O.E.M. (Original Equipment Manufacturers') component warranties, and Subcontractors', or other warranties on all materials or equipment furnished by Contractor hereunder. Where non-assignable, Contractor shall use its best commercial efforts to obtain for Customer's benefit all such warranties; and

(3) except in the case of termination pursuant to Article 25.1 (Termination for Customer's Convenience), upon Customer's request, Contractor shall assign to Customer or its designee the Material Subcontracts, as well as any and all Subcontracts requested by Customer, provided that such Material Subcontracts and other Subcontracts are assignable.

(b) Customer shall pay Contractor for termination/expiration assistance in accordance with the pricing set forth in Exhibit C (Pricing, Milestones and Payment Plan), provided, however, that in the event Contractor terminates the Contract due to Customer's failure to pay undisputed amounts, Contractor shall be entitled to payment in advance for termination/expiration assistance.

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26. OPTIONS

26.1 Option to Purchase Additional Repeaters.

(a) In addition to the total number of Repeaters Contractor shall deliver and Customer shall purchase pursuant to this Contract, Customer may, at its sole option and discretion, elect to purchase additional Repeaters from Contractor for delivery following the Project Completion Date.

(b) Customer may exercise this option to purchase additional Repeaters at any time commencing at EDC and continuing up to and including the [*****] anniversary of the Project Completion Date (the "Repeater Option Period").

(c) The unit price for optional Repeaters shall be determined in accordance with Exhibit C (Pricing, Milestones and Payment Plan).

(d) Upon exercise of any such option, (i) the Parties shall mutually agree upon a reasonable delivery schedule and (ii) Customer shall indicate in writing the number of Standard Repeaters and High-Power Repeaters to comprise the total number of optional additional Repeaters ordered. The warranty terms, including the applicable Warranty Period, set forth in Article 17 (Representations and Warranty) shall also apply to any optional Repeaters purchased by Customer; provided, however, the Warranty Period shall commence upon acceptance by Customer of each optional Repeater in accordance with Article 8 (Testing Criteria and Acceptance).

26.2 Network Management System - Video Wall.

At any time commencing at EDC and continuing up to and including the [*****] anniversary of EDC (the "NMS Video Wall Option Period"), Customer may, at its sole option and discretion, elect to purchase a full-motion "video wall" for use in conjunction with the Network Management System. The charge for such "video wall" is set forth in Exhibit C (Pricing, Milestones and Payment Plan). The warranty coverage, including the applicable Warranty Period, for the full-motion "video wall" shall be consistent with the warranty coverage applicable to the Network Management System, as set forth in Article 17.12 (Remedies (Network Management System)); provided, however, the Warranty Period shall commence upon Customer's acceptance of the full-motion "video wall." If Customer elects to exercise this option, Customer shall provide written notice thereof to Contractor and the Parties shall mutually agree upon a reasonable delivery schedule for the optional "video wall" as well as applicable test plans and procedures and acceptance criteria.

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26.3 Annual Maintenance of NMS.

On or before [*****], Contractor shall provide Customer with a proposal for annual maintenance of the NMS, such proposal to include a firm fixed price not to exceed [*****], a description of services, standards of performance and response times, payment plan and renewal procedures.

26.4 Contract Adjustments.

Should Customer exercise any of the options described in this Article 0 (Options), the Parties shall execute Amendment(s) as soon as is reasonably possible after option exercise to incorporate the schedule adjustments, price adjustments, payment schedule adjustments, and changes to the Exhibits and other terms and conditions as made necessary by such exercise. Except as otherwise provided in this Article 0 (Options), the terms of this Contract shall apply to any such options.

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27. [*****]

The Parties recognize that this program may be [*****] and that some form [*****] may be requested from Contractor in connection with such [*****].

In the event that Customer desires Contractor to [*****], Customer will submit a detailed description of such [*****] for Contractor's review and consideration. Contractor agrees to promptly review such request and notify Customer if [*****] after considering the terms thereof, the status of the program, the risks associated with the [*****] and financial, economic and other information as Contractor may deem reasonable or desirable.

The parties further agree that the above statements do not [*****] or the terms thereof.

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28. GENERAL

28.1 Assignment.

(a) Contractor shall not, without the prior written approval of Customer and except on such terms and conditions as shall be reasonably acceptable to Customer, assign, mortgage, charge, or encumber this Contract or any part thereof, any of its rights, duties, or obligations hereunder, or the Work to any person or entity, provided that: (i) nothing in this Article shall be construed as limiting Contractor's right to enter into Subcontracts in respect of the Work and (ii) Contractor shall have the right to assign or transfer this Contract or all of its rights, duties, or obligations hereunder to: (x) any Affiliate of Contractor, or (y) any corporation in connection with the sale, transfer or assignment of all or substantially all of Contractor's assets or capital stock, whether by way of merger, consolidation or otherwise, subject to the following conditions: (A) in the case of a transfer to an Affiliate, the net worth of such Affiliate is not less than the net worth of Contractor immediately prior to such transfer and, in the reasonable discretion of Customer, such Affiliate has the experience, resources, and personnel required to perform the Work in accordance with this Contract; (B) in the case of a transfer or assignment contemplated in clause (y), immediately after giving effect to such transaction or series of related transactions, the net worth of Contractor (or in the event Contractor is not the continuing person, the net worth of the person or entity formed by such consolidation or into which Contractor is merged or to which its properties are transferred substantially as an entirety) shall be no less than the net worth of Contractor immediately before such transaction or series of related transactions, and in the case of the sale of all or substantially all of the assets of Contractor, the assignee or transferee, in the reasonable discretion of Customer, has the experience, resources and personnel required to perform the Work in accordance with this Contract; and (C) the assignee, transferee or successor to Contractor has expressly assumed all the obligations of Contractor and all terms and conditions applicable to Contractor under this Contract pursuant to an assumption agreement (between Contractor and assignee or transferee) in form and substance reasonably satisfactory to Customer.

(b) Customer shall not, without the prior written approval of Contractor, assign, transfer, mortgage, charge, or encumber this Contract, any part thereof, or any of Customer's rights, duties or obligations hereunder, provided that Contractor hereby agrees that Customer may make any assignment or transfer of this Contract to (i) any or all Financing Entities in connection with obtaining financing for the payment of Contractor's invoices and any and all other fees, charges or expenses payable under this Contract under any Financing Agreement, (ii) as part of any collateral pool in favor of other senior lenders providing financing to Customer in connection with completion of the Terrestrial Repeater Network System facility and related equipment and (iii) any Affiliate of Customer provided that in the case of a transfer to an Affiliate, the Affiliate has sufficient financial resources to fulfill its obligations under this Contract. Customer hereby agrees that, prior to entering into any contract or agreement to sell or transfer this Contract, the acquirer shall agree to assume this Contract and all of Customer's rights, duties and obligations hereunder pursuant to an assumption agreement (between Customer and assignee or transferee) in form and substance reasonably satisfactory to Contractor.

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(c) The assigning Party shall reimburse the other Party for all reasonable expenses incurred by the other Party (and invoiced in reasonable detail) in obtaining advice from its external financial and legal advisors relating to the assigning Party's proposed assignment or transfer.

(d) This Contract shall be binding on the Parties and their successors and permitted assigns. Except as otherwise expressly agreed in writing, assignment of this Contract shall not relieve the assigning Party of any of its obligations nor confer upon the assigning Party any rights except as provided in this Contract.

28.2 Entire Agreement.

This Contract contains the entire agreement between the Parties regarding the Work hereunder and supersedes all communications, negotiations, and other agreements either written or oral, relating to the Work and made prior to EDC, unless the same are expressly incorporated by reference into this Contract. Without limiting the generality of the foregoing, this Contract supersedes and replaces the Authorization to Proceed, executed by Customer and Contractor on October 22, 1999, and the rights, liabilities and obligations of the Parties with respect to the Work performed under such Authorization to Proceed shall be governed by this Contract and deemed performed hereunder.

28.3 Amendments.

Except as otherwise expressly permitted in Article 7.2 (Time and Place of Delivery), this Contract, including any and all its Attachments, Exhibits and Schedules, may not be modified except by written instrument of subsequent date signed by a duly authorized representative of Contractor and a Senior Vice President or the President of Customer.

28.4 Waiver of Breach of Contract.

A waiver of any provision or any breach of a provision of this Contract shall not be binding upon either Party unless the waiver is in writing, signed by a duly authorized representative of the Party, as applicable, and such waiver shall not affect the rights of the Party not in breach with respect to any other or future breach. No course of conduct by a Party shall constitute a waiver of any provision or any breach of a provision of this Contract unless a written waiver is executed in accordance with the provisions of this Article 28.4 (Waiver of Breach of Contract).

28.5 Remedies Cumulative.

All remedies provided for in this Contract shall be cumulative and in addition to and not in lieu of any other remedies available to either Party at law, in equity and/or otherwise.

28.6 Severability.

In the event any one or more of the provisions of this Contract shall for any reason be held to be invalid or unenforceable, the remaining provisions of this Contract shall be unimpaired and the invalid or unenforceable provision shall be replaced by a mutually acceptable provision,

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which, being valid and enforceable, comes closest to the intention of the Parties underlying the invalid or unenforceable provision.

28.7 Applicable Law.

Except as provided in Article 23 (Dispute Resolution), this Contract and performance under it shall be governed by, construed and enforced in accordance with the Laws in force in the State of New York, without regard to conflict of laws provisions thereof other than Section 5-1401 of the General Obligations Law of the State of New York or to the United Nations Convention on Contracts for the International Sale of Goods.

28.8 Notices.

(a) All notices, requests, demands, and determinations under this Contract, including any required under Article 28.1 (Assignment) (other than routine operational communications) shall be in writing and shall be deemed duly given (i) if delivered by hand, when delivered, (ii) if delivered by express courier, two (2) Business Days after being given to an express courier with a reliable system for tracking delivery, or (iii) if delivered by facsimile, when sent by facsimile (confirmed by the specific individual to whom the facsimile is transmitted) with a copy sent by another means specified in this Article 28.8 (Notices), and addressed as follows:

If to Customer:

XM Satellite Radio Inc.
1250 23rd Street, NW
Suite 57
Washington, DC 20037
Tel. No.: 202-969-7074
Fax No.: 202-969-7124
Attention: Joseph M. Titlebaum, Esq.

Copy to:
John R. Wormington
Senior Vice President
Engineering and Operations

If to Contractor: Hughes Electronics Corporation
c/o Hughes Network Systems
10450 Pacific Center Ct.
San Diego, CA 92121
Tel. No.: 858-452-4717
Fax No.. 858-457-4994
Attention: Neil Wilson

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Copy to:
Site Counsel
10450 Pacific Center Ct.
San Diego, CA 92121

(b) A Party may from time to time change its address or designee for notification purposes by giving the other Party prior written notice of the new address or designee and the date upon which it will be effective.

28.9 Relationship of the Parties.

(a) Contractor, in performing the Work hereunder, is acting as an independent Contractor, and Contractor has the sole right and obligation to supervise, manage, contract, direct, procure, perform, or cause to be performed, all Work to be performed by Contractor under this Contract.

(b) None of the provisions of this Contract or of any of its Attachments, Exhibits or Schedules shall be construed to mean that either Party is appointed or is in any way authorized to act as an agent of the other Party or that there exists a joint venture, partnership, agency or formal business organization of any kind between the Parties.

28.10 Media Releases.

All media releases, public announcements, and public disclosures by either Party relating to this Contract or the subject matter of this Contract, including promotional or marketing material (both internal and external), but not including announcements intended solely for internal distribution or to meet legal or regulatory requirements beyond the reasonable control of the disclosing Party, shall be coordinated with and approved by the other Party prior to release.

28.11 Calculation of Interest.

Except as otherwise specified in this Contract, any interest due to either Party under this Contract shall be calculated at the annual rate equal to the three (3) month London Interbank Offer Rate (LIBOR) for U.S. Dollars plus [*****].

28.12 Survival.

The following Articles, and the provisions contained therein, shall be deemed to survive the termination (for any reason) or expiration of this Contract, and, accordingly, such Articles shall remain applicable and enforceable in accordance with their terms:

(a) Article 1 (Definitions);

(b) Article 7.5 (Liquidated Damages for Late Delivery of Repeaters);

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(c) Article 7.9 (Excusable Delay Defined);

(d) Article 8.5 (Title and Risk of Loss);

(e) Article 13 (Technical Materials Escrow);

(f) Article 14 (Intellectual Property Rights);

(g) Article 15 (Confidentiality);

(h) Article 17 (Representations and Warranties);

(i) Article 18 (Contractor's Additional Representations and Warranties);

(j) Article 19 (Customer's Representations and Warranties);

(k) Article 21 (Indemnification);

(l) Article 23 (Dispute Resolution);

(m) Article 24 (Termination);

(n) Article 28.7 (Applicable Law);

(o) Article 28.11 (Calculation of Interest); and

(p) Article 28.18 (Covenant of Good Faith).

28.13 No Third-Party Beneficiaries.

This Contract is entered into solely between, and may be enforced only by, Customer and Contractor and their permitted assigns, and this Contract shall not be deemed to create any rights in third parties, including suppliers and owners of a Party, or to create any obligations of a Party to any such third parties.

28.14 Consents and Approvals.

Except where expressly provided as being in the sole discretion of a Party, where agreement, approval, acceptance, consent, or similar action by either Party is required under this Contract, such action shall not be unreasonably delayed or withheld An approval or consent given by a Party under this Contract shall not relieve the other Party from responsibility for complying with the requirements of this Contract, nor shall it be construed as a waiver of any rights under this Contract, except as and to the extent otherwise expressly provided in such approval or consent.

28.15 Lender Requirements.

(a) The Parties recognize Customer may obtain financing for the amounts due in respect of this Contract and the construction of its Terrestrial Repeater Network and related equipment

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

facilities and services through external sources. Contractor shall provide to any Financing Entity any project information or certification that such Financing Entity reasonably requires (subject to confidentiality agreements governing such project information).

(b) Contractor agrees to work cooperatively with Customer in connection with Customer's efforts to obtain financing for the Work, including the financing described in Article 27 (Contractor Guarantee).

(c) Contractor agrees to execute such documents as may be reasonably required by any Financing Entity, including such documents, instruments, contracts, agreements and amendments to this Contract that may be required in connection with Customer's assignment of this Contract to such Financing Entity under terms that are customary in the secured financing of Work of this nature, provided Contractor's rights and obligations with respect to the Contract Price, time of performance and/or other economic terms under this Contract are not materially adversely affected by any such amendment to this Contract or, in the event of such material adverse effect, the Parties execute a Change Order resolving such material adverse effect.

28.16 No Solicitation.

During the period of performance of the Work and for one (1) year following the Project Completion Date, neither Party shall, directly or indirectly, solicit for employment, employ or engage for consulting services any employee or consultant of the other Party, or any individual who was an employee or consultant of the other Party during the six (6) month period immediately preceding such hiring or solicitation.

28.17 Time of the Essence.

Time is of the essence in this Contract, including with respect to the resolution of any Disputes between the Parties under Article 25 (Termination).

28.18 Covenant of Good Faith.

Each Party agrees that, in respective dealings with the other Party under or in connection with this Contract, it shall act in good faith

28.19 Counterparts.

This Contract may be executed in two (2) or more counterparts, which taken together constitute one single contract between the Parties.

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IN WITNESS WHEREOF, the Parties have made and executed this Contract effective as of the Effective Date of this Contract.

XM SATELLITE RADIO INC.	HUGHES ELECTRONICS CORPORATION
By: /s/ John R. Wormington	By: /s/ James F. Gandolfi
(Signature)	(Signature)
Name: John R. Wormington	Name: James F. Gandolfi
(Print)	(Print)
Title: Senior Vice President-- Engineering and Operations	Title: Vice President

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

*****Confidential treatments has been requested for portions of this agreement. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as [*****]. A complete version of this agreement has been filed separately with the Securities and Exchange Commission.

CONTRACT

FOR

THE DESIGN, DEVELOPMENT AND PURCHASE OF

TERRESTRIAL REPEATER EQUIPMENT

BY AND BETWEEN

XM SATELLITE RADIO INC.

AND

HUGHES ELECTRONICS CORPORATION

EXHIBIT A

TECHNICAL SPECIFICATIONS

CONFIDENTIALITY NOTICE

This attached Contract and the information contained herein is confidential to XM Satellite Radio Inc. and Hughes Electronics Corporation, and shall not be published or disclosed to any third party without the express written consent of a duly authorized representative of XM Satellite Radio Inc. and Hughes Electronics Corporation.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

***** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

[*****] This entire Exhibit A has been redacted for confidentiality reasons.

CONFIDENTIAL

*****Confidential treatments has been requested for portions of this agreement. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as [*****]. A complete version of this agreement has been filed separately with the Securities and Exchange Commission.

CONTRACT
FOR
THE DESIGN, DEVELOPMENT AND PURCHASE OF
TERRESTRIAL REPEATER EQUIPMENT

By and Between

XM SATELLITE RADIO INC.

and

HUGHES ELECTRONICS CORPORATION

EXHIBIT B

STATEMENT OF WORK (SOW)

CONFIDENTIALITY NOTICE

This attached Contract and the information contained herein is confidential to XM Satellite Radio Inc. and Hughes Electronics Corporation, and shall not be published or disclosed to any third party without the express written consent of a duly authorized representative of XM Satellite Radio Inc. and Hughes Electronics Corporation.

EXHIBIT B

STATEMENT OF WORK

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Revision Log

Rev	Author	Summary of changes to previous versions	Date	Approval
-		Initial Release		

EXHIBIT B

STATEMENT OF WORK

1. INTRODUCTION

1.1 Purpose and Scope.

(a) This Statement of Work (SOW) defines the Work to be performed by Contractor in support of Customer's Terrestrial Repeater Network System program. This Work includes the design, development, engineering, manufacture, testing, and delivery of Prototype Standard and High Power Repeaters and Production Standard and High Power Repeaters, together with the Network Management System (NMS) and other deliverable equipment, hardware, software, services and documentation. Contractor shall complete this Work in accordance with the terms and conditions of the Contract and the requirements specified herein.

(b) Defined terms herein shall have the meaning set forth in the Contract, unless otherwise specified herein.

(c) In the event that Customer elects to exercise any option set forth in the Contract, Contractor shall provide or perform such option as required by the Contract.

1.2 Applicable Documents.

The following documents are applicable to this Statement of Work to the extent specified in the Contract. Unless otherwise specified, the latest issue of each of the following documents shall be applicable.

(a) Exhibit A (Design Specifications);

(b) ISO9001-1994, Quality Systems - Model for Quality Assurance in Design/Development, production, Installation and Servicing International Standards Organization;

(c) DARS System: Waveform Requirements - Transport Layer (DARS-FHG-FDSC-602-110000), Edition 05, Revision 01) XM-SYS-0-0001-RD Revision 1.1;

(d) DARS System: Waveform Requirements - Satellite Physical Layer (DARS-FHG-FDSC-608-110000, Edition 03, Revision 01) XM-SYS-0-0004-RD Revision 0; and

(e) DARS System: Waveform Requirements - Terrestrial Physical Layer (DARS-FHG-FDSC-601-110000, Edition 03, Revision 01), XM-SYS-0-0004-RD Revision 0.

1.3 Glossary.

A glossary of acronyms and other terms is attached hereto as Attachment No. 1 to this Exhibit B (Statement of Work).

1.4 Responsibility.

Contractor is fully responsible for the performance of all other tasks identified herein, unless otherwise expressly stated herein. Contractor shall also deliver the Data and Documentation data specified herein.

2. SCHEDULE

The Contract shall be performed in accordance with Exhibit D (Delivery Schedule) and the Milestone schedules set forth in Exhibit C (Pricing, Milestones and Payment Plan).

3. EQUIPMENT AND TOOLS

3.1 Introduction.

(a) This Section 3 (Equipment and Tools) defines the hardware and equipment to be delivered by Contractor hereunder, including the Repeaters, the NMS and related hardware, Software and other deliverable items.

(b) The Work to be performed with respect to such hardware and equipment deliverables includes:

(1) Design, development, engineering, manufacture, testing, and delivery of all such deliverables identified in the Contract;

(2) provision of warranty support and training.

3.2 Repeater Description.

(a) The Repeaters shall provide terrestrial re-broadcasting of Customer's DARS programming and include the following key subsystems:

(1) A High-Powered Amplifier (HPA) subsystem, which amplifies the signal received from Customer's satellites for re-transmission by each Repeater;

(2) A Signal Processing System (SPS), which converts the QPSK signal received from Customer's satellites into the MCM signal, which signal is then re-transmitted by each Repeater;

(3) A controller which monitors the operations of the amplifier, the SPS, environmental sensors, etc., and interfaces with the NMS in reporting the status of the various components; and

***** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(4) A transmit filter which limits the out-of-band emissions of the transmitter.

(b) The Repeaters and the NMS each shall be capable of satisfactory operation for a period of seven (7) years commencing upon the Project Completion Date.

(c) Contractor shall design, develop, engineer, manufacture, test, and deliver the types of Repeaters specified below to meet the technical and operational requirements of the Contract.

3.3 Standard Prototype Repeaters.

Contractor shall design, develop, engineer, manufacture and test (in accordance with Exhibit E (Test Plans and Procedures)) seven (7) Prototype Standard Repeaters and shall deliver such fully-operational Prototype Standard Repeaters to the location(s) specified in Exhibit D (Delivery Schedule), all in conformance with the requirements of Exhibit A (Design Specifications).

3.4 High-Power Prototype Repeater.

Contractor shall design, develop, engineer, manufacture and test (in accordance with Exhibit E (Test Plans and Procedures)) one (1) Prototype High-Power Repeater and shall deliver such fully-operational Prototype High-Power Repeater to the location specified in Exhibit D (Delivery Schedule), all in conformance with the requirements of Exhibit A (Design Specifications).

3.5 Standard Production Repeaters.

Contractor shall design, develop, engineer, manufacture and test (in accordance with Exhibit E (Test Plans and Procedures)) [*****] Standard Repeaters and shall deliver such Standard Repeaters to the location(s) specified in Exhibit D (Delivery Schedule), all in conformance with the requirements of Exhibit A (Design Specifications). Of this total number of Standard Repeaters, Customer shall notify Contractor, in accordance with Article 7.1 (Repeater Category Selection) of the Contract, how many Standard Repeaters shall be Standard Non-Redundant Repeaters and how many shall be Standard Sectored Non-Redundant Repeaters.

3.6 High-Power Production Repeaters.

Contractor shall design, develop, engineer, manufacture and test (in accordance with Exhibit E (Test Plans and Procedures)) [*****] High-Power Repeaters and shall deliver such High-Power Repeaters to the location(s) specified in Exhibit D (Delivery Schedule), all in conformance with the requirements of Exhibit A (Design Specifications). Of this total number of High-Power Repeaters, Customer shall notify

Contractor, in accordance with Article 7 1 (Repeater Category Selection) of the Contract, how many High-Power Repeaters shall be High-Power Redundant Repeaters and how many shall be High-Power Sectored Redundant Repeaters.

3.7 Network Management System

Contractor shall design, develop, engineer, manufacture and test (in accordance with Exhibit E (Test Plans and Procedures)) the fully operational NMS and shall deliver and install such NMS to and at the location specified in Exhibit D (Delivery Schedule), all in conformance with the requirements of Exhibit A (Design Specifications).

3.8 Test Equipment.

(a) Contractor shall provide a list of test equipment for the purpose of performance verification and field troubleshooting and maintenance of accepted Repeaters.

(b) Routine calibration of the test equipment shall be performed in accordance with the manufacturer's recommendations that are contained in the operation and maintenance manuals for that equipment.

(c) Contractor shall, at its expense, provide all necessary test facilities for fault diagnosis and repair of faulty Repeaters and LRUs, which are returned to Contractor during the applicable warranty periods, as such periods may be extended.

3.9 Special Tools.

Contractor shall identify all special tools required to operate, adjust, tune, maintain, replace or repair the Repeaters or any LRUs. Where routine calibration of special tools is required, adequate calibration instruction shall be provided.

4. DATA AND DOCUMENTATION

4.1 General.

(a) Customer shall have access as needed to all non-financial Data and Documentation and other information related to the Contract that is generated under or in the performance of this Contract by Contractor and its Subcontractors. Certain specific items of information shall be produced and formally submitted to Customer by Contractor as specified herein.

(b) Contractor agrees to furnish and convey, at no charge, all Documents pertaining to the Repeaters, the NMS and other items to be delivered under this Contract as is necessary to permit Customer to use, operate and maintain the Repeaters, NMS and other deliverable items. For purposes of this Statement of Work, "Documents" includes specifications, drawings, procedures, reports (including inspection, test or incident reports), certificates, training documentation, user manuals, or other materials,

documents, reports, lists, procedures, data, or similar items. All Documents specified herein are a subset of Data and Documentation.

(c) Contractor shall deliver to Customer at least five (5) sets of such Documents, and Customer may make copies of such Documents for its use, including use in connection with the use, operation and maintenance of Repeaters (including at each location to which such Repeaters may be deployed), the NMS and other deliverable items; provided that all such copies shall contain the legends placed on the original versions thereof.

(d) In addition to the rights set forth in paragraph (c), Contractor hereby grants to Customer the right to modify and enhance such Documents. Customer also has the right to make copies of such modifications and enhancements and distribute the same. In the event Customer modifies the Documents in a manner not directed or approved by Contractor, Contractor will not be responsible for Customer's use of such Documents to the extent it is modified by Customer. Contractor may review Customer's modifications and enhancements to such Documents.

(e) Contractor shall supply Data and Documentation in each of the following categories for the items to be delivered hereunder:

(1) System;

(2) Maintenance;

(3) Operations; and

(4) Quality Assurance (QA) and Configuration and Data Management (CADM).

4.2 Deliverable Documents.

(a) All Data and Documentation to be delivered under the Contract to Customer shall be in the version of tools and/or file formats specified in Table 4-A (Tool/File Format Requirements) below:

Table 4-A

Tool/File Format Requirements

Project Schedules	MS Project 95
Written Documents	MS Word 97
Spreadsheets	MS Excel 97
Presentations	MS PowerPoint 97

Diagrams	Visio 5.0
Graphics	GIF or JPEG format

(b) Contractor shall provide Customer with five (5) sets of each type of Document specified in Table 4-B (Document Requirements List) related to the Repeaters, the NMS and other deliverable items and services to be delivered or provided pursuant to the Contract. Contractor shall be responsible for maintaining the currency of the Documents, and shall forward copies of all changes and revisions to Customer. The submission requirements of these Documents shall be in accordance with Table 4-B (Document Requirements List). In addition, Contractor shall provide Customer with one (1) copy of each Document, upon its initial issue and at each formal re-issue, on suitable magnetic media designated by Customer.

(c) The Documents shall include, at a minimum, those Documents described in the following Table 4-B and shall be subject to the approval or review of Customer, as specified in such Table.

Table 4-B

Document Requirements List

Item	Submission Requirements	Submission Criteria	No of Copies	Comments
Management Plan	EDC	Approval	5	
Interface Control Documents	EDC, FDR	Approval	5	Detailed at EDC Final at FDR
Power and Thermal Budgets	EDC, FDR	Review	5	Detailed at EDC Final at FDR
Unit Performance Requirements	FDR	Review	5	
Glossary	EDC, FDR	Information	5	
Progress Report	Monthly	Information	5	
Design Review Notification	2 weeks before review	Information	2	
Design Review Documents	1 week before review	Review	5	See relevant section for detailed description

*****Confidential information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to to the omitted portions.

Table 4-B

Document Requirements List

Item	Submission Requirements	Submission Criteria	No of Copies	Comments
Detailed Repeater system specification(s) and descriptions of all Repeaters and the NMS to be delivered hereunder	FDR	Approval	5	
Interface Requirements	1 week before review	Approval	5	
Prototype Test Plan and Procedures (including for individual LRUs)	[*****]	Approval	5	Shall address Design Verification, In-Factory, Rooftop, and High-Power Installation Site Testing of Repeaters.
Production Test Plan and Procedures (including for individual LRUs)	[*****]	Approval	5	Shall address Design Verification, In-Factory, Rooftop, and High-Power Installation Site Testing of Repeaters Shall address Design Verification, In-Factory, and Site Installation Testing of NMS.
Notification of Acceptance Test	2 weeks before test start	Approval	5	
Final Test Report	Within one week of test completion	Approval	5	
Notification of Shipment	15 days before shipment	Information	5	
System documentation (user &maintenance	[*****]	Approval	5	

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Table 4-B

Document Requirements List

Item	Submission Requirements	Submission Criteria	No of Copies	Comments
manuals)				
Training Program	FDR	Approval	5	
QA Plan	EDC, FDR	Approval	5	
CADM Plan	EDC, FDR	Approval	5	
QA Procedures	As Requested	Information	0	These procedures will be made available for review at Contractor's facility
List of Spares	FDR	Approval	5	

4.3 Language.

(a) All documents shall be in the English language.

(b) Contractor shall maintain consistency in nomenclature in all documentation. Contractor shall use and update as necessary the standard glossary of terms attached hereto.

4.4 Documents Categories.

All documents shall be classified into the following categories. Documents for approval or review shall be submitted in five (5) copies plus a single copy on suitable magnetic media and in a format as listed in Table 4-A (Tool/File Format Requirements).

(a) Approval.

(1) A Document requiring Customer approval shall be received, reviewed and approved by Customer prior to its planned use and/or implementation by Contractor.

(2) If Customer approves such Document, Customer shall sign the Document and notify Contractor in writing of its approval within ten (10) Business Days after its receipt of such Document from Contractor. Such Document shall be deemed approved if Customer fails to deliver its written approval or a notice of disapproval (pursuant to paragraph (a)(3) below) to Contractor within such ten (10) Business Day period.

(3) If the Document is not approved by Customer, Customer shall notify Contractor within ten (10) Business Days after its receipt of the Document from Contractor of those parts of the Document which cannot be approved, together with the reasons for the disapproval, and instructions concerning the submission of the revised Document.

(4) The use by Contractor of a document in the "Approval" category, prior to receipt by Contractor of Customer's written approval, shall be at Contractor's own risk and expense.

(b) Review.

(1) A Document required to be submitted by Contractor for review by Customer, shall be delivered to Customer prior to its planned use and/or implementation by Contractor.

(2) If Customer's review reveals inadequacies in the Document, Customer shall, within ten (10) Business Days after receipt of the Document by Customer, inform Contractor of such inadequacies and the part(s) of the Document to be altered. Customer may also recommend actions and give re-submission instructions according to the character of the inadequacies.

(3) The use or implementation by Contractor of a document in the "Review" category prior to the lapse of the ten (10) Business Day period referenced above or prior to the incorporation of Customer's comments or the completion of other corrective action acceptable to both Parties shall be at Contractor's own risk and expense.

(c) Information.

A Document required to be submitted for information purposes only shall be sent to Customer promptly upon issuance and approval of the Document by Contractor.

4.5 System Documentation.

(a) Ten (10) Business Days prior to commencement of In-Factory Testing of the Prototype Repeaters, Contractor shall provide a complete set of documentation for all deliverable items to be tested by Contractor. The "System Documentation" shall include the following elements:

(1) An Operations Manual shall cover the functions of the Repeaters and the NMS, describing and interrelating the major features, and shall consist of a description, the operating parameters, operations and maintenance, and recommended troubleshooting procedures at system level.

(2) Documentation for all Software and firmware contained within or related to each Repeater and the NMS, together with listings of self-documented source code. Software source code delivered on magnetic medium may be substituted for software listings.

(3) For all equipment that includes a high-level graphic interface, details concerning each elementary function that an operator can perform by detailing the successive selection of Graphic Unit Interfaces (GUIs).

4.6 Maintenance Documentation.

Contractor shall specify and describe routine and preventive maintenance guidelines and procedures and troubleshooting procedures in the Operations Manual. A corrective maintenance manual shall also be provided, in which the failure and maintenance reporting procedures and philosophy are indicated.

4.7 Operations Documentation.

Ten (10) copies of "Station Operator's Manuals" shall be provided by Contractor with respect to the Repeaters, NMS and other hardware, Software or related equipment to be provided by Contractor hereunder, including:

(a) equipment configuration and functional settings;

(b) manual operation of Contractor-supplied equipment; and

(c) recommended maintenance schedules and procedures.

4.8 Quality Assurance and CADM Documentation.

The QA and CADM documentation shall consist of:

(a) A Quality Assurance Plan, as set forth in Exhibit F (Quality Assurance Plan).

(b) Quality Assurance Reports, which reports shall be generated as required by Exhibit F (Quality Assurance Plan), and shall include descriptions of failures, repairs, re-tests, and the results of the required audits. The QA report may be delivered as part of the weekly progress report.

(c) CADM Documentation, including a CADM Plan and Procedures which describes Contractor's methodology of referencing documents, format of documents and control of updating documents. A current list of the latest approved versions of all Documentation issued shall be maintained and provided to Customer.

4.9 Progress Reporting.

Contractor shall prepare and submit to Customer's Program Manager reports on the progress of the program, at monthly intervals ("Progress Reports"). Contractor shall

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submit five (5) sets of each Progress Report to Customer, which reports shall include the following:

(a) progress made since the previous report;

(b) resolution of previous problems and action items;

(c) newly identified technical problems and action items;

(d) work plan for the upcoming month;

(e) overall schedule progression and the impact of problems on the schedule;

(f) action items requiring Customer assistance;

(g) details on Subcontractor schedules;

(h) action items in progress; and

(i) tests planned for the upcoming month, including tests planned by any Subcontractor.

5. SERVICES

(a) *Testing*. Contractor shall perform all required testing, including Design Verification, In-Factory , and Rooftop Testing for the Prototype and Production Standard Repeaters; Design Verification, In-Factory, and High-Power Installation Site Testing for the Prototype and Production High-Power Repeaters; and Design Verification, In-Factory, and Site Installation Testing for the NMS, as specified in Exhibit E (Test Plans and Procedures) (to be developed hereunder).

(1) Rooftop Testing of the Standard Repeaters shall demonstrate successful mating and operation of all LRUs and associated hardware; successful operation of the Repeater controller and its interface with the NMS; and successful operation of the complete Repeater in accordance with Exhibit A (Design Specifications).

(2) High-Power Installation Site Testing of the High Power Repeaters shall demonstrate successful mating and operation of the Enclosure Kit and the Klystron Kit and associated hardware; successful operation of the Repeater controller and its interface with the NMS; and successful operation of the complete Repeater in accordance with Exhibit A (Design Specifications).

(3) Site Installation Testing of the NMS shall demonstrate successful integration and operation of the NMS with the Repeater network in accordance with Exhibit A (Design Specifications).

(4) Performance of all Rooftop Testing shall include Rooftop Assembly of LRUs and all associated hardware. Performance of High-Power Installation Site Testing shall include assembly of all associated hardware.

(5) Performance of all testing and preparation and submission of required test-related documentation shall be in accordance with the Contract

(b) Training. Contractor shall provide training courses and materials as specified herein.

(c) Warranty Coverage. Contractor shall provide warranty services as specified in the Contract.

(d) Marketing Support. At Contractor's expense, Contractor shall provide, during the Term of the Contract, reasonable technical marketing support to Customer by telephone during Contractor's normal business hours, in support of Customer's business opportunities consistent with Contractor's other obligations hereunder. In the event Customer requires other marketing support beyond telephone support, Customer shall submit its request to Contractor for such additional marketing support and Contractor shall provide such additional support, subject to the Parties' mutual agreement on reasonable terms and conditions to governs such additional marketing support.

6. PROGRAM MANAGEMENT

6.1 Responsibilities.

(a) Contractor shall manage all matters relating to the performance of this Contract, and shall ensure that the personnel and facilities necessary for the performance of the Contract are assigned and made available at the times and places necessary to meet the schedule established by the Contract.

(b) Contractor shall designate a person responsible for Quality Assurance for the duration of the Contract who has an independent reporting chain from the project management. Customer shall have access to all QA aspects of the Contract, without restriction on time or location of access.

6.2 Program Management Plan.

(a) Contractor shall provide a Program Management Plan. This Plan shall be provided within ten (10) Calendar Days after EDC and shall thereafter be updated as required to maintain a full description of the program structure and management methods.

(b) The Program Management Plan shall provide a "Program Control System," which monitors all program activities and clearly identifies all milestones, reporting

dates, completion dates, deliveries, design reviews, and critical paths. This Program Control System shall cover the period from EDC to the Project Completion Date.

(c) The Program Management Plan shall include a schedule showing the significant events of the program. The events on this schedule shall include factory testing, expected delivery by Subcontractors of major subsystem equipment, on-site acceptance testing, Milestones, and progress reports.

6.3 Data and Documentation Management.

Contractor shall provide a "Configuration and Data Management Plan," which shall detail the system to be adopted for Document management, defining the issue status designation system for controlled Documents, and the registration, handling, filing, and archiving system for controlled and uncontrolled, baseline and non-baseline Documents. The plan shall also define the specified forms to be used in the project management and to control the status of Documents. Within this Configuration and Data Management Plan, reference shall be made to Customer Document submission and review criteria, specified in Table 4-B (Document Requirements List), and to the delivery requirements specified in Exhibit D (Delivery Schedule). This Plan complements the Quality Assurance Plan (set forth in Exhibit F) to ensure that up-to-date technical information is available at all times.

7. MEETINGS.

7.1 General.

(a) Contractor shall keep Customer currently informed, and shall meet with Customer to discuss and review the status and the progress of the Work being performed. In particular, the meetings specified in this Section 7 (Meetings) shall be arranged in accordance herewith.

(b) For all meetings, except as otherwise specified herein, Contractor shall provide an agenda (at least two (2) Business Days in advance of each meeting), all supporting material (as required in Table 4-B (Document Requirements List)), and minutes of the meetings (to be delivered by Contractor to Customer by no later than five (5) Business Days following the meeting for Customer's approval).

7.2 Contractor Review Meetings.

(a) Contractor shall plan and execute major program reviews as follows (each a "Review"):

(1) Program Kick-Off Meeting, to be held at Contractor's premises;

(2) Final Design Review (FDR), to be held at Contractor's premises;

(3) Design Verification Testing Review (Prototypes), to be held at Contractor's premises; and

(4) Design Verification Testing Review (Production), to be held at Contractor's premises

(b) These Reviews shall be scheduled so as to allow a thorough and comprehensive evaluation of the design, test readiness, and other significant elements of the program, as applicable, and shall act as major decision milestones before proceeding

to the next phase of the program. Other technical and/or management Reviews shall be scheduled when required at Contractor's premises, or at a venue to be mutually agreed.

(c) Five (5) Business Days prior to each Review, Contractor shall provide the whole of the Data and Documentation package to be discussed at or relevant to such Review.

(d) "Successful Completion" of each Review shall be deemed to occur when (1) Contractor has provided all required Data and Documentation to Customer, (2) Customer has reviewed and approved the Data and Documentation, and (3) the Parties have reviewed all Action Items and agreed to a closure plan therefor.

(e) The Data and Documentation provided shall be self-contained, of sufficiently high quality and properly structured, such that it provides all of the information necessary to a reviewer experienced in signal processing and telecommunications systems, and having access to the Contract but not to reports of previous presentations or other, non-contractual documents.

7.3 Program Kick-Off Meeting.

The objective of the Program Kick-Off Meeting is to review the Program Management Plan, meet key personnel, review manufacturing facilities, and finalize and delineate responsibilities between and among Contractor and the Customer's network integration contractor.

7.4 Final Design Review Meeting (FDR).

(a) The objective of the FDR is to conduct a formal technical review of the Repeaters and the NMS and any related hardware or software after the detailed design of each item is completed. The FDR establishes:

(1) the completeness and integrity of the detailed design;

(2) that the design complies with all the requirements of this Contract and of all applicable documents, and that the presented analyses and/or test data demonstrate such compliance; and

(3) that the external interfaces of the Repeaters comply with the interface control documents (ICDs).

(b) To this end, the FDR will cover the technical, operational and maintenance material, which shall include the following:

(1) detailed overall description of the Repeaters, including interconnections between racks, and grounding requirements;

(2) a detailed Repeater system specification(s) and descriptions of all Repeaters and the NMS to be delivered hereunder, which is subject to the approval of Customer;

(3) detailed specifications, descriptions and final schematic drawings of all LRUs, including the DSP Block Assembly, the RF Down-Converter, the RF Up-Converter, the Power Amplifier, the Output Filter, the Controller Assembly, and the NMS;

(4) complete overall and subsystem block and level diagrams for the Repeaters, each LRU and the NMS;

(5) detailed analyses, showing compliance with Exhibit A (Design Specifications);

(6) operation and maintenance plans;

(7) MTBF by LRU and overall Repeater availability and reliability;

(8) finalization of ICDs and detailed descriptions of all interfaces;

(9) tests plans, procedures, and schedules for all required testing, including sufficient detail to permit evaluation of the proposed test methods;

(10) updated project planning documentation for the remainder of the Contract;

(11) QA Reports, detailing QA activities through FDR and schedule of QA activities to the end of the program; and

(12) a list of all deliverable items.

7.5 Design Verification Testing Review (Prototype Repeaters).

(a) Contractor shall convene a meeting to review the results of the Design Verification Tests conducted on the Prototype Repeaters in the factory environment, prior to shipment to the designated installation sites specified in Exhibit D (Delivery Schedule), with the purpose of verifying that these tests have been completed satisfactorily and in accordance with the Test Plans and Procedures (Exhibit E). This meeting shall be held at Contractor's premises. Contractor shall supply Customer with five (5) copies of the test results, at the completion of each applicable test.

(b) If deficiencies are observed with the test methods or results in demonstrating compliance with the requirements, Customer will have the right to request additional testing, with alternative test methods as appropriate, to be performed by Contractor.

(c) In addition to the requirements of Section 7.2(d), Successful Completion of this Review shall be deemed to occur upon satisfactory completion of all outstanding actions and solution of all discrepancies identified by Customer. Customer shall provide notice to Contractor in writing upon such Successful Completion of this Review.

7.6 Design Verification Testing Review (Production Repeaters).

(a) Contractor shall convene a meeting to review the results of the Design Verification Tests conducted on the Repeaters (manufactured during the production phase of the Contract) in the factory environment, prior to shipment to the installation sites specified in Exhibit D (Delivery Schedule), with the purpose of verifying that these tests have been completed satisfactorily in accordance with the Test Plans and Procedures (Exhibit E). This meeting shall be held at Contractor's premises. Contractor shall supply Customer with five (5) copies of the test results, at the completion of each test.

(b) If deficiencies are observed with the test methods or results in demonstrating compliance with the requirements, Customer will have the right to request additional testing, with alternative test methods as appropriate, to be performed by Contractor.

(c) In addition to the requirements of Section 7.2(d), Successful Completion of this Review shall be deemed to occur upon satisfactory completion of all outstanding actions and solution of all discrepancies identified by Customer. Customer shall provide notice to Contractor in writing upon such Successful Completion of this Review.

7.7 Subcontractor Status and Design Reviews.

Customer, at its discretion, may attend and observe all status and design reviews which Contractor may require of its Subcontractors. Contractor shall supply Customer with documentation on all matters relating to such reviews one (1) week prior to each scheduled review.

7.8 Progress Meetings.

(a) Customer may, at its discretion, convene meetings to discuss and review Repeater and NMS design and to discuss progress of the Contract at least twice each month during the period from EDC through Project Completion Date (the "Progress Meetings"). For all such Progress Meetings, Customer shall provide an agenda to Contractor by no later than two (2) Business Days prior to the scheduled meeting date.

(b) These Progress Meetings shall be organized either through teleconferences, video conference, or in person at a location to be mutually agreed.

7.9 Contract Review Meetings.

In addition to the Progress Meetings, Customer shall be advised by Contractor of and shall have the option of attending, any regularly scheduled internal meetings that Contractor may establish to assess progress and problems. Customer shall be provided with the agenda relevant to these meetings two (2) Business Days prior to the meetings

taking place.

7.10 Attendance at Meetings.

In the event that a meeting is convened at Contractor's or any Subcontractor's plant, Contractor shall make all necessary arrangements to facilitate entry to the meeting place by Customer Personnel and Customer's Associates.

7 11 Action Item Control.

(a) Contractor, in consultation with Customer, shall maintain a register of all actions items identified in each meeting or Review and shall uniquely identify each action item. This register shall include the action item description, the person(s) responsible for the resolution of each action item, the date the action item was raised, the completion due date, and the actual completion date.

(b) Copies of this register shall be provided to Customer at the regular Progress Meetings.

8. PRODUCT ASSURANCE REQUIREMENTS

8.1 Scope.

This Section 8 (Product Assurance Requirements) defines the minimum product assurance requirements for the Repeater and NMS. These requirements are the principal elements that Contractor shall satisfy in the establishment and implementation of the product assurance program under this Contract. The requirements of this section shall also be applicable to Work performed by all Subcontractors.

8.2 Product Assurance Program Objectives.

(a) A comprehensive product assurance program shall be established and maintained to ensure that all Repeaters, the NMS, and other deliverable items, including Software, are designed, manufactured, tested, stored and delivered to meet the specified performance requirements of the Contract (the "Product Assurance Program"). The Product Assurance Program shall include detailed requirements, policies, objectives, plans and methods of implementation relative to reliability, parts and materials, processes control, non-conforming material control, configuration and data management, and safety which are to be applied throughout the design, development, fabrication, integration, testing, storage, delivery and operations phases of the Contract. Contractor's Product Assurance Program shall ensure that these requirements are effectively implemented throughout the duration of the Contract.

(b) The Product Assurance Program shall provide for the early and prompt detection of actual and potential deficiencies, system incompatibilities, marginal quality, trends, and any other conditions which could result in unsatisfactory performance. It shall provide for the effective action to correct all such conditions.

(c) The program shall provide full visibility of Contractor and Subcontractor activities to Customer.

8.3 Quality Assurance Plan.

Contractor shall comply with the Quality Assurance Plan set forth in Exhibit F.

8.4 Planning.

Contractor shall formally plan the Work, and implement internal controls, so that:

(a) requirements are adequately defined to the participants,

(b) characteristics crucial to safe and proper functioning are identified;

(c) statutory and safety requirements are identified;

(d) Work is sub-divided into units and resources needed are defined;

(e) interface responsibilities are defined;

(f) a program of work is established; and

(g) procedures to be followed are specified.

8.5 Design Control.

(a) Contractor shall document feasibility, outline and detailed designs as appropriate to the circumstances. All designs, drawing and calculations shall be checked and shall be traceable to information sources, assumptions choices made, designer and verifier.

(b) Designs shall be reviewed by Contractor and any corrections needed made, before submission to Customer. Such reviews shall include examination of all interfacing features and of testing requirements.

(c) Changes to designs shall be controlled according to the CADM Plan.

(d) Practices in the development of Software shall conform to a recognized code of practice and shall include:

(1) a software requirements definition;

(2) an architectural design document,

(3) standardized procedures and practices for detailed design;

(4) a test plan;

(5) a reporting system for performance and discrepancies;

(6) a program of reviews at key points;

(7) a history record; and

(8) timely preparation of user documentation.

(e) Records shall be maintained suitably for audit.

8.6 Document Control.

(a) Document procedures shall be supervised by Contractor's Configuration Manager according to the CADM Plan, which is subject to Customer's approval pursuant to Table 4-B.

(b) The CADM Plan shall cover:

(1) methods of registration of Data and Documentation, both internally generated and from outside sources;

(2) method of approval and issuing of Data and Documentation;

(3) method of revision of Data and Documentation and withdrawal/cancellation of superseded items;

(4) system for requesting and approving changes to materials, equipment, Software, and the overall program;

(c) The CADM Plan shall also reference:

(1) Document defining system architecture

(2) Documents defining the configuration items

(3) Document schedules; and

(4) The filing system.

(d) Changes to the Data and Documentation that do not affect any interface with other Customer contractors, the applicable technical, performance or design specifications, including as set forth in Exhibit A, or the Contract Price shall be subject to Contractor's change control system; provided that Customer may have access to the change control system and may ask questions and provide suggestions and comments, all of which shall be reasonably addressed by Contractor. All other Data and Documentation changes shall be referred to Customer for approval.

(e) All submitted Data and Documentation affected by changes are to be re-issued as a subsequent revision number.

(f) Copies of previously issued Data and Documentation shall be retained by Contractor, and available to Customer upon request, for archival and reference purposes, but suitably identified as superseded.

8.7 Purchasing.

Contractor shall be responsible for ensuring that any subcontracted supplies conform to project requirements with particular regard to:

(a) The Design Specifications (Exhibit A);

(b) The Delivery Schedule (Exhibit D); and

(c) The Quality Assurance Plan (Exhibit F).

***** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

8.8 Traceability.

All equipment, including Repeaters, the NMS and LRUs, shall be bar-coded with serial numbers and shall carry nameplates on which modification numbers can be marked by service engineers when implemented, in order that all such equipment in its current state is traceable to its record documents.

8.9 Compliance with Laws, Regulations and Certificates.

(a) Contractor shall perform the Work in accordance with site safety practices and all applicable Laws.

(b) Measurement and test equipment shall have relevant calibration certificates traceable to applicable standards, including those issued by governmental authorities, and the calibration status of each piece of equipment shall be readily visible when using equipment. Instruments used in tests shall be identified on the test records.

9. TESTING ACTIVITIES

9.1 Test Plans and Procedures.

(a) Contractor shall perform testing of the Prototype and Production Repeaters and the NMS in accordance with Test Plans and Procedures set forth in Exhibit E (Test Plans and Procedures).

(b) Contractor shall deliver to Customer the Prototype Repeater Test Plan and Procedures on or before [*****] and such plan and procedures shall address Design Verification, In-Factory, Rooftop, and High-Power Installation Site Testing.

(c) Contractor shall deliver to Customer the Production Repeater Test Plan and Procedures on or before [*****] and such plan and procedures shall address Design Verification, In-Factory, Rooftop, and Site Installation Testing.

(d) Contractor shall deliver to Customer the NMS Test Plan and Procedures on or before [*****] and such plan and procedures shall address Design Verification, In-Factory, and Site Installation Testing of the NMS.

(e) Finalization of all Test Plans and Procedures shall be subject to Customer approval.

(f) The test plans and procedures for the Rooftop Testing shall be designed to demonstrate successful mating and operation of all LRUs and associated hardware; successful operation of the Repeater controller and its interface with the NMS; and

successful operation of the complete Repeater in accordance with Exhibit A (Design Specifications).

(g) The test plans and procedures for the High-Power Installation Site Testing shall be designed to demonstrate successful mating and operation of the Enclosure Kit and the Klystron Kit and associated hardware; successful operation of the Repeater Controller and its interface with the NMS; and successful operation of the complete Repeater in accordance with Exhibit A (Design Specifications)

(h) The test plans and procedures for the Site Installation Testing for the NMS shall be designed to demonstrate successful integration and operation of the NMS with the Repeater network in accordance with Exhibit A (Design Specifications).

9.2 Test Reports.

Following completion of any required testing, Contractor shall prepare and submit to Customer for approval, reports detailing the tests performed and the results obtained and the related certifications, all in accordance with Exhibit E (Test Plan and Procedures) and the Contract.

9.3 Access to Testing Activities.

Customer may, at its election and expense, have its Associates, Consultants, or other designees attend each test as required to be performed by Contractor pursuant to the Contract, including Design Verification Testing of the Repeaters, each LRU and the NMS and any other testing conducted by Contractor or its Subcontractors with respect to the Work to be performed hereunder. Attendance by Customer shall be for purposes of monitoring and observation and shall be on a non-interference basis; provided, however, Customer may ask questions, make suggestions, or otherwise comment on the proceedings. Contractor shall notify Customer reasonably in advance of the time and place for any such testing activities and Customer shall promptly inform Contractor of its intent to attend the testing. Contractor shall make arrangements for Customer's entrance and access into Contractor Facility(ies) for purposes of attending the testing. Customer attendance at any such test shall in no way be construed or deemed to represent Customer's acceptance of the items being tested or Customer's waiver of any claims or rights hereunder.

10. TRAINING

Contractor will provide training to Customer, Customer Personnel and Customer's designees in accordance with the following:

(a) Contractor shall provide appropriate training on each aspect of the Repeaters and NMS and other deliverables (including installation, operation, maintenance, repair, provisioning, monitoring and control), using the training approach as specified below. Contractor shall provide Customer, at no additional tuition cost or expense (other than Customer's own travel expenses to Contractor' training facility), three (3) one-week training sessions for no more than twelve (12) trainees per session. Additional training desired by Customer will be mutually agreed upon.

(b) Contractor shall develop all training materials and shall provide such training materials, together with documentary background material and other course notes to each attendee at the beginning of each course.

(c) Contractor agrees to offer training courses during each one-week session which address the following areas:

(1) overview, installation, administration and operations, testing, maintenance, trouble-shooting, repair and safety procedures with respect to the Repeaters, including assembly of an entire Repeater using a pre-wired rack and applicable LRUs.;

(2) overview, installation, administration and operations, testing, maintenance, trouble-shooting, repair and safety procedures with respect to the NMS;

(3) "train the trainer" training, so that individuals reasonably experienced in the electronic telecommunications equipment operations or maintenance industries, or other related industries, will be capable of performing operational and maintenance functions related to the NMS, Repeaters or other deliverables in a safe, efficient, and effective manner.

(d) Such training courses will be available at Contractor or other designated training facilities and will consist of formal and informal classroom instruction and actual hands-on training in laboratory or simulated or actual installation environments. Contractor also reserves the right to subcontract the training to a designated third party vendor, which subcontract shall be deemed a Material Subcontract and shall be subject to the terms of Article 10.2 (Material Subcontracts) of the Terms and Conditions.

(e) Contractor shall provide all remedial training and training on any changes, updates and enhancements to the Repeaters, NMS or other deliverable items as otherwise necessary for Customer, or its designee(s), to be capable of performing all necessary services, including installation, operation, maintenance, repair, provisioning, monitoring and control of the Repeaters and the NMS.

11. WARRANTY SUPPORT

(a) Contractor shall perform warranty activities in accordance with the Contract.

(b) As of the Effective Date of the Contract, the LRUs are those items set forth in Table 11-A below.

(c) In accordance with Article 17.11 (Remedies (Repeaters)) of the Terms and Conditions, Contractor shall submit for Customer's review and comment LRU sparing levels, together with the associated availability calculations. The sparing levels shall be sufficient to cover anticipated failure rates for Repeaters and the individual LRUs, and

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the sparing levels shall be updated in accordance with Article 17.11 (Remedies (Repeaters)) of the Terms and Conditions to reflect actual failure rates.

(d) The preliminary sparing level is as set forth below. In no event shall Contractor's proposed inventory plan provide for sparing levels of less than the quantities set forth in this preliminary sparing level.

[*****]

*All Racks provided by Contractor to Customer pursuant to each Inventory Plan shall be pre-wired and ready for LRU installation (in the event Customer elects to assemble a replacement Repeater pursuant to Article 17.11 (Remedies (Repeaters)) of the Terms and Conditions).

12. NMS MAINTENANCE

On or before [*****], Contractor shall provide Customer with a proposal for annual maintenance of the NMS in accordance with Article 26 of the Terms and Conditions.

* END OF DOCUMENT *

**** Confidential treatment has been requested for portions of this agreement. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as [*****]. A complete version of this agreement has been filed separately with the Securities and Exchange Commission.

CONTRACT

FOR

THE DESIGN, DEVELOPMENT AND PURCHASE OF

TERRESTRIAL REPEATER EQUIPMENT

By and Between

XM SATELLITE RADIO INC.

and

HUGHES ELECTRONICS CORPORATION

EXHIBIT C

PRICING, MILESTONES AND PAYMENT PLAN

CONFIDENTIALITY NOTICE

This attached Contract and the information contained herein is confidential to XM Satellite Radio Inc. and Hughes Electronics Corporation, and shall not be published or disclosed to any third party without the express written consent of a duly authorized representative of XM Satellite Radio Inc. and Hughes Electronics Corporation.

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EXHIBIT C

PRICING, MILESTONES AND PAYMENT PLAN

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EXHIBIT C

PRICING, MILESTONES AND PAYMENT PLAN

1. GENERAL

(a) This Exhibit C (Pricing, Milestones and Payment Plan) describes the applicable charges for the Work. The Contract Price (as defined below) and other charges indicated in this Exhibit C shall compensate Contractor for the Work to be performed and provided pursuant to the Contract, including the resources used therefor.

(b) The Contract Price will be paid for in accordance with Section 3 (Milestone Payment Plan and Milestone Achievement Criteria) below. All invoicing and payment terms shall be in accordance with Article 6 (Invoicing and Payment) of the Terms and Conditions.

(c) Contractor acknowledges that, except as may be otherwise provided in the Contract, expenses and costs that Contractor incurs in the performance of the Work (including expenses related to travel and lodging, document production, and long-distance telephone) are included in the Contract Price. Accordingly, such Contractor expenses are not separately reimbursable by Customer.

(d) All charges set forth herein are in United States Dollars and shall be paid by Customer in the same currency.

(e) All capitalized terms used and not defined in this Exhibit C shall have the same meanings given them in the Terms and Conditions or its other Exhibits.

2. CONTRACT PRICE

2.1 Contract Price.

(a) For the Work to be performed pursuant to the Contract, Customer shall pay Contractor the firm fixed prices as set forth in, and in accordance with, this Exhibit C (such firm fixed prices to be referred to collectively as the "Contract Price").

(b) The Contract Price may be amended from time to time only in accordance with the Terms and Conditions and this Exhibit C, including as a result of Customer's exercise of the options specified herein.

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2.2 Repeater Unit Pricing.

(a) Repeaters to be purchased pursuant to the Contract are priced on a per unit basis in accordance with Table 2.2 below:

Table 2.2

Repeater Category	Firm Fixed Price per Repeater $/Repeater
Standard Non-Redundant Repeater	[*****]
Standard Sectored Non-Redundant Repeater	[*****]
High-Power Redundant Repeater	[*****]
High-Power Sectored Redundant Repeater	[*****]

(b) The firm fixed prices set forth in Table 2.2 above include charges for the following services and deliverables:

(1) costs for performance of all design, development, engineering and manufacturing work, including non-recurring engineering costs;

(2) development, manufacture and delivery of all Repeaters (including Prototype Repeaters) and Rooftop Assembly of Standard Repeaters and assembly of High-Power Repeaters at the Installation Sites;

(3) custom ASIC chip development or, alternatively, development and implementation of Field Programmable Gate Array (FPGA) for the digital signal processing;

(4) taxes and duties (including all import duties and related assessments, but excluding sales and use taxes, which Contractor will invoice to Customer and collect and remit on behalf of Customer without mark-up in accordance with Article 5.4(b) of the Terms and Conditions);

(5) all testing required in accordance with the Terms and Conditions and Exhibit E (Test Plans and Procedures);

(6) delivery of Enclosure Kits to the Staging Areas (including packing, crating, shipping, handling, and insurance therefor) and delivery of PA Kits to the Installation Sites and delivery of High-Power Repeaters to

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the Installation Sites (including packing, crating, shipping, handling, and insurance therefor);

(7) training as set forth in Exhibit B (Statement of Work);

(8) Data and Documentation;

(9) warranty coverage during the applicable Warranty Periods (including sparing and Field Support) as set forth in the Terms and Conditions;

(10) insurance coverage as required in accordance with Article 20 (Insurance) of the Terms and Conditions; and

(11) other services, responsibilities, equipment, products and materials not specifically described in Exhibit B (Statement of Work) that are incidental to and reasonably required for the proper provision and performance of the Work.

(c) As set forth in paragraph (b) above, the Contract Price includes charges related to the shipping of the Repeaters. Such charges are based upon the following estimation: approximately [*****] of the Repeaters will be delivered to the Eastern region of the United States, [*****] of the Repeaters will be delivered to the Central region of the United States, and the remaining [*****] of the Repeaters will be delivered to the Western region of the United States. Customer may, at its option, elect to alter this allocation of delivery of the Repeaters among the Eastern, Central and Western regions of the United States without any impact to the per unit Repeater pricing set forth in Table 2.2 above; provided, however, if Customer requires a substantial change to these delivery projections (i.e., [*****] or more change in the allocation of Repeaters within the Eastern, Central and Western regions), Contractor and Customer shall negotiate in good faith an equitable adjustment (either up or down) to the component of the Contract Price allocable to shipping charges, depending upon the net impact of the directed change. In order to validate any adjustment to the portion of the Contract Price allocable to shipping, Contractor shall provide Customer with access to all pertinent shipping documentation and invoices, including such information utilized by Contractor in formulating the initial charge for shipping expenses, and Customer may review and audit such documentation.

(d) In the event the Nominal Order is decreased or increased by Customer in accordance with the Terms and Conditions, then the firm fixed prices for each category of Repeater set forth in Table 2.2 shall be adjusted as follows:

(1) the amount of [*****] shall be deducted from the per unit prices for each category of Repeater (such sum represents the amount of [*****] Milestone Payment No. 1 (i.e., [*****] of [*****]) amortized over the Nominal Order of Repeaters (i.e., 1578 Repeaters); and

(2) the amount of Milestone Payment No. 1 (i.e., [*****]) shall then be amortized over the revised Nominal Order proportionately (i.e., [*****] divided by the number of Repeaters in the revised Nominal

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Order), which amount will then be added to the per unit price for each Repeater (as reduced per paragraph (d)(1) above) and Table 2.2 shall be updated accordingly.

(e) In the event Customer requires Field Support following completion of the Work or Field Support that is materially unrelated to the Work, Contractor shall, upon Customer's request, provide such additional Field Support at the rate of [*****] per day for each Contractor or Subcontractor technical support personnel assigned to perform the Field Support. Customer shall pay such daily rate and shall reimburse Contractor, at cost and without a mark-up, for the direct reasonable expenses incurred by such personnel in performing additional Field Support. Charges for additional Field Support shall be invoiced by Contractor in accordance with the Terms and Conditions and shall be accompanied by supporting documentation concerning the direct expenses (i.e., receipts).

2.3 Network Management System.

Customer shall pay Contractor a not to exceed price of [*****] for the Work related to the design, development, construction, delivery and installation of the Network Management System, including the provision of the NMS servers/computers and other equipment, and operator training, as such Work is more fully described in the Contract. Contractor shall propose a firm fixed price for the NMS on or before [*****].

3. Milestone Payment Plan and MIlestone Achievement Criteria

3.1 [*****] Milestones.

(a) The Contract Price with respect to the [*****] for Repeaters shall be earned by Contractor in installments based upon Contractor's satisfactory completion of the [*****] Milestones set forth in Table 3.1 below in accordance with the corresponding Milestone Achievement Criteria. Completed [*****] Milestones shall be invoiced by Contractor and paid by Customer in accordance with Article 6 (Invoicing and Payment) of the Terms and Conditions.

Table 3.1
[*****] Milestone Payment Plan and Milestone Achievement Criteria

[*****] Milestone	Milestone Achievement Date	Milestone Achievement Criteria	Milestone Payment
1	On or before 5 Business Days following Execution Date	Not Applicable	[*****]
2	[*****]	[*****]	[*****]
3	[*****]	[*****]	[*****]
4	[*****]	[*****]	[*****]

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Table 3.1
[*****] Milestone Payment Plan and Milestone Achievement Criteria

[*****] Milestone	Milestone Achievement Date	Milestone Achievement Criteria	Milestone Payment
5	[*****]	[*****]	[*****]

(b) With respect to [*****] Milestone Nos. 2, 3 and 5, the Milestone Achievement Criteria shall be deemed to be achieved by Contractor upon Contractor's delivery to Customer of Contractor's written certification that the Milestone has been achieved, such certification to be accompanied by copies of Contractor's purchase orders issued with respect to such Milestones (with financial information redacted). The certification shall show the applicable purchase order numbers, supplier names, quantity of material released in such purchase orders, and quantity of Repeater units that such ordered materials represent. Upon Customer's reasonable request, Contractor shall provide Customer with additional related information.

(c) Subject to paragraph (d) below, [*****] Milestone Payment Nos. 1-5 (totaling [*****]) are included in the firm fixed unit price for each category of Repeaters, as such prices are set out in Table 2.2 above. Accordingly, for each of the 1,578 Repeaters included in the Nominal Order, a credit in the amount of [*****] shall be given toward the price of each Repeater. The credit shall appear on the applicable invoices as follows: [*****] for each shipped Enclosure Kit and [*****] for each Accepted Repeater.

(d) In the event the Nominal Order is increased or decreased by Customer in accordance with the Terms and Conditions, the Parties shall calculate a revised credit amount with respect to each Repeater, such credit equal to the quotient of the total amount of [*****] Milestone Payment Nos. 1-5 (i.e., [*****]) divided by the number of Repeaters in the revised Nominal Order. Such revised credit shall be applied to the applicable invoices as follows: [*****] for each shipped Enclosure Kit and [*****] for each Accepted Repeater.

3.2 Production Milestones.

(a) The Contract Price with respect to production and Acceptance of Repeaters shall be earned by Contractor in installments based upon Contractor's satisfactory completion of the [*****] Milestones set forth in Table 3.2 below in accordance with the corresponding Milestone Achievement Criteria. Completed [*****] Milestones shall be invoiced by Contractor and paid by Customer in accordance with Article 6 (Invoicing and Payment) of the Terms and Conditions.

(b) Invoices for [*****] Milestones shall be subject to the credit and revised credit described in paragraphs (c) and (d) of Section 3.1 ([*****] Milestones) above.

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Table 3.2
[*****] Milestone Payment Plan and Milestone Achievement Criteria

[*****] Milestone	Milestone Achievement Date	Milestone Achievement Criteria	Milestone Payment
[*****]	[*****]	[*****]	[*****]

3.3 [*****] Milestones.

(a) The Contract Price with respect to the [*****] shall be earned by Contractor in installments based upon Contractor's satisfactory completion of the [*****] Milestones set forth in Table 3.3 below in accordance with the corresponding Milestone Achievement Criteria Completed Milestones shall be invoiced by Contractor in accordance with Article 6 (Invoicing and Payment) of the Terms and Conditions.

Table 3.3
[*****] Milestone Payment Plan and
Milestone Achievement Criteria

Milestone	Milestone Achievement Date	Milestone Achievement Criteria	Milestone Payment
[*****]	[*****]	[*****]	[*****]

3.4 Escrow Account and Payment.

(a) Set forth below is a schedule of payments to be made by Customer into the Payment Escrow Account to be established, maintained and terminated pursuant to Article 6.2 (Escrow Account and Payment) of the Terms and Conditions. With respect to Escrow Payment Nos. 1-6 in Table 3.4, Customer shall make the applicable payment into such account on or before ten (10) Business Days following the date upon which Contractor furnishes Customer with an aged materials report showing that Contractor has ordered the supplies required by the applicable event in Table 3.4, but in no event earlier than the earliest date of payment identified in Table 3.4. In the event the aged materials report shows that Contractor has ordered less than the amount required for that event, the amount Customer is required to pay into the Payment Escrow Account shall be proportionately reduced. With respect to Escrow Payment Nos. 7-11 in Table 3.4, Customer shall make the applicable payment into the Payment Escrow Account on or before ten (10) Business Days following the date upon which Contractor furnishes Customer with a report showing the cumulative number of Enclosure Kits shipped by Contractor and received at the Staging Areas in the case of Standard Repeaters and Installation Sites in the case of High-Power Repeaters, but in no event earlier than the earliest date of payment identified in Table 3 4. In the event the report shows that fewer Enclosure Kits have been received at the Staging Areas/Installation Sites than the amount required for that event, the amount Customer is required to pay into the Payment Escrow

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Account shall be proportionately reduced. Contractor may withdraw funds from such account in accordance with Article 6.2 of the Terms and Conditions.

Table 3.4
Schedule of Escrow Payments

Escrow Payment No.	Event	Earliest Date of Payment	Amount to be Paid into Escrow
[*****]	[*****]	[*****]	[*****]

(b) In the event the per unit price of Repeaters set forth in Section 2.2 (Repeater Unit Pricing) above is increased, then the schedule of escrow payments set forth in Table 3.4 above shall be increased as follows: the increase in the Contract Price resulting from the increase in the per unit price of Repeaters shall be spread proportionately over those payments of Escrow Payment Nos. 7-11 remaining to be paid by Customer and the amount of such payments shall be increased by the applicable proportion of the increase in the Contract Price. Likewise, in the event the per unit price of Repeaters set forth in Section 2.2 (Repeater Unit Pricing) above is decreased, then the schedule of escrow payments set forth in Table 3.4 above shall be decreased as follows: the decrease in the Contract Price resulting from the decrease in the per unit price of Repeaters shall be spread proportionately over those payments of Escrow Payment Nos. 7-11 remaining to be paid by Customer and the amount of such payments shall be decreased by the applicable proportion of the decrease in the Contract Price.

(c) The Parties agree that the schedule of payments set forth in Table 3.4 above shall be adjusted on account of sales taxes as follows. Within ten (10) Business Days following the end of each month, Contractor will furnish Customer with a report setting forth the sales taxes applicable for Repeaters shipped during the month just ended. Customer will deposit an amount equal to such sales taxes into the Payment Escrow Account with the next Escrow Payment due, except in the case of Escrow Payment No. 10, within fifteen (15) Business Days of receipt of Contractor's report. Customer will assist Contractor in identifying the ultimate destination of the Repeaters on a weekly basis.

4. OPTION PRICING

4 1 Pricing for Optional Repeaters.

In the event Customer exercises its option to purchase additional Repeaters in accordance with Article 26 (Options) of the Terms and Conditions, the following pricing terms shall apply to such optional Repeaters:

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(a) Subject to paragraphs (b) and (e) below, the firm fixed price per Repeater as set forth in Section 2.1(b) (Repeater Unit Pricing) above shall apply with respect to any Customer order for optional Repeaters, provided such order complies with the following requirements:

(1) Customer orders such optional Repeaters prior to [*****] (the "Initial Option Period"); and

(2) each order for optional Repeaters is for at least [*****] Repeaters.

(b) Contractor requires an adequate minimum Repeater production order for each month following the Project Completion Date to assure a continuous supply from Subcontractors of LRUs and other Repeater components, parts and subparts. Accordingly, on a monthly basis beginning March 2000, Contractor will advise Customer as to the minimum monthly Repeater production rates required to maintain the Repeater manufacturing facilities on-line to accommodate Customer's future orders of optional additional Repeaters (if any) without incurring additional production costs. The minimum monthly production requirement will be subject to mutual agreement by the Parties (which agreement shall not be unreasonably withheld), but in no event will the minimum monthly production requirement exceed [*****] Standard Repeaters per month. If a follow-on order falls below the minimum monthly production requirement, Contractor will provide Customer with proof of additional production costs (if any) relating to such smaller order and the Parties will negotiate an equitable adjustment to the per unit prices set forth in Table 2.2 to account for such additional costs.

(c) Contractor will use best commercial efforts to minimize any price increase for Customer orders of less than [*****] optional Repeaters.

(d) In the event Customer orders optional Repeaters before the expiration of the Repeater Option Period, but after the last day of the Initial Option Period, Contractor shall use its best commercial efforts to propose the lowest price possible for such optional additional Repeaters.

(e) As part of the initial procurement of LRUs and other Repeater components, parts or sub-parts to be used with respect to the Nominal Order, Contractor shall use commercially reasonable efforts to negotiate competitive pricing terms and price protection on LRUs, components, parts and sub-parts with its suppliers and Subcontractors, such competitive pricing terms or price protections to apply, to the degree commercially reasonable, to subsequent orders of optional Repeaters. Such competitive pricing terms shall include a mechanism to limit the amount of any price increases in such LRUs, components, parts or sub-parts from year to year following the Project Completion Date, such mechanism to apply a commercially reasonable and appropriate economic index or cost-of-living adjustment index to be determined by

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Contractor and its suppliers and Subcontractors. In any event, if a cost increase occurs with respect to any order for optional Repeaters, the option price for such optional Repeaters will be adjusted on a dollar-for-dollar basis to account for increases in the costs of the LRUs, components, parts and sub-parts. Customer will have the right to review all supplier and Subcontractor documentation connected with any change to the Repeater unit prices set forth herein with respect to any Customer order for optional Repeaters.

4.2 NMS Video Wall.

If Customer elects, at its sole discretion, to exercise the option set forth in Article 26 (Options) of the Terms and Conditions to purchase the full-motion "video wall" for use in conjunction with the Network Management System, Contractor agrees to provide the optional "video wall" to Customer for a not to exceed price of [*****], which firm fixed price includes design, development, manufacture, delivery, installation, insurance and warranty coverage for such optional video wall. Contractor shall propose to Customer a firm fixed price on or before [*****].

4.3 Extended Warranty on Repeaters.

In the event Customer elects to exercise its option, pursuant to Article 17.10(b) of the Terms and Conditions, to extend the applicable Warranty Period for any Repeater, Customer shall pay Contractor the amount of [*****] Dollars for each Repeater for the [*****] month optional extended Warranty Period.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

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4.4 Annual Maintenance of NMS.

In the event Customer elects to exercise its option, pursuant to Article 26.4 (Annual Maintenance of NMS) of the Terms and Conditions, to purchase annual maintenance of the NMS, Customer shall pay Contractor an annual amount not to exceed [*****].

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

**** Confidential treatment has been requested for portions of this agreement. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as [*****]. A complete version of this agreement has been filed separately with the Securities and Exchange Commission.

CONTRACT

FOR

THE DESIGN, DEVELOPMENT AND PURCHASE OF

TERRESTRIAL REPEATER EQUIPMENT

By and Between

XM SATELLITE RADIO INC.

and

HUGHES ELECTRONICS CORPORATION

EXHIBIT D

DELIVERY REQUIREMENTS AND SCHEDULE

CONFIDENTIALITY NOTICE

This attached Contract and the information contained herein is confidential to XM Satellite Radio Inc. and Hughes Electronics Corporation, and shall not be published or disclosed to any third party without the express written consent of a duly authorized representative of XM Satellite Radio Inc. and Hughes Electronics Corporation.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

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Exhibit D

Delivery Requirements and Schedule

Delivery Requirements

Deliverable Item/Event	Delivery Requirement
[*****]	[*****]

* To be completed in accordance with the applicable Milestone Achievement Criteria set forth in Article 3.1 of Exhibit C (Pricing, Milestones and Payment Plan) on or before the applicable Delivery Requirement date set forth in the table above.

** To be completed in accordance with the requirements of Article 2.3 (Weight and Size of Standard Repeaters) and Article 7 (Delivery and Time for Performance) of the Terms and Conditions.

*** To be completed in accordance with the requirements of Article 2.3 (Weight and Size of Standard Repeaters), Article 7 (Delivery and Time for Performance) and Article 8 (Testing Criteria and Acceptance) of the Terms and Conditions.

**** To be completed in accordance with the requirements of Article 7 (Delivery and Time for Performance) and Article 8 (Testing Criteria and Acceptance) of the Terms and Conditions.

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FORM OF DELIVERY SCHEDULE

Contractor shall use its best commercial efforts to deliver the Work to Customer in accordance with the requirements of the Contract. This Delivery Schedule shall be updated from time to time in accordance with Article 7 (Delivery and Time for Performance) of the Contract.

The delivery schedule for deliverable items pursuant to this Contract are listed in the table below. Such items shall be delivered by Contractor to the destinations indicated, during the range of dates specified in such table (each a "Delivery Period"), as such Delivery Periods or other terms of delivery may be adjusted in accordance with the Contract.

Contractor understands and agrees that, with respect to the applicable Delivery Period for each deliverable item, whether such item is set out in this Contract or subsequent Amendments to this Contract, time is of the essence. Nothing in the foregoing sentence shall in any way modify either the specific remedies for default specified elsewhere in this Contract, including Article 7.3 (Liquidated Damages for Late Delivery of Repeaters) and Article 25.2 (Termination for Contractor's Default).

	Deliverable Item	Delivery Period	Place of Delivery
1.	[*****]	[*****]	[*****]
2.	___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2000 and no later than _____ 2000	Staging Area __* Installation Site: _____*

	Deliverable Item	Delivery Period	Place of Delivery
3.	Enclosure Kits for ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2000 and no later than _____ 2000	Staging Area __ Installation Site: _____
4.	Enclosure Kits for___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2000 and no later than _____ 2000	Staging Area __ Installation Site: _____

	Deliverable Item	Delivery Period	Place of Delivery
5.	Enclosure Kits for ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2000 and no later than _____ 2000	Staging Area __ Installation Site: _____
6.	Enclosure Kits for ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2000 and no later than _____ 2000	Staging Area __ Installation Site: _____

Deliverable Item	Delivery Period	Place of Delivery
7. Enclosure Kits for ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2000 and no later than _____ 2000	Staging Area __ Installation Site: _____
8. Enclosure Kits for ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2000 and no later than _____ 2000	Staging Area __ Installation Site: _____

	Deliverable Item	Delivery Period	Place of Delivery
9.	Enclosure Kits for ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2000 and no later than _____ 2000	Staging Area __ Installation Site: _____
10.	Enclosure Kits for ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2000 and no later than _____ 2000	Staging Area __ Installation Site: _____

	Deliverable Item	Delivery Period	Place of Delivery
11	Enclosure Kits for ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2000 and no later than _____ 2000	Staging Area __ Installation Site: _____
12.	Enclosure Kits for ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2000 and no later than _____ 2000	Staging Area __ Installation Site: _____

Deliverable Item	Delivery Period	Place of Delivery
13. Enclosure Kits for ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2000 and no later than _____ 2000	Staging Area __ Installation Site: _____
14. Enclosure Kits for ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2000 and no later than _____ 2000	Staging Area __ Installation Site: _____

Deliverable Item	Delivery Period	Place of Delivery
15. Enclosure Kits for ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2000 and no later than _____ 2000	Staging Area __ Installation Site: _____
16. Enclosure Kits for ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2000 and no later than _____ 2000	Staging Area __ Installation Site: _____

Deliverable Item	Delivery Period	Place of Delivery
17. Enclosure Kits for ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2000 and no later than _____ 2000	Staging Area __ Installation Site: _____
18. Enclosure Kits for ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2001 and no later than _____ 2001	Staging Area __ Installation Site: _____

Deliverable Item	Delivery Period	Place of Delivery
19. Enclosure Kits for ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2000 and no later than _____ 2000	Staging Area __ Installation Site: _____
20. Enclosure Kits for ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2000 and no later than _____ 2000	Staging Area __ Installation Site: _____

Deliverable Item	Delivery Period	Place of Delivery
21. ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2000 and no later than _____ 2000	Staging Area __ Installation Site: _____
22. Enclosure Kits for ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2001 and no later than _____ 2001	Staging Area __ Installation Site: _____

***** Certain information on this page has been with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Deliverable Item	Delivery Period	Place of Delivery
23. Enclosure Kits for ___ Standard Repeaters (Enclosure Kits for ___ Standard Non-Redundant Repeaters; Enclosure Kits for ___ Standard Sectored Non-Redundant Repeaters) Enclosure Kits for ___ High-Power Repeaters (Enclosure Kits for ___ High-Power Redundant Repeater; Enclosure Kits for __ High-Power Sectored Redundant Repeater)	No earlier than _____ 2001 and no later than _____ 2001	Staging Area __ Installation Site: _____

24. Additional entries for subsequent deliveries shall be added as needed and as this Delivery Schedule is updated from time to time in accordance with the Contract.

25.	[*****]	[*****]	[*****]
26.	[*****]	[*****]	[*****]
27.	[*****]	[*****]	[*****]
28.	[*****]	[*****]	[*****]
29.	[*****]	[*****]	[*****]

* Enclosure Kits for Standard Repeaters are to be delivered to Staging Areas and Enclosure Kits with Klystron Kits for High-Power Repeaters to Installation Sites.

The Staging Areas noted in the table above correspond to the Staging Area to be located in the following cities:

Staging Area	Location (by City)
[*****]	[*****]

CONFIDENTIAL

CONTRACT

FOR

THE DESIGN, DEVELOPMENT AND PURCHASE OF

TERRESTRIAL REPEATER EQUIPMENT

BY AND BETWEEN

XM SATELLITE RADIO INC.

AND

HUGHES ELECTRONICS CORPORATION

EXHIBIT E

TEST PLANS AND PROCEDURES

CONFIDENTIALITY NOTICE

This attached Contract and the information contained herein is confidential to XM Satellite Radio Inc. and Hughes Electronics Corporation, and shall not be published or disclosed to any third party without the express written consent of a duly authorized representative of XM Satellite Radio Inc. and Hughes Electronics Corporation.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

CONFIDENTIAL

EXHIBIT E

TEST PLANS AND PROCEDURES

**** Confidential treatment has been requested for portions of this agreement. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as [*****]. A complete version of this agreement has been filed separately with the Securities and Exchange Commission.

CONFIDENTIAL

CONTRACT

FOR

THE DESIGN, DEVELOPMENT AND PURCHASE OF

TERRESTRIAL REPEATER EQUIPMENT

By and Between

XM Satellite Radio Inc.

and

HUGHES ELECTRONICS CORPORATION

EXHIBIT F

QUALITY ASSURANCE PLAN

CONFIDENTIALITY NOTICE

This attached Contract and the information contained herein is confidential to XM Satellite Radio Inc. and Hughes Electronics Corporation, and shall not be published or disclosed to any third party without the express written consent of a duly authorized representative of XM Satellite Radio Inc. and Hughes Electronics Corporation.

***** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

[*****] This entire Exhibit F has been redacted for confidentiality reasons.

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[LOGO]

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

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CONTRACT

FOR

THE DESIGN, DEVELOPMENT AND PURCHASE OF

TERRESTRIAL REPEATER EQUIPMENT

BY AND BETWEEN

XM SATELLITE RADIO INC.

AND

HUGHES ELECTRONICS CORPORATION

EXHIBIT G

KEY CONTRACTOR PERSONNEL

CONFIDENTIALITY NOTICE

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EXHIBIT G

KEY CONTRACTOR PERSONNEL

Position	Individual
[*****]	[*****]

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

CONFIDENTIAL

CONTRACT

FOR

THE DESIGN, DEVELOPMENT AND PURCHASE OF

TERRESTRIAL REPEATER EQUIPMENT

By and Between

XM SATELLITE RADIO INC.

and

HUGHES ELECTRONICS CORPORATION

EXHIBIT H

TECHICAL MATERIALS ESCROW AGREEMENT

CONFIDENTIALITY NOTICE

This attached Contract and the information contained herein is confidential to XM Satellite Radio Inc. and Hughes Electronics Corporation, and shall not be published or disclosed to any third party without the express written consent of a duly authorized representative of XM Satellite Radio Inc. and Hughes Electronics Corporation.

Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

TECHNICAL MATERIALS ESCROW AGREEMENT

Account Number: _____

Recitals

This Technical Materials Escrow Agreement including any Schedules ("Escrow Agreement") is effective this _____ day of _____, 1999 ("Effective Date"), by and among DSI Technology Escrow Services, Inc. ("DSI"), a Delaware corporation, XM Satellite Radio Inc., ("XM"), a Delaware corporation, and Hughes Electronics Corporation ("Contractor"), a Delaware corporation, by and through its division, Hughes Network Systems.

WHEREAS, Contractor and XM have entered into a Contract for the Design, Development and Purchase of Terrestrial Repeater Equipment, dated _____, 1999 (the "Contract"); and

WHEREAS, pursuant to said Contract, Contractor has agreed to deposit in escrow the Technical Materials, as defined and more specifically set forth in the Contract, which are proprietary to Contractor (except as otherwise expressly set forth in the Contract) ; and

The parties hereto agree as follows:

1. Definitions. Other than those terms defined herein, the defined terms (initial caps) used herein have the same meanings as set forth in the Contract

2. Deposit Account. Following the execution and delivery of this Escrow Agreement and the payment of the set-up and deposit account fees to DSI, Contractor, XM and DSI shall open a deposit account ("Deposit Account"). The opening of the Deposit Account means that DSI shall establish an account ledger in the name of Contractor and XM, calendar Contractor and XM to receive renewal notices from DSI as provided in Section 9 below, and request the Initial Deposit, as defined in Section 3 below ("Initial Deposit") from Contractor unless and until an Initial Deposit has already been delivered to DSI. Unless and until DSI receives such Initial Deposit, DSI shall have no further obligation to Contractor and XM.

3. Initial Deposit. The Initial Deposit will consist of the Technical Materials as such term is defined in the Contract as specified by an accompanying document called a "Description of Deposit Materials" hereinafter referred to as "Exhibit B". DSI shall issue a completed copy of a signed and dated "Description of Deposit Materials" in the form of Exhibit B of the foregoing items, to Contractor and XM within ten (10) days of receipt of the Initial Deposit by DSI.

4. Deposit Changes. "Deposit" as used in this Escrow Agreement means and includes the Initial Deposit and any Supplemental Deposit. "Supplemental Deposit" means and includes the following items: any and all updates to the Technical Materials as required to ensure that the Deposit contains the Technical Materials that are applicable to the Prototype Repeaters, Standard Repeaters, High-Power Repeaters, each Module, and the

Network Management System then-being utilized by XM. Contractor will submit the Supplemental Deposit accompanied by an Exhibit B. DSI shall issue a completed copy of a signed and dated "Description of Deposit Materials" in the form of Exhibit B of the foregoing items to Contractor and XM within ten (10) days of receipt of any Supplemental Deposit by DSI.

5. Deposit Inspection. Upon receipt of the Initial Deposit and each Supplemental Deposit, if any, DSI will visually match the listed items to the labeling of the material delivered by Contractor ("Deposit Inspection"). DSI will not be responsible for the contents of any Deposit or for validating the accuracy of Contractor's labeling of a Deposit.

6. Registration Account. Following the execution and delivery of this Escrow Agreement and the payment of the registration fee to DSI, DSI shall open a registration account ("Registration Account") for Contractor and XM. The opening of the Registration Account means that DSI shall establish an account ledger in the name of Contractor and XM, calendar Contractor and XM to receive renewal notices as provided in Section 9, and request payment of the DSI escrow fee. Unless and until DSI receives the initial registration fee payment, DSI shall have no obligation under this Escrow Agreement to Contractor or XM.

7. Deposit Obligations of Confidentiality. DSI agrees to establish a receptacle in which it shall place the Deposit and shall put the receptacle under the control of one or more of its officers, selected by DSI, whose identity shall be available to Contractor and XM at all times. DSI shall exercise a professional level of care in carrying out the terms of this Escrow Agreement.

   DSI acknowledges that Contractor and XM have advised DSI that the Deposit contains valuable confidential and proprietary information, data, material and technology and that DSI has an obligation to preserve and protect the confidentiality of the materials in the Deposit.

   DSI shall, and shall cause its officers, employees, agents and representatives to, maintain all data, material, information and technology forming the Deposit in confidence and shall not disclose any of the same nor make use of any of the Deposit for its own benefit or gain or for any purpose or in any manner other than as contemplated by this Escrow Agreement. Upon termination of this Escrow Agreement in accordance with the terms hereof, the Deposit shall be disposed of in accordance with Contractor's instructions or if instructions are not received by DSI within thirty (30) days of termination, then DSI may destroy the Deposit and confirm in writing to Contractor that it has destroyed the Deposit and the date and method of destruction.

   No right or license is granted to DSI to duplicate any item in the Deposit for any reason whatsoever without the consent and agreement of Contractor.

8. Verification Rights. Contractor grants to DSI the right to inventory the Initial Deposit and each Supplementary Deposit, if any, for accuracy, completeness and sufficiency. No other rights or licenses are granted to DSI. XM shall have the right to cause a verification

of any Deposit Materials. If a verification is elected after the Deposit Materials have been delivered to DSI, then only DSI, or at DSI's election an independent person or company selected and supervised by DSI, may perform the verification.

Either or both Contractor or XM may be present at DSI's facility to observe any DSI inventory or audit of the Initial Deposit and each Supplementary Deposit by DSI.

9. Term of Agreement. This Escrow Agreement shall have an initial term of one (1) year, commencing on the Effective Date and shall be continuously renewable as long as the fees are paid. In the event of the non-payment of fees owed to DSI, DSI shall provide written notice of delinquency to all parties to this Escrow Agreement thirty (30) days prior to expiration of the Contract. Any party to this Escrow Agreement shall have the right to make the payment to DSI to cure the default. If the past due payment is not received in full by DSI within thirty (30) days of the date of such notice, then DSI shall have the right to terminate this Escrow Agreement at any time thereafter by sending written notice of termination to all parties. DSI shall have no obligation to take any action under this Escrow Agreement so long as any payment due to DSI remains unpaid. Notwithstanding anything to the contrary herein, this Escrow Agreement may not be terminated so long as XM or Contractor pays the fees owed to DSI hereunder.

10. Expiry. If this Escrow Agreement expires or is otherwise terminated, all duties and obligations of DSI to Contractor and XM, except DSI's obligations of confidentiality pursuant to Section 7 hereof, will terminate upon expiration or termination of this Escrow Agreement. DSI shall request instructions from Contractor with respect to return or disposal of the items in Escrow, and if DSI does not receive any instructions from Contractor, DSI may dispose of (destroy) the Deposit in accordance with Section 7.

11. Release of Deposit to XM. Upon written notice or request to DSI by XM to audit, access or inventory or require any reporting/information regarding the Escrow, DSI shall promptly advise Contractor in writing, by telecopier and by over-night courier.

With respect to the Release Conditions specified in Article 13(a)(1)-(4) of the Contract only, XM may notify DSI that one or more of the Release Conditions (as such term is defined in the Contract) has occurred, and DSI shall notify Contractor of the XM notice, by no later than three (3) Business Days after receipt of such notification from XM. Ten (10) Business Days after notification to Contractor, DSI shall deliver the Deposit to XM, unless, in the interim, XM or a court order directs DSI not to deliver the Deposit.

With respect to the Release Condition specified in Article 13(a)(5) of the Contract only, XM may notify DSI that this Release Condition has occurred, and DSI shall notify Contractor of the XM notice by no later than three (3) Business Days after receipt of such notification from XM. Ten (10) Business Days after notification to Contractor, DSI shall deliver the Deposit to XM, unless, in the interim, XM or a court order directs DSI not to deliver the Deposit or Contractor delivers a written notice of its objection to DSI concerning the release of the Deposit within such ten (10) Business Day period.

In the event that a written notice of objection is received by DSI from Contractor within

the ten (10) Business Days following the delivery of XM's notice that a Release Condition as set forth in Article 13(a)(5) of the Contract has occurred, DSI shall not release the Deposit to XM unless and until any dispute relating to whether or not such Release Condition has occurred has been resolved (either by written agreement of the parties or arbitral award) such that it is determined that the Release Condition set forth in Article 13(a)(5) has occurred. Any such dispute shall not be subject to Article 13 (Disputes) of this Escrow Agreement, but shall instead be governed by the escrow arbitration provisions set forth in Article 13 (Technical Materials Escrow) of the Contract, and DSI shall be bound by any resulting award as evidenced by a copy of the certificate of the arbitrator.

Following delivery of the Deposit to XM, in the event it is determined by XM or by court order or arbitral award that the Release Condition did not occur as stated by XM, XM will return the Deposit to DSI as long as DSI's fees are received pursuant to Section 19.

DSI shall not deliver any items in Escrow to any person other than XM, without the prior written consent and agreement of Contractor.

12. Return to Escrow. Following release from Escrow, and pursuant to Section 19, XM shall return the Deposit to Escrow in accordance with the terms of the Contract.

13. Disputes. Except as otherwise provided in Section 11 above, any and all disputes arising at any time under this Escrow Agreement or relating to this Escrow Agreement, or the interpretation or performance (or non-performance) of the terms of this Escrow Agreement, shall be finally resolved and settled by arbitration in accordance with the [International] Arbitration Rules of the American Arbitration Association ("AAA"). Contractor and XM shall each select one impartial arbitrator, and a third impartial arbitrator will be selected unanimously by said two (2) arbitrators. If there are three (3) arbitrators selected in accordance with the foregoing, the arbitration shall proceed. If said two (2) arbitrators are unable to select the third arbitrator within ten (10) Business Days of their selection by the parties, the third impartial arbitrator shall be selected by the AAA. Unless otherwise agreed to by Contractor and XM, arbitration will take place in Washington, DC. The decision of a majority of the arbitrators shall be final and binding and may be enforced by any court having proper jurisdiction. Pending the final determination of the arbitrators, either Party shall have the right to obtain such equitable relief to preserve the status quo and to protect its proprietary matter, including obtaining injunctive relief.

The arbitrators may, subject to their signing a non-disclosure of Confidential Information Agreement agreeing not to disclose the contents of the Escrow, review the items Deposited in Escrow as is reasonably necessary for the arbitrators to reach a decision regarding the matter in dispute and submitted to arbitration by the parties. The arbitrators shall not have the right, power, or authority to grant any rights or licenses with respect to the Deposit to any persons whomsoever or to require that the same be delivered or made available to any person other than XM. The arbitrators shall determine who shall bear (and in what proportions) the cost of the proceedings including reasonable attorneys fees and costs.

14. Indemnification. DSI shall be responsible to perform its obligations under this Escrow Agreement and to act in a reasonable and prudent manner with regard to this escrow arrangement. Provided DSI has acted in the manner stated in the preceding sentence, Contractor and XM each agree to defend and indemnify DSI and hold DSI harmless from and against all claims, actions and suits, whether in contract or in tort, and from and against any and all liabilities, losses, damages, costs, charges, penalties, counsel fees, and other expenses of any nature (including, without limitation, settlement costs) incurred by DSI as a result of performance of this Escrow Agreement except in the event of a judgment or award which specifies that DSI breached this Escrow Agreement.

15. Audit Rights. DSI agrees to keep records of the activities undertaken and materials prepared pursuant to this Escrow Agreement. Contractor will be entitled upon reasonable notice and during normal business hours during the term of this Escrow Agreement through independent outside auditors, or in-house auditors, to inspect and audit the records of DSI with respect to this Escrow Agreement.

16. Designated Representative. Contractor and XM each agree to designate one individual to communicate with DSI respectively in relation to the performance of their obligations as set forth in this Escrow Agreement and to notify DSI in writing immediately in the event of any change:

The XM representative is:

XM Satellite Radio Inc.
1250 23rd Street, NW
Suite 57
Washington, DC 20037
Tel. No.: 202-969-7074
Fax No.: 202-969-7124
Attention: Joseph M. Titlebaum, Esq.

The Contractor representative is:

Hughes Electronics Corporation
c/o Hughes Network Systems
10450 Pacific Center Ct.
San Diego, CA 92121

Tel. No.: 858-452-4717
Fax No.: 858-457-4994
Attention: Neil Wilson

Copy to:
Site Counsel
10450 Pacific Center Ct.
San Diego, CA 92121

Or to such other addresses as may be indicated by the respective party by notice given in the same manner.

18. General.

(a) DSI may act in reliance upon any written instruction, instrument, or signature believed to be genuine and unless otherwise notified, may assume that any employee or attorney representing either Contractor or XM giving any written notice, request, advice or instruction in connection with or relating to this Escrow Agreement has been duly authorized by its respective employer (or client) to do so. DSI is not responsible for failure to fulfill its obligations under this Escrow Agreement due to causes beyond DSI's control.

(b) This Escrow Agreement is to be governed by and construed in accordance with the substantive and procedural laws of the State of New York.

(c) This Escrow Agreement, including any Schedules, constitutes the entire agreement between the parties concerning the subject matter hereof, and supersedes all previous communications, representations, understandings, and agreements (other than the Contract) either oral or written, between the parties.

(d) Contractor and XM acknowledge that DSI has no knowledge of the terms and conditions contained in the Contract and that DSI's only obligations shall be as set forth herein or in any other writing signed by DSI, Contractor and XM.

(e) If any provision of this Escrow Agreement is held by any court to be invalid or unenforceable, that provision will be severed from this Escrow Agreement and any remaining provisions will continue in full force.

(f) All notices under this Escrow Agreement shall be in writing and shall be sent by telefax (with a copy deposited at the same time in the mail or sent by express courier postage or courier fees prepaid), or by registered or certified mail (postage prepaid), or by express courier service (courier fees prepaid) to:

If to Contractor:

Hughes Electronics Corporation
10450 Pacific Center Ct.
San Diego, CA 92121
Attention: Neil Wilson
Telephone: 858-452-4717
Facsimile: 858-457-4994

Copy to: Site Counsel
10450 Pacific Center Ct.
San Diego, CA 92121

If to Customer:

XM Satellite Radio Inc.
1250 23/rd/ Street, NW, Suite 57
Washington, DC 20037
Attention: Joseph M. Titlebaum, Esq.
Telephone: 202-969-7074
Facsimile: 202-969-7124

If to DSI:

DSI Technology Escrow Services, Inc.
Attn: Contract Administration
9265 Sky Park Court, Suite 202
San Diego, CA 92123
Telephone: 858-499-1600
Facsimile: 858-694-1919

or to such other address as may be specified in accordance with this section. Notice shall be deemed to have been given at the expiration of two (2) Business Days after it is sent by telefax and confirmed, and/or five (5) Business Days from the date it is deposited postage prepaid with the postal service or given to an express courier service.

19. Fees. All service fees, including annual renewal fees, will be due in full within thirty (30) days after receipt of the invoice therefor. If invoiced fees are not paid within thirty (30) days of the receipt of the invoice, DSI may terminate this Escrow Agreement following sending notices in accordance with Section 9 above. If a payment is not timely received by DSI, DSI shall have the right to accrue and collect interest thereon at the rate of one and one-half percent per month (18% per annum) from the 31st day on which payment is due, for all late payments.

Attached hereto, is the current Fee Schedule of DSI (Exhibit C).

All service fees and annual renewal fees shall be those specified in DSI's Fee and Service Schedule in effect at the time of renewal or request for service, except as otherwise agreed. For any increase in DSI's standard fees, DSI shall notify Contractor at least ninety (90) days prior to the anniversary date of this Escrow Agreement. For any service not listed on the Fee and Service Schedule, DSI shall provide a quote prior to rendering such service.

Date:	Date:	Date:
Hughes Electronics Corporation	XM Satellite Radio Inc.	DSI Technology Escrow Services, Inc.
By: _____	By: _____	By: _____
_____	_____	_____

(Print Name)	(Print Name)	(Print Name)
_____	_____	_____
Title	Title	Title

CONFIDENTIAL

EXHIBIT A

DESIGNATED CONTACT

Account Number _____

Notices, deposit material returns and communications to Depositor should be addressed to:

Company Name: _____
Address: _____
_____
_____
Designated Contact: _____
Telephone: _____
Facsimile:

Invoices to Depositor should be addressed to:

_____
_____
_____
_____
Contact: _____
_____
P O.#, if required: _____

Notices and communications to Preferred Beneficiary should be addressed to:

Company Name: _____
Address: _____
_____
_____
Designated Contact: _____
Telephone. _____
Facsimile: _____

Invoices to Preferred Beneficiary should be addressed to:

_____
_____
_____
_____
Contact: _____
_____
P.O.#, if required: _____

Requests from Depositor or Preferred Beneficiary to change the designated contact should be given in writing by the designated contact or an authorized employee of Depositor or Preferred Beneficiary.

Contracts, deposit materials and notices to DSI should be addressed to:

DSI
Contract Administration
Suite 202
9265 Sky Park Court
San Diego, CA 92123

Telephone: (858) 499-1600
Facsimile: (858) 694-1919

Invoice inquiries and fee remittances to DSI should be addressed to:

DSI
Accounts Receivable
Suite 1450
425 California Street
San Francisco, CA 94104

(415) 398-7900
(415) 398-7914

Date: _____

CONFIDENTIAL

EXHIBIT B

DESCRIPTION OF DEPOSIT MATERIALS

Depositor Company Name _____

Account Number_____

Product Name _____ Version_____
(Product Name will appear on Account History report)

DEPOSIT MATERIAL DESCRIPTION:

Quantity	Media Type & Size	Label Description of Each Separate Item (Please use other side if additional space is needed)
_____	Disk 3.5" or ____	
_____	DAT tape ____mm	
_____	CD-ROM	
_____	Data cartridge tape ____	
_____	TK 70 or ____ tape	
_____	Magnetic tape ____	
_____	Documentation	
_____	Other _____	

PRODUCT DESCRIPTION:
Operating System_____
Hardware Platform_____

DEPOSIT COPYING INFORMATION:
Is the media encrypted? Yes/No If yes, please include any passwords and the decryption tools.

Encryption tool name_____ Version_____

Hardware required_____
Software required_____

I certify for Depositor that the above described Deposit Materials have been transmitted to DSI:

Signature_____
Print Name _____
Date_____

DSI has inspected and accepted the above materials (any exceptions are noted above):

Signature_____
Print Name_____
Date Accepted_____
Exhibit B#_____

Send materials to: DSI, 9265 Sky Park Ct., Suite 202, San Diego, CA 92123
(858) 499-1600

CONFIDENTIAL

EXHIBIT C

Fee & Services Schedule

NEW ESCROW AGREEMENT	ANNUAL FEE	SETUP FEE
Preferred	$1,350	$1,050
ADDITIONAL BENEFICIARY (if desired)		
Preferred	$650/ea.	$1,000

SERVICE OPTIONS	FEES
Unlimited deposit or replacement plus one additional storage unit	$300/yr./1/
Individual deposit updates or replacements	$200/ea.
DeposiTrack updates	$300/ea./1/
Remote vaulting	$500/yr.
Release filing fee	No Fee/2/
Custom contracts	No Fee/3/
Additional storage units	$100/ea.
Technical verification (estimates based on $200/hr.)	
Verification Level I	$800/1/
Verification Level II	$1,200 - $1,600
Verification Level III	$3,200 - $6,400

/1/ Included in the Comprehensive Preferred annual fee.
/2/ Copying expenses in excess of $300 will be chargeable.
/3/ A one-time fee of $500 may be assessed for contract modifications that change DSI's standard processes.

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Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
XM Satellite Radio Holdings Inc. and Subsidiaries:

We consent to the incorporation by reference in the registration statement No. 333-92049 on Form S-8 of XM Satellite Radio Holdings Inc. and Subsidiaries of our report dated February 16, 2000, except for Note 14 which is as of March 15, 2000, with respect to the consolidated balance sheets of XM Satellite Radio Holdings Inc. and Subsidiaries (a development stage company) as of December 31, 1998 and 1999 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the years in the three-year period ended December 31, 1999 and for the period from December 15, 1992 (date of inception) to December 31, 1999, and related schedule, which report appears in the December 31, 1999 annual report on Form 10-K of XM Satellite Radio Holdings Inc. and subsidiaries.

Our report, dated February 16, 2000, except for Note 14 which is as of March 15, 2000, contains an explanatory paragraph that states that the Company has not commenced operations and is dependent upon additional debt or equity financing, which raises substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty.

/s/ KPMG LLP

McLean, Virginia
March 15, 2000

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Source: XM SATELLITE RADIO H, 10-K, March 16, 2000

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This schedule contains summary financial information extracted from the Company's Consolidated Balance Sheet, Consolidated Statement of Loss, and Consolidated Statement of Cash Flows, in each case for the year ended December 31, 1999, and is qualified in its entirety by reference to such consolidated financial statements.
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SEC POWER SEARCH

FORM 10-K

XM SATELLITE RADIO HOLDINGS INC - XMSR

Filed: March 15, 2001 (period: December 31, 2000)

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

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For The Fiscal Year Ended December 31, 2000

XM SATELLITE RADIO HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Commission file number 000-27441

DELAWARE	54-1878819
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1500 ECKINGTON PLACE NE,
WASHINGTON, DC 20002-2194
(Address of principal executive offices)
(Zip code)
202-380-4000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Not Applicable

Securities registered pursuant to Section 12(g) of the Act:
Class A Common Stock, par value $.01 per share
8.25% Series B Convertible Redeemable Preferred Stock, par value $.01 per share
(Title of Classes)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]

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

The aggregate market value of common stock held by non-affiliates of the registrant, based upon the closing price of the registrant's Class A common stock as of March 6, 2001, is $254,917,830.

XM SATELLITE RADIO INC.

(Exact name of registrant as specified in its charter)

Commission file number 333-39178

DELAWARE	52-1805102
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1500 ECKINGTON PLACE NE,
WASHINGTON, DC 20002-2194
(Address of principal executive offices)
(Zip code)
202-380-4000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act
Not Applicable

Securities registered pursuant to Section 12(g) of the Act
Not Applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]

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

The aggregate market value of common stock held by non-affiliates of the registrant as of March 6, 2001 is $0.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(Class) (Outstanding as of March 6, 2001)

XM SATELLITE RADIO HOLDINGS INC.

CLASS A COMMON STOCK, $0.01 PAR VALUE..... 44,285,938 SHARES
CLASS B COMMON STOCK, $0.01 PAR VALUE..... 13,905,019 SHARES

XM SATELLITE RADIO INC.

COMMON STOCK, $0.10 PAR VALUE..... 125 SHARES
(all of which are issued to XM Satellite Radio Holdings Inc.)

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents incorporated by reference and the Part of the Form 10-K into which the document is incorporated: Portions of the definitive proxy statement for the Annual Meeting of Stockholders of XM Satellite Radio Holdings Inc. to be held on May 24, 2001, to be filed within 120 days after the end of XM Satellite Radio Holdings Inc.'s year, are incorporated by reference into Part III, Items 10-13 of this Form 10-K.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

XM SATELLITE RADIO INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

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Except for any historical information, the matters we discuss in this Form 10-K contain forward-looking statements. Any statements in this Form 10-K that are not statements of historical fact, are intended to be, and are, "forward-looking statements" under the safe harbor provided by Section 27(a) of the Securities Act of 1933. Without limitation, the words "anticipates," "believes," "estimates," "expects," "intends," "plans" and similar expressions are intended to identify forward-looking statements. The important factors we discuss below and under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as other factors identified in our filings with the SEC and those presented elsewhere by its management from time to time, could cause actual results to differ materially from those indicated by the forward-looking statements made in this Form 10-K.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

EXPLANATORY NOTE

This annual report is filed jointly by XM Satellite Radio Holdings Inc. ("Holdings") and XM Satellite Radio Inc. ("XM"). XM is a wholly-owned subsidiary of Holdings. Unless the context requires otherwise, the terms "we," "our" and "us" refer to Holdings and its subsidiaries. This report on Form 10-K contains separate financial statements for each of Holdings and XM. The management's discussion and analysis section has been combined, focusing on the financial condition and results of operations of Holdings but including an explanation of any differences between the companies.

PART I

ITEM 1. BUSINESS

Overview

We seek to become a premier nationwide provider of audio entertainment and information programming. We will transmit our XM Radio service by satellites to vehicle, home and portable radios. We own one of two FCC licenses to provide a satellite digital radio service in the United States. We will offer a wide variety of music, news, talk, sports and other specialty programming on up to 100 distinct channels. We believe that customers will be attracted to our service because of its wide variety of formats, digital quality sound and coast-to-coast coverage.

We are preparing to launch our satellites and have contracts with third party programmers, vendors and other partners. Key milestones achieved include the following:

- $1.3 billion of equity and debt net proceeds raised to date; we are funded through our planned commencement of commercial operations in the summer of 2001 and into 2002; our strategic and financial investors include General Motors, Clear Channel Communications, DIRECTV, Telcom Ventures, Columbia Capital, Madison Dearborn Partners, American Honda and AEA Investors;

- Long-term agreement with the OnStar division of General Motors covering the installation and exclusive marketing and distribution of XM Radio service in General Motors vehicles; Agreement with Freightliner Corporation to install XM radios in Freightliner trucks;

- Boeing Satellite Systems completed construction of two high-powered satellites ("Rock" and "Roll") which are scheduled to be launched in March and May of this year;

- Opening of our new headquarters and Broadcast Center in Washington, D.C. featuring over 80 interconnected all-digital studios;

- Contracts with Delphi-Delco Electronics, Sony, Motorola, Pioneer, Alpine, Mitsubishi, Audiovox, Clarion, SHARP, Blaupunkt, Fujitsu Ten, Hyundai Autonet, Bontec, Visteon, Panasonic and Sanyo to manufacture and distribute XM radios;

- Completion of our production chipset design and commencement by ST Microelectronics, our chipset manufacturer, of fabrication to make the components available to radio manufacturers starting the end of March 2001;

- At the Consumer Electronics Show (CES) in January 2001, six manufacturers, including Pioneer, Alpine, and Sony, unveiled 24 different models of XM-ready radios, we won the "Best of CES" award for the automotive category and the XM Sony "plug and play" device won the "CES Innovation 2001 Award" and the Popular Mechanics "Top 15 CES Products Award;"

- Circuit City, Best Buy, Radio Shack, Sears & Roebuck Co., Tweeter, Ultimate, Al and Ed's, CarToys, Sound Advice, Mobile-One, Crutchfield, Cowboy Maloney's Electronic City and Magnolia Hi-Fi have announced that they intend to distribute and promote XM Radio products and services; and

- Agreements with leading specialty programmers, for many of which we will be the exclusive satellite radio platform, covering at least 25 channels, including AsiaOne, Associated Press, Black Entertainment Television (BET), BBC World Service, Bloomberg News Radio, Clear Channel, CNBC, CNN en Espanol, CNNfn, CNN Sports Illustrated, Country Music Hall of Fame, C-SPAN, DIRECTV, Discovery, Firesign Theatre, Hispanic Broadcasting Corporation (formerly Heftel), NASCAR, One-on-One Sports, Radio One, Salem Communications, Sesame Workshop, Sporting News, Weather Channel and USA Today.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Market Opportunity

We believe that there is a significant market for our satellite radio service. Market studies show strong demand for radio service, as evidenced by radio listening trends, data relating to sales and distribution of radios and the general growth in radio advertising. In addition, we note that in many markets audio programming choices are limited to mass appeal formats We believe our national subscription service will complement traditional local radio. Moreover, the success of subscription entertainment services in other media such as cable television and satellite television further indicate potential for significant consumer demand for satellite radio services.

Radio Listening

On average, adults listen to the radio 3.1 hours a day, with the amount of radio listening fairly evenly distributed across gender and age groups. The percentage of people listening to radio is also high. Market data show that over 75% of the entire United States population age 12 and older listen to the radio daily, and over 95% listen on a weekly basis (Radio Marketing Guide and Factbook for Advertisers, Radio Advertising Bureau, 2000-2001).

In addition, more people listen to radio than to other comparable audio entertainment formats. The popularity of radio versus these other formats appears particularly strong in the car, where we will be targeting our service initially. An estimated 69% of consumers chose radio as their most listened to format in the car as compared to 15% for cassettes and 9% for CDs (Radio Listening Habits, CEMA 1999).

Radio Sales and Distribution

A large number of radios are sold in the United States on an annual basis. In 1999, radio manufacturers sold over 29 million car radios, including 17 million original equipment automobile radios and 11 million aftermarket automobile radios, as well as 1.2 million aftermarket automobile CD changers. Original equipment radios are installed in new cars; aftermarket radios are installed in the automobile after purchase. Based on these statistics, each additional one million subscribers would represent less than 3.5% of the new original equipment manufacturer and aftermarket car radios brought to market annually and would generate incremental subscription revenues, at $9.95 per month, of approximately $120 million.

Radio Advertising

The continued popularity of radio is also reflected in the growth of radio advertising. The Radio Advertising Bureau estimates that radio advertising revenue in 2000 climbed to $19 billion, an increase of 12% over 1999. Veronis, Suhler & Associates projects a compound annual increase of 9.5% through 2004. This growth rate exceeds the projected increase in advertising spending for television, newspapers, magazines, yellow pages and outdoor advertising (Communications Industry Forecast, 2000).

Current Limitations on Programming Choice

Many consumers have access to a limited number of stations and programming formats offered by traditional AM/FM radio. Our service is expected to be attractive to underserved radio listeners who want expanded radio choices.

Limited Number of Radio Stations. The number of radio stations available to many consumers in their local market is limited in comparison to the up to 100 channels we expect to offer on a nationwide basis. In 2000, there were only 47 AM/FM radio stations as listed by Arbitron broadcasting in New York City, the largest radio market in the United States. In fact, many metropolitan areas outside the largest 50 markets, such as Jacksonville, FL, Louisville, KY, and Oklahoma City, OK, have 30 or fewer AM/FM radio stations as listed by Arbitron (American Radio, Spring 2000 Ratings Report, Duncan's American Radio, 2000).

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

We estimate that our coast-to-coast service will reach over 98 million listeners age 12 and over who are beyond the range of the largest 50 markets as measured by Arbitron. Of these listeners, 36 million live beyond the largest 276 markets (Census data and Fall 1999 Market Rankings, The Arbitron Company). In addition, there are 22 million people age 12 and above who receive five or fewer stations (The Satellite Report 1999, C. E. Unterberg, Towbin).

Limited Programming Formats. We believe that there is significant demand for a satellite radio service that expands the current programming choices available to these potential listeners. Over 49% of all commercial radio stations use one of only three general programming formats--country, adult contemporary and news/talk/sports (Veronis, Suhler & Associates Communications Industry Forecast 2000). Over 71% of all commercial radio stations use one of only five general formats--the same three, plus oldies and religion. The small number of available programming choices means that artists representing niche music formats likely receive little or no airtime in many markets. Radio stations prefer featuring artists they believe appeal to the broadest market. However, according to the Recording Industry Association of America, recorded music sales of niche music formats such as classical, jazz, movie and Broadway soundtracks, new age, children's programming and others comprised up to 21% of total recorded music sales in 1998 (1998 Consumer Profile).

Demand for Subscription Services and Products

Penetration data relating to cable, satellite television, and premium movie channels suggest that consumers are willing to pay for services that dramatically expand programming choice or enhance quality. As of 1999, over 67% of TV households subscribe to basic cable television at an average monthly cost of $29, and over 11% of TV households subscribe to satellite television at an average monthly cost of $51 (National Cable Television Association website and DBSdish.com website). Also in 1999, according to Paul Kagan Associates, subscribers to cable and satellite services purchased more than 75 million premium channel units, such as HBO, Showtime and Cinemax, for which they paid an extra monthly charge on top of the basic monthly fee.

Demand for Satellite Radio Services

Several studies have been conducted demonstrating the demand for satellite radio service.

In June 1999, we commissioned Strategic Marketing And Research Techniques (SMART), a leading market research company and Dr. Frank M. Bass, a leading authority on the diffusion of new products and inventor of the Bass curve, to estimate the demand for satellite radio based on survey data and historical information. SMART surveyed 1,800 people ages 16 and over. The study concluded that as many as 49 million people may subscribe to satellite radio by 2012, assuming a $9.95 monthly subscription fee and a radio price point of $150-$399 depending upon the type of car or home unit chosen. The study also anticipates that satellite radio will grow even faster than DBS.

In December 1998, we commissioned SMART to conduct a study based on one-on-one interviews with over 1,000 licensed drivers ages 16 to 64 in ten geographically dispersed markets. The study concluded that approximately 50% of aftermarket radio purchases would be for AM/FM/satellite radio units with a single-disc CD player. This assumed a radio price point of $399, a $75 installation fee and a $10 monthly subscription fee for the service. The same study also found that consumers are more likely to buy satellite radio units that offer at least 80 channels.

In November 1998, we commissioned Yankelovich Partners to gauge consumer interest in satellite radio. This involved surveying 1,000 people via telephone and correlating the results with the Yankelovich MONITOR study, which is the longest standing tracking study of consumer values and attitudes in the United States. The study indicated that 18% of people age 16 and older were "definitely" or "probably" willing to pay $9.99 per month to receive satellite radio and an additional $150 for a satellite radio when buying a new car.

The XM Radio Service

We are designing the XM Radio service to address the tastes of each of our targeted market segments through a combination of niche and broad appeal programming. We believe that our distinctive approach to programming, combined with digital quality sound and virtually seamless signal coverage throughout the continental United States, will position us to become the leading provider of the next generation in radio.

We Will Differentiate XM Radio from Traditional AM/FM Radio

Local radio stations, even those which are part of national networks, focus on maximizing listener share within local markets. This limits the types of programming they can profitably provide to mass appeal formats. In contrast, our nationwide reach and ability to provide up to 100 channels in each radio market will allow us to aggregate listeners from markets across the country, expanding the types of programming we can provide. The following chart indicates differences between XM Radio and traditional AM/FM radio.

	XM Radio	Traditional AM/FM Radio
Convenience: go anywhere capability	Virtually seamless signal coverage in the United States	Local area coverage
Choice: wide variety/number of stations	Up to 100 channels with a wide variety of programming	Limited formats in many markets
Improved audio quality	Digital quality sound	Analog AM/FM quality sound
Fewer commercials	Average 6-7 minutes per hour; some channels commercial free	Average 13-17 minutes per hour
More information about music	Text display with title/name of song/artist	No visual display

We plan to further differentiate XM Radio from traditional AM/FM radio in the following ways.

Provide music formats unavailable in many markets. XM Radio will offer many music formats that are popular but currently unavailable in many markets. More than 49% of all commercial radio stations in markets measured by Arbitron use one of only three programming formats: country; adult contemporary; or news/talk/sports. There are many types of music with significant popularity, as measured by recorded music sales and concert revenues, that are unavailable in many traditional AM/FM radio markets. Such music could include classical recordings or popular blues and rap music that have retail appeal but are not commonly played on traditional AM/FM radio. This music also includes special recordings such as the Irish dance soundtrack "Riverdance" and the "Three Tenors" concerts which generate millions of CD sales, yet are not typically played on today's AM/FM stations. Additionally, heavy metal and dance are two of the more popular musical styles not currently broadcast in many small and medium sized markets. Even major markets do not always offer a full complement of formats.

Superserve popular music formats. We will be able to offer more specific programming choices than traditional AM/FM radio generally offers for even the most popular listening formats. For example, on traditional AM/FM radio oldies music is often generalized on a single format. We will be able to segment this category by offering several dedicated, era-specific formats. We also plan to offer up to six dedicated channels with urban formats and four distinct country music formats.

Use more extensive playlists. Traditional AM/FM radio stations frequently use limited playlists that focus on artists and specific music that target the largest audience. With our large channel capacity and focus on specific formats, we have the ability to provide more variety to attract listeners dissatisfied with repetitive and/or limited playlist selection offered by traditional radio.

Deliver a wide range of ethnic and informational programming. We will provide a variety of formats that target specific ethnic and special interest groups who are rarely served by traditional AM/FM radio. We

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

believe by using our national platform to aggregate geographically disparate groups through affinity programming, we will provide advertisers a valuable way to market products and services to these groups by advertising on our affinity channels.

Develop promotional opportunities with record companies, recording artists and radio personalities. Because of our nationwide coverage and resulting economies of scale, we will be able to deliver a variety of national promotions and events that would not be cost effective or efficient on a market-by-market basis through traditional AM/FM radio distribution. Also, we will seek to hire and develop high profile talk and disc jockey talent capable of becoming the next generation of national radio stars with an influence on radio similar to the impact that the new breed of cable TV talk hosts have had on the television industry.

Respond quickly when major music and cultural events occur. XM Radio programmers will respond quickly to changing musical tastes, seasonal music and emerging popular cultural events, such as Bruce Springsteen and Ricky Martin tours, by providing listeners with extensive coverage utilizing our large channel capacity.

Take advantage of digital's higher quality signal. There are several music formats that have strong demand but have been relegated to AM stations with weaker signals due to lack of available FM frequencies. Such AM formats include traditional country music, big band/nostalgia and gospel formats that we will be able to deliver with superior sound quality.

Focus on special demands of mobile listeners. A significant percentage of radio listeners, such as truckers, routinely travel through two or more radio markets on a frequent basis. According to the U.S. Department of Transportation, there were over three million truckers in the United States in 1997. We believe these listeners will be attracted to a radio service with national coast-to-coast coverage. We are seeking to specifically identify and target the listening demands of this audience.

Availability of commercial-free and limited-advertising channels. We believe that a significant portion of the listening market would pay to subscribe to a radio service that provided commercial-free channels and channels with reduced advertising, as demonstrated by the appeal of limited periods of non-stop music used by some traditional AM/FM stations. Therefore, we plan to target this audience with a number of commercial-free music channels covering popular music formats. In addition, we expect that our limited-advertising channels will carry less than half the advertising spots of typical AM/FM stations.

Use cross-promotion capability to market XM Radio We will dedicate a percentage of our advertising inventory across our channels to promote specific programming and brand loyalty. AM/FM radio stations traditionally promote on a single channel basis to build awareness.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Representative XM Radio Channel List

The following table is a list of representative channels we may offer. Channels in italics represent contractual commitments with content providers.

Representative Channels of XM Radio

ROCK MUSIC

Classic Rock
Classic Hard Rock
New Hard Rock
New Alternative
Classic Alternative
Soft Rock

ECLECTIC MUSIC

Contemporary Christian (Salem)
Traditional Christian (Salem)
Blues
Traditional Jazz
Reggae/Island
World Music
American Folk
Pop Classical
Traditional Classical
Modern Jazz
Progressive/Fusion

POP MUSIC

Top 20 Contemporary Hits
Disco/Dance
Broadway Show Tunes
Modern Adult Contemporary
Classic Vocalists
All Request Contemporary Hits

SPORTS

Sports Headlines (CNN/Sports)
Sports Talk (One-On-One Sports,
Sporting News)
Sportsman Channel
Automotive (NASCAR)

COUNTRY MUSIC

Mainstream Country
Classic Country
Bluegrass/Traditional Country
All Request Country

INFORMATION

All News (USA Today)
All News (Bloomberg)
Public Affairs (C-SPAN)
Financial News (CNN fn)
News/Information (BBC World Service)
Travel, Home, Science, Animals (Discovery)
Love/Relationship Line
Farm/Rural
Health/Fitness
Comedy
Audio Book

Consumer Classified
Soap Operas
For Truckers Only
Movie Soundtrack Channel
Lifestyles
Celebrity Gossip
Entertainment News
Game Show/Contest

URBAN MUSIC

Hip Hop/Rap (BET/Radio One)
Urban Dance Mix (Radio One)
Classic Soul (BET/Radio One)
Gospel (BET/Radio One)
Adult Urban (BET/Radio One)
Top 20 Urban

ENVIRONMENTAL MUSIC

Soft Jazz
New Age
Electronic
Environmental (Earth Sounds)
Beautiful Instrumentals

HISPANIC

Tejano (Hispanic Broadcasting Corp.)
Caribbean (Hispanic Broadcasting Corp.)
Regional Mexican (Hispanic Broadcasting Corp.)
Rock en Espanol (Hispanic Broadcasting Corp.)
Hispanic Ballads (Hispanic Broadcasting Corp.)
Hispanic News (CNN en Espanol)

OLDIES MUSIC

40's Oldies
50's Oldies
60's Oldies
70's Oldies
80's Oldies
90's Oldies
Love Songs

TALK

African American Talk (BET/Radio One)
Asian/Indian Talk (AsiaOne)
Christian/Family Talk (Salem)
Mandarin Talk (AsiaOne)
Conservative Talk
Liberal Talk
Senior Citizen Talk
Rock Talk
Hispanic Talk
Teen Talk

CHILDREN'S MUSIC

Pre-School
Grade School/pre-teen

SPECIAL/EVENTS

Reserved Channels

Key Elements of Our Business

We have developed a business strategy to become a premier nationwide provider of audio entertainment and information programming in the vehicle, home and portable markets. Our strategy includes the following elements.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Programming

We believe that the quality and diversity of our programming will be a key driver of consumer interest in our service. To that end, we have developed a unique programming strategy that offers consumers

- Original music and information channels created by XM Originals, our in-house programming unit;
- Channels created by well-known providers of brand name programming; and
- The availability of commercial-free and advertiser-supported channels.

XM Originals. Through a programming unit in XM Radio called "XM Originals," we will create a significant number of original channel formats with content focusing on popular music such as oldies, rock and country, and on new and innovative formats, including jazz, blues, reggae and pop classical. These formats will include artists with strong music sales and concert revenue who do not get significant airplay on traditional AM/FM radio stations. We also intend to brand individual channels creating a specific station personality and image using compelling on-air talent and other techniques to attract listeners in our target market segments. We have hired a team of programming professionals with a proven track record of introducing new radio formats and building local and national listenership.

Brand Name Programming Partners. We intend to complement our original programming with a variety of unique and diverse content provided to us by brand name programming providers. We have signed contracts representing at least 25 channels with numerous well-known specialty and niche programmers that will provide brand name content for XM Radio. These companies include:

Media	Radio
-- Bloomberg News Radio	-- Hispanic Broadcasting Corporation (formerly Heftel)
-- USA Today	-- Clear Channel Communications
-- CNNfn	-- Radio One
-- CNN en Espanol	-- Salem Communications
-- CNN Sports Illustrated	-- AsiaOne
-- C-SPAN Radio	-- One-On-One Sports
-- Black Entertainment Television	-- BBC World Service
-- DIRECTV	-- NASCAR
-- Weather Channel	-- Associated Press
-- Sporting News	-- BBC Concerts
-- National Lampoon	
-- Sesame Workshop	
-- Discovery	
-- Country Music Hall of Fame	

Availability of Commercial-Free and Limited-Advertising Channels. We will provide a number of commercial-free music channels covering popular music formats. In addition, our limited-advertising channels will carry less than half the advertising of a typical AM/FM radio station. We expect the diversity of our programming line-up will appeal to a large audience, including urban and rural listeners of all ages, ethnicities, economic groups and specialty interests. We expect to tailor our programming and marketing to appeal to specific groups within those audiences that research has shown are most likely to subscribe to our satellite radio service. Initially, we plan to concentrate our programming efforts on listeners who are most receptive to innovative entertainment services, so-called early adopters, and new car buyers. According to our research, 16-34 years old adults will compose a high percentage of our early adopters; we will therefore focus a significant portion of our programming and marketing efforts to appeal to them. In addition, we will develop programming and marketing specifically to appeal to other market segments such as baby boomers who are 35-53 years old, seniors who are 54 years old and older, African-Americans, Asian-Americans and Hispanics.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Future Content Arrangements. Under our agreement with Sirius Radio, all new arrangements with providers of programming or content, including celebrity talent, must be non-exclusive and may not reward any provider for not providing content to the other party.

Marketing and Distribution

Our marketing strategy will be designed to build awareness and demand among potential subscribers in our target markets and the advertising community. In addition, we expect to work closely with radio and automotive manufacturers and retail distributors to promote rapid market penetration.

Establish Broad Distribution Channels for XM Radios

We plan to market our satellite radio service through several distribution channels including national electronics retailers, car audio dealers, mass retailers and automotive manufacturers. In addition, we will support our distribution channels by building awareness of XM Radio with a substantial introductory launch campaign, including national and local advertising.

Exclusive Distribution Agreement with General Motors. We have an agreement with the OnStar division of General Motors whereby, for a 12-year period, General Motors will exclusively distribute and market the XM Radio service and install XM radios in General Motors vehicles beginning in 2001. General Motors sold over 4.9 million automobiles in 1999, which represented more than 29% of the United States automobile market. Under the agreement, we have substantial payment obligations to General Motors, including among others, certain guaranteed, annual, fixed payment obligations. While we have discussed with General Motors certain installation projections, General Motors is not required to meet any minimum targets for installing XM radios in General Motors vehicles. In addition, certain of the payments to be made by us under this agreement will not be directly related to the number of XM radios installed in General Motors vehicles.

Other Automobile Manufacturers. We are currently in discussions with other car manufacturers regarding additional distribution agreements. We also plan to meet with automobile dealers to educate them about XM Radio and develop sales and promotional campaigns to promote XM radios to new car buyers.

In addition, we have signed an agreement with Freightliner Corporation to install XM radios in Freightliner trucks.

Distribution through Radio Manufacturers. We have signed contracts with Delphi-Delco, Motorola, Pioneer, Alpine, Mitsubishi, Clarion, Blaupunkt, Fujitsu Ten, Hyundai Autonet, Bontec, Visteon, Panasonic and Sanyo for the development, manufacture and distribution of XM radios for use in cars and a contract with Sony Electronics to design, manufacture and market XM radios for the portable, home, aftermarket and original equipment manufacture car stereo markets. One of these manufacturers, Delco Electronics Corporation, a subsidiary of Delphi Automotive Systems, is the leading original equipment manufacturer of radios for the automobile industry, producing more than 31% of car radios manufactured for installation in new automobiles in the United States in 2000 (J.D. Power and Associates Audio Quality Report). Delphi-Delco is also the leading manufacturer of car radios sold in General Motors vehicles and has signed a contract to build our radios for General Motors. Sony is the leader in sales of portable CD players by a large margin and one of the top three sellers of shelf systems. Sony has agreed to assist with marketing XM Radios and has agreed to incentive arrangements that condition its compensation on use of XM Radios manufactured by Sony or containing Sony hardware. Motorola is a leading supplier of integrated electronics systems to automobile manufacturers. Mitsubishi Electric Automotive America, together with its parent corporation, Mitsubishi Electric Corp., is the largest Japanese manufacturer of factory-installed car radios in the United States. Clarion is a leader in the car audio and mobile electronics industry. Two of our other manufacturers, Pioneer Electronics Corporation and Alpine Electronics, together sold over 29% of aftermarket car radios sold in the United States in first eleven months of 2000 (NPD Intelect, January-November 2000). We have also signed a

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

contract with SHARP to manufacture and distribute XM radios for home and portable use. We are pursuing additional agreements for the manufacture and distribution of XM radios.

These leading radio manufacturers have strong retail and dealer distribution networks in the United States. We expect to have access to the distribution channels and direct sales relationships of these distributors, including national electronics retailers, car audio dealers and mass retailers.

We do not intend to manufacture or hold inventory of XM radios. Radio distribution likely would be handled by fulfillment centers, which hold inventory for the radio manufacturers and ship products directly to listeners at the manufacturers' request.

Retail Electronics Distributors. We anticipate that XM radios and the XM Radio service will be marketed and distributed through major consumer electronics retail channels, including Circuit City, Best Buy, Radio Shack, Sears, Tweeter, Ultimate, Al and Ed's, CarToys, Sound Advice, Mobile-One, Crutchfield, Cowboy Maloney's Electronic City and Magnolia Hi-Fi.

Rural Market Distribution/Alternative Distribution. We intend to market our satellite radio service in rural counties, using distribution channels similar to satellite television, to penetrate rural households not served by traditional electronic retailers. In addition, we plan to pursue alternative distribution opportunities such as catalog/direct marketing, the Internet and marketing through affinity groups.

Future Interoperability Distribution Arrangements. We have signed an agreement with Sirius Radio to develop a unified standard for satellite radios to facilitate the ability of consumers to purchase one radio capable of receiving both our and Sirius Radio's services. Both companies expect to work with their automobile and radio manufacturing partners to integrate the new standard. Future agreements with automakers and radio manufactures will specify the unified satellite radio standard. Furthermore, future agreements with retail and automotive distribution partners and content providers will be on a non-exclusive basis and may not reward any distribution partner for not distributing the satellite radio system of the other party.

Maximize Revenue Through Dual Sources

As with other subscription-based entertainment media such as cable television, we expect to generate revenue by charging a monthly subscription fee and selling limited advertising time. We will earn all of the revenue from advertising on our own programming and a portion of the revenues from advertising on third party programming. XM Radio offers a new national radio platform for advertisers that solves many of the problems associated with buying radio advertising nationally on a spot or syndicated basis. We believe the attractiveness of one-stop national radio advertising buys will provide a significant source of income as our subscriber base grows.

Subscriber Development and Expansion

We expect to promote XM Radio as a national brand name with an exciting image. We have signed TBWA/Chiat Day (Los Angeles) as our advertising agency of record. Several months prior to service commencement, we will launch an advertising campaign in several United States markets to test and generate early feedback on the product offerings and stimulate early demand. Promotional activities currently under consideration include distributing sample programming at retail outlets, concert venues and on the Internet to generate initial interest. For instance, we have entered into an agreement with SFX Entertainment to be the exclusive satellite radio advertiser at live concerts and sporting events presented by, and live entertainment venues managed by, SFX.

Although XM Radio will be available nationwide upon commencement of operations, we will initially concentrate promotional activities in several key markets and rapidly expand to other large markets. This phased roll-out strategy, similar to that employed by consumer electronics manufacturers and special services

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

such as DIRECTV and Web TV, will enable us to refine our launch implementation throughout the roll-out period. The advertising will consist of both branding and promotion efforts for XM Radio, as well as separate campaigns to promote and brand individual channels. Initially, we will focus marketing efforts on the various channels targeting young adults, who we believe are more likely to drive early penetration. We also expect to benefit from free local media coverage as XM Radio is first offered in each new market.

XM Radio will promote subscriber acquisition activities with both original equipment and aftermarket radio manufacturers. This might include

- promotional campaigns directed towards automobile manufacturers and dealers;
- promotional campaigns for free months of service with purchase of an XM radio or free installations for aftermarket car radios;
- incentive programs for retailer sales forces;
- in-store promotional campaigns, including displays located in electronics, music and other retail stores, rental car agencies and automobile dealerships; and
- jointly funded local advertising campaigns with retailers.

Advertiser Development and Acquisition

Our ability to aggregate various local niche market segments into national audiences will be attractive to national advertisers and agencies. We have held extensive meetings with media directors, planners and buyers at advertising and media buying agencies to develop advertiser awareness of the benefits of satellite radio. We expect to have advertising sales offices in seven major media markets to sell directly to advertising agencies and media buying groups and have engaged Premiere Radio Networks to be our advertising sales representative. We will also work with ratings agencies in our advertising-supported business. Statistical Research, Inc., which produces Radar reports, has agreed to work with us to develop other ratings methodologies for satellite radio.

During our early years of service, we do not expect to have a listener base sufficient to attract substantial national advertising dollars on individual channels at competitive rates. Thus, we plan initially to attract national advertisers and agencies with the following kinds of incentives.

Charter Advertising Agreements. We have contracts with several advertisers, advertising agencies and media buying companies offering charter advertising packages at reduced rates for a limited time. Among the advertisers and agencies we have sold advertising packages to are AT&T, Allstate, Sears, Goodyear, Bayer and J. Walter Thompson.

Foreign Language Advertising. We and our programmers plan to offer foreign language advertising on specific foreign language-based channels. Several major national advertisers have expressed strong interest in the ability to advertise to these hard-to-reach customer segments.

The XM Radio System

We have designed our system to provide satellite radio to the continental United States and coastal waters using radio frequencies allocated by the FCC for satellite radio. These radio frequencies are within a range of frequencies called the S-Band. The XM Radio system will be capable of providing high quality satellite services to XM radios in automobiles, trucks, recreation vehicles and pleasure craft, as well as to fixed or portable XM radios in the home, office or other fixed locations. The XM Radio system design uses a network consisting of an uplink facility, two high-power satellites and, where necessary, ground-based repeaters to provide digital audio service to XM radios.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Space Segment

Satellite Construction. Boeing Satellite Systems, formerly Hughes Space and Communications, has built and will launch two Boeing 702 high-power satellites for the XM Radio system. Boeing is also building one ground spare satellite, expected to be completed in the next few months, to be available in the event of a failed launch of any satellite or to accommodate our satellite system growth. Boeing will also provide us with launch and operations support services, equipment and software.

The Boeing 702 is the highest powered commercial communications satellite currently available. The first Boeing 702 satellite was successfully launched in the fourth quarter of 1999 and a total of three Boeing 702 satellites were currently scheduled for launch before the launch of our satellites. Our first satellite is scheduled to be launched by the end of the first quarter of 2001, and the second satellite shortly thereafter. Both communications payloads, provided by Alcatel, have been completed and integrated into the spacecraft bus. The communications payload electronics are designed to make best use of technologies that have already been developed or used in previous satellite programs. The design includes significant redundancy and protective measures to prevent loss of service.

Satellite Transmission. Our two satellites will be deployed at 85 West Longitude and 115 West Longitude. After reaching their designated orbital location, the satellites will receive audio signals from our programming center and retransmit the signals across the continental United States. The satellites will be 30(degrees) apart in longitude in order to enhance the probability of clear line-of-sight communication between the satellites and XM mobile radios.

The transmission coverage areas, or footprints, of our satellites encompass the 48 contiguous states and nearby coastal waters. We have tailored these footprints to provide nearly uniform availability over the United States and to minimize transmission spillage across the United States borders into Canada and Mexico. However, because coverage does extend to the Gulf of Mexico, the California coast and the Atlantic coast, we also expect to be able to provide XM Radio to the cruise ships, cargo vessels and leisure boats which frequent these waters.

Our satellites will transmit audio programming within a 12.5 MHz range of S-Band radio frequencies that have been allocated by the FCC for our exclusive use. Megahertz is a unit of measurement of frequency. This 12.5 MHz bandwidth will be subdivided to carry the transmission of six signals, two signals to be transmitted from each of our two satellites and two signals to be transmitted by the terrestrial repeater network. The audio programming for XM Radio will be carried on two satellite signals, and the remaining two satellite signals and the terrestrial repeater signals will repeat the audio programming to enhance overall signal reception. The transmission of higher quality sound requires the use of more kilobits per second than the transmission of lesser quality sound. In order to provide high-quality digital sound, we expect that music channels will require approximately 56 to 64 kilobits per second, depending on the type of compression technology used, whereas talk channels will require significantly less bandwidth. We expect to use our allocated bandwidth in such a way as to provide up to 100 channels of programming, with our music channels having a high bandwidth allocation so as to provide high-quality digital sound.

Launch Services. Hughes Space and Communications, now Boeing Satellite Systems, contracted with Sea Launch Limited Partnership, a joint venture in which Boeing Commercial Space Company has a controlling 40% interest, to provide the launch services for our satellites. The Sea Launch vehicle uses a new rocket called the Zenit-3SL, which is based on a two-stage rocket called the Zenit-2, plus a stage which is the upper stage of a Russian-developed rocket called the Proton rocket.

The Sea Launch system launches rockets from an ocean-based platform. Sea Launch will perform all rocket and satellite processing at the Sea Launch home port in Long Beach, California. Sea Launch will move the platform to its launch position in the South Pacific Ocean near the equator, where the satellites can be launched more efficiently by avoiding the requirement to conduct an orbital plane change. In March 1999, Sea

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Launch successfully launched a rocket carrying an inert payload into geo-stationary orbit. Sea Launch also successfully launched its first commercial satellite, DIRECTV-1R, in October 1999. Four of the five launches from the Sea Launch platform have been successful. Our satellites are scheduled for launch in March and May, 2001. As of February, 2001, Sea Launch had contracts for an additional 11 launches.

Insurance. We bear the risk of loss for each of the satellites from the time of launch, subject to exceptions set forth in our agreement with Boeing Satellite Systems, and we have obtained insurance to cover that risk. We have purchased launch and in-orbit insurance policies from global space insurance underwriters. The launch insurance premiums for both satellites are approximately $50 million. These policies indemnify us for a total, constructive total or partial loss of either of the satellites that occurs from the time of launch through each satellite's expected lifetime. Coverage exceeds all hardware, insurance and launch service costs related to the in-orbit replacement of a lost satellite. However, our insurance will not protect us from the adverse effect on our business operations due to the loss of a satellite. Our policies contain standard commercial satellite insurance provisions, including standard coverage exclusions.

Ground Segment

Satellite Control. Each of our satellites will be monitored by a telemetry, tracking and control station, and both satellites will be controlled by a satellite control station. Each of the stations will have a backup station. We have a contract with an experienced satellite operator to perform the telemetry, tracking and control functions.

Programming and Business Center. Programming from both our studios and external sources will be sent to our programming center, which will package and retransmit signals to our satellites through the uplink station. Financial services and certain administrative support will be carried on at our business center. Communications traffic between the various XM Radio facilities will be controlled by the network monitoring center. The network monitoring center will monitor satellite signals and the terrestrial repeater network to ensure that the XM Radio system is operating properly. We have designed and installed fault detection systems to detect various system failures before they cause significant damage.

Terrestrial Repeaters. We are installing a terrestrial repeater system to supplement 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 will still be 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 will install terrestrial repeaters to facilitate signal reception. Terrestrial repeaters are ground-based electronics equipment which receive and re-transmit the satellite signals. We have signed a contract with LCC International, a wireless service site planner, for the design and deployment of our terrestrial repeater network. LCC International has completed initial site planning and started construction on many of the repeater sites. We have entered into a contract with Hughes Electronics Corporation for the design, development and manufacture of the terrestrial repeaters.

We have contracted to purchase 1,550 terrestrial repeaters to cover urban areas in approximately 70 markets. We expect that this system will commence operation by the summer of 2001. We estimate that the largest urban markets may require in excess of 100 repeaters, while smaller cities with fewer tall buildings may require as few as one to three repeaters. We also intend to use additional small repeaters in areas such as tunnels, where reception would otherwise be severely restricted. Our placement of terrestrial repeaters will be guided by a newly developed radio frequency analysis technique which, employing technology similar to that used in certain cellular telephone systems, analyzes the satellite footprint to discover areas likely to have impaired reception of XM Radio.

We will install terrestrial repeaters on rooftops and existing tower structures where they will receive the satellite signals, amplify them and retransmit them at a significantly higher signal strength than is possible

directly from the satellites. Before we may install many of our planned terrestrial repeaters, we must obtain roof rights in suitable locations and on acceptable terms. We do not expect this to present a serious problem to our construction of a terrestrial repeater network.

The high power levels and proprietary signal design of the terrestrial signals may allow XM radios to receive signals when a terrestrial repeater is not in view, including within buildings and other structures which can be penetrated by the terrestrial repeater signal. In some indoor locations which cannot receive the repeater signal, users will need to use small externally mounted antennas that will receive the signal from one of the two satellites.

We expect to benefit from the expertise gained by Motient with its ARDIS terrestrial two-way data network consisting of approximately 1,700 base stations sites serving cities throughout the United States. We may use a portion of these sites in our system.

XM Radios. We will transmit XM Radio throughout the continental United States to vehicle, portable, home and plug and play radios. Our radios will be capable of receiving both XM Radio and traditional AM/FM stations. Six manufacturers, including Pioneer, Alpine and Sony, have introduced 24 different models of XM-ready radios at the January 2001 Consumer Electronics Show (CES) in Las Vegas, Nevada.

We have signed a contract with ST Microelectronics to design and produce chips that will decode the XM Radio signal. We have completed the production chipset design and ST Microelectronics has commenced fabrication to make the components available to radio manufacturers starting the end of March 2001.

Delphi-Delco, Motorola, Pioneer, Alpine, Mitsubishi, Audiovox, Panasonic, Visteon, Blaupunkt and Clarion have signed contracts with us to develop, manufacture and distribute XM radios which can be used in the car, and we have signed a contract with Sony Electronics to design, manufacture and market XM radios for the portable, home, aftermarket and original equipment manufacture car stereo markets. We have also signed a contract with SHARP to manufacture XM radios for home and portable use.

Unified Standard for Satellite Radio. On February 16, 2000, we signed an agreement with Sirius Radio to develop a unified standard for satellite radios to facilitate the ability of consumers to purchase one radio capable of receiving both our and Sirius Radio's services. The technology relating to this unified standard will be jointly developed, funded and owned by the two companies. In addition, we will work together with Sirius Radio to proliferate the new standard by creating a service mark for satellite radio. This unified standard is intended to meet FCC rules that require interoperability with both licensed satellite radio systems.

As part of the agreements, each company has licensed to the other its intellectual property relating to its system; the value of this license will be considered part of each company's contribution toward the joint development. In addition, each company has agreed to license its non-core technology, including non-essential features of its system, to the other at commercially reasonable rates. In connection with this agreement, the pending patent litigation against XM Radio has been resolved.

We anticipate that it will take several years to develop radios capable of receiving both services. At the commercial launch of our service, we anticipate that our consumers will be able to purchase radios only capable of receiving our service.

Both companies expect to work with their automobile and radio manufacturing partners to integrate the new standard. Future agreements with automakers and radio manufacturers will specify the unified satellite radio standard. Furthermore, future agreements with retail and automotive distribution partners and content providers will be on a non-exclusive basis.

We and Sirius Radio have also agreed to negotiate in good faith to provide service to each other's subscribers in the event of a catastrophic failure of the XM Radio system or the Sirius Radio system.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Competition

We expect to face competition for both listeners and advertising dollars.

Sirius Satellite Radio

Our direct competitor in satellite radio service is likely to be Sirius Radio, the only other FCC licensee for satellite radio service in the United States. Since October 1997, Sirius Radio's common stock has traded on the Nasdaq National Market. Sirius Radio has deployed three satellites in a North American elliptical orbit and a network of terrestrial repeaters. Sirius Satellite Radio has announced in recent SEC filings that it has arrangements for the construction, implementation and distribution of its service and that it expects to have radios compatible with its system available to consumers later this year.

Traditional AM/FM Radio

Our competition will also include traditional AM/FM radio. Unlike XM Radio, traditional AM/FM radio already has a well established market for its services and generally offers free broadcast reception paid for by commercial advertising rather than by a subscription fee. Also, many radio stations offer information programming of a local nature, such as traffic and weather reports, which XM Radio initially will be unable to offer as effectively as local radio, or at all. The AM/FM radio broadcasting industry is highly competitive. Radio stations compete for listeners and advertising revenues directly with other radio stations within their markets on the basis of a variety of factors, including

. program content;

. on-air talent;

. transmitter power;

. source frequency;

. audience characteristics;

. local program acceptance; and

. the number and characteristics of other radio stations in the market.

Currently, traditional AM/FM radio stations broadcast by means of analog signals, not digital transmission. We believe, however, that in the future traditional AM/FM radio broadcasters may be able to transmit digitally into the bandwidth occupied by current AM/FM stations.

Internet Radio

There are a growing number of Internet radio broadcasts which provide listeners with radio programming from around the country and the world. Internet radio can be heard through a personal computer equipped with a modem, sound card and speakers. Announcements have been made about plans by one or more companies to deliver Internet radio to cars or portable radios using satellites. Although we believe that the current sound quality of Internet radio is below standard and may vary depending on factors such as network traffic, which can distort or interrupt the broadcast, we expect that improvements from higher bandwidths, faster modems and wider programming selection may make Internet radio a more significant competitor in the future.

There are a number of Internet-based audio formats in existence or in development which could compete directly with XM Radio. For example, Internet users with the appropriate hardware and software can download sound files for free or for a nominal charge and play them from their personal computers or from specialized portable players. In addition, prominent members of the music and computer industry have supported an initiative known as the Secure Digital Music Initiative to become a standard for fee-based electronic

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

distribution of copyrighted sound recordings. Although presently available formats have drawbacks such as hardware requirements and download bandwidth constraints, which we believe would make XM Radio a more attractive option to consumers, Internet-based audio formats may become increasingly competitive as quality improves and costs are reduced.

Direct Broadcast Satellite and Cable Audio

A number of companies provide specialized audio service through either direct broadcast satellite and 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 generally an add-on service to the higher priced video service.

Regulatory Matters

XM Radio and Sirius Radio received licenses from the FCC in October 1997 to construct and operate satellite radio service. The FCC has allocated 25 MHz for the new service in a range of radio frequencies known as the S-Band.

As an owner of one of two FCC licenses to operate a commercial satellite radio service in the United States, we will continue to be subject to regulatory oversight by the FCC. Our development, implementation and eventual operation of our system will be subject to significant regulation by the FCC under authority granted under 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 support our business plan.

One of the two losing bidders in the satellite radio license auction filed a petition to deny our application for an FCC license, but the petition was denied. The losing bidder is seeking review by the FCC. The losing bidder has argued that WorldSpace had effectively taken control of us without FCC approval and that WorldSpace has circumvented the FCC's application cut-off procedures. WorldSpace is no longer a stockholder in us. We have opposed this appeal and have denied the allegations contained in the challenge. The FCC's order granting our license remains in effect during the pendency of the application for review. In December 2000, the FCC approved a transfer of control of our FCC license from Motient Corporation to a diffuse group of owners, none of whom will have a controlling interest in us. The FCC has conditioned this approval on the outcome of the application for review. Although we believe that the award of the license to us will continue to be upheld, we cannot predict the ultimate outcome of this challenge. If this challenge is successful, the FCC could take a range of actions, any of which could harm our ability to proceed with our planned satellite radio service.

Our license, which is held by a subsidiary wholly owned by XM, has a term of eight years from commencement of XM's operations and may be renewed. The FCC requires the satellite radio licensees, including us, to adhere to certain milestones in the development of their systems, including a requirement that the licensees begin full operation by October 2003.

Our FCC license requires us to meet the following milestones:

Deadline	Milestone	Status
October 1998	Complete contracting for first satellite	Completed March 1998
October 1999	Complete contracting for second satellite	Completed March 1998
October 2001	Begin in-orbit operation of at least one satellite	Expected First Quarter 2001
October 2003	Begin full operation of the XM Radio system	Expected Summer 2001

While we have already fulfilled the first two milestones, we may not meet the remaining two milestones, in part because we depend on third parties to build and launch our satellites. If we fail to meet these milestones, the FCC could take a range of actions, any of which may harm our business.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

For business and technical reasons, we have decided to modify certain aspects of the satellite radio system described in our May 1997 amended application to the FCC. Specifically, we intend to

- increase the satellites' transmission power;
- eliminate coverage of Alaska and Hawaii; and
- change the total number of signals carried by the satellites and terrestrial repeaters.

We will subdivide our 12.5 MHz of allocated bandwidth to carry six signals instead of five as previously stated in our FCC application. Two signals will be transmitted by each of the two satellites, and two signals will be transmitted by our terrestrial repeaters. In January 2000 we requested that the FCC allow us to modify the XM Radio system to incorporate these changes. While the FCC regularly approves modifications to commercial licenses, it may not approve our request.

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.

The FCC's rules require interoperability with all licensed satellite radio systems that are operational or under construction. The FCC conditioned our license on certification by us that our final receiver design is interoperable with the final receiver design of the other licensee, Sirius Radio, which plans to use a different transmission technology than we plan to use. Because of uncertainty regarding the design of Sirius Radio's systems, we may face difficulties initially in meeting this interoperability requirement. We have signed an agreement with Sirius Radio to develop a unified standard for satellite radios, but we anticipate that it will take several years to develop the technologies necessary for radios that will be capable of receiving both our service and Sirius Radio's service. Accordingly, we may not be able to meet the FCC's interoperability requirements by the time we launch our commercial operations. Together with Sirius Radio, we have informed the FCC of the progress that has been made to date in meeting the interoperability requirement. We may need to obtain an extension of time or modification of the interoperability requirement from the FCC. Furthermore, complying with the interoperability requirement could make the radios more difficult and costly to manufacture.

The FCC is currently conducting a rulemaking proceeding to establish rules for terrestrial repeater transmitters, which we plan to deploy to fill in gaps in satellite coverage. The FCC has proposed to permit us to deploy these facilities. Specifically, the FCC has proposed a form of blanket licensing for terrestrial repeaters and service rules which would prohibit satellite radio licensees from using terrestrial repeating transmitters to originate local programming or transmit signals other than those received from the satellite radio satellites. Various parties, including the National Association of Broadcasters, Wireless Communications Service (WCS) licensees, Multipoint Distribution Service (MDS) licensees, and Instructional Television Fixed Service (ITFS) licensees have asked the FCC to

- limit the number of repeaters operating at greater than 2 kW EIRP that may be deployed;
- limit the power level of the repeaters operating at greater than 2 kW EIRP that are deployed;
- delay consideration of terrestrial repeater rules until XM Radio and Sirius Radio provide additional information regarding planned terrestrial repeaters;
- require individual licensing of each terrestrial repeater; and
- impose a waiting period on the use of repeaters in order to determine if signal reception problems can be resolved through other means.

Our plans to deploy terrestrial repeaters in our system may be impacted, possibly materially, by whatever rules the FCC issues in this regard. Furthermore, we may need special temporary authority from the FCC to operate our terrestrial repeaters if the FCC delays the issuance of these rules.

The FCC may also require us to compensate certain MDS and ITFS customers and licensees to remedy interference caused to some of their receivers by the operation of our terrestrial repeaters.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

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 will need to coordinate the XM Radio system with systems operating in the same frequency bands in adjacent countries. Canada and Mexico are the countries whose radio systems are most likely to be affected by satellite radio. The United States government, which conducts the coordination process, has resolved the issue with the Canadian government and has reached an agreement with the Mexican government that has not yet been fully approved by that government.

We will operate the communication uplinks between our own earth station and our satellites in a band of radio frequencies that are used for several other services. These services are known under FCC rules as fixed services, broadcast auxiliary services, electronic news gathering services, and mobile satellite services for uplink station networks. Although we are optimistic that we will succeed in coordinating domestic uplink station networks, we may not be able to coordinate use of this spectrum in a timely manner, or at all. We have filed an application with the FCC for approval of a satellite earth station to be located in Washington, D.C. This application has not yet been granted.

We also need to protect our system from out-of-band emissions from licensees operating in adjacent frequency bands. Wireless Communication Service licensees operating in frequency bands adjacent to the satellite radio's S-Band allocation must comply with certain out-of-band emission limits imposed by the FCC to protect satellite radio systems. These limits, however, are less stringent than those we proposed. In addition, in April 1998, the FCC proposed to amend its rules to allow for new radio frequency lighting devices that would operate in an adjacent radio frequency band. We opposed the proposal on the grounds that the proliferation of this new kind of lighting and its proposed emission limits, particularly if used for street lighting, may interfere with XM Radio. However, the FCC may not rule in our favor, a decision which could adversely affect our signal quality. In addition, in May 2000, the FCC proposed to amend its rules to allow for the operation of devices incorporating ultra-wideband (UWB) technology on an unlicensed basis. The FCC has proposed to impose less stringent emissions limits for UWB devices operating above 2 GHz, where XM operates, than for such devices operating below 2 GHz. We have opposed this proposal on the basis that the operation of these devices may interfere with XM Radio. Interference from other unlicensed frequency devices may also adversely affect the Company's signal.

The FCC order granting our license determined that because we are a private satellite system providing a subscription service on a non-common carrier basis, we would not be subject to the FCC's foreign ownership restrictions. However, such restrictions would apply to us if we were to offer non subscription services, which may appear more lucrative to potential advertisers than subscription services. The FCC also stated in its order that it may reconsider its decision not to subject satellite radio licensees to its foreign ownership restrictions.

Sea Launch, Alcatel and other vendors are subject to United States export regulations. Our vendors need (and have obtained) approval from the State Department under technology export statutes and regulations for the launch of our satellites. Although these are not new requirements, the export of technology has received considerable attention in response to concerns about the export of technology to China by the United States defense contractors. The negative publicity may lead the United States Congress to alter the relevant laws or regulations, or may change the State Department's policy in enforcing the regulations. Any change in applicable law or policy may result in delay of our satellite launch.

Intellectual Property

System Technology

We have contracted with several technology companies to implement portions of the XM Radio system. These technology companies include Boeing Satellite Systems and Alcatel (satellites); Delphi-Delco, Sony, Motorola, Pioneer, Alpine, Mitsubishi, Audiovox, Clarion, SHARP, Blaupunkt, Fujitsu Ten, Hyundai Autonet, Bontec, Visteon, Panasonic and Sanyo (car and home radios); STMicroelectronics (chipsets); Lucent Digital Radio (audio coding technology); Fraunhofer Institute (various technologies) and LCC International (design of repeater network). We will not acquire any intellectual property rights in the satellites. We will have joint ownership of or a license to use the technology developed by the radio and chipset manufacturers. We will own the design of our system, including aspects of the technology used in communicating from the satellites and the design of the repeater network.

Our system design, our repeater system design and the specifications we supplied to our radio and chipset manufacturers incorporates or may in the future incorporate some intellectual property licensed to us on a non-exclusive basis by WorldSpace Management. WorldSpace Management 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. Under our agreement with WorldSpace Management we must pay one time, annual or percentage royalty fees or reimburse WorldSpace Management for various costs for various elements of the licensed technology that we decide to use in the XM Radio system. We have incurred costs of $6.7 million to WorldSpace Management under this agreement through December 31, 2000. We will not be required to pay royalties to WorldSpace Management for licensed technology that we do not use in our system. We anticipate the Fraunhofer Institute will continue to provide various development services for us in connection with the design of our system.

Motient has granted us a royalty-free license with respect to certain ground segment communications technology and antenna technology.

Motient and WorldSpace Management have also granted us royalty-free, non-exclusive and irrevocable licenses to use and sublicense all improvements to their technology. The technology licenses from Motient and WorldSpace Management renew automatically on an annual basis unless terminated for a breach which has not been or cannot be remedied.

We believe that the intellectual property rights we have licensed under our technology license were independently developed or duly licensed by Motient or WorldSpace International, as the case may be. 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 signed an agreement with Sirius Radio to develop a unified standard for satellite radios to facilitate the ability of consumers to purchase one radio capable of receiving both our and Sirius Radio's services. The technology relating to this unified standard will be jointly developed, funded and owned by the two companies. As part of the agreement, each company has licensed to the other its intellectual property relating to the unified standard and to its system; the value of this license will be considered part of its contribution toward the joint project. In addition, each company has agreed to license its non-core technology, including non-essential features of its system, to the other at commercially reasonable rates. Each party will be entitled to license fees or a credit towards its obligation to fund one half of the development cost of the technologies used to develop a unified standard for satellite radios. The amount of the fees or credit will be based upon the validity, value, use, importance and available alternatives of the technology each contributes. In our discussions we have yet to agree on the validity, value, use, importance and available alternatives of our respective technologies. If we fail to reach agreement, the fees or credits may be determined through binding arbitration. We cannot predict at this time the amount of license fees, if any, payable by or to XM or Sirius Radio or the size of the credits to XM and Sirius Radio from the use of their technology. This may require additional capital, which could be significant.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Prior Litigation with Sirius Radio; Technology License

On January 12, 1999, Sirius Radio, the other holder of an FCC satellite radio license, commenced an action against us in the United States District Court for the Southern District of New York, alleging that we were infringing or would infringe three patents assigned to Sirius Radio. In its complaint, Sirius Radio sought money damages to the extent we manufactured, used or sold any product or method claimed in their patents and injunctive relief. This suit was resolved in February 2000 in accordance with the terms of a joint development agreement between us and Sirius Radio in which both companies agreed to develop a unified standard for satellite radios and license our respective intellectual property, including the patents that were the subject of the suit, for use in this joint development. If this agreement is terminated before the value of the licenses has been determined due to our failure to perform a material covenant or obligation, then this suit could be refiled.

If this litigation were recommenced, we believe based on the planned design of our system, our knowledge of the differences between our system and the claims of the Sirius Radio patents and on advice we have previously received from our patent counsel, that a court would find that we have not and will not infringe any Sirius Radio patents. However, the litigation could harm us, even if we were successful. It would divert our management's attention and might make it more difficult for us to raise financing or enter into other agreements with third parties. In addition, even if we prevailed, the Sirius Radio litigation might prevent us from moving forward with the development of the XM Radio system in a timely manner. The Sirius Radio patents involved in the litigation relate to certain aspects of signal and reception methodologies that may be employed by a satellite radio system. If this suit were refiled and we lost all or part of this litigation, we could become liable to Sirius Radio for money damages and subject to an injunction preventing us from using certain technology in the XM Radio system. Any such injunction could force us to engineer technology which would not be subject to the injunction, license or develop alternative technology, or seek a license from, and pay royalties to, Sirius Radio. If any of these strategies becomes necessary, it could be costly and time-consuming and would likely delay any implementation of our system. If we could not accomplish any strategy, or could not do so in a timely manner at an acceptable cost, our business would be harmed.

Copyrights to Programming

We must negotiate and enter into music programming royalty arrangements with performing rights societies such as the American Society of Composers, Authors and Publishers, Broadcast Music, Inc., and SESAC, Inc. These organizations collect royalties and distribute them to songwriters and music publishers and negotiate fees with copyright users based on a percentage of revenues. Radio broadcasters currently pay a combined total of approximately 4% of their revenues to these performing rights societies. We expect to negotiate or establish license fees through a rate court proceeding in the U.S. District Court for the Southern District of New York but such royalty arrangements may be more costly than anticipated.

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 owners of the sound recordings. The Recording Industry Association of America will negotiate licenses and collect royalties on behalf of copyright owners for this performance right in sound recordings. Cable audio services currently pay a royalty rate of 6.5% of gross subscriber revenue. This rate was set by the Librarian of Congress, which has statutory authority to decide rates through arbitration, and was affirmed on May 21, 1999 by the United States Court of Appeals for the District of Columbia. Although we believe we can distinguish XM Radio sufficiently from the cable audio services in order to negotiate a lower statutory rate, we may not be able to do so.

The XM Trademark

We believe that XM Radio will be seen as the complement to AM and FM radio. We have an application pending in the United States Patent and Trademark Office for the registration of the trademark "XM" in connection with the transmission services offered by our company and expect that our brand name and logo

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

will be prominently displayed on the surface of XM radios together with the radio manufacturer's brand name. This will identify the equipment as being XM Radio-compatible and build awareness of XM Radio. We intend to maintain our trademark and the anticipated registration. We are not aware of any material claims of infringement or other challenges to our right to use the "XM" trademark in the United States.

Personnel

As of January 31, 2001, we had 250 employees. In addition, we rely upon a number of consultants and other advisors. 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 is represented by a labor union, and we believe that our relationship with our employees is good.

ITEM 2. PROPERTY

Our executive offices, studio and production facilities are located at 1500 Eckington Place, N.E., Washington, D.C. 20002, under a ten year lease of approximately 150,000 square feet. We have also entered into license or lease agreements with regard to our terrestrial repeater system throughout the United States

ITEM 3. LEGAL PROCEEDINGS

Except for the FCC proceeding described under the caption "Business--Regulatory Matters," we are not a party to any material litigation or other proceedings.

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 2000.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRICE RANGE OF COMMON STOCK

Holdings' Class A common stock has been quoted on the Nasdaq National Market under the symbol "XMSR" since its initial public offering on October 5, 1999. The following table presents, for the period indicated, the high and low sales prices per share of the Class A common stock as reported on the Nasdaq National Market.

	High	Low
1999:		
Fourth Quarter (beginning October 5, 1999)	$44.750	$11.625
2000:		
First Quarter	$50.000	$27.000
Second Quarter	$39.250	$18.125
Third Quarter	$46.938	$30.125
Fourth Quarter	$43.750	$12.063
2001:		
First Quarter (through March 6, 2001)	$21.063	$ 9.000

On March 6, 2001, the last reported sale price of Holdings' Class A common stock on the Nasdaq National Market was $10.000. As of March 6, 2001, there were 214 holders of record of Holdings' Class A common stock.

DIVIDEND POLICY

Holdings has not declared or paid any dividends on its common stock since its date of inception. Currently, Holdings' Series B Convertible Redeemable preferred stock restricts Holdings from paying dividends on its common stock unless full cumulative dividends have been paid or set aside for payment on all shares of the Series B preferred stock. The terms of Holdings' Series C Convertible Redeemable preferred stock contain similar restrictions. In accordance with its terms, Holdings has paid dividends on the Series B preferred stock in common stock. Dividends on the Series C preferred stock will accrue. The indenture governing XM's senior secured notes restricts XM from paying dividends to Holdings which, in turn, will significantly limit the ability of Holdings to pay dividends. Holdings does not intend to pay cash dividends on its common stock in the foreseeable future. Holdings anticipates that it will retain any earnings for use in operations and the expansion of its business.

RECENT SALES OF UNREGISTERED SECURITIES

None.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

XM Satellite Radio Holdings Inc.

In considering the following selected consolidated financial data, you should also read Holdings' consolidated financial statements and notes and the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations." The consolidated statements of operations data for the four-year period ended December 31, 2000, and for the period from December 15, 1992 (date of inception) to December 31, 2000, and the consolidated balance sheets data as of December 31, 1997, 1998, 1999 and 2000 are derived from Holdings' consolidated financial statements. These statements have been audited by KPMG LLP, independent certified public accountants. KPMG's report contains a paragraph stating that Holdings has not begun operations and is dependent upon additional debt or equity financing, and that these factors raise substantial doubt about Holdings' ability to continue as a going concern. The selected consolidated financial data do not include any adjustments that might result from the outcome of that uncertainty.

	Years Ended December 31,				December 15, 1992 (Date of Inception) to December 31,
	1997	1998	1999	2000	2000(1)
	(In thousands, except share data)				
Consolidated Statements of Operations Data:					
Revenue	$ --	$ --	$ --	$ --	$ --
Operating expenses:					
Research and development	--	6,941	4,274	7,397	18,612
Professional fees	1,090	5,242	9,969	22,836	39,137
General and administrative	20	4,010	16,448	49,246	69,724
Total operating expenses	1,110	16,193	30,691	79,479	127,473
Operating loss	(1,110)	(16,193)	(30,691)	(79,479)	(127,473)
Other income (expense) interest income (expense), net	(549)	26	(6,205)	27,606	20,878
Net loss	$ (1,659)	$ (16,167)	$ (36,896)	$ (51,873)	$(106,595)
Series C preferred stock beneficial conversion charge	--	--	--	(123,042)	
Series B preferred stock incentivized charge	--	--	--	(11,211)	
Preferred dividends	--	--	--	(15,212)	
Net loss applicable to common stockholders	$ (1,659)	$ (16,167)	$ (36,896)	$ (201,338)	
Net loss per share--basic and diluted	$ (0.26)	$ (2.42)	$ (2.40)	$ (4.15)	
Weighted average shares used in computing net loss per share--basic and diluted	6,368,166	6,689,250	15,344,102	48,508,042	

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

	December 31,			
	1997	1998	1999	2000
	(In thousands)			
Consolidated Balance Sheets Data:				
Cash, cash equivalents and short-term investments	$ 1	$ 310	$120,170	$ 224,903
Restricted investments	--	--	--	161,166
System under construction	91,932	169,029	362,358	805,563
Total assets	91,933	170,485	515,189	1,293,218
Total debt	82,504	140,332	212	262,665
Total liabilities	82,949	177,668	30,172	337,266
Stockholders' equity (deficit)	8,984	(7,183)	485,017	955,952

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(1) Business activity for the period from December 15, 1992, which was our date of inception, through December 31, 1996 was insignificant.

XM Satellite Radio Inc.

In considering the following selected consolidated financial data, you should also read XM's consolidated financial statements and notes and the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations." The consolidated statements of operations data for the four-year period ended December 31, 2000, and for the period from December 15, 1992 (date of inception) to December 31, 2000, and the consolidated balance sheets data as of December 31, 1997, 1998, 1999 and 2000 are derived from XM's consolidated financial statements. These statements have been audited by KPMG LLP, independent certified public accountants. KPMG's report contains a paragraph stating that XM has not begun operations and is dependent upon additional debt or equity financing, and that these factors raise substantial doubt about XM's ability to continue as a going concern The selected consolidated financial data do not include any adjustments that might result from the outcome of that uncertainty.

	Years Ended December 31,				December 15, 1992 (Date of Inception) to December 31, 2000(1)
	1997	1998	1999	2000	
	(In thousands, except share data)				
Consolidated Statements of Operations Data:					
Revenue	$ --	$ --	$ --	$ --	$ --
Operating expenses:					
Research and development	--	6,941	4,274	7,397	18,612
Professional fees	1,090	5,242	9,948	22,751	39,031
General and administrative	20	4,010	16,448	48,979	69,457
Total operating expenses	1,110	16,193	30,670	79,127	127,100
Operating loss	(1,110)	(16,193)	(30,670)	(79,127)	(127,100)
Other income (expense)--interest income (expense), net	(85)	26	490	27,200	27,631
Net loss	$(1,195)	$(16,167)	$(30,180)	$(51,927)	$ (99,469)

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

	December 31,			
	1997	1998	1999	2000
	(In thousands)			
Consolidated Balance Sheets Data:				
Cash, cash equivalents and short-term investments	$ 1	$ 310	$119,902	$ 203,191
Restricted investments	--	--	--	161,166
System under construction	90,031	155,334	333,500	776,706
Total assets	90,032	156,397	485,134	1,242,517
Total debt	--	87	212	262,665
Total liabilities	--	28,941	30,030	337,107
Stockholder's equity	90,032	127,456	455,104	905,410

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(1) Business activity for the period from December 15, 1992, which was our date of inception, through December 31, 1996 was insignificant.

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

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our financial condition and consolidated results of operations. This discussion should be read together with our consolidated financial statements and related notes beginning on page F-1 of this report.

Introduction

This annual report on Form 10-K is filed jointly by XM Satellite Radio Holdings Inc. and XM Satellite Radio Inc. XM is a wholly-owned subsidiary of Holdings. Accordingly, the management's discussion and analysis section of this report focuses on the financial condition and results of operations of Holdings but contains an explanation of any differences, if applicable, between the two companies.

Overview

XM Satellite Radio Inc. was incorporated in Delaware in 1992 as a wholly-owned subsidiary of Motient Corporation, formerly American Mobile Satellite Corporation. XM Satellite Radio Holdings Inc. became a holding company for XM Satellite Radio Inc. in early 1997.

We are in the development stage. Since our inception in December 1992, we have devoted our efforts to establishing and commercializing the XM Radio system. Our activities were fairly limited until 1997, when we pursued and obtained regulatory approval from the FCC to provide satellite radio service. Our principal activities to date have included

- designing and developing the XM Radio system;
- negotiating contracts with satellite and launch vehicle operators, specialty programmers, radio manufacturers and car manufacturers;
- developing technical standards and specifications;
- conducting market research; and
- securing financing for working capital and capital expenditures.

We have raised $1.3 billion to date, which is described under the heading "Liquidity and Capital Resources--Funds Raised for Period Through Commencement of Commercial Operations." We have incurred substantial losses to date and expect to continue to incur significant losses for the foreseeable future as we continue to design, develop and deploy the XM Radio system and for some period following our commencement of commercial operations.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

We intend to capitalize all costs related to our satellite contract and our FCC license, including all applicable interest. These capitalized costs will be depreciated over the estimated useful lives of the satellites and ground control stations. Depreciation of our satellites will commence upon in-orbit delivery. Depreciation of our satellite control facilities and terrestrial repeaters and the amortization of our FCC license will commence upon commercial operations.

After we begin commercial operations, which we are targeting for the summer of 2001, we anticipate that our revenues will consist primarily of customers' subscription fees and advertising revenues.

Results of Operations

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

XM Satellite Radio Holdings Inc. and Subsidiaries

Research and Development. Research and development expenses increased to approximately $7.4 million in 2000, compared with approximately $4.3 million in 1999. The increase in the research and development expenses primarily resulted from increased activity relating to our system technology development, including chipset design and uplink technology, in 2000.

Professional Fees. Professional fees increased to approximately $22.8 million in 2000, compared with $10.0 million in 1999. The increase primarily reflects additional services of consultants, including incurring $11.3 million for software selection and workflow process development. We expect the professional fees to trend upward as we continue to develop marketing strategies.

General and Administrative. General and administrative expenses increased to $49.2 million in 2000, compared with $16.4 million in 1999. The increase reflects increased headcount, facilities and sales and marketing expenses. We have granted certain key executives stock options and incurred a non-cash compensation charge of approximately $1.5 million in 2000 primarily for performance-based stock options. We also recorded non-cash compensation charges of approximately $1.2 million during 2000 relating to options repriced in 1999. We also continued the amortization of goodwill and other intangibles during 2000. We anticipate general and administrative expenses to continue to increase through commercial operations.

Interest Income. Interest income increased to $27.6 million in 2000, compared with $2.9 million in 1999. The increase was the result of higher average balances of cash and cash equivalents in 2000, due to the proceeds from the private placement of 14% senior secured notes and warrants, the public offerings of Class A common stock and Series B convertible redeemable preferred stock and the private placement of Series C convertible redeemable preferred stock, all in the first nine months of 2000, which exceeded expenditures for satellite and launch vehicle construction, other capital expenditures and operating expenses.

Interest Expense. We incurred interest costs of $39.1 and $24.4 million in 2000 and 1999, respectively. We capitalized interest costs of $39.1 million and $15.3 million associated with our FCC license and the XM Radio system in 2000 and 1999, respectively. The increase in interest costs was the result of the incurrence of new debt during the first quarter of 2000, which exceeded the reduction in interest due to the conversion of all debt into equity in the fourth quarter of 1999. Further, the interest capitalization threshold was exceeded in 1999.

Net Loss. The net loss for 2000 and 1999 was $51.9 million and $36.9 million, respectively. The increase in net losses in 2000 compared with 1999 reflects increases in research and development and professional fees expenses, and additional general and administration expenses, primarily due to increased headcount, facility, and sales and marketing expenses in preparation for commercial operations and the amortization of goodwill and intangibles.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

XM Satellite Radio Inc. and Subsidiaries

The results of operations for XM and its subsidiaries were substantially the same as the results for Holdings and its subsidiaries discussed above for 2000. In 1999, XM recognized $2.4 million less interest income due to the timing of capital contributions from Holdings and substantially less interest expense as Holdings' $5.5 million charge to interest for the beneficial conversion feature of the new Motient note and Holdings' exceeding its capitalization threshold by $3.6 million were not allocated to XM.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

XM Satellite Radio Holdings Inc and Subsidiaries

Research and Development. Research and development expenses decreased to $4.3 million in 1999, compared with $6.9 million in 1998. The decrease in research and development expenses resulted from the completion of the development of some of our system technology during 1998.

Professional Fees. Professional fees increased to approximately $10.0 million in 1999, compared with $5.2 million in 1998. The increase primarily reflects additional legal, regulatory and marketing expenses.

General and Administrative. General and administrative expenses increased to $16.4 million in 1999, compared with $4.0 million in 1998. The increase primarily reflects increased headcount and facility expenses to begin program management and operations. We also commenced the amortization of our goodwill and intangibles resulting from Motient's acquisition of a former investor's interest in us during 1999. We have granted certain key executives stock options and incurred a non-cash compensation charge of approximately $4.1 million in the fourth quarter of 1999 primarily for performance-based stock options. We will continue to incur quarterly non-cash compensation charges over the vesting period depending on the market value of our Class A common stock.

Interest Income. Interest income increased to $2.9 million in 1999, compared with 1998, which was insignificant. The increase was the result of higher average balances of cash and short-term investments during 1999 due to the proceeds from the issuance of Series A convertible notes in the third quarter of 1999 exceeding the amounts of expenditures for satellite and launch vehicle construction, other capital expenditures and operating expenses.

Interest Expense. As of December 31, 1999 and 1998, we owed $0 and $140.2 million, respectively, including accrued interest, under various debt agreements which we entered into for the purpose of financing the XM Radio system. Our capitalized interest costs were $15.3 million and $11.8 million associated with our FCC license and the XM Radio system during 1999 and 1998, respectively. We expensed interest costs of $9.1 million and $0 during 1999 and 1998, respectively. We incurred a one-time $5.5 million charge to interest due to the beneficial conversion feature of the new Motient note. We also exceeded our interest capitalization threshold by $3.6 million.

Net Loss. The net loss for 1999 and 1998 was $36.9 million and $16.2 million, respectively. The increase in net losses for 1999, compared with 1998, primarily reflects an increase in net interest expense as discussed above and additional general and administration expenses, primarily due to increased headcount and facility expenses, in preparation for commercial operations and the commencement of amortization of goodwill and intangibles.

XM Satellite Radio Inc. and Subsidiaries

The results of operations for XM and its subsidiaries were substantially the same as the results for Holdings and its subsidiaries discussed above; except that in 1999, XM recognized $2.4 million less interest income due to the timing of capital contributions from Holdings and substantially less interest expense as Holdings' $5.5 million charge to interest for the beneficial conversion feature of the new Motient note and Holdings' exceeding its capitalization threshold by $3 6 million were not allocated to XM.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Liquidity and Capital Resources

At December 31, 2000, we had a total of cash and cash equivalents of $224.9 million, which excludes $95.3 million of current restricted investments, and working capital of $261.2 million. Giving effect to the concurrent offerings detailed below, as of March 6, 2001, we had cash and cash equivalents of $417.6 million, which excludes $95.3 million of current restricted investments, and working capital of $453.9 million on a pro forma basis. By comparison, cash, cash equivalents and short-term investments were $120.2 million and working capital equaled $94.7 million at December 31, 1999. The increases in the respective balances are due primarily to the proceeds from the financings described below.

Funds Raised for Period Through Commencement of Commercial Operations

Since inception, we have raised an aggregate of $1.3 billion, net of expenses, interest reserve and repayment of debt. These funds are expected to be sufficient, in the absence of additional financing, to cover funding needs through commencement of commercial operations in the summer of 2001 and into 2002. These funds have been used to acquire our FCC license, make required payments for our system, including the satellites, terrestrial repeater system, and ground networks, and for working capital and operating expenses.

Sources of Funds. Of the $1.3 billion raised to date, approximately $167.0 million, excluding the Class A common stock acquired by Motient Corporation as part of our initial public offering, has been raised through the issuance of equity to, and receipt of loans from, Motient Corporation and a former stockholder. Of this amount, approximately $90.7 million and $46.0 million was raised in 1997 and 1998, respectively, and $30.3 million was raised in January 1999.

In July 1999, we issued $250.0 million of Series A subordinated convertible notes to six strategic and financial investors--General Motors, $50.0 million; Clear Channel Communications, $75.0 million; DIRECTV, $50.0 million; and Columbia Capital, Telcom Ventures, L.L.C. and Madison Dearborn Partners, $75.0 million in the aggregate. Using part of the proceeds from the issuance of the Series A subordinated convertible notes, we paid a former stockholder $75.0 million in July 1999 to redeem an outstanding loan. We incurred fees and expenses totaling $11.3 million in connection with these transactions.

In October 1999, we completed an initial public offering which yielded net proceeds of $114.1 million Concurrent with the closing of our initial public offering, $250.0 million of our Series A subordinated convertible notes, together with associated accrued interest, converted into shares of our Series A convertible preferred stock and shares of our Class A common stock. Additionally, $103.3 million of convertible notes issued to Motient by us, together with associated accrued interest, converted into shares of our Class B common stock.

During the fiscal year ended December 31, 2000:

- We completed a follow-on offering of 4,370,000 shares of Class A common stock, yielding net proceeds of $132.1 million;

- We completed a concurrent offering of 2,000,000 shares of our Series B convertible redeemable preferred stock, which yielded net proceeds of $96.5 million;

- We completed a private placement of 325,000 units, each consisting of $1,000 principal amount of 14% senior secured notes due 2010 of XM, and one warrant to purchase 8.024815 shares of our Class A common stock at $49.50 per share that provided net proceeds of $191.5 million excluding $123.0 million for an interest reserve; and

- We closed a private offering of 235,000 shares of our Series C convertible redeemable preferred stock, which yielded net proceeds of approximately $226.8 million. We recorded a $123.0 million beneficial conversion charge that reduced earnings available to common stockholders. The issuance of the Series C preferred stock also caused the exercise price of the warrants sold in March 2000 to be adjusted to $47.94 and the number of warrant shares to be increased to 8.285948 per warrant.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Following the end of the fiscal year ended December 31, 2000, in March 2001, we completed a follow-on offering of 7,500,000 shares of Class A common stock, which yielded net proceeds of $72.0 million, and a concurrent offering of 7.75% convertible subordinated notes due 2006, convertible into shares of our Class A common stock at $12.23 per share, which yielded net proceeds of $120.7 million. These issuances caused the conversion price of the Series C preferred stock to be adjusted from $26.50 to $22.93 and the exercise price of the warrants sold in March 2000 to be adjusted to $45.27 and the number of warrant shares to be increased to 8.776003 per warrant.

Through December 31, 2000, the proceeds from these offerings were contributed by Holdings to XM except for $21,712,000 which remains at Holdings.

Uses of Funds. Of the approximately $1.3 billion of funds raised to date, as of December 31, 2000, we have paid $765.1 million in capital expenditures, including approximately $90.0 million for our FCC licence which has been paid for in full, and incurred $127.5 million in operating expenses.

Satellite Contract. Under our satellite contract, Boeing Satellite Systems International, Inc. (formerly Hughes Space and Communications, Inc.) will deliver two satellites in orbit and is to complete construction of a ground spare satellite. Boeing will also provide ground equipment and software to be used in the XM Radio system and certain launch and operations support services. We expect that by commencement of commercial operations in the summer of 2001, we will have had to pay an aggregate amount of approximately $472.6 million for these items. This amount does not include incentive payments, which will depend in part on projected satellite performance at the acceptance date. Such payments could total up to an additional $68.7 million over the useful lives of the satellites. As of December 31, 2000, we had paid approximately $466.0 million under our satellite contract and have recognized an additional $1.6 million in accrued milestone payments.

Launch Insurance. We expect that launch insurance for both satellites will cost approximately $50.0 million. As of December 31, 2000, we had paid $24.2 million with respect to launch insurance.

Terrestrial Repeater System. Based on the current design of the XM Radio system and existing contracts, we estimate that through our expected commencement of operations in the summer of 2001 we will incur aggregate costs of approximately $258.0 million for a terrestrial repeater system. We expect these costs to cover the capital cost of the design, development and installation of a system of terrestrial repeaters to cover approximately 70 cities and metropolitan areas. As of December 31, 2000, we had incurred costs with respect to the terrestrial repeater buildout of $84.7 million. In August 1999, we signed a contract with LCC International, Inc., a related party, that presently calls for payments of approximately $107.5 million for engineering and site preparation. As of December 31, 2000, we had paid $50.2 million under this contract and accrued an additional $15.1 million. We have also engaged other companies to perform site preparation services. We also entered into a contract effective October 22, 1999, with Hughes Electronics Corporation for the design, development and manufacture of the terrestrial repeaters. Payments under this contract are expected to be approximately $128.0 million. As of December 31, 2000, we had paid $15.4 million under this contract.

Ground Segment. Based on the design of the XM Radio system, available research and existing contracts, we expect to incur aggregate ground segment costs through the expected commencement of operations in the summer of 2001 of approximately $65.9 million. We expect these costs will cover the satellite control facilities, programming production studios and various other equipment and facilities. As of December 31, 2000, we had incurred $47.5 million with respect to the ground segment.

FCC License. In October 1997, we received one of two satellite radio licenses issued by the FCC. We have paid approximately $90.0 million for this license, including the initial bid right. There are no further payments required relating to the license.

Operating Expenses. From inception through December 31, 2000, we have incurred total operating expenses of $127.5 million.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Joint Development Agreement Funding Requirements. We may require additional funds to pay license fees or make contributions towards the development of the technologies used to develop a unified standard for satellite radios under our joint development agreement with Sirius Radio. Each party is obligated to fund one half of the development cost for such technologies. Each party will be entitled to license fees or a credit towards its one half of the cost based upon the validity, value, use, importance and available alternatives of the technology it contributes. In our discussions we have yet to agree on the validity, value, use, importance and available alternatives of our respective technologies. If we fail to reach agreement, the fees or credits may be determined through binding arbitration. We cannot predict at this time the amount of license fees or contribution payable by us or Sirius Radio or the size of the credits to us and Sirius Radio from the use of the other's technology This may require significant additional capital.

Funds Required Following Commencement of Commercial Operations

We expect to need significant additional funds following commencement of commercial operations to cover our cash requirements before we generate sufficient cash flow from operations to cover our expenses. We estimate that our existing resources, including proceeds of offerings concluded in March 2001, would be sufficient in the absence of additional financing to cover our estimated funding needs into 2002, including funding needs of $150-$175 million required through the end of 2001 to be used for marketing, system operating expenses and general corporate purposes. After 2001, we anticipate that we will need an additional $250-$300 million through 2002, and we will require additional funding thereafter. These amounts are estimates, and may change, and we may need additional financing in excess of these estimates. Funds will be needed to cover operating expenses, marketing and promotional expenses including an extensive marketing campaign in connection with the launch of our service, distribution expenses, programming costs and any further development of the XM Radio system that we may undertake after operations commence. Marketing and distribution expenses are expected to include joint advertising and joint development with and manufacturing subsidies of certain costs of some of our manufacturers and distribution partners. We cannot estimate the total amount of these operational, promotional, subscriber acquisition, joint development and manufacturing costs and expenses, since they vary depending upon different criteria, but they are expected to be substantial.

We will have significant payment obligations after commencement of operations under our distribution agreement with General Motors. We will pay an aggregate of approximately $35 million in the first four years following commencement of commercial service. After that, through 2009, we will have additional fixed annual payments ranging from less than $35 million to approximately $130 million, aggregating approximately $400 million. In order to encourage the broad installation of XM radios, we have agreed to subsidize a portion of the cost of XM radios and to make incentive payments to General Motors when the owners of General Motors vehicles with installed XM radios become subscribers for the XM Radio service. We must also share with General Motors a percentage of the subscription revenue attributable to General Motors vehicles with installed XM radios. This percentage increases until there are more than eight million General Motors vehicles with installed XM radios. This agreement is subject to renegotiation if General Motors does not achieve and maintain specified installation levels, starting with 1.24 million units after four years and thereafter increasing by the lesser of 600,000 units per year and amounts proportionate to our share of the satellite digital radio market.

We currently expect to satisfy our funding requirements for the period following commencement of commercial operations by selling debt or equity securities and by obtaining loans or other credit lines from banks or other financial institutions. If we are successful in raising additional financing, we anticipate that a significant portion of the financing will consist of debt. We are actively considering possible financings, and because of our substantial capital needs we may consummate one or more financings at any time.

We may not be able to raise any funds or obtain loans on favorable terms or at all. Our ability to obtain the required financing depends on several factors, including future market conditions; our success or lack of

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

success in developing, implementing and marketing our satellite radio service; our future creditworthiness; and restrictions contained in agreements with our investors or lenders. If we fail to obtain any necessary financing on a timely basis, a number of adverse effects could occur. We could default on our commitments to creditors or others and may have to discontinue operations or seek a purchaser for our business or assets.

Recent Accounting Pronouncements

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation ("FIN 44"). FIN 44 further defines the accounting consequences of various modifications to the terms of a previously fixed stock option or award under APB Opinion No. 25, Accounting for Stock Issued to Employees. FIN 44 became effective on July 1, 2000, but certain conclusions in FIN 44 cover specific events that occur after either December 15, 1998 or January 12, 2000. In July 1999, we repriced 818,339 options and FIN 44 requires that these options be accounted for as variable from July 1, 2000 until the date the award is exercised, is forfeited, or expires unexercised. For those options that have vested as of July 1, 2000, compensation cost is recognized only to the extent that the exercise price exceeds the stock price on July 1, 2000. For those options that have not vested as of July 1, 2000, the portion of the award's intrinsic value measured at July 1, 2000 is recognized over the remaining vesting period. Additional compensation cost is measured for the full amount of any increases in stock price after the effective date and is recognized over the remaining vesting period. Any adjustment to compensation cost for further changes in the stock price after the award vests is recognized immediately. The effects of implementing FIN 44 required us to recognize additional non-cash compensation of $1.2 million during the fiscal year ended December 31, 2000.

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. In June 2000, the FASB issued SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activity, An Amendment of SFAS 133. SFAS No. 133 and SFAS No. 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values. SFAS No. 133 and SFAS No. 138 are effective for all fiscal quarters of all fiscal years beginning after 2000; we adopted SFAS No. 133 and SFAS No. 138 on January 1, 2001. We have reviewed our contracts and determined that we have no derivative instruments and do not engage in hedging activities.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2000, we do not have any derivative financial instruments and do not intend to use derivatives. We invest our cash in short-term commercial paper and investment-grade corporate and government obligations and money market funds. Our long-term debt includes a fixed interest rate and the fair market value of the debt is sensitive to changes to interest rates. We run the risk that market rates will decline and the required payments will exceed those based on current market rates. Under our current policies, we do not use interest rate derivative instruments to manage our exposure to interest rate fluctuations. Additionally, we believe that our exposure to interest rate risk is not material to our results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of XM Satellite Radio Holdings Inc., including consolidated balance sheets as of December 31, 1999 and 2000, 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, 2000, and for the period from December 15, 1992 (date of inception) to December 31, 2000 and notes to the consolidated financial statements, together with a report thereon of KPMG LLP, dated February 9, 2001, are attached hereto as pages F-1 through F-26.

The consolidated financial statements of XM Satellite Radio Inc., including consolidated balance sheets as of December 31, 1999 and 2000, and consolidated statements of operations, consolidated statements of

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

stockholder's equity and consolidated statements of cash flows for the three-year period ended December 31, 2000, and for the period from December 15, 1992 (date of inception) to December 31, 2000 and notes to the consolidated financial statements, together with a report thereon of KPMG LLP, dated February 9, 2001, are attached hereto as pages F-27 through F-47.

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

None

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANTS

The information is incorporated herein by reference to Holdings' definitive 2001 Proxy Statement. Holdings and XM have the same directors and executive officers.

ITEM 11. EXECUTIVE COMPENSATION

The information is incorporated herein by reference to Holdings' definitive 2001 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information is incorporated herein by reference to Holdings' definitive 2001 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information is incorporated herein by reference to Holdings' definitive 2001 Proxy Statement.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

PART IV

ITEM 14. EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) The following Consolidated Financial Statements of and report of independent public accountants for XM Satellite Radio Holdings Inc. are included in Item 8 of this Form 10-K:

Report of Independent Auditors.

Consolidated Balance Sheets as of December 31, 1999 and 2000.

Consolidated Statements of Operations for the years ended December 31, 1998, 1999 and 2000, and for the period from December 15, 1992 (date of inception) to December 31, 2000.

Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 1998, 1999 and 2000, and for the period from December 15, 1992 (date of inception) to December 31, 2000.

Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1999 and 2000, and for the period from December 15, 1992 (date of inception) to December 31, 2000.

Notes to Consolidated Financial Statements.

The following Consolidated Financial Statements of and report of independent public accountants for XM Satellite Radio Inc. are included in Item 8 of this Form 10-K:

Report of Independent Auditors.

Consolidated Balance Sheets as of December 31, 1999 and 2000.

Consolidated Statements of Operations for the years ended December 31, 1998, 1999 and 2000, and for the period from December 15, 1992 (date of inception) to December 31, 2000.

Consolidated Statements of Stockholder's Equity for the years ended December 31, 1998, 1999 and 2000, and for the period from December 15, 1992 (date of inception) to December 31, 2000.

Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1999 and 2000, and for the period from December 15, 1992 (date of inception) to December 31, 2000.

Notes to Consolidated Financial Statements.

(a)(2) The following consolidated financial statement schedules are filed as part of this report and attached hereto on pages S-1 through S-4:

Schedule I--Valuation and Qualifying Accounts.

All other schedules for which provision is made in the applicable accounting regulations of the Commission either have been included in the Consolidated Financial Statements of XM Satellite Radio Holdings Inc. or the notes thereto, the Consolidated Financial Statements of XM Satellite Radio Inc. or the notes thereto, are not required under the related instructions or are inapplicable, and therefore have been omitted.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(a)(3) The following exhibits are either provided with this Form 10-K or are incorporated herein by reference:

EXHIBIT INDEX

Exhibit No.	Description
3.1+	Restated Certificate of Incorporation of XM Satellite Radio Holdings Inc.
3.2+	Restated Bylaws of XM Satellite Radio Holdings Inc.
3.3	Restated Certificate of Incorporation of XM Satellite Radio Inc. (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178).
3.4	Amended and Restated Bylaws of XM Satellite Radio Inc. (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178).
4.1	Form of Certificate for Holdings' Class A common stock (incorporated by reference to Exhibit 3 to Holdings' Registration Statement on Form 8-A, filed with the SEC on September 23, 1999).
4.2	Form of Certificate for Holdings' 8.25% Series B Convertible Redeemable Preferred Stock (incorporated by reference to Holdings' Registration Statement on Form S-1, File No. 333-93529).
4.3	Certificate of Designation Establishing the Voting Powers, Designations, Preferences, Limitations, Restrictions and Relative Rights of 8.25% Series B Convertible Redeemable Preferred Stock due 2012 (incorporated by reference to Holdings' Annual Report on Form 10-K for the fiscal year ended December 31, 1999, filed with the SEC on March 16, 2000).
4.4	Warrant to purchase shares of Holdings' Class A common stock, dated February 9, 2000, issued to Sony Electronics, Inc. (incorporated by reference to Holdings' quarterly report on Form 10-Q for the quarter ended March 31, 2000, filed with the SEC on May 12, 2000).
4.5	Warrant Agreement, dated March 15, 2000, between XM Satellite Radio Holdings Inc. as Issuer and United States Trust Company of New York as Warrant Agent (incorporated by reference to Holdings' Registration Statement on Form S-1, File No. 333-39176).
4.6	Warrant Registration Rights Agreement, dated March 15, 2000, between XM Satellite Radio Holdings Inc. and Bear, Stearns &Co., Inc., Donaldson, Lufkin and Jenrette Securities Corporation, Salomon Smith Barney Inc. and Lehman Brothers Inc. (incorporated by reference to Holdings' Registration Statement on Form S-1, File No. 333-39176).
4.7	Form of Warrant (incorporated by reference to Holdings' Registration Statement on Form S-1, File No. 333-39176).
4.8	Certificate of Designation Establishing the Powers, Preferences, Rights, Qualifications, Limitations and Restrictions of the 8.25% Series C Convertible Redeemable Preferred Stock due 2012 (incorporated by reference to Holdings' Registration Statement on Form S-1, File No. 333-39176).
4.9	Form of Certificate for Holdings' 8.25% Series C Convertible Redeemable Preferred Stock (incorporated by reference to the Registrant's Registration Statement on Form S-1, File No. 333-39176).
4.10	Indenture, dated as of March 15, 2000, between XM Satellite Radio Inc. and United States Trust Company of New York (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178).
4.11	Registration Rights Agreement, dated March 15, 2000, between XM Satellite Radio Inc. and Bear, Stearns &Co. Inc., Donaldson, Lufkin and Jenrette Securities Corporation, Salomon Smith Barney Inc. and Lehman Brothers Inc. (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178).

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Exhibit No.	Description
4.12	Form of 14% Senior Secured Note of XM Satellite Radio Inc. (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178).
4.13	Security Agreement, dated March 15, 2000, between XM Satellite Radio Inc. and United States Trust Company of New York (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178).
4.14	Pledge Agreement, dated March 15, 2000, between XM Satellite Radio Inc. and United States Trust Company of New York (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178).
4.15	Indenture, dated March 6, 2001, between XM Satellite Radio Holdings Inc. and United States Trust Company of New York.
4.16	Form of 7.75% convertible subordinated note of Holdings.
10.1	Amended and Restated Shareholders' Agreement, dated as of August 8, 2000, by and among XM Satellite Radio Holdings Inc., Motient Corporation, Baron Asset Fund, Baron iOpportunity Fund, Baron Capital Asset Fund, Clear Channel Investments, Inc., Columbia XM Radio Partners, LLC, Columbia Capital Equity Partners III (QP), L.P., Columbia XM Satellite Partners III, LLC, DIRECTV Enterprises, Inc., General Motors Corporation, Madison Dearborn Capital Partners III, L.P., Special Advisors Fund I, LLC, Madison Dearborn Special Equity III, L.P., American Honda Motor Co., Inc. and Telcom-XM Investors, L.L.C. (incorporated by reference to Holdings' Registration Statement on Form S-1, File No. 333-39176).
10.2	Amended and Restated Registration Rights Agreement, dated as of August 8, 2000, by and among XM Satellite Radio Holdings Inc., Motient Corporation, Baron Asset Fund, Baron iOpportunity Fund, Baron Capital Asset Fund, Clear Channel Investments, Inc.,Columbia XM Radio Partners, LLC, Columbia Capital Equity Partners III (QP), L.P., Columbia XM Satellite Partners III, LLC, DIRECTV Enterprises, Inc., General Motors Corporation, Madison Dearborn Capital Partners III, L.P., Special Advisors Fund I, LLC, Madison Dearborn Special Equity III, L.P., American Honda Motor Co., Inc. and Telcom-XM Investors, L.L.C. (incorporated by reference to Holdings' Registration Statement on Form S-1, File No. 333-39176).
10.3+	Note Purchase Agreement, dated June 7, 1999, by and between XM Satellite Radio Holdings Inc., XM Satellite Radio Inc., Clear Channel Communications, Inc., DIRECTV Enterprises, Inc., General Motors Corporation, Telcom-XM Investors, L.L.C., Columbia XM Radio Partners, LLC, Madison Dearborn Capital Partners III, L.P., Madison Dearborn Special Equity III, L.P., and Special Advisors Fund I, LLC (including form of Series A subordinated convertible note of XM Satellite Radio Holdings Inc. attached as Exhibit A thereto).
10.4+*	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.
10.5+*	Technical Services Agreement between XM Satellite Radio Holdings Inc. and American Mobile Satellite Corporation, dated as of January 1, 1998, as amended by Amendment No. 1 to Technical Services Agreement, dated June 7, 1998.
10.6+*	Satellite Purchase Contract for In-Orbit Delivery, by and between XM Satellite Radio Inc. and Hughes Space and Communications International Inc., dated July 21, 1999.
10.7+*	Amended and Restated Agreement by and between XM Satellite Radio Inc. and STMicroelectronics Srl, dated September 27, 1999.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Exhibit No.	Description
10.8+*	Distribution Agreement, dated June 7, 1999, between OnStar, a division of General Motors Corporation, and XM Satellite Radio Inc.
10.9+*	Operational Assistance Agreement, dated as of June 7, 1999, between XM Satellite Radio Inc. and DIRECTV, INC.
10.10+*	Operational Assistance Agreement, dated as of June 7, 1999, between XM Satellite Radio Inc. and Clear Channel Communication, Inc.
10.11+*	Operational Assistance Agreement, dated as of June 7, 1999, between XM Satellite Radio Inc. and TCM, LLC.
10.12+	Agreement, dated as of July 16, 1999, between XM Satellite Radio Holdings Inc. and Gary Parsons.
10.13+	Employment Agreement, dated as of June 1, 1998, between XM Satellite Radio Holdings Inc and Hugh Panero.
10.14+	Intentionally Omitted.
10.15+	Form of Letter Agreement with Senior Vice Presidents.
10.16+	Intentionally Omitted.
10.17+	Form of Indemnification Agreement between XM Satellite Radio Holdings Inc. and each of its directors and executive officers.
10.18	1998 Shares Award Plan (incorporated by reference to Holdings' Registration Statement on Form S-8, File No. 333-42590).
10.19+	Form of Employee Non-Qualified Stock Option Agreement.
10.20+*	Firm Fixed Price Contract #001 between XM Satellite Radio Inc. and the Fraunhofer Gesellschaft zur Foderung Der angewandten Forschung e.V., dated July 16, 1999.
10.21+*	Contract for Engineering and Construction of Terrestrial Repeater Network System by and between XM Satellite Radio Inc. and LCC International, Inc., dated August 18, 1999.
10.22	Employee Stock Purchase Plan (incorporated by reference to Holdings' Registration Statement on Form S-8, File No. 333-92049).
10.23+	Non-Qualified Stock Option Agreement between Gary Parsons and XM Satellite Radio Holdings Inc., dated July 16, 1999.
10.24+	Non-Qualified Stock Option Agreement between Hugh Panero and XM Satellite Radio Holdings Inc., dated July 1, 1998, as amended.
10.25+	Form of Director Non-Qualified Stock Option Agreement.
10.26+	Lease between Consortium One Eckington, L.L.C. and XM Satellite Radio Inc., dated September 29, 1999.
10.27	Letter Agreement with Stephen Cook dated January 12, 1999 (incorporated by reference to Holdings' Registration Statement on Form S-1, File No. 333-93529).
10.28*	Contract for the Design, Development and Purchase of Terrestrial Repeater Equipment by and between XM Satellite Radio Inc and Hughes Electronics Corporation, dated February 14, 2000 (incorporated by reference to Holdings' Annual Report on Form 10-K for the fiscal year ended December 31, 1999, filed with the SEC on March 16, 2000).
10.29*	Joint Development Agreement, dated February 16, 2000, between XM Satellite Radio Inc. and Sirius Satellite Radio Inc. (incorporated by reference to the Holdings' quarterly report on Form 10-Q for the quarter ended March 31, 2000, filed with the SEC on May 12, 2000)

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Exhibit No.	Description
21.1	Subsidiaries of XM Satellite Radio Holdings Inc.
23.1	Consent of KPMG LLP.

+ Incorporated by reference to Holdings' Registration Statement on Form S-1, File No. 333-83619.
* Pursuant to the Commission's Orders Granting Confidential Treatment under Rule 406 of the Securities Act of 1933 or Rule 24(b)-2 under the Securities Exchange Act of 1934, certain confidential portions of this Exhibit were omitted by means of redacting a portion of the text.

(b) Reports on Form 8-K.

On January 16, 2001, Holdings filed a Current Report on Form 8-K that reported the issuance of a press release announcing a satellite launch delay. Holdings filed the press release as an exhibit.

On February 22, 2001, Holdings filed a Current Report on Form 8-K that contained audited, consolidated financial statements substantially the same as those contained herein. Holdings also filed certain other information that it deemed of importance to its stockholders.

On March 1, 2001, Holdings filed a Current Report on Form 8-K that contained certain exhibits in connection with its offerings of Class A common stock and convertible subordinated notes.

(c) Exhibits.

XM Satellite Radio Holdings Inc. and XM Satellite Radio Inc. hereby file as part of this Form 10-K the Exhibits listed in the Index to Exhibits.

(d) Consolidated Financial Statement Schedule.

The following consolidated financial statement schedule is filed herewith for each of Holdings and XM:

Schedule I--Valuation and Qualifying Accounts.

Schedules not listed above have been omitted because they are inapplicable or the information required to be set forth therein is provided in the Consolidated Financial Statements of XM Satellite Radio Holdings Inc. or notes thereto and XM Satellite Radio Inc. or notes thereto.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

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
President and Chief Executive Officer

Date: March 14, 2001

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	President, Chief Executive Officer and Director (Principal Executive Officer)	March 14, 2001
/s/ Heinz Stubblefield Heinz Stubblefield	Senior Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	March 14, 2001
/s/ Gary M. Parsons Gary M. Parsons	Chairman of the Board of Directors	March 14, 2001
/s/ Nathaniel A. Davis Nathaniel A. Davis	Director	March 14, 2001
Thomas J. Donohue	Director	, 2001
/s/ Randall T. Mays Randall T. Mays	Director	March 14, 2001
/s/ Pierce J. Roberts, Jr. Pierce J. Roberts, Jr.	Director	March 14, 2001
/s/ Randy S. Segal Randy S. Segal	Director	March 14, 2001
/s/ Jack Shaw Jack Shaw	Director	March 14, 2001
/s/ Dr. Rajendra Singh Dr. Rajendra Singh	Director	March 14, 2001
/s/ Ronald L. Zarrella Ronald L. Zarrella	Director	March 14, 2001

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

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
President and Chief Executive Officer

Date: March 14, 2001

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	President, Chief Executive Officer and Director (Principal Executive Officer)	March 14, 2001
/s/ Heinz Stubblefield Heinz Stubblefield	Senior Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	March 14, 2001
/s/ Gary M. Parsons Gary M. Parsons	Chairman of the Board of Directors	March 14, 2001
/s/ Nathaniel A. Davis Nathaniel A. Davis	Director	March 14, 2001
Thomas J. Donohue	Director	, 2001
/s/ Randall T. Mays Randall T. Mays	Director	March 14, 2001
/s/ Pierce J. Roberts, Jr. Pierce J. Roberts, Jr.	Director	March 14, 2001
/s/ Randy S. Segal Randy S. Segal	Director	March 14, 2001
/s/ Jack Shaw Jack Shaw	Director	March 14, 2001
/s/ Dr. Rajendra Singh Dr. Rajendra Singh	Director	March 14, 2001
/s/ Ronald L. Zarrella Ronald L. Zarrella	Director	March 14, 2001

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
(A Development Stage Company)

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XM SATELLITE RADIO INC. AND SUBSIDIARIES
(A Development Stage Company)

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Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
XM Satellite Radio Holdings Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of XM Satellite Radio Holdings Inc. and subsidiaries (a development stage company) as of December 31, 1999 and 2000, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2000, and for the period from December 15, 1992 (date of inception) to December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of XM Satellite Radio Holdings Inc. and subsidiaries (a development stage company) as of December 31, 1999 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000 and for the period from December 15, 1992 (date of inception) to December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 10 to the consolidated financial statements, the Company has not commenced operations and is dependent upon additional debt or equity financing, which raises substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters is also described in note 10. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

McLean, VA
February 9, 2001

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
(A Development Stage Company)

CONSOLIDATED BALANCE SHEETS
December 31, 1999 and 2000

ASSETS

	1999	2000
	(in thousands, except share data)	
Current assets:		
Cash and cash equivalents	$ 50,698	$ 224,903
Short-term investments	69,472	--
Restricted investments	--	95,277
Prepaid and other current assets	1,077	8,815
Total current assets	121,247	328,995
Other assets:		
Restricted investments, net of current portion	--	65,889
System under construction	362,358	805,563
Property and equipment, net of accumulated depreciation and amortization of $347 and $2,337	2,551	59,505
Goodwill and intangibles, net of accumulated amortization of $1,220 and $2,599	25,380	24,001
Other assets, net of accumulated amortization of $0 and $672	3,653	9,265
Total assets	$515,189	$1,293,218

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 23,338	$ 47,159
Accrued expenses	1,514	4,645
Due to related party	62	63
Accrued interest on senior secured notes	--	13,397
Royalty payable	1,646	2,565
Total current liabilities	26,560	67,829
Senior secured notes, net of discount amortization of $0 and $2,044	--	261,298
Royalty payable, net of current portion	3,400	2,600
Capital lease, net of current portion	212	1,367
Other non-current liabilities	--	4,172
Total liabilities	30,172	337,266
Stockholders' equity:		
Series A convertible preferred stock, par value $0.01 (liquidation preference of $102,688,000); 15,000,000 shares authorized, 10,786,504 shares issued and outstanding at December 31, 1999 and 2000	108	108
Series B convertible redeemable preferred stock, par value $0.01 (liquidation preference of $43,364,000); 3,000,000 shares authorized, no shares and 867,289 shares issued and outstanding at December 31, 1999 and 2000, respectively	--	9
Series C convertible redeemable preferred stock, par value $0 01 (liquidation preference of $244,277,000); 250,000 shares authorized, no shares and 235,000 shares issued and outstanding at December 31, 1999 and 2000, respectively	--	2
Class A common stock, par value $0.01; 180,000,000 shares authorized, 26,465,333 and 34,073,994 shares issued and outstanding at December 31, 1999 and 2000, respectively	265	341
Class B common stock, par value $0.01; 30,000,000 shares authorized, 17,872,176 and 16,557,262 shares issued and outstanding at December 31, 1999 and 2000, respectively	179	166
Class C common stock, par value $0.01; 30,000,000 shares authorized, no shares issued and outstanding at December 31, 1999 and 2000	--	--
Additional paid-in capital	539,187	1,061,921
Deficit accumulated during development stage	(54,722)	(106,595)
Total stockholders' equity	485,017	955,952
Commitments and contingencies (notes 3, 10 and 11)		
Total liabilities and stockholders' equity	$515,189	$1,293,218

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

See accompanying notes to consolidated financial statements.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 1998, 1999 and 2000, and for the period from December 15, 1992 (date of inception) to December 31, 2000

	1998	1999	2000	December 15, 1992 (date of inception) to December 31, 2000
	(in thousands, except share data)			
Revenue	$ --	$ --	$ --	$ --
Operating expenses:				
Research and development	6,941	4,274	7,397	18,612
Professional fees	5,242	9,969	22,836	39,137
General and administrative	4,010	16,448	49,246	69,724
Total operating expenses	16,193	30,691	79,479	127,473
Operating loss	(16,193)	(30,691)	(79,479)	(127,473)
Other income (expense):				
Interest income	26	2,916	27,606	30,548
Interest expense	--	(9,121)	--	(9,670)
Net loss	$ (16,167)	$ (36,896)	$ (51,873)	$(106,595)
8.25% Series B preferred stock dividend requirement	--	--	(5,935)	
8.25% Series C preferred stock dividend requirement	--	--	(9,277)	
Series B preferred stock deemed dividend	--	--	(11,211)	
Series C preferred stock beneficial conversion feature	--	--	(123,042)	
Net loss attributable to common stockholders	$ (16,167)	$ (36,896)	$ (201,338)	
Net loss per share:				
Basic and diluted	$ (2.42)	$ (2.40)	$ (4.15)	
Weighted average shares used in computing net loss per share-basic and diluted	6,689,250	15,344,102	48,508,042	

See accompanying notes to consolidated financial statements.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
Years Ended December 31, 1998, 1999 and 2000, and for the period from December 15, 1992 (date of inception) to December 31, 2000

	Series A Convertible Preferred Stock		Series B Convertible Redeemable Preferred Stock		Series C Convertible Redeemable Preferred Stock		Class A Common Stock		Class B Common Stock		Class C Common Stock		
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital
	(in thousands, except share data)												
Issuance of common stock (December 15, 1992)	--	$ --	--	$--	--	$--	--	$ --	100	$ --	--	$--	$ --
Balance at December 31, 1992	--	--	--	--	--	--	--	--	100	--	--	--	--
Net loss	--	--	--	--	--	--	--	--	--	--	--	--	--
Balance at December 31, 1993	--	--	--	--	--	--	--	--	100	--	--	--	--
Net loss	--	--	--	--	--	--	--	--	--	--	--	--	--
Balance at December 31, 1994	--	--	--	--	--	--	--	--	100	--	--	--	--
Net loss	--	--	--	--	--	--	--	--	--	--	--	--	--
Balance at December 31, 1995	--	--	--	--	--	--	--	--	100	--	--	--	--
Net loss	--	--	--	--	--	--	--	--	--	--	--	--	--
Balance at December 31, 1996	--	--	--	--	--	--	--	--	100	--	--	--	--
Contributions to paid-in capital	--	--	--	--	--	--	--	--	--	--	--	--	143
Issuance of common stock and capital contributions	--	--	--	--	--	--	--	--	25	--	--	--	9,000
Issuance of options	--	--	--	--	--	--	--	--	--	--	--	--	1,500
Net loss	--	--	--	--	--	--	--	--	--	--	--	--	--
Balance at December 31, 1997	--	--	--	--	--	--	--	--	125	--	--	--	10,643
Net loss	--	--	--	--	--	--	--	--	--	--	--	--	--
Balance at December 31, 1998	--	--	--	--	--	--	--	--	125	--	--	--	10,643
53,514-for-one stock split	--	--	--	--	--	--	--	--	6,689,125	67	--	--	(67)
Initial public offering	--	--	--	--	--	--	10,241,000	102	--	--	--	--	114,032
Conversion of Series A convertible debt	10,786,504	108	--	--	--	--	16,179,755	162	--	--	--	--	246,079
Conversion of subordinated convertible notes payable to related party	--	--	--	--	--	--	--	--	11,182,926	112	--	--	106,843
Increase in FCC license, goodwill and intangibles	--	--	--	--	--	--	--	--	--	--	--	--	51,624
Charge for beneficial conversion feature of note issued to Parent	--	--	--	--	--	--	--	--	--	--	--	--	5,520
Issuance of shares to employees through stock option and purchase plans	--	--	--	--	--	--	29,862	1	--	--	--	--	303
Non-cash stock compensation	--	--	--	--	--	--	14,716	--	--	--	--	--	4,210
Net loss	--	--	--	--	--	--	--	--	--	--	--	--	--
Balance at December 31, 1999	10,786,504	108	--	--	--	--	26,465,333	265	17,872,176	179	--	--	539,187

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

	Deficit Accumulated During Development Stage	Total Stockholders' Equity (Deficit)
Issuance of common stock (December 15, 1992)	$ --	$ --
Balance at December 31, 1992 .	--	--
Net loss ..	--	--
Balance at December 31, 1993... ..	--	--
Net loss . ..	--	--
Balance at December 31, 1994	--	--
Net loss..... .	--	--
Balance at December 31, 1995	--	--
Net loss..... .	--	--
Balance at December 31, 1996	--	--
Contributions to paid-in capital . .	--	143
Issuance of common stock and capital contributions ..	--	9,000
Issuance of options... ..	--	1,500
Net loss. ..	(1,659)	(1,659)
Balance at December 31, 1997.....	(1,659)	8,984
Net loss. ..	(16,167)	(16,167)
Balance at December 31, 1998.	(17,826)	(7,183)
53,514-for-one stock split . .	--	--
Initial public offering ..	--	114,134
Conversion of Series A convertible debt..	--	246,349
Conversion of subordinated convertible notes payable to related party..	--	106,955
Increase in FCC license, goodwill and intangibles. ..	--	51,624
Charge for beneficial conversion feature of note issued to Parent..	--	5,520
Issuance of shares to employees through stock option and purchase plans..	--	304
Non-cash stock compensation ..	--	4,210
Net loss	(36,896)	(36,896)
Balance at December 31, 1999. .. .	(54,722)	485,017

(continued)

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (cont.)
Years Ended December 31, 1998, 1999 and 2000, and for the period from December 15, 1992 (date of inception) to December 31, 2000

	Series A Convertible Preferred Stock		Series B Convertible Redeemable Preferred Stock		Series C Convertible Redeemable Preferred Stock		Class A Common Stock		Class B Common Stock		Class C Common Stock	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
							(in thousands, except share data)					
Secondary public offering.....	--	$ --	--	$ --	--	$--	4,370,000	$ 44	--	$ --	--	$--
Sale of Series B convertible redeemable preferred stock.	--	--	2,000,000	20	--	--	--	--	--	--	--	--
Sale of Series C convertible redeemable preferred stock.....	--	--	--	--	235,000	2	--	--	--	--	--	--
Incentivized conversion of Series B convertible redeemable preferred stock.....	--	--	(1,132,711)	(11)	--	--	1,700,016	17	--	--	--	--
Sale of warrants to purchase Class A common stock...	--	--	--	--	--	--	--	--	--	--	--	--
Conversion of Class B common stock...	--	--	--	--	--	--	1,314,914	13	(1,314,914)	(13)	--	--
Series B convertible redeemable preferred stock dividends..... .	--	--	--	--	--	--	145,166	1	--	--	--	--
Issuance of shares to employees through stock option and purchase plans..	--	--	--	--	--	--	73,565	1	--	--	--	--
Non-cash stock compensation....	--	--	--	--	--	--	5,000	--	--	--	--	--
Net loss..... .	--	--	--	--	--	--	--	--	--	--	--	--
Balance at December 31, 2000...	10,786,504	$108	867,289	$ 9	235,000	$ 2	34,073,994	$341	16,557,262	$166	--	$--

	Additional Paid-in Capital	Deficit Accumulated During Development Stage	Total Stockholders' Equity (Deficit)
Secondary public offering.....	$ 132,026	$ --	$132,070
Sale of Series B convertible redeemable preferred stock.....	96,452	--	96,472
Sale of Series C convertible redeemable preferred stock.....	226,820	--	226,822
Incentivized conversion of Series B convertible redeemable preferred stock	(6)	--	--

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Sale of warrants to purchase Class A common stock.....	63,536	--	63,536
Conversion of Class B common stock.... .. .	--	--	--
Series B convertible redeemable preferred stock dividends.....	(1)	--	--
Issuance of shares to employees through stock option and purchase plans	1,164	--	1,165
Non-cash stock compensation....	2,743	--	2,743
Net loss.. ...	--	(51,873)	(51,873)
Balance at December 31, 2000.....	$1,061,921	$(106,595)	$955,952

See accompanying notes to consolidated financial statements.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 1998, 1999 and 2000, and for the period from December 15, 1992 (date of inception) to December 31, 2000

	1998	1999	2000	December 15, 1992 (date of inception) to December 31, 2000
		(in thousands)		
Cash flows from operating activities:				
Net loss	$(16,167)	$(36,896)	$(51,873)	$(106,595)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	57	1,478	3,369	4,936
Amortization of deferred financing fees	--	509	--	509
Non-cash stock compensation	--	4,210	2,743	6,953
Non-cash charge for beneficial conversion feature of note issued to Parent	--	5,520	--	5,520
Changes in operating assets and liabilities:				
Increase in prepaid and other current assets	(212)	(905)	(7,738)	(8,815)
Increase (decrease) in other assets	--	43	--	(641)
Increase in accounts payable and accrued expenses	1,701	7,519	16,051	32,733
Increase (decrease) in amounts due to related parties	13,322	(1,316)	1	63
Increase (decrease) in accrued interest	(2)	3,053	--	--
Net cash used in operating activities	(1,301)	(16,785)	(37,447)	(65,337)
Cash flows from investing activities:				
Purchase of property and equipment	(506)	(2,008)	(51,378)	(53,974)
Additions to system under construction	(43,406)	(159,510)	(414,889)	(711,173)
Net purchase/maturity of short-term investments	--	(69,472)	69,472	--
Net purchase/maturity of restricted investments	--	--	(106,338)	(106,338)
Other investing activities	--	(3,422)	(56,268)	(56,268)
Net cash used in investing activities	(43,912)	(234,412)	(559,401)	(927,753)
Cash flows from financing activities:				
Proceeds from sale of common stock and capital contribution	--	114,428	133,235	256,816
Proceeds from issuance of Series B convertible redeemable preferred stock	--	--	96,472	96,472
Proceeds from issuance of senior secured notes and warrants	--	--	322,889	322,889
Proceeds from issuance of Series C convertible redeemable preferred stock	--	--	226,822	226,822
Proceeds from issuance of subordinated convertible notes to related parties	45,920	22,966	--	157,866
Proceeds from the issuance of options	--	--	--	1,500
Proceeds from issuance of convertible notes	--	250,000	--	250,000
Repayment of loan payable	--	(75,000)	--	(75,000)
Payments for deferred financing costs	(393)	(10,725)	(8,365)	(19,372)
Other net financing				

activities..... ...	(5)	(84)	--	--
Net cash provided by financing activities.....	45,522	301,585	771,053	1,217,993
Net increase in cash and cash equivalents.....	309	50,388	174,205	224,903
Cash and cash equivalents at beginning of period.....	1	310	50,698	--
Cash and cash equivalents at end of period.....	$ 310	$ 50,698	$224,903	$ 224,903
Supplemental cash flow disclosure:				
Increase in FCC license, goodwill and intangibles.....	$ --	$ 51,624	$ --	$ 51,624
Liabilities exchanged for new convertible note to related parties.....	--	81,676	--	81,676
Non-cash interest capitalized.....	11,824	15,162	16,302	45,274
Interest converted into principal note balance.....	9,157	4,601	--	--
Accrued expenses transferred to loan balance.....	--	7,405	--	--
Accrued system milestone payments.....	21,867	15,500	30,192	30,192
Property acquired through capital leases.....	--	470	1,688	2,075
Conversion of debt to equity..	--	353,315	--	353,315
Use of deposit for terrestrial repeater contract.....	--	--	3,422	--

See accompanying notes to consolidated financial statements.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

For the period from December 15, 1992 (date of inception)
through December 31, 2000

(1) Summary of Significant Accounting Policies and Practices

(a) Nature of Business

XM Satellite Radio Inc. ("XMSR"), formerly American Mobile Radio Corporation, was incorporated on December 15, 1992 in the State of Delaware as a wholly owned subsidiary of Motient Corporation, formerly American Mobile Satellite Corporation ("Motient" or "Parent"), for the purpose of procuring a digital audio radio service ("DARS") license. Business activity for the period from December 15, 1992 through December 31, 1996 was insignificant. Pursuant to various financing agreements entered into in 1997 between Motient, XMSR and WorldSpace, Inc. ("WSI"), WSI acquired a 20 percent interest in XMSR.

On May 16, 1997, Motient and WSI formed XM Satellite Radio Holdings Inc. (the "Company"), formerly AMRC Holdings Inc., as a holding company for XMSR in connection with the construction, launch and operation of a domestic communications satellite system for the provision of DARS. Motient and WSI exchanged their respective interests in XMSR for equivalent interests in the Company, which had no assets, liabilities or operations prior to the transaction.

On July 7, 1999, Motient acquired WSI's 20 percent interest in the Company, which is discussed in note 3.

(b) Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of XM Satellite Radio Holdings Inc. and its subsidiaries, XM Satellite Radio Inc., XM Radio Inc. and XM Equipment Leasing, LLC. All significant intercompany transactions and accounts have been eliminated. The Company's management has devoted its time to the planning and organization of the Company, obtaining its DARS license, conducting research and development programs, conducting market research, constructing its satellite and terrestrial repeater systems, securing content providers, securing manufacturers for its radios and obtaining retail distribution channels, securing adequate debt and equity capital for anticipated operations and growth, and addressing regulatory matters. The Company has not generated any revenues and planned principal operations have not commenced. Accordingly, the Company's financial statements are presented as those of a development stage enterprise, as prescribed by Statement of Financial Accounting Standards ("SFAS") No. 7, Accounting and Reporting by Development Stage Enterprises.

As discussed in Note 5, on September 9, 1999, the Company effected a 53,514-for-1 stock split. The effect of the stock split has been reflected as of December 31, 1999 in the consolidated balance sheet and consolidated statement of stockholders' equity (deficit); however, the activity in prior periods was not restated in those statements. All references to the number of common shares and per share amounts in the consolidated financial statements and notes thereto have been restated to reflect the effect of the split for all periods presented.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(c) Cash and Cash Equivalents

The Company considers short-term, highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company had the following cash and cash equivalents balances (in thousands):

	December 31,	
	1999	2000
Cash on deposit	$ 66	$ 97
Money market funds	10,620	224,806
Commercial paper	40,012	--
	$50,698	$224,903

(d) Short-term Investments

At December 31, 1999, the Company held commercial paper with maturity dates of less than one year that were stated at amortized cost, which approximated fair value.

(e) Restricted Investments

Restricted investments consist of fixed income securities and are stated at amortized cost plus accrued interest income. The securities included in restricted investments are $106.3 million of US Treasury strips restricted to provide for the remaining five scheduled interest payments on the Company's 14 percent Senior Secured Notes due 2010, which are classified as held-to-maturity securities under the provision of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, $49.6 million in money market funds for scheduled milestone payments under the Hughes Electronics Corporation contract and $5.1 million in certificates of deposit to collateralize letters of credit required by facility leases and other secured credits. The carrying value and fair value of the held-to-maturity securities at December 31, 2000 were (in thousands):

	Carrying Value	Unrealized Gain	Fair Value
Held-to-Maturity securities	$106,338	$1,060	$107,398

(f) Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated using the straight-line method over the following estimated useful lives:

Computer equipment	3-5 years
Computer software	3-5 years
Furniture and fixtures	3-7 years
Machinery and equipment	3-7 years
Leasehold improvements	Remaining lease term

(g) System Under Construction

The Company is currently developing its satellite system. Costs related to the project are being capitalized to the extent that they have future benefits. As of December 31, 2000, amounts recorded as system under construction relate to costs incurred in obtaining a Federal Communications Commission ("FCC") license and approval as well as the system development. The FCC license will be amortized using the straight line method over an estimated useful life of fifteen years. Amortization of the license will begin on commercial launch. Depreciation of the Company's satellites will commence upon in-orbit delivery. Depreciation of the Company's ground stations will commence upon commercial launch. The satellites and the ground stations will be depreciated over their estimated useful lives.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

On October 16, 1997, the FCC granted XMSR a license to launch and operate two geostationary satellites for the purpose of providing DARS in the United States in the 2332.5-2345 Mhz (space-to-earth) frequency band, subject to achieving certain technical milestones and international regulatory requirements. The license is valid for eight years upon successful launch and orbital insertion of the satellites and can be extended by the Company. The Company's license requires that it comply with a construction and launch schedule specified by the FCC for each of the two authorized satellites. 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. The Company believes that the exercise of such authority to rescind the license is unlikely.

System under construction consists of the following (in thousands):

	December 31,	
	1999	2000
License	$132,418	$140,220
Satellite system	214,471	533,154
Terrestrial system	11,396	84,715
Spacecraft control facilities	2,000	13,046
Broadcast facilities	2,073	27,970
System development	--	6,458
	$362,358	$805,563

The balances at December 31, 1999 and 2000 include capitalized interest of $29,068,000 and $68,120,000, respectively.

The Company's policy is to review its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

The Company had scheduled the launch of its satellite, "XM Roll", on January 8, 2001. This launch was halted just before lift off. As a result, the Company has determined that it will launch its other satellite, "XM Rock", first, which is scheduled for March 18, 2001. The Company anticipates that XM Roll will be launched in early May 2001 and will commence commercial operations in the summer of 2001.

(h) Goodwill and Intangible Assets

Goodwill and intangible assets, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over the expected periods to be benefited, generally 15 years. The Company assesses the recoverability of its intangible assets by determining whether the amortization of the goodwill and intangible assets balance over its remaining life can be recovered through undiscounted future operating cash flows. The amount of goodwill and intangible assets impairment, if any, is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(i) Stock-Based Compensation

The Company accounts for stock-based compensation arrangements in accordance with the provisions of Accounting Principle Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), and related interpretations including FASB Interpretation ("FIN") No. 44, Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB opinion No. 25 issued in March 2000, and complies with the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation. Under APB 25, compensation expense is based upon the difference, if any, on the date of grant, between the fair value of the Company's stock and the exercise price. All stock-based awards to non-employees are accounted for at their fair value in accordance with SFAS No. 123.

The Company adopted FIN No. 44 in July 2000 to account for stock options that had been repriced during the period covered by FIN No. 44. The application resulted in additional compensation of $1,213,000 during the year ended December 31, 2000 Additional compensation charges may result depending upon the market value of the common stock at each balance sheet date.

(j) Research and Development

Research and development costs are expensed as incurred.

(k) Net Income (Loss) Per Share

The Company computes net income (loss) per share in accordance with SFAS No. 128, Earnings Per Share and SEC Staff Accounting Bulletin No. 98 ("SAB 98"). Under the provisions of SFAS No. 128 and SAB 98, basic net income (loss) per share is computed by dividing the net income (loss) available to common stockholders (after deducting preferred dividend requirements) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) available per share is computed by dividing the net income (loss) available to common stockholders for the period by the weighted average number of common and dilutive common equivalent shares outstanding during the period. The Company has presented historical basic and diluted net income (loss) per share in accordance with SFAS No. 128. As the Company had a net loss in each of the periods presented, basic and diluted net income (loss) per share is the same.

(l) Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and the financial reporting amounts at each year-end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the sum of taxes payable for the period and the change during the period in deferred tax assets and liabilities.

(m) Comprehensive Income

In December 1998, the Company adopted SFAS No. 130, Reporting Comprehensive Income (SFAS 130). This statement establishes standards for reporting and displaying comprehensive income and its components in

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

the financial statements. This statement is effective for all interim and annual periods within the year ended December 31, 1999. The Company has evaluated the provisions of SFAS 130 and has determined that there were no transactions that have taken place during the years ended December 31, 1998, 1999 and 2000 that would be classified as other comprehensive income.

(n) Accounting Estimates

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. The estimates involve judgments with respect to, among other things, various future factors which are difficult to predict and are beyond the control of the Company. Significant estimates include valuation of the Company's investment in the DARS license, goodwill and intangible assets, and the valuation allowances against deferred tax assets. Accordingly, actual amounts could differ from these estimates.

(o) Reclassifications

Certain fiscal year 1998 and 1999 amounts have been reclassified to conform to the current presentation.

(p) Derivative Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. In June 2000 the FASB issued SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activity, an amendment of SFAS 133. SFAS No. 133 and SFAS No. 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values. SFAS No. 133 and SFAS No. 138 are effective for all fiscal quarters of all fiscal years beginning after 2000. The Company will adopt SFAS No. 133 and SFAS No. 138 on January 1, 2001. The Company has reviewed its contracts and has determined that it has no derivative instruments and does not engage in hedging activities.

(2) Related Party Transactions

The Company had related party transactions with the following shareholders:

(a) Motient

In 1997, Motient contributed $143,000 to the Company to establish the original application for the FCC license. On March 28, 1997, the Company received $1,500,000 as a capital contribution from Motient. During 1999 and 2000, Motient incurred general and administrative costs and professional fees for the Company and established an intercompany balance of $62,000 and $63,000, respectively. Effective January 15, 1999, the Company issued a convertible note maturing on September 30, 2006 to Motient for $21,419,000. (See note 3).

(b) WSI

On March 28, 1997, the Company received $1,500,000 as a capital contribution from WSI. The Company issued WSI 25 (6,689,250 post split) shares of common stock for this consideration.

During 1997, 1998, and 1999, the Company borrowed $87,911,000, $45,583,000, and $8,953,000, respectively, under various debt agreements with WSI.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

As discussed in note 3, all amounts due to WSI under the debt agreements were acquired by Motient or repaid on July 7, 1999.

(c) Related Party Services

In addition to financing, the Company has relied upon certain related parties for legal and technical services. Total expenses incurred in transactions with related parties are as follows (in thousands):

	Year ended December 31, 1998		
	WSI	Motient	Total
Research and development	$ 6,624	$ --	$ 6,624
Professional fees	2,529	353	2,882
General and administrative	903	60	963
Total	$10,056	$413	$10,469

	Year ended December 31, 1999		
	WSI	Motient	Total
Research and development	$ 50	$ --	$ 50
Professional fees	--	219	219
General and administrative	--	5	5
Total	$ 50	$224	$ 274

	Year ended December 31, 2000
	Motient
Research and development	$ --
Professional fees	252
General and administrative	--
Total	$252

With the WorldSpace Transaction, which is discussed in note 3, on July 7, 1999, WSI ceased to be a related party; therefore, the expenses reflected for WSI are representative of the period from January 1, 1999 through July 7, 1999.

(3) Debt

(a) Loans Payable Due to Related Parties

In March 1997, XMSR entered into a series of agreements (the "Participation Agreement") with Motient and WSI in which both companies provided various equity and debt funding commitments to XMSR for the purpose of financing the activities of XMSR in connection with the establishment of a DARS satellite system in the United States. The Participation Agreement, as well as other agreements subsequently reached between the Company, Motient and WSI, served as the basis for several rounds of financing in the form of loans and notes with either conversion features or options for the Company's common stock through July 7, 1999. The Company had raised $142,447,000 in the form of loans and convertible notes from WSI and $21,419,000 in convertible notes from Motient through July 7, 1999.

On July 7, 1999, Motient acquired WSI's remaining debt and equity interests in the Company in exchange for approximately 8.6 million shares of Motient's common stock (termed the "Worldspace Transaction").

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Additionally, the Company issued an aggregate $250.0 million of Series A subordinated convertible notes (see note 3(b)) to several new investors and used $75.0 million of the proceeds it received from the issuance of these notes to redeem certain outstanding loan obligations owed to WSI. As a result of these transactions, as of July 7, 1999, Motient owned all of the issued and outstanding stock of the Company. Concurrent with Motient's acquisition of the remaining interest in the Company, the Company recognized goodwill and intangibles of $51,624,000, which has been allocated as follows (in thousands):

FCC License	$25,024
Goodwill	13,738
Programming agreements	8,000
Receiver agreements	4,600
Other intangibles	262
	$51,624

On January 15, 1999, the Company issued a convertible note to Motient for $21,419,000. This convertible note bore interest at LIBOR plus five percent per annum and was due on December 31, 2004. The principal and interest balances were convertible at prices of $16.35 and $9.52, respectively, per Class B common share.

Following the WorldSpace Transaction, the Company issued a convertible note maturing December 31, 2004 to Motient for $81,676,000 in exchange for the $54,536,000 subordinated convertible notes payable, $6,889,000 in demand notes, $20,251,000 in accrued interest and all of WSI's outstanding options to acquire the Company's common stock. This note bore interest at LIBOR plus five percent per annum. The note was convertible at Motient's option at $8.65 per Class B common share. The Company took a one-time $5,520,000 charge to interest due to the beneficial conversion feature of this note.

These Motient convertible notes, along with $3,870,000 of accrued interest, were converted into 11,182,926 shares of Class B common stock upon the initial public offering.

(b) Issuance of Series A Subordinated Convertible Notes of the Company to New Investors

At the closing of the WorldSpace Transaction, the Company issued an aggregate $250.0 million of Series A subordinated convertible notes to six new investors--General Motors Corporation, $50.0 million; Clear Channel Investments, Inc., $75.0 million; DIRECTV Enterprises, Inc., $50.0 million; and Columbia Capital, Telcom Ventures, L.L.C. and Madison Dearborn Partners, $75.0 million. The Series A subordinated convertible notes issued by the Company were convertible into shares of the Company's Series A convertible preferred stock (in the case of notes held by General Motors Corporation and DIRECTV) or Class A common stock (in the case of notes held by the other investors) at the election of the holders or upon the occurrence of certain events, including an initial public offering of a prescribed size. The conversion price was $9.52 aggregate principal amount of notes for each share of the Company's stock. These notes, along with $6,849,000 of accrued interest, were converted into 16,179,755 shares of Class A common stock and 10,786,504 shares of Series A preferred stock upon the initial public offering.

(c) Private Units Offering

On March 15, 2000 the Company closed a private placement of 325,000 units, each unit consisting of $1,000 principal amount of 14 percent Senior Secured Notes due 2010 of its subsidiary XM Satellite Radio Inc. and one warrant to purchase 8.024815 shares of the Company's Class A common stock at a price of $49.50 per share. The Company realized net proceeds of $191.5 million, excluding $123.0 million used to acquire securities which will be used to pay interest payments due under the notes for the first three years. The $325,000,000 face value of the notes was offset by a discount of $65,746,000 associated with the fair value of the warrants sold. The Company had amortized $2,044,000 of the discount through December 31, 2000. See note 5(e) for further discussion regarding adjustments to the warrants sold.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(4) Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, short-term investments, accounts payable, accrued expenses and royalty payable approximate their fair market value because of the relatively short duration of these instruments as of December 31, 1999 and 2000, in accordance with SFAS No. 107, Disclosures about Fair Value of Financial Instruments. At December 31, 2000, the carrying amount and fair value of the 14 percent Senior Secured Notes due 2010 were $261,298,000 and $179,563,000, respectively, based on the quoted market price.

(5) Equity

(a) Recapitalization

Concurrent with the WorldSpace Transaction discussed in note 3, the Company's capital structure was reorganized. The Company's common stock was converted into the newly authorized Class B common stock, which has three votes per share. The Company also has authorized Class A common stock, which is entitled to one vote per share and non-voting Class C common stock. The Class B common stock is convertible into Class A common stock on a one for one basis, as follows: (1) at any time at the discretion of Motient, (2) following the Company's initial public offering, at the direction of the holders of a majority of the then outstanding shares of Class A common stock (which majority must include at least 20 percent of the public holders of Class A common stock), and (3) on or after January 1, 2002, at the direction of the holders of a majority of the then outstanding shares of the Company's Class A common stock. Such conversion will be effected only upon receipt of FCC approval of Motient's transfer of control of the Company to a diffuse group of shareholders.

The Company also authorized 60,000,000 shares of preferred stock, of which 15,000,000 shares are designated Series A convertible preferred stock, par value $0.01 per share. The Series A convertible preferred stock is convertible into Class A common stock at the option of the holder. The Series A preferred stock is non-voting and receives dividends, if declared, ratably with the common stock.

On September 9, 1999, the board of directors of the Company effected a stock split providing 53,514 shares of stock for each share owned.

(b) Initial Public Offering

On October 8, 1999, the Company completed an initial public offering of 10,000,000 shares of Class A common stock at $12.00 per share. The offering yielded net proceeds of $111,437,000.

On October 17, 1999, the underwriters of the Company's initial public offering exercised the over-allotment option for an additional 241,000 shares of Class A common stock at $12.00 per share. This exercise yielded net proceeds of $2,697,000.

(c) Conversion of Class B Common Stock to Class A Common Stock

On March 8, 2000, at the request of the Company, one of the Class B common stockholders converted 1,314,914 shares of the Company's Class B common stock into Class A common stock on a one-for-one basis. As of March 31, 2000, Motient held all of the Company's outstanding Class B common stock.

On January 12, 2001, Motient converted 2,652,243 shares of the Company's Class B common stock into Class A common stock on a one-for-one basis. See note 11(j) for further discussion of the Company's filing of an application for change of control with the FCC.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(d) Secondary Offering and Sale of Series B Convertible Redeemable Preferred Stock

On January 31, 2000, the Company closed on a secondary offering of its Class A common stock and newly designated Series B convertible redeemable preferred stock. The Company sold 4,000,000 shares of its Class A common stock for $32.00 per share, which yielded net proceeds of $120,837,000. The Company concurrently sold 2,000,000 shares of its Series B convertible redeemable preferred stock for $50.00 per share, which yielded net proceeds of $96,472,000. The Series B convertible redeemable preferred stock provides for 8.25 percent cumulative dividends that may be paid in Class A common stock or cash. The Series B convertible redeemable preferred stock is convertible into Class A common stock at a conversion price of $40 per share and is redeemable in Class A common stock on February 3, 2003.

On February 9, 2000, the underwriters exercised a portion of the over-allotment option for 370,000 shares of Class A common stock, which yielded net proceeds of approximately $11,233,000.

On August 1, 2000, the Company entered into agreements with certain holders of its 8.25 percent Series B convertible redeemable preferred stock to exchange their shares of 8.25 percent Series B convertible redeemable preferred stock for shares of the Company's Class A common stock. By August 31, 2000, Holdings had issued 1,700,016 shares of its Class A common stock in exchange for 1,132,711 shares of its 8.25 percent Series B convertible redeemable preferred stock. Holdings recorded an $11.2 million charge to earnings attributable to common stockholders in the third quarter related to this transaction. This charge represents the difference in the fair value of the stock issued upon this conversion in excess of the stock that the holders were entitled to upon a voluntary conversion.

The Company paid the quarterly dividends on the 8.25 percent Series B convertible redeemable preferred stock on May 1, 2000, August 1, 2000 and November 1, 2000 by issuing 62,318, 57,114 and 25,734, respectively, shares of Class A common stock to the respective holders of record.

(e) Series C Convertible Redeemable Preferred Stock

On July 7, 2000, the Company reached an agreement for a private offering of 235,000 shares of its Series C convertible redeemable preferred stock for $1,000 per share, which closed on August 8, 2000 and yielded net proceeds of $206,379,000 and a stock subscription of $20,000,000 that earned interest at 7 percent per annum until it was paid on November 30, 2000. The stock subscription was received in November 2000 and provided an additional $20,443,000. The Series C convertible redeemable preferred stock provides for 8.25 percent cumulative dividends payable in cash. The Series C convertible redeemable preferred stock is convertible, at the holders' option, into Class A common stock at the conversion price then in effect. Currently, the conversion price is $26.50, but may change upon the occurrence of certain dilutive events. The Company must redeem the Series C convertible redeemable preferred stock in Class A common stock on February 1, 2012 At its option, the Company may redeem the Series C convertible redeemable preferred stock beginning on February 8, 2005 in cash or, at the holder's option, in Class A common stock.

As a result of the current conversion price of $26.50 being less than the market value of Holdings' Class A common stock of $40.375 on the commitment date, the Company recorded a $123.0 million beneficial conversion charge that reduced earnings available to common stockholders. The issuance of the Series C preferred stock also caused the exercise price of the warrants sold in March 2000 to be adjusted to $47.94 and the number of warrant shares to be increased to 8.285948 per warrant.

(f) Stock-Based Compensation

The Company operates three separate stock option plans, the details of which are described below.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

1998 Shares Award Plan

On June 1, 1998, the Company adopted the 1998 Shares Award Plan (the "Plan") under which employees, consultants, and non-employee directors may be granted options to purchase shares of Class A common stock of the Company. The Company initially authorized 1,337,850 shares of Class A common stock under the Plan, which was increased to 2,675,700 in July 1999 and 5,000,000 in May 2000. The options are exercisable in installments determined by the compensation committee of the Company's board of directors. The options expire as determined by the committee, but no later than ten years from the date of grant. On July 8, 1999, the Company's board of directors voted to reduce the exercise price of the options outstanding in the shares award plan from $16.35 to $9.52 per share, which represented the fair value of the stock on the date of repricing. Transactions and other information relating to the Plan for the year ended December 31, 1999 and 2000 are summarized below:

	Outstanding Options	
	Number of Shares	Weighted-Average Exercise Price
Balance, December 31, 1997	--	$ --
Options granted	787,297	16.35
Options canceled or expired	--	--
Options exercised	--	--
Balance, December 31, 1998	787,297	$16.35
Options granted	2,188,988	10.50
Option repricing	(818,339)	16.35
Options canceled or expired	(57,786)	13.91
Options exercised	(1,071)	9.52
Balance, December 31, 1999	2,099,089	$10.32
Options granted	1,176,683	30.21
Options canceled or expired	(131,267)	17.01
Options exercised	(48,817)	9.52
Balance, December 31, 2000	3,095,688	$17.61

	Options Outstanding				Options Exercisable	
	Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
1998	$ 16.35	787,297	9.5 years	$16.35	--	$16.35
1999	$ 9.52-$12.00	2,099,089	9.24 years	$10.32	416,294	$ 9.52
2000	$ 9.52-$12.00	2,120,400	8.26 years	$10.39	1,110,756	$10.06
	$13.13-$30.50	297,685	9.03 years	$23.13	5,334	$13.13
	$30.63-$45.44	677,603	9.54 years	$37.92	20,000	$43.69

There were no, 416,294 and 1,136,090 stock options exercisable at December 31, 1998, 1999 and 2000, respectively. There were 1,615,483 shares available under the plan for future grants at December 31, 2000. At December 31, 2000, all options have been issued to employees, officers and directors.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

The per share weighted-average fair value of employee options granted during the year ended December 31, 1998, 1999 and 2000 was $10.54, $6.21 and $22.06, respectively, on the date of grant using the Black-Scholes Option Pricing Model with the following weighted-average assumptions·

	December 31,		
	1998	1999	2000
Expected dividend yield....	0%	0%	0%
Volatility.....	56.23%	63.92%	68.21%
Risk-free interest rate range.....	4.53% to 5.57%	5.47% to 5.97%	4.99% to 6.71%
Expected life.....	7.5 years	5 years	5 years

Employee Stock Purchase Plan

In 1999, the Company established an employee stock purchase plan that provides for the issuance of 300,000 shares of Class A common stock. All employees whose customary employment is more than 20 hours per week and for more than five months in any calendar year are eligible to participate in the stock purchase plan, provided that any employee who would own five percent or more of the Company's total combined voting power immediately after an offering date under the plan is not eligible to participate. Eligible employees must authorize the Company to deduct an amount from their pay during offering periods established by the compensation committee. The purchase price for shares under the plan will be determined by the compensation committee but may not be less than 85 percent of the lesser of the market price of the common stock on the first or last business day of each offering period. As of December 31, 2000, 53,539 shares had been issued by the Company under this plan.

The per share weighted-average fair value of purchase rights granted during the year was $3.30 and $11.28 for the years ended December 31, 1999 and 2000, respectively. The estimates were calculated at the grant date using the Black-Scholes Option Pricing Model with the following assumptions at December 31, 1999 and 2000:

	December 31,	
	1999	2000
Expected dividend yield...	0%	0%
Volatility.....	62.92%	68.21%
Risk-free interest rate range..... ...	4.73%	5.33%-6.23%
Expected life.....	0.23 years	0.24 years

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

The Company applies APB 25 in accounting for stock-based compensation for both plans and, accordingly, no compensation cost has been recognized for its stock options in the financial statements other than for performance based stock options, for options granted with exercise prices below fair value on the date of grant and for repriced options under FIN No. 44. During 1999 and 2000, the Company incurred $4,070,000 and $2,557,000, respectively, in compensation cost for these options. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS 123, the Company's net loss and net loss per share would have been increased to the pro forma amounts indicated below (in thousands):

	Year ended December 31,		
	1998	1999	2000
Net loss:			
As reported	$16,167	$36,896	$201,338
Pro forma	17,508	37,706	209,582
As reported--net loss per share--basic and diluted	(2.42)	(2.40)	(4.15)
Pro forma--net loss per share--basic and diluted	(2.62)	(2.62)	(4.32)

Talent Option Plan

In May 2000, the Company adopted the XM Talent Option Plan ("Talent Plan") under which non-employee service providers to the Company may be granted options to purchase shares of Class A common stock of the Company. The Company authorized 500,000 shares of Class A common stock under the Talent Plan. The options are exercisable in installments determined by the talent committee of the Company's board of directors. The options expire as determined by the talent committee, but no later than ten years from the date of the grant. As of December 31, 2000, no options had been granted under the Talent Plan.

(6) WSI Options

In 1997, the Company issued WSI three options in accordance with the terms of loans issued to WSI. Under the first option, WSI could have purchased 5,202,748 shares of common stock at $4.52 per share to acquire common stock. The option could have been exercised in whole or in incremental amounts between April 16, 1998 and October 16, 2002. Under certain circumstances, Motient could have required WSI to exercise the option in whole. The Company allocated $1,250,000 to the option. Under the second option, WSI could have purchased 6,897,291 shares at $8.91 per share. The option could have been exercised between October 16, 1997 and October 16, 2003. The Company allocated $170,000 to the option. Under the third option, WSI could have purchased 187,893 shares of common stock at $5.32 per share. The option could have been exercised between October 16, 1997 and October 17, 2002. The Company allocated $80,000 to the option.

The options were acquired by Motient and exchanged for the $81,676,000 note to Motient as part of the WorldSpace Transaction (see note 3(a)).

(7) Profit Sharing and Employee Savings Plan

On July 1, 1998, the Company adopted a profit sharing and employee savings plan under Section 401(k) of the Internal Revenue Code. This plan allows eligible employees to defer up to 15 percent of their compensation on a pre-tax basis through contributions to the savings plan. The Company contributed $0.50 in 1998, 1999 and 2000 for every dollar the employees contributed up to 6 percent of compensation, which amounted to $14,000, $164,000 and $229,000, respectively.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(8) Interest Cost

The Company capitalizes a portion of interest cost as a component of the cost of the FCC license and satellite system under construction. The following is a summary of interest cost incurred during December 31, 1998, 1999 and 2000, and for the period from December 15, 1992 (date of inception) to December 31, 1999 (in thousands):

	1998	1999	2000	December 15, 1992 (date of inception) to December 31, 2000
Interest cost capitalized	$11,824	$15,343	$39,052	$68,120
Interest cost charged to expense	--	9,120	--	9,669
Total interest cost incurred	$11,824	$24,463	$39,052	$77,789

Interest costs incurred prior to the award of the license were expensed in 1998. During 1999, the Company exceeded its capitalization threshold by $3,600,000 and incurred a charge to interest of $5,520,000 for the beneficial conversion feature of a related party note.

(9) Income Taxes

For the period from December 15, 1992 (date of inception) to October 8, 1999, the Company filed consolidated federal and state tax returns with its majority stockholder Motient. The Company generated net operating losses and other deferred tax benefits that were not utilized by Motient. As no formal tax sharing agreement has been finalized, the Company was not compensated for the net operating losses. Had the Company filed on a stand-alone basis for the three-year period ending December 31, 2000, the Company's tax provision would be as follows:

Taxes on income included in the statements of operations consists of the following (in thousands):

	December 31,		
	1998	1999	2000
Current taxes:			
Federal	$ --	$ --	$ --
State	--	--	--
Total current taxes	--	--	--
Deferred taxes:			
Federal	$ --	$ --	$ --
State	--	--	--
Total deferred taxes	--	--	--
Total tax expense (benefit)	$ --	$ --	$ --

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

A reconciliation of the statutory tax expense, assuming all income is taxed at the statutory rate applicable to the income and the actual tax expense is as follows (in thousands):

	December 31,		
	1998	1999	2000
Income (loss) before taxes on income, as reported in the statements of income	$(16,167)	$(36,896)	$(51,873)
Theoretical tax benefit on the above amount at 35%	(5,497)	(12,545)	(18,156)
State tax, net of federal benefit	(1,059)	462	(2,588)
Increase in taxes resulting from permanent differences, net	30	2,060	562
Adjustments arising from differences in the basis of measurement for tax purposes and financial reporting purposes and other	(706)	13,182	9
Change in valuation allowance	7,232	(3,159)	20,173
Taxes on income for the reported year	$ --	$ --	$ --

At December 31, 1998, 1999 and 2000, deferred income tax consists of future tax assets/(liabilities) attributable to the following (in thousands):

	December 31,		
	1998	1999	2000
Deferred tax assets:			
Net operating loss/other tax attribute carryovers	$ 518	$ 2,490	$ 14,716
Start-up costs	7,460	17,765	40,033
Gross total deferred tax assets	7,978	20,255	54,749
Valuation allowance for deferred tax assets	(7,978)	(4,819)	(24,992)
Net deferred assets	--	15,436	29,757
Deferred tax liabilities:			
Fixed assets	--	(51)	(15,500)
FCC license	--	(10,160)	(9,735)
Other intangible assets	--	(5,225)	(4,522)
Net deferred tax liabilities	--	(15,436)	(29,757)
Deferred income tax, net	$ --	$ --	$ --

At December 31, 2000, the Company had accumulated net operating losses of $35,892,000 for Federal income tax purposes that are available to offset future regular taxable income. These operating loss carryforwards expire between the years 2012 and 2020. Utilization of these net operating losses may be subject to limitations in the event of significant changes in the stock ownership of the Company.

(10) Accumulated Deficit

The Company is devoting its efforts to develop, construct and expand a digital audio radio network. This effort involves substantial risk and future operating results will be subject to significant business, economic, regulatory, technical, and competitive uncertainties and contingencies. These factors individually or in the aggregate could have an adverse effect on the Company's financial condition and future operating results and create an uncertainty as to the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

At the Company's current stage of development, economic uncertainties exist regarding the successful acquisition of additional debt or equity financings and the attainment of positive cash flows from the Company's proposed service. The Company is currently constructing its satellite and terrestrial systems and will require substantial additional financing to market and distribute the satellite-based radio service. Failure to obtain the required long-term financing will prevent the Company from realizing its objective of providing satellite-based radio programming. Management's plan to fund operations and capital expansion includes the additional sale of debt and equity securities through public and private sources. There are no assurances, however, that such financing will be obtained.

(11) Commitments and Contingencies

(a) FCC License

The FCC has established certain system development milestones that must be met for the Company to maintain its license to operate the system. The Company believes that it is proceeding into the system development as planned and in accordance with the FCC milestones.

(b) Application for Review of FCC License

One of the losing bidders for the DARS licenses filed an Application for Review by the full FCC of the Licensing Order which granted the Company its FCC license. The Application for Review alleges that WSI had effectively taken control of the Company without FCC approval. The FCC or the U.S. Court of Appeals has the authority to overturn the award of the FCC license should they rule in favor of the losing bidder. Although the Company believes that its right to the FCC license will withstand the challenge as WSI is no longer a stockholder in the Company, no prediction of the outcome of this challenge can be made with any certainty.

(c) Technical Services

Effective January 1, 1998, the Company entered into agreements with Motient and WorldSpace Management Corporation ("WorldSpace MC"), an affiliate of WSI, in which Motient and WorldSpace MC would provide technical support in areas related to the development of a DARS system. Payments for services provided under these agreements are made based on negotiated hourly rates. These agreements may be terminated by the parties on or after the date of the commencement of commercial operation following the launch of the Holdings' first satellite. There are no minimum services purchase requirements. The Company incurred costs of $413,000, $224,000 and $252,000 under its agreement with Motient and $4,357,000, $0 and $0 costs were incurred under its agreement with WorldSpace MC during the years ended December 31, 1998, 1999 and 2000, respectively. The Company incurred costs of $1,039,000 under its agreement with Motient and $5,317,000 in costs were incurred under its agreement with WorldSpace MC from December 15, 1992 (date of inception) through December 31, 2000.

(d) Technology Licenses

Effective January 1, 1998, XMSR entered into a technology licensing agreement with Motient and WorldSpace MC by which as compensation for certain licensed technology then under development to be used in the XM Radio system, XMSR will pay up to $14,300,000 to WorldSpace MC over a ten-year period. As of December 31, 2000 XMSR incurred costs of $6,696,000 payable to WorldSpace MC. Any additional amounts to be incurred under this agreement are dependent upon further development of the technology, which is at XMSR's option. No liability exists to Motient or WorldSpace MC should such developments prove unsuccessful. XMSR maintains an accrual of $5,165,000 payable to WorldSpace MC, for quarterly royalty

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

payments to be made. In addition, XMSR agreed to pay 1.2 percent of quarterly net revenues to WorldSpace MC and a royalty of $0.30 per chipset, payable to WorldSpace MC, for equipment manufactured using certain source encoding and decoding signals technology.

(e) Satellite Contract

During the first half of 1999, the Company and Boeing Satellite Systems International, Inc. ("BSS"--formerly Hughes Space and Communications, Inc.) amended the satellite contract to construct and launch the Company's satellites to implement a revised work timetable, payment schedule to reflect the timing of the receipt of additional funding, and technical modifications. Holdings expects to incur total payment obligations under this contract of approximately $541,300,000, which includes amounts the Company expects to pay pursuant to the exercise of the option to build the ground spare satellite and certain financing costs and in-orbit incentive payments. On June 27, 2000, the Company exercised the option to build the ground spare. As of December 31, 2000, the Company had paid $466,017,000 under the Satellite contract with BSS and had accrued $1,585,000.

(f) Terrestrial Repeater System Contracts

In August 1999, the Company signed a contract with LCC International, Inc., a related party, calling for the payments of approximately $115,000,000 for engineering and site preparation. In January 2001, the scope of the contract was amended and the estimated contract value was reduced to $107,500,000. As of December 31, 2000, the Company had paid $50,168,000 under this contract, and accrued an additional $15,141,000. The Company has entered into tower construction agreements with various companies, which will provide certain services which LCC International, Inc. was to provide. The Company also entered into a contract effective October 22, 1999, with Hughes Electronics Corporation for the design, development and manufacture of the terrestrial repeaters. Payments under the contract are expected to be approximately $128,000,000, which could be modified based on the number of terrestrial repeaters that are required for the system. As of December 31, 2000, the Company had paid $15,358,000 under this contract.

(g) General Motors Distribution Agreement

The Company has signed a long-term distribution agreement with the OnStar division of General Motors providing for the installation of XM radios in General Motors vehicles. During the term of the agreement, which expires 12 years from the commencement date of the Company's commercial operations, General Motors has agreed to distribute the service to the exclusion of other S-band satellite digital radio services. The Company will also have a non-exclusive right to arrange for the installation of XM radios included in OnStar systems in non-General Motors vehicles that are sold for use in the United States. The Company has significant annual, fixed payment obligations to General Motors for four years following commencement of commercial service. These payments approximate $35,000,000 in the aggregate during this period. Additional annual fixed payment obligations beyond the initial four years of the contract term range from less than $35,000,000 to approximately $130,000,000 through 2009, aggregating approximately $400,000,000. In order to encourage the broad installation of XM radios in General Motors vehicles, the Company has agreed to subsidize a portion of the cost of XM radios, and to make incentive payments to General Motors when the owners of General Motors vehicles with installed XM radios become subscribers for the Company's service. The Company must also share with General Motors a percentage of the subscription revenue attributable to General Motors vehicles with installed XM radios, which percentage increases until there are more than 8 million General Motors vehicles with installed XM radios. The Company will also make available to General Motors bandwidth on the Company's systems. The agreement is subject to renegotiations at any time based upon the installation of

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

radios that are compatible with a unified standard or capable of receiving Sirius Satellite Radio's (formerly known as CD Radio) service. The agreement is subject to renegotiations if, four years after the commencement of XM Radio's commercial operations and at two-year intervals thereafter GM does not achieve and maintain specified installation levels of General Motors vehicles capable of receiving the Company's service, starting with 1,240,000 units after four years, and thereafter increasing by the lesser of 600,000 units per year and amounts proportionate to target market shares in the satellite digital radio service market. There can be no assurances as to the outcome of any such renegotiations. General Motors' exclusivity obligations will discontinue if, four years after the Company commences commercial operations and at two-year intervals thereafter, the Company fails to achieve and maintain specified minimum market share levels in the satellite digital radio service market.

(h) Joint Development Agreement

On January 12, 1999, Sirius Radio the other holder of an FCC satellite radio license, commenced an action against the Company in the United States District Court for the Southern District of New York, alleging that the Company was infringing or would infringe three patents assigned to Sirius Radio. In its complaint, Sirius Radio sought money damages to the extent the Company manufactured, used or sold any product or method claimed in their patents and injunctive relief. On February 16, 2000, this suit was resolved in accordance with the terms of a joint development agreement between the Company and Sirius Radio and both companies agreed to cross-license their respective property. Each party is obligated to fund one half of the development cost for a unified standard for satellite radios. Each party will be entitled to license fees or a credit towards its one half of the cost based upon the validity, value, use, importance and available alternatives of the technology it contributes. The amounts for these fees or credits will be determined over time by agreement of the parties or by arbitration. The parties have yet to agree on the validity, value, use, importance and available alternatives of their respective technologies. If the parties fail to reach agreement, the fees or credits may be determined through binding arbitration. However, if this agreement is terminated before the value of the license has been determined due to the Company's failure to perform a material covenant or obligation, then this suit could be refiled.

(i) Sony Warrant

In February 2000, the Company issued a warrant to Sony exercisable for shares of the Company's Class A common stock. The warrant will vest at the time that it attains its millionth customer, and the number of shares underlying the warrant will be determined by the percentage of XM Radios that have a Sony brand name as of the vesting date. If Sony achieves its maximum performance target, it will receive 2 percent of the total number of shares of the Company's Class A common stock on a fully-diluted basis upon exercise of the warrant. The exercise price of the Sony warrant will equal 105 percent of fair market value of the Class A common stock on the vesting date, determined based upon the 20-day trailing average.

(j) Approval of Change of Control

On July 14, 2000, Holdings filed an application with the FCC to allow Holdings to transfer its control from Motient to a diffuse group of owners, none of whom will have controlling interest. On December 22, 2000, the application was approved by the FCC. As discussed in note 5(c), Motient converted 2,652,243 shares of the Company's Class B common stock to Class A common stock on January 12, 2001. Through February 9, 2001, Motient has sold 2,000,000 shares of Class A common stock, which reduced its voting interest to 48.7 percent of the shares outstanding.

(k) 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

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

companies that may include fixed payments, per-unit subscriber amounts and revenue sharing arrangements. 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.

(l) Leases

The Company has noncancelable operating leases for office space and terrestrial repeater sites and noncancelable capital leases for equipment that expire over the next ten years. The future minimum lease payments under noncancelable leases as of December 31, 2000 are (in thousands):

	Operating leases	Capital leases
Year ending December 31·		
2001	$13,261	$ 847
2002	13,665	761
2003	13,986	474
2004	14,230	--
2005	11,041	--
Thereafter	22,513	--
Total	$88,696	2,082
Less amount representing interest		(159)
Present value of net minimum lease payments		1,923
Less current maturities		(556)
Long-term obligations		$1,367

Rent expense for 1998, 1999 and 2000 was $231,000, $649,000 and $6,082,000 respectively.

(12) Quarterly Data (Unaudited)

	1998			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ --	$ --	$ --	$ --
Operating loss	3,100	5,032	3,865	4,196
Loss before income taxes	3,100	5,032	3,857	4,178
Net loss attributable to common stockholders	3,100	5,032	3,857	4,178
Net loss per share--basic and diluted	$ (0.46)	$ (0.75)	$ (0.58)	$ (0.62)

	1999			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ --	$ --	$ --	$ --
Operating loss	4,421	4,020	9,374	12,876
Loss before income taxes	4,367	3,999	17,402	11,128
Net loss attributable to common stockholders	4,367	3,999	17,402	11,128
Net loss per share--basic and diluted	$ (0.65)	$ (0.60)	$ (2.60)	$ (0.27)

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

	2000			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ --	$ --	$ --	$ --
Operating loss	16,888	13,937	28,109	20,544
Loss before income taxes	12,740	5,088	20,060	13,985
Net loss attributable to common stockholders	14,212	7,259	160,095	19,773
Net loss per share--basic and diluted	$ (0.30)	$ (0.15)	$ (3.26)	$ (0.40)

The sum of quarterly per share net losses do not necessarily agree to the net loss per share for the year due to the timing of stock issuances.

(13) Subsequent Financing (unaudited)

In March 2001, the Company completed a follow-on offering of 7,500,000 shares of Class A common stock, which yielded net proceeds of $72.0 million, and a concurrent offering of 7.75% convertible subordinated notes due 2006, convertible into shares of Class A common stock at a conversion price of $12.23 per share, which yielded net proceeds of $120.7 million.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Independent Auditors' Report

To the Board of Directors and Stockholder
XM Satellite Radio Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of XM Satellite Radio Inc. and subsidiaries (a development stage company) as of December 31, 1999 and 2000, and the related consolidated statements of operations, stockholder's equity, and cash flows for each of the years in the three-year period ended December 31, 2000, and for the period from December 15, 1992 (date of inception) to December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of XM Satellite Radio Inc. and subsidiaries (a development stage company) as of December 31, 1999 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000 and for the period from December 15, 1992 (date of inception) to December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 10 to the consolidated financial statements, the Company has not commenced operations and is dependent upon additional debt or equity financing, which raises substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters is also described in note 10. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

McLean, VA
February 9, 2001

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

XM SATELLITE RADIO INC. AND SUBSIDIARIES
(A Development Stage Company)

CONSOLIDATED BALANCE SHEETS
December 31, 1999 and 2000

ASSETS

	1999	2000
	(in thousands, except share data)	
Current assets:		
Cash and cash equivalents	$ 49,630	$ 203,191
Short-term investments	69,472	--
Restricted investments	--	95,277
Prepaid and other current assets	1,077	8,815
Total current assets	120,179	307,283
Other assets:		
Restricted investments, net of current portion	--	65,889
System under construction	333,500	776,706
Property and equipment, net of accumulated depreciation and amortization of $347 and $2,337	2,551	59,505
Goodwill and intangibles, net of accumulated amortization of $1,220 and $2,599	25,380	24,001
Other assets, net of accumulated amortization of $0 and $672	3,524	9,133
Total assets	$485,134	$1,242,517

LIABILITIES AND STOCKHOLDER'S EQUITY

Current liabilities:		
Accounts payable	$ 23,258	$ 47,072
Accrued expenses	1,514	4,636
Accrued interest on senior secured notes	--	13,397
Royalty payable	1,646	2,565
Total current liabilities	26,418	67,670
Senior secured notes, net of discount amortization of $0 and $2,044	--	261,298
Royalty payable, net of current portion	3,400	2,600
Capital lease, net of current portion	212	1,367
Other non-current liabilities	--	4,172
Total liabilities	30,030	337,107
Stockholder's equity:		
Common stock, par value $0.10; 3,000 shares authorized, 125 shares issued and outstanding	--	--
Additional paid-in capital	502,646	1,004,879
Deficit accumulated during development stage	(47,542)	(99,469)
Total stockholder's equity	455,104	905,410
Commitments and contingencies (notes 3, 10 and 11)		
Total liabilities and stockholder's equity	$485,134	$1,242,517

See accompanying notes to consolidated financial statements.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

XM SATELLITE RADIO INC. AND SUBSIDIARIES
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 1998, 1999 and 2000, and for the period from December 15, 1992 (date of inception) to December 31, 2000

	1998	1999	2000	December 15, 1992 (date of inception) to December 31, 2000
	(in thousand)			
Revenue	$ --	$ --	$ --	$ --
Operating expenses:				
Research and development	6,941	4,274	7,397	18,612
Professional fees	5,242	9,948	22,751	39,031
General and administrative	4,010	16,448	48,979	69,457
Total operating expenses	16,193	30,670	79,127	127,100
Operating loss	(16,193)	(30,670)	(79,127)	(127,100)
Other income (expense):				
Interest income	26	533	27,200	27,759
Interest expense	--	(43)	--	(128)
Net loss	$(16,167)	$(30,180)	$(51,927)	$ (99,469)

See accompanying notes to consolidated financial statements.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

XM SATELLITE RADIO INC. AND SUBSIDIARIES
(A Development Stage Company)

Consolidated Statements of Stockholder's Equity
Years ended December 31, 1998, 1999 and 2000, and for the period from December 15, 1992 (date of inception) to December 31, 2000

	Common Stock		Additional Paid-in Capital	Deficit Accumulated During Development Stage	Total Stockholder's Equity
	Shares	Amount			
				(in thousands)	
Issuance of common stock (December 15, 1992)	100	$ --	$ --	$ --	$ --
Balance at December 31, 1992	100	--	--	--	--
Net loss	--	--	--	--	--
Balance at December 31, 1993	100	--	--	--	--
Net loss	--	--	--	--	--
Balance at December 31, 1994	100	--	--	--	--
Net loss	--	--	--	--	--
Balance at December 31, 1995	100	--	--	--	--
Net loss	--	--	--	--	--
Balance at December 31, 1996	100	--	--	--	--
Contributions to paid-in capital	--	--	73,107	--	73,107
Issuance of common stock and capital contributions	25	--	9,143	--	9,143
Loan converted into capital	--	--	8,477	--	8,477
Issuance of options	--	--	500	--	500
Net loss	--	--	--	(1,195)	(1,195)
Balance at December 31, 1997	125	--	91,227	(1,195)	90,032
Contributions to paid-in capital	--	--	53,591	--	53,591
Net loss	--	--	--	(16,167)	(16,167)
Balance at December 31, 1998	125	--	144,818	(17,362)	127,456
Contributions to paid-in capital	--	--	301,994	--	301,994
Increase in FCC license, goodwill and intangibles from WorldSpace transaction	--	--	51,624	--	51,624
Non-cash stock compensation	--	--	4,210	--	4,210
Net loss	--	--	--	(30,180)	(30,180)
Balance at December 31, 1999	125	--	502,646	(47,542)	455,104
Contributions to paid-in capital	--	--	499,490	--	499,490
Non-cash stock compensation	--	--	2,743	--	2,743
Net loss	--	--	--	(51,927)	(51,927)
Balance at December 31, 2000	125	$ --	$1,004,879	$(99,469)	$905,410

See accompanying notes to consolidated financial statements.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

XM SATELLITE RADIO INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 1998, 1999 and 2000, and for the period from December 15, 1992 (date of inception) to December 31, 2000

	1998	1999	2000	December 15, 1992 (date of inception) to December 31, 2000
		(in thousands)		
Cash flows from operating activities:				
Net loss	$(16,167)	$(30,180)	$(51,927)	$ (99,469)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	57	1,478	3,369	4,936
Non-cash stock compensation	--	4,210	2,743	6,953
Changes in operating assets and liabilities:				
Increase in prepaid and other current assets	(212)	(905)	(7,738)	(8,815)
Increase (decrease) in other assets	--	62	--	(132)
Increase in accounts payable and accrued expenses	1,700	7,149	16,037	30,280
Increase in amounts due to related party	5,257	--	--	--
Net cash used in operating activities	(9,365)	(18,186)	(37,516)	(66,247)
Cash flows from investing activities:				
Purchase of property and equipment	(506)	(2,008)	(51,378)	(53,974)
Additions to system under construction	(43,406)	(159,510)	(414,889)	(711,173)
Net purchase/maturity of restricted investments	--	--	(106,338)	(106,338)
Net purchase/maturity of short-term investments	--	(69,472)	69,472	--
Other investing activities	--	(3,422)	(56,268)	(56,268)
Net cash used in investing activities	(43,912)	(234,412)	(559,401)	(927,753)
Cash flows from financing activities:				
Proceeds from sale of common stock and capital contribution	--	--	499,589	559,667
Capital contribution from parent through transfer of liabilities	53,591	302,002	--	386,135
Proceeds from issuance of senior secured notes	--	--	259,254	259,254
Proceeds from the issuance of options	--	--	--	500
Payments for deferred financing fees	--	--	(8,365)	(8,365)
Other net financing activities	(5)	(84)	--	--
Net cash provided by financing activities	53,586	301,918	750,478	1,197,191
Net increase in cash and cash equivalents	309	49,320	153,561	203,191
Cash and cash equivalents at beginning of period	1	310	49,630	--
Cash and cash equivalents at end of period	$ 310	$ 49,630	$203,191	$ 203,191
Supplemental cash flow disclosure:				
Increase in FCC license, goodwill and intangibles	$ --	$ 51,624	$ --	$ 51,624
Property acquired through capital leases	--	470	1,688	2,075

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Non-cash interest capitalized.....	29	--	16,302	16,416
Accrued system milestone payments.....	21,867	15,500	30,192	30,192
Use of deposit for terrestrial repeater contract.....	--	--	3,422	--

See accompanying notes to consolidated financial statements.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

XM SATELLITE RADIO INC. AND SUBSIDIARIES
(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1999 and 2000, and for the period from
December 15, 1992 (date of inception) through December 31, 2000

(1) Summary of Significant Accounting Policies and Practices

(a) Nature of Business

XM Satellite Radio Inc. ("XMSR" or the "Company"), formerly American Mobile Radio Corporation, was incorporated on December 15, 1992 in the State of Delaware as a wholly owned subsidiary of Motient Corporation, formerly American Mobile Satellite Corporation ("Motient") for the purpose of procuring a digital audio radio service ("DARS") license. Business activity for the period from December 15, 1992 through December 31, 1996 was insignificant. Pursuant to various financing agreements entered into in 1997 between Motient, XMSR and WorldSpace, Inc. ("WSI"), WSI acquired a 20 percent interest in XMSR.

On May 16, 1997, Motient and WSI formed XM Satellite Radio Holdings Inc. (the "Parent"), formerly AMRC Holdings Inc., as a holding company for XMSR in connection with the construction, launch and operation of a domestic communications satellite system for the provision of DARS. Motient and WSI exchanged their respective interests in XMSR for equivalent interests in the Company, which had no assets, liabilities or operations prior to the transaction.

(b) Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of XM Satellite Radio Inc. and its subsidiaries, XM Radio Inc. and XM Equipment Leasing LLC. All significant intercompany transactions and accounts have been eliminated. The Company's management has devoted its time to the planning and organization of the Company, obtaining its DARS license, conducting research and development programs, conducting market research, constructing its satellite and terrestrial repeater systems, securing content providers, securing manufacturers for its radios and obtaining retail distribution channels, securing adequate debt and equity capital for anticipated operations and growth, and addressing regulatory matters. The Company has not generated any revenues and planned principal operations have not commenced. Accordingly, the Company's financial statements are presented as those of a development stage enterprise, as prescribed by Statement of Financial Accounting Standards ("SFAS") No. 7, Accounting and Reporting by Development Stage Enterprises.

(c) Cash and Cash Equivalents

The Company considers short-term, highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company had the following cash and cash equivalents balances (in thousands):

	December 31,	
	1999	2000
Cash on deposit	$ 63	$ 92
Money market funds	9,555	203,099
Commercial paper	40,012	--
	$49,630	$203,191

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(d) Short-term Investments

At December 31, 1999, the Company held commercial paper with maturity dates of less than one year that were stated at amortized cost, which approximates fair value.

(e) Restricted Investments

Restricted investments consist of fixed income securities and are stated at amortized cost plus accrued interest income. The securities included in restricted investments are $106.3 million of US Treasury strips restricted to provide for the remaining five scheduled interest payments on the Company's 14 percent Senior Secured Notes due 2010, which are classified as held-to-maturity securities under the provision of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, $49.6 million in money market funds for scheduled milestone payments under the Hughes Electronics Corporation contract and $5.1 million in certificates of deposit to collateralize letters of credit required by facility leases and other secured credits. The carrying value and fair value of the held-to-maturity securities at December 31, 2000 were (in thousands):

	Carrying Value	Unrealized Gain	Fair Value
Held-to-Maturity securities	$106,338	$1,060	$107,398

(f) Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated using the straight-line method over the following estimated useful lives:

Computer equipment	3-5 years
Computer software	3-5 years
Furniture and fixtures	3-7 years
Machinery and equipment	3-7 years
Leasehold improvements	Remaining lease term

(g) System Under Construction

The Company is currently developing its satellite system. Costs related to the project are being capitalized to the extent that they have future benefits. As of December 31, 2000, all amounts recorded as system under construction relate to costs incurred in obtaining a Federal Communications Commission ("FCC") license and approval as well as the system development. The FCC license will be amortized using the straight line method over an estimated useful life of fifteen years. Amortization of the license will begin on commercial launch. Depreciation of the Company's satellites will commence upon in-orbit delivery. Depreciation of the Company's ground stations will commence upon commercial launch. The satellites and the ground stations will be depreciated over their estimated useful lives.

On October 16, 1997, the FCC granted XMSR a license to launch and operate two geostationary satellites for the purpose of providing DARS in the United States in the 2332.5-2345 Mhz (space-to-earth) frequency band, subject to achieving certain technical milestones and international regulatory requirements. The license is valid for eight years upon successful launch and orbital insertion of the satellites. The Company's license requires that it comply with a construction and launch schedule specified by the FCC for each of the two authorized satellites. 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. The Company believes that the exercise of such authority to rescind the license is unlikely.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

System under construction consists of the following (in thousands):

	December 31,	
	1999	2000
License	$115,142	$122,944
Satellite system	204,198	521,573
Terrestrial system	10,087	84,715
Spacecraft control facilities	2,000	13,046
Broadcast facilities	2,073	27,970
System development	--	6,458
	$333,500	$776,706

The balances at December 31, 1999 and 2000 include capitalized interest of $210,000 and $39,262,000, respectively.

The Company's policy is to review its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

The Company had scheduled the launch of its satellite, "XM Roll", on January 8, 2001. This launch was halted just before lift off. As a result, the Company has determined that it will launch its other satellite, "XM Rock", first, which is scheduled for March 18, 2001. The Company anticipates that XM Roll will be launched in early May 2001 and will commence commercial operations in the summer of 2001.

(h) Goodwill and Intangible Assets

Goodwill and intangible assets, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over the expected periods to be benefited, generally 15 years. The Company assesses the recoverability of its intangible assets by determining whether the amortization of the goodwill and intangible assets balance over its remaining life can be recovered through undiscounted future operating cash flows. The amount of goodwill and intangible assets impairment, if any, is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

(i) Stock-Based Compensation

The Company accounts for stock-based compensation arrangements in accordance with the provisions of Accounting Principle Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), and related interpretations including FASB Interpretation ("FIN") No. 44, Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB opinion No. 25 issued in March 2000, and complies with the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation. Under APB 25, compensation expense is based upon the difference, if any, on the date of grant, between the fair value of the Company's stock and the exercise price. All stock-based awards to non-employees are accounted for at their fair value in accordance with SFAS No. 123.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

The Company adopted FIN No. 44 in July 2000 to account for stock options that had been repriced during the period covered by FIN No. 44. The application resulted in additional compensation of $1,213,000 during the year ended December 31, 2000. Additional compensation charges may result depending upon the market value of the common stock at each balance sheet date.

(j) Research and Development

Research and development costs are expensed as incurred.

(k) Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and the financial reporting amounts at each year-end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the sum of taxes payable for the period and the change during the period in deferred tax assets and liabilities.

(l) Comprehensive Income

In December 1998, the Company adopted SFAS No. 130, Reporting Comprehensive Income (SFAS 130). This statement establishes standards for reporting and displaying comprehensive income and its components in the financial statements. This statement is effective for all interim and annual periods within the year ended December 31, 1999. The Company has evaluated the provisions of SFAS 130 and has determined that there were no transactions that have taken place during the years ended December 31, 1998, 1999 and 2000 that would be classified as other comprehensive income.

(m) Accounting Estimates

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. The estimates involve judgments with respect to, among other things, various future factors which are difficult to predict and are beyond the control of the Company. Significant estimates include valuation of the Company's investment in the DARS license, goodwill and intangible assets, and the valuation allowances against deferred tax assets. Accordingly, actual amounts could differ from these estimates.

(n) Reclassifications

Certain fiscal year 1998 and 1999 amounts have been reclassified to conform to the current presentation.

(o) Derivative Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. In June 2000 the FASB issued SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activity, an amendment of SFAS 133. SFAS No. 133 and SFAS No. 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values. SFAS No. 133 and SFAS No. 138 are effective for all fiscal quarters of all fiscal years beginning after 2000. The Company will adopt SFAS No. 133 and SFAS No. 138 on January 1, 2001. The Company has reviewed its contracts and has determined that it has no derivative instruments and does not engage in hedging activities.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(2) Related Party Transactions

The Company had related party transactions with the following shareholders:

(a) Motient

In 1997, Motient contributed $143,000 to the Company to establish the original application for the FCC license. On March 28, 1997, the Company received $1,500,000 as a capital contribution from Motient. Effective January 15, 1999, the Parent issued a convertible note maturing on September 30, 2006 to Motient for $21,419,000. (See note 3(d)). The proceeds from the convertible note were contributed to the Company as additional paid-in capital.

(b) WSI

On March 28, 1997, the Company received $1,500,000 as a capital contribution from WSI. The Company issued WSI 25 shares of common stock for this consideration.

On April 16, 1997, the Company received $15,000,000 from WSI, which represented $6,000,000 as an additional capital contribution and $9,000,000 as a six-month bridge loan (see note 3). The liability for the draw against the bridge loan was assumed by the Parent on May 16, 1997.

In addition to financing, the Company has relied upon certain related parties for legal and technical services. Total expenses incurred in transactions with related parties are as follows (in thousands):

	Year ended December 31, 1998		
	WSI	Motient	Total
Research and development	$ 6,624	$ --	$ 6,624
Professional fees	2,529	353	2,882
General and administrative	903	60	963
Total	$10,056	$413	$10,469

	Year ended December 31, 1999		
	WSI	Motient	Total
Research and development	$ 50	$ --	$ 50
Professional fees	--	219	219
General and administrative	--	5	5
Total	$ 50	$224	$ 274

	Year ended December 31, 2000
	Motient
Research and development	$ --
Professional fees	252
General and administrative	--
Total	$252

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

With the WorldSpace Transaction, which is discussed in note 3, on July 7, 1999, WSI ceased to be a related party; therefore, the expenses reflected for WSI are representative of the period from January 1, 1999 through July 7, 1999.

(c) Parent

On May 16, 1997, the Parent obtained a $1,000,000 working capital loan facility from WSI. During 1997, the Company drew down $663,000 against the facility with the remaining $337,000 drawn in 1998 (see note 3). The proceeds from these draws were contributed to the Company as additional paid-in capital.

On October 16, 1997, the Parent received $71,911,000 from WSI, which represented an additional $13,522,000 under the bridge loan and $58,389,000 under the additional amounts loan (see note 3). The proceeds from these draws were contributed to the Company as additional paid-in capital.

On April 1, 1998, the Parent entered into an agreement with WSI to issue $54,536,000 in subordinated convertible notes. During 1999, the Parent drew down $8,953,000, respectively, under the agreement (see note 3). The proceeds from these draws were contributed to the Company as additional paid-in capital.

In July 1998, the Parent contributed furniture and equipment with a book value of $104,000 to the Company.

On October 8, 1999, the Parent completed an initial public offering of 10,000,000 shares of Class A common stock at $12.00 per share. The offering yielded net proceeds of $111,437,000, which was contributed to the Company as additional paid-in capital.

On October 17, 1999, the underwriters of the Parent's initial public offering exercised the over-allotment option for an additional 241,000 shares of Class A common stock at $12.00 per share. This exercise yielded net proceeds of $2,697,000, which was contributed to the Company as additional paid-in capital

On January 31, 2000, the Parent closed on a secondary offering of its Class A common stock and newly designated Series B convertible redeemable preferred stock. The Parent sold 4,000,000 shares of its Class A common stock for $32.00 per share, which yielded net proceeds of $120,837,000. The Parent concurrently sold 2,000,000 shares of its Series B convertible redeemable preferred stock for $50.00 per share, which yielded net proceeds of $96,472,000. On February 9, 2000, the underwriters exercised a portion of the over-allotment option for 370,000 shares of Class A common stock, which yielded net proceeds of approximately $11,233,000. All proceeds were contributed to the Company by the Parent.

On March 15, 2000 the Parent and the Company closed a private placement of 325,000 units, each unit consisting of $1,000 principal amount of 14 percent Senior Secured Notes due 2010 of XMSR and one warrant to purchase 8.024815 shares of the Parent's Class A common stock at a price of $49.50 per share. The Company realized net proceeds of $191.5 million, excluding $123.0 million used to acquire securities which will be used to pay interest payments due under the notes for the first three years. The $325,000,000 face value of the notes was offset by a discount of $65,746,000 associated with the fair value of the warrants sold, which was contributed to the Company. The Company had amortized $2,044,000 of the discount through December 31, 2000.

On July 7, 2000, the Parent reached an agreement for a private offering of 235,000 shares of its Series C convertible redeemable preferred stock for $1,000 per share, which closed on August 8, 2000 and yielded net proceeds of $206,379,000 and a stock subscription of $20,000,000 that earned interest at 7 percent per annum until it was paid on November 30, 2000. The stock subscription was received by the Parent in November 2000 and provided an additional $20,443,000. All proceeds, except the receipt of the stock subscription were contributed to the Company by the Parent.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(3) Debt

(a) Loans Payable Due to Related Parties

In March 1997, XMSR entered into a series of agreements (the "Participation Agreement") with Motient and WSI in which both companies provided various equity and debt funding commitments to XMSR for the purpose of financing the activities of XMSR in connection with the establishment of a DARS satellite system in the United States. The Participation Agreement, as well as other agreements subsequently reached between the Company, Motient and WSI, served as the basis for several rounds of financing in the form of loans and notes with either conversion features or options for the Parent's common stock through July 7, 1999. The Parent had raised $142,447,000 in the form of loans and convertible notes from WSI and $21,419,000 in convertible notes from Motient through July 7, 1999.

On July 7, 1999, Motient acquired WSI's remaining debt and equity interests in the Parent in exchange for approximately 8.6 million shares of Motient's common stock (termed the "Worldspace Transaction"). Additionally, the Parent issued an aggregate $250.0 million of Series A subordinated convertible notes (see note 3(b)) to several new investors and used $75.0 million of the proceeds it received from the issuance of these notes to redeem certain outstanding loan obligations owed to WSI. As a result of these transactions, as of July 7, 1999, Motient owned all of the issued and outstanding stock of the Parent. Concurrent with Motient's acquisition of the remaining interest in the Parent, the Company recognized goodwill and intangibles of $51,624,000, which has been allocated as follows (in thousands):

FCC License	$25,024
Goodwill	13,738
Programming agreements	8,000
Receiver agreements	4,600
Other intangibles	262
	$51,624

(b) Issuance of Series A Subordinated Convertible Notes of the Parent to New Investors

At the closing of the WorldSpace Transaction, the Parent issued an aggregate $250.0 million of Series A subordinated convertible notes to six new investors--General Motors Corporation, $50.0 million; Clear Channel Investments, Inc., $75.0 million; DIRECTV Enterprises, Inc., $50.0 million, and Columbia Capital, Telcom Ventures, L.L.C. and Madison Dearborn Partners, $75.0 million. The Parent contributed the net proceeds from the sale of these notes to the Company.

(c) Private Units Offering

On March 15, 2000 the Parent and the Company closed a private placement of 325,000 units, each unit consisting of $1,000 principal amount of 14 percent senior secured notes due 2010 of XM Satellite Radio Inc. and one warrant to purchase 8.024815 shares of the Parent's Class A common stock at a price of $49.50 per share. The Company realized net proceeds of $191.0 million, excluding $123.0 million used to acquire securities which will be used to pay interest payments due under the notes for the first three years.

(d) Notes to Related Party

On January 15, 1999, the Parent issued a convertible note to Motient for $21,419,000. The proceeds from the note were contributed to the Company as additional paid-in capital.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(4) Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, short-term investments, accounts payable, accrued expenses and royalty payable approximate their fair market value because of the relatively short duration of these instruments as of December 31, 1999 and 2000, in accordance with SFAS No. 107, Disclosures about Fair Value of Financial Instruments. At December 31, 2000, the carrying amount and fair value of the 14 percent Senior Secured Notes due 2010 were $261,298,000 and $179,563,000, respectively, based on the quoted market price.

(5) Stock-Based Compensation

The Company operates three separate stock option plans, the details of which are described below.

(a) 1998 Shares Award Plan

On June 1, 1998, the Parent adopted the 1998 Shares Award Plan (the "Plan") under which XMSR employees, consultants, and non-employee directors may be granted options to purchase shares of Class A common stock of the Parent. The Parent initially authorized 1,337,850 shares of Class A common stock under the Plan, which was increased to 2,675,700 in July 1999 and 5,000,000 in May 2000. The options are exercisable in installments determined by the compensation committee of the Company's board of directors. The options expire as determined by the committee, but no later than ten years from the date of grant. On July 8, 1999, the Company's board of directors voted to reduce the exercise price of the options outstanding in the shares award plan from $16.35 to $9.52 per share, which represented the fair value of the stock on the date of repricing. Transactions and other information relating to the Plan for the year ended December 31, 1999 and 2000 are summarized below:

	Outstanding Options	
	Number of Shares	Weighted-Average Exercise Price
Balance, December 31, 1997	--	$ --
Options granted	787,297	16.35
Options canceled or expired	--	--
Options exercised	--	--
Balance, December 31, 1998	787,297	$16.35
Options granted	2,188,988	10.50
Option repricing	(818,339)	16.35
Options canceled or expired	(57,786)	13.91
Options exercised	(1,071)	9.52
Balance, December 31, 1999	2,099,089	$10.32
Options granted	1,176,683	30.21
Options canceled or expired	(131,267)	17.01
Options exercised	(48,817)	9.52
Balance, December 31, 2000	3,095,688	$17.61

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

The following table summarizes information about stock options outstanding at December 31, 1998, 1999 and 2000:

	Options Outstanding				Options Exercisable	
	Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
1998....	$ 16.35	787,297	9.5 years	$16.35	--	$16.35
1999....	$ 9.52-$12.00	2,099,089	9.24 years	$10.32	416,294	$ 9.52
2000....	$ 9.52-$12.00	2,120,400	8.26 years	$10.39	1,110,756	$10.06
	$ 13.13-$30.50	297,685	9.03 years	$23.13	5,334	$13.13
	$ 30.63-$45.44	677,603	9.54 years	$37.92	20,000	$43.69

There were no, 416,294 and 1,136,090 stock options exercisable at December 31, 1998, 1999 and 2000, respectively. There were 1,615,483 shares available under the plan for future grants at December 31, 2000. At December 31, 2000, all options have been issued to employees, officers and directors.

The per share weighted-average fair value of employee options granted during the year ended December 31, 1998, 1999 and 2000 was $10.54, $6.21 and $22.06, respectively, on the date of grant using the Black-Scholes Option Pricing Model with the following weighted-average assumptions:

	December 31,		
	1998	1999	2000
Expected dividend yield....	0%	0%	0%
Volatility.....	56.23%	63.92%	68.21%
Risk-free interest rate range.....	4.53% to 5.57%	5.47% to 5.97%	4.99% to 6.71%
Expected life.....	7.5 years	5 years	5 years

(b) Employee Stock Purchase Plan

In 1999, the Parent established an employee stock purchase plan that provides for the issuance of 300,000 shares of the Parent's Class A common stock. All XMSR employees whose customary employment is more than 20 hours per week and for more than five months in any calendar year are eligible to participate in the stock purchase plan, provided that any employee who would own five percent or more of the Company's total combined voting power immediately after an offering date under the plan is not eligible to participate. Eligible employees must authorize the Company to deduct an amount from their pay during offering periods established by the compensation committee. The purchase price for shares under the plan will be determined by the compensation committee but may not be less than 85 percent of the lesser of the market price of the common stock on the first or last business day of each offering period. As of December 31, 2000, 53,539 shares had been issued to XMSR employees under this plan.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

The per share weighted-average fair value of purchase rights granted during the year was $3.30 and $11.28 for the years ended December 31, 1999 and 2000, respectively. The estimates were calculated at the grant date using the Black-Scholes Option Pricing Model with the following assumptions at December 31, 1999 and 2000:

	December 31,	
	1999	2000
Expected dividend yield...	0%	0%
Volatility.....	62.92%	68.21%
Risk-free interest rate range.....	4.73%	5.33%-6.23%
Expected life.....	0.23 years	0.24 years

The Company applies APB 25 in accounting for stock-based compensation for both plans and, accordingly, no compensation cost has been recognized for its stock options in the financial statements other than for performance based stock options, for options granted with exercise prices below fair value on the date of grant and for repriced options under FIN No. 44. During 1999 and 2000, the Company incurred $4,070,000 and $2,557,000, respectively, in compensation cost for these options. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS 123, the Company's net loss and net loss per share would have been increased to the pro forma amounts indicated below (in thousands):

	Year ended December 31,		
	1998	1999	2000
Net Loss:			
As reported.....	$16,167	$30,180	$51,927
Pro forma.....	17,508	30,990	60,171

(c) Talent Option Plan

In May 2000, the Parent adopted the XM Talent Option Plan ("Talent Plan") under which non-employee service providers to the Company may be granted options to purchase shares of Class A common stock of the Parent. The Parent authorized 500,000 shares of Class A common stock under the Talent Plan. The options are exercisable in installments determined by the talent committee of the Company's board of directors. The options expire as determined by the talent committee, but no later than ten years from the date of the grant. As of December 31, 2000, no options had been granted under the Talent Plan.

(6) Assumptions of Liabilities

On May 16, 1997, the Parent assumed the bridge loan and the option liability held by XMSR. After May 16, 1997, the Parent initiated all future debt with lenders and contributed the proceeds to XMSR as a contribution of capital and maintained the debt. The Parent also assumed other liabilities relating to the technical support agreement.

(7) Profit Sharing and Employee Savings Plan

On July 1, 1998, the Company adopted a profit sharing and employee savings plan under Section 401(k) of the Internal Revenue Code. This plan allows eligible employees to defer up to 15 percent of their compensation on a pre-tax basis through contributions to the savings plan. The Company contributed $0.50 in 1998, 1999 and 2000 for every dollar the employees contributed up to 6 percent of compensation, which amounted to $14,000, $164,000 and $229,000, respectively.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(8) Interest Cost

The Company capitalizes a portion of interest cost as a component of the cost of the FCC license and satellite system under construction. The following is a summary of interest cost incurred during December 31, 1998, 1999 and 2000, and for the period from December 15, 1992 (date of inception) to December 31, 1999 (in thousands):

	1998	1999	2000	December 15, 1992 (date of inception) to December 31, 2000
Interest cost capitalized	$30	$210	$39,022	$39,262
Interest cost charged to expense	--	43	--	128
Total interest cost incurred	$30	$253	$39,022	$39,390

Interest costs incurred prior to the award of the license were expensed in 1998.

(9) Income Taxes

For the period from December 15, 1992 (date of inception) to October 8, 1999, the Parent and the Company filed consolidated federal and state tax returns where permitted with its majority stockholder Motient. The Company generated net operating losses and other deferred tax benefits that were not utilized by Motient. As no formal tax sharing agreement has been finalized, the Company was not compensated for the net operating losses. Had the Company filed on a stand-alone basis for the three-year period ending December 31, 2000, the Company's tax provision would be as follows:

Taxes on income included in the statements of operations consists of the following (in thousands).

	December 31,		
	1998	1999	2000
Current taxes:			
Federal	$ --	$ --	$ --
State	--	--	--
Total current taxes	--	--	--
Deferred taxes:			
Federal	$ --	$ --	$ --
State	--	--	--
Total deferred taxes	--	--	--
Total tax expense (benefit)	$ --	$ --	$ --

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

A reconciliation of the statutory tax expense, assuming all income is taxed at the statutory rate applicable to the income and the actual tax expense is as follows (in thousands):

	December 31,		
	1998	1999	2000
Income (loss) before taxes on income, as reported in the statements of income	$(16,167)	$(30,181)	$(51,972)
Theoretical tax benefit on the above amount at 35%	(5,658)	(10,563)	(18,174)
State tax, net of federal benefit	(1,604)	1,370	(2,877)
Increase in taxes resulting from permanent differences, net	31	2,120	562
Adjustments arising from differences in the basis of measurement for tax purposes and financial reporting purposes and other	--	13,252	7
Change in valuation allowance	7,231	(6,179)	20,482
Taxes on income for the reported year	$ --	$ --	$ --

At December 31, 1998, 1999 and 2000, deferred income tax consists of future tax assets/(liabilities) attributable to the following (in thousands):

	December 31,		
	1998	1999	2000
Deferred tax assets.			
Net operating loss/other tax attribute carryovers	$ 518	$ 2,054	$ 12,396
Start-up costs	7,251	14,972	42,252
Gross total deferred tax assets	7,769	17,026	54,648
Valuation allowance for deferred tax assets	(7,769)	(1,590)	(22,072)
Net deferred assets	--	15,436	32,576
Deferred tax liabilities:			
Fixed assets	--	(51)	(16,532)
FCC license	--	(10,160)	(9,821)
Other intangible assets	--	(5,225)	(6,223)
Net deferred tax liabilities	--	(15,436)	(32,576)
Deferred income tax, net	$ --	$ --	$ --

At December 31, 2000, the Company had accumulated net operating losses of $31,047,000 for Federal income tax purposes that are available to offset future regular taxable income. These operating loss carryforwards expire between the years 2012 and 2020. Utilization of these net operating losses may be subject to limitations in the event of significant changes in the stock ownership of the Company.

(10) Accumulated Deficit

The Company is devoting its efforts to develop, construct and expand a digital audio radio network. This effort involves substantial risk and future operating results will be subject to significant business, economic, regulatory, technical, and competitive uncertainties and contingencies. These factors individually or in the aggregate could have an adverse effect on the Company's financial condition and future operating results and create an uncertainty as to the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

At the Company's current stage of development, economic uncertainties exist regarding the successful acquisition of additional debt or equity financings and the attainment of positive cash flows from the Company's proposed service. The Company is currently constructing its satellite and terrestrial systems and will require substantial additional financing to market and distribute the satellite-based radio service. Failure to obtain the required long-term financing will prevent the Company from realizing its objective of providing satellite-based radio programming. Management's plan to fund operations and capital expansion includes the additional sale of debt and equity securities through public and private sources. There are no assurances, however, that such financing will be obtained.

(11) Commitments and Contingencies

(a) FCC License

The FCC has established certain system development milestones that must be met for the Company to maintain its license to operate the system. The Company believes that it is proceeding into the system development as planned and in accordance with the FCC milestones.

(b) Application for Review of FCC License

One of the losing bidders for the DARS licenses filed an Application for Review by the full FCC of the Licensing Order which granted the Company its FCC license. The Application for Review alleges that WSI had effectively taken control of the Company without FCC approval. The FCC or the U.S. Court of Appeals has the authority to overturn the award of the FCC license should they rule in favor of the losing bidder. Although the Company believes that its right to the FCC license will withstand the challenge as WSI is no longer a stockholder in the Company, no prediction of the outcome of this challenge can be made with any certainty.

(c) Technical Services

Effective January 1, 1998, the Company entered into agreements with Motient and WorldSpace Management Corporation ("WorldSpace MC"), an affiliate of WSI, in which Motient and WorldSpace MC would provide technical support in areas related to the development of a DARS system. Payments for services provided under these agreements are made based on negotiated hourly rates. These agreements may be terminated by the parties on or after the date of the commencement of commercial operation following the launch of the Holdings' first satellite. There are no minimum services purchase requirements. The Company incurred costs of $413,000, $224,000 and $252,000 under its agreement with Motient and $4,357,000, $0 and $0 costs were incurred under its agreement with WorldSpace MC during the years ended December 31, 1998, 1999 and 2000, respectively. The Company incurred costs of $1,039,000 under its agreement with Motient and $5,317,000 in costs were incurred under its agreement with WorldSpace MC from December 15, 1992 (date of inception) through December 31, 2000.

(d) Technology Licenses

Effective January 1, 1998, XMSR entered into a technology licensing agreement with Motient and WorldSpace MC by which as compensation for certain licensed technology then under development to be used in the XM Radio system, XMSR will pay up to $14,300,000 to WorldSpace MC over a ten-year period. As of December 31, 2000 XMSR incurred costs of $6,696,000 payable to WorldSpace MC. Any additional amounts to be incurred under this agreement are dependent upon further development of the technology, which is at XMSR's option. No liability exists to Motient or WorldSpace MC should such developments prove

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

unsuccessful. XMSR maintains an accrual of $5,165,000 payable to WorldSpace MC, for quarterly royalty payments to be made In addition, XMSR agreed to pay 1.2 percent of quarterly net revenues to WorldSpace MC and a royalty of $0.30 per chipset, payable to WorldSpace MC, for equipment manufactured using certain source encoding and decoding signals technology.

(e) Satellite Contract

During the first half of 1999, the Company and Boeing Satellite Systems International, Inc. ("BSS"--formerly Hughes Space and Communications, Inc.) amended the satellite contract to construct and launch the Company's satellites to implement a revised work timetable, payment schedule to reflect the timing of the receipt of additional funding, and technical modifications. Holdings expects to incur total payment obligations under this contract of approximately $541,300,000, which includes amounts the Company expects to pay pursuant to the exercise of the option to build the ground spare satellite and certain financing costs and in-orbit incentive payments. On June 27, 2000, the Company exercised the option to build the ground spare. As of December 31, 2000, the Company had paid $466,017,000 under the Satellite contract with BSS and had accrued $1,585,000.

(f) Terrestrial Repeater System Contracts

In August 1999, the Company signed a contract with LCC International, Inc., a related party, calling for the payments of approximately $115,000,000 for engineering and site preparation. In January 2001, the scope of the contract was amended and the estimated contract value was reduced to $107,500,000. As of December 31, 2000, the Company had paid $50,168,000 under this contract, and accrued an additional $15,141,000. The Company has entered into tower construction agreements with various companies, which will provide certain services which LCC International, Inc. was to provide. The Company also entered into a contract effective October 22, 1999, with Hughes Electronics Corporation for the design, development and manufacture of the terrestrial repeaters. Payments under the contract are expected to be approximately $128,000,000, which could be modified based on the number of terrestrial repeaters that are required for the system. As of December 31, 2000, the Company had paid $15,358,000 under this contract.

(g) General Motors Distribution Agreement

The Company has signed a long-term distribution agreement with the OnStar division of General Motors providing for the installation of XM radios in General Motors vehicles. During the term of the agreement, which expires 12 years from the commencement date of the Company's commercial operations, General Motors has agreed to distribute the service to the exclusion of other S-band satellite digital radio services. The Company will also have a non-exclusive right to arrange for the installation of XM radios included in OnStar systems in non-General Motors vehicles that are sold for use in the United States. The Company has significant annual, fixed payment obligations to General Motors for four years following commencement of commercial service. These payments approximate $35,000,000 in the aggregate during this period. Additional annual fixed payment obligations beyond the initial four years of the contract term range from less than $35,000,000 to approximately $130,000,000 through 2009, aggregating approximately $400,000,000. In order to encourage the broad installation of XM radios in General Motors vehicles, the Company has agreed to subsidize a portion of the cost of XM radios, and to make incentive payments to General Motors when the owners of General Motors vehicles with installed XM radios become subscribers for the Company's service. The Company must also share with General Motors a percentage of the subscription revenue attributable to General Motors vehicles with installed XM radios, which percentage increases until there are more than 8 million General Motors

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

vehicles with installed XM radios. The Company will also make available to General Motors bandwidth on the Company's systems. The agreement is subject to renegotiations at any time based upon the installation of radios that are compatible with a unified standard or capable of receiving Sirius Satellite Radio's (formerly known as CD Radio) service. The agreement is subject to renegotiations if, four years after the commencement of XM Radio's commercial operations and at two-year intervals thereafter GM does not achieve and maintain specified installation levels of General Motors vehicles capable of receiving the Company's service, starting with 1,240,000 units after four years, and thereafter increasing by the lesser of 600,000 units per year and amounts proportionate to target market shares in the satellite digital radio service market. There can be no assurances as to the outcome of any such renegotiations. General Motors' exclusivity obligations will discontinue if, four years after the Company commences commercial operations and at two-year intervals thereafter, the Company fails to achieve and maintain specified minimum market share levels in the satellite digital radio service market.

(h) Joint Development Agreement

On January 12, 1999, Sirius Radio the other holder of an FCC satellite radio license, commenced an action against the Company in the United States District Court for the Southern District of New York, alleging that the Company was infringing or would infringe three patents assigned to Sirius Radio. In its complaint, Sirius Radio sought money damages to the extent the Company manufactured, used or sold any product or method claimed in their patents and injunctive relief. On February 16, 2000, this suit was resolved in accordance with the terms of a joint development agreement between the Company and Sirius Radio and both companies agreed to cross-license their respective property. Each party is obligated to fund one half of the development cost for a unified standard for satellite radios. Each party will be entitled to license fees or a credit towards its one half of the cost based upon the validity, value, use, importance and available alternatives of the technology it contributes. The amounts for these fees or credits will be determined over time by agreement of the parties or by arbitration. The parties have yet to agree on the validity, value, use, importance and available alternatives of their respective technologies. If the parties fail to reach agreement, the fees or credits may be determined through binding arbitration. However, if this agreement is terminated before the value of the license has been determined due to the Company's failure to perform a material covenant or obligation, then this suit could be refiled.

(i) Sony Warrants

In February 2000, the Parent issued a warrant to Sony exercisable for shares of the Parent's Class A common stock. The warrant will vest at the time that it attains its millionth customer, and the number of shares underlying the warrant will be determined by the percentage of XM Radios that have a Sony brand name as of the vesting date. If Sony achieves its maximum performance target, it will receive 2 percent of the total number of shares of the Parent's Class A common stock on a fully-diluted basis upon exercise of the warrant. The exercise price of the Sony warrant will equal 105 percent of fair market value of the Class A common stock on the vesting date, determined based upon the 20-day trailing average.

(j) 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 companies that may include fixed payments, per-unit subscriber amounts and revenue sharing arrangements. 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.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(k) Leases

The Company has noncancelable operating leases for office space and terrestrial repeater sites and noncancelable capital leases for equipment that expire over the next ten years. The future minimum lease payments under noncancelable leases as of December 31, 2000 are (in thousands):

	Operating leases	Capital leases
Year ending December 31:		
2001	$13,261	$ 847
2002	13,665	761
2003	13,986	474
2004	14,230	--
2005	11,041	--
Thereafter	22,513	--
Total	$88,696	2,082
Less amount representing interest		(159)
Present value of net minimum lease payments		1,923
Less current maturities		(556)
Long-term obligations		$1,367

Rent expense for 1998, 1999 and 2000 was $231,000, $649,000 and $6,082,000 respectively.

(12) Subsequent Financing (unaudited)

In March 2001, the Parent completed a follow-on offering of 7,500,000 shares of Class A common stock, which yielded net proceeds of $72.0 million, and a concurrent offering of 7.75% convertible subordinated notes due 2006, convertible into shares of Class A common stock at a conversion price of $12.23 per share, which yielded net proceeds of $120.7 million.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Independent Auditors' Report on Consolidated Financial Statement Schedule

The Board of Directors
XM Satellite Radio Holdings Inc. and Subsidiaries:

Under date of February 9, 2001, we reported on the consolidated balance sheets of XM Satellite Radio Holdings Inc. and subsidiaries (a development stage company) as of December 31, 1999 and 2000, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2000 and for the period from December 15, 1992 (date of inception) to December 31, 2000, which are included in the XM Satellite Radio Holdings Inc. and subsidiaries annual report on Form 10-K for the year 2000. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated financial statement schedule based on our audits.

In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The audit report on the consolidated financial statements of XM Satellite Radio Holdings Inc. and subsidiaries referred to above contains an explanatory paragraph that states that the Company has not commenced operations and is dependent upon additional debt or equity financing, which raises substantial doubt about its ability to continue as a going concern. The consolidated financial statement schedule included in the registration statement does not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

McLean, VA
February 9, 2001

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
(A Development Stage Company)

Schedule I--Valuation And Qualifying Accounts
(in thousands)

Description	Balance January 1	Charged to Costs and Expenses	Charged to Other Accounts--Describe	Write-Offs/ Payments/ Other	Balance December 31
Year Ended December 31, 1998					
Deferred Tax Assets--Valuation Allowance..	$ 746	7,232	--	--	$ 7,978
Year Ended December 31, 1999					
Deferred Tax Assets--Valuation Allowance..	$7,978	(3,159)	--	--	$ 4,819
Year Ended December 31, 2000					
Deferred Tax Assets--Valuation Allowance..	$4,819	20,173	--	--	$24,992

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Independent Auditors' Report on Consolidated Financial Statement Schedule

The Board of Directors
XM Satellite Radio Inc. and Subsidiaries:

Under date of February 9, 2001, we reported on the consolidated balance sheets of XM Satellite Radio Inc. and subsidiaries (a development stage company) as of December 31, 1999 and 2000, and the related consolidated statements of operations, stockholder's equity, and cash flows for each of the years in the three-year period ended December 31, 2000 and for the period from December 15, 1992 (date of inception) to December 31, 2000, which are included in the XM Satellite Radio Inc. and subsidiaries annual report on Form 10-K for the year 2000. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated financial statement schedule based on our audits.

In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The audit report on the consolidated financial statements of XM Satellite Radio Inc. and subsidiaries referred to above contains an explanatory paragraph that states that the Company has not commenced operations and is dependent upon additional debt or equity financing, which raises substantial doubt about its ability to continue as a going concern. The consolidated financial statement schedule included in the registration statement does not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

McLean, VA
February 9, 2001

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

XM SATELLITE RADIO INC. AND SUBSIDIARIES
(A Development Stage Company)

Valuation And Qualifying Accounts
(in thousands)

Description	Balance January 1	Charged to Costs and Expenses	Charged to Other Accounts--Describe	Write-Offs/ Payments/ Other	Balance December 31
Year Ended December 31, 1998					
Deferred Tax Assets--Valuation Allowance..	$ 538	7,231	--	--	$ 7,769
Year Ended December 31, 1999					
Deferred Tax Assets--Valuation Allowance..	$7,769	(6,179)	--	--	$ 1,590
Year Ended December 31, 2000					
Deferred Tax Assets--Valuation Allowance..	$1,590	20,482	--	--	$22,072

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Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

EXECUTION COPY

XM Satellite Radio Holdings Inc.

$125,000,000

7.75% CONVERTIBLE SUBORDINATED NOTES DUE 2006

INDENTURE

Dated as of March 6, 2001

UNITED STATES TRUST COMPANY OF New York,

as Trustee

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

CROSS-REFERENCE TABLE*

Trust Indenture Act Section	Indenture Section
310 (a)(1)	7.10
(a)(2)	7.10
(a)(3)	N.A.
(a)(4)	N.A.
(a)(5)	7.10
(b)	7.10
(c)	N.A.
311 (a)	7.11
(b)	7.11
(c)	N.A.
312 (a)	2.05
(b)	12.03
(c)	12.03
313 (a)	7.06
(b)(1)	10.03
(b)(2)	7.07
(c)	7.06;12.02
(d)	7.06
314 (a)	4.03;12.02
(b)	10.02
(c)(1)	12.04
(c)(2)	12.04
(c)(3)	N.A.
(d)	10.03, 10.04, 10.05
(e)	12.05
(f)	N.A.
315 (a)	7.01
(b)	7.05,12.02
(c)	7.01
(d)	7.01
(e)	6.11
316 (a) (last sentence)	2.09
(a)(1)(A)	6.05
(a)(1)(B)	6.04
(a)(2)	N.A
(b)	6.07
(c)	2.12
317 (a)(1)	6.08
(a)(2)	6.09
(b)	2.04
318 (a)	12.01

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Trust Indenture Act Section	Indenture Section
(b)	N.A.
(c)	12.01

N.A. means not applicable.

* This Cross Reference Table is not part of the Indenture.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

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INDENTURE, dated as of March 6, 2001, between XM Satellite Radio Holdings Inc., a Delaware corporation (the "Company"), and United States Trust Company of New York, as trustee (the "Trustee").

Each party agrees as follows for the benefit of the other party and for the equal and ratable benefit of the Holders (as defined in Section 1.01 hereof) of the Company's 7.75% Convertible Subordinated Notes due 2006 (the "Notes"):

ARTICLE I.
DEFINITIONS; TRUST INDENTURE ACT

Section 1.01 Definitions.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control", as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise, provided that beneficial ownership of 10% of more of the Voting Stock of a Person shall be deemed to be control. For purposes of this definition the terms "controlling." "controlled by," and "under common control with" shall have correlative meanings.

"Agent" means any Registrar, Paying Agent or Conversion Agent.

"Applicable Procedures" means, with respect to any transfer or exchange of or for beneficial interests in any Global Note, the rules and procedures of the Depositary that apply to such transfer or exchange.

"Board of Directors" means:

(1) with respect to a corporation, the board of directors of the corporation;

(2) with respect to a partnership, the Board of Directors of the general partner of the partnership; and

(3) with respect to any other Person, the board or committee of such Person serving a similar function.

"Board Resolution" means a duly authorized resolution of the Board of Directors.

"Business Day" means any day that is not a Legal Holiday.

"Capital Stock" means:

(1) in the case of a corporation, corporate stock;

(2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(3) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and

(4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"Change in Control" means the occurrence of one or more of the following events: (i) any person or group, other than a Permitted Owner, acquires direct or indirect beneficial ownership of shares of the Company's capital stock (by means of an exchange offer, liquidation, tender offer, consolidation, merger, combination, reclassification, recapitalization or otherwise) sufficient to entitle such person to exercise more than 50% of the total voting power of all classes of the Company's capital stock entitled to vote generally in elections of directors, unless the closing price per share of the Company's Class A Common Stock for any five trading days within the period of ten consecutive trading days ending immediately after the announcement of such change in control equals or exceeds 105% of the Conversion Price of Notes in effect on each such trading day, or (ii) the Company sells, leases, exchanges or otherwise transfers, in one transaction or a series of related transactions, all or substantially all of its assets to any person or group, other than to a Permitted Owner.

"Class A Common Stock" means the Class A common stock, par value $0.01 per share, of the Company as the same exists at the date of the execution of this Indenture or as such stock may be constituted from time to time.

"Company" means XM Satellite Radio Holdings Inc. and any and all successors thereto.

"Current Market Price" means the average of the daily closing prices for the five consecutive trading days selected by the Company's Board of Directors beginning not more than 20 trading days before, and ending not later than the relevant date of the applicable event and the date immediately preceding the record date fixed in connection with that event.

"Daily Market Price" means the price of a share of Class A Common Stock on the relevant date, determined (a) on the basis of the daily closing or last reported sale price regular way of the Class A Common Stock as reported on the Nasdaq National Market, or if the Class A Common Stock is not then listed on the Nasdaq National Market, as reported on such national securities exchange upon which the Class A Common Stock is listed, or (b) if there is no such reported sale on the day in question, on the basis of the average of the closing bid and asked quotations regular way as so reported, or (c) if the Class A Common Stock is not listed on the Nasdaq National Market or on any national securities exchange, on the basis of the average of the high bid and low asked quotations regular way on the day in question in the over-the-counter market as reported by the National Association of Securities Dealers Automated Quotation System, or if not so quoted, as reported by National Quotation Bureau, Incorporated, or a similar organization.

"Default" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"Definitive Note" means a certificated Note registered in the name of the Holder thereof and issued in accordance with Section 2.06 hereof, substantially in the form of Exhibit A hereto except that such Note shall not bear the Global Note Legend and shall not have the "Schedule of Exchanges of Interests in the Global Note" attached thereto.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

"Depositary" means, with respect to the Notes issuable or issued in whole or in part in global form, the Person specified in Section 2.03 hereof as the Depositary with respect to the Notes, and any and all successors thereto appointed as depositary hereunder and having become such pursuant to the applicable provision of this Indenture.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fundamental Change" means any transaction or event, including any merger, consolidation, sale of assets, tender or exchange offer, reclassification, compulsory share exchange or liquidation in which all or substantially all outstanding shares of the Company's Class A Common Stock are converted into or exchanged for stock, other securities, cash or assets.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect from time to time.

"Guarantee" means a guarantee, other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner, including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness.

"Holder" means a Person in whose name a Note is registered in the register referred to in Section 2.03.

"Indebtedness" means (i) all of the Company's indebtedness, obligations and other liabilities, contingent or otherwise, including (a) for borrowed money, (b) overdrafts, foreign exchange contracts, currency exchange agreements, interest rate protection agreements and any loans or advances from banks or other lenders, whether or not evidenced by notes or similar instruments, or (c) evidenced by bonds, debentures, notes or similar instruments, whether or not the recourse of the lender is to all of the Company's assets or to only a portion thereof, other than any account payable or other accrued current liability or obligation incurred in the ordinary course of business in connection with the obtaining of materials or services; (ii) all of the Company's reimbursement obligations and other liabilities, contingent or otherwise, with respect to letters of credit, bank guarantees, banker's acceptances or similar facilities; (iii) all of the Company's obligations and liabilities, contingent or otherwise, in respect of leases required, in conformity with GAAP, to be accounted for as capitalized lease obligations on the Company's balance sheet, or under other leases for facilities equipment or related assets, whether or not capitalized, entered into or leased for financing purposes, as determined by the Company; (iv) all of the Company's obligations and other liabilities, contingent or otherwise, under any lease or related document, including a purchase agreement, in connection with the lease of real property or improvements (or any personal property included as part of any such lease) which provides that the Company be contractually obligated to purchase or cause a third party to purchase the leased property and thereby Guarantee a residual value of leased property to the lessor and all of the Company's obligations under such lease or related document to purchase or to cause a third party to purchase the leased property (whether or not such lease transaction is characterized as an operating lease or a capitalized lease in accordance with GAAP); (v) all of the Company's obligations, contingent or otherwise, with respect to an interest rate, currency or other swap, cap, floor or collar agreement, hedge agreement, forward contract or other similar instrument or agreement or foreign currency hedge, exchange, purchase or similar instrument or agreement; (vi) all of the Company's direct or indirect Guarantees or similar

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

agreements to purchase or otherwise acquire or otherwise assure a creditor against loss in respect of indebtedness, obligations or liabilities of another person of the kind described in clauses (i) through (v); (vii) any indebtedness or other obligations described in clauses (i) through (vi) secured by any mortgage, pledge, lien or other encumbrance existing on property which is owned or held by the Company, regardless of whether the indebtedness or other obligation secured thereby has been assumed by the Company; and (viii) renewals, extensions, modifications, replacements, restatements and refundings of, or any indebtedness or obligation issued in exchange for, any such indebtedness or obligation described in clauses (i) through (vii) of this definition.

"Indenture" means this Indenture, as amended from time to time.

"Interest Payment Date" means each semiannual interest payment date on March 1 and September 1 of each year commencing on September 1, 2001.

"Issuance Date" means the date on which the Notes are first authenticated and issued.

"Nasdaq National Market" means the National Association of Securities Dealers, Inc. Automated Quotation System National Market.

"Notes" means any of the securities as defined in the second paragraph of the preamble hereto.

"Obligations" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"Officer" means, with respect to any Person, the Chairman of the Board, the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer, the Treasurer, any Assistant Treasurer, the Controller, the Secretary or any Vice-President of such Person.

"Officers' Certificate" means a certificate signed on behalf of the Company by two Officers of the Company, one of whom must be the principal executive officer, the principal financial officer, the treasurer or the principal accounting officer of the Company, that meets the requirements of Section 12.05 hereof..

"Opinion of Counsel" means a written opinion from legal counsel who is reasonably acceptable to the Trustee. The counsel may be an employee of or counsel to the Company or the Trustee.

"Permitted Owner" means Motient Corporation, General Motors Corporation, DIRECTV and Clear Channel Communications, Inc. and their respective Affiliates

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, limited liability company or government or any agency or political subdivision thereof.

"Record Date" means each semiannual record date on February 15 and August 15 of each year commencing on August 15, 2001.

"SEC" means the Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

"Senior Debt" means the principal of, premium, if any, interest, including all interest accruing subsequent to the commencement of any bankruptcy or similar proceeding, whether or not a claim for post-petition interest is allowable as a claim in any such proceeding, and rent payable on or in connection with, and all fees, costs, expenses and other amounts accrued or due on or in connection with, Indebtedness of the Company, whether outstanding on the date of this Indenture or thereafter created, incurred, assumed, Guaranteed or in effect Guaranteed by the Company. Notwithstanding anything to the contrary in the foregoing, Senior Debt shall not include (a) Indebtedness of or amounts owed by the Company for compensation to employees, or for goods or materials purchased or for services obtained in the ordinary course of business; (b) the Company's Indebtedness to any of its Subsidiaries or (c) the Company's Indebtedness that expressly provides that it shall not be senior in right of payment to the Notes or expressly provides that it is pari passu with or junior to the Notes.

"Significant Subsidiary" means any Subsidiary of the Company that is a "significant subsidiary" as defined in Rule 1-02(w) of Regulation S-X under the Securities Act and the Exchange Act.

"Subsidiary" means with respect to any specified Person, (i) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled, without regard to the occurrence of any contingency, to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof and (ii) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are such Person or one or more Subsidiaries of such Person (or any combination thereof).

"TIA" means the Trust Indenture Act of 1939 (15 U.S. Code (S)(S) 77aaa-77bbbb), as amended.

"Trustee" means the party named as such above until a successor replaces it in accordance with the applicable provisions of this Indenture and thereafter means the successor serving hereunder.

"Trust Officer" means any officer of the Trustee assigned by the Trustee to administer its corporate trust matters.

"Voting Stock" of any Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

Section 1.02 Other Definitions.

Term	Defined in Section
"Agent Member"	2.01
"Bankruptcy Law"	8.01
"Change in Control Offer"	3.09
"Change in Control Payment"	4.06
"Commencement Date"	3.09
"Conversion Agent"	2.03
"Conversion Date"	5.02
"Conversion Price"	5.01
"Custodian"	8.01
"Event of Default"	8.01
"Global Note"	2.01

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Term	Defined in Section
"Legal Holiday"..	12.07
"Non-Payment Default".....	6.02
"Offer Amount".....	3.09
"Paying Agent".....	2.03
"Payment Blockage Notice".....	6.02
"Payment Blockage Period".....	6.02
"Payment Default".....	6.02
"Purchase Date".....	3.09
"Redemption Date".....	3 01
"Registrar".....	2.03
"Tender Period".....	3.09

Section 1.03 Incorporation by Reference of Trust Indenture Act.

Whenever this Indenture refers to a provision of the TIA, the provision is incorporated by reference in and made a part of this Indenture.

The following TIA terms used in this Indenture have the following meanings:

"indenture securities" means the Notes;

"indenture security Holder" means a Holder of a Note;

"indenture to be qualified" means this Indenture;

"indenture trustee" or "institutional trustee" means the Trustee; and

"obligor" on the Notes means the Company and any successor obligor upon the Notes.

All other terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by SEC rule under the TIA have the meanings so assigned to them.

Section 1.04 Rules of Construction.

Unless the context otherwise requires:

(a) a term has the meaning assigned to it;

(b) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP consistently applied;

(c) "or" is not exclusive;

(d) words in the singular include the plural, and in the plural include the singular;

(e) provisions apply to successive events and transactions;

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(f) references to sections of or rules under the Securities Act shall be deemed to include substitute, replacement or successor sections or rules adopted by the SEC from time to time; and

(g) a reference to "$" or U.S. Dollars is to United States dollars.

ARTICLE II.
THE NOTES

Section 2.01 Form and Dating.

(a) General.

The Notes and the Trustee's certificate of authentication shall be substantially in the form of Exhibit A hereto, which is hereby incorporated by reference and expressly made a part of this Indenture. The Notes may have notations, legends or endorsements required by law, stock exchange rule, agreements to which the Company is subject, if any, or usage (provided that any such notation, legend or endorsement is in a form acceptable to the Company). The Company shall furnish any such legend not contained in Exhibit A to the Trustee in writing. Each Note shall be dated the date of its authentication. The Notes shall be issued in registered form without coupons in denominations of $1,000 and integral multiples thereof. The terms and provisions contained in the Notes constitute, and are hereby expressly made, a part of this Indenture and to the extent applicable, the Company and the Trustee, by their execution and delivery of this Indenture, expressly agree to such terms and provisions and to be bound thereby. However, to the extent any provision of any Note conflicts with the express provisions of this Indenture, the provisions of this Indenture shall govern and be controlling.

(b) Global Notes.

Notes issued in global form shall be substantially in the form of Exhibit A attached hereto (including the Global Note Legend thereon and the "Schedule of Exchanges of Interests in the Global Note" attached thereto) (the "Global Note"). Notes issued in definitive form shall be substantially in the form of Exhibit A attached hereto (but without the Global Note Legend thereon and without the "Schedule of Exchanges of Interests in the Global Note" attached thereto). Each Global Note shall represent such of the outstanding Notes as shall be specified therein and each shall provide that it shall represent the aggregate principal amount of outstanding Notes from time to time endorsed thereon and that the aggregate principal amount of outstanding Notes represented thereby may from time to time be reduced or increased, as appropriate, to reflect exchanges and redemptions. Any endorsement of a Global Note to reflect the amount of any increase or decrease in the aggregate principal amount of outstanding Notes represented thereby shall be made by the Trustee or the Custodian, at the direction of the Trustee, in accordance with instructions given by the Holder thereof as required by Section 2.06 hereof.

(c) Book-Entry Provisions.

The Company shall execute and the Trustee shall, in accordance with this Section 2.01(c), authenticate and deliver initially one or more Global Notes that (a) shall be registered in the name of the Depositary for such Global Note or Global Notes or the nominee of such Depositary and (b) shall be delivered by the Trustee to such Depositary or pursuant to such Depositary's instructions or held by the Trustee as custodian for the Depositary.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Members of, or participants in, the Depositary ("Agent Members") shall have no rights under this Indenture with respect to any Global Note held on their behalf by the Depositary or by the Trustee as the custodian of the Depositary or under such Global Note, and the Depositary may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner of such Global Note for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depositary or impair, as between the Depositary and its Agent Members, the operation of customary practices of such Depositary governing the exercise of the rights of an owner of a beneficial interest in any Global Note.

Section 2.02 Execution and Authentication.

Two Officers shall sign the Notes for the Company by manual or facsimile signature.

If an Officer whose signature is on a Note no longer holds that office at the time the Note is authenticated, the Note shall nevertheless be valid.

A Note shall not be valid until authenticated by the manual or facsimile signature of an authorized officer of the Trustee. The signature shall be conclusive evidence that the Note has been authenticated under this Indenture.

The Trustee shall, upon a written order of the Company signed by two Officers (an "Authentication Order"), authenticate (1) Notes for original issue up to an aggregate principal amount stated in Section 5 of the Notes. The aggregate principal amount of Notes outstanding at any time may not exceed $125,000,000 except as provided in Section 2.07.

The Trustee may appoint an authenticating agent acceptable to the Company to authenticate Notes. An authenticating agent may authenticate Notes whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as an Agent to deal with Holders, the Company or an Affiliate.

Section 2.03 Registrar and Paying Agent.

The Company shall maintain (i) an office or agency where the Notes may be presented for registration of transfer or for exchange ("Registrar"), (ii) an office or agency where the Notes may be presented for payment ("Paying Agent") and (iii) an office or agency where the Notes may be presented for conversion ("Conversion Agent"). The Registrar shall keep a register of the Notes and of their transfer and exchange. The Company may appoint one or more co-registrars, one or more additional paying agents and one or more additional Conversion Agents in such other locations as it shall determine. The term "Registrar" includes any co-registrar, the term "Paying Agent" includes any additional paying agent and the term "Conversion Agent" includes any additional conversion agent. The Company may change any Paying Agent, Registrar or Conversion Agent without prior notice to any Holder. The Company shall notify the Trustee in writing of the name and address of any Agent not a party to this Indenture. If the Company fails to appoint or maintain another entity as Registrar, Paying Agent or Conversion Agent, the Trustee shall act as such. The Company or any of its Subsidiaries may act as Paying Agent, Registrar or Conversion Agent.

The Company initially appoints The Depository Trust Company ("DTC") to act as Depositary with respect to the Global Notes.

The Company initially appoints the Trustee to act as the Registrar, Paying Agent and Conversion Agent and to act as Custodian with respect to the Global Notes.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Section 2.04 Paying Agent to Hold Money in Trust.

The Company shall require each Paying Agent other than the Trustee to agree in writing that the Paying Agent will hold in trust for the benefit of Holders or the Trustee all money held by the Paying Agent for the payment of principal or interest on the Notes, and will notify the Trustee of any default by the Company in making any such payment. While any such default continues, the Trustee may require a Paying Agent to pay all money held by it to the Trustee and to account for any money disbursed by it. The Company at any time may require a Paying Agent to pay all money held by it to the Trustee. Upon payment over to the Trustee, the Paying Agent (if other than the Company or Subsidiary of the Company) shall have no further liability for the money. If the Company or Subsidiary of the Company acts as Paying Agent, it shall segregate and hold in a separate trust fund for the benefit of the Holders all money held by it as Paying Agent. Upon any bankruptcy or reorganization proceedings relating to the Company, the Trustee shall serve as Paying Agent for the Notes.

Section 2.05 Holder Lists.

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of all Holders and shall otherwise comply with TIA (S)312(a). If the Trustee is not the Registrar, the Company shall furnish to the Trustee at least seven Business Days before each Interest Payment Date and at such other times as the Trustee may request in writing a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of all Holders and the Company shall otherwise comply with TIA (S)312(a).

Section 2.06 Transfer and Exchange.

(a) Transfer and Exchange of Global Notes. A Global Note may not be transferred as a whole except by the Depositary to a nominee of the Depositary, by a nominee of the Depositary to the Depositary or to another nominee of the Depositary, or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary. All Global Notes will be exchanged by the Company for Definitive Notes if (i) the Company delivers to the Trustee notice from the Depositary that it is unwilling or unable to continue to act as Depositary or that it is no longer a clearing agency registered under the Exchange Act and, in either case, a successor Depositary is not appointed by the Company within 120 days after the date of such notice from the Depositary or (ii) the Company in its sole discretion determines that the Global Notes (in whole but not in part) should be exchanged for Definitive Notes and delivers a written notice to such effect to the Trustee Upon the occurrence of either of the preceding events in (i) or (ii) above, Definitive Notes shall be issued in such names as the Depositary shall instruct the Trustee. Global Notes also may be exchanged or replaced, in whole or in part, as provided in Sections 2.07 and 2.10 hereof. Every Note authenticated and delivered in exchange for, or in lieu of, a Global Note or any portion thereof, pursuant to this Section 2.06 or Section 2.07 or 2.10 hereof, shall be authenticated and delivered in the form of, and shall be, a Global Note. A Global Note may not be exchanged for another Note other than as provided in this Section 2.06(a), however, beneficial interests in a Global Note may be transferred and exchanged as provided in Section 2.06(b) or (c) hereof.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(b) Transfer and Exchange of Beneficial Interests in the Global Notes. The transfer and exchange of beneficial interests in the Global Notes shall be effected through the Depositary, in accordance with the provisions of this Indenture and the Applicable Procedures. Transfers of beneficial interests in the Global Notes shall require compliance with either subparagraph (i) or (ii) below, as applicable, as well as one or more of the other following subparagraphs, as applicable:

(i) Transfer of Beneficial Interests in the Same Global Note. Beneficial interests in any Global Note may be transferred to Persons who take delivery thereof in the form of a beneficial interest in a Global Note. No written orders or instructions shall be required to be delivered to the Registrar to effect the transfers described in this Section 2.06(b)(i).

(ii) All Other Transfers and Exchanges of Beneficial Interests in Global Notes. In connection with all transfers and exchanges of beneficial interests that are not subject to Section 2.06(b)(i) above, the transferor of such beneficial interest must deliver to the Registrar either (A) (1) a written order from a Participant or an Indirect Participant given to the Depositary in accordance with the Applicable Procedures directing the Depositary to credit or cause to be credited a beneficial interest in another Global Note in an amount equal to the beneficial interest to be transferred or exchanged and (2) instructions given in accordance with the Applicable Procedures containing information regarding the Participant account to be credited with such increase or (B) (1) a written order from a Participant or an Indirect Participant given to the Depositary in accordance with the Applicable Procedures directing the Depositary to cause to be issued a Definitive Note in an amount equal to the beneficial interest to be transferred or exchanged and (2) instructions given by the Depositary to the Registrar containing information regarding the Person in whose name such Definitive Note shall be registered to effect the transfer or exchange referred to in (1) above. Upon satisfaction of all of the requirements for transfer or exchange of beneficial interests in Global Notes contained in this Indenture and the Notes or otherwise applicable under the Securities Act, the Trustee shall adjust the principal amount of the relevant Global Note(s) pursuant to Section 2.06(g) hereof.

(c) Transfer or Exchange of Beneficial Interests for Definitive Notes. If any holder of a beneficial interest in a Global Note proposes to exchange such beneficial interest for a Definitive Note or to transfer such beneficial interest to a Person who takes delivery thereof in the form of a Definitive Note, then, upon satisfaction of the conditions set forth in Section 2.06(b)(ii) hereof, the Trustee shall cause the aggregate principal amount of the applicable Global Note to be reduced accordingly pursuant to Section 2.06(g) hereof, and the Company shall execute and the Trustee shall authenticate and deliver to the Person designated in the instructions a Definitive Note in the appropriate principal amount. Any Definitive Note issued in exchange for a beneficial interest pursuant to this Section 2.06(c) shall be registered in such name or names and in such authorized denomination or denominations as the holder of such beneficial interest shall instruct the Registrar through instructions from the Depositary and the Participant or Indirect Participant. The Trustee shall deliver such Definitive Notes to the Persons in whose names such Notes are so registered.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(d) Transfer and Exchange of Definitive Notes for Beneficial Interests. A Holder of an Definitive Note may exchange such Note for a beneficial interest in a Global Note or transfer such Definitive Notes to a Person who takes delivery thereof in the form of a beneficial interest in a Global Note at any time. Upon receipt of a request for such an exchange or transfer, the Trustee shall cancel the applicable Definitive Note and increase or cause to be increased the aggregate principal amount of one of the Global Notes.

(e) Transfer and Exchange of Definitive Notes for Definitive Notes. Upon request by a Holder of Definitive Notes and such Holder's compliance with the provisions of this Section 2.06(e), the Registrar shall register the transfer or exchange of Definitive Notes. Prior to such registration of transfer or exchange, the requesting Holder shall present or surrender to the Registrar the Definitive Notes duly endorsed or accompanied by a written instruction of transfer in form satisfactory to the Registrar duly executed by such Holder or by its attorney, duly authorized in writing.

(f) Legends. Each Global Note shall bear a legend in substantially the following form:

"THIS GLOBAL NOTE IS HELD BY THE DEPOSITARY (AS DEFINED IN THE INDENTURE GOVERNING THIS NOTE) OR ITS NOMINEE IN CUSTODY FOR THE BENEFIT OF THE BENEFICIAL OWNERS HEREOF, AND IS NOT TRANSFERABLE TO ANY PERSON UNDER ANY CIRCUMSTANCES EXCEPT THAT (I) THE TRUSTEE MAY MAKE SUCH NOTATIONS HEREON AS MAY BE REQUIRED PURSUANT TO SECTION 2.01 OF THE INDENTURE, (II) THIS GLOBAL NOTE MAY BE EXCHANGED IN WHOLE BUT NOT IN PART PURSUANT TO SECTION 2.06(a) OF THE INDENTURE, (III) THIS GLOBAL NOTE MAY BE DELIVERED TO THE TRUSTEE FOR CANCELLATION PURSUANT TO SECTION 2.11 OF THE INDENTURE AND (IV) THIS GLOBAL NOTE MAY BE TRANSFERRED TO A SUCCESSOR DEPOSITARY WITH THE PRIOR WRITTEN CONSENT OF THE COMPANY."

(g) Cancellation and/or Adjustment of Global Notes. At such time as all beneficial interests in a particular Global Note have been exchanged for Definitive Notes or a particular Global Note has been redeemed, repurchased or canceled in whole and not in part, each such Global Note shall be returned to or retained and canceled by the Trustee in accordance with Section 2.11 hereof. At any time prior to such cancellation, if any beneficial interest in a Global Note is exchanged for or transferred to a Person who will take delivery thereof in the form of a beneficial interest in another Global Note or for Definitive Notes, the principal amount of Notes represented by such Global Note shall be reduced accordingly and an endorsement shall be made on such Global Note by the Trustee or by the Depositary at the direction of the Trustee to reflect such reduction; and if the beneficial interest is being exchanged for or transferred to a Person who will take delivery thereof in the form of a beneficial interest in another Global Note, such other Global Note shall be increased accordingly and an endorsement shall be made on such Global Note by the Trustee or by the Depositary at the direction of the Trustee to reflect such increase.

(h) General Provisions Relating to Transfers and Exchanges.

(i) To permit registrations of transfers and exchanges, the Company shall execute and the Trustee shall authenticate Global Notes and Definitive Notes upon the Company's order or at the Registrar's request.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(ii) No service charge shall be made to a holder of a beneficial interest in a Global Note or to a Holder of a Definitive Note for any registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith (other than any such transfer taxes or similar governmental charge payable upon exchange or transfer pursuant to Sections 2.10, 3.06, 4.06, hereof).

(iii) The Registrar shall not be required to register the transfer of or exchange any Note selected for redemption in whole or in part, except the unredeemed portion of any Note being redeemed in part.

(iv) All Global Notes and Definitive Notes issued upon any registration of transfer or exchange of Global Notes or Definitive Notes shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Global Notes or Definitive Notes surrendered upon such registration of transfer or exchange.

(v) The Company shall not be required (A) to issue, to register the transfer of or to exchange any Notes during a period beginning at the opening of business 15 days before the day of any selection of Notes for redemption under Section 3.02 hereof and ending at the close of business on the day of selection, (B) to register the transfer of or to exchange any Note so selected for redemption in whole or in part, except the unredeemed portion of any Note being redeemed in part or (C) to register the transfer of or to exchange a Note between a record date and the next succeeding Interest Payment Date.

(vi) Prior to due presentment for the registration of a transfer of any Note, the Trustee, any Agent and the Company may deem and treat the Person in whose name any Note is registered as the absolute owner of such Note for the purpose of receiving payment of principal of and interest on such Notes and for all other purposes, and none of the Trustee, any Agent or the Company shall be affected by notice to the contrary.

(vii) The Trustee shall authenticate Global Notes and Definitive Notes in accordance with the provisions of Section 2.02 hereof.

(viii) All certifications, certificates and Opinions of Counsel required to be submitted to the Registrar pursuant to this Section 2.06 to effect a registration of transfer or exchange may be submitted by facsimile.

Section 2.07 Replacement Notes.

If the Holder of a Note claims that the Note has been lost, destroyed or wrongfully taken or if such Note is mutilated and is surrendered to the Trustee, the Company shall issue and the Trustee shall authenticate a replacement Note if the Trustee's and the Company's requirements are met. If required by the Trustee or the Company, an indemnity bond must be supplied by the Holder that is sufficient in the judgment of the Trustee and the Company to protect the Company, the Trustee, any Agent and any authenticating agent from any loss that any of them may suffer if a Note is replaced. The Company may charge for its expenses in replacing a Note.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Every replacement Note is an additional obligation of the Company and shall be entitled to all of the benefits of this Indenture equally and proportionately with all other Notes duly issued hereunder.

Section 2.08 Outstanding Notes.

The Notes outstanding at any time are all the Notes authenticated by the Trustee except for those canceled by it, those delivered to it for cancellation, those reductions in the interest in a Global Note effected by the Trustee in accordance with the provisions hereof, and those described in this Section as not outstanding. Except as set forth in Section 2.09 hereof, a Note does not cease to be outstanding because the Company or an Affiliate of the Company holds the Note.

If a Note is replaced pursuant to Section 2.07 hereof, it ceases to be outstanding unless the Trustee receives proof satisfactory to it that the replaced Note is held by a bona fide purchaser.

If the principal amount of any Note is considered paid under Section 4.01 hereof, it ceases to be outstanding and interest on it ceases to accrue.

Except as set forth in Section 2.09 hereof, a Note does not cease to be outstanding because the Company or an Affiliate of the Company holds the Note.

If the Paying Agent (other than the Company, a Subsidiary or an Affiliate of any thereof) holds, on a Redemption Date or maturity date, money sufficient to pay Notes, including accrued and unpaid interest, payable on that date, then on and after that date such Notes shall be deemed to be no longer outstanding and shall cease to accrue interest.

Section 2.09 Treasury Notes.

In determining whether the Holders of the required principal amount of Notes have concurred in any direction, waiver or consent, Notes owned by the Company or an Affiliate of the Company shall be considered as though they are not outstanding, except that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only Notes that the Trustee knows are so owned shall be so disregarded.

Section 2.10 Temporary Notes.

Until Definitive Notes are ready for delivery, the Company may prepare and the Trustee shall authenticate temporary Notes. Temporary Notes shall be substantially in the form of Definitive Notes but may have variations that the Company considers appropriate for temporary Notes. Without unreasonable delay, the Company shall prepare and the Trustee shall authenticate Definitive Notes in exchange for temporary Notes. Holders of temporary Notes shall be entitled to all of the benefits of this Indenture.

Section 2.11 Cancellation.

The Company at any time may deliver Notes to the Trustee for cancellation. The Registrar, Paying Agent and Conversion Agent shall forward to the Trustee any Notes surrendered to them for registration of transfer, exchange or payment. The Trustee and no one else shall promptly cancel all Notes surrendered for registration of transfer, exchange, payment, conversion, replacement or cancellation and shall destroy canceled Notes (subject to the record retention requirement of the Exchange Act). Certification of the destruction of all canceled Notes shall be delivered to the Company.

The Company may not issue new Notes to replace Notes that it has paid or that have been delivered to the Trustee for cancellation.

Section 2.12 Defaulted Interest

If the Company fails to make a payment of interest on the Notes, it shall pay such defaulted interest plus any interest payable on the defaulted interest, in any lawful manner. It may pay such defaulted interest, plus any such interest payable on it, to the Persons who are Holders on a subsequent special record date. The Company shall fix any such record date and payment date, provided that no such record date shall be less than 10 days prior to the related payment date for such defaulted interest. At least 15 days before any such record date, the Company shall mail to Holders a notice that states the special record date, the related payment date and amount of such interest to be paid.

Section 2.13 *CUSIP Numbers.*

The Company in issuing the Notes may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption and other notices as a convenience to Holders of Notes; provided, that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Notes or as contained in any notice of a redemption or notice of a Change in Control Offer and that reliance may be placed only on the other identification numbers printed on the Notes, and any redemption or Change in Control Offer shall not be affected by any defect in or omission of such numbers. The Company will promptly notify the Trustee of any change in the "CUSIP" numbers.

ARTICLE III.

REDEMPTION

Section 3.01 Notices to Trustee.

If the Company elects to redeem Notes pursuant to the optional redemption provisions of the Notes and Section 3.07 hereof, it shall notify the Trustee of the redemption date (a "Redemption Date") and the principal amount of Notes to be redeemed The Company shall give the notice provided for in this Section 3.01 at least 30 days but no more than 60 days before the Redemption Date, unless a shorter notice period shall be satisfactory to the Trustee. The Company may not give notice of any redemption if the Company has defaulted in payment of interest and the default is continuing.

Section 3.02 Selection of Notes to Be Redeemed.

If less than all of the Notes are to be redeemed at any time, selection of Notes shall be made by the Trustee on a pro rata basis or by lot or by a method that complies with the requirements of any exchange on which the Notes are listed and that the Trustee considers fair and appropriate, provided that no Notes of $1,000 or less shall be redeemed in part. The Trustee shall make the selection not more than 60 days and not less than 30 days before the Redemption Date from Notes outstanding not previously called for redemption. Notes and portions of Notes selected shall be in amounts of $1,000 or integral multiples of $1,000. Provisions of this Indenture that apply to Notes called for redemption also apply to portions of Notes called for redemption. The Trustee shall notify the Company promptly of the Notes or portions of Notes to be called for redemption.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

If any Note selected for partial redemption is converted in part after such selection, the converted portion of such Note shall be deemed (so far as may be) to be the portion to be selected for redemption. The Notes (or portions thereof) so selected shall be deemed duly selected for redemption for all purposes hereunder, notwithstanding that any such Note is converted in whole or in part before the mailing of the notice of redemption. Upon any redemption of less than all the Notes, the Company and the Trustee may treat as outstanding any Notes surrendered for conversion during the period 15 days next preceding the mailing of a notice of redemption and need not treat as outstanding any Note authenticated and delivered during such period in exchange for the unconverted portion of any Note converted in part during such period.

Section 3.03 Notice of Redemption.

At least 30 days but not more than 60 days before a Redemption Date, the Company shall mail, by first class mail, a notice of redemption to each Holder whose Notes are to be redeemed at its registered address. The notice shall identify the Notes to be redeemed and shall state:

(a) the Redemption Date;

(b) the redemption price;

(c) if any Note is to be redeemed in part only, the portion of the principal amount thereof redeemed, and that, after the Redemption Date, upon surrender of such Note, a new Note in principal amount equal to the unredeemed portion thereof shall be issued in the name of the Holder thereof upon cancellation of the original Note;

(d) the name and address of the Paying Agent;

(e) that Notes called for redemption must be surrendered to the Paying Agent to collect the redemption price plus accrued interest, if any;

(f) that interest on Notes called for redemption ceases to accrue on and after the Redemption Date;

(g) the paragraph of the Notes pursuant to which the Notes called for redemption are being redeemed; and

(h) the "CUSIP" number of the Notes to be redeemed.

Such notice shall also state the current Conversion Price and the date on which the right to convert such Notes or portions thereof into Class A Common Stock of the Company will expire.

At the Company's request, the Trustee shall give notice of redemption in the Company's name and at the Company's expense; provided that the Company shall have delivered to the Trustee, at least 60 days prior to the Redemption Date, an Officers' Certificate requesting that the Trustee give such notice and setting forth the information to be stated in such notice, as provided in the preceding paragraph.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Section 3.04 Effect of Notice of Redemption.

Once notice of redemption is mailed in accordance with Section 3.03 hereof, Notes called for redemption become due and payable on the Redemption Date at the price set forth in the Note. A notice of redemption may not be conditional.

Section 3.05 Deposit of Redemption Price.

On or before the Redemption Date, the Company shall deposit with the Trustee or with the Paying Agent money sufficient to pay the redemption price of and accrued interest on all Notes to be redeemed on that date unless theretofore converted into Class A Common Stock pursuant to the provisions hereof. The Trustee or the Paying Agent shall return to the Company any money not required for that purpose.

If the Company complies with the provisions of the preceding paragraph, on and after the Redemption Date, interest shall cease to accrue on the Notes or the portions of Notes called for redemption. If a Note is redeemed on or after an interest record date but on or prior to the related interest payment date, then any accrued and unpaid interest shall be paid to the Person in whose name such Note was registered at the close of business on such record date. If any Note called for redemption shall not be so paid upon surrender for redemption because of the failure of the Company to comply with the preceding paragraph, interest shall be paid on the unpaid principal, from the Redemption Date until such principal is paid, and to the extent lawful on any interest not paid on such unpaid principal, in each case at the rate provided in the Notes.

Section 3.06 Notes Redeemed in Part.

Upon surrender of a Note that is redeemed in part, the Company shall issue and the Trustee shall authenticate for the Holder at the expense of the Company a new Note equal in principal amount to the unredeemed portion of the Note surrendered.

Section 3.07 Optional Redemption.

The Company may redeem all or any portion of the Notes, upon the terms and at the redemption prices set forth in the Notes. Any redemption pursuant to this Section 3.07 shall be made pursuant to the provisions of Section 3.01 through 3.06 hereof.

Section 3.08 Mandatory Redemption

The Company shall not be required to make mandatory redemption payments or sinking fund payments with respect to the Notes.

Section 3.09 Change in Control Offer.

(a) In the event that, pursuant to Section 4.06 hereof, the Company shall commence an offer to all Holders of the Notes to purchase Notes (the "Change in Control Offer"), the Company shall follow the procedures in this Section 3.09.

(b) The Change in Control Offer shall remain open for a period specified by the Company which shall be no less than 30 calendar days and no more than 60 calendar days following its commencement (the "Commencement Date") (as determined in accordance with

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Section 4.06 hereof), except to the extent that a longer period is required by applicable law (the "Tender Period"). Upon the expiration of the Tender Period (the "Purchase Date"), the Company shall purchase the principal amount of all of the Notes required to be purchased pursuant to Section 4.06 hereof (the "Offer Amount").

(c) If the Purchase Date is on or after a Record Date and on or before the related Interest Payment Date, any accrued interest shall be paid to the Person in whose name a Note is registered at the close of business on such Record Date, and no additional interest will be payable to Holders who tender Notes pursuant to the Change in Control Offer.

(d) The Company shall provide the Trustee with notice of the Change in Control Offer at least 10 days before the Commencement Date.

(e) On or before the 30th day after the Change in Control, the Company or the Trustee (at the expense of the Company) shall send, by first class mail, a notice to each of the Holders, which shall govern the terms of the Change in Control Offer and shall state:

(i) that the Change in Control Offer is being made pursuant to this Section 3.09 and Section 4.06 hereof, that all Notes validly tendered will be accepted for payment and the length of time the Change in Control Offer will remain open;

(ii) the purchase price (as determined in accordance with Section 4.06 hereof) and the Purchase Date, and that all Notes tendered will be accepted for payment;

(iii) that any Note or portion thereof not tendered or accepted for payment will continue to accrue interest;

(iv) that, unless the Company defaults in the payment of the purchase price, any Note or portion thereof accepted for payment pursuant to the Change in Control Offer will cease to accrue interest after the Purchase Date;

(v) that Holders electing to have a Note or portion thereof purchased pursuant to any Change in Control Offer will be required to surrender the Note, with the form entitled "Option of Holder to Elect Purchase upon a Change in Control" on the reverse of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the third Business Day preceding the Purchase Date;

(vi) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the Business Day preceding the Purchase Date, or such longer period as may be required by law, a letter or facsimile transmission (receipt of which is confirmed and promptly followed by a letter) setting forth the name of the Holder, the principal amount of the Note or portion thereof the Holder delivered for purchase and a statement that such Holder is withdrawing his election to have the Note or portion thereof purchased;

(vii) that Holders whose Notes were purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes

surrendered, which unpurchased portion shall be equal to $1,000 or an integral multiple thereof in principal amount; and

(viii) the "CUSIP" number of the Notes to be purchased.

(f) On or prior to the Purchase Date, the Company shall irrevocably deposit with the Trustee or a Paying Agent in immediately available funds an amount equal to the Offer Amount to be held for payment in accordance with the terms of this Section 3.09. On the Purchase Date, the Company shall, to the extent lawful, accept for payment the Notes or portions thereof properly tendered pursuant to the Change in Control Offer and deliver to the Trustee an Officers' Certificate stating such Notes or portions thereof have been accepted for payment by the Company in accordance with the terms of this Section 3.09. The Paying Agent shall promptly (but in any case not later than ten (10) calendar days after the Purchase Date) mail or deliver to each tendering Holder, or, if any Holder requests in writing, wire transfer immediately available funds to an account previously specified in writing by such Holder to the Company and the Paying Agent, an amount equal to the purchase price of the Notes tendered by such Holder and accepted by the Company for purchase, and the Trustee shall promptly authenticate and mail or deliver to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered. Any Notes not so accepted shall be promptly mailed or delivered by or on behalf of the Company to the Holder thereof. The Company will publicly announce in a newspaper of general circulation the results of the Change in Control Offer on or as soon as practicable after the Purchase Date.

(g) The Change in Control Offer shall be made by the Company in compliance with all applicable provisions of the Exchange Act, and all applicable tender offer rules promulgated thereunder, and shall include all instructions and materials necessary to enable such Holders to tender their Notes. To the extent that the provisions of any securities laws or regulations conflict with the Change in Control provisions of this Section 3.09, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change in Control provisions of the Indenture by virtue of such conflict.

ARTICLE IV.
COVENANTS

Section 4.01 Payment of Notes.

The Company shall pay the principal of, and premium, if any, and interest on, the Notes on the dates and in the manner provided in the Notes. Principal, premium, if any, and interest shall be considered paid on the date due if the Paying Agent (other than the Company or an Affiliate of the Company) holds on that date money designated for and sufficient to pay all principal, premium, if any, and interest then due. To the extent lawful, the Company shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on (i) overdue principal and premium, if any, at the rate borne by the Notes, compounded semiannually; and (ii) overdue installments of interest (without regard to any applicable grace period) at the same rate, compounded semiannually.

Section 4.02 Compliance Certificate.

The Company shall deliver to the Trustee, within 90 days after the end of each fiscal year of the Company, an Officers' Certificate stating that a review of the activities of the Company and its

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

subsidiaries during the preceding fiscal year has been made under the supervision of the signing Officers with a view to determining whether the Company has kept, observed, performed and fulfilled its obligations under, and complied with the covenants and conditions contained in, this Indenture, and further stating, as to each such Officer signing such certificate, that to the best of his knowledge the Company has kept, observed, performed and fulfilled each and every covenant, and complied with the covenants and conditions contained in this Indenture and is not in default in the performance or observance of any of the terms, provisions and conditions hereof (or, if a Default or Event of Default shall have occurred, describing all such Defaults or Events of Default of which he may have knowledge) and that to the best of his knowledge no event has occurred and remains in existence by reason of which payments on account of the principal or of interest, if any, on the Notes are prohibited.

One of the Officers signing such Officers' Certificate shall be either the Company's principal executive officer, principal financial officer or principal accounting officer.

The Company will, so long as any of the Notes are outstanding, deliver to the Trustee forthwith upon becoming aware of any Default or Event of Default, an Officers' Certificate specifying such Default or Event of Default.

Section 4.03 Stay, Extension and Usury Laws.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 4.04 Corporate Existence.

Subject to Article VII hereof, to the extent permitted by law the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and the corporate, partnership or other existence of each subsidiary of the Company in accordance with the respective organizational documents of each subsidiary and the rights (charter and statutory), licenses and franchises of the Company; provided, however, that the Company shall not be required to preserve any such right, license or franchise, or the corporate, partnership or other existence of any subsidiary, if the preservation thereof is no longer desirable in the conduct of the business of the Company and its subsidiaries taken as a whole.

Section 4.05 Taxes.

The Company shall, and shall cause each of its subsidiaries to, pay prior to delinquency all material taxes, assessments and governmental levies, except as contested in good faith and by appropriate proceedings or where the failure to effect such payment would not have a material adverse effect on the Company and its subsidiaries, taken as a whole.

Section 4.06 Change in Control.

Upon the occurrence of a Change in Control, each Holder shall have the right to require the Company to repurchase all or any part (equal to $1,000 or an integral multiple thereof) of such Holder's

Notes on a date fixed by the Company that is no earlier than 30 nor later than 60 days from the date the Company gives notice of the Change in Control. The Company shall be required to make a Change in Control Offer for an amount of cash equal to 100% of the principal amount of the Notes on the Purchase Date, plus accrued and unpaid interest, if any to the Purchase Date (the "Change in Control Payment").

Notwithstanding the foregoing, the Company shall not be required to make a Change in Control Offer if a third party makes an offer to purchase the Notes in the manner, at the times and otherwise in compliance with the requirements of Section 3.09 that the Company would otherwise be required to make and that third party purchases all of the Notes validly tendered and not withdrawn in such offer.

ARTICLE V.
CONVERSION

Section 5.01 Conversion Privilege.

A Holder of a Note may convert it into fully paid and nonassessable shares of Class A Common Stock at any time after 90 days following the Issuance Date and prior to maturity at the Conversion Price then in effect, except that, with respect to any Note called for redemption, such conversion right shall terminate at the close of business on the Business Day immediately preceding the Redemption Date (unless the Company shall default in making the redemption payment when it becomes due, in which case the conversion right shall terminate on the date such default is cured). The number of shares of Class A Common Stock issuable upon conversion of a Note is determined by dividing the principal amount of such Note by the conversion price in effect on the Conversion Date (the "Conversion Price").

The initial Conversion Price is stated in Section 12 of the Notes and is subject to adjustment as provided in this Article V.

A Holder may convert a portion of a Note equal to any integral multiple of $1,000. Provisions of this Indenture that apply to conversion of all of a Note also apply to conversion of a portion of it.

Section 5.02 Conversion Procedure.

To convert a Note, a Holder must satisfy the requirements in Section 11 of the Notes. The date on which the Holder satisfies all of those requirements is the conversion date (the "Conversion Date"). As soon as practicable after the Conversion Date, the Company shall deliver to the Holder through the Conversion Agent a certificate for the number of whole shares of Class A Common Stock issuable upon the conversion and a check for any fractional share determined pursuant to Section 5.03 hereof. The Person in whose name the certificate is registered shall become the stockholder of record on the Conversion Date and, as of such date, such Person's rights as a Holder shall cease; provided, however, that no surrender of a Note on any date when the stock transfer books of the Company shall be closed shall be effective to constitute the Person entitled to receive the shares of Class A Common Stock upon such conversion as the stockholder of record of such shares of Class A Common Stock on such date, but such surrender shall be effective to constitute the Person entitled to receive such shares of Class A Common Stock as the stockholder of record thereof for all purposes at the close of business on the next succeeding day on which such stock transfer books are open; provided further, however, that such conversion shall be at the Conversion Price in effect on the date that such Note shall have been surrendered for conversion, as if the stock transfer books of the Company had not been closed.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

No payment or other adjustment shall be made for accrued interest or dividends on any Class A Common Stock issued upon conversion of the Notes. If any Notes are converted during any period after any Record Date for the payment of an installment of interest but before the next Interest Payment Date, interest for such notes will be paid on the next Interest Payment Date, notwithstanding such conversion, to the Holders of such Notes. Any Notes that are, however, delivered to the Company for conversion after any Record Date but before the next Interest Payment Date must, except as described in the next sentence, be accompanied by a payment equal to the interest payable on such Interest Payment Date on the principal amount of Notes being converted. The payment to the Company described in the preceding sentence shall not be required if, during that period between a Record Date and the next Interest Payment Date, a conversion occurs on or after the date that the Company has issued a redemption notice and prior to the date of redemption stated in such notice. No fractional shares will be issued upon conversion, but a cash adjustment will be made for any fractional shares.

If a Holder converts more than one Note at the same time, the number of whole shares of Class A Common Stock issuable upon the conversion shall be based on the total principal amount of Notes converted.

Upon surrender of a Note that is converted in part, the Trustee shall authenticate for the Holder a new Note equal in principal amount to the unconverted portion of the Note surrendered.

Section 5.03 Fractional Shares.

The Company will not issue fractional shares of Class A Common Stock upon conversion of a Note. In lieu thereof, the Company will pay an amount in cash based upon the Daily Market Price of the Class A Common Stock on the trading day prior to the date of conversion.

Section 5.04 Taxes on Conversion.

The issuance of certificates for shares of Class A Common Stock upon the conversion of any Note shall be made without charge to the converting Holder for such certificates or for any tax in respect of the issuance of such certificates, and such certificates shall be issued in the respective names of, or in such names as may be directed by, the Holder or Holders of the converted Note; provided, however, that in the event that certificates for shares of Class A Common Stock are to be issued in a name other than the name of the Holder of the Note converted, such Note, when surrendered for conversion, shall be accompanied by an instrument of transfer, in form satisfactory to the Company, duly executed by the registered holder thereof or his duly authorized attorney; and provided further, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any such certificates in a name other than that of the Holder of the converted Note, and the Company shall not be required to issue or deliver such certificates unless or until the Person or Persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid or is not applicable.

Section 5.05 Company to Provide Stock.

The Company shall at all times reserve and keep available, free from preemptive rights, out of its authorized but unissued Class A Common Stock, solely for the purpose of issuance upon conversion of Notes as herein provided, a sufficient number of shares of Class A Common Stock to permit the conversion of all outstanding Notes for shares of Class A

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Common Stock. All shares of Class A Common Stock which may be issued upon conversion of the Notes shall be duly authorized, validly issued, fully paid and nonassessable when so issued .

Section 5.06 Adjustment of Conversion Price.

The Conversion Price shall be subject to adjustment from time to time as follows:

(a) Stock split and combinations. In case the Company, at any time or from time to time after the issuance date of the Notes (a) subdivides or splits the outstanding shares of its Class A Common Stock, (b) combines or reclassifies the outstanding shares of its Class A Common Stock into a smaller number of shares or (c) issues by reclassification of the shares of its Class A Common Stock any shares of its capital stock, then the Conversion Price in effect immediately prior to that event or the record date for that event, whichever is earlier, will be adjusted so that the holder of any Notes thereafter surrendered for conversion will be entitled to receive the number of shares of the Company's Class A Common Stock or of its other securities which the Holder would have owned or have been entitled to receive after the occurrence of any of the events described above, had those Notes been surrendered for conversion immediately before the occurrence of that event or the record date for that event, whichever is earlier;

(b) Stock Dividends in Class A Common Stock. In case the Company, at any time or from time to time after the issuance date of the Notes, pays a dividend or make a distribution in shares of its Class A Common Stock on any class of its capital stock other than dividends or distributions of shares of Class A Common Stock or other securities with respect to which adjustments are provided in paragraph (1) above or with respect to payments of interest or dividend obligations with respect to a particular series of capital stock in accordance with the terms of such capital stock, the Conversion Price will be adjusted so that the Holder of each Note will be entitled to receive, upon conversion of that Note, the number of shares of the Company's Class A Common Stock determined by multiplying (a) the Conversion Price by (b) a fraction, the numerator of which will be the number of shares of Class A Common Stock outstanding and the denominator of which will be the sum of that number of shares and the total number of shares issued in that dividend or distribution;

(c) Issuance of rights or warrants. In case the Company issues to all holders of its Class A Common Stock rights or warrants entitling those holders to subscribe for or purchase its Class A Common Stock at a price per share less than the current market price, the Conversion Price in effect immediately before the close of business on the record date fixed for determination of shareholders entitled to receive those rights or warrants will be reduced by multiplying the Conversion Price by a fraction, the numerator of which is the sum of the number of shares of the Company's Class A Common Stock outstanding at the close of business on that record date and the number of shares of Class A Common Stock that the aggregate offering price of the total number of shares of the Company's Class A Common Stock so offered for subscription or purchase would purchase at the Current Market Price and the denominator of which is the sum of the number of shares of Class A Common Stock outstanding at the close of business on that record date and the number of additional shares of the Company's Class A Common Stock so offered for subscription or purchase. For purposes of this paragraph (3), the issuance of rights or warrants to subscribe for or purchase securities convertible into shares of the Company's Class A Common Stock will be deemed to be the issuance of rights or warrants to purchase shares of the Company's Class A Common Stock into which those securities are convertible at an aggregate offering price equal to the sum of the aggregate offering price of those securities and the

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

minimum aggregate amount, if any, payable upon conversion of those securities into shares of the Company's Class A Common Stock. This adjustment will be made successively whenever any such event occurs;

(d) Distribution of indebtedness, securities or assets. In case the Company distributes to all holders of its Class A Common Stock, whether by dividend or in a merger, amalgamation or consolidation or otherwise, evidences of indebtedness, shares of capital stock of any class or series, other securities, cash or assets, other than Class A Common Stock, rights or warrants referred to in paragraph (3) above or an ordinary dividend payable exclusively in cash and other than as a result of a Fundamental Change described in paragraph (5) below, the Conversion Price in effect immediately before the close of business on the record date fixed for determination of shareholders entitled to receive that distribution will be reduced by multiplying the Conversion Price by a fraction, the numerator of which is the Current Market Price on that record date less the fair market value, as determined by the Company's Board of Directors, of the portion of those evidences of indebtedness, shares of capital stock, other securities, cash and assets so distributed applicable to one share of Class A Common Stock and the denominator of which is the Current Market Price. This adjustment will be made successively wherever any such event occurs;

(e) Fundamental changes. If a Fundamental Change occurs, the Holder of each Note outstanding immediately before that Fundamental Change occurred, will have the right upon any subsequent conversion to receive, but only out of legally available funds, to the extent required by applicable law, the kind and amount of stock or other securities, cash and assets that that Holder would have received if that share had been converted immediately prior to the Fundamental Change.

Section 5.07 No Adjustment.

No adjustment in the Conversion Price shall be required until cumulative adjustments amount to 1% or more of the Conversion Price as last adjusted; provided, however, that any adjustments which by reason of this Section 5.07 are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Article V shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be. No adjustment need be made for rights to purchase Class A Common Stock pursuant to a Company plan for reinvestment of dividends or interest. No adjustment need be made for a change in the par value or no par value of the Class A Common Stock.

Section 5.08 Other Adjustments.

(a) In the event that, as a result of an adjustment made pursuant to Section 5.06 hereof, the Holder of any Note thereafter surrendered for conversion shall become entitled to receive any shares of Capital Stock of the Company other than shares of its Class A Common Stock, thereafter the Conversion Price of such other shares so receivable upon conversion of any Note shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to Class A Common Stock contained in this Article V.

(b) In the event that shares of Class A Common Stock are not delivered after the expiration of any of the rights or warrants referred to in Section 5.06(b) and Section 5.06(c) hereof, the Conversion Price shall be readjusted to the Conversion Price which would otherwise be in effect had the adjustment made upon the issuance of such rights or warrants been made on the basis of delivery of only the number of shares of Class A Common Stock actually delivered.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Section 5.09 Adjustments for Tax Purposes.

The Company may make such reductions in the Conversion Price, in addition to those required by Section 5.06 hereof, as it determines in its discretion to be advisable in order that any stock dividend, subdivision of shares, distribution or rights to purchase stock or securities or distribution of securities convertible into or exchangeable for stock made by the Company to its stockholders will not be taxable to the recipients thereof.

Section 5.10 Notice of Adjustment.

Whenever the Conversion Price is adjusted, the Company shall promptly mail to Holders at the addresses appearing on the Registrar's books a notice of the adjustment and file with the Trustee an Officers' Certificate briefly stating the facts requiring the adjustment and the manner of computing it. The certificate shall be conclusive evidence of the correctness of such adjustment. Unless and until a Trust Officer of the Trustee shall receive written notice of an adjustment of the Conversion Price, the Trustee may assume without inquiry that the Conversion Price has not been adjusted and that the last Conversion Price of which it has knowledge remains in effect.

Section 5.11 Notice of Certain Transactions.

In the event that:

(1) the Company takes any action which would require an adjustment in the Conversion Price;

(2) the Company takes any action that would require a supplemental indenture pursuant to Section 5.12; or

(3) there is a dissolution or liquidation of the Company;

the Company shall mail to Holders at the addresses appearing on the Registrar's books and the Trustee a notice stating the proposed record or effective date, as the case may be, to permit a Holder of a Note to convert such Note into shares of Class A Common Stock prior to the Record Date for or the effective date of the transaction in order to receive the rights, warrants, securities or assets which a holder of shares of Class A Common Stock on that date may receive. The Company shall mail the notice at least 15 days before such date; however, failure to mail such notice or any defect therein shall not affect the validity of any transaction referred to in clause (1), (2) or (3) of this Section 5.11.

Section 5.12 Effect of Reclassifications, Consolidations, Mergers or Sales on Conversion Privilege.

If any of the following shall occur, namely: (i) any reclassification or change of outstanding shares of Class A Common Stock issuable upon conversion of Notes (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), (ii) any consolidation or merger to which the Company is a party other than a merger in which the Company is the continuing corporation and which does not result in any reclassification of, or change (other than a change in name, or par value, or from par value to no par value, or from no par value to par value or as a result of a subdivision or combination) in, outstanding shares of Class A Common Stock or (iii) any sale or conveyance of all or substantially all of the property or business of the Company as an entirety, then the Company, or such successor or purchasing corporation, as the case may be, shall, as a condition precedent to such reclassification, change, consolidation, merger, sale or conveyance, execute and deliver to the Trustee a supplemental indenture in form reasonably satisfactory to the Trustee

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

providing that the Holder of each Note then outstanding shall have the right to convert such Note into the kind and amount of shares of stock and other securities and property (including cash) receivable upon such reclassification, change, consolidation, merger, sale or conveyance by a Holder of the number of shares of Class A Common Stock deliverable upon conversion of such Note immediately prior to such reclassification, change, consolidation, merger, sale or conveyance. In the event that the shares of Class A Common Stock are exchanged or substituted for other securities in connection with any such reclassification, change, consolidation, merger, sale or conveyance, such supplemental indenture shall provide for adjustments of the Conversion Price which shall be as nearly equivalent as may be practicable to the adjustments of the Conversion Price provided for in this Article V. The foregoing, however, shall not in any way affect the right a Holder of a Note may otherwise have, pursuant to subsection (e) of Section 5.06 hereof, to receive stock or other securities, cash or assets upon conversion of a Note. If, in the case of any such consolidation, merger, sale or conveyance, the stock or other securities and property (including cash) receivable thereupon by a Holder of Class A Common Stock includes shares of stock or other securities and property of a corporation other than the successor or purchasing corporation, as the case may be, in such consolidation, merger, sale or conveyance, then such supplemental indenture shall also be executed by such other corporation and shall contain such additional provisions to protect the interests of the Holders of the Notes as the Board of Directors of the Company shall reasonably consider necessary by reason of the foregoing. The provision of this Section 5.12 shall similarly apply to successive consolidations, mergers, sales or conveyances.

In the event the Company shall execute a supplemental indenture pursuant to this Section 5.12, the Company shall promptly file with the Trustee an Officers' Certificate briefly stating the reasons therefor, the kind or amount of shares of stock or securities or property (including cash) receivable by Holders of the Notes upon the conversion of their Notes after any such reclassification, change, consolidation, merger, sale or conveyance and any adjustment to be made with respect thereto.

Section 5.13 Trustee's Disclaimer.

The Trustee has no duty to determine when an adjustment under this Article V should be made, how it should be made or what such adjustment should be, but may accept as conclusive evidence of the correctness of any such adjustment, and shall be protected in relying upon, the Officers' Certificate with respect thereto which the Company is obligated to file with the Trustee pursuant to Section 5.10 hereof. The Trustee makes no representation as to the validity or value of any securities or assets issued upon conversion of Notes, and the Trustee shall not be responsible for the Company's failure to comply with any provisions of this Article V.

The Trustee shall not be under any responsibility to determine the correctness of any provisions contained in any supplemental indenture executed pursuant to Section 5.12, but may accept as conclusive evidence of the correctness thereof, and shall be protected in relying upon, the Officers' Certificate with respect thereto which the Company is obligated to file with the Trustee pursuant to Section 5.12 hereof.

ARTICLE VI.
SUBORDINATION

Section 6 01 Agreement to Subordinate and Ranking.

The Company, for itself and its successors, and each Holder, by its acceptance of Notes, agree that the payment of the principal of or interest on or any other amounts due on the Notes is subordinated in right of payment, to the extent and in the manner stated in this Article VI, to the prior payment in full

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

of all existing and future Senior Debt. The Notes shall rank pari passu with, and shall not be senior in right of payment to, such other Indebtedness of the Company, whether outstanding on the date of this Indenture or hereafter created, incurred, issued or Guaranteed by the Company, where the instrument creating or evidencing such Indebtedness expressly provides that such Indebtedness ranks pari passu with or junior to the Notes.

Section 6.02 No Payment on Notes if Senior Debt in Default.

Anything in this Indenture to the contrary notwithstanding, no payment on account of principal of or redemption of, interest on or other amounts due on the Notes, and no redemption, purchase, or other acquisition of the Notes, shall be made by or on behalf of the Company if (i) a default in the payment of Senior Debt occurs and is continuing beyond any applicable period of grace (a "Payment Default"), or (ii) a default other than a Payment Default on any Senior Debt occurs and is continuing that permits the Holders of Senior Debt to accelerate its maturity, and the trustee receives notice of such default (a "Payment Blockage Notice") from the Company or from any holders of Senior Debt or such holder's representative (a "Non-Payment Default"), but only for the period (the "Payment Blockage Period") commencing on the date of receipt of the Payment Blockage Notice and ending (unless earlier terminated by notice given to the Trustee by the holders of such Senior Debt) (a) in the case of a Payment Default, upon the date on which such Payment Default is cured or waived or ceases to exist, and (b) in the case of a Non-Payment Default, the earliest of the date on which such Non-Payment Default is cured or waived or ceases to exist or 180 days from the date notice is received, if the maturity of the Senior Debt has not been accelerated. Upon termination of the Payment Blockage Period, payments on account of principal of or interest on the Notes (other than, subject to Section 6.03 hereof, amounts due and payable by reason of the acceleration of the maturity of the Notes) and redemptions, purchases or other acquisitions shall be made by or on behalf of the Company. Notwithstanding anything herein to the contrary, (a) only one Payment Blockage Notice with respect to the same Non-Payment Default or any other Non-Payment Default on the same issue of Senior Debt existing or continuing at the time of such Payment Blockage Notice may be given and (b) no new Payment Blockage Period may be commenced by the Holder or holders of Senior Debt or their representative or representatives, unless 360 consecutive days have elapsed since the initial effectiveness of the immediately preceding Payment Blockage Notice.

In the event that, notwithstanding the provisions of this Section 6.02, payments are made by or on behalf of the Company in contravention of the provisions of this Section 6.02, such payments shall be held by the Trustee, any Paying Agent or the Holders, as applicable, in trust for the benefit of, and shall be paid over to and delivered to, the holders of Senior Debt or their representative or the trustee under the indenture or other agreement (if any), pursuant to which any instruments evidencing any Senior Debt may have been issued for application to the payment of all Senior Debt ratably according to the aggregate amounts remaining unpaid to the extent necessary to pay all Senior Debt in full in accordance with the terms of such Senior Debt, after giving effect to any concurrent payment or distribution to or for the holders of Senior Debt

The Company shall give prompt written notice to the Trustee and any Paying Agent of any default or event of default under any Senior Debt or under any agreement pursuant to which any Senior Debt may have been issued.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Section 6.03 Distribution on Acceleration of Notes; Dissolution and Reorganization; Subrogation of Notes.

(a) If the Notes are declared due and payable because of the occurrence of an Event of Default, the Company or the Trustee shall give prompt written notice to the holders of all Senior Debt or to the trustee(s) for such Senior Debt of such acceleration.

(b) Upon (i) any acceleration of the principal amount due on the Notes because of an Event of Default or (ii) any distribution of assets of the Company upon any dissolution, winding up, liquidation or reorganization of the Company (whether in bankruptcy, insolvency or receivership proceedings or upon an assignment for the benefit of creditors or any other dissolution, winding up, liquidation or reorganization of the Company):

(1) the holders of all Senior Debt shall first be entitled to receive payment in full of the principal thereof, the interest thereon and any other amounts due thereon before the Holders are entitled to receive payment on account of the principal of or interest on or any other amounts due on the Notes;

(2) any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the Holders or the Trustee would be entitled except for the provisions of this Article VI, shall be paid by the liquidating trustee or agent or other Person making such a payment or distribution, directly to the holders of Senior Debt (or their representatives(s) or trustee(s) acting on their behalf), ratably according to the aggregate amounts remaining unpaid on account of the principal of or interest on and other amounts due on the Senior Debt held or represented by each, to the extent necessary to make payment in full of all Senior Debt remaining unpaid, after giving effect to any concurrent payment or distribution to the holders of such Senior Debt; and

In the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, shall be received by the Trustee or the Holders before all Senior Debt is paid in full, such payment or distribution shall be held in trust for the benefit of, and be paid over to upon request by a holder of the Senior Debt, the holders of the Senior Debt remaining unpaid (or their representatives) or trustee(s) acting on their behalf, ratably as aforesaid, for application to the payment of such Senior Debt until all such Senior Debt shall have been paid in full, after giving effect to any concurrent payment or distribution to the holders of such Senior Debt.

After all Senior Debt is paid in full and until the Notes are paid in full, Holders of Notes shall be subrogated (equally and ratably with all other Indebtedness pari passu with the Notes) to the rights of holders of Senior Debt to receive distributions applicable to Senior Debt to the extent that distributions otherwise payable to the Holders of Notes have been applied to the payment of Senior Debt. A distribution made under this Article VI to holders of Senior Debt that otherwise would have been made to Holders of Notes is not, as between the Company and Holders, a payment by the Company on the Notes.

Nothing contained in this Article VI or elsewhere in this Indenture or in the Notes is intended to or shall (i) impair, as between the Company and its creditors, other than the holders of Senior Debt, the obligation of the Company, which is absolute and unconditional, to pay to the Holders the principal of and interest on the Notes as and when the same shall become due and payable in accordance with the terms of the Notes or (ii) affect the relative rights of the Holders and creditors of the Company other than holders of Senior Debt or, as between the Company and the Trustee, the obligations of the Company to

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

the Trustee, or (iii) prevent the Trustee or the Holders from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article VI of the holders of Senior Debt in respect of cash, property and securities of the Company received upon the exercise of any such remedy.

Upon distribution of assets of the Company referred to in this Article VI, the Trustee, subject to the provisions of Section 9.01 hereof, and the Holders shall be entitled to rely upon a certificate of the liquidating trustee or agent or other Person making any distribution to the Trustee or to the Holders for the purpose of ascertaining the Persons entitled to participate in such distribution, the holders of the Senior Debt and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article VI. The Trustee, however, shall not be deemed to owe any fiduciary duty to the holders of Senior Debt. Nothing contained in this Article VI or elsewhere in this Indenture, or in any of the Notes, shall prevent the good faith application by the Trustee of any moneys which were deposited with it hereunder, prior to its receipt of written notice of facts which would prohibit such application, for the purpose of the payment of or on account of the principal of or interest on, the Notes unless, prior to the date on which such application is made by the Trustee, the Trustee shall be charged with notice under Section 6.03(d) hereof of the facts which would prohibit the making of such application.

(c) The provisions of this Article VI shall not be applicable to any cash, properties or securities received by the Trustee or by any Holder when received as a holder of Senior Debt and nothing in Section 9.11 hereof or elsewhere in this Indenture shall deprive the Trustee or such Holder of any of its rights as such holder.

(d) The Company shall give prompt written notice to the Trustee of any fact known to the Company which would prohibit the making of any payment of money to or by the Trustee in respect of the Notes pursuant to the provisions of this Article VI. The Trustee, subject to the provisions of Section 9.01 hereof, shall be entitled to assume that no such fact exists unless the Company or any holder of Senior Debt or any trustee therefor has given such notice to the Trustee. Notwithstanding the provisions of this Article VI or any other provisions of this Indenture, the Trustee shall not be charged with knowledge of the existence of any fact which would prohibit the making of any payment of monies to or by the Trustee in respect of the Notes pursuant to the provisions in this Article VI, unless, and until three Business Days after, the Trustee shall have received written notice thereof from the Company or any Holder or holders of Senior Debt or from any trustee therefor; and, prior to the receipt of any such written notice, the Trustee, subject to the provisions of Section 9.01 hereof, shall be entitled in all respects conclusively to assume that no such facts exist; provided that if on a date not less then three Business Days immediately preceding the date upon which by the terms hereof any such monies may become payable for any purpose (including, without limitation, the principal of or interest on any Note), the Trustee shall not have received with respect to such monies the notice provided for in this Section 6.03(d), than anything herein contained to the contrary notwithstanding, the Trustee shall have full power and authority to receive such monies and to apply the same to the purpose for which they were received, and shall not be affected by any notice to the contrary which may be received by it on or after such prior date.

The Trustee shall be entitled to rely on the delivery to it of a written notice by a Person representing himself to be a holder of Senior Debt (or a trustee on behalf of such holder) to establish that such notice has been given by a holder of Senior Debt (or a trustee on behalf of any such holder or holders). In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any Person as a holder of Senior Debt to participate in any payment or distribution

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

pursuant to this Article VI, the Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Debt held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such Person under this Article VI, and, if such evidence is not furnished, the Trustee may defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment; nor shall the Trustee be charged with knowledge of the curing or waiving of any default of the character specified in Section 6.02 hereof or that any event or any condition preventing any payment in respect of the Notes shall have ceased to exist, unless and until the Trustee shall have received an Officers' Certificate to such effect.

(e) The provisions of this Section 6.03 applicable to the Trustee shall also apply to any Paying Agent for the Company.

Section 6.04 Reliance by Senior Debt on Subordination Provisions.

Each Holder of any Note by his acceptance thereof acknowledges and agrees that the foregoing subordination provisions are, and are intended to be, an inducement and a consideration for each holder of any Senior Debt, whether such Senior Debt was created or acquired before or after the issuance of the Notes, to acquire and continue to hold, or to continue to hold, such Senior Debt, and such holder of Senior Debt shall be deemed conclusively to have relied on such subordination provisions in acquiring and continuing to hold, or in continuing to hold, such Senior Debt. Notice of any default in the payment of any Senior Debt, except as expressly stated in this Article VI, and notice of acceptance of the provisions hereof are hereby expressly waived. Except as otherwise expressly provided herein, no waiver, forbearance or release by any holder of Senior Debt under such Senior Debt or under this Article VI shall constitute a release of any of the obligations or liabilities of the Trustee or Holders of the Notes provided in this Article VI.

Section 6.05 No Waiver of Subordination Provisions.

Except as otherwise expressly provided herein, no right of any present or future holder of any Senior Debt to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act, in good faith, by any such holder, or by any noncompliance by the Company with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof any such holder may have or be otherwise charged with.

Without in any way limiting the generality of the foregoing paragraph, the holders of Senior Debt may, at any time and from time to time, without the consent of, or notice to, the Trustee or the Holders of the Notes, without incurring responsibility to the Holders of the Notes and without impairing or releasing the subordination provided in this Article VI or the obligations hereunder of the Holders of the Notes to the holders of Senior Debt, do any one or more of the following: (i) change the manner, place or terms of payment of, or renew or alter, Senior Debt, or otherwise amend or supplement in any manner Senior Debt or any instrument evidencing the same or any agreement under which Senior Debt is outstanding; (ii) sell, exchange, release or otherwise dispose of any property pledged, mortgaged or otherwise securing Senior Debt; (iii) release any Person liable in any manner for the collection of Senior Debt; and (iv) exercise or refrain from exercising any rights against the Company or any other Person.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Section 6.06 Trustee's Relation to Senior Debt.

The Trustee in its individual capacity shall be entitled to all the rights set forth in this Article VI in respect of any Senior Debt at any time held by it, to the same extent as any holder of Senior Debt, and nothing in Section 9.11 hereof or elsewhere in this Indenture shall deprive the Trustee of any of its rights as such holder.

With respect to the holders of Senior Debt, the Trustee undertakes to perform or to observe only such of its covenants and obligation, as are specifically set forth in this Article VI, and no implied covenants or obligations with respect to the holders of Senior Debt shall be read into this Indenture against the Trustee. The Trustee shall not owe any fiduciary duty to the holders of Senior Debt but shall have only such obligations to such holders as are expressly set forth in this Article VI.

Each Holder of a Note by his acceptance thereof authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article VI and appoints the Trustee his attorney-in-fact for any and all such purposes, including, in the event of any dissolution, winding up or liquidation or reorganization under any applicable bankruptcy law of the Company (whether in bankruptcy, insolvency or receivership proceedings or otherwise), the timely filing of a claim for the unpaid balance of such Holder's Notes in the form required in such proceedings and the causing of such claim to be approved. If the Trustee does not file a claim or proof of debt in the form required in such proceedings prior to 30 days before the expiration of the time to file such claims or proofs, then any Holder or holders of Senior Debt or their representative or representatives shall have the right to demand, sue for, collect, receive and receipt for the payments and distributions in respect of the Notes which are required to be paid or delivered to the holders of Senior Debt as provided in this Article VI and to file and prove all claims therefore and to take all such other action in the name of the holders or otherwise, as such holders of Senior Debt or representative thereof may determine to be necessary or appropriate for the enforcement of the provisions of this Article VI.

Section 6.07 Other Provisions Subject Hereto.

Expect as expressly stated in this Article VI, notwithstanding anything contained in this Indenture to the contrary, all the provisions of this Indenture and the Notes are subject to the provisions of this Article VI. However, nothing in this Article VI shall apply to or adversely affect the claims of, or payment, to, the Trustee pursuant to Section 9.07 hereof. Notwithstanding the foregoing, the failure to make a payment on account of principal of or interest on the Notes by reason of any provision of this Article VI shall not be construed as preventing the occurrence of an Event of Default under Section 8.01 hereof.

ARTICLE VII.
SUCCESSORS

Section 7.01 Limitation on Merger, Sale or Consolidation.

The Company may not, directly or indirectly, consolidate with or merge with or into, or sell, lease or otherwise dispose of all or substantially all of its assets, on a consolidated basis, whether in a single transaction or a series of related transactions, to another person or group of affiliated persons, unless:

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(a) the Company is the resulting or surviving corporation, or such successor, transferee or lessee, if other than the Company, is a corporation organized under the laws of the United States, any state thereof or the District of Columbia and expressly assumes the Obligations of the Company under this Indenture and the Notes by means of a supplemental indenture entered into with the Trustee; and

(b) after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing.

Upon any permitted consolidation, merger conveyance, transfer or lease of the Company's properties and assets in accordance with the foregoing, the successor corporation formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made, shall succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture with the same effect as if such successor corporation had been named therein in the same manner as the Company is named, and when a successor corporation duly assumes all of the Obligations of the Company under this Indenture and the Notes (except in the case of a lease), the Company will be released from its Obligations and covenants under the Indenture and the Notes, except as to any Obligations or covenants that arise from or as a result of such transaction.

For purposes of the foregoing, the transfer, by lease, assignment, sale or otherwise, of all or substantially all of the properties and assets of one or more Subsidiaries, which properties and assets, if held by the Company instead of such Subsidiary, would constitute all or substantially all of the Company's properties and assets, shall be deemed to be the transfer of all or substantially all of the Company's properties and assets.

ARTICLE VIII.
DEFAULTS AND REMEDIES

Section 8.01 Events of Default.

An "Event of Default" occurs if:

(a) the Company defaults in the payment of interest on any Note when the same becomes due and payable and the Default continues for a period of 30 days after the date due and payable, whether or not prohibited by the subordination provisions hereof,

(b) the Company defaults in the payment of the principal of any Note when the same becomes due and payable at maturity, upon optional redemption, in connection with a Change in Control Offer, upon declaration or otherwise, whether or not prohibited by the subordination provisions hereof;

(c) the Company fails to observe or perform for a period of 30 days after notice any covenant or agreement contained in Sections 4.06 and 7.01 hereof (other than, in the case of Section 4.06, a failure to purchase Notes in connection with a Change in Control Offer) hereof;

(d) the Company or any of its Subsidiaries fail to observe or perform any other covenant or agreement contained in this Indenture or the Notes, required by it to be performed and the Default continues for a period of 60 days after notice from the Trustee to the Company or from the Holders of 25% in aggregate principal amount of the then outstanding Notes to the Company and the Trustee;

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(e) the Company or any of its Subsidiaries fails to pay when due principal or interest on Indebtedness for money borrowed by the Company or its Subsidiaries, the principal amount of which exceeds $20.0 million, including any applicable grace periods, or the acceleration of such Indebtedness, that is not cured or withdrawn within 15 days after the date of written notice from the Trustee to the Company or from Holders of 25% in the aggregate principal amount of the then outstanding Notes to the Company and the Trustee;

(f) the Company or any of its Subsidiaries that is a Significant Subsidiary or any group of two or more Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary pursuant to or within the meaning of any Bankruptcy Law:

(i) commences a voluntary case;

(ii) consents to the entry of an order for relief against it in an involuntary case in which it is the debtor;

(iii) consents to the appointment of a Custodian of it or for all or substantially all of its property;

(iv) makes a general assignment for the benefit of its creditors; or

(v) generally is unable to pay its debts as the same become due;

(g) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(i) is for relief against the Company or any of its Subsidiaries that is a Significant Subsidiary or any group of two or more Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary in an involuntary case;

(ii) appoints a Custodian of the Company or any of its Subsidiaries that is a Significant Subsidiary or any group of two or more Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary or for all or substantially all of its property;

(iii) orders the liquidation of the Company or any of its Subsidiaries that is a Significant Subsidiary or any group of two or more Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary, and the order or decree remains unstayed and in effect for 60 days.

(h) the Company or any of its Subsidiaries fail to pay final judgments aggregating in excess of $10.0 million (net of any commissions with respect to which a reputable and creditworthy insurance company has acknowledged liability in writing), which judgments are not paid, discharged or stayed for a period of 60 days.

The term "Bankruptcy Law" means Title 11, U.S. Code or any similar Federal, state or foreign law for the relief of debtors or the protection of creditors. The term "Custodian" means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Section 8.02 Acceleration.

If an Event of Default (other than an Event of Default specified in clauses (f) or (g) of Section 8.01 hereof) occurs and is continuing, the Trustee by notice to the Company, or the Holders of at least 25% in principal amount of the then outstanding Notes by notice to the Company and the Trustee, may declare all the Notes to be due and payable. Upon such declaration, the principal of and interest on the Notes shall be due and payable immediately. If an Event of Default specified in clause (f) or (g) of Section 8.01 hereof occurs with respect to the Company, such an amount shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder. In addition, if an Event of Default specified in clause (f) or (g) of Section 8.01 hereof occurs with respect to any Significant Subsidiary or Significant Subsidiaries of the Company, the Trustee by notice to the Company, or Holders of at least 25% in principal amount of the then outstanding Notes by notice to the Company and the Trustee, may declare all the Notes due and payable.

Section 8.03 Other Remedies.

Subject to Article VI hereof, if an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal or interest on the Notes or to enforce the performance of any provision of the Notes or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Holder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. All remedies are cumulative to the extent permitted by law.

Section 8.04 Waiver of Past Defaults.

The Holders of a majority in principal amount of the then outstanding Notes by written notice to the Trustee may on behalf of all of the Holders of the Notes waive an existing Default or Event of Default and its consequences except a continuing Default or Event of Default in the payment of the principal of or interest on any Note. When a Default or Event of Default is waived, it is cured and ceases; but (except as specifically provided in such written notice) no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

Section 8.05 Control by Majority.

The Holders of a majority in principal amount of the then outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture, is unduly prejudicial to the rights of other Holders, or would involve the Trustee in personal liability.

Section 8.06 Limitation on Suits.

A Holder may pursue a remedy with respect to this Indenture or the Notes only if:

(a) the Holder gives to the Trustee written notice of a continuing Event of Default;

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(b) the Holders of at least 25% in principal amount of the then outstanding Notes make a written request to the Trustee to pursue the remedy;

(c) such Holder or Holders offer and , if requested, provide to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense;

(d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer, and, if requested, the provision of indemnity; and

(e) during such 60-day period the Holders of a majority in principal amount of the then outstanding Notes do not give the Trustee a direction inconsistent with the request.

A Holder may not use this Indenture to prejudice the rights of another Holder or to obtain a preference or priority over another Holder.

Section 8 07 Rights of Holders to Receive Payment.

Notwithstanding any other provision of this Indenture, the right of any Holder of a Note to receive payment of principal, and interest on the Note, on or after the respective due dates expressed in the Note, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of the Holder made pursuant to this Section 8.07.

Section 8.08 Collection Suit by Trustee.

If an Event of Default specified in Section 8.01(a) or (b), hereof occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount of principal and interest remaining unpaid on the Notes and interest on overdue principal and interest and such further amount as shall be sufficient to cover the costs and, to the extent lawful, expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

Section 8.09 Trustee May File Proofs of Claim.

The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Holders allowed in any judicial proceedings relative to the Company, its creditors or its property. Nothing contained herein shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

Section 8.10 Priorities.

If the Trustee collects any money pursuant to this Article, it shall pay out the money in the following order:

First: to the Trustee for amounts due under Section 9.07 hereof;

Second: to the holders of Senior Debt to the extent required by Article VI;

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Third: to Holders for amounts due and unpaid on the Notes for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for principal and interest, respectively; and

Fourth: to the Company.

The Trustee may fix a record date and payment date for any payment to Holders made pursuant to this Section 8 10.

Section 8.11 Undertaking for Costs.

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as a Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section 8.11 does not apply to a suit by the Trustee, a suit by a Holder pursuant to Section 8.07 hereof, or a suit by Holders of more than 10% in principal amount of the then outstanding Notes.

ARTICLE IX.
TRUSTEE

Section 9.01 Duties of Trustee.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) Except during the continuance of an Event of Default: (i) the Trustee need perform only those duties that are specifically set forth in this Indenture and no others and (ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. However, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture and to confirm the correctness of all mathematical computations.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that: (i) this paragraph does not limit the effect of paragraph (b) of this Section 9.01; (ii) the Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts and (iii) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 8.05 hereof.

(d) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b) and (c) of this Section 9.01.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(e) The Trustee may refuse to perform any duty or exercise any right or power unless it receives indemnity satisfactory to it against any loss, liability or expense.

(f) No provision of this Indenture shall require the Trustee to expend or risk its own funds or incur any liability. The Trustee shall be under no obligation to exercise any of its rights and powers under this Indenture at the request of any Holders, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense.

(g) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Company. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

Section 9.02 Rights of Trustee.

(a) The Trustee may rely on any document believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel, or both. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officers' Certificate or Opinion of Counsel.

(c) The Trustee may act through agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers.

(e) The Trustee shall not be charged with knowledge of any Event of Default under subsection (c), (d), (e) or (f) (and subsection (a) or (b) if the Trustee does not act as Paying Agent) of Section 8.01 or of the identity of any Significant Subsidiary or of any group of two or more Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary unless either (1) a Trust Officer of the Trustee assigned to its corporate trust department shall have actual knowledge thereof, or (2) the Trustee shall have received notice thereof in accordance with Section 12.02 hereof from the Company or any Holder.

Section 9.03 Individual Rights of Trustee.

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Company or an Affiliate with the same rights it would have if it were not Trustee. Any Agent may do the same with like rights. However, the Trustee is subject to Sections 9.10 and 9.11 hereof.

Section 9.04 Trustee's Disclaimer.

The Trustee makes no representation as to the validity or adequacy of this Indenture or the Notes, it shall not be accountable for the Company's use of the proceeds from the Notes, and it shall not be

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

responsible for any statement of the Company in the Indenture or any statement in the Notes other than its authentication.

Section 9.05 Notice of Defaults.

If a Default or Event of Default occurs and is continuing and if it is known to the Trustee, the Trustee shall mail to Holders a notice of the Default or Event of Default within 90 days after it occurs. Except in the case of a Default or Event of Default in payment on any Note, the Trustee may withhold the notice if and so long as a committee of its Trust Officers in good faith determines that withholding the notice is in the interests of Holders.

Section 9.06 Reports by Trustee to Holders.

Within 60 days after the reporting date stated in Section 12.10, the Trustee shall mail to Holders a brief report dated as of such reporting date that complies with TIA (S) 313(a) if and to the extent required by such (S) 313(a). The Trustee also shall comply with TIA (S) 313(b)(2). The Trustee shall also transmit by mail all reports as required by TIA (S) 313(c).

A copy of each report at the time of its mailing to Holders shall be filed with the SEC and each stock exchange on which the Notes are listed. The Company shall notify the Trustee when the Notes are listed on any stock exchange.

Section 9.07 Compensation and Indemnity.

The Company shall pay to the Trustee from time to time reasonable compensation for its services hereunder. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee upon request for all reasonable disbursements, expenses and advances incurred or made by it. Such disbursements and expenses may include the reasonable disbursements, compensation and expenses of the Trustee's agents and counsel.

The Company shall indemnify the Trustee against any claims, demands, expenses (including but not limited to reasonable compensation, fees, disbursements and expenses of the Trustee's agents and counsel), losses, damages or liabilities incurred by it, except as set forth in the next paragraph, arising out of, related to, or in connection with the acceptance or administration of this trust and its rights or duties hereunder, including the reasonable costs and expenses, and the costs and expenses of enforcing this Indenture (including this Section 9.07) against the Company and of defending itself against any claim (whether asserted by the Company, or any Holder or any other person) or liability in connection with the exercise or performance of any of its powers or duties hereunder. The Trustee shall notify the Company promptly of any claim for which it may seek indemnity. The Company shall defend the claim and the Trustee shall cooperate in the defense. The Trustee may have separate counsel and the Company shall pay the reasonable fees, disbursements and expenses of such counsel. The Company need not pay for any settlement made without its consent, which consent shall not be unreasonably withheld.

The Company need not reimburse any expense or indemnify against any loss or liability incurred by the Trustee through negligence or bad faith.

To secure the Company's payment obligations in this Section 9.07, the Trustee shall have a lien prior to the Notes on all money or property held or collected by the Trustee, except money or property held in trust to pay principal and interest on particular Notes.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Without prejudice to any other rights available to the Trustee under applicable law, when the Trustee incurs expenses or renders services after an Event of Default specified in Section 8.01(f) or (g) hereof occurs, the expenses and the compensation for the services are intended to constitute expenses of administration under any Bankruptcy Law.

All amounts owing to the Trustee under this Section 9.07 shall be payable by the Company in United States dollars.

Section 9.08 Replacement of Trustee.

A resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon the successor Trustee's acceptance of appointment as provided in this Section 9.08.

The Trustee may resign by so notifying the Company. The Holders of a majority in principal amount of the then outstanding Notes may remove the Trustee by so notifying the Trustee and the Company. The Company may remove the Trustee if:

(a) the Trustee fails to comply with Section 9.10 hereof, unless the Trustee's duty to resign is stayed as provided in TIA (S) 310(b);

(b) the Trustee is adjudged a bankrupt or an insolvent or an order for relief is entered with respect to the Trustee under any Bankruptcy Law;

(c) a Custodian or public officer takes charge of the Trustee or its property; or

(d) the Trustee becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint a successor Trustee. Within one year after the successor Trustee takes office, the Holders of a majority in principal amount of the then outstanding Notes may appoint a successor Trustee to replace the successor Trustee appointed by the Company.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of at least 10% in principal amount of the then outstanding Notes may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 9.10 hereof, unless the Trustee's duty to resign is stayed as provided in TIA (S) 310(b), any Holder who has been a bona fide Holder of a Note for at least six months may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Holders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in Section 9.07 hereof. Notwithstanding replacement of the Trustee pursuant to this Section 9.08 hereof, the Company's obligations under Section 9.07 hereof shall continue for the benefit of the retiring trustee with respect to expenses and liabilities incurred by it prior to such replacement.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

Section 9.09 Successor Trustee by Merger, Etc.

If the Trustee consolidates, merges or converts into, or transfers all or substantially all of its corporate trust business (including the administration of this Indenture) to, another corporation, the successor corporation without any further act shall be the successor Trustee.

Section 9.10 Eligibility; Disqualification.

This Indenture shall always have a Trustee who satisfies the requirements of TIA (S) 310(a)(1) and (5). The Trustee shall always have a combined capital and surplus as stated in Section 12.10 hereof. The Trustee is subject to TIA (S) 310(b).

Section 9.11 Preferential Collection of Claims Against Company.

The Trustee is subject to TIA (S) 311(a), excluding any creditor relationship listed in TIA (S) 311(b). A Trustee who has resigned or been removed shall be subject to TIA (S) 311(a) to the extent indicated therein.

ARTICLE X.
DISCHARGE OF INDENTURE

Section 10.01 Termination of Company's Obligations.

This Indenture shall cease to be of further effect (except that the Company's obligations under Sections 9.07 and 10.02 hereof shall survive) when all outstanding Notes theretofore authenticated and issued have been delivered to the Trustee for cancellation and the Company has paid all sums payable hereunder.

Section 10.02 Repayment to Company.

The Trustee and the Paying Agent shall promptly pay to the Company upon request any excess money or securities held by them at any time.

The Trustee and the Paying Agent shall pay to the Company upon request any money held by them for the payment of principal or interest that remains unclaimed for two years after the date upon which such payment shall have become due; provided, however, that the Company shall have first caused notice of such payment to the Company to be mailed to each Holder entitled thereto no less than 30 days prior to such payment. After payment to the Company, the Trustee and the Paying Agent shall have no further liability with respect to such money and Holders entitled to the money must look to the Company for payment as general creditors unless any applicable abandoned property law designates another Person.

ARTICLE XI.
AMENDMENTS, SUPPLEMENTS AND WAIVERS

Section 11.01 Without Consent of Holders.

The Company and the Trustee may amend or supplement this Indenture or the Notes without the consent of any Holder:

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(a) to cure any ambiguity, omission, defect or inconsistency;

(b) to provide for uncertificated Notes in addition to or in place of certificated Notes or to alter the provisions of Article II hereof (including the related definitions) in a manner that does not materially adversely affect any Holder;

(c) to comply with Sections 5.12 and 7.01 hereof;

(d) to reduce the conversion price;

(e) to increase the aggregate principal amount of the Notes issuable pursuant to Section 2.02 hereof, in an amount not in excess of $18,750,000, in the event that the underwriters that are underwriting the Notes exercise the over-allotment option granted to them by the Company;

(f) to make any other change that would provide any additional rights or benefits to the Holders or that does not adversely affect the legal rights hereunder of any such Holder; or

(g) to comply with the requirements of the SEC in order to maintain the qualification of this Indenture under the TIA.

Upon the request of the Company accompanied by a resolution of its Board of Directors authorizing the execution of any such amended or supplemental Indenture, and upon receipt by the Trustee of the documents described in Section 11.02 hereof, the Trustee shall join with the Company in the execution of any amended or supplemental Indenture authorized or permitted by the terms of this Indenture and to make any further appropriate agreements and stipulations that may be therein contained, but the Trustee shall not be obligated to enter into such amended or supplemental Indenture that affects its own rights, duties or immunities under this Indenture or otherwise.

Section 11.02 With Consent of Holders.

Subject to Section 8.07 hereof, the Company and the Trustee may amend or supplement this Indenture or the Notes with the written consent of the Holders of a majority in principal amount of the then outstanding Notes, including consents obtained in connection with a tender offer or exchange offer for the Notes Subject to Sections 8.04 and 8.07 hereof, the Holders of a majority in principal amount of the Notes then outstanding may also waive compliance in a particular instance by the Company with any provision of this Indenture or the Notes. However, without the consent of each Holder affected, an amendment, supplement or waiver under this Section 11.02 may not:

(a) reduce the principal amount of Notes whose Holders must consent to an amendment, supplement or waiver;

(b) reduce the principal of or change the fixed maturity of any Note or alter the provisions of Section 6 of the Notes, except for repurchases of the Notes pursuant to Section 3.09 of this Indenture and Section 10 of the Notes;

(c) reduce the rate of or change the time for payment or accrual of interest on any Note;

(d) waive a default in the payment of the principal of or interest on any Note, except a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of the Notes and a waiver of the payment default that resulted from such acceleration;

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

(e) increase the Conversion Price;

(f) make any Note payable in money other than that stated in the Notes;

(g) make any change in Section 8.04 or 8.07 hereof;

(h) waive a redemption payment with respect to any Note;

(i) impair the right to convert the Notes into Class A Common Stock;

(j) modify Article V or VI in a manner adverse to the Holders of Notes; and

(k) make any change in the foregoing amendment and waiver provisions of this Article XI.

To secure a consent of the Holders under this Section 11.02, it shall not be necessary for the Holders to approve the particular form of any proposed amendment, supplement or waiver, but it shall be sufficient if such consent approves the substance thereof.

After an amendment, supplement or waiver under this Section 11.02 becomes effective, the Company shall mail to Holders a notice briefly describing the amendment or waiver.

Section 11.03 Compliance with Trust Indenture Act.

Every amendment to this Indenture or the Notes shall be set forth in a supplemental indenture that complies with the TIA as then in effect.

Section 11.04 Revocation and Effect of Consents.

Until an amendment, supplement or waiver becomes effective, a consent to it by a Holder of a Note is a continuing consent by the Holder and every subsequent Holder of a Note or portion of a Note that evidences the same debt as the consenting Holder's Note, even if notation of the consent is not made on any Note. However, any such Holder or subsequent Holder may revoke the consent as to his Note or portion of a Note if the Trustee receives the notice of revocation before the date on which the Trustee receives an Officers' Certificate certifying that the Holders of the requisite principal amount of Notes have consented to the amendment, supplement or waiver.

The Company may, but shall not be obligated to, fix a record date for the purpose of determining the Holders entitled to consent to any amendment, supplement or waiver. If a record date is fixed, then notwithstanding the provisions of the immediately preceding paragraph, those Persons who were Holders at such record date (or their duly designated proxies), and only those Persons, shall be entitled to consent to such amendment, supplement or waiver or to revoke any consent previously given, whether or not such Persons continue to be Holders after such record date. No consent shall be valid or effective for more than 90 days after such record date unless consents from Holders of the principal amount of Notes required hereunder for such amendment or waiver to be effective shall have also been given and not revoked within such 90-day period.

After an amendment, supplement or waiver becomes effective it shall bind every Holder, unless it is of the type described in any of clauses (a) through (j) of Section 11.02 hereof. In such case, the

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

amendment or waiver shall bind each Holder who has consented to it and every subsequent Holder that evidences the same debt as the consenting Holder's Note.

Section 11.05 Notation on or Exchange of Notes.

The Trustee may place an appropriate notation about an amendment or waiver on any Note thereafter authenticated. The Company in exchange for all Notes may issue and the Trustee shall authenticate new Notes that reflect the amendment or waiver.

Failure to make such notation on a Note or to issue a new Note as aforesaid shall not affect the validity and effect of such amendment or waiver.

Section 11.06 Trustee Protected.

The Trustee shall sign all supplemental indentures, except that the Trustee may, but need not, sign any supplemental indenture that adversely affects its rights.

ARTICLE XII.
MISCELLANEOUS

Section 12.01 Trust Indenture Act Controls.

This Indenture is subject to the provisions of the TIA that are required to be incorporated into this Indenture (or, prior to the registration of the Notes pursuant to the Registration Rights Agreement, would be required to be incorporated into this Indenture if it were qualified under the TIA), and shall, to the extent applicable, be governed by such provisions. If any provision of this Indenture limits, qualifies, or conflicts with another provision which is required (or would be so required) to be incorporated in this Indenture by the TIA, the incorporated provision shall control.

Section 12.02 Notices.

Any notice or communication by the Company or the Trustee to the other is duly given if in writing and delivered in Person or mailed by first class mail to the other's address stated in Section 12.10 hereof. The Company or the Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication to a Holder shall be mailed by first class mail to his address shown on the register kept by the Registrar. Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders.

If a notice or communication is mailed in the manner provided above within the time prescribed, it is duly given, whether or not the addressee receives it.

If the Company mails a notice or communication to Holders, it shall mail a copy to the Trustee and each Agent at the same time.

All other notices or communications shall be in writing.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

In case by reason of the suspension of regular mail service, or by reason of any other cause, it shall be impossible to mail any notice as required by the Indenture, then such method of notification as shall be made with the approval of the Trustee shall constitute a sufficient mailing of such notice.

Section 12.03 Communication by Holders with Other Holders.

Holders may communicate pursuant to TIA (S) 312(b) with other Holders with respect to their rights under this Indenture or the Notes. The Company, the Trustee, the Registrar and anyone else shall have the protection of TIA (S) 312(c).

Section 12.04 Certificate and Opinion as to Conditions Precedent.

Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee:

(a) an Officers' Certificate stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(b) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

Section 12.05 Statements Required in Certificate or Opinion.

Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture (other than pursuant to Section 4.02) shall include:

(a) a statement that the Person signing such certificate or rendering such opinion has read such covenant or condition;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(c) a statement that, in the opinion of such Person, such Person has made such examination or investigation as is necessary to enable such Person to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether or not, in the opinion of such Person, such condition or covenant has been complied with.

Section 12.06 Rules by Trustee and Agents.

The Trustee may make reasonable rules for action by, or a meeting of, Holders. The Registrar or Paying Agent may make reasonable rules and set reasonable requirements for its functions.

Section 12 07 Legal Holidays.

A "Legal Holiday" is a Saturday, a Sunday or a day on which banking institutions in the State of New York are not required to be open. If a payment date is a Legal Holiday at a place of payment, payment may be made at that place on the next succeeding day that is not a Legal Holiday, and no

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

interest shall accrue for the intervening period. If any other operative date for purposes of this Indenture shall occur on a Legal Holiday then for all purposes the next succeeding day that is not a Legal Holiday shall be such operative date.

Section 12.08 No Recourse Against Others.

A director, officer, employee, agent, incorporator, stockholder or agent of the Company, as such, shall not have any liability for any Obligations of the Company under the Notes or this Indenture or for any claim based on, in respect of or by reason of such Obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Notes.

Section 12.09 Governing Law, submission to jurisdiction.

THIS INDENTURE AND THE SECURITIES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AS APPLIED TO CONTRACTS MADE AND PERFORMED WITHIN THE STATE OF NEW YORK. THE COMPANY HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY NEW YORK STATE COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK OR ANY FEDERAL COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS INDENTURE AND THE SECURITIES, AND IRREVOCABLY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, JURISDICTION OF THE AFORESAID COURTS. THE COMPANY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO UNDER APPLICABLE LAW, TRIAL BY JURY AND ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. NOTHING HEREIN SHALL AFFECT THE RIGHT OF TIE TRUSTEE OR ANY SECURITYHOLDER TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST THE COMPANY IN ANY OTHER JURISDICTION.

Section 12.10 Counterparts and Facsimile Signatures.

This Indenture may be executed by manual or facsimile signature in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

Section 12.11 Variable Provisions.

The first certificate pursuant to Section 4.02 hereof shall be for the fiscal year ended December 31, 2001.

The reporting date for Section 9.06 hereof is February 15, of each year. The first reporting date is February 15, 2002.

The Trustee shall always have a combined capital and surplus of at least $100,000,000 as set forth in its most recent published annual report of condition.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

The Company's address is:

XM Satellite Radio Holdings Inc.
1500 Eckington Place, NE
Washington, D.C. 20002
Telecopy: (202) _____
Attention: Chief Financial Officer

The Trustee's address is:

United States Trust Company of New York
114 West 47/th/ Street
New York, N.Y. 10036
Telecopy: (212) 852-1626
Attention: Corporate Trust Division

Section 12.12 Governing Law, submission to jurisdiction.

THE INTERNAL LAWS OF THE STATE OF NEW YORK SHALL GOVERN THIS INDENTURE AND THE NOTES, WITHOUT REGARD TO THE CONFLICT OF LAWS PROVISIONS THEREOF.

Section 12 13 No Adverse Interpretation of Other Agreements.

This Indenture may not be used to interpret another indenture, loan or debt agreement of the Company or an Affiliate. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

Section 12.14 Successors.

All agreements of the Company in this Indenture and the Notes shall bind its successor. All agreements of the Trustee in this Indenture shall bind its successor.

Section 12.15 Severability.

In case any provision in this Indenture or in the Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 12.16 Table of Contents, Headings, Etc.

The Table of Contents, Cross-Reference Table, and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, all as of the date first written above.

XM SATELLITE RADIO HOLDINGS INC.

By:_____
Name:
Title:

UNITED STATES TRUST COMPANY OF NEW YORK,
as Trustee

By:_____
Name:
Title:

</TEXT>
</DOCUMENT>

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

THIS GLOBAL NOTE IS HELD BY THE DEPOSITARY (AS DEFINED IN THE INDENTURE GOVERNING THIS NOTE) OR ITS NOMINEE IN CUSTODY FOR THE BENEFIT OF THE BENEFICIAL OWNERS HEREOF, AND IS NOT TRANSFERABLE TO ANY PERSON UNDER ANY CIRCUMSTANCES EXCEPT THAT (I) THE TRUSTEE MAY MAKE SUCH NOTATIONS HEREON AS MAY BE REQUIRED PURSUANT TO SECTION 2.01 OF THE INDENTURE, (II) THIS GLOBAL NOTE MAY BE EXCHANGED IN WHOLE BUT NOT IN PART PURSUANT TO SECTION 2.06(a) OF THE INDENTURE, (III) THIS GLOBAL NOTE MAY BE DELIVERED TO THE TRUSTEE FOR CANCELLATION PURSUANT TO SECTION 2.11 OF THE INDENTURE AND (IV) THIS GLOBAL NOTE MAY BE TRANSFERRED TO A SUCCESSOR DEPOSITARY WITH THE PRIOR WRITTEN CONSENT OF THE COMPANY.

No. 1

$125,000,000

CUSIP No. 983759AA9

7.75% CONVERTIBLE SUBORDINATED NOTE DUE 2006

XM Satellite Radio Holdings Inc.

XM Satellite Radio Holdings Inc., a Delaware corporation (the "Company"), promises to pay to Cede & Co. or registered assigns, the principal sum of ONE HUNDRED TWENTY FIVE MILLION DOLLARS ($125,000,000), or such other amount as is indicated on Schedule A hereof, on March 1, 2006, subject to the further provisions of this Note set forth on the reverse hereof which further provisions shall for all purposes have the same effect as if set forth at this place.

Interest Payment Dates: March 1 and September 1, commencing September 1, 2001

Record Dates: February 15 and August 15

[REMAINDER OF PAGE INTENTIONALLY BLANK]

IN WITNESS WHEREOF, XM Satellite Radio Holdings Inc. has caused this Note to be signed manually or by facsimile by two of its duly authorized officers.

Dated:_____

XM SATELLITE RADIO HOLDINGS INC.

By:_____
Name:
Title:

By:_____
Name:
Title.

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the 7.75% Convertible Subordinated Notes due 2006 described in the within-mentioned Indenture.

United States Trust Company of New York, as Trustee

By:_____
Name:
Title:

REVERSE OF NOTE

XM SATELLITE RADIO HOLDINGS INC.

7.75% Convertible Subordinated Note due 2006

1. Interest. XM SATELLITE RADIO HOLDINGS INC., a Delaware corporation (the "Company"), is the issuer of 7.75% Convertible Subordinated Notes due 2006 (the "Notes"). The Notes will accrue interest at a rate of 7.75% per annum. The Company promises to pay interest on the Notes in cash semiannually on each March 1 and September 1, commencing on September 1, 2001, to Holders of record on the immediately preceding February 15 and August 15, respectively. Interest on the Notes will accrue from the most recent date to which interest has been paid, or if no interest has been paid, from March 6, 2001. Interest will be computed on the basis of a 360-day year of twelve 30-day months. The Company will pay interest on overdue principal at the interest rate borne by the Notes, compounded semiannually, and it shall pay interest on overdue installments of interest (without regard to any applicable grace period) at the same interest rate compounded semiannually.

2. Payments. All payments made by the Company on this Note shall be made without deduction or withholding for or on account of, any and all present or future taxes, duties, assessments, or governmental charges of whatever nature unless the deduction or withholding of such taxes, duties, assessments or governmental charges is then required by law.

3. Method of Payment. The Company will pay interest on the Notes (except with respect to defaulted interest, which may be paid at such earlier date as specified in the Indenture) to the Persons who are registered Holders of Notes at the close of business on the Record Date for the next Interest Payment Date even though Notes are canceled after the Record Date and on or before the Interest Payment Date. Holders must surrender Notes to a Paying Agent to collect principal and premium payments. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. However, the Company may pay principal and interest, if any, by check payable in such money. It may mail an interest check to a Holder's address set forth in the register of Holders. If a Holder who holds at least $5.0 million aggregate principal amount of the Notes so requests, principal, premium, if any, and interest shall be paid by wire transfer of immediately available funds to an account previously specified in writing by such Holder to the Company and the Trustee.

4. Paying Agent, Conversion Agent and Registrar. The Trustee will act as Paying Agent, Conversion Agent and Registrar in the City of New York, New York. The Company may change any Paying Agent, Conversion Agent or Registrar without prior notice. The Company or any of its Subsidiaries may act in any such capacity.

5. Indenture. The Company issued the Notes under an Indenture, dated as of March 6, 2001 (the "Indenture"), between the Company and United States Trust Company of New York, as Trustee. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by the Trust Indenture Act of 1939 (15 U.S. Code (S)(S) 77aaa-77bbbb) (the "TIA") as in effect on the date of the Indenture. The Notes are subject to, and qualified by, all such terms, certain of which are summarized hereon, and Holders are referred to the Indenture and such Act for a statement of such terms. The Notes are unsecured general obligations of the Company limited to $125,000,000 in aggregate principal amount and subordinated in right of payment to all existing and future Senior Debt of the Company.

Source. XM SATELLITE RADIO H, 10-K, March 15, 2001

6. Optional Redemption. At any time on or after March 3, 2004, the Company may redeem any portion of the Notes, in whole or in part, on at least 30 days but no more than 60 days' notice, at the following prices (expressed as a percentage of the principal amount), together with accrued and unpaid interest to, but excluding, the redemption date:

Redemption Period	Redemption Price
March 3, 2004 through March 2, 2005	103.100%
March 3, 2005 through February 28, 2006	101.550%

and 100% of the principal amount on March 1, 2006.

In the event the Company redeems less than all of the outstanding Notes, the Notes to be redeemed shall be selected by the Trustee in accordance with Section 3.02 of the Indenture. In the event a portion of an outstanding Note is selected for redemption and such Note is converted in part after such selection, the converted portion of such Note shall be deemed (so far as may be) to be the portion to be selected for redemption in accordance with Section 3.02 of the Indenture. The Company may not give notice of any redemption if the Company has defaulted in payment of interest and the default is continuing.

7. Notice of Redemption. Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each Holder of the Notes to be redeemed at such Holder's address of record. The Notes in denominations larger than $1,000 may be redeemed in part but only in integral multiples of $1,000. In the event of a redemption of less than all of the Notes, the Notes will be chosen for redemption by the Trustee in accordance with the Indenture. On and after the redemption date, interest ceases to accrue on the Notes or portions of them called for redemption.

If this Note is redeemed subsequent to a Record Date with respect to any Interest Payment Date specified above and on or prior to such Interest Payment Date, then any accrued interest will be paid to the Person in whose name this Note is registered at the close of business on such Record Date. The above description of redemption of Notes is qualified by reference to, and is subject in its entirety by, the more complete description thereof contained in the Indenture.

8. Mandatory Redemption. Except as set forth in Section 9 below, the Company will not be required to make mandatory redemption or repurchase payments with respect to the Notes. There are no sinking fund payments with respect to the Notes.

9 Repurchase at Option of Holder. If there is a Change in Control, the Company shall be required to offer to purchase on the Purchase Date all outstanding Notes at a purchase price equal to 100% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to the Purchase Date. Holders of Notes that are subject to an offer to purchase will receive a Change of Control Offer from the Company in accordance with Section 3.09 of the Indenture and may elect to have such Notes or portions thereof in authorized denominations purchased by completing the form entitled "Option of Holder to Elect Purchase" appearing below.

10. Subordination. The payment of the principal of, interest on or any other amounts due on the Notes is subordinated in right of payment to all existing and future Senior Debt of the Company, as described in the Indenture. Each Holder, by accepting a Note, agrees to such subordination and authorizes and directs the Trustee on its behalf to take such action as may be necessary or

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

appropriate to effectuate the subordination so provided and appoints the Trustee as its attorney-in-fact for such purpose.

11. Conversion. The holder of any Note has the right, exercisable at any time after 90 days following the Issuance Date and prior to the close of business (New York time) on the date of the Note's maturity, to convert the principal amount thereof (or any portion thereof that is an integral multiple of $1,000) into shares of Class A Common Stock at the initial Conversion Price of $12.225 per share, subject to adjustment under certain circumstances as set forth in the Indenture, except that if a Note is called for redemption, the conversion right will terminate at the close of business on the Business Day immediately preceding the date fixed for redemption (unless the Company shall default in making the redemption payment when it becomes due, in which case the conversion right shall terminate on the date such default is cured).

To convert a Note, a holder must (1) complete and sign a conversion notice substantially in the form set forth below, (2) surrender the Note to a Conversion Agent, (3) furnish appropriate endorsements or transfer documents if required by the Registrar or Conversion Agent and (4) pay any transfer or similar tax, if required. No payment or other adjustment shall be made for accrued interest or dividends on any Class A Common Stock issued upon conversion of the Notes. If any Notes are converted during any period after any Record Date for the payment of an installment of interest but before the next Interest Payment Date, interest for such notes will be paid on the next Interest Payment Date, notwithstanding such conversion, to the Holders of such Notes. Any Notes that are, however, delivered to the Company for conversion after any Record Date but before the next Interest Payment Date must, except as described in the next sentence, be accompanied by a payment equal to the interest payable on such Interest Payment Date on the principal amount of Notes being converted. The payment to the Company described in the preceding sentence shall not be required if, during that period between a Record Date and the next Interest Payment Date, a conversion occurs on or after the date that the Company has issued a redemption notice and prior to the date of redemption stated in such notice. No fractional shares will be issued upon conversion, but a cash adjustment will be made for any fractional shares.

A Note in respect of which a Holder has delivered an "Option of Holder to Elect Purchase" form appearing below exercising the option of such Holder to require the Company to purchase such Note may be converted only if the notice of exercise is withdrawn as provided above and in accordance with the terms of the Indenture. The above description of conversion of the Notes is qualified by reference to, and is subject in its entirety by, the more complete description thereof contained in the Indenture.

12. Denominations, Transfer, Exchange. The Notes are in registered form, without coupons, in denominations of $1,000 and integral multiples of $1,000. The transfer of Notes may be registered, and Notes may be exchanged, as provided in the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need not exchange or register the transfer of any Note or portion of a Note selected for redemption (except the unredeemed portion of any Note being redeemed in part). Also, it need not exchange or register the transfer of any Note for a period of 15 days before a selection of Notes to be redeemed.

13. Persons Deemed Owners. The registered Holder of a Note shall be treated as its owner for all purposes.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

14. Unclaimed Money. If money for the payment of principal or interest remains unclaimed for two years, the Trustee and the Paying Agent shall pay the money back to the Company at its written request. After that, Holders of Notes entitled to the money must look to the Company for payment unless an abandoned property law designates another Person and all liability of the Trustee and such Paying Agent with respect to such money shall cease.

15. Defaults and Remedies. The Notes shall have the Events of Default set forth in Section 8.01 of the Indenture. Subject to certain limitations in the Indenture, if an Event of Default occurs and is continuing (other than an Event of Default arising from certain events of bankruptcy, insolvency or reorganization set forth in the Indenture), the Trustee by notice to the Company or the Holders of at least 25% in aggregate principal amount of the then outstanding Notes by notice to the Company and the Trustee may declare all the Notes to be due and payable immediately. If an Event of Default arising from certain events of bankruptcy, insolvency or reorganization set forth in the Indenture occurs with respect to the Company, such principal of, premium, if any, and interest on the Notes shall become and be due and payable immediately without further action or notice. If an Event of Default arising from certain events of bankruptcy, insolvency or reorganization set forth in the Indenture occurs with respect to any Significant Subsidiary or Significant Subsidiaries of the Company, the Trustee by notice to the Company or the Holders of at least 25% in aggregate principal amount of the then outstanding Notes by notice to the Company and the Trustee may declare all the Notes to be due and payable immediately. The Holders of a majority in principal amount of the then outstanding Notes by written notice to the Trustee may on behalf of all Holders of the Notes waive an existing Default or Event of Default and its consequences except a continuing Default or Event of Default in the payment of the principal or interest on any Note. Holders may not enforce the Indenture or the Notes except as provided in the Indenture. Subject to certain limitations set forth in the Indenture, Holders of a majority in principal amount of the then outstanding Notes issued under the Indenture may direct the Trustee in its exercise of any trust or power. The Company must furnish annually compliance certificates to the Trustee. The above description of Events of Default and remedies is qualified by reference, and subject in its entirety, to the more complete description thereof contained in the Indenture.

16. Amendments, Supplements and Waivers. Subject to certain exceptions set forth in the Indenture, the Indenture or the Notes may be amended or supplemented with the consent of the Holders of a majority in principal amount of the then outstanding Notes (including consents obtained in connection with a tender offer or exchange offer for Notes), and any existing default may be waived with the consent of the Holders of a majority in principal amount of the then outstanding Notes. Without the consent of any Holder, the Indenture or the Notes may be amended among other things, to cure any ambiguity, defect or inconsistency, to provide for uncertificated Notes in addition to or in place of certificated Notes, to provide for assumption of the Company's obligations to Holders, to reduce the conversion price, to make any change that does not adversely affect the rights of any Holder or to qualify the Indenture under the TIA or to comply with the requirements of the SEC in order to maintain the qualification of the Indenture under the TIA.

17. Trustee Dealings with the Company. The Trustee, in its individual or any other capacity may become the owner or pledgee of the Notes and may otherwise deal with the Company or an Affiliate with the same rights it would have, as if it were not Trustee, subject to certain limitations set forth in the Indenture and in the TIA. Any Agent may do the same with like rights.

18. No Recourse Against Others. A director, officer, employee, incorporator, agent or shareholder of the Company, as such, shall not have any liability for any obligations of the Company under the Notes or the Indenture or for any claim based on, in respect of or by reason of such obligations

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

or their creation. Each Holder of the Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Notes.

19. Governing Law. THIS INDENTURE AND THE SECURITIES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AS APPLIED TO CONTRACTS MADE AND PERFORMED WITHIN THE STATE OF NEW YORK. THE COMPANY HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY NEW YORK STATE COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK OR ANY FEDERAL COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS INDENTURE AND THE SECURITIES, AND IRREVOCABLY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, JURISDICTION OF THE AFORESAID COURTS. THE COMPANY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO UNDER APPLICABLE LAW, TRIAL BY JURY AND ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. NOTHING HEREIN SHALL AFFECT THE RIGHT OF TIE TRUSTEE OR ANY SECURITYHOLDER TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST THE COMPANY IN ANY OTHER JURISDICTION.

20. Authentication. The Notes shall not be valid until authenticated by the manual signature of an authorized officer of the Trustee or an authenticating agent.

21. Abbreviations. Customary abbreviations may be used in the name of a Holder or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian), and UGMA (= Uniform Gifts to Minors Act).

The Company will furnish to any Holder of the Notes upon written request and without charge a copy of the Indenture. Request may be made to:

XM Satellite Radio Holdings Inc.
1500 Eckington Place, NE
Washington, DC 20002
Attention: [Investor Relations]

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

ASSIGNMENT FORM

To assign this Note, fill in the form below:

(I) or (we) assign and transfer this Note to

_____

(Insert assignee's social security or tax I.D. no.)

_____

_____

(Print or type assignee's name, address and zip code)

and irrevocably appoint _____ agent to transfer this Note on the books of the Company. The agent may substitute another to act for him.

Your Signature:_____

(Sign exactly as your name appears on the other side of this Note)

Date: _____

Signature Guarantee: * _____

_____

* Signature must be guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange

Source: XM SATELLITE RADIO H, 10-K, March 15, 2001

OPTION OF HOLDER TO ELECT PURCHASE

UPON A CHANGE IN CONTROL

If you want to elect to have this Note or a portion thereof repurchased by the Company upon a Change in Control pursuant to Section 3.09 or 4.06 of the Indenture, check the box: [ ]

If the purchase is in part, indicate the portion (in denominations of $1,000 or any integral multiple thereof) to be purchased: _____

Your Signature:_____
(Sign exactly as your name appears on the other side of this Note)

Date: _____

Signature Guarantee:**

_____

** Signature must be guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

ELECTION TO CONVERT

To XM Satellite Radio Holdings Inc.:

The undersigned owner of this Note hereby irrevocably exercises the option to convert this Note, or the portion below designated, into Class A Common Stock of XM Satellite Radio Holdings Inc. in accordance with the terms of the Indenture referred to in this Note, and directs that the shares issuable and deliverable upon conversion, together with any check in payment for fractional shares, be issued in the name of and delivered to the undersigned, unless a different name has been indicated in the assignment below. If the shares are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto.

Date:_____

in whole ___

Portions of Note to be converted ($1,000 or integral multiples thereof): $_____

_____
Signature

Please Print or Typewrite Name and Address, Including Zip Code, and Social Security or Other Identifying Number

_____

_____

_____

Signature Guarantee:* _____

* Signature must be guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

SCHEDULE A

SCHEDULE OF PRINCIPAL AMOUNT

The initial principal amount of this Global Note shall be $125,000,000. The following increases or decreases in the principal amount of this Global Note have been made:

Amount of decrease in principal amount of this Global Note	Amount of increase in principal amount of this Global Note	Principal amount of this Global Note	Signature of authorized officer of Trustee or Notes Custodian	Date of exchange following such decrease or increase

</TEXT>
</DOCUMENT>

Exhibit 21.1

Subsidiaries of XM Satellite Radio Holdings Inc.

XM Satellite Radio Inc.

Subsidiaries of XM Satellite Radio Inc.

XM Radio Inc.
XM Equipment Leasing LLC
XM Innovations Inc.
</TEXT>
</DOCUMENT>

Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
XM Satellite Radio Holdings Inc. and Subsidiaries:

We consent to the incorporation by reference in the registration statements Nos. 333-47570, 333-93529 and 333-39176 on Forms S-3 and Nos. 333-92049 and 333-42590 on Form S-8 of XM Satellite Radio Holdings Inc. and subsidiaries of our reports dated February 9, 2001 with respect to the consolidated balance sheets of XM Satellite Radio Holdings Inc. and subsidiaries (a development stage company) as of December 31, 1999 and 2000 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the years in the three-year period ended December 31, 2000 and for the period from December 15, 1992 (date of inception) to December 31, 2000, and related schedule, which reports appear in the December 31, 2000 annual report on Form 10-K of XM Satellite Radio Holdings Inc. and subsidiaries.

Our reports, dated February 9, 2001, contain an explanatory paragraph that states that the Company has not commenced operations and is dependent upon additional debt or equity financing, which raises substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty.

/s/ KPMG LLP

McLean, VA
March 14, 2001
</TEXT>
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10kWIZARD
SEC POWER SEARCH

FORM 10-K405

XM SATELLITE RADIO HOLDINGS INC - XMSR

Filed: March 19, 2002 (period: December 31, 2001)

Annual report. The Regulation S-K Item 405 box on the cover page is checked

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EX-23.1 (Consents of experts and counsel)

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For The Fiscal Year Ended December 31, 2001

XM SATELLITE RADIO HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Commission file number 000-27441

DELAWARE (State or other jurisdiction of incorporation or organization)	54-1878819 (I.R.S. Employer Identification No.)

1500 ECKINGTON PLACE NE,
WASHINGTON, DC 20002-2194

(Address of principal executive offices)
(Zip code)

202-380-4000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Not Applicable

Securities registered pursuant to Section 12(g) of the Act:
Class A Common Stock, par value $ 01
per share 8.25% Series B Convertible Redeemable
Preferred Stock, par value $.01 per share
(Title of Classes)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days

Yes X No

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

The aggregate market value of common stock held by non-affiliates of the registrant, based upon the closing price of the registrant's Class A common stock as of March 15, 2002, is $786,676,660.

XM SATELLITE RADIO INC.

(Exact name of registrant as specified in its charter)

Commission file number 333-39178

DELAWARE (State or other jurisdiction of incorporation or organization)	52-1805102 (I.R.S. Employer Identification No.)

1500 ECKINGTON PLACE NE,
WASHINGTON, DC 20002-2194

(Address of principal executive offices)
(Zip code)

202-380-4000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act
Not Applicable

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

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

Not Applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days

Yes X No

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

The aggregate market value of common stock held by non-affiliates of the registrant as of March 15, 2002 is $0.

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 March 15, 2002)
XM SATELLITE RADIO HOLDINGS INC.	
CLASS A COMMON STOCK, $0 01 PAR VALUE	75,290,724 SHARES
XM SATELLITE RADIO INC.	
COMMON STOCK, $0 10 PAR VALUE	125 SHARES (all of which are issued to XM Satellite Radio Holdings Inc)

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 23, 2002, 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 10-13 of this Form 10-K.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

XM SATELLITE RADIO INC. AND SUBSIDIARIES

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Except for any historical information, the matters we discuss in this Form 10-K contain forward-looking statements. Any statements in this Form 10-K that are not statements of historical fact, are intended to be, and are, "forward-looking statements" under the safe harbor provided by Section 27(a) of the Securities Act of 1933. Without limitation, the words "anticipates," "believes," "estimates," "expects," "intends," "plans" and similar expressions are intended to identify forward-looking statements The important factors we discuss below and under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as other factors identified in our filings with the SEC and those presented elsewhere by our management from time to time, could cause actual results to differ materially from those indicated by the forward-looking statements made in this Form 10-K

EXPLANATORY NOTE

This annual report is filed jointly by XM Satellite Radio Holdings Inc ("Holdings") and XM Satellite Radio Inc. ("XM"). XM is a wholly-owned subsidiary of Holdings. Unless the context requires otherwise, the terms "we," "our" and "us" refer to Holdings and its subsidiaries. This report on Form 10-K contains separate financial statements for each of Holdings and XM. The management's discussion and analysis section has been combined, focusing on the financial condition and results of operations of Holdings but including an explanation of any significant differences between the companies.

PART I

ITEM 1 BUSINESS

Overview

We seek to become a premier nationwide provider of audio entertainment and information programming for reception by vehicle, home and portable radios. Through our two high-power satellites "Rock" and "Roll," our XM Radio service offers 100 channels of music, news, talk, sports and children's programming developed by us or third parties for a monthly subscription price of $9.99. We believe XM Radio appeals to consumers because of our clear sound quality from digital signal radios, extensive variety of programming and nationwide coverage. We will build a subscriber base for XM Radio through multiple distribution channels, including an exclusive distribution arrangement with General Motors, other automotive manufacturers, car audio dealers and national electronics retailers. We launched commercial service in Dallas/Ft. Worth and San Diego on September 25, 2001. We continued our rollout through the southeastern and southwestern U.S. during October and we became the first nationwide satellite radio service on November 12, 2001

We transmit the XM Radio signal throughout the continental United States from "Rock" and "Roll." We have a network of terrestrial repeaters, which are ground-based electronics equipment that receive and re-transmit the satellite signals to augment our satellite signal coverage. Mass production of chipsets and XM radios has commenced to meet expected demand XM radios are now available under the Sony, Pioneer and Alpine brand names at national consumer electronics retailers, such as Circuit City, Best Buy, participating Radio Shack dealers and franchisees, Sears and others.

We offer our consumers a unique listening experience by providing 100 channels of programming, coast-to-coast coverage and clear sound with our digital signals. Our 100 channels include diverse programming tailored to appeal to a large audience, including urban and rural listeners of virtually all ages, and to specific groups that our research has shown are most likely to subscribe to our service We have original music and talk channels created by XM Originals, our in-house programming unit, and channels created by well-known providers of brand name programming, including MTV, VH1, ESPN Radio, Radio Disney, CNN, CNBC, USA Today, Fox News, BET, E!, Radio One, Clear Channel, and Hispanic Broadcasting Corporation. We have a team of programming professionals with a successful record of introducing new radio formats and building local and national listenership

In addition to our subscription fee, we generate revenues from sales of limited advertising time on a number of channels. XM Radio offers a new national radio platform for advertisers that solves many of the problems associated with buying radio advertising nationally on a spot or syndicated basis. Through affinity and niche programming, we offer advertisers an effective way to aggregate geographically disparate groups of listeners in their targeted demographic markets.

Market data show strong demand for radio service. Over 75% of the entire United States population age 12 and older listens to the radio daily, and over 95% listens to the radio weekly. However, many radio listeners have access to only a limited number of radio stations and listening formats offered by traditional AM/FM radio We expect XM Radio to be attractive to underserved radio listeners who want expanded radio choices. Market studies conducted for us project that as many as 49 million people may subscribe to satellite radio by 2012 We believe, based on our own recent surveys and work with focus groups, that there is a significant market for XM Radio.

We have raised $1 5 billion of equity and debt net proceeds to date from investors and strategic partners, we are funded into the fourth quarter of 2002; our strategic and financial investors include General Motors, Hughes Electronics Corporation, Clear Channel Communications, DIRECTV, Telcom Ventures, Columbia Capital, Madison Dearborn Partners, American Honda and AEA Investors We hold one of only two licenses issued by the Federal Communications Commission to provide satellite digital audio radio service in the United States.

Market Opportunity

We believe that there is a significant market for our satellite radio service. Market studies show strong demand for radio service, as evidenced by radio listening trends, data relating to sales and distribution of radios and the general growth in radio advertising. In addition, we note that in many markets audio programming choices are

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

limited to mass appeal formats. We believe our national subscription service complements traditional local radio. Moreover, the success of subscription entertainment services in other media such as cable television and satellite television further indicate potential for significant consumer demand for satellite radio services.

Radio Listening

On average, adults listen to the radio 3.1 hours a day, with the amount of radio listening fairly evenly distributed across gender and age groups. The percentage of people listening to radio is also high. Market data show that over 75% of the entire United States population age 12 and older listen to the radio daily, and over 95% listen on a weekly basis (Radio Marketing Guide and Factbook for Advertisers, Radio Advertising Bureau, 2000-2001).

Radio Sales and Distribution

A large number of radios are sold in the United States on an annual basis. In 1999, radio manufacturers sold over 29 million car radios, including 17 million original equipment automobile radios and 11 million aftermarket automobile radios, as well as 1 2 million aftermarket automobile CD changers Original equipment radios are installed in new cars; aftermarket radios are installed in the automobile after purchase Based on these statistics, each additional one million subscribers would represent less than 3.5% of the new original equipment manufacturer and aftermarket car radios brought to market annually and would generate incremental subscription revenues, at $9.99 per month, of approximately $120 million.

Radio Advertising

The continued popularity of radio is also reflected in the growth of radio advertising The Radio Advertising Bureau estimates that radio advertising revenue in 2000 climbed to $19 billion, an increase of 12% over 1999. Although radio advertising has fallen with the economic downturn since September 11, 2001, there have been recent indications of renewed growth of radio advertising

Current Limitations on Programming Choice

Many consumers have access to a limited number of stations and programming formats offered by traditional AM/FM radio. Our service is expected to be attractive to underserved radio listeners who want expanded radio choices.

Limited Number of Radio Stations. The number of radio stations available to many consumers in their local market is limited in comparison to the 100 channels we offer on a nationwide basis. In 2000, there were only 49 AM/FM radio stations as listed by Arbitron broadcasting in New York City, the largest radio market in the United States, many of which are of the same five formats. In fact, many metropolitan areas outside the largest 50 markets, such as Jacksonville, FL, Louisville, KY, and Oklahoma City, OK, have 30 or fewer AM/FM radio stations as listed by Arbitron (American Radio, Winter 2001 Ratings Report, Duncan's American Radio, 2001).

We estimate that our coast-to-coast service reaches over 108 million listeners age 12 and over who are beyond the range of the largest 50 markets as measured by Arbitron. Of these listeners, 45 million live beyond the largest 286 markets (2001 Market Rankings, The Arbitron Company). In addition, there are 22 million people age 12 and above who receive five or fewer stations (The Satellite Report 1999, C. E. Unterberg, Towbin).

Limited Programming Formats We believe that there is significant demand for a satellite radio service that expands the current programming choices available to these potential listeners. Over 48% of all commercial radio stations use one of only three general programming formats--country, news/talk/sports, and adult contemporary (Veronis, Suhler & Associates Communications Industry Forecast 2001). Over 71% of all commercial radio stations use one of only five general formats--the same three, plus oldies and religion The small number of available programming choices means that artists representing niche music formats likely receive little or no airtime in many markets Radio stations prefer featuring artists they believe appeal to the broadest market However, according to the Recording Industry Association of America, recorded music sales of niche music formats such as classical, jazz, movie and Broadway soundtracks, new age, children's programming and others comprised up to 21% of total recorded music sales in 2000 (2000 Consumer Profile)

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

Demand for Subscription Services and Products

Penetration data relating to cable, satellite television, and premium movie channels suggest that consumers are willing to pay for services that dramatically expand programming choice or enhance quality There are more than 13.7 million digital cable subscribers and 18 5 million satellite television subscribers as of 2001. As of December 2001, 69% of TV households subscribe to basic cable television, and 17.5% of TV households subscribe to satellite television (National Cable Television Association website and skyreport.com website).

Demand for Satellite Radio Services

Several studies have been conducted demonstrating the demand for satellite radio service.

In June 1999, we commissioned Strategic Marketing And Research Techniques (SMART), a leading market research company and Dr. Frank M. Bass, a leading authority on the diffusion of new products and inventor of the Bass curve, to estimate the demand for satellite radio based on survey data and historical information SMART surveyed 1,800 people ages 16 and over. The study concluded that as many as 49 million people may subscribe to satellite radio by 2012, assuming a $9 99 monthly subscription fee and a radio price point of $150-$399 depending upon the type of car or home unit chosen. The study also anticipates that satellite radio will grow even faster than DBS.

In December 1998, we commissioned SMART to conduct a study based on one-on-one interviews with over 1,000 licensed drivers ages 16 to 64 in ten geographically dispersed markets. The study concluded that approximately 50% of aftermarket radio purchases would be for AM/FM/satellite radio units with a single-disc CD player. This assumed a radio price point of $399, a $75 installation fee and a $10 monthly subscription fee for the service

Initial Demand for XM Radio Service

Initial consumer response to our service has been positive. During the initial 60-day period following our national launch, we exceeded 30,000 subscribers, which represents a faster adoption rate than for any other consumer audio product introduced over the past 20 years, such as CD players and DVD players. Furthermore, based on a random telephone survey of a limited number of our initial subscribers, the vast majority rated our overall service and sound quality "excellent," and nearly all indicated that XM was a "good" or "excellent" value We have also found a broad initial appeal of our service across age groups, with people in their twenties, thirties, forties and fifties each representing comparable percentages of XM subscribers.

The XM Radio Service

We have designed the XM Radio service to address the tastes of each of our targeted market segments through a combination of niche and broad appeal programming We believe that our distinctive approach to programming, combined with digital quality sound and virtually seamless signal coverage throughout the continental United States, will make our service appealing to customers and position us to become the leading provider of the next generation of radio.

We Are Differentiating XM Radio from Traditional AM/FM Radio

Local radio stations, even those which are part of national networks, focus on maximizing listener share within local markets. This limits the types of programming they can profitably provide to mass appeal formats In contrast, our nationwide reach and ability to provide 100 channels in each radio market allows us to aggregate listeners from markets across the country, expanding the types of programming we can provide The following chart indicates differences between XM Radio and traditional AM/FM radio

	XM Radio	Traditional AM/FM Radio
More convenience	Virtually seamless signal coverage	Local area coverage

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

	in the United States	
More Choice	100 channels with an extensive variety of programming	Limited formats in many markets
Improved audio quality	Digital quality sound	Analog AM/FM quality sound
Fewer commercials	Average 6 minutes per hour; over 30 music channels commercial-free	Average 13-17 minutes per hour
More information about music	Text display with title/name of song/artist	No visual display

We are further differentiating XM Radio from traditional AM/FM radio in the following ways.

Provide music formats unavailable in many markets XM Radio offers many music formats that are popular but currently unavailable in many markets More than 48% of all commercial radio stations in markets measured by Arbitron use one of only three programming formats· country; adult contemporary; or news/talk/sports. Even major markets do not always offer a full complement of formats. We offer many types of music with significant popularity, as measured by recorded music sales and concert revenues, that are unavailable in many traditional AM/FM radio markets. Such music includes classical recordings and popular blues and rap music that have retail appeal but are not commonly played on traditional AM/FM radio. We have channels devoted to popular musical styles that are not currently heard in many small and medium sized markets, such as heavy metal, modern electronic dance, disco and blues.

Superserve popular music formats. We offer more specific programming choices than traditional AM/FM radio generally offers for even the most popular listening formats For example, on traditional AM/FM radio oldies music is often generalized on a single format We segment this category by offering several dedicated, era-specific formats. We also offer seven channels dedicated to urban formats and five distinct country music formats

Use more extensive playlists Traditional AM/FM radio stations frequently use limited playlists that focus on artists and specific music that target the largest audience With our large channel capacity and focus on specific formats, we strive to provide more variety to attract listeners dissatisfied with repetitive and/or limited playlist selection offered by traditional radio. For instance, instead of a single oldies station, we have channels devoted to the music of each decade from the 1940's to the 1990's. In the rock genre, we have a channel dedicated to "deep tracks" not currently heard on rock radio stations.

Deliver a wide range of ethnic and informational programming. We provide a variety of formats that target specific ethnic and special interest groups who are rarely served by traditional AM/FM radio. We believe by using our national platform to aggregate geographically disparate groups through affinity programming, we will provide advertisers a valuable way to market products and services to these groups by advertising on our affinity channels.

Develop promotional opportunities with record companies, recording artists and radio personalities. Because of our nationwide coverage and resulting economies of scale, we are able to deliver a variety of national promotions and events that would not be cost effective or efficient on a market-by-market basis through traditional AM/FM radio distribution. Also, we hire and develop high profile talk and disc jockey talent capable of becoming the next generation of national radio stars with an influence on radio similar to the impact that the new breed of cable TV talk hosts has had on the television industry

Respond quickly when major music and cultural events occur XM Radio programmers strive to respond quickly to changing musical tastes, seasonal music and emerging popular cultural events, such as Britney Spears, Elton John/Billy Joel and U2 tours, by providing listeners with extensive coverage utilizing our large channel capacity.

Take advantage of digital's higher quality signal. There are several music formats that have strong demand but have been relegated to AM stations with weaker signals due to lack of available FM frequencies. By having specific channels dedicated to classic country, the 1940s and gospel, for example, we provide superior sound quality to formats that are traditionally found only on AM stations.

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

Focus on special demands of mobile listeners. A significant percentage of radio listeners, such as truckers, routinely travel through two or more radio markets on a frequent basis. We believe these listeners will be attracted to a radio service with national coast-to-coast coverage. We are seeking to specifically identify and target the listening demands of this audience and have arrangements to include the programs of popular trucking radio personalities (for example, Bill Mack, Dale "the Truckin' Bozo" Sommers and Dave Nemo) on "Open Road," our channel dedicated to truckers. We have also arranged to have XM radios installed in trucks manufactured by leading trucking companies.

Availability of commercial-free and limited-advertising channels. We believe that a significant portion of the listening market will pay to subscribe to a radio service that provided commercial-free channels and channels with reduced advertising, as demonstrated by the appeal of limited periods of non-stop music used by some traditional AM/FM stations. Therefore, we target this audience with over 30 commercial-free music channels covering popular music formats. In addition, our limited-advertising channels carry less than half the advertising spots of typical AM/FM stations.

Use cross-promotion capability to market XM Radio. We dedicate a percentage of our advertising inventory across our channels to promote specific programming and brand loyalty. AM/FM radio stations traditionally promote on a single channel basis to build awareness.

Key Elements of Our Business

We have developed a business strategy to become a premier nationwide provider of audio entertainment and information programming in the vehicle, home and portable markets Our strategy includes the following elements.

Programming

We offer 101 channels, including 71 music channels, 29 news, talk and information channels, and one preview channel. We believe that the quality and diversity of our programming will be a key driver of consumer interest in our service. To that end, we have developed a unique programming strategy that offers consumers

Original music and information channels created by XM Originals, our in-house programming unit;

. Channels created by well-known providers of brand name programming, and

. The availability of commercial-free and advertiser-supported channels

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

The following is a list of channels included in our current service offering.

	Channel Name	Channel Description
Preview	XM Preview	XM Preview
Decades	The 40s	Forties/Swing
	The 50s	Fifties
	The 60s	Sixties
	The 70s	Seventies
	The 80s	Eighties
	The 90s	Nineties
Country	America	Classic Country
	WSIX	Nashville Country
	X Country	Progressive Country
	Hank's Place	Traditional Country
	Bluegrass Junction	Bluegrass/Folk
	Highway 15	Nonstop Country
Hits	20 on 20	Top 20 Hits
	KISS	LA Rock
	MIX	Pop Mix
	The Heart	Love Songs
	Lite	Soft Rock
	MTV Radio	Rock/Pop
	VH1 Radio	Rock/Pop
	Cinemagic	Movie Soundtracks
	On Broadway	Showtunes
	U-Pop	Euro Chart Hits
	Special X	Special Topics
	The Torch	Christian Rock
	The Fish	Christian Pop
	On the Rocks	Cocktail Mix
	Ethel	Alternative Hits
Rock	Deep Tracks	Deep Album Rock
	Boneyard	Hard Rock
	XM Liquid Metal	Heavy Rock
	XMU	New Rock
	Fred	Classic Alternative
	XM Cafe	Modern/Soft alt
	Top Tracks	Classic Rock Hits
	The Loft	Acoustic/Folk
	XM Music Lab	Progressive/Fusion
	Unsigned!	Emerging Acts
Urban	Soul Street	Classic Soul
	The Flow	Urban Top 40
	BET Uptown	Uptown Urban
	Spirit	Gospel
	The Groove	Old School RB
	The Rhyme	Classic Rap
	RAW	Uncut Hip Hop
Jazz &Blues	Real Jazz	Traditional Jazz
	Watercolors	Contemporary Jazz
	Beyond Jazz	Modern Jazz
	Frank's Place	Great Vocals/Stds
	Bluesville	Blues
	Luna	Latin Jazz
Dance	The Move	Modern Electronic
	BPM	Latest Hot Music
	Club 82	Urban Mixes
	Chrome	Disco
Latin	Aguila	Spanish Top 40
	Caricia	Spanish Pop Hits
	Vibra	Rock in Spanish
	Tejano	Tejano
	Caliente	Caribbean
World	World Zone	World Music
	The Joint	Reggae
	Ngoma	Music from Africa
	Audio Visions	New Age
	Radio Taj	Hindi - Indian
	C-Wave	Chinese Programming
Classical	XM Classics	Traditional Classical
	Fine Tuning	Pop Classical
	Vox'	Opera

Source. XM SATELLITE RADIO H, 10-K405, March 19, 2002

	XM Pops	Classical Hits
Kids	Radio Disney	Children
	XM Kids	Children
News	XM News	Top Story News
	USA Today	News
	Fox News	News
	CNN Headline News	News
	The Weather Channel	24 Hr Weather Network
	CNBC	Business News
	CNN fn	Financial News
	Bloomberg	News and Business
	CNET Radio	Tech News
	BBC World Service	World Affairs
	C-SPAN Radio	US Gov't/Public Affairs
	CNN en Espanol	News in Spanish
Sports	ESPN Radio	Talk/Play-by-Play
	CNN/Sports Illustrated	Sports News
	Fox Sports Radio	Sports News Talk
	The Sporting News	Sports Talk
	NASCAR Radio	Automotive/Racing
Comedy	XM Comedy	Comedy
	Laugh USA	Family Comedy
	Extreme XM	Comedy
Variety	Discovery Radio	Health/General Science
	E! Entertainment Radio	Entertainment News
	ABC News &Talk	News and Talk
	Ask!	Experts Talk
	Buzz XM	Hot Talk Stars
	BabbleOn	Young and Sassy Talk
	Open Road	Trucker's Channel
	The Power	African American Topics
	FamilyTalk	Christian Talk

Summary

1	Preview
71	Music
29	Talk
101	TOTAL

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

XM Originals. Through a programming unit in XM Radio called "XM Originals," we have created a significant number of original channel formats with content focusing on popular music such as oldies, rock and country, and on new and innovative formats, including jazz, blues, reggae and pop classical. These formats include artists with strong music sales and concert revenue who do not get significant airplay on traditional AM/FM radio stations We are branding individual channels to create a specific station personality and image using compelling on-air talent and other techniques to attract listeners in our target market segments, including shows from Quincy Jones, Wynton Marsalis and others We have hired a team of programming professionals with a proven track record of introducing new radio formats and building local and national listenership.

Brand Name Programming Partners We complement our original programming with a variety of unique and diverse content provided to us by brand name programming providers. We have contracts representing at least 38 channels with well-known specialty and niche programmers that provide brand name content for XM Radio. These companies include:

-- Bloomberg News Radio
-- USA Today
-- CNNfn
-- CNN en Espanol
-- C-SPAN Radio
-- Black Entertainment Television
-- MTV Networks
-- Weather Channel
-- Radio Disney
-- ESPN Radio
-- CNBC
-- Fox News
-- CNET
-- Sesame Workshop
-- Discovery Radio
-- Country Music Hall of Fame
-- Hispanic Broadcasting Corporation
-- Clear Channel Communications
-- Radio One
-- Salem Communications
-- The Sporting News
-- BBC World Service
-- NASCAR
-- Associated Press
-- BBC Concerts
-- Fox Sports Radio

Availability of Commercial-Free and Limited-Advertising Channels We provide a number of commercial-free music channels covering popular music formats. In addition, our limited-advertising channels carry less than half the advertising of a typical AM/FM radio station. We expect the diversity of our programming line-up will appeal to a large audience, including urban and rural listeners of all ages, ethnicities, economic groups and specialty interests We tailor our programming and marketing to appeal to specific groups within those audiences that research has shown are most likely to subscribe to our satellite radio service. We are concentrating our programming efforts on listeners who are most receptive to innovative entertainment services, so-called early adopters, and new car buyers. According to our research, adults 16-34 years old will compose a high percentage of our early adopters; we will therefore focus a significant portion of our programming and marketing efforts to appeal to them. In addition, we provide programming and will implement marketing specifically to appeal to other market segments such as baby boomers who are 35-53 years old, seniors who are 54 years old and older, African-Americans, Asian-Americans and Hispanics

Future Content Arrangements. Under our agreement with Sirius Radio, all new arrangements with providers of programming or content, including celebrity talent, must be non-exclusive and may not reward any provider for not providing content to the other party.

Marketing

Our marketing strategy is designed to build awareness and demand among potential subscribers in our target markets and the advertising community.

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

Extensive Advertising and Media Campaign Supporting Commercial Launch

In September 2001, we launched commercial service in the Dallas/Fort Worth and San Diego metropolitan markets supported by a launch advertising and retail marketing campaign. We continued our rollout through the southeastern and southwestern U S. during October and our service became nationwide in November 2001. We began our full national media campaign in November to support our nationwide launch of commercial services. The timing of our full nationwide launch in November enabled us to capitalize on the Christmas selling season, which is the highest selling period of the year for car stereo equipment. We will continue to support our distribution channels by building awareness of XM Radio through national and local advertising.

Subscriber Development and Expansion

We promote XM Radio as the leader in the new satellite radio category, offering appealing features compared to traditional radio. TBWA/Chiat Day (Los Angeles), our advertising agency of record, produced our first series of advertising spots. Our commercial launch was supported by a comprehensive advertising program including television, radio, print, outdoor and direct marketing. Promotional activities that we have employed or are currently considering include television, radio and print advertising and distributing sample programming and marketing materials at retail outlets, concert venues, NASCAR events and on the Internet to generate consumer interest. For instance, we have an agreement with Clear Channel Entertainment (formerly SFX) to be the exclusive satellite radio advertiser at live concerts and sporting events presented by, and live entertainment venues managed by, Clear Channel Entertainment.

XM Radio promotes subscriber acquisition activities with both original equipment and aftermarket radio manufacturers. This may include

- promotional campaigns directed towards automobile manufacturers and dealers;
- incentive programs for retailer sales forces,
- in-store promotional campaigns, including displays located in electronics, music and other retail stores, rental car agencies and automobile dealerships; and
- jointly funded local advertising campaigns with retailers

Distribution

We work closely with radio and automotive manufacturers and retail distributors to promote rapid market penetration. We market our satellite radio service through several distribution channels including national electronics retailers, car audio dealers, mass retailers and automotive manufacturers.

Exclusive Distribution Agreement with General Motors. We have an agreement with the OnStar division of General Motors whereby, for a 12-year period, General Motors will exclusively distribute and market the XM Radio service and install XM radios in General Motors vehicles beginning in 2001 General Motors sold 4 9 million automobiles in 2001, which represented more than 28% of the United States automobile market. Under the agreement, we have substantial payment obligations to General Motors, including among others, certain guaranteed, annual, fixed payment obligations. While we have discussed with General Motors certain installation projections, General Motors is not required to meet any minimum targets for installing XM radios in General Motors vehicles In addition, certain of the payments to be made by us under this agreement will not be directly related to the number of XM radios installed in General Motors vehicles. General Motors made XM radios available as an option in Cadillac Sevilles and Devilles in the fall of 2001, and announced that it will expand to over 20 additional models during 2002.

Other Automobile and Truck Manufacturers. We are currently in discussions with other car manufacturers regarding additional distribution agreements. We also plan to meet with automobile dealers to educate them about XM Radio and develop sales and promotional campaigns to promote XM radios to new car buyers.

Source. XM SATELLITE RADIO H, 10-K405, March 19, 2002

In addition, we have relationships with Freightliner Corporation and Pana-Pacific and XM radios are available in Freightliner and Peterbilt trucks and Winnebago RVs.

Distribution through Radio Manufacturers. We have contracts with Delphi-Delco, Motorola, Pioneer, Alpine, Mitsubishi Electric, Clarion, Blaupunkt, Fujitsu Ten, Hyundai Autonet, Bontec, Visteon, Panasonic and Sanyo for the development, manufacture and distribution of XM radios for use in cars and a contract with Sony Electronics to design, manufacture and market XM radios for the portable, home, aftermarket and original equipment manufacture car stereo markets. One of these manufacturers, Delco Electronics Corporation, a subsidiary of Delphi Automotive Systems, is the leading original equipment manufacturer of radios for the automobile industry Delphi-Delco is also the leading manufacturer of car radios sold in General Motors vehicles and has signed a contract to build our radios for General Motors Sony is the leader in sales of portable CD players by a large margin and one of the top three sellers of shelf systems. Sony has agreed to assist with marketing XM radios and has agreed to incentive arrangements that condition its compensation on use of XM radios manufactured by Sony or containing Sony hardware. Motorola is a leading supplier of integrated electronics systems to automobile manufacturers. Mitsubishi Electric Automotive America, together with its parent corporation, Mitsubishi Electric Corp , is the largest Japanese manufacturer of factory-installed car radios in the United States. Clarion is a leader in the car audio and mobile electronics industry. Pioneer Electronics Corporation, Alpine Electronics and Sony, which each manufacture XM Radios for the car audio aftermarket, together sold over 43% of aftermarket car radios sold in the United States in 2001 (NPD Intelect, 2001). We also have a contract with SHARP to manufacture and distribute XM radios for home and portable use. 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 agreements for the manufacture and distribution of XM radios

These leading radio manufacturers have strong retail and dealer distribution networks in the United States. We expect to have access to the distribution channels and direct sales relationships of these distributors, including national electronics retailers, car audio dealers and mass retailers.

Retail Electronics Distributors XM radios and the XM Radio service are marketed and distributed through major consumer electronics retail channels, including Circuit City, Best Buy, participating Radio Shack dealers and franchisees, Sears and others We developed in-store merchandising materials and trained the sales forces of several major retailers.

Rural Market Distribution We market our satellite radio service in rural counties, using distribution channels similar to satellite television, to penetrate rural households not served by traditional electronic retailers.

Future Interoperability Distribution Arrangements. We have signed an agreement with Sirius Radio to develop a unified standard for satellite radios to facilitate the ability of consumers to purchase one radio capable of receiving both our and Sirius Radio's services. Both companies expect to work with their automobile and radio manufacturing partners to integrate the new standard. Future agreements with automakers and radio manufactures will specify the unified satellite radio standard. Furthermore, future agreements with retail and automotive distribution partners and content providers will be on a non-exclusive basis and may not reward any distribution partner for not distributing the satellite radio system of the other party.

Advertising

As with other subscription-based entertainment media such as cable television, we generate revenue by charging a monthly subscription fee and selling limited advertising time We earn all of the revenue from advertising on our own programming and a portion of the revenues from advertising on third party programming. XM Radio offers a new national radio platform for advertisers that solves many of the problems associated with buying radio advertising nationally on a spot or syndicated basis.

Advertiser Development and Acquisition. Our ability to aggregate various local niche market segments into national audiences will be attractive to national advertisers and agencies We have held extensive meetings with media directors, planners and buyers at advertising and media buying agencies to develop advertiser awareness of the benefits of satellite radio. We have advertising sales offices in five major media markets to sell directly to advertising agencies and media buying groups and have engaged Premiere Radio Networks, an affiliate of Clear

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

Channel Communications, to be our advertising sales representative We will also work with ratings agencies in our advertising-supported business. Arbitron, which produces radio listenership reports, has agreed to work with us to develop other ratings methodologies for satellite radio.

Charter Advertising Agreements. We have contracts with several advertisers, advertising agencies and media buying companies offering charter advertising packages at reduced rates for a limited time. Among the advertisers and agencies we have sold advertising packages to are AT&T, Procter & Gamble, Allstate, Sears, Goodyear, Bayer, Radio Shack and J. Walter Thompson.

The XM Radio System

Our system provides satellite radio to the continental United States and coastal waters using radio frequencies allocated by the FCC for satellite radio. These radio frequencies are within a range of frequencies called the S-Band. The XM Radio system is capable of providing high quality satellite services to XM radios in automobiles, trucks, recreation vehicles and pleasure craft, as well as to fixed or portable XM radios in the home, office or other fixed locations. The XM Radio system uses a network consisting of two high-power satellites, an uplink facility, and in major markets supplements the satellites with ground-based repeaters to provide digital audio service to XM radios.

Space Segment

Satellite Construction. Boeing Satellite Systems, formerly Hughes Space and Communications, has built, launched and delivered in-orbit two BSS 702 high-power satellites ("Rock" and "Roll") for the XM Radio system. The satellites were launched on March 18, 2001 and May 8, 2001, respectively, and are transmitting the XM signal. Boeing is also building one ground spare satellite, to be available in the event of a failure of any satellite or to accommodate our satellite system growth Boeing also provides us with operations support services, equipment and software.

The BSS 702 is the highest powered commercial communications satellite currently available. Both of our satellites contain communications payloads provided by Alcatel. The communications payload electronics are designed to make best use of technologies that have already been developed or used in previous satellite programs. The design includes significant redundancy and protective measures to prevent loss of service.

In September 2001, Boeing advised us of a progressive degradation problem with the solar array output power of 702 class satellites, including both XM Rock and XM Roll. At the present time, the output power of our solar arrays and the broadcast signal strength are above minimum acceptable levels and are expected to remain that way at least through 2005, permitting full operation of the XM system (based on patterns projected by Boeing) through that time. We have advised our insurance carriers of this situation. Since the issue is common to 702 class satellites, the manufacturer is watching closely the progression of the problem, including data from a satellite in orbit approximately 18 months longer than XM Rock and XM Roll. With this 18-month advance visibility of performance levels, our insurance arrangements, one spare satellite already purchased (which is being modified to address the solar array anomaly) and availability of additional satellites, we believe that we will be able to launch additional satellites prior to the time the solar array problem might cause the broadcast signal strength to fall below acceptable levels. Our management will continue to monitor this situation carefully

Satellite Transmission. Our two satellites are deployed at 85 West Longitude and 115 West Longitude. At their designated orbital location, the satellites receive audio signals from our programming center and retransmit the signals across the continental United States The satellites are 30(degree) apart in longitude in order to enhance the probability of clear line-of-sight communication between the satellites and XM mobile radios.

The transmission coverage areas, or footprints, of our satellites encompass the 48 contiguous states and nearby coastal waters. We have tailored these footprints to provide nearly uniform availability over the United States and to minimize transmission spillage across the United States borders into Canada and Mexico. However, because coverage does extend to the Gulf of Mexico, the California coast and the Atlantic coast, we also expect to be able to provide XM Radio to the cruise ships, cargo vessels and leisure boats which frequent these waters.

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

Our satellites transmit audio programming within a 12.5 MHz range of S-Band radio frequencies that has been allocated by the FCC for our exclusive use. Megahertz is a unit of measurement of frequency. This 12.5 MHz bandwidth is subdivided to carry the transmission of six signals, two signals to be transmitted from each of our two satellites and two signals to be transmitted by the terrestrial repeater network The audio programming for XM Radio is carried on two satellite signals, and the remaining two satellite signals and the terrestrial repeater signals repeat the audio programming to enhance overall signal reception. The transmission of higher quality sound requires the use of more kilobits per second than the transmission of lesser quality sound We are using our allocated bandwidth in such a way as to provide 100 channels of programming, with our music channels having a higher bandwidth allocation so as to provide high-quality digital sound.

Insurance. We bear the risk of loss for each of the satellites, and we have obtained insurance to cover that risk. We have launch and in-orbit insurance policies from global space insurance underwriters. These policies indemnify us for a total, constructive total or partial loss of either of the satellites that occurs during a period ending five years after launch. Coverage exceeds all hardware, insurance and launch service costs related to the in-orbit replacement of a lost satellite. However, our insurance will not protect us from the adverse effect on our business operations due to the loss of a satellite. Our policies contain standard commercial satellite insurance provisions, including standard coverage exclusions. We do not expect a final determination regarding insurance recovery for the solar array anomaly relating to XM Rock and XM Roll while the impact of the situation is being assessed.

Ground Segment

Satellite Control. Each of our satellites is monitored by a telemetry, tracking and control station, and both satellites are controlled by a satellite control station. Each of the stations has a backup station. We have a contract with Telesat Canada, Inc., an experienced satellite operator, to perform the telemetry, tracking and control functions.

Programming and Business Center Programming from both our studios and external sources is sent to our programming center, which packages and retransmits signals to our satellites through the uplink station. Financial services and certain administrative support are carried on at our business center. Communications traffic between the various XM Radio facilities is controlled by the network monitoring center. The network monitoring 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 systems to detect various system failures before they cause significant damage

Terrestrial Repeaters. Our terrestrial repeater system 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 will still be 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 satellite signals, amplify them and retransmit them at a significantly higher signal strength than is possible directly from the satellites.

LCC International, a wireless service site planner, designed our terrestrial repeater network. Hughes Electronics Corporation manufactured the terrestrial repeaters. We have installed terrestrial repeaters in approximately 60 markets. In light of the coverage provided by our high-power satellites "Rock" and "Roll," we have installed fewer repeaters than originally planned, and have a significant number of repeaters available for future installation as replacements or to improve signal reception based on performance Our repeater network in the largest urban markets includes in excess of 100 repeaters, while for smaller cities with fewer tall buildings we have as few as one to three repeaters. Our placement of terrestrial repeaters was guided by a radio frequency analysis technique which, employing technology similar to that used in certain cellular telephone systems, analyzes the satellite footprint to discover areas likely to have impaired reception of XM Radio.

The high power levels and proprietary signal design of the terrestrial signals may allow XM radios to receive signals when a terrestrial repeater is not in view, including within buildings and other structures which can be penetrated by the terrestrial repeater signal. In some indoor locations that cannot receive the repeater signal, users will need to use a small externally mounted antenna that will receive the signal from one of the two satellites.

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

XM Radios. We transmit XM Radio throughout the continental United States to vehicle, portable, home and plug and play radios. Our radios are capable of receiving both XM Radio and traditional AM/FM stations. Six manufacturers, including Pioneer, Alpine and Sony, introduced 24 different models of XM-ready radios at the January 2001 Consumer Electronics Show (CES) in Las Vegas, Nevada. XM radios are available under the Sony, Pioneer and Alpine brand names at national consumer electronics retailers, such as Circuit City, Best Buy, participating Radio Shack dealers and franchisees, Sears and others. The Sony plug and play device is designed to augment the existing radio in the car which provides AM/FM stations.

ST Microelectronics is manufacturing the chipsets used to decode the XM Radio signal. Delphi-Delco Electronics, Sony, Pioneer and Alpine, among others, are manufacturing XM Radios to meet consumer and automotive demand.

Unified Standard for Satellite Radio. On February 16, 2000, we signed an agreement with Sirius Radio to develop a unified standard for satellite radios to facilitate the ability of consumers to purchase one radio capable of receiving both our and Sirius Radio's services. The technology relating to this unified standard will be jointly developed, funded and owned by the two companies This unified standard is intended to meet FCC rules that require interoperability with both licensed satellite radio systems.

As part of the agreement, each company has licensed to the other its intellectual property relating to its system; the value of this license will be considered part of each company's contribution toward the joint development. The parties have agreed to seek arbitration with respect to certain existing technology. In addition, each company has agreed to license its non-core technology, including non-essential features of its system, to the other at commercially reasonable rates. In connection with this agreement, the patent litigation against XM Radio was resolved

We anticipate that it will take several years to develop radios capable of receiving both services. Currently, consumers are able to purchase radios capable of receiving only one service.

Both companies expect to work with their automobile and radio manufacturing partners to integrate the new standard Future agreements with automakers and radio manufacturers will specify the unified satellite radio standard. Furthermore, future agreements with retail and automotive distribution partners and content providers will be on a non-exclusive basis.

We and Sirius Radio have also agreed to negotiate in good faith to provide service to each other's subscribers in the event of a catastrophic failure of the XM Radio system or the Sirius Radio system.

Competition

We face competition for both listeners and advertising dollars. In addition to pre-recorded music purchased or playing in cars, homes and using portable players, we compete most directly with the following providers of radio or other audio services·

Sirius Satellite Radio

Our direct competitor in satellite radio service is Sirius Radio, the only other FCC licensee for satellite radio service in the United States. Since October 1997, Sirius Radio's common stock has traded on the Nasdaq National Market. Sirius Satellite Radio began commercial operations in February 2002 in the four initial markets of Phoenix, Houston, Denver and Jackson, Mississippi. Sirius offers its service for a monthly charge of $12 95, featuring 100 channels

Traditional AM/FM Radio

Our competition also includes traditional AM/FM radio Unlike XM Radio, traditional AM/FM radio already has a well established market for its services and generally offers free broadcast reception paid for by commercial advertising rather than by a subscription fee Also, many radio stations offer information programming of a local nature, such as traffic and weather reports, which XM Radio initially will be unable to offer as effectively as local radio, or at all. The AM/FM radio broadcasting industry is highly competitive Radio stations compete for listeners

Source· XM SATELLITE RADIO H, 10-K405, March 19, 2002

and advertising revenues directly with other radio stations within their markets on the basis of a variety of factors, including

- program content,

  on-air talent;

- transmitter power;

- source frequency,

- audience characteristics;

- local program acceptance, and

  the number and characteristics of other radio stations in the market.

Currently, traditional AM/FM radio stations broadcast by means of analog signals, not digital transmission. We believe, however, that in the future traditional AM/FM radio broadcasters may be able to transmit digitally into the bandwidth occupied by current AM/FM stations.

Internet Radio

A growing number of Internet radio broadcasts provide listeners with radio programming from around the country and the world. Although we believe that the current sound quality of Internet radio is below standard and may vary depending on factors such as network traffic, which can distort or interrupt the broadcast, we expect that improvements from higher bandwidths, faster modems and wider programming selection may make Internet radio a more significant competitor in the future.

There are a number of Internet-based audio formats in existence or in development which could compete directly with XM Radio For example, Internet users with the appropriate hardware and software can download sound files for free or for a nominal charge and play them from their personal computers or from specialized portable players or compact disk players. 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, many of which are posted or available in violation of existing copyrights, can be played instantly, burned to a compact disk or stored in various portable players available to consumers. Prominent members of the music and computer industry have supported an initiative known as the Secure Digital Music Initiative to become a standard for fee-based electronic distribution of copyrighted sound recordings. The Copyright Arbitration Panel recently announced royalty fees for internet radio. Although presently available formats have drawbacks such as hardware requirements and download bandwidth constraints, which we believe would make XM Radio a more attractive option to consumers, Internet-based audio formats may become increasingly competitive as quality improves and costs are reduced.

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

Regulatory Matters

XM Radio and Sirius Radio received licenses from the FCC in October 1997 to construct and operate satellite radio service systems The FCC has allocated 25 MHz for the new service in a range of radio frequencies known as the S-Band.

As the owner of one of two FCC licenses to operate a commercial satellite radio service in the United States, we will continue to be subject to regulatory oversight by the FCC. Our development, implementation and eventual operation of our system will be subject to significant regulation by the FCC under authority granted under the

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

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 support our business plan.

One of the two losing bidders in the satellite radio license auction filed a petition to deny our application for an FCC license, but the petition was denied. The losing bidder has asked the FCC to review this decision. The losing bidder has also asked a federal court of appeals to mandate that the FCC review this decision. On November 30, 2001, the FCC denied the losing bidder's application for review and upheld the FCC's previous decision denying its petition to deny. The losing bidder has appealed the decision to the United States Court of Appeals for the District of Columbia Circuit. The losing bidder has argued that WorldSpace had effectively taken control of us without FCC approval and that WorldSpace has circumvented the FCC's application cut-off procedures WorldSpace is no longer a stockholder in us. We have opposed this appeal and have denied the allegations contained in the challenge. The FCC's order granting our license remains in effect during the pendency of the appeal. In December 2000, the FCC approved a transfer of control of our FCC license from Motient Corporation to a diffuse group of owners, none of whom will have a controlling interest in us. The FCC has conditioned this approval on the outcome of the application for review. Although we believe that the award of the license to us will continue to be upheld, we cannot predict the ultimate outcome of this challenge If this challenge is successful, the FCC could take a range of actions, any of which could harm our ability to proceed with our satellite radio service.

Our license, which is held by a subsidiary wholly owned by XM, has a term of eight years from commencement of XM's operations and may be renewed. The FCC requires the satellite radio licensees, including us, to adhere to certain milestones in the development of their systems, including a requirement that the licensees begin full operation by October 2003. Our FCC license requires us to meet the following milestones·

Deadline	Milestone	Status
October 1998	Complete contracting for first satellite	Completed March 1998
October 1999	Complete contracting for second satellite	Completed March 1998
October 2001	Begin in-orbit operation of at least one satellite	Completed Summer 2001
October 2003	Begin full operation of the XM Radio system	Completed September 2001

We have certified to the FCC that we have met all of our milestones.

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

The FCC's rules require interoperability with all licensed satellite radio systems that are operational or under construction. The FCC conditioned our license on certification by us that our final receiver design is interoperable with the final receiver design of the other licensee, Sirius Radio, which plans to use a different transmission technology than we plan to use. Because of uncertainty regarding the design of Sirius Radio's systems, we may face difficulties initially in meeting this interoperability requirement. We have signed an agreement with Sirius Radio to develop a unified standard for satellite radios, but we anticipate that it will take several years to develop the technologies necessary for radios that will be capable of receiving both our service and Sirius Radio's service. Together with Sirius Radio, we have informed the FCC of the progress that has been made to date in meeting the interoperability requirement. We may need to obtain an extension of time or modification of the interoperability requirement from the FCC Furthermore, complying with the interoperability requirement could make the radios more difficult and costly to manufacture

The FCC is currently conducting a rulemaking proceeding to establish rules for terrestrial repeater transmitters, which we plan to deploy to fill in gaps in satellite coverage. The FCC has proposed to permit us to deploy these facilities. Specifically, the FCC has proposed a form of blanket licensing for terrestrial repeaters and service rules which would prohibit satellite radio licensees from using terrestrial repeating transmitters to originate local programming or transmit signals other than those received from the satellite radio satellites Various parties, including the National Association of Broadcasters, Wireless Communications Service (WCS) licensees, Multipoint Distribution Service (MDS) licensees, and Instructional Television Fixed Service (ITFS) licensees have asked the FCC to:

Source. XM SATELLITE RADIO H, 10-K405, March 19, 2002

- limit the number of repeaters operating at greater than 2 kW EIRP that may be deployed,

  limit the power level of the repeaters operating at greater than 2 kW EIRP that are deployed,

- delay consideration of terrestrial repeater rules until XM Radio and Sirius Radio provide additional information regarding planned terrestrial repeaters,

- require individual licensing of each terrestrial repeater; and

- impose a waiting period on the use of repeaters in order to determine if signal reception problems can be resolved through other means.

Our plans to deploy terrestrial repeaters in our system may be impacted, possibly materially, by whatever rules the FCC issues in this regard. We have made a proposal to the FCC to set a 40 kW EIRP limit or, alternatively, a limit of 18 kW EIRP calculated by averaging power over 360 degrees, on the power of terrestrial repeaters. We have also proposed to coordinate with WCS licensees in certain cases prior to operating terrestrial repeaters above 2 kW EIRP. The coordination may include our providing of filters in certain instances to limit the interference WCS licensees claim will result from our operation of repeaters operating above 2 kW EIRP.

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.

We are currently operating terrestrial repeaters pursuant to Special Temporary Authority ("STA") granted by the FCC in September 2001. This STA authorizes us to operate our terrestrial repeaters for commercial service on a non-interference basis. Because the STA was conditioned on a non-interference basis, we are required to either reduce power or cease operating a repeater upon receipt of a written complaint of interference. One party who opposed XM Radio's request for STA has 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 pending. This STA expired on March 18, 2002. On March 11, 2002, we applied for an extension of this STA. Pursuant to the FCC's rules, we can continue to operate our terrestrial repeaters pursuant to the STA pending a final determination on our extension request

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 are required to coordinate the XM Radio system with systems operating in the same frequency bands in adjacent countries. Canada and Mexico are the countries whose radio systems are most likely to be affected by satellite radio. The United States government, which conducts the coordination process, has resolved the issue with both the Canadian and Mexican governments.

We operate the communication uplinks between our own earth station and our satellites in a band of radio frequencies that are used for several other services. The FCC has granted us a license for this earth station which expires in March 2011. The other services operating in this band are known under FCC rules as fixed services, broadcast auxiliary services, electronic news gathering services, and mobile satellite services for uplink station networks Although we are optimistic that we will succeed in coordinating domestic uplink station networks, we may not be able to coordinate use of this spectrum in a timely manner, or at all

We also need to protect our system from out-of-band emissions from licensees operating in adjacent frequency bands Wireless Communication Service licensees operating in frequency bands adjacent to the satellite radio's S-

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

Band allocation must comply with certain out-of-band emission limits imposed by the FCC to protect satellite radio systems. These limits, however, are less stringent than those we proposed. In February 2002, the FCC initiated a rulemaking proceeding regarding rules for future licensees in the 2385-2390 MHz band, which will be able to provide both fixed and mobile services. We have proposed that the FCC apply the same out-of-band emissions limits on these licensees that are applied to Wireless Communication Services licensees. In addition, in April 1998, the FCC proposed to establish rules for radio frequency ("RF") lighting devices that operate in an adjacent radio frequency band. We opposed the proposal on the grounds that the proliferation of this new kind of lighting and its proposed emission limits, particularly if used for street lighting, may interfere with XM Radio. Jointly with Sirius Radio, we have proposed to the FCC an emission limit for these RF lighting devices that we believe will protect DARS receivers from interference In addition, we have proposed that the FCC require existing RF lighting devices that exceed our proposed limit to cease operations. A manufacturer of RF lights has conducted tests which it claims demonstrate that RF lights do not cause interference to our receivers While our proposal is pending, these RF lighting devices may continue to be produced and used, which could adversely affect our signal quality. The FCC may not adopt our proposal, a decision which could adversely affect our signal quality. In addition, in May 2000, the FCC proposed to amend its rules to allow for the operation of devices incorporating ultra-wideband (UWB) technology on an unlicensed basis. The FCC has proposed to impose less stringent emissions limits for UWB devices operating above 2 GHz, where XM operates, than for such devices operating below 2 GHz. We have opposed this proposal on the basis that the operation of these devices may interfere with XM Radio In February 2002, the FCC decided to allow for the operation of these devices, but has not yet released its decision to the public. It is our understanding that the FCC has restricted intentional emissions from most UWB devices to above 3 GHz, outside of XM Radio's licensed frequency band. In addition, we understand that the FCC has adopted more stringent out-of-band emissions limits for certain UWB devices to protect our system than the FCC had originally proposed, but that the emissions limits adopted are less stringent than XM Radio proposed. In addition, the FCC has stated that it intends to review these standards for UWB devices and may allow for the operation of additional types of UWB devices in the future. Interference from other devices that operate on an unlicensed basis may also adversely affect our signal. In May 2001, the FCC issued a notice of proposed rulemaking seeking to facilitate the development of new unlicensed wireless devices operating in a frequency band adjacent to XM Radio. XM Radio has opposed this proposal on the basis that the operation of these devices pursuant to the FCC's current emissions limits may interfere with XM Radio's operations. In addition, in October 2001, the FCC initiated a rulemaking proceeding reviewing its rules for unlicensed devices. XM Radio has proposed in this proceeding that the FCC adopt out-of-band emissions limits for certain unlicensed devices sufficient to protect our system. XM Radio has proposed that the FCC apply these emissions limits to products sold 18 months after a final rule is published. Some manufacturers of unlicensed devices have opposed these limits on the grounds that they are too stringent and that it will be costly for them to meet these limits.

The FCC order granting our license determined that because we are a private satellite system providing a subscription service on a non-common carrier basis, we would not be subject to the FCC's foreign ownership restrictions. However, such restrictions would apply to us if we were to offer non subscription services, which may appear more lucrative to potential advertisers than subscription services The FCC also stated in its order that it may reconsider its decision not to subject satellite radio licensees to its foreign ownership restrictions.

Intellectual Property

System Technology

We have contracted with several technology companies to implement portions of the XM Radio system. These technology companies include Boeing Satellite Systems and Alcatel (satellites), Delphi-Delco, Sony, Pioneer, Alpine, Audiovox and Clarion, among others, (car and home radios), ST Microelectronics (chipsets), Fraunhofer Institute (various technologies) LCC International (design of repeater network), and Hughes Electronics (design and manufacture of terrestrial repeaters) We will not acquire any intellectual property rights in the satellites. We have joint ownership of or a license to use the technology developed by the radio and chipset manufacturers. We also license various other technologies used in our system. 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

Source. XM SATELLITE RADIO H, 10-K405, March 19, 2002

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 Management WorldSpace Management 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. Under our agreement with WorldSpace Management we must pay one time, annual or percentage royalty fees or reimburse WorldSpace Management for various costs for various elements of the licensed technology that we decide to use in the XM Radio system. We have incurred costs of $5 4 million to WorldSpace Management under this agreement through December 31, 2001. We will not be required to pay royalties to WorldSpace Management for licensed technology that we do not use in our system.

We anticipate the Fraunhofer Institute will continue to provide various development services for us in connection with the design of our system. Motient Corporation has granted us a royalty-free license with respect to certain ground segment communications technology and antenna technology.

Motient and WorldSpace Management have also granted us royalty-free, non-exclusive and irrevocable licenses to use and sublicense all improvements to their technology. The technology licenses from Motient and WorldSpace Management renew automatically on an annual basis unless terminated for a breach which has not been or cannot be remedied.

We believe that the intellectual property rights we have licensed under our technology license were independently developed or duly licensed by Motient or WorldSpace International, as the case may be 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 signed an agreement with Sirius Radio to develop a unified standard for satellite radios to facilitate the ability of consumers to purchase one radio capable of receiving both our and Sirius Radio's services. The technology relating to this unified standard will be jointly developed, funded and owned by the two companies As part of the agreement, each company has licensed to the other its intellectual property relating to the unified standard and to its system, the value of this license will be considered part of its contribution toward the joint project In addition, each company has agreed to license its non-core technology, including non-essential features of its system, to the other at commercially reasonable rates. Each party will be entitled to license fees or a credit towards its obligation to fund one half of the development cost of the technologies used to develop a unified standard for satellite radios. The amount of the fees or credit will be based upon the validity, value, use, importance and available alternatives of the technology each contributes. In our discussions we have yet to agree on the validity, value, use, importance and available alternatives of our respective technologies. If we fail to reach agreement, the fees or credits may be determined through binding arbitration. The companies have agreed to seek arbitration to resolve this issue with respect to certain existing technology We cannot predict at this time the amount of license fees, if any, payable by or to XM or Sirius Radio or the size of the credits to XM and Sirius Radio from the use of their technology. This may require additional capital, which could be significant.

Prior Litigation with Sirius Radio; Technology License

On January 12, 1999, Sirius Radio, the other holder of an FCC satellite radio license, commenced an action against us in the United States District Court for the Southern District of New York, alleging that we were infringing or would infringe three patents assigned to Sirius Radio. In its complaint, Sirius Radio sought money damages to the extent we manufactured, used or sold any product or method claimed in their patents and injunctive relief. This suit was resolved in February 2000 in accordance with the terms of a joint development agreement between us and Sirius Radio in which both companies agreed to develop a unified standard for satellite radios and license our respective intellectual property, including the patents that were the subject of the suit, for use in this joint development. If this agreement is terminated before the value of the licenses has been determined due to our failure to perform a material covenant or obligation, then this suit could be refiled

If this litigation were recommenced, we believe based on the design of our system, our knowledge of the differences between our system and the claims of the Sirius Radio patents and on advice we have previously received from our patent counsel, that a court would find that we have not and will not infringe any Sirius Radio patents. However, the litigation could harm us, even if we were successful. It would divert our management's

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

attention and might make it more difficult for us to raise financing or enter into other agreements with third parties. In addition, even if we prevailed, the Sirius Radio litigation might prevent us from moving forward with the development of the XM Radio system in a timely manner. The Sirius Radio patents involved in the litigation relate to certain aspects of signal and reception methodologies that may be employed by a satellite radio system. If this suit were refiled and we lost all or part of this litigation, we could become liable to Sirius Radio for money damages and subject to an injunction preventing us from using certain technology in the XM Radio system. Any such injunction could force us to engineer technology which would not be subject to the injunction, license or develop alternative technology, or seek a license from, and pay royalties to, Sirius Radio. If any of these strategies becomes necessary, it could be costly and time-consuming and would likely delay any implementation of our system. If we could not accomplish any strategy, or could not do so in a timely manner at an acceptable cost, our business would be harmed.

Copyrights to Programming

We must negotiate and enter into music programming royalty arrangements with performing rights societies such as the American Society of Composers, Authors and Publishers (with whom we recently reached agreement), Broadcast Music, Inc., and SESAC, Inc. These organizations collect royalties and distribute them to songwriters and music publishers and negotiate fees with copyright users based on a percentage of revenues Radio broadcasters currently pay a combined total of approximately 4% of their revenues to these performing rights societies We expect to establish license fees through negotiation or through a rate court proceeding in the U.S. District Court for the Southern District of New York but such royalty arrangements may be more costly than anticipated.

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 owners of the sound recordings. The Recording Industry Association of America will negotiate licenses and collect royalties on behalf of copyright owners for this performance right in sound recordings. Cable audio services currently pay a royalty rate of 6.5% of gross subscriber revenue This rate was set by the Librarian of Congress, which has statutory authority to decide rates through arbitration, and was affirmed on May 21, 1999 by the United States Court of Appeals for the District of Columbia. Although we believe we can distinguish XM Radio sufficiently from the cable audio services in order to negotiate a lower statutory rate, we may not be able to do so

The XM Trademark

We believe that XM Radio will be seen as the complement to AM and FM radio. We have an application pending in the United States Patent and Trademark Office for the registration of the trademark "XM" in connection with the transmission services offered by our company and expect that our brand name and logo will be prominently displayed on the surface of XM radios together with the radio manufacturer's brand name. This will identify the equipment as being XM Radio-compatible and build awareness of XM Radio We intend to maintain our trademark and the anticipated registration. We are not aware of any material claims of infringement or other challenges to our right to use the "XM" trademark in the United States

Personnel

As of December 31, 2001, we had 448 employees In addition, we rely upon a number of consultants and other advisors. 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 is represented by a labor union, and we believe that our relationship with our employees is good.

ITEM 2. PROPERTY

In August 2001, we purchased our approximately 150,000 square feet of executive offices, studio and production facilities located at 1500 Eckington Place, N.E , Washington, D C. 20002. We have also entered into license or lease agreements with regard to our terrestrial repeater system throughout the United States.

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

ITEM 3. LEGAL PROCEEDINGS

Except for the FCC proceeding described under the caption "Business--Regulatory Matters," we are not a party to any material litigation or other proceedings.

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 2001.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRICE RANGE OF COMMON STOCK

Holdings' Class A common stock has been quoted on the Nasdaq National Market under the symbol "XMSR" since its initial public offering on October 5, 1999. The following table presents, for the period indicated, the high and low sales prices per share of the Class A common stock as reported on the Nasdaq National Market.

1999:	High	Low
Fourth Quarter (beginning October 5, 1999)	$44 750	$11.625
2000·		
First Quarter	$50 000	$27 000
Second Quarter	$39 250	$18.125
Third Quarter	$46.938	$30.125
Fourth Quarter	$43.750	$12 063
2001.		
First Quarter	$21 063	$9.000
Second Quarter	$17.500	$3.870
Third Quarter	$17.200	$4.020
Fourth Quarter	$20 680	$4.300
2002:		
First Quarter (through March 15, 2002)	$19.200	$10.700

On March 15, 2002, the last reported sale price of Holdings' Class A common stock on the Nasdaq National Market was $15.04 As of March 15, 2002, there were 473 holders of record of Holdings' Class A common stock.

DIVIDEND POLICY

Holdings has not declared or paid any dividends on its common stock since its date of inception Currently, Holdings' 8 25% Series B Convertible Redeemable preferred stock restricts Holdings from paying dividends on its common stock unless full cumulative dividends have been paid or set aside for payment on all shares of the Series B preferred stock The terms of Holdings' 8.25% Series C Convertible Redeemable preferred stock contain similar restrictions. In accordance with its terms, Holdings has paid dividends on the Series B preferred stock in common stock The Series C preferred stock provides for cumulative dividends payable in cash As no dividends have been declared on the Series C preferred stock, the value of the cumulative dividends has increased the liquidation preference. The indenture governing XM's senior secured notes restricts XM from paying dividends to Holdings which, in turn, will significantly limit the ability of Holdings to pay dividends. Holdings does not intend to pay cash dividends on its common stock in the foreseeable future Holdings anticipates that it will retain any earnings for use in its operations and the expansion of its business.

RECENT SALES OF UNREGISTERED SECURITIES

None.

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

XM Satellite Radio Holdings Inc. and Subsidiaries

In considering the following selected consolidated financial data, you should also read our consolidated financial statements and notes and the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations." The consolidated statements of operations data for the five-year period ended December 31, 2001 and the consolidated balance sheets data as of December 31, 1997, 1998, 1999, 2000 and 2001 are derived from our consolidated financial statements These statements have been audited by KPMG LLP, independent certified public accountants. KPMG's report contains a paragraph stating that we are dependent upon additional debt or equity financing and that this factor raises substantial doubt about our ability to continue as a going concern. The selected consolidated financial data do not include any adjustments that might result from the outcome of that uncertainty. With the commencement of operations during the fourth quarter of 2001, we have recognized revenue and emerged from the development stage.

	Years Ended December 31,				
	1997	1998	1999	2000	2001
	(In thousands, except subscriber and share amounts)				
Consolidated Statements of Operations Data					
Subscriber revenue	$ --	$ --	$ --	$ --	$ 246
Ad sales revenue	--	--	--	--	294
Less Agency commissions	--	--	--	--	(43)
Other revenue	--	--	--	--	36
Total revenue	$ --	$ --	$ --	$ --	$ 533
Operating expenses					
Broadcasting operations.					
Content/programming	--	(664)	(1,014)	(6,878)	(27,924)
System operations	--	(1,145)	(2,877)	(23,227)	(67,571)
Customer care and billing operations	--	--	--	(856)	(6,034)
Sales and marketing	--	(1,523)	(3,352)	(16,078)	(99,789)
General and administrative	(1,110)	(5,327)	(14,496)	(16,624)	(24,595)
Research and development	--	(7,477)	(7,440)	(12,701)	(14,255)
Depreciation and amortization	--	(57)	(1,512)	(3,115)	(41,971)
Total operating expenses	(1,110)	(16,193)	(30,691)	(79,479)	(282,139)
Operating loss	(1,110)	(16,193)	(30,691)	(79,479)	(281,606)
Interest income (expense), net	(549)	26	(6,205)	27,606	(2,933)
Other income (expense), net	--	--	--	--	160
Net loss	(1,659)	(16,167)	(36,896)	(51,873)	(284,379)
Series B preferred stock dividend requirement	--	--	--	(5,935)	(3,766)
Series C preferred stock dividend requirement	--	--	--	(9,277)	(19,387)
Series B preferred stock incentivized conversion charge	--	--	--	(11,211)	--
Series C preferred stock beneficial conversion charge	--	--	--	(123,042)	--
Net loss applicable to common stockholders	$ (1,659)	$ (16,167)	$ (36,896)	$ (201,338)	$ (307,532)
Net loss per share--basic and diluted	$ (0 26)	$ (2 42)	$ (2 40)	$ (4 15)	$ (5 13)
Weighted average shares used in computing net loss per share--basic and diluted	6,368,166	6,689,250	15,344,102	48,508,042	59,920,196
Other Data					
EBITDA(1)	$ (1,110)	$ (16,136)	$ (29,181)	$ (76,110)	$ (239,184)
XM Subscriptions (end of period)(2)	--	--	--	--	27,733

	December 31,				
	1997	1998	1999	2000	2001
	(In thousands)				
Consolidated Balance Sheets Data·					
Cash, cash equivalents and short-term investments	$ 1	$ 310	$ 120,170	$ 224,903	$ 210,852
Restricted investments	--	--	--	161,166	72,759
System under construction	91,932	169,029	362,358	815,016	55,056
Property and equipment, net	--	1,146	2,551	50,052	1,066,191
Total assets	91,933	170,485	515,189	1,293,218	1,456,203
Total long-term debt, net of current portion	82,504	140,332	212	262,665	411,520
Total liabilities	82,949	177,668	30,172	337,266	529,552
Stockholders' equity (deficit)	8,984	(7,183)	485,017	955,952	926,651

(1) EBITDA means earnings (loss) before interest income and expense, other income, taxes, depreciation (including amounts related to research and development) and amortization. We have included EBITDA data because it is a commonly used measure EBITDA is not a measure of financial performance under generally accepted accounting principles and should not be considered an alternative to net income (loss) as a measure of performance or to cash

flows as a measure of liquidity.

(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

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

XM Satellite Radio Inc. and Subsidiaries

In considering the following selected consolidated financial data, you should also read XM's consolidated financial statements and notes and the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations " The consolidated statements of operations data for the five-year period ended December 31, 2001 and the consolidated balance sheets data as of December 31, 1997, 1998, 1999, 2000 and 2001 are derived from XM's consolidated financial statements. These statements have been audited by KPMG LLP, independent certified public accountants. KPMG's report contains a paragraph stating that XM is dependent upon additional debt or equity financing and that this factor raises substantial doubt about XM's ability to continue as a going concern. The selected consolidated financial data do not include any adjustments that might result from the outcome of that uncertainty.

	Years Ended December 31,				
	1997	1998	1999	2000	2001
	(In thousands, except share data)				
Consolidated Statements of Operations Data.					
Subscriber revenue	$ --	$ --	$ --	$ --	$ 246
Ad sales revenue	--	--	--	--	294
Less. Agency commissions	--	--	--	--	(43)
Other revenue	--	--	--	--	36
Total Revenue	$ --	$ --	$ --	$ --	$ 533
Operating expenses:					
Broadcasting operations.					
Content/programming	--	(664)	(1,014)	(6,878)	(27,924)
System operations	--	(1,145)	(2,877)	(23,227)	(67,571)
Customer care and billing operations	--	--	--	(856)	(6,034)
Sales and marketing	--	(1,523)	(3,352)	(16,078)	(99,789)
General and administrative	(1,110)	(5,327)	(14,475)	(16,272)	(25,782)
Research and development.	--	(7,477)	(7,440)	(12,701)	(14,255)
Depreciation and amortization	--	(57)	(1,512)	(3,115)	(41,491)
Total operating expenses	(1,110)	(16,193)	(30,670)	(79,127)	(282,846)
Operating loss	(1,110)	(16,193)	(30,670)	(79,127)	(282,313)
Interest income (expense), net	(85)	26	490	27,200	(1,055)
Other income (expense), net	--	--	--	--	(607)
Net loss	$(1,195)	$(16,167)	$(30,180)	$ (51,927)	$(283,975)
Other Data·					
EBITDA(1)	$(1,110)	$ (16,136)	$(29,160)	$ (75,758)	$(240,371)
XM Subscriptions (end of period)(2)	--	--	--	--	27,733

	December 31,				
	1997	1998	1999	2000	2001
	(In thousands)				
Consolidated Balance Sheets Data.					
Cash, cash equivalents and short-term investments	$ 1	$ 310	$ 119,102	$ 203,191	$ 72,664
Restricted investments	--	--	--	161,166	70,734
System under construction	90,031	155,334	333,500	786,159	18,597
Property and equipment, net	--	1,146	2,551	50,052	1,031,810
Total assets	90,032	156,397	485,134	1,242,517	1,241,362
Total long-term debt, net of current portion	--	87	212	262,665	268,934
Total liabilities	--	28,941	30,030	337,107	385,908
Stockholder's equity	90,032	127,456	455,104	905,410	855,454

(1) EBITDA means earnings (loss) before interest income and expense, other income, taxes, depreciation (including amounts related to research and development) and amortization. We have included EBITDA data because it is a commonly used measure. EBITDA is not a measure of financial performance under generally accepted accounting principles and should not be considered an alternative to net income (loss) as a measure of performance or to cash flows as a measure of liquidity.

(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.

Source· XM SATELLITE RADIO H, 10-K405, March 19, 2002

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

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our financial condition and consolidated results of operations. This discussion should be read together with our consolidated financial statements and related notes beginning on page F-1 of this report.

Introduction

This annual report on Form 10-K is filed jointly by XM Satellite Radio Holdings Inc and XM Satellite Radio Inc. XM is a wholly-owned subsidiary of Holdings. Accordingly, the management's discussion and analysis section of this report focuses on the financial condition and results of operations of Holdings but contains an explanation of any significant differences, if applicable, between the two companies

Overview

XM Satellite Radio Inc was incorporated in Delaware in 1992 as a wholly-owned subsidiary of Motient Corporation XM Satellite Radio Holdings Inc. became a holding company for XM Satellite Radio Inc in early 1997.

We emerged from the development stage in the fourth quarter of 2001 following the commercial launch of our service on a nationwide basis on November 12, 2001 We commenced commercial service of XM Radio in San Diego and Dallas/Ft Worth on September 25, 2001, expanded across the southern half of the United States in mid-October and launched nationwide on November 12, 2001. As of December 31, 2001, we had 27,733 subscribers. Accordingly, we revised the presentation of our Statements of Operations to reflect those of a commercial enterprise. Prior to that point, we were a development stage company with no significant revenue-generating operations.

Since our inception in December 1992, we have devoted our efforts to establishing and commercializing the XM Radio system. Our activities were fairly limited until 1997, when we pursued and obtained regulatory approval from the FCC to provide satellite radio service (which we refer to as the DARS license). Prior to our commercial launch, our principal activities included·

- designing and developing the XM Radio system, including launching our satellites, "Rock" and "Roll," to complete our space constellation, completing our state-of-the-art broadcast studio facilities, completing our ground segment, implementing our terrestrial network build-out, and validating XM radios on the XM radio system;

- executing contracts with specialty programmers, retail distributors, radio manufacturers and car manufacturers,

  receiving temporary FCC authority to operate our national repeater network, and

- securing financing for working capital and capital expenditures.

To finance the establishment and commercialization of our system and fund the substantial losses incurred to date, we have raised net proceeds of $1 5 billion through December 31, 2001 from issuances of equity and debt to investors and strategic partners, as further described under the heading "Liquidity and Capital Resources -- Funds Raised to Date "

Although our system is substantially completed, we expect to incur significant operating losses for the next few years as we seek to increase the number of subscribers and develop a stream of cash flow sufficient to cover operating costs We also have significant outstanding contracts and commercial commitments that need to be paid over the next several years, including payments for work previously performed in constructing our system and to fund marketing and distribution costs and repayment of long-term debt, as further described below under the heading "Liquidity and Capital Resources--Contractual Obligations and Commercial Commitments." Our ability to

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

become profitable ultimately depends upon our substantially increasing the number of our subscribers as well as a number of other factors, as identified below under the heading "Liquidity and Capital Resources--Funds Required in 2002 and Beyond "

Results of Operations

Year Ended December 31, 2001 Compared With Year Ended December 31, 2000

XM Satellite Radio Holdings Inc. and Subsidiaries

Revenue. Our revenue consists primarily of customers' subscription fees and advertising revenue. Revenue from subscribers consists of our monthly $9.99 subscription fee, which is recognized as the service is provided, and a non-refundable activation fee, which is recognized on a pro-rata basis over an estimated term for the subscriber relationship (which estimate we expect to be further refined over the next few years as additional historical data becomes available) Our subscriber arrangements are cancelable, without penalty Payments received from customers receiving our service under promotional offers are not included as revenue until the promotional period has elapsed, as these customers are not obligated to continue receiving our service beyond the promotional period. Advertising revenue consists of sales of spot announcements to national advertisers that are recognized in the period in which the spot announcement is broadcast. Agency commissions are presented as a reduction to revenue in the Consolidated Statement of Operations, which is consistent with industry practice.

We recognized revenue of $533,000 from the date of launch through December 31, 2001. Total revenue included $246,000 in subscriber revenue and $295,000 in advertising revenue less sales commissions of $43,000. We expect revenue to increase during 2002 as we add subscribers and attract additional advertisers.

Broadcasting Operations. Broadcasting operations expense was $101.5 million in 2001, compared with $31 0 million in 2000, an increase of $70.5 million or 227%. Broadcasting operations expense consists of content/programming expense, system operations and customer care and billing operations.

Content/Programming - Content/programming expense was $27 9 million in 2001, compared with $6.9 million in 2000, an increase of $21 0 million or 304%. This increase was the result of the cost of content and headcount, third party programming fees, and estimates of royalties owed to performing rights organizations. We expect content/programming expense to increase during 2002 as we operate the XM Radio system for a full year and as revenue increases.

System Operations - System operations expense was $67.6 million in 2001, compared with $23.2 million in 2000, an increase of $44.4 million or 191%. This increase primarily resulted from the operation of our satellites and terrestrial repeater network and a charge of $26.3 million related to terrestrial repeater sites no longer required. We expect this expense to increase during 2002, exclusive of the $26.3 million charge, as our system operations continue to stabilize and we operate the system over the course of a full year.

Customer Care and Billing Operations - Customer care and billing operations expense was $6.0 million, compared with $856,000 in 2000, an increase of $5 1 million or 567%. This increase resulted from our commencement of commercial operations. Included in 2001 expense are $4.9 million of set-up and pre-operating costs. We expect customer care and billing operations expense to increase during 2002, exclusive of the $4 9 million in set-up and pre-operating costs, as we add subscribers.

Sales and Marketing. Sales and marketing expense was $99.8 million in 2001, compared with $16 1 million in 2000, an increase of $83.7 million or 520% Sales and marketing expense increased as a result of our commencement of commercial operations and includes expenses related to our distribution partners, subscriber acquisition costs, personnel, advertising creation and media costs and significant pre-operations costs. We expect sales and marketing expense to increase during 2002 as we add subscribers.

General and Administrative. General and administrative expense was $24.6 million in 2001, compared with $16 6 million in 2000, an increase of $8.0 million or 48%. The increase reflects additional headcount, facilities and

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

the commencement of commercial operations We anticipate general and administrative expense to remain relatively stable during 2002

Research and Development Research and development expense was $14.3 million (including depreciation of $0.5 million) in 2001, compared with $12.7 million (including depreciation of $0.3 million) in 2000, an increase of $1.6 million or 13%. The increase in research and development expense primarily resulted from increased activity relating to our system technology development, including chipset design and uplink technology, in 2001. We expect research and development expense to increase during 2002 as we work toward developing our second generation chipset technology.

Depreciation and Amortization. Depreciation and amortization expense was $42.0 million in 2001, compared with $3.1 million in 2000, an increase of $38 9 million or 1,255%. The increase in depreciation and amortization expense primarily resulted from our taking delivery of major components of our system during 2001, including our two satellites and terrestrial repeater network. We expect depreciation and amortization expense to increase during 2002 to reflect a full year's depreciation of our satellites and other components of our system However, we will cease to amortize goodwill, our DARS license, and other intangibles in accordance with new accounting standards, as further described under the heading "Recent Accounting Pronouncements."

Interest Income. Interest income was $15.2 million in 2001, compared with $27.6 million in 2000, a decrease of $12.4 million or 45%. The decrease was the result of lower average balances of cash and cash equivalents in 2001 as well as lower yields on our investments due to market conditions.

Interest Expense. We incurred interest costs of $63.3 million, including a $6.5 million charge due to the incentivized conversion of Holdings' 7.75% convertible notes, and $39.1 million in 2001 and 2000, respectively We capitalized interest costs of $45 2 million and $39.1 million associated with our DARS license and the XM Radio system and expensed $18 1 million and $0 in 2001 and 2000, respectively, as the interest capitalization threshold was exceeded.

Net Loss. Net loss for 2001 was $284.4 million, compared with $51.9 million in 2000, an increase of $232.5 million or 448%. The increase primarily reflects increases in broadcasting operations expense, sales and marketing expense, depreciation and amortization expense and general and administrative expense in connection with our commencement of commercial operations.

XM Satellite Radio Inc. and Subsidiaries

The results of operations for XM and its subsidiaries were substantially the same as the results for Holdings and its subsidiaries discussed above except that in 2001, XM incurred additional rent expense of $1.3 million, $0.5 million less depreciation and amortization expense, $1.1 million less interest income, $3 0 million less interest expense and $0 8 million less other income. The rent, depreciation and other income differences are principally related to XM's rental of its corporate headquarters from Holdings due to Holdings' ownership of the building since August 2001. The interest income and expense differences were principally related to the components of cash and debt held at each company.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

XM Satellite Radio Holdings Inc. and Subsidiaries

Revenue. We had no revenue during 2000 and 1999 because we had not yet commenced commercial operations.

Broadcasting Operations. Broadcasting operations expense was $31.0 million in 2000, compared with $3 9 million in 1999, an increase of $27.1 million or 695% This increase reflects preparation for commercial operations, including increased expense for headcount, facilities and services

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

Sales and Marketing. Sales and marketing expense was $16.1 million in 2000, compared with $3 4 million in 1999, an increase of $12.7 million or 374%. This increase reflects preparation for commercial operations, including increased expense for headcount, facilities and services.

General and Administrative. General and administrative expense was $16.6 million in 2000, compared with $14.5 million in 1999, an increase of $2.1 million or 14% The increase reflects increased expense for headcount, facilities and services.

Research and Development. Research and development expense was $12.7 million (including depreciation of $0.3 million) in 2000, compared with $7.4 million in 1999, an increase of $5 3 million or 72%. The increase in research and development expense primarily resulted from increased activity relating to our system technology development, including chipset design and uplink technology, in 2000

Depreciation and Amortization Depreciation and amortization expense was $3.1 million, compared with approximately $1.5 million in 1999, an increase of $1.6 million or 107%. During 2000, we commenced the amortization of our goodwill and intangibles

Interest Income. Interest income was $27.6 million in 2000, compared with $2.9 million in 1999, an increase of $24.7 million or 852%. The increase was the result of higher average balances of cash and cash equivalents in 2000 due to the proceeds from the private placement of 14% senior secured notes and warrants, the public offerings of Class A common stock and Series B convertible redeemable preferred stock and the private placement of Series C convertible redeemable preferred stock, all in the first nine months of 2000, which exceeded expenditures for satellite and launch vehicle construction, other capital expenditures and operating expenses.

Interest Expense. We incurred interest costs of $39.1 million and $24.4 million in 2000 and 1999, respectively. We capitalized interest costs of $39.1 million and $15.3 million associated with our DARS license and the XM Radio system and expensed $0 and $9 1 million in 2000 and 1999, respectively. The increase in interest costs was the result of the incurrence of new debt during the first quarter of 2000, which exceeded the reduction in interest due to the conversion of all debt into equity in the fourth quarter of 1999 Further, the interest capitalization threshold was exceeded in 1999.

Net Loss. Net loss for 2000 was $51 9 million, compared with $36.9 million for 1999, an increase of $15 0 million or 41%. The increase in net loss reflects increases in research and development and additional general and administrative expense, primarily due to increased expense for headcount, facilities and services in preparation for commercial operations and the amortization of goodwill and intangibles.

XM Satellite Radio Inc and Subsidiaries

The results of operations for XM and its subsidiaries were substantially the same as the results for Holdings and its subsidiaries discussed above except that in 1999, XM recognized $2.4 million less interest income due to the timing of capital contributions from Holdings and substantially less interest expense as Holdings' $5 5 million charge to interest for the beneficial conversion feature of the new Motient note and Holdings' exceeding its capitalization threshold by $3.6 million were not allocated to XM.

Liquidity and Capital Resources

At December 31, 2001, we had a total of cash, cash equivalents and short-term investments of $210.9 million, which excludes $72 8 million of restricted investments, and working capital of $157.0 million, compared with cash, cash equivalents and short-term investments of $224.9 million, which excludes $161.2 million of restricted investments, and working capital of $212.1 million at December 31, 2000 The decreases in the respective balances are due primarily to the increasing capital expenditures and operating expenses for the year ended December 31, 2001, which were partially offset by funds raised from financing activities in the amount of $382 0 million.

For the year ended December 31, 2001 we had an operating loss of $281.6 million compared to $79.5 million for the year ended December 31, 2000. At December 31, 2001, we had total assets of approximately $1.5 billion

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

and total liabilities of $529 6 million, compared with total assets of $1 3 billion and total liabilities of $337.3 million at December 31, 2000. At December 31, 2001, we had $411 5 million of long-term debt outstanding (net of current portion), compared with $262.7 million at December 31, 2000

Non-Cash Stock-Based Expense

We incurred non-cash compensation charges of approximately $4.9 million and $2 7 million in 2001 and 2000, respectively. These charges relate to stock options granted to employees and non-employees and warrants granted to Sony and CNBC. Additional compensation charges may result depending upon the market value of our Class A common stock at each balance sheet date.

Funds Raised to Date

Since inception, we have raised an aggregate of $1 5 billion net of expenses, interest reserve and repayment of debt. These funds are expected to be sufficient, in the absence of additional financing, to cover funding needs into the fourth quarter of 2002 based on our current business plan and as further described under the heading "Funds Required in 2002 and Beyond." These funds have been used to acquire our DARS license, make required payments for our system, including the satellites, terrestrial repeater system, and ground networks, and for working capital and operating expenses.

Sources of Funds. Prior to our initial public offering, we raised approximately $167 0 million through the issuance of equity to, and receipt of loans from, Motient Corporation and a former stockholder from 1997 through January 1999 In July 1999, we issued $250.0 million of Series A subordinated convertible notes to six strategic and financial investors--General Motors, $50.0 million, Clear Channel Communications, $75.0 million; DIRECTV, $50 0 million; and Columbia Capital, Telcom Ventures, L.L.C. and Madison Dearborn Partners, $75.0 million in the aggregate Using part of the proceeds from the issuance of the Series A subordinated convertible notes, we paid a former stockholder $75 0 million in July 1999 to redeem an outstanding loan. In October 1999, we completed our initial public offering, which yielded net proceeds of $114 1 million. In January 2000, we completed a follow-on offering of our Class A common stock, which yielded net proceeds of $132.1 million, and an offering of our Series B convertible redeemable preferred stock, which yielded net proceeds of $96 5 million In March 2000, we completed a private placement of units consisting of $1,000 principal amount of XM's 14% senior secured notes due 2010 and a warrant to purchase 8 024815 shares of our Class A common stock at $49.50 per share, which yielded net proceeds of $191.5 million excluding $123 0 million for an interest reserve In August 2000, we completed a private placement of our Series C convertible redeemable preferred stock, which yielded net proceeds of $226 8 million

During the fiscal year ended December 31, 2001

- We completed a follow-on offering of 7,500,000 shares of Class A common stock, which yielded net proceeds of $72.0 million, and a concurrent offering of 7 75% convertible subordinated notes due 2006, convertible into shares of our Class A common stock at $12.23 per share, which yielded net proceeds of $120.7 million;

- We closed a $66.0 million financing package with subsidiaries of The Boeing Company, which includes a $35.0 million loan and deferral of $31.0 million of obligations to Boeing, our satellite manufacturer;

- We entered into a loan and security agreement with a lender that provided $29 0 million to purchase our corporate headquarters and incurred $0.5 million in financing costs;

  We completed a follow-on offering of 11,500,000 shares of our Class A common stock, yielding net proceeds of $126.5 million;

  These issuances caused the conversion price of the Series C preferred stock to be adjusted to $22.17 and the exercise price of the warrants sold in March 2000 to be adjusted to $45.27 and number of warrant shares to be increased to 8 776003 per warrant.

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

Uses of Funds Of the approximately $1 5 billion of funds raised to date, as of December 31, 2001, we have paid $1 0 billion in capital expenditures, including approximately $90.0 million for our DARS license which has been paid for in full, and incurred $409.6 million in operating expenses.

Satellite Contract. Under our satellite contract, Boeing Satellite Systems International, Inc. has delivered two satellites in orbit and is to complete construction of a ground spare satellite Boeing Satellite has also provided ground equipment and software used in the XM Radio system and certain launch and operations support services. The contract also provides for in-orbit incentives to be earned depending on the performance of the in-orbit satellites over their useful lives. Such payments could total up to an additional $70.2 million over the useful lives of the satellites. We have deferred $31.0 million of payments under this contract to December 2006 at an interest rate of 8 percent. As of December 31, 2001, we had paid approximately $470.4 million under our satellite contract and have recognized an additional $741,000 in accrued milestone payments.

Launch Insurance. As of December 31, 2001, we had launched both of our satellites and paid $44.1 million with respect to launch insurance, which has been capitalized to in-service satellites.

Terrestrial Repeater System. As of December 31, 2001, we incurred aggregate costs of approximately $243 5 million for a terrestrial repeater system. These costs covered the capital cost of the design, development and installation of a system of terrestrial repeaters to cover approximately 60 cities and metropolitan areas. In August 1999, we signed a contract with LCC International, Inc , a related party, for engineering and site preparation. As of December 31, 2001, we had paid $109.9 million under this contract and accrued an additional $15.4 million. We have also engaged other companies to perform site preparation services. We also entered into a contract effective October 22, 1999, with Hughes Electronics Corporation for the design, development and manufacture of the terrestrial repeaters. Payments under this contract are expected to be approximately $128 0 million. As of December 31, 2001, we had paid $95.8 million under this contract and accrued an additional $7.7 million.

Ground Segment. As of December 31, 2001, we incurred aggregate ground segment costs of approximately $110.9 million. These costs were related to the satellite control facilities, programming production studios and various other equipment and facilities.

DARS License. In October 1997, we received one of two satellite radio licenses issued by the FCC We have paid approximately $90.0 million for this license, including the initial bid right. There are no further payments required relating to the license

Purchase of Building. In August 2001, we acquired our corporate headquarters building for $34 0 million.

Operating Expenses From inception through December 31, 2001, we have incurred total operating expenses of $409.6 million.

Joint Development Agreement Funding Requirements. We may require additional funds to pay license fees or make contributions toward the development of the technologies used to develop a unified standard for satellite radios under our joint development agreement with Sirius Radio. Each party is obligated to fund one half of the development cost for such technologies. Each party will be entitled to license fees or a credit towards its one half of the cost based upon the validity, value, use, importance and available alternatives of the technology it contributes In our discussions we have yet to agree on the validity, value, use, importance and available alternatives of our respective technologies. If we fail to reach agreement, the fees or credits may be determined through binding arbitration. We cannot predict at this time the amount of license fees or contribution payable by us or Sirius Radio or the size of the credits to us and Sirius Radio from the use of the other's technology. This may require significant additional capital.

Funds Required in 2002 and Beyond

Although we commenced nationwide commercial operations in November 2001, we expect to need significant additional funds to cover our cash requirements before we generate sufficient cash flow from operations to cover our expenses. We estimate that our existing resources would be sufficient in the absence of additional financing to cover our estimated funding needs into the fourth quarter of 2002 We estimate that we will need an additional $40

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

million to $65 million through the end of 2002, and we will require additional funding thereafter. These estimates may change, and we may need additional financing in excess of these estimates. Funds will be needed to cover broadcasting operations, sales and marketing, general corporate purposes and further development of the XM Radio system. Sales and marketing expenses are expected to include joint advertising and joint development with, and manufacturing subsidies of certain costs of, some of our manufacturers and distribution partners. We cannot estimate the total amount of these operational, promotional, subscriber acquisition, joint development and manufacturing costs and expenses, however, since they vary depending upon different criteria, but they are expected to be substantial. In addition, our ability to generate revenues and ultimately to become profitable will depend upon several factors, including whether we can attract and retain enough subscribers and advertisers; whether our system continues to operate at an acceptable level; whether we compete successfully, and whether the FCC grants us all additional necessary authorizations in a timely manner

We currently expect to satisfy our continuing funding requirements by selling debt or equity securities and by obtaining loans or other credit lines from banks or other financial institutions. If we are successful in raising additional financing, we anticipate that a significant portion of the financing will consist of debt. We are actively considering possible financings, and because of our substantial capital needs we may consummate one or more financings at any time

We may not be able to raise any funds or obtain loans on favorable terms or at all Our ability to obtain the required financing depends on several factors, including future market conditions; our success or lack of success in developing, implementing and marketing our satellite radio service; our future creditworthiness, and restrictions contained in agreements with our investors or lenders If we fail to obtain any necessary financing on a timely basis, a number of adverse effects could occur. We could default on our commitments to creditors or others and may have to discontinue operations or seek a purchaser for our business or assets.

Our need for additional funds may also be affected by future developments In September 2001, we were advised by Boeing Satellite of a progressive degradation problem with the solar array output power of 702 class satellites, including XM "Rock" and XM "Roll " At the present time, the output power of the solar arrays and the broadcast signal strength are above minimum acceptable levels and are expected to remain that way at least through 2005, permitting full operation of the XM System (based on patterns projected by Boeing Satellite). We have advised our insurance carriers of the situation and believe that should we experience a total or partial loss, we would have adequate insurance coverage, although there is no assurance that would be the case. Since the issue is common to 702 class satellites, the manufacturer is closely watching the progression of the problem, including data from a satellite in orbit approximately 18 months longer than XM "Rock" and XM "Roll." With this 18-month advance visibility of performance levels, insurance arrangements in place, a spare satellite under construction that is being modified to address the solar array anomaly and availability of additional satellites, we believe that we will be able to launch additional satellites prior to the time the solar power problem might cause the broadcast signal strength to fall below acceptable levels. Our management will continue to monitor this situation carefully over the next few years.

Contractual Obligations and Commercial Commitments

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

Marketing and Distribution Arrangements. 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 have subsidized the manufacture of certain component parts of XM radios in order to provide attractive pricing to our customers. The subsidies are charged to expense when the radios are manufactured or shipped from the factory. Consequently, the expense is most often recognized in advance of when revenue, if any, is realized 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, 1999, 2000 and 2001 we incurred expenses of $0, $0 and $19.5 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 revenue increase.

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

Programming Agreements. We have also entered into various programming agreements. Under the terms of these agreements, we are obligated to provide payments and commissions to other entities that may include fixed payments, advertising commitments and revenue sharing arrangements. The amount of these costs related to these agreements cannot be estimated, but are expected to be substantial future costs. During the years ended December 31, 1999, 2000, 2001, we incurred expenses of $0, $0 and $7.2 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 revenue increase

General Motors Distribution Agreement We have significant payment obligations under our distribution agreement with General Motors. We will pay an aggregate of approximately $35 million through 2004 After that, through 2009, we will have additional fixed annual payments ranging from less than $35 million to approximately $130 million, aggregating approximately $400 million. In order to encourage the broad installation of XM radios, we have agreed to subsidize a portion of the cost of XM radios and to make incentive payments to General Motors when the owners of General Motors vehicles with installed XM radios become subscribers for the XM Radio service. We must also share with General Motors a percentage of the subscription revenue attributable to General Motors vehicles with installed XM radios. This percentage increases until there are more than eight million General Motors vehicles with installed XM radios. This agreement is subject to renegotiation if General Motors does not achieve and maintain specified installation levels, starting with 1.24 million units after four years and thereafter increasing by the lesser of 600,000 units per year and amounts proportionate to our share of the satellite digital radio market. There can be no assurances as to the outcome of any such renegotiations. General Motors' exclusivity obligations will discontinue if, four years after we commence commercial operations and at two-year intervals thereafter, we fail to achieve and maintain specified minimum market share levels in the satellite digital radio service market. Prior to 2001, we had not incurred any costs under the contract and in 2001 we incurred $1 3 million.

Long-term debt. In March 2000, XM issued $325.0 million aggregate principal amount of 14% senior secured notes due 2010 In connection with this financing, an interest reserve of $123.0 million was established to cover the first six interest payments, of which three have been made. Principal on the senior secured notes is payable at maturity, while interest is payable semi-annually. In March 2001, we issued $125 0 million aggregate principal amount of 7.75% convertible subordinated notes due 2006 In July and August 2001, holders of convertible subordinated notes exchanged $45 9 million of notes for 4,194,272 shares of our Class A common stock Principal on the convertible subordinated notes is payable at maturity, while interest is payable semi-annually. In August 2001, we borrowed $29.0 million to finance the purchase of our headquarters facility This loan is for a term of five years and bears interest at a rate based on the London Interbank Offer Rate plus an indicated spread. We make monthly payments of principal and interest on this loan In December 2001, we borrowed $35.0 million from a subsidiary of The Boeing Company. This loan is for a term of five years and bears interest at a rate based on the London Interbank Offer Rate plus an indicated spread Principal is payable at maturity, while interest is payable quarterly.

Lease obligations We have noncancelable operating leases for office space and terrestrial repeater sites and noncancelable capital leases for equipment that expire over the next ten years. As discussed below, in December 2001, we determined that the planned number of terrestrial repeater sites could be reduced due to the relative signal strength provided by our satellites. We recognized a charge of $26.3 million with respect to terrestrial repeater sites no longer required This charge includes a lease termination accrual of $8 6 million for 646 terrestrial repeater site leases, which would reduce the future minimum lease payments.

	Payments Due By Period (in thousands)				
Contractual Obligations	2002	2003 and 2004	2005	2006 and Beyond	Total
GM Distribution Agreement	$ 3,000	$ 29,400	$ 33,500	$ 372,400	$ 438,300
Long-term debt	380	874	492	466,220	467,966
Capital Lease Obligations	1,530	4,487	141	--	6,158
Operating Lease Obligations	20,471	42,389	17,351	16,126	96,337
Total	$ 25,381	$ 77,150	$ 51,484	$ 854,746	$1,008,761

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

The above amounts do not include interest, which in some cases is variable in amount

The long-term debt payments due in 2006 and beyond include the maturity of our $79.1 million of 7.75% convertible subordinated notes, our $29.0 million loan to finance the purchase of our headquarters facility and our $35.0 million borrowing from Boeing, all of which come due in 2006, and the maturity of XM's $325.0 million of 14% senior secured notes, which come due in 2010.

Related Party Transactions

We developed strategic relationships with certain companies that were instrumental in the construction and development of our system. In connection with our granting to them of large supply contracts, some of these strategic companies have become large investors in us and have been granted rights to designate directors or observers to our board of directors The negotiation of these supply contracts and investments primarily occurred at or prior to the time these companies became related parties, except in the case of Motient Corporation, which was our founder.

We are a party to a long-term distribution agreement with the OnStar division of General Motors that provides for the installation of XM radios in General Motors vehicles, as more fully described above under the heading "Liquidity and Capital Resources--Contractual Obligations and Commercial Commitments " In connection with the development of our terrestrial repeater network, we are a party to a contract with Hughes Electronics Corporation and a contract with LCC International, as further described under the heading "Liquidity and Capital Resources--Funds Raised to Date " DIRECTV has provided consulting services in connection with the development of our customer care center and billing operations. We have agreements with Clear Channel Communications, DIRECTV, Telcom Ventures and American Honda to make available use of our bandwidth. We have a sponsorship agreement with Clear Channel Entertainment to advertise our service at Clear Channel Entertainment concerts and venues Premiere Radio Networks, a subsidiary of Clear Channel Communications, is our advertising sales representative. Motient Corporation has provided technical and administrative support for our operations. General Motors is one of our largest shareholders and Chester A. Huber, Jr., the president of OnStar, is a member of our board of directors. Hughes Electronics is our largest shareholder and is a subsidiary of General Motors. Jack Shaw, a member of our board of directors, is Chief Executive Officer of Hughes Electronics Corporation. Dr. Rajendra Singh, a member of our board of directors and a member of the board of directors of LCC International, controls the largest shareholder of LCC International. DIRECTV, a subsidiary of Hughes Electronics, is a holder of our Series C preferred stock Randall Mays, a member of our board of directors, is executive vice president and chief financial officer of Clear Channel Communications Our chairman, Gary Parsons, is also the chairman of Motient, a significant early investor and formerly our controlling stockholder.

We have incurred the following costs in transactions with the related parties described above (in thousands):

	Year	GM	Hughes	DIRECTV	LCC	Clear Channel	Motient
Terrestrial repeater network	1999	--	3,500	--	6,578	--	--
engineering and manufacturing	2000	--	11,858	--	58,731	--	--
	2001	--	88,116	--	59,958	--	--
Terrestrial repeater site leases	1999	--	--	--	--	--	--
	2000	--	--	--	--	5	--
	2001	--	--	--	--	36	--
Customer care and billing . . .	1999	--	--	--	--	--	--
operations	2000	--	--	1,008	--	--	--
	2001	--	--	623	--	--	--
Sales and marketing	1999	--	--	--	--	--	--
	2000	--	--	--	--	3,175	--
	2001	1,264	--	--	--	4,351	--
General and administrative	1999	--	--	--	--	--	224

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

2000	--	--	--	--	3	252
2001	--	--	--	--	--	193

Critical Accounting Policies

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require that we make estimates and assumptions Our significant accounting policies are described in Note 1 to our consolidated financial statements In accordance with recent Securities and Exchange Commission guidance, we have identified the following policies as possibly involving a higher degree of judgment and complexity.

. Revenue Recognition - Revenue from subscribers consists of our monthly subscription fee, which is recognized as the service is provided, and a non-refundable activation fee, which is recognized on a pro-rata basis over an estimated term of the subscriber relationship, which was based upon market studies and management's judgment We expect to refine this estimate as more data becomes available Payments from customers receiving our service under promotional offers are not recognized as revenue until the promotional period has elapsed, as described above under the heading "Results of Operations."

. Useful Life of Satellites - The expected life of our satellites was extended from 15 years, the initial design life, to 17.5 years based upon updated technical estimates we received from our satellite provider following our satellite launches. We are currently evaluating the possible effect of a progressive degradation problem with the solar array output power of our satellites, as described above under the heading "Liquidity and Capital Resources--Funds Required in 2002 and Beyond " We currently do not have sufficient information regarding the anomaly to make specific conclusions with regard to the performance of our satellites. We continue to monitor the situation and may need to adjust the life of our satellites based upon future information.

Accrued Network Optimization Expenses - As a result of the planned reduction of the number of terrestrial repeater sites, we recognized a charge of $26 3 million in 2001 This expense includes $17.7 million of site specific capitalized costs that were written off and a lease termination accrual of $8.6 million for 646 terrestrial repeater site leases. The contractual lease payments for the sites are $35 1 million. The accrual represents an estimate of the costs to terminate existing leases based on management's judgment, advice of lease consultants, and early negotiations with landlords. The accrual also includes the estimated costs to deconstruct the existing sites, which are based upon quotes from contractors This accrual could vary significantly from the actual amount incurred, which will be primarily based on our ability to negotiate lease termination settlements.

Recent Accounting Pronouncements

On July 20, 2001, the Financial Accounting Standards Board ("FASB") issued Statement No 141 ("SFAS 141"), Business Combinations, and Statement No. 142 ("SFAS 142"), Goodwill and Other Intangible Assets. SFAS 141 addresses the accounting for acquisitions of businesses and is effective for acquisitions occurring on or after July 1, 2001 SFAS 142 addresses the method of identifying and measuring goodwill and other intangible assets acquired in a business combination, eliminates further amortization of goodwill and other intangibles with indefinite lives, and requires periodic evaluations of impairment of goodwill and other intangible balances. SFAS 142 became effective on January 1, 2002. We are currently assessing the impacts of the adoption of these standards and believe that SFAS 141 will not have an impact on our current operations, but that SFAS 142 will have a material effect on operations in 2002. As of the date of adoption of SFAS No. 142, we expect to have unamortized goodwill in the amount of $11 5 million and unamortized identifiable intangible assets in the amount of $155 2 million, all of which will be subject to the transition provisions of SFAS No. 142. Amortization expense related to goodwill and identifiable intangible assets was $1 2 million, $1 4 million and $3.6 million for the years ended December 31, 1999, 2000, and 2001, respectively.

In August 2001, the FASB issued Statement No 144, ("SFAS 144"), Accounting for the Impairment or Disposal of Long-Lived Assets SFAS 144 supersedes FASB Statement No 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of, and the accounting and reporting provisions of APB

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

Opinion No 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and 25 Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business (as previously defined in that Opinion). This Statement also amends ARB No. 51, Consolidated Financial Statements, to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. We are currently assessing the impact of the adoption of this standard and do not believe that SFAS 144 will have a material effect on operations in 2002.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2001, we do not have any derivative financial instruments and do not intend to use derivatives. We do not hold or issue any free-standing derivatives We invest our cash in short-term commercial paper, investment-grade corporate and government obligations and money market funds. Our long-term debt includes fixed interest rates and the fair market value of the debt is sensitive to changes in interest rates. We run the risk that market rates will decline and the required payments will exceed those based on current market rates. Under our current policies, we do not use interest rate derivative instruments to manage our exposure to interest rate fluctuations. The mortgage on our corporate headquarters has a variable interest rate that may not exceed a ceiling rate of 14% or a floor rate of 8%. A change of one percentage point in the interest rate applicable to this $29.0 million of variable rate debt at December 31, 2001 would result in a fluctuation of approximately $0.3 million in our annual interest expense. Additionally, we believe that our exposure to interest rate risk is not material to our results of operations.

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of XM Satellite Radio Holdings Inc , including consolidated balance sheets as of December 31, 2000 and 2001, 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, 2001 and notes to the consolidated financial statements, together with a report thereon of KPMG LLP, dated January 23, 2002, are attached hereto as pages F-1 through F-30.

The consolidated financial statements of XM Satellite Radio Inc., including consolidated balance sheets as of December 31, 2000 and 2001, and consolidated statements of operations, consolidated statements of stockholder's equity and consolidated statements of cash flows for the three-year period ended December 31, 2001 and notes to the consolidated financial statements, together with a report thereon of KPMG LLP, dated January 23, 2002, are attached hereto as pages F-31 through F-55.

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

None.

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANTS

The information is incorporated herein by reference to Holdings' definitive 2002 Proxy Statement. Holdings and XM have the same directors and executive officers

ITEM 11 EXECUTIVE COMPENSATION

The information is incorporated herein by reference to Holdings' definitive 2002 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information is incorporated herein by reference to Holdings' definitive 2002 Proxy Statement

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information is incorporated herein by reference to Holdings' definitive 2002 Proxy Statement.

Source. XM SATELLITE RADIO H, 10-K405, March 19, 2002

PART IV

ITEM 14 EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) The following Consolidated Financial Statements of and report of independent public accountants for XM Satellite Radio Holdings Inc. are included in Item 8 of this Form 10-K:

Report of Independent Auditors.

Consolidated Balance Sheets as of December 31, 2000 and 2001.

Consolidated Statements of Operations for the years ended December 31, 1999, 2000 and 2001.

Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 1999, 2000 and 2001.

Consolidated Statements of Cash Flows for the years ended December 31, 1999, 2000 and 2001, and for the period from December 15, 1992.

Notes to Consolidated Financial Statements.

Schedule I--Valuation and Qualifying Accounts.

The following Consolidated Financial Statements of and report of independent public accountants for XM Satellite Radio Inc are included in Item 8 of this Form 10-K.

Report of Independent Auditors.

Consolidated Balance Sheets as of December 31, 2000 and 2001

Consolidated Statements of Operations for the years ended December 31, 1999, 2000 and 2001

Consolidated Statements of Stockholder's Equity for the years ended December 31, 1999, 2000 and 2001

Consolidated Statements of Cash Flows for the years ended December 31, 1999, 2000 and 2001

Notes to Consolidated Financial Statements

Schedule I--Valuation and Qualifying Accounts

(a)(2) The following consolidated financial statement schedules are filed as part of this report and attached hereto as page F-30 and F-56:

Schedule I--Valuation and Qualifying Accounts for Holdings.

Schedule I--Valuation and Qualifying Accounts for XM.

All other schedules for which provision is made in the applicable accounting regulations of the Commission have been included in the Consolidated Financial Statements of XM Satellite Radio Holdings Inc. or XM Satellite Radio Inc. or the notes thereto, are not required under the related instructions or are inapplicable, and therefore have been omitted.

(a)(3) The following exhibits are either provided with this Form 10-K or are incorporated herein by reference

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

Exhibit Index

Exhibit No.	Description
3.1.	Restated Certificate of Incorporation of XM Satellite Radio Holdings Inc
3 2	Restated Bylaws of XM Satellite Radio Holdings Inc.
3.3	Restated Certificate of Incorporation of XM Satellite Radio Inc. (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178).
3.4	Amended and Restated Bylaws of XM Satellite Radio Inc. (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178)
4.1	Form of Certificate for Holdings' Class A common stock (incorporated by reference to Exhibit 3 to Holdings' Registration Statement on Form 8-A, filed with the SEC on September 23, 1999).
4.2	Form of Certificate for Holdings' 8.25% Series B Convertible Redeemable Preferred Stock (incorporated by reference to Holdings' Registration Statement on Form S-1, File No 333-93529).
4.3	Certificate of Designation Establishing the Voting Powers, Designations, Preferences, Limitations, Restrictions and Relative Rights of 8.25% Series B Convertible Redeemable Preferred Stock due 2012 (incorporated by reference to Holdings' Annual Report on Form 10-K for the fiscal year ended December 31, 1999, filed with the SEC on March 16, 2000).
4.4	Warrant to purchase shares of Holdings' Class A common stock, dated February 9, 2000, issued to Sony Electronics, Inc. (incorporated by reference to Holdings' quarterly report on Form 10-Q for the quarter ended March 31, 2000, filed with the SEC on May 12, 2000).
4.5	Warrant Agreement, dated March 15, 2000, between XM Satellite Radio Holdings Inc as Issuer and United States Trust Company of New York as Warrant Agent (incorporated by reference to Holdings' Registration Statement on Form S-1, File No 333-39176)
4 6	Warrant Registration Rights Agreement, dated March 15, 2000, between XM Satellite Radio Holdings Inc. and Bear, Stearns & Co., Inc., Donaldson, Lufkin and Jenrette Securities Corporation, Salomon Smith Barney Inc. and Lehman Brothers Inc. (incorporated by reference to Holdings' Registration Statement on Form S-1, File No 333-39176).
4 7	Form of Warrant (incorporated by reference to Holdings' Registration Statement on Form S-1, File No. 333-39176).
4.8	Certificate of Designation Establishing the Powers, Preferences, Rights, Qualifications, Limitations and Restrictions of the 8 25% Series C Convertible Redeemable Preferred Stock due 2012 (incorporated by reference to Holdings' Registration Statement on Form S-1, File No 333-39176).
4.9	Form of Certificate for Holdings' 8.25% Series C Convertible Redeemable Preferred Stock (incorporated by reference to the Registrant's Registration Statement on Form S-1, File No. 333-39176).
4.10	Indenture, dated as of March 15, 2000, between XM Satellite Radio Inc. and United States Trust Company of New York (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178).
4 11	Registration Rights Agreement, dated March 15, 2000, between XM Satellite Radio Inc and Bear, Stearns & Co. Inc., Donaldson, Lufkin and Jenrette Securities Corporation, Salomon Smith Barney Inc. and Lehman Brothers Inc. (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178).

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

4.12 Form of 14% Senior Secured Note of XM Satellite Radio Inc (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178).

4.13 Security Agreement, dated March 15, 2000, between XM Satellite Radio Inc and United States Trust Company of New York (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178).

4.14 Pledge Agreement, dated March 15, 2000, between XM Satellite Radio Inc. and United States Trust Company of New York (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178)

4 15 Indenture, dated March 6, 2001, between XM Satellite Radio Holdings Inc and United States Trust Company of New York (incorporated by reference to Holdings' annual report on Form 10-K for the year ended December 31, 2000, filed with the SEC on March 15, 2001).

4.16 Supplemental Indenture, dated as of November 15, 2001, by and between XM Satellite Radio Inc. and The Bank of New York (successor to United States Trust Company of New York) (incorporated by reference to Holdings' Current Report on Form 8-K, filed with the SEC on December 6, 2001)

4 17 Form of 7 75% convertible subordinated note (incorporated by reference to Holdings' annual report on Form 10-K for the year ended December 31, 2000, filed with the SEC on March 15, 2001).

4.18 Customer Credit Agreement dated as of December 5, 2001 between Holdings and Boeing Capital Services Corporation (incorporated by reference to Holdings' Current Report on Form 8-K, filed with the SEC on December 6, 2001)

4 19 Security Agreement dated as of December 5, 2001, between Holdings and Boeing Capital Services Corporation (incorporated by reference to Holdings' Current Report on Form 8-K, filed with the SEC on December 6, 2001).

10.1 Amended and Restated Shareholders' Agreement, dated as of August 8, 2000, by and among XM Satellite Radio Holdings Inc., Motient Corporation, Baron Asset Fund, Baron iOpportunity Fund, Baron Capital Asset Fund, Clear Channel Investments, Inc., Columbia XM Radio Partners, LLC, Columbia Capital Equity Partners III (QP), L.P., Columbia XM Satellite Partners III, LLC, DIRECTV Enterprises, Inc., General Motors Corporation, Madison Dearborn Capital Partners III, L.P., Special Advisors Fund I, LLC, Madison Dearborn Special Equity III, L P , American Honda Motor Co , Inc. and Telcom-XM Investors, L.L.C (incorporated by reference to Holdings' Registration Statement on Form S-1, File No 333-39176).

10 2 Amended and Restated Registration Rights Agreement, dated as of August 8, 2000, by and among XM Satellite Radio Holdings Inc., Motient Corporation, Baron Asset Fund, Baron iOpportunity Fund, Baron Capital Asset Fund, Clear Channel Investments, Inc., Columbia XM Radio Partners, LLC, Columbia Capital Equity Partners III (QP), L.P., Columbia XM Satellite Partners III, LLC, DIRECTV Enterprises, Inc., General Motors Corporation, Madison Dearborn Capital Partners III, L P , Special Advisors Fund I, LLC, Madison Dearborn Special Equity III, L P , American Honda Motor Co , Inc and Telcom-XM Investors, L L C (incorporated by reference to Holdings' Registration Statement on Form S-1, File No 333-39176)

10 3 Note Purchase Agreement, dated June 7, 1999, by and between XM Satellite Radio Holdings Inc., XM Satellite Radio Inc., Clear Channel Communications, Inc., DIRECTV Enterprises, Inc , General Motors Corporation, Telcom-XM Investors, L.L C., Columbia XM Radio Partners, LLC, Madison Dearborn Capital Partners III, L.P., Madison Dearborn Special Equity III, L.P., and Special Advisors Fund I, LLC (including form of Series A subordinated convertible note of XM Satellite Radio Holdings Inc. attached as Exhibit A thereto)

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

10.4.+	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.
10.5	Intentionally omitted
10 6	Intentionally omitted.
10.7.*	Amended and Restated Agreement by and between XM Satellite Radio Inc. and ST Microelectronics Srl, dated September 27, 1999.
10 8 *	Distribution Agreement, dated June 7, 1999, between OnStar, a division of General Motors Corporation, and XM Satellite Radio Inc
10.9.*	Operational Assistance Agreement, dated as of June 7, 1999, between XM Satellite Radio Inc and DIRECTV, INC.
10.10.*	Operational Assistance Agreement, dated as of June 7, 1999, between XM Satellite Radio Inc and Clear Channel Communication, Inc.
10.11.*	Operational Assistance Agreement, dated as of June 7, 1999, between XM Satellite Radio Inc. and TCM, LLC.
10 12	Intentionally omitted.
10 13	Intentionally omitted.
10.14	Intentionally omitted.
10.15	Intentionally omitted.
10 16	Intentionally omitted.
10.17.	Form of Indemnification Agreement between XM Satellite Radio Holdings Inc. and each of its directors and executive officers.
10 18	1998 Shares Award Plan (incorporated by reference to Holdings' Registration Statement on Form S-8, File No. 333-65020).
10 19.	Form of Employee Non-Qualified Stock Option Agreement.
10 20 +	Firm Fixed Price Contract #001 between XM Satellite Radio Inc and the Fraunhofer Gesellschaft zur Foderung Der angewandten Forschung e.V., dated July 16, 1999
10.21.+	Contract for Engineering and Construction of Terrestrial Repeater Network System by and between XM Satellite Radio Inc. and LCC International, Inc , dated August 18, 1999.
10 22	Employee Stock Purchase Plan (incorporated by reference to Holdings' Registration Statement on Form S-8, File No. 333-65020).
10 23.	Non-Qualified Stock Option Agreement between Gary Parsons and XM Satellite Radio Holdings Inc., dated July 16, 1999.
10 24.	Non-Qualified Stock Option Agreement between Hugh Panero and XM Satellite Radio Holdings Inc., dated July 1, 1998, as amended.

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

10.25 Form of Director Non-Qualified Stock Option Agreement.

10.26 Intentionally omitted.

10 27 Intentionally omitted

10 28* Contract for the Design, Development and Purchase of Terrestrial Repeater Equipment by and between XM Satellite Radio Inc. and Hughes Electronics Corporation, dated February 14, 2000 (incorporated by reference to Holdings' Annual Report on Form 10-K for the fiscal year ended December 31, 1999, filed with the SEC on March 16, 2000).

10 29* Joint Development Agreement, dated February 16, 2000, between XM Satellite Radio Inc. and Sirius Satellite Radio Inc. (incorporated by reference to Holdings' quarterly report on Form 10-Q for the quarter ended March 31, 2000, filed with the SEC on May 12, 2000).

10 30 XM Satellite Radio Holdings Inc. Talent Option Plan (incorporated by reference to Holdings' Registration Statement on Form S-8, File No 333-65022).

10.31 Employment Agreement, dated as of June 1, 2001, between XM Satellite Radio Holdings Inc. and Hugh Panero (incorporated by reference to Holdings' quarterly report on Form 10-Q for the quarter ended June 30, 2001, filed with the SEC on August 13, 2001).

10.32 Form of Employment Agreement, dated as of July 1, 2001, between XM Satellite Radio Holdings Inc. and Gary Parsons (incorporated by reference to Holdings' quarterly report on Form 10-Q for the quarter ended June 30, 2001, filed with the SEC on August 13, 2001)

10 33 Loan and Security Agreement, dated as of August 24, 2001, by and between Fremont Investment & Loan and XM 1500 Eckington LLC (incorporated by reference to Holdings' quarterly report on Form 10-Q for the quarter ended September 30, 2001, filed with the SEC on November 13, 2001).

10 34 Limited Recourse Obligations Guaranty, dated as of August 24, 2001, by XM Satellite Radio Holdings Inc. in favor of Fremont Investment & Loan (incorporated by reference to Holdings' quarterly report on Form 10-Q for the quarter ended September 30, 2001, filed with the SEC on November 13, 2001)

10.35 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 Holdings' Current Report on Form 8-K filed with the SEC on December 6, 2001).

10.36+ 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 Holdings' Current Report on Form 8-K filed with the SEC on December 6, 2001)

10.37+ 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 with the SEC on December 6, 2001).

23.1 Consent of KPMG LLP.

. Incorporated by reference to Holdings' Registration Statement on Form S-1, File No. 333-83619.

* Pursuant to the Commission's Orders Granting Confidential Treatment under Rule 406 of the Securities Act of 1933 or Rule 24(b)-2 under the Securities Exchange Act of 1934, certain confidential portions of this Exhibit were omitted by means of redacting a portion of the text

+ We have requested confidential treatment from the Commission of certain portions of this Exhibit

(b) Reports on Form 8-K.

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

On December 6, 2001, Holdings filed a Current Report on Form 8-K that reported the closing of a $66 million financing package with subsidiaries of The Boeing Company.

On December 6, 2001, Holdings filed a Current Report on Form 8-K that contained certain information in connection with its offering of Class A common stock.

(c) Exhibits.

XM Satellite Radio Holdings Inc. and XM Satellite Radio Inc hereby file as part of this Form 10-K the Exhibits listed in the Index to Exhibits

(d) Consolidated Financial Statement Schedules

The following consolidated financial statement schedules are filed herewith.

Schedule I--Valuation and Qualifying Accounts for Holdings
Schedule I--Valuation and Qualifying Accounts for XM.

Schedules not listed above have been omitted because they are inapplicable or the information required to be set forth therein is provided in the Consolidated Financial Statements of XM Satellite Radio Holdings Inc. or notes thereto.

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

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Source. XM SATELLITE RADIO H, 10-K405, March 19, 2002

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
XM Satellite Radio Holdings Inc.:

We have audited the accompanying consolidated balance sheets of XM Satellite Radio Holdings Inc. and subsidiaries as of December 31, 2000 and 2001, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of XM Satellite Radio Holdings Inc and subsidiaries as of December 31, 2000 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 2 to the consolidated financial statements, the Company is dependent upon additional debt or equity financing, which raises substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters is also described in note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

McLean, VA
January 23, 2002

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2000 AND 2001

	2000	2001
ASSETS	(in thousands, except share data)	
Current assets		
Cash and cash equivalents	$ 224,903	$ 182,497
Short-term investments	--	28,355
Restricted investments	45,585	44,861
Accounts receivable, net of allowance for doubtful accounts of $0 and $10	--	478
Prepaid and other current assets	8,815	15,720
Total current assets	279,303	271,911
Other assets		
Restricted investments, net of current portion	115,581	27,898
System under construction	815,016	55,056
Property and equipment, net of accumulated depreciation and amortization of $2,337 and $43,384	50,052	1,066,191
Goodwill and intangibles, net of accumulated amortization of $2,599 and $3,974	24,001	22,626
Other assets, net of accumulated amortization of $672 and $2,167	9,265	12,521
Total assets	$ 1,293,218	$ 1,456,203
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities.		
Accounts payable	$ 31,793	$ 36,559
Accrued expenses	6,039	26,098
Accrued network optimization expenses (note 15)	--	8,595
Current portion of long-term debt	556	1,910
Due to related parties	15,429	26,052
Accrued interest	13,397	15,664
Total current liabilities	67,214	114,878
Long-term debt, net of current portion	262,665	411,520
Royalty payable, net of current portion	2,600	1,800
Other non-current liabilities	4,787	1,354
Total liabilities	337,266	529,552
Stockholders' equity		
Series A convertible preferred stock, par value $0 01 (liquidation preference of $102,688), 15,000,000 shares authorized, 10,786,504 shares issued and outstanding at December 31, 2000 and 2001	108	108
Series B convertible redeemable preferred stock, par value $0 01 (liquidation preference of $43,364), 3,000,000 shares authorized, 867,289 shares issued and outstanding at December 31, 2000 and 2001	9	9
Series C convertible redeemable preferred stock, par value $0 01 (liquidation preference of $244,277 and $263,664 at December 31, 2000 and 2001, respectively), 250,000 shares authorized, 235,000 shares issued and outstanding at December 31, 2000 and 2001	2	2
Class A common stock, par value $0 01, 180,000,000 shares authorized, 34,073,994 and 74,482,168 shares issued and outstanding at December 31, 2000 and 2001, respectively	341	745
Class B common stock, par value $0.01, 30,000,000 shares authorized, 16,557,262 and no shares issued and outstanding at December 31, 2000 and 2001, respectively	166	--
Class C common stock, par value $0 01, 30,000,000 shares authorized, no shares issued and outstanding at December 31, 2000 and 2001	--	--
Additional paid-in capital	1,061,921	1,316,761
Accumulated deficit	(106,595)	(390,974)
Total stockholders' equity	955,952	926,651
Commitments and contingencies (notes 1, 2, 3, 5, 10 and 15)		
Total liabilities and stockholders' equity	$ 1,293,218	$ 1,456,203

See accompanying notes to consolidated financial statements.

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001

	1999	2000	2001
	(in thousands, except share data)		
Revenue			
Subscriber revenue	$ --	$ --	$ 246
Ad sales revenue	--	--	294
Less Agency commissions	--	--	(43)
Other revenue	--	--	36
Total revenue	--	--	533
Operating expenses:			
Broadcasting operations:			
Content/programming	(1,014)	(6,878)	(27,924)
System operations	(2,877)	(23,227)	(67,571)
Customer care and billing operations	--	(856)	(6,034)
Sales and marketing	(3,351)	(16,078)	(99,789)
General and administrative	(14,496)	(16,624)	(24,595)
Research and development	(7,440)	(12,701)	(14,255)
Depreciation and amortization	(1,513)	(3,115)	(41,971)
Total operating expenses	(30,691)	(79,479)	(282,139)
Operating loss	(30,691)	(79,479)	(281,606)
Other income (expense)			
Interest income	2,916	27,606	15,198
Interest expense	(9,121)	--	(18,131)
Other income, net	--	--	160
Net loss	(36,896)	(51,873)	(284,379)
8.25% Series B preferred stock dividend requirement	--	(5,935)	(3,766)
8 25% Series C preferred stock dividend requirement	--	(9,277)	(19,387)
Series B preferred stock deemed dividend	--	(11,211)	--
Series C preferred stock beneficial conversion feature	--	(123,042)	--
Net loss attributable to common stockholders	$ (36,896)	$ (201,338)	$ (307,532)
Net loss per share			
Basic and diluted	$ (2 40)	$ (4.15)	$ (5 13)
Weighted average shares used in computing net loss per share-basic and diluted	15,344,102	48,508,042	59,920,196

See accompanying notes to consolidated financial statements.

Source. XM SATELLITE RADIO H, 10-K405, March 19, 2002

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001

	Series A Convertible Preferred Stock		Series B Convertible Redeemable Preferred Stock		Series C Convertible Redeemable Preferred		Class A Common Stock	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
					(in thousands, except share data)			
Balance at January 1, 1999	--	$ --	--	$ --	--	$ --	--	$ --
53,514-for-one stock split	--	--	--	--	--	--	--	--
Initial public offering	--	--	--	--	--	--	10,241,000	102
Conversion of Series A convertible debt	10,786,504	108	--	--	--	--	16,179,755	162
Conversion of subordinated convertible notes payable to related party	--	--	--	--	--	--	--	--
Increase in DARS license, goodwill and intangibles	--	--	--	--	--	--	--	--
Charge for beneficial conversion feature of note issued to Parent	--	--	--	--	--	--	--	--
Issuance of shares to employees through stock option and purchase plans	--	--	--	--	--	--	29,862	1
Non-cash stock compensation	--	--	--	--	--	--	14,716	--
Net loss	--	--	--	--	--	--	--	--
Balance at December 31, 1999	10,786,504	$ 108	--	$ --	--	$ --	26,465,333	$ 265
Secondary public offering	--	--	--	--	--	--	4,370,000	44
Sale of Series B convertible redeemable preferred stock	--	--	2,000,000	20	--	--	--	--
Sale of Series C convertible redeemable preferred stock	--	--	--	--	235,000	2	--	--
Incentivized conversion of Series B convertible redeemable preferred stock	--	--	(1,132,711)	(11)	--	--	1,700,016	17
Sale of warrants to purchase Class A common stock	--	--	--	--	--	--	--	--
Conversion of Class B common stock	--	--	--	--	--	--	1,314,914	13
Series B convertible redeemable preferred stock dividends	--	--	--	--	--	--	145,166	1
Issuance of shares to employees through stock option and purchase plans	--	--	--	--	--	--	73,565	1
Non-cash stock compensation	--	--	--	--	--	--	5,000	--
Net loss	--	--	--	--	--	--	--	--
Balance at December 31, 2000	10,786,504	$ 108	867,289	$ 9	235,000	$ 2	34,073,994	341
Conversion of Class B common stock	--	--	--	--	--	--	16,557,262	166
Incentivized conversion of convertible subordinated notes to Class A common stock	--	--	--	--	--	--	4,194,272	42
Secondary public offerings	--	--	--	--	--	--	19,000,000	190
Series B convertible redeemable preferred stock dividends	--	--	--	--	--	--	466,180	5
Issuance of shares to employees through stock option and purchase plans	--	--	--	--	--	--	190,460	1
Non-cash stock compensation	--	--	--	--	--	--	--	--
Net loss	--	--	--	--	--	--	--	--
Balance at December 31, 2001	10,786,504	$ 108	867,289	$ 9	235,000	$ 2	74,482,168	$ 745

	Class B Common Stock		Class C Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity Deficit
	Shares	Amount	Shares	Amount			
Balance at January 1, 1999	125	$ --	--	$ --	$ 10,643	$ (17,826)	(7,183)
53,514-for-one stock split	6,689,125	67	--	--	(67)	--	--
Initial public offering	--	--	--	--	114,032	--	114,134
Conversion of Series A convertible debt	--	--	--	--	246,079	--	246,349
Conversion of subordinated convertible notes payable to related party	11,182,926	112	--	--	106,843	--	106,955
Increase in DARS license, goodwill and intangibles	--	--	--	--	51,624	--	51,624
Charge for beneficial conversion feature of note issued to Parent	--	--	--	--	5,520	--	5,520
Issuance of shares to employees through stock option and purchase plans	--	--	--	--	303	--	304
Non-cash stock compensation	--	--	--	--	4,210	--	4,210
Net loss	--	--	--	--	--	(36,896)	(36,896)
Balance at December 31, 1999	17,872,176	$ 179	--	$ --	$ 539,187	$ (54,722)	$ 485,017
Secondary public offering	--	--	--	--	132,026	--	$ 132,070
Sale of Series B convertible redeemable preferred stock	--	--	--	--	96,452	--	96,472
Sale of Series C convertible redeemable preferred stock	--	--	--	--	226,820	--	226,822

Incentivized conversion of Series B convertible redeemable preferred stock	--	--	--	--	(6)	--	--
Sale of warrants to purchase Class A common stock	--	--	--	--	63,536	--	63,536
Conversion of Class B common stock	(1,314,914)	(13)	--	--	--	--	--
Series B convertible redeemable preferred stock dividends	--	--	--	--	(1)	--	--
Issuance of shares to employees through stock option and purchase plans	--	--	--	--	1,164	--	1,165
Non-cash stock compensation	--	--	--	--	2,743	--	2,743
Net loss	--	--	--	--	--	(51,873)	(51,873)
Balance at December 31, 2000	16,557,262	$ 166	--	$ --	$ 1,061,921	$ (106,585)	$ 955,952
Conversion of Class B common stock	(16,557,262)	(166)	--	--	--	--	--
Incentivized conversion of convertible subordinated notes to Class A common stock	--	--	--	--	50,950	--	50,992
Secondary public offerings	--	--	--	--	197,896	--	198,086
Series B convertible redeemable preferred stock dividends	--	--	--	--	(5)	--	--
Issuance of shares to employees through stock option and purchase plans	--	--	--	--	1,132	--	1,133
Non-cash stock compensation	--	--	--	--	4,867	--	4,867
Net loss	--	--	--	--	--	(284,379)	(284,379)
Balance at December 31, 2001	$ --	$ --	--	$ --	$ 1,316,761	$ (390,974)	$ 926,651

See accompanying notes to consolidated financial statements.

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001

	1999	2000	2001
		(in thousands)	
Cash flows from operating activities			
Net loss	$ (36,896)	$ (51,873)	$(284,379)
Adjustments to reconcile net loss to net cash used in operating activities:			
Bad debt expense	--	--	10
Depreciation and amortization	1,478	3,369	42,422
Loss on disposal computer equipment	--	--	435
Amortization of deferred financing fees	509	--	--
Non-cash stock-based compensation	4,210	2,743	4,867
Non-cash charge for beneficial conversion feature of note issued to investor	5,520	--	--
Changes in operating assets and liabilities:			
Increase in accounts receivable	--	--	(488)
Increase in prepaid and other current assets	(905)	(7,738)	(6,905)
Decrease in other assets	43	--	--
Increase in accounts payable and accrued expenses	7,519	16,026	29,531
Increase (decrease) in amounts due to related parties	(1,316)	26	2,696
Increase in accrued interest	3,053	--	8,763
Net cash used in operating activities	(16,785)	(37,447)	(203,048)
Cash flows from investing activities.			
Purchase of property and equipment	(2,008)	(41,925)	(58,520)
Additions to system under construction	(159,510)	(424,342)	(142,321)
Net purchase/maturity of short-term investments	(69,472)	69,472	(28,355)
Net purchase/maturity of restricted investments	--	(106,338)	40,317
Other investing activities	(3,422)	(56,268)	(32,482)
Net cash used in investing activities	(234,412)	(559,401)	(221,361)
Cash flows from financing activities.			
Proceeds from sale of common stock and capital contribution	114,428	133,235	199,219
Proceeds from issuance of Series B convertible redeemable preferred stock	--	96,472	--
Proceeds from issuance of 14% senior secured notes and warrants	--	322,889	--
Proceeds from issuance of Series C convertible redeemable preferred stock	--	226,822	--
Proceeds from issuance of subordinated convertible notes to related parties.	22,966	--	--
Proceeds from issuance of 7.75% convertible subordinated notes	--	--	125,000
Proceeds from mortgage on corporate facility	--	--	29,000
Proceeds from loan payable	--	--	35,000
Proceeds from issuance of convertible notes	250,000	--	--
Repayment of loan payable to related party	(75,000)	--	--
Payments for deferred financing costs	(10,725)	(8,365)	(6,124)
Other net financing activities	(84)	--	(92)
Net cash provided by financing activities	301,585	771,053	382,003
Net increase (decrease) in cash and cash equivalents	50,388	174,205	(42,406)
Cash and cash equivalents at beginning of period	310	50,698	224,903
Cash and cash equivalents at end of period	$ 50,698	$ 224,903	$ 182,497

See accompanying notes to consolidated financial statements

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 2001

(1) Summary of Significant Accounting Policies and Practices

(a) Nature of Business

XM Satellite Radio Inc. ("XMSR"), was incorporated on December 15, 1992 in the State of Delaware as a wholly owned subsidiary of Motient Corporation ("Motient"), for the purpose of operating a digital audio radio service ("DARS") under a license from the Federal Communications Commission ("FCC"). XM Satellite Radio Holdings Inc (the "Company") was formed as a holding company for XMSR on May 16, 1997.

The Company became the first digital satellite radio service in the United States of America on September 25, 2001 when it commenced commercial operations in the lead markets of Dallas, Texas and San Diego, California as part of its national rollout On October 18, 2001, the Company continued its national rollout as it launched service in the southern half of the country and completed its national rollout on November 12, 2001. In 2001, the Company's satellites, "Rock" and "Roll", were successfully launched on March 18, 2001 and May 8, 2001, respectively.

(b) Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of XM Satellite Radio Holdings Inc. and its subsidiaries All significant intercompany transactions and accounts have been eliminated. The Company emerged from the development stage in the fourth quarter of 2001 as its principal operations had commenced and its national rollout had been completed. Accordingly, the Company revised the presentation of its Consolidated Statements of Operations to reflect that of a commercial enterprise.

As discussed in Note 5, on September 9, 1999, the Company effected a 53,514-for-1 stock split. The effect of the stock split has been reflected as of December 31, 1999 in the consolidated statements of stockholders' equity (deficit), however, the activity in prior periods was not restated. All references to the number of common shares and per share amounts in the consolidated financial statements and notes thereto have been restated to reflect the effect of the split for all periods presented.

(c) Cash and Cash Equivalents

The Company considers short-term, highly liquid investments with an original maturity of three months or less to be cash equivalents The Company had the following cash and cash equivalents balances (in thousands)·

	December 31,	
	2000	2001
Cash on deposit	$ 97	($4,216)
Overnight investments	--	140,250
Money market funds	224,806	2,794
Commercial paper	--	43,669
	$224,903	$182,497

(d) Short-term Investments

At December 31, 2001, the Company held commercial paper with maturity dates of less than one year that were stated at amortized cost, which approximated fair value

(e) Restricted Investments

Restricted investments consist of fixed income securities and are stated at amortized cost plus accrued interest income. At December 31, 2000 and 2001, restricted investments represent securities held in escrow to secure the Company's future performance with regard to certain contracts and obligations, which include the interest payments required on the Company's 14% senior secured notes through March 2003, payments under the Hughes Electronics Corporation ("Hughes") terrestrial repeater contract, and certain facility leases and other secured credits. The interest reserve consists of US Treasury securities and are classified as held-to-maturity investments. The remaining investments are principally money market funds and certificates of deposit. The amortized cost, gross unrealized

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

holding gains, gross unrealized holding losses and fair value of the restricted investments at December 31, 2000 and 2001, were as follows (in thousands)·

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
At December 31, 2000:				
Interest reserve	$106,338	$ 1,060	$ --	$107,398
Contract escrow	49,692	--	--	49,692
Collateral for letters of credit and other secured credit	5,136	--	--	5,136
	$161,166	$ 1,060	$ --	$162,226
At December 31, 2001:				
Interest reserve	$ 66,020	$ 1,354	$ --	$ 67,374
Contract escrow	2,930	--	--	2,930
Collateral for letters of credit and other secured credit	3,809	--	--	3,809
	$ 72,759	$ 1,354	$ --	$ 74,113

(f) Property and Equipment

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

Satellite system, DARS license, and space craft control facilities	17.5 years
Terrestrial repeater network	5-10 years
Broadcast facilities	3-7 years
Computer systems	3-7 years
Building and improvements	20 years
Furniture and fixtures	3-7 years
Equipment under capital leases and leasehold improvements	Lesser of useful life or remaining lease term

Depreciation of the Company's in-orbit satellites commenced in May and June 2001 upon their acceptance from Boeing Satellite Systems International, Inc ("BSS"). Amortization of the DARS license and depreciation of the ground systems/spacecraft control facilities and related computer systems commenced on September 25, 2001, which was the date the service was launched in the Company's lead markets. Depreciation of the broadcast facilities and the terrestrial repeaters commenced when they were placed in service.

The Company accounts for long-lived assets in accordance with the newly adopted provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(g) Goodwill and Other Intangible Assets

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over the expected periods to be benefited, generally 15 years. Other intangible assets are amortized over 10 years. The Company assesses the recoverability of its intangible assets by determining whether the amortization of the goodwill and intangible assets balance over its remaining life can be recovered through

undiscounted future operating cash flows. The amount of goodwill and intangible assets impairment, if any, is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets The

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, Business Combinations, ("SFAS No. 141") and SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS No 142"). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144 after its adoption.

Upon adoption of SFAS No. 142 in the first quarter of 2002, the Company is required to evaluate its existing acquired intangible assets and goodwill, and to make any necessary reclassifications in order to conform with the new classification criteria in SFAS No. 141 for recognition separate from goodwill The Company will be required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments by the end of the first quarter of 2002. If an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No 142 within the first interim period. Impairment is measured as the excess of carrying value over the fair value of an intangible asset with an indefinite life. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle.

In connection with SFAS No. 142's transitional goodwill impairment evaluation, the Statement requires the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of January 1, 2002. The Company will then have up to six months from January 1, 2002 to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an indication exists that the reporting unit goodwill may be impaired and the Company must perform the second step of the transitional impairment test. The Company has determined that it only has one reporting unit as defined by the Standard.

The second step is required to be completed as soon as possible, but no later than the end of the year of adoption. In the second step, the Company must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the date of adoption The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141 The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of income

As of the date of adoption of SFAS No 142, the Company expects to have unamortized goodwill in the amount of $11,461,000 and unamortized identifiable intangible assets in the amount of $155,207,000, all of which will be subject to the transition provisions of SFAS No 142. Amortization expense related to goodwill and other intangible assets was $1,220,000, $1,379,000 and $3,604,000 for the years ended December 31, 1999, 2000, and 2001, respectively. Although the Company has not yet finalized its analysis of the adoption of SFAS No 141 and No 142, the Company does not expect to recognize any transitional impairment losses as the cumulative effect of a change in accounting principle.

(h) Revenue Recognition

The Company derives revenue from subscriber subscription and activation fees as well as advertising

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

Subscriber revenue, which is generally billed in advance, consists of fixed charges for service, which are recognized as the service is provided and through non-refundable activation fees that are recognized ratably over the expected life of the customer relationship. Direct activation costs are expensed as incurred.

The Company recognizes advertising revenue from sales of spot announcements to national advertisers that are recognized in the period in which the spot announcement is broadcast. Agency commissions are presented as a reduction to revenue in the Consolidated Statement of Operations.

(i) Stock-Based Compensation

The Company accounts for stock-based compensation arrangements in accordance with the provisions of Accounting Principle Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), and related interpretations including FASB Interpretation ("FIN") No. 44, Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB opinion No. 25 issued in March 2000, and complies with the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation. Under APB 25, compensation expense is based upon the difference, if any, on the date of grant, between the fair value of the Company's stock and the exercise price. All stock-based awards to non-employees are accounted for at their fair value in accordance with SFAS No. 123.

The Company adopted FIN No. 44 in July 2000 to account for stock options that had been repriced during the period covered by FIN No. 44. The application resulted in additional compensation of $1,213,000 and $1,232,000 during the year ended December 31, 2000 and 2001, respectively. Additional compensation charges may result depending upon the market value of the common stock at each balance sheet date

(j) Research and Development and Advertising

Research and development costs and advertising costs are expensed as incurred.

(k) Net Income (Loss) Per Share

The Company computes net income (loss) per share in accordance with SFAS No. 128, Earnings Per Share and SEC Staff Accounting Bulletin No. 98 ("SAB 98"). Under the provisions of SFAS No. 128 and SAB 98, basic net income (loss) per share is computed by dividing the net income (loss) available to common stockholders (after deducting preferred dividend requirements) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) available per share is computed by dividing the net income (loss) available to common stockholders for the period by the weighted average number of common and dilutive common equivalent shares outstanding during the period The Company has presented historical basic and diluted net income (loss) per share in accordance with SFAS No. 128 As the Company had a net loss in each of the periods presented, basic and diluted net income (loss) per share is the same.

(l) Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and the financial reporting amounts at each year-end and operating loss and tax credit carryforwards, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the sum of taxes payable for the period and the change during the period in deferred tax assets and liabilities

(m) Comprehensive Income

The Company has engaged in no transactions during the years ended December 31, 1999, 2000 and 2001 that would be classified as other comprehensive income.

(n) Accounting Estimates

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period The estimates involve judgments with respect to, among other things, various future factors which are difficult to predict and are beyond the control of the Company. Significant estimates include valuation of the Company's investment in the DARS license, the allowance for doubtful accounts, the valuation of goodwill and intangible assets, the recoverability of the XM Radio System assets, the costs to terminate certain terrestrial repeater site leases, the allocation of purchase price of assets acquired, the estimated life of a subscriber's subscription, the payments to be made to distributors and manufacturers for radios sold or activated, the amount of stock-based compensation arrangements and the valuation allowances against deferred tax assets. Accordingly, actual amounts could differ from these estimates.

(o) Reclassifications

Certain fiscal year 1999 and 2000 amounts have been reclassified to conform to the current presentation.

(p) Derivative Instruments and Hedging Activities

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. In June 2000 the FASB issued SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activity, an amendment of SFAS 133 SFAS No 133 and SFAS No. 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values. SFAS No. 133 and SFAS No. 138 are effective for all fiscal quarters of all fiscal years beginning after June 30, 2000 The Company adopted SFAS No. 133 and SFAS No. 138 on January 1, 2001. The Company has reviewed its contracts and has determined that it has no stand alone derivative instruments and does not engage in hedging activities.

(2) Accumulated Deficit

The Company is devoting its efforts to market its digital audio radio service and to increase its subscriber base This effort involves substantial risk and future operating results will be subject to significant business, economic, regulatory, technical, and competitive uncertainties and contingencies. These factors individually, or in the aggregate, could have an adverse effect on the Company's financial condition and future operating results and create an uncertainty as to the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

At the Company's current stage of operations, economic uncertainties exist regarding the successful acquisition of additional debt or equity financings and the attainment of positive cash flows from the XM Radio Service. The Company has commenced commercial operations and will require substantial additional financing to market and distribute the XM Radio Service. Failure to obtain the required long-term financing may prevent the Company from continuing to provide its service. Management's plan to fund operations and capital expansion includes the sale of additional debt and equity securities through public and private sources There are no assurances, however, that such financing will be obtained.

(3) Related Party Transactions

The Company had the following amounts outstanding to related parties at December 31, 2000 and 2001 (in thousands)

	December 31,	
	2000	2001
General Motors Corporation ("GM")	$ --	$ 656
Hughes	--	7,686
DIRECTV, Inc. ("DIRECTV")	200	50
LCC International, Inc ("LCCI")	15,141	15,407

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

Clear Channel	25	2,101
Motient	63	152
	$15,429	$26,052

The Company has relied upon certain related parties for legal and technical services during the years ended December 31, 1999, 2000 and 2001. Total costs incurred in transactions with related parties are as follows (in thousands):

	Year ended December 31, 1999					
	GM	Hughes	DIRECTV	LCCI	Clear Channel	Motient
Terrestrial repeater network engineering and manufacturing	$ --	$ 3,500	$ --	$6,578	$ --	$ --
General and administrative	--	--	--	--	--	224

	Year ended December 31, 2000					
	GM	Hughes	DIRECTV	LCCI	Clear Channel	Motient
Terrestrial repeater network engineering and manufacturing	$ --	$ 11,858	$ --	$58,731	$ --	$ --
Terrestrial repeater site leases	--	--	--	--	5	--
Customer care and billing operations	--	--	1,008	--	--	--
Sales and marketing	--	--	--	--	3,175	--
General and administrative	--	--	--	--	3	252

	Year ended December 31, 2001					
	GM	Hughes	DIRECTV	LCCI	Clear Channel	Motient
Terrestrial repeater network engineering and manufacturing	$ --	$ 88,116	$ --	$59,958	$ --	$ --
Terrestrial repeater site leases	--	--	--	--	36	--
Customer care and billing operations	--	--	623	--	--	--
Sales and marketing	1,264	--	--	--	4,351	--
General and administrative	--	--	--	--	--	193

(a) GM

In 1999, the Company established a distribution agreement with GM (see note 15 (f)). Under the terms of the agreement, GM distributes the XM Radio Service in various models of its vehicles.

(b) Hughes

In 1999, the Company entered into a terrestrial repeater manufacturing agreement with Hughes (see note 15 (e))

(c) DIRECTV

In 1999, the Company entered into a consulting services agreement with DIRECTV. The agreement provides for DIRECTV professionals to aid the Company's efforts in establishing its customer care center and billing operations on a time and materials basis

(d) LCCI

In 1999, the Company entered into the LCCI Services Contract (note 15 (e)) and LCCI also provides certain ongoing consulting engineering work for the Company relating to the terrestrial repeater network on a time and materials basis.

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

(e) Clear Channel

In 2000, the Company entered into an advertising sales agreement with Premiere Radio Networks, an affiliate of Clear Channel Communications, pursuant to which Premiere sells to advertisers the time inventory owned by the Company for advertisements to be run on XM Radio channels. Also in 2000, the Company entered into a sponsorship agreement with SFX Marketing, now known as Clear Channel Entertainment, pursuant to which the Company advertises its service at Clear Channel Entertainment events and venues.

(f) Motient

In 1998, the Company entered into an agreement with Motient, in which Motient would provide technical and administrative support relating to the Company's operations Payments for services provided under this agreement were made based on negotiated hourly rates.

(4) System Under Construction

The Company has capitalized costs related to the development of its XM Radio System to the extent that they have future benefits During 2001, the Company placed its Boeing 702 satellites "Rock" and "Roll" into service as well as its DARS license, ground systems/spacecraft control facilities, related computer systems, and its terrestrial repeater network and broadcast facilities by transferring $1,000,228,000 from system under construction to property and equipment. The remaining components in system under construction include the ground spare satellite and costs incurred through December 31, 2001 for the performance broadcasting studio. The amounts recorded as system under construction consist of the following (in thousands)

	December 31,	
	2000	2001
DARS license	$140,220	$ --
Satellite system	533,155	55,016
Terrestrial system	84,715	--
Spacecraft control facilities	13,046	--
Broadcast facilities	27,971	40
Computer systems	15,909	--
	$815,016	$ 55,056

(5) Property and Equipment

Property and equipment consists of the following (in thousands)

	December 31,	
	2000	2001
DARS license	$ --	$ 146,271
Satellite system	--	521,251
Terrestrial system	--	243,755
Spacecraft control facilities	--	24,353
Broadcast facilities	16,752	55,686
Land	--	7,156
Building and improvements	--	42,269
Computer systems, furniture and fixtures, and equipment	21,063	68,834
Leasehold improvements	14,574	--
	52,389	1,109,575
Accumulated depreciation and amortization	(2,337)	(43,384)

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

Net property and equipment, net	$50,052	$ 1,066,191

In July 2001, the Company received notification from BSS that the expected life of its satellites was extended due to the accuracy of the respective launches, which used less fuel than anticipated. The Company, therefore, changed the useful life estimate for the satellite system and the DARS license from 15 years to 17 5 years.

In September 2001, BSS advised the Company of a progressive degradation problem with the solar array output power of 702 class satellites, including XM "Rock" and XM "Roll". At the present time, the output power of the solar arrays and the broadcast signal strength are above minimum acceptable levels and are expected to remain that way at least through 2005, permitting full operation of the XM System (based on patterns projected by BSS). The Company has advised its insurance carriers of the situation. Since the issue is common to 702 class satellites, the manufacturer is closely watching the progression of the problem, including data from a satellite in orbit approximately 18 months' longer than XM "Rock" and XM "Roll" With this 18-month advance visibility of performance levels, insurance arrangements in place, a spare satellite under construction that is being modified to address the solar array anomaly and availability of additional satellites, the Company believes that it will be able to launch additional satellites prior to the time the solar power problem might cause the broadcast signal strength to fall below acceptable levels. The Company's management will continue to monitor this situation carefully over the next few years

In August 2001, the Company acquired its corporate headquarters, which was previously subject to a long-term lease. The related leasehold improvements have been classified as buildings and improvements as of December 31, 2001.

In December 2001, the Company determined that the planned number of terrestrial repeater sites could be reduced due to a network optimization study that was conducted. The Company established a formal plan and recognized a charge of $26,300,000 with respect to the terrestrial repeater sites no longer required. The costs are principally related to the site acquisition and build-out of the identified sites These costs have been included within system operations at December 31, 2001 Included within the charge is $8,595,000 for costs to be incurred in 2002 related to these sites (see note 15 (h))

(6) Goodwill and Other Intangible Assets

On July 7, 1999, Motient acquired a former investor's remaining debt and equity interests in the Company in exchange for approximately 8,600,000 shares of Motient's common stock. Concurrent with Motient's acquisition of the remaining interest in the Company, the Company recognized goodwill and other intangible assets of $51,624,000, which has been allocated as follows (in thousands).

DARS License	$25,024
Goodwill	13,738
Programming agreements	8,000
Receiver agreements	4,600
Other intangibles	262
	$51,624

(7) Other Assets

Other assets consist of the following at December 31, 2000 and 2001 (in thousands).

	December 31, 2000	December 31, 2001
14% senior secured notes deferred financing fees	$ 8,493	$ 8,858
7.75% convertible subordinated notes deferred financing fees	--	2,665
Mortgage deferred financing fees	--	496
Loan payable deferred financing fees	--	943

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

Refundable deposits and other long-term prepaid expenses	1,444	1,726
	9,937	14,688
Less accumulated amortization	(672)	(2,167)
Other assets, net	$ 9,265	$ 12,521

(8) Long-Term Debt

Long-term debt at December 31, 2000 and 2001 consist of the following (in thousands)

	December 31,	
	2000	2001
14% senior secured notes	$ 325,000	$ 325,000
Less unamortized discount on 14% senior secured notes	(63,702)	(60,694)
7.75% convertible subordinated notes	--	79,057
Mortgage	--	28,909
Loan payable	--	35,000
Capital leases	1,923	6,158
Total long-term debt	263,221	413,430
Less current installments	(556)	(1,910)
Long-term debt, excluding current installments	$ 262,665	$ 411,520

(a) 14% Senior Secured Notes

On March 15, 2000, the Company closed a private placement of 325,000 units, each unit consisting of $1,000 principal amount of 14% senior secured notes due 2010 of XMSR and one warrant to purchase 8.024815 shares of the Company's Class A common stock at a price of $49 50 per share The Company realized net proceeds of $191,500,000, excluding $123,000,000 used to acquire securities that will be used to pay interest payments due under the notes for the first three years The $325,000,000 face value of the notes was offset by a discount of $65,746,000 associated with the fair value of the related warrants. The Company had amortized $2,044,000 and $5,052,000 of the discount through December 31, 2000 and 2001, respectively. See note 10(f) for further discussion regarding adjustments that have occurred to the related warrants

(b) 7 75% Convertible Subordinated Notes

On March 6, 2001, the Company closed a public offering of $125,000,000 of its 7.75% convertible subordinated notes due 2006, which yielded net proceeds of $120,700,000 The subordinated notes are convertible into shares of the Company's Class A common stock at a conversion price of $12 23 per share. The first interest payment on the 7 75% convertible subordinated notes of $3.0 million was paid in September 2001 In July and August 2001, the holders of the 7.75% convertible subordinated notes exchanged $45,900,000 of notes for 4,194,272 shares of the Company's Class A common stock. The Company incurred a charge to interest for the incentivized conversion of $6,500,000.

(c) Mortgage

On August 24, 2001, the Company entered into a loan and security agreement with a lender that provided it with $29,000,000 to purchase its corporate headquarters and incurred $500,000 in financing costs associated with the transaction. The loan bears interest at 8% until it adjusts on March 1, 2002 to the six month LIBOR rate plus 3 5% The interest rate will then be adjusted every six months and may not exceed the ceiling rate of 14% or the floor rate of 8%. The loan will mature on September 1, 2006. The Company used the proceeds along with $5,000,000 to purchase its corporate headquarters for $34,000,000 and incurred $800,000 in closing costs on the

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

transaction The mortgage is secured by the building and an escrow of $2,000,000 at December 31, 2001. The Company is obligated to either increase the escrow by $1,000,000 and $500,000 in 2002 and 2003, respectively, or establish letters of credit to provide for these obligations.

(d) Loan Payable

On December 5, 2001, the Company entered into a Customer Credit Agreement with Boeing Capital Corporation ("BCC") pursuant to which the Company borrowed $35,000,000 from BCC at an interest rate equal to LIBOR plus 3.5%, increasing to LIBOR plus 4 5% after December 5, 2003, which is compounded annually and payable quarterly in arrears. The principal is due on the earlier of December 5, 2006 or the launch of the ground spare satellite. The principal would also become due should the Boeing Satellite Contract (note 15(d)) be terminated. The loan is secured by the Company's interest in the ground spare satellite, excluding its payload.

(9) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2000 and 2001 (in thousands). The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

	December 31,			
	2000		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 224,903	$ 224,903	$ 182,497	$ 182,497
Short-term investments	--	--	28,355	28,355
Restricted investments	161,166	162,226	72,759	74,113
Accounts receivable	--	--	478	478
Letters of credit	--	12	--	13
Financial liabilities:				
Accounts payable	31,793	31,793	36,559	36,559
Accrued expenses	3,474	3,474	22,541	22,541
Accrued network optimization expenses	--	--	8,595	8,595
Due to related parties	15,429	15,429	26,052	26,052
Royalty payable	5,165	5,165	5,357	5,357
Long-term debt	263,221	181,486	413,430	456,294
Other non-current liabilities	4,787	4,787	1,354	1,354

The carrying amounts shown in the table are included in the consolidated balance sheets under the indicated captions. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, short-term investments, accounts receivable, prepaid and other current assets, other assets, accounts payable, accrued expenses, accrued network optimization expenses, due to related parties, royalty payable and other non-current liabilities. The carrying amounts approximate fair value because of the short maturity of these instruments.

Restricted investments: The fair values of debt securities (held-to-maturity investments) are based on quoted market prices at the reporting date for those or similar investments.

Letters of credit· The value of the letters of credit is based on the fees paid to obtain the letters of credit

Long-term debt 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

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

instruments of comparable maturities by the Company's bankers or by quoted market prices at the reporting date for the traded debt securities (the carrying value of XMSR's 14% senior secured notes is significantly less than face value because the notes were sold at a discount for value allocated to the related warrants).

(10) Equity

(a) Recapitalization

Concurrent with the transaction discussed in note 6, the Company's capital structure was reorganized The Company's common stock was converted into the newly authorized Class B common stock, which has three votes per share The Company also authorized Class A common stock, which is entitled to one vote per share, and non-voting Class C common stock.

The Company authorized 60,000,000 shares of preferred stock, of which 15,000,000 shares are designated Series A convertible preferred stock, 3,000,000 shares are designated 8.25% Series B convertible redeemable preferred stock, and 250,000 shares are designated 8.25% Series C convertible redeemable preferred stock, which are all par value $0.01 per share. The Series A convertible preferred stock is convertible into Class A common stock at the option of the holder. The Series A preferred stock is non-voting and receives dividends, if declared, ratably with the common stock The Series B and C convertible redeemable preferred stock are convertible to Class A common stock at the option of the holder and are mandatorily redeemable in Class A common stock. The Series B convertible redeemable preferred stock is non-voting. The Series C redeemable preferred stock contains voting and certain veto rights.

On January 15, 1999, the Company issued a convertible note to Motient for $21,419,000. This convertible note bore interest at LIBOR plus 5% per annum and was due on December 31, 2004. The principal and interest balances were convertible at prices of $16.35 and $9.52, respectively, per Class B common share Following the transaction discussed in note 6, the Company issued a convertible note maturing December 31, 2004 to Motient for $81,676,000 in exchange for the $54,536,000 subordinated convertible notes payable to a former investor, $6,889,000 in demand notes to a former investor, $20,251,000 in accrued interest to a former investor and all of the former investor's outstanding options to acquire the Company's common stock. This note bore interest at LIBOR plus 5% per annum. The note was convertible at Motient's option at $8 65 per Class B common share The Company took a one-time $5,520,000 charge to interest due to the beneficial conversion feature of this note. These Motient convertible notes, along with $3,870,000 of accrued interest, were converted into 11,182,926 shares of Class B common stock upon the initial public offering

At the closing of the transaction discussed in note 6, the Company issued an aggregate $250.0 million of Series A subordinated convertible notes to six new investors--GM, $50.0 million; Clear Channel Investments, Inc , $75.0 million; DIRECTV Enterprises, Inc , $50 0 million; and Columbia Capital, Telcom Ventures, L.L.C and Madison Dearborn Partners, $75.0 million The Series A subordinated convertible notes issued by the Company were convertible into shares of the Company's Series A convertible preferred stock (in the case of notes held by General Motors Corporation and DIRECTV) or Class A common stock (in the case of notes held by the other investors) at the election of the holders or upon the occurrence of certain events, including an initial public offering of a prescribed size. The conversion price was $9 52 aggregate principal amount of notes for each share of the Company's stock These notes, along with $6,849,000 of accrued interest, were converted into 16,179,755 shares of Class A common stock and 10,786,504 shares of Series A preferred stock upon the initial public offering

On September 9, 1999, the board of directors of the Company effected a stock split providing 53,514 shares of stock for each share owned.

In 2000, at the request of the Company, one of the Class B common stockholders converted 1,314,914 shares of the Company's Class B common stock into Class A common stock on a one-for-one basis

On July 14, 2000, the Company filed an application with the FCC to allow the Company to transfer its control from Motient to a diffuse group of owners, none of whom will have controlling interest. On December 22, 2000, the

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

application was approved by the FCC. In 2001, Motient converted the remaining 16,557,262 shares of the Company's Class B common stock into Class A common stock on a one-for-one basis.

(b) Initial Public Offering

In October 1999, the Company completed an initial public offering of 10,241,000 shares of Class A common stock at $12.00 per share. The offering yielded net proceeds of $114,134,000.

(c) 2000 Common Stock Offering and Sale of Series B Convertible Redeemable Preferred Stock

On January 31, 2000, the Company closed on a secondary offering of its Class A common stock and newly designated Series B convertible redeemable preferred stock The Company sold 4,000,000 shares of its Class A common stock for $32.00 per share, which yielded net proceeds of $120,837,000. The Company concurrently sold 2,000,000 shares of its Series B convertible redeemable preferred stock for $50 00 per share, which yielded net proceeds of $96,472,000. The Series B convertible redeemable preferred stock provides for 8.25% cumulative dividends that may be paid in Class A common stock or cash. The Series B convertible redeemable preferred stock is convertible into Class A common stock at a conversion price of $40 per share and is redeemable in Class A common stock on February 3, 2003 On February 9, 2000, the underwriters exercised a portion of the over-allotment option for 370,000 shares of Class A common stock, which yielded net proceeds of approximately $11,233,000

On August 1, 2000, the Company entered into agreements with certain holders of its 8.25% Series B convertible redeemable preferred stock to exchange their shares of 8 25% Series B convertible redeemable preferred stock for shares of the Company's Class A common stock. By August 31, 2000, the Company had issued 1,700,016 shares of its Class A common stock in exchange for 1,132,711 shares of its 8 25% Series B convertible redeemable preferred stock. The Company recorded an $11,200,000 charge to earnings attributable to common stockholders in the third quarter related to this transaction This charge represents the difference in the fair value of the stock issued upon this conversion in excess of the stock that the holders were entitled to upon a voluntary conversion.

The Company paid the 2000 quarterly dividends on the 8.25% Series B convertible redeemable preferred stock on May 1, 2000, August 1, 2000 and November 1, 2000 by issuing 62,318, 57,114 and 25,734 shares of Class A common stock, respectively, to the respective holders of record. The Company paid the 2001 quarterly dividends on February 1, 2001, May 1, 2001, August 1, 2001 and November 1, 2001 by issuing 56,269, 178,099, 63,934 and 167,878 shares of Class A common stock, respectively, to the respective holders of record.

(d) Series C Convertible Redeemable Preferred Stock

On July 7, 2000, the Company reached an agreement for a private offering of 235,000 shares of its Series C convertible redeemable preferred stock for $1,000 per share, which closed on August 8, 2000 and yielded net proceeds of $206,379,000 and a stock subscription of $20,000,000 that earned interest at 7% per annum until it was paid on November 30, 2000. The stock subscription was received in November 2000 and provided an additional $20,443,000 The Series C convertible redeemable preferred stock provides for 8.25% cumulative dividends payable in cash. As no dividends have been declared on the Series C convertible redeemable preferred stock, the value of the cumulative dividends has increased the liquidation preference The Series C convertible redeemable preferred stock is convertible, at the holders' option, into Class A common stock at the conversion price then in effect Initially, the conversion price was $26.50, but is subject to change upon the occurrence of certain dilutive events. The conversion price has been adjusted as discussed below. The Company must redeem the Series C convertible redeemable preferred stock in Class A common stock on February 1, 2012. At its option, the Company may redeem the Series C convertible redeemable preferred stock beginning on February 8, 2005 in cash or, at the holder's option, in Class A common stock

As a result of the current conversion price of $26 50 being less than the market value of the Company's Class A common stock of $40.375 on the commitment date, the Company recorded a $123,000,000 beneficial conversion charge that reduced earnings available to common stockholders.

(e) 2001 Common Stock Offerings

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

On March 6, 2001, the Company completed a follow-on offering of 7,500,000 shares of its Class A common stock, which yielded net proceeds of $72,000,000. On December 6, 2001, the Company completed a follow-on offering of 11,500,000 shares of its Class A common stock, which yielded net proceeds of $126,500,000.

(f) Adjustments To Warrants and Series C Convertible Redeemable Preferred Stock

The issuance of the Series C convertible redeemable preferred stock caused the exercise price of the warrants sold in March 2000 to be adjusted from $49.50 to $47.94 and the number of warrant shares to be increased to 8.285948 per warrant.

The closings of the offerings of 7 75% convertible subordinated notes in March 2001 and Class A common stock in March and December 2001 caused the conversion price of the Series C convertible redeemable preferred stock to be adjusted from $26.50 to $22.17, the exercise price of the warrants sold in March 2000 to be adjusted to $45.27 and the number of warrant shares to be increased to 8.776003 per warrant.

(g) Stock-Based Compensation

The Company operates three separate stock plans, the details of which are described below.

1998 Shares Award Plan

On June 1, 1998, the Company adopted the 1998 Shares Award Plan (the "Plan") under which employees, consultants, and non-employee directors may be granted options to purchase shares of Class A common stock of the Company. The Company initially authorized 1,337,850 shares of Class A common stock under the Plan, which was increased to 2,675,700 in July 1999, 5,000,000 in May 2000, and 8,000,000 in May 2001. The options are exercisable in installments determined by the compensation committee of the Company's board of directors. The options expire as determined by the committee, but no later than ten years from the date of grant. On July 8, 1999, the Company's board of directors voted to reduce the exercise price of the options outstanding in the shares award plan from $16.35 to $9 52 per share, which represented the fair value of the stock on the date of repricing.

Transactions and other information relating to the Plan for the years ended December 31, 1999, 2000 and 2001 are summarized below

	Outstanding Options	
	Number of Shares	Weighted-Average Exercise Price
Balance, January 1, 1999	787,297	$ 16.35
Options granted	2,188,988	10.50
Option repricing	(818,339)	16.35
Options canceled or expired	(57,786)	13.91
Options exercised	(1,071)	9.52
Balance, December 31, 1999	2,099,089	$ 10.32
Options granted	1,176,683	30.21
Options canceled or expired	(131,267)	17.01
Options exercised	(48,817)	9.52
Balance, December 31, 2000	3,095,688	$ 17.61
Options granted	2,680,415	15.54
Options canceled or expired	(23,570)	9.55
Options exercised	(253,593)	17.88
Balance, December 31, 2001	5,498,940	$ 16.62

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

	Options Outstanding				Options Exercisable	
	Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
1999	$9.52-$12.00	2,099,089	9.24 years	$10.32	416,294	$ 9.52
2000	$9.52-$12.00	2,120,400	8.26 years	$10.39	1,110,756	$10.06
	$12.01-$30.50	297,685	9.03 years	$23.13	5,334	$13.13
	$30.51-$45.44	677,603	9.54 years	$37.92	20,000	$43.69
2001	$4.82-$9.42	363,700	9.31 years	$7.91	55,000	$ 8.46
	$9.44-$12.00	2,256,263	7.50 years	$10.37	1,716,153	$10.21
	$12.06-$26.88	2,142,409	9.14 years	$17.75	165,132	$18.90
	$27.63-$45.44	736,568	8.52 years	$36.81	272,681	$36.93

There were 416,294, 1,136,090 and 2,208,966 stock options exercisable at December 31, 1999, 2000 and 2001, respectively. At December 31, 2001, there were 2,197,579 shares available under the plan for future grants. At December 31, 2001, all options have been issued to employees, officers and directors, except for 76,000 options granted to non-employees for which the Company recognized $1,147,000 in non-cash compensation

The per share weighted-average fair value of employee options granted during the year ended December 31, 1999, 2000 and 2001 was $6.21, $22.06 and $8.77, respectively, on the date of grant using the Black-Scholes Option Pricing Model with the following weighted-average assumptions:

	December 31,		
	1999	2000	2001
Expected dividend yield	0%	0%	0%
Volatility	63.92%	68.21%	62.40%
Risk-free interest rate range .. .	5.47% to 5.97%	4.99% to 6 71%	3.66% to 4.99%
Expected life	5 years	5 years	5 years

Employee Stock Purchase Plan

In 1999, the Company established an employee stock purchase plan that provides for the issuance of 300,000 shares of Class A common stock, which was increased to 600,000 shares in 2001. All employees whose customary employment is more than 20 hours per week and for more than five months in any calendar year are eligible to participate in the stock purchase plan, provided that any employee who would own 5% or more of the Company's total combined voting power immediately after an offering date under the plan is not eligible to participate Eligible employees must authorize the Company to deduct an amount from their pay during offering periods established by the compensation committee. The purchase price for shares under the plan will be determined by the compensation committee but may not be less than 85% of the lesser of the market price of the common stock on the first or last business day of each offering period As of December 31, 1999, 2000 and 2001, the Company had issued 28,791, 53,539 and 217,401 shares, respectively, under this plan. At December 31, 2001, there were 382,599 shares available under the plan for future sale.

The per share weighted-average fair value of purchase rights granted during the year was $3.30, $11 28, and $5.37 for the years ended December 31, 1999, 2000 and 2001, respectively. The estimates were calculated at the grant date using the Black-Scholes Option Pricing Model with the following assumptions at December 31, 1999, 2000 and 2001:

	December 31,		
	1999	2000	2001
Expected dividend yield	0%	0%	0%
Volatility	62.92%	68.21%	62.40%
Risk-free interest rate range	4.73%	5.33%-6.23%	2.4%-5.89%
Expected life	0.23 years	0.24 years	0.24 years

The Company applies APB 25 in accounting for stock-based compensation for both plans and, accordingly, no compensation cost has been recognized for its stock options and stock purchase plan in the financial statements other than for performance based stock options, for options granted with exercise prices below fair value on the date of

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

grant and for repriced options under FIN No 44 During 1999, 2000 and 2001, the Company incurred $4,070,000, $2,557,000, $2,336,000, respectively, in compensation cost for these options Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS 123, the Company's net loss and net loss per share would have been increased to the pro forma amounts indicated below (in thousands):

	Year ended December 31,		
	1999	2000	2001
Net loss:			
As reported	$36,896	$201,338	$307,532
Pro forma	37,706	209,582	323,685
As reported--net loss per share--basic and diluted	(2.40)	(4.15)	(5.13)
Pro forma--net loss per share--basic and diluted	(2 62)	(4.32)	(5.40)

Talent Option Plan

In May 2000, the Company adopted the XM Talent Option Plan ("Talent Plan") under which non-employee programming consultants to the Company may be granted options to purchase shares of Class A common stock of the Company. The Company authorized 500,000 shares of Class A common stock under the Talent Plan. The options are exercisable in installments determined by the talent committee of the Company's board of directors. The options expire as determined by the talent committee, but no later than ten years from the date of the grant. As of December 31, 2000 and 2001, no and 144,500 options had been granted under the Talent Plan. In 2001, the Company recognized $575,000 in non-cash compensation expense related to these options under SFAS 123. At December 31, 2001, there were 355,500 options available under the plan for future grant

(11) Profit Sharing and Employee Savings Plan

On July 1, 1998, the Company adopted a profit sharing and employee savings plan under Section 401(k) of the Internal Revenue Code. This plan allows eligible employees to defer up to 15% of their compensation on a pre-tax basis through contributions to the savings plan. The Company contributed $0.50 in 1999, 2000 and 2001 for every dollar the employees contributed up to 6% of compensation, which amounted to $164,000, $229,000 and $543,000, respectively

(12) Interest Cost

The Company capitalizes a portion of interest cost as a component of the cost of the XM Radio System. The following is a summary of interest cost incurred during December 31, 1999, 2000 and 2001 (in thousands):

	1999	2000	2001
Interest cost capitalized	$15,343	$39,052	$45,211
Interest cost charged to expense	9,121	--	18,131
Total interest cost incurred	$24,464	$39,052	$63,342

The Company exceeded its capitalization threshold by $3,600,000 and incurred a charge to interest of $5,520,000 for the beneficial conversion feature of a related party note in 1999 and by $18,131,000 in 2001.

(13) Income Taxes

For the period from December 15, 1992 (date of inception) to October 8, 1999, the Company filed consolidated federal and state tax returns with its majority stockholder Motient. The Company generated net operating losses and other deferred tax benefits that were not utilized by Motient. As no formal tax sharing agreement has been finalized,

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

the Company was not compensated for the net operating losses. Had the Company filed on a stand-alone basis for the three-year period ending December 31, 2001, the Company's tax provision would be as follows:

Taxes on income included in the Statements of Operations consists of the following (in thousands)·

	December 31,		
	1999	2000	2001
Current taxes			
Federal	$ --	$ --	$ --
State	--	--	--
Total current taxes	--	--	--
Deferred taxes			
Federal	$ --	$ --	$ --
State	--	--	--
Total deferred taxes	--	--	--
Total tax expense (benefit)	$ --	$ --	$ --

A reconciliation of the statutory tax expense, assuming all income is taxed at the statutory rate applicable to the income and the actual tax expense is as follows (in thousands)

	December 31,		
	1999	2000	2001
Income (loss) before taxes on income, as reported in the statements of income	$(36,896)	$(51,873)	$(284,380)
Theoretical tax benefit on the above amount at 35%	(12,545)	(18,156)	(99,533)
State tax, net of federal benefit	462	(2,588)	(13,225)
Increase in taxes resulting from permanent differences, net	2,060	562	2,701
Adjustments arising from differences in the basis of measurement for tax purposes and financial reporting purposes and other	13,182	9	--
Change in valuation allowance	(3,159)	20,173	110,057
Taxes on income for the reported year	$ --	$ --	$ --

At December 31, 1999, 2000 and 2001, deferred income tax consists of future tax assets/(liabilities) attributable to the following (in thousands):

	December 31,		
	1999	2000	2001
Deferred tax assets.			
Net operating loss/other tax attribute carryovers	$ 2,490	$ 14,716	$ 60,369
Start-up costs	17,765	40,033	99,822
Other deferred tax assets	--	--	18,886
Gross total deferred tax assets	20,255	54,749	179,077
Valuation allowance for deferred tax assets	(4,819)	(24,992)	(135,049)
Net deferred assets	15,436	29,757	44,028
Deferred tax liabilities.			
Fixed assets	(51)	(15,500)	(29,437)
DARS license	(10,160)	(9,735)	(9,670)
Other intangible assets	(5,225)	(4,522)	(4,921)
Net deferred tax liabilities	(15,436)	(29,757)	(44,028)
Deferred income tax, net	$ --	$ --	$ --

At December 31, 2001, the Company had accumulated net operating losses of $150,884,000 for Federal income tax purposes that are available to offset future regular taxable income. These operating loss carryforwards expire between the years 2012 and 2021. Utilization of these net operating losses are subject to limitations because there have been significant changes in the stock ownership of the Company. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

(14) Supplemental Cash Flows Disclosures

The Company paid $0, $11,198,000, and $9,174,000 for interest (net of amounts capitalized) during 1999, 2000, and 2001, respectively. Additionally, the Company incurred the following non-cash financing and investing activities (in thousands).

	December 31,		
	1999	2000	2001
Increase in DARS license, goodwill and intangibles	$ 51,624	$ --	$ --
Liabilities exchanged for new convertible note to related parties	81,676	--	--
Non-cash capitalized interest	15,162	16,302	4,571
Accrued system milestone payments	15,500	30,192	37,775
Systems under construction placed into service	--	--	1,000,228
Property acquired through capital leases	470	1,688	6,177
Conversion of debt to equity	353,315	--	50,992
Use of deposit/escrow for terrestrial repeater contracts	--	3,422	80,431
Interest converted into principal note balance	4,601	--	--
Accrued expenses transferred to loan balance	7,405	--	--

(15) Commitments and Contingencies

(a) 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 Company. The DARS license requires that the Company comply with a construction and launch schedule specified by the FCC for each of the 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 The Company believes that the exercise of such authority to rescind the license is unlikely. Additionally, the FCC has not yet issued final rules permitting the Company to deploy its terrestrial repeaters to fill gaps in satellite coverage. The Company is operating its repeaters on a non-interference basis pursuant to a grant of special temporary authority from the FCC, which expired March 18, 2002 On March 11, 2002, the Company applied for an extension of this special temporary authority and can continue to operate its terrestrial repeaters pursuant to the special temporary authority pending a final determination on this extension request. This authority is currently being challenged by operators of terrestrial wireless systems who have asserted that the Company's repeaters may cause interference.

(b) Application for Review of DARS License

One of the losing bidders for the DARS licenses filed an Application for Review by the full FCC of the Licensing Order that granted the Company its DARS license The Application for Review alleges that a former investor had effectively taken control of the Company without FCC approval The FCC has denied the Application for Review and the losing bidder has appealed to the United States Court of Appeals for the District of Columbia Circuit The FCC or the U S Court of Appeals has the authority to overturn the award of the DARS license should they rule in favor of the losing bidder. Although the Company believes that its right to the DARS license will withstand the challenge as the former investor is no longer a stockholder in the Company, no prediction of the outcome of this challenge can be made with any certainty The FCC's approval of the transfer of control of the DARS license to a diffuse group of owners, granted in December 2000, is conditioned upon the outcome of the application for review.

(c) Technology Licenses

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

Effective January 1, 1998, XMSR entered into a technology licensing agreement with Motient and WorldSpace Management Corporation ("WorldSpace MC") by which as compensation for certain licensed technology then under development to be used in the XM Radio System, XMSR will pay up to $14,300,000 to WorldSpace MC over a ten-year period. As of December 31, 2001, XMSR incurred costs of $6,696,000 payable to WorldSpace MC. Any additional amounts to be incurred under this agreement are dependent upon further development of the technology, which is at XMSR's option No liability exists to Motient or WorldSpace MC should such developments prove unsuccessful. XMSR maintains an accrual of $5,357,000 payable to WorldSpace MC for quarterly royalty payments to be made after XMSR recognizes $5,000,000 in revenue.

(d) Satellite Contract

During the first half of 1999, the Company and BSS amended the satellite contract to construct and launch the Company's satellites to implement a revised work timetable, payment schedule to reflect the timing of the receipt of additional funding, and technical modifications. BSS has delivered two satellites in orbit and is to complete the construction of a ground spare satellite. BSS has also provided ground equipment and software used in the XM Radio System and certain launch and operations support services. The contract also provides for in-orbit incentives to be earned depending on the performance of the in-orbit satellites over their useful lives. Such payments could total up to an additional $70,183,000 over the useful lives of the satellites. As of December 31, 2001, the Company had paid $470,376,000 under the satellite contract and had accrued $741,000.

On December 5, 2001, the Company and Boeing amended the satellite contract so as to permit the deferral of approximately $31 million of payments to be made under the agreement, as well as to provide certain additional rights and obligations to the Company, including the launch of the ground spare satellite on the SeaLaunch launch vehicle should the ground spare satellite be launched between specified dates. Under the amendment, deferred amounts must be repaid by December 5, 2006 and the amounts deferred bear interest at the rate of 8%, compounded annually, and are payable quarterly in arrears

(e) Terrestrial Repeater System Contracts

As of December 31, 2001, the Company had incurred aggregate costs of approximately $243,500,000 for its terrestrial repeater system. These costs covered the capital costs of the design, development and installation of a system of terrestrial repeaters to cover approximately 60 cities and metropolitan areas In August 1999, the Company signed a contract with LCCI calling for engineering and site preparation. As of December 31, 2001, the Company had paid $109,860,000 and accrued an additional $15,407,000 under this contract. The Company also entered into a contract effective October 22, 1999 with Hughes for the design, development and manufacture of the terrestrial repeaters Payments under the contract are expected to be approximately $128,000,000, which could be modified based on the number of terrestrial repeaters that are required for the system. As of December 31, 2001, the Company had paid $95,788,000 and accrued an additional $7,685,000 under this contract

(f) GM Distribution Agreement

The Company has signed a long-term distribution agreement with the OnStar division of GM providing for the installation of XM radios in GM vehicles. During the term of the agreement, which expires 12 years from the commencement date of the Company's commercial operations, GM has agreed to distribute the service to the exclusion of other S-band satellite digital radio services. The Company will also have a non-exclusive right to arrange for the installation of XM radios included in OnStar systems in non-GM vehicles that are sold for use in the United States The Company has significant annual, fixed payment obligations to General Motors through 2004. These payments approximate $35,000,000 in the aggregate during this period. Additional annual fixed payment obligations beyond 2004 range from less than $35,000,000 to approximately $130,000,000 through 2009, aggregating approximately $400,000,000. In order to encourage the broad installation of XM radios in GM vehicles, the Company has agreed to subsidize a portion of the cost of XM radios, and to make incentive payments to GM when the owners of GM vehicles with installed XM radios become subscribers for the Company's service. The Company must also share with GM a percentage of the subscription revenue attributable to GM vehicles with installed XM radios, which percentage increases until there are more than 8 million GM vehicles with installed XM radios. The Company will also make available to GM bandwidth on the Company's systems. The agreement is subject to renegotiations at any time based upon the installation of radios that are compatible with a unified standard

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

or capable of receiving Sirius Satellite Radio, Inc 's ("Sirius Radio") service. The agreement is subject to renegotiations if, four years after the commencement of the Company's commercial operations and at two-year intervals thereafter GM does not achieve and maintain specified installation levels of GM vehicles capable of receiving the Company's service, starting with 1,240,000 units after four years, and thereafter increasing by the lesser of 600,000 units per year and amounts proportionate to target market shares in the satellite digital radio service market. There can be no assurances as to the outcome of any such renegotiations. GM's exclusivity obligations will discontinue if, four years after the Company commences commercial operations and at two-year intervals thereafter, the Company fails to achieve and maintain specified minimum market share levels in the satellite digital radio service market. Prior to 2001, the Company had not incurred any costs under the contract As of December 31, 2001, the Company has paid $608,000 and accrued costs of $656,000 under the agreement.

(g) Joint Development Agreement

On January 12, 1999, Sirius Radio, the other holder of an FCC satellite radio license, commenced an action against the Company in the United States District Court for the Southern District of New York, alleging that the Company was infringing or would infringe three patents assigned to Sirius Radio In its complaint, Sirius Radio sought money damages to the extent the Company manufactured, used or sold any product or method claimed in their patents and injunctive relief. On February 16, 2000, this suit was resolved in accordance with the terms of a joint development agreement between the Company and Sirius Radio and both companies agreed to cross-license their respective property. Each party is obligated to fund one half of the development cost for a unified standard for satellite radios Each party will be entitled to license fees or a credit towards its one half of the cost based upon the validity, value, use, importance and available alternatives of the technology it contributes. The amounts for these fees or credits will be determined over time by agreement of the parties or by arbitration The parties have yet to agree on the validity, value, use, importance and available alternatives of their respective technologies The companies have agreed to seek arbitration to resolve issues with respect to certain existing technology. If this agreement is terminated before the value of the license has been determined due to the Company's failure to perform a material covenant or obligation, then this suit could be refiled.

(h) Accrued Network Optimization Expenses

In December 2001, the Company determined that the planned number of terrestrial repeater sites could be reduced due to a network optimization study that was conducted The Company established a formal plan and recognized a charge of $26,300,000 with respect to the terrestrial repeater sites no longer required Included within the charge is $8,595,000 for costs to be incurred in 2002 related to these sites

The Company estimated lease termination costs based upon contractual lease costs and expected negotiation results as determined by discussions with landlords and consultants. Approximately 53% of these leases are subject to master lease agreements with large tower companies Based upon preliminary discussions with the tower companies, the Company assumed that they would be able to swap a portion of the existing sites for other sites in other areas in which terrestrial repeater networks will be developed in the future, without incurring all of the contractual obligations. As a result, the Company estimated the total of the lease termination costs would be substantially lower than the contractual lease obligations The contractual payments amount to approximately $35,100,000. Additionally, the Company's leases typically contain a clause that requires the Company to return a site to its original condition upon lease termination The Company has established an accrual of $8,595,000 for the estimated lease termination costs and costs to deconstruct the sites. The actual amount to be incurred could vary significantly from this estimate.

(i) Warrants

Sony Warrant

In February 2000, the Company issued a warrant to Sony exercisable for shares of the Company's Class A common stock. The warrant will vest at the time that the Company attains its millionth customer, and the number of shares underlying the warrant will be determined by the percentage of XM Radios that have a Sony brand name as of the vesting date. If Sony achieves its maximum performance target, the warrant will be exercisable for 2% of the total number of shares of the Company's Class A common stock on a fully-diluted basis. The exercise price of the

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

Sony warrant will equal 105% of fair market value of the Class A common stock on the vesting date, determined based upon the 20-day trailing average As the Company has commenced commercial operations and Sony began selling its radios in the fourth quarter of 2001, the Company recognized $131,000 of compensation expense related to this warrant in 2001.

CNBC Warrant

In May 2001, the Company granted a warrant to purchase 90,000 shares of Class A common stock consisting of three 30,000 share tranches to purchase shares at $26 50 per share, which expire in 11, 12, and 13 years, respectively. The warrants began to vest on September 25, 2001 when the Company reached its commercial launch and will be vested on September 1, 2002, 2003, and 2004, respectively The Company recognized $290,000 in non-cash compensation expense related to these warrants in 2001.

(j) 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 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, 1999, 2000 and 2001 the Company incurred expenses of $0, $0 and $19,545,000, 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 revenue increase.

(k) Programming Agreements

The Company has entered into various programming agreements. Under the terms of these agreements, the Company is obligated to provide payments and commissions to other entities that may include fixed payments, advertising commitments and revenue sharing arrangements. The amount of these costs related to these agreements cannot be estimated, but are expected to be substantial future costs. During the years ended December 31, 1999, 2000, 2001, the Company incurred expenses of $0, $0 and $7,230,000, 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 revenue increase

(l) Leases

The Company has noncancelable operating leases for office space and terrestrial repeater sites and noncancelable capital leases for equipment that expire over the next ten years Additionally, the Company owns a building and leases a portion of the space to other entities. The future minimum lease payments and rentals under noncancelable leases as of December 31, 2001 are (in thousands):

	Capital Lease Payments	Operating Lease Payments	Rental Income
Year ending December 31:			
2002	$ 2,974	$20,471	$ 1,511
2003	2,835	20,966	1,427
2004	1,098	21,423	1,716
2005	141	17,351	1,802
2006	--	6,687	1,804
Thereafter	--	9,439	26,065
Total	7,048	$96,337	$34,325
Less amount representing interest	(890)		
Present value of net minimum lease payments	6,158		
Less current maturities	(1,530)		
Long-term obligations	$ 4,628		

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

Rent expense for 1999, 2000 and 2001 was $649,000, $6,082,000 and $22,724,000, respectively

As discussed in note 15(h), in December 2001, the Company determined that the planned number of terrestrial repeater sites could be reduced due to the relative signal strength provided by the Company's satellites. The Company recognized a charge of $26,300,000 with respect to the terrestrial repeater sites no longer required. This charge includes a lease termination accrual of $8,595,000 for 646 terrestrial site leases, which would reduce the future minimum lease payments.

(16) Quarterly Data (Unaudited)

	1999			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ --	$ --	$ --	$ --
Operating loss	4,421	4,020	9,374	12,876
Loss before income taxes	4,367	3,999	17,402	11,128
Net loss attributable to common stockholders	4,367	3,999	17,402	11,128
Net loss per share--basic and diluted	$ (0.65)	$ (0.60)	$ (2.60)	$ (0.27)

	2000			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ --	$ --	$ --	$ --
Operating loss	16,888	13,937	28,109	20,544
Loss before income taxes	12,740	5,088	20,060	13,985
Net loss attributable to common stockholders	14,212	7,259	160,095	19,773
Net loss per share--basic and diluted	$ (0.30)	$ (0.15)	$ (3.26)	$ (0.40)

	2001			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ --	$ --	$ 1	$ 532
Operating loss	42,124	42,094	62,114	135,274
Loss before income taxes	36,948	38,478	64,982	143,971
Net loss attributable to common stockholders	42,736	44,267	70,770	149,759
Net loss per share--basic and diluted	$ (0.80)	$ (0.76)	$ (1.14)	$ (2.26)

The sum of quarterly per share net losses do not necessarily agree to the net loss per share for the year due to the timing of stock issuances.

During the fourth quarter of 2001, the Company completed the nationwide launch of its service. The Company also completed a public offering of 11,500,000 million shares of its Class A common stock (see note 10(e)), realizing net proceeds of $126,500,000. In addition, the Company also closed on a $66,000,000 financing package with The Boeing Company (see notes 8(d) and 15(d)), including $35,000,000 in new debt financing. Further, the Company incurred a charge of $26,300,000 to system operations for terrestrial repeater sites no longer required (see note 15(h)).

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

Independent Auditors' Report on Consolidated Financial Statement Schedule

The Board of Directors
XM Satellite Radio Holdings Inc.

Under date of January 23, 2002, we reported on the consolidated balance sheets of XM Satellite Radio Holdings Inc. and subsidiaries as of December 31, 2000 and 2001, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2001, which are included in the XM Satellite Radio Holdings Inc and subsidiaries annual report on Form 10-K In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule. This consolidated financial statement schedule is the responsibility of the Company's management Our responsibility is to express an opinion on this consolidated financial statement schedule based on our audits

In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein

The audit report on the consolidated financial statements of XM Satellite Radio Holdings Inc and subsidiaries referred to above contains an explanatory paragraph that states that the Company is dependent upon additional debt or equity financing, which raises substantial doubt about its ability to continue as a going concern The consolidated financial statement schedule does not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

McLean, VA
January 23, 2002

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

Schedule I--Valuation And Qualifying Accounts
(in thousands)

Description	Balance January 1	Charged to Costs and Expenses	Charged to Other Accounts--Describe	Write-Offs/ Payments/ Other	Balance December 31
Year Ended December 31, 1999					
Allowance for doubtful accounts	$ --	--	--	--	$ --
Deferred Tax Assets--Valuation Allowance	$ 7,978	(3,159)	--	--	$ 4,819
Accrued network optimization expenses	$ --	--	--	--	$ --
Year Ended December 31, 2000					
Allowance for doubtful accounts	$ --	--	--	--	$ --
Deferred Tax Assets--Valuation Allowance	$ 4,819	20,173	--	--	$ 24,992
Accrued network optimization expenses	$ --	--	--	--	$ --
Year Ended December 31, 2001					
Allowance for doubtful accounts	$ --	10	--	--	$ 10
Deferred Tax Assets--Valuation Allowance	$ 24,992	110,057	--	--	$135,049
Accrued network optimization expenses	$ --	8,595	--	--	$ 8,595

Source. XM SATELLITE RADIO H, 10-K405, March 19, 2002

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
XM Satellite Radio Inc ·

We have audited the accompanying consolidated balance sheets of XM Satellite Radio Inc. and subsidiaries as of December 31, 2000 and 2001, and the related consolidated statements of operations, stockholder's equity, and cash flows for each of the years in the three-year period ended December 31, 2001 These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of XM Satellite Radio Inc and subsidiaries as of December 31, 2000 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 2 to the consolidated financial statements, the Company is dependent upon additional debt or equity financing, which raises substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters is also described in note 2 The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty

/s/ KPMG LLP

McLean, VA
January 23, 2002

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

XM SATELLITE RADIO INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2000 AND 2001

ASSETS	2000	2001
	(in thousands, except share data)	
Current assets		
Cash and cash equivalents	$ 203,191	$ 62,368
Short-term investments	--	10,296
Restricted investments	45,585	44,861
Accounts receivable, net of allowance for doubtful accounts of $0 and $10	--	478
Prepaid and other current assets	8,815	15,271
Total current assets	257,591	133,274
Other assets		
Restricted investments, net of current portion	115,581	25,873
System under construction	786,159	18,597
Property and equipment, net of accumulated depreciation and amortization of $2,337 and $42,904	50,052	1,031,810
Goodwill and intangibles, net of accumulated amortization of $2,599 and $3,974	24,001	22,626
Other assets, net of accumulated amortization of $672 and $1,587	9,133	9,182
Total assets	$1,242,517	$1,241,362

LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Accounts payable	$ 31,706	$ 35,308
Accrued expenses	6,030	26,498
Accrued network optimization expenses (note 15)	--	8,595
Current portion of long-term debt	556	1,530
Due to related parties	15,366	25,900
Accrued interest	13,397	13,486
Total current liabilities	67,055	111,317
Long-term debt, net of current portion	262,665	268,934
Royalty payable, net of current portion	2,600	1,800
Other non-current liabilities	4,787	3,857
Total liabilities	337,107	385,908
Stockholder's equity:		
Common stock, par value $0 10, 3,000 shares authorized, 125 shares issued and outstanding	--	--
Additional paid-in capital	1,004,879	1,238,898
Accumulated deficit	(99,469)	(383,444)
Total stockholder's equity	905,410	855,454
Commitments and contingencies (notes 1, 2, 3, 5, 10 and 15)		
Total liabilities and stockholder's equity	$1,242,517	$1,241,362

See accompanying notes to consolidated financial statements.

Source. XM SATELLITE RADIO H, 10-K405, March 19, 2002

XM SATELLITE RADIO INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001

	1999	2000	2001
	(in thousands, except share data)		
Revenue:			
Subscriber revenue	$ --	$ --	$ 246
Ad sales revenue	--	--	294
Less: Agency commissions	--	--	(43)
Other revenue	--	--	36
Total revenue	--	--	533
Operating expenses:			
Broadcasting operations.			
Content/programming	(1,014)	(6,878)	(27,924)
System operations	(2,877)	(23,227)	(67,571)
Customer care and billing operations	--	(856)	(6,034)
Sales and marketing	(3,352)	(16,078)	(99,789)
General and administrative	(14,475)	(16,272)	(25,782)
Research and development	(7,440)	(12,701)	(14,255)
Depreciation and amortization	(1,512)	(3,115)	(41,491)
Total operating expenses	(30,670)	(79,127)	(282,846)
Operating loss	(30,670)	(79,127)	(282,313)
Other income (expense):			
Interest income	533	27,200	14,102
Interest expense	(43)	--	(15,157)
Other expense, net	--	--	(607)
Net loss	(30,180)	(51,927)	(283,975)

See accompanying notes to consolidated financial statements

Source. XM SATELLITE RADIO H, 10-K405, March 19, 2002

XM SATELLITE RADIO INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholder's Equity
	(in thousands)				
Balance at January 1, 1999	125	$ --	$ 144,818	$ (17,362)	127,456
Contributions to paid in capital	--	--	301,994	--	301,994
Increase in DARS license, goodwill and intangibles	--	--	51,624	--	51,624
Non-cash stock compensation	--	--	4,210	--	4,210
Net Loss	--	--	--	(30,180)	(30,180)
Balance at December 31, 1999	125	--	502,646	(47,542)	455,104
Contributions to paid in capital	--	--	499,490	--	499,490
Non-cash stock compensation	--	--	2,743	--	2,743
Net Loss	--	--	--	(51,927)	(51,927)
Balance at December 31, 2000	125	--	1,004,879	(99,469)	905,410
Contributions to paid in capital	--	--	196,249	--	196,249
Transfer of satellite bus to Parent	--	--	(35,321)	--	(35,321)
Funds received for transfer of satellite bus	--	--	31,600	--	31,600
Contribution of fixed assets from Parent	--	--	36,624	--	36,624
Non-cash stock compensation	--	--	4,867	--	4,867
Net Loss	--	--	--	(283,975)	(283,975)
Balance at December 31, 2001	125	$ --	$ 1,238,898	$ (383,444)	$ 855,454

See accompanying notes to consolidated financial statements

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

XM SATELLITE RADIO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001

	1999	2000	2001
		(in thousands)	
Cash flows from operating activities:			
Net loss	$ (30,180)	$ (51,927)	$(283,975)
Adjustments to reconcile net loss to net cash used in operating activities:			
Bad debt expense	--	--	10
Depreciation and amortization	1,478	3,369	41,942
Loss on disposal computer equipment	--	--	435
Non-cash stock-based compensation	4,210	2,743	4,867
Changes in operating assets and liabilities			
Increase in accounts receivable	--	--	(488)
Increase in prepaid and other current assets	(905)	(7,738)	(6,456)
Decrease in other assets	62	--	--
Increase in accounts payable and accrued expenses	7,149	16,012	31,278
Increase due to related parties	--	25	2,607
Increase in accrued interest	--	--	90
Net cash used in operating activities	(18,186)	(37,516)	(209,690)
Cash flows from investing activities:			
Purchase of property and equipment	(2,008)	(41,925)	(15,402)
Additions to system under construction	(159,510)	(424,342)	(142,321)
Proceeds from transfer of ground spare satellite bus to Parent	--	--	31,600
Net purchase/maturity of short-term investments	(69,472)	69,472	(10,296)
Net purchase/maturity of restricted investments	--	(106,338)	40,317
Other investing activities	(3,422)	(56,268)	(30,915)
Net cash used in investing activities	(234,412)	(559,401)	(127,017)
Cash flows from financing activities:			
Proceeds from sale of common stock and capital contribution	--	499,490	196,249
Capital contribution from parent through transfer of liabilities	302,002	--	--
Proceeds from issuance of 14% senior secured notes and warrants	--	259,353	--
Payments for deferred financing costs	--	(8,365)	(365)
Other net financing activities	(84)	--	--
Net cash provided by financing activities	301,918	750,478	195,884
Net increase (decrease) in cash and cash equivalents	49,320	153,561	(140,823)
Cash and cash equivalents at beginning of period	310	49,630	203,191
Cash and cash equivalents at end of period	$ 49,630	$ 203,191	$ 62,368

See accompanying notes to consolidated financial statements.

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

XM SATELLITE RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 2001

(1) Summary of Significant Accounting Policies and Practices

(a) Nature of Business

XM Satellite Radio Inc. (the "Company"), was incorporated on December 15, 1992 in the State of Delaware as a wholly owned subsidiary of Motient Corporation ("Motient"), for the purpose of operating a digital audio radio service ("DARS") under a license from the Federal Communications Commission ("FCC"). XM Satellite Radio Holdings Inc. (the "Parent") was formed as a holding company for the Company on May 16, 1997.

The Company became the first digital satellite radio service in the United States of America on September 25, 2001 when it commenced commercial operations in the lead markets of Dallas, Texas and San Diego, California as part of its national rollout On October 18, 2001, the Company continued its national rollout as it launched service in the southern half of the country and completed its national rollout on November 12, 2001. In 2001, the Company's satellites, "Rock" and "Roll", were successfully launched on March 18, 2001 and May 8, 2001, respectively.

(b) Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of XM Satellite Radio Inc and its subsidiaries. All significant intercompany transactions and accounts have been eliminated. The Company emerged from the development stage in the fourth quarter of 2001 as its principal operations had commenced and its national rollout had been completed. Accordingly, the Company revised the presentation of its Consolidated Statements of Operations to reflect that of a commercial enterprise.

(c) Cash and Cash Equivalents

The Company considers short-term, highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company had the following cash and cash equivalents balances (in thousands)·

	December 31,	
	2000	2001
Cash on deposit	$ 92	($4,257)
Overnight investments	--	41,181
Money market funds	203,099	2,794
Commercial paper	--	22,650
	$203,191	$ 62,368

(d) Short-term Investments

At December 31, 2001, the Company held commercial paper with maturity dates of less than one year that were stated at amortized cost, which approximated fair value.

(e) Restricted Investments

Restricted investments consist of fixed income securities and are stated at amortized cost plus accrued interest income. At December 31, 2000 and 2001, restricted investments represent securities held in escrow to secure the Company's future performance with regard to certain contracts and obligations, which include the interest payments required on the Company's 14% senior secured notes through March 2003, payments under the Hughes Electronics Corporation ("Hughes") terrestrial repeater contract, and certain facility leases and other secured credits. The interest reserve consists of US Treasury securities and are classified as held-to-maturity investments The remaining investments are principally money market funds and certificates of deposit. The amortized cost, gross unrealized holding gains, gross unrealized holding losses and fair value of the restricted investments at December 31, 2000 and 2001, were as follows (in thousands)·

Source· XM SATELLITE RADIO H, 10-K405, March 19, 2002

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
At December 31, 2000:				
Interest reserve	$ 106,338	$ 1,060	$ --	$107,398
Contract escrow	49,692	--	--	49,692
Collateral for letters of credit and other secured credit	5,136	--	--	5,136
	$ 161,166	$ 1,060	$ --	$162,226
At December 31, 2001:				
Interest reserve	$ 66,020	$ 1,354	$ --	$ 67,374
Contract escrow	2,930	--	--	2,930
Collateral for letters of credit and other secured credit	1,784	--	--	1,784
	$ 70,734	$ 1,354	$ --	$ 72,088

(f) Property and Equipment

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

Satellite system, DARS license, and space craft control facilities	17.5 years
Terrestrial repeater network	5-10 years
Broadcast facilities	3-7 years
Computer systems	3-7 years
Furniture and fixtures	3-7 years
Equipment under capital leases and leasehold improvements	Lesser of useful life or remaining lease term

Depreciation of the Company's in-orbit satellites commenced in May and June 2001 upon their acceptance from Boeing Satellite Systems International, Inc. ("BSS") Amortization of the DARS license and depreciation of the ground systems/spacecraft control facilities and related computer systems commenced on September 25, 2001, which was the date the service was launched in the Company's lead markets Depreciation of the broadcast facilities and the terrestrial repeaters commenced when they were placed in service.

The Company accounts for long-lived assets in accordance with the newly adopted provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(g) Goodwill and Other Intangible Assets

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over the expected periods to be benefited, generally 15 years. Other intangible assets are amortized over 10 years. The Company assesses the recoverability of its intangible assets by determining whether the amortization of the goodwill and intangible assets balance over its remaining life can be recovered through undiscounted future operating cash flows The amount of goodwill and intangible assets impairment, if any, is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No 141, Business Combinations, ("SFAS No 141") and SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS No 142"). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations. SFAS No.

141 specifies criteria that intangible assets acquired in a business combination must meet to be recognized and

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

reported separately from goodwill SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No 144 after its adoption

Upon adoption of SFAS No. 142 in the first quarter of 2002, the Company is required to evaluate its existing acquired intangible assets and goodwill, and to make any necessary reclassifications in order to conform with the new classification criteria in SFAS No. 141 for recognition separate from goodwill. The Company will be required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments by the end of the first quarter of 2002. If an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142 within the first interim period Impairment is measured as the excess of carrying value over the fair value of an intangible asset with an indefinite life. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle.

In connection with SFAS No. 142's transitional goodwill impairment evaluation, the Statement requires the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of January 1, 2002. The Company will then have up to six months from January 1, 2002 to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an indication exists that the reporting unit goodwill may be impaired and the Company must perform the second step of the transitional impairment test. The Company has determined that it only has one reporting unit as defined by the Standard

The second step is required to be completed as soon as possible, but no later than the end of the year of adoption. In the second step, the Company must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the date of adoption. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of income.

As of the date of adoption of SFAS No. 142, the Company expects to have unamortized goodwill in the amount of $11,461,000 and unamortized identifiable intangible assets in the amount of $155,207,000 all of which will be subject to the transition provisions of SFAS No. 142 Amortization expense related to goodwill and other intangible assets was $1,220,000, $1,379,000 and $3,604,000 for the years ended December 31, 1999, 2000, and 2001, respectively. Although the Company has not yet finalized its analysis of the adoption of SFAS No. 141 and No 142, the Company does not expect to recognize any transitional impairment losses as the cumulative effect of a change in accounting principle.

(h) Revenue Recognition

The Company derives revenue from subscriber subscription and activation fees as well as advertising

Subscriber revenue, which is generally billed in advance, consists of fixed charges for service, which are recognized as the service is provided and through non-refundable activation fees that are recognized ratably over the expected life of the customer relationship Direct activation costs are expensed as incurred

The Company recognizes advertising revenue from sales of spot announcements to national advertisers that are recognized in the period in which the spot announcement is broadcast. Agency commissions are presented as a reduction to revenue in the Consolidated Statement of Operations.

(i) Stock-Based Compensation

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

The Company accounts for stock-based compensation arrangements in accordance with the provisions of Accounting Principle Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), and related interpretations including FASB Interpretation ("FIN") No. 44, Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB opinion No 25 issued in March 2000, and complies with the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation. Under APB 25, compensation expense is based upon the difference, if any, on the date of grant, between the fair value of the Company's stock and the exercise price. All stock-based awards to non-employees are accounted for at their fair value in accordance with SFAS No. 123.

The Company adopted FIN No 44 in July 2000 to account for stock options that had been repriced during the period covered by FIN No. 44. The application resulted in additional compensation of $1,213,000 and $1,232,000 during the year ended December 31, 2000 and 2001, respectively. Additional compensation charges may result depending upon the market value of the common stock at each balance sheet date.

(j) Research and Development and Advertising

Research and development costs and advertising costs are expensed as incurred.

(k) Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and the financial reporting amounts at each year-end and operating loss and tax credit carryforwards, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the sum of taxes payable for the period and the change during the period in deferred tax assets and liabilities

(l) Comprehensive Income

The Company has engaged in no transactions during the years ended December 31, 1999, 2000 and 2001 that would be classified as other comprehensive income.

(m) Accounting Estimates

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. The estimates involve judgments with respect to, among other things, various future factors which are difficult to predict and are beyond the control of the Company. Significant estimates include valuation of the Company's investment in the DARS license, the allowance for doubtful accounts, the valuation of goodwill and intangible assets, the recoverability of the XM Radio System assets, the costs to terminate certain terrestrial repeater site leases, the allocation of purchase price of assets acquired, the estimated life of a subscriber's subscription, the payments to be made to distributors and manufacturers for radios sold or activated, the amount of stock-based compensation arrangements and the valuation allowances against deferred tax assets. Accordingly, actual amounts could differ from these estimates.

(n) Reclassifications

Certain fiscal year 1999 and 2000 amounts have been reclassified to conform to the current presentation.

(o) Derivative Instruments and Hedging Activities

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. In June 2000 the FASB issued SFAS No 138, Accounting for Certain Derivative Instruments and Certain Hedging

Source. XM SATELLITE RADIO H, 10-K405, March 19, 2002

Activity, an amendment of SFAS 133 SFAS No 133 and SFAS No. 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values SFAS No. 133 and SFAS No. 138 are effective for all fiscal quarters of all fiscal years beginning after June 30, 2000 The Company adopted SFAS No. 133 and SFAS No. 138 on January 1, 2001 The Company has reviewed its contracts and has determined that it has no stand alone derivative instruments and does not engage in hedging activities.

(2) Accumulated Deficit

The Company is devoting its efforts to market its digital audio radio service and to increase its subscriber base. This effort involves substantial risk and future operating results will be subject to significant business, economic, regulatory, technical, and competitive uncertainties and contingencies These factors individually, or in the aggregate, could have an adverse effect on the Company's financial condition and future operating results and create an uncertainty as to the Company's ability to continue as a going concern The consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

At the Company's current stage of operations, economic uncertainties exist regarding the successful acquisition of additional debt or equity financings and the attainment of positive cash flows from the XM Radio Service. The Company has commenced commercial operations and will require substantial additional financing to market and distribute the XM Radio Service. Failure to obtain the required long-term financing may prevent the Company from continuing to provide its service. Management's plan to fund operations and capital expansion includes the sale of additional debt and equity securities through public and private sources or future contributions from the Parent. There are no assurances, however, that such financing will be obtained

(3) Related Party Transactions

The Company had the following amounts outstanding to related parties at December 31, 2000 and 2001 (in thousands):

	December 31,	
	2000	2001
General Motors Corporation ("GM")	$ --	$ 656
Hughes	--	7,686
DIRECTV, Inc. ("DIRECTV")	200	50
LCC International, Inc. ("LCCI")	15,141	15,407
Clear Channel	25	2,101
	$15,366	$25,900

The Company has relied upon certain related parties for legal and technical services during the years ended December 31, 1999, 2000 and 2001. Total costs incurred in transactions with related parties are as follows (in thousands):

	Year ended December 31, 1999					
	GM	Hughes	DIRECTV	LCCI	Clear Channel	Motient
Terrestrial repeater network engineering and manufacturing	$--	$3,500	$ --	$6,578	$ --	$ --
General and administrative	--	--	--	--		224

	Year ended December 31, 2000					
	GM	Hughes	DIRECTV	LCCI	Clear Channel	Motient
Terrestrial repeater network engineering and manufacturing	$--	$11,858	$ --	$58,731	$ --	$--
Terrestrial repeater site leases	--	--	--	--	5	--
Customer care and billing operations	--	--	1,008	--	--	--
Sales and marketing	--	--	--	--	3,175	--

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

General and administrative	--	--	--	--	3	252

	Year ended December 31, 2001						
	GM	Hughes	DIRECTV	LCCI	Clear Channel	Motient	Parent
Terrestrial repeater network engineering and manufacturing	$ --	$ 88,116	$ --	$ 59,958	$ --	$ --	$ --
Terrestrial repeater site leases	--	--	--	--	36	--	--
Customer care and billing operations	--	--	623	--	--	--	--
Sales and marketing	1,264	--	--	--	4,351	--	--
General and administrative	--	--	--	--	--	193	--
Facility rental costs	--	--	--	--	--	--	1,512

(a) GM

In 1999, the Company established a distribution agreement with GM (see note 15 (f)) Under the terms of the agreement, GM distributes the XM Radio Service in various models of its vehicles.

(b) Hughes

In 1999, the Company entered into a terrestrial repeater manufacturing agreement with Hughes (see note 15 (e)).

(c) DIRECTV

In 1999, the Company entered into a consulting services agreement with DIRECTV The agreement provides for DIRECTV professionals to aid the Company's efforts in establishing its customer care center and billing operations on a time and materials basis.

(d) LCCI

In 1999, the Company entered into the LCCI Services Contract (note 15 (e)) and LCCI also provides certain ongoing consulting engineering work for the Company relating to the terrestrial repeater network on a time and materials basis.

(e) Clear Channel

In 2000, the Company entered into an advertising sales agreement with Premiere Radio Networks, an affiliate of Clear Channel Communications, pursuant to which Premiere sells to advertisers the time inventory owned by the Company for advertisements to be run on XM Radio channels. Also in 2000, the Company entered into a sponsorship agreement with SFX Marketing, now known as Clear Channel Entertainment, pursuant to which the Company advertises its service at Clear Channel Entertainment events and venues.

(f) Motient

In 1998, the Company entered into an agreement with Motient, in which Motient would provide technical and administrative support relating to the Company's operations. Payments for services provided under this agreement were made based on negotiated hourly rates. Liabilities for these services are absorbed by the Parent

(g) Parent

Through December 31, 1999, the Parent provided funding to the Company of $373,705,000 through both public and private equity and debt offerings that it had completed.

On January 31, 2000, the Parent closed on a secondary offering of its Class A common stock and newly designated Series B convertible redeemable preferred stock The Parent sold 4,000,000 shares of its Class A

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

common stock for $32.00 per share, which yielded net proceeds of $120,837,000. The Parent concurrently sold 2,000,000 shares of its Series B convertible redeemable preferred stock for $50.00 per share, which yielded net proceeds of $96,472,000 On February 9, 2000, the underwriters exercised a portion of the over-allotment option for 370,000 shares of Class A common stock, which yielded net proceeds of approximately $11,233,000. All proceeds were contributed to the Company by the Parent

On March 15, 2000 the Parent and the Company closed a private placement of 325,000 units, each unit consisting of $1,000 principal amount of 14 percent Senior Secured Notes due 2010 of the Company (note 8) and one warrant to purchase 8 024815 shares of the Parent's Class A common stock at a price of $49.50 per share. The Company realized net proceeds of $191,500,000, excluding $123,000,000 used to acquire securities to pay interest payments due under the notes for the first three years The $325,000,000 face value of the notes was offset by a discount of $65,746,000 associated with the fair value of the warrants sold, the net proceeds from which were contributed to the Company.

On July 7, 2000, the Parent reached an agreement for a private offering of 235,000 shares of its Series C convertible redeemable preferred stock for $1,000 per share, which closed on August 8, 2000 and yielded net proceeds of $206,379,000 and a stock subscription of $20,000,000 that earned interest at 7 percent per annum until it was paid on November 30, 2000. The stock subscription was received by the Parent in November 2000 and provided an additional $20,443,000 All proceeds, except the receipt of the stock subscription and $1,177,000 were contributed to the Company by the Parent.

On March 6, 2001, the Parent completed a follow-on offering of 7,500,000 shares of its Class A common stock, which yielded net proceeds of $72,000,000, which was contributed to the Company Also on March 6, 2001, the Parent closed a public offering of $125,000,000 of its 7.75% convertible subordinated notes due 2006, which yielded net proceeds of $120,700,000, which was contributed to the Company.

On December 6, 2001, the Parent completed a follow-on offering of 11,500,000 shares of its Class A common stock, which yielded net proceeds of $126,500,000, of which, $3,549,000 was contributed to the Company.

In August 2001, the Company's facility lease for its corporate headquarters was amended and the Parent became the Company's new landlord (note 15 (1)).

On December 5, 2001, the Company transferred its rights in the spare satellite, excluding the satellite payload, to the Parent, which had a carrying value of $35,300,000 In return, the Company received $31,600,000 in cash, which was the estimated fair value of the satellite bus as determined by management with the assistance of a third-party appraiser. Concurrent with the asset transfer, the Parent entered into a Customer Credit Agreement with Boeing Capital Corporation ("BCC") pursuant to which the Parent borrowed $35,000,000 from BCC at an interest rate equal to LIBOR plus 3.5%, increasing to LIBOR plus 4 5% after December 5, 2003, which is compounded annually and payable quarterly in arrears The principal is due on the earlier of December 5, 2006 or the launch of the ground spare satellite. The principal would also become due should the Boeing Satellite Contract (note 15(d)) be terminated. The loan is secured by the Parent's interest in the ground spare satellite, excluding its payload.

During 2001, the Parent transferred $36,624,000 in capitalized interest associated with the construction of the XM Radio System to the Company.

(4) System Under Construction

The Company has capitalized costs related to the development of its XM Radio System to the extent that they have future benefits. During 2001, the Company placed its Boeing 702 satellites "Rock" and "Roll" into service as well as its DARS license, ground systems/spacecraft control facilities, related computer systems, and its terrestrial repeater network and broadcast facilities by transferring $971,861,000 from system under construction to property and equipment The remaining components in system under construction include the ground spare satellite payload and costs incurred through December 31, 2001 for the performance broadcasting studio. The amounts recorded as system under construction consist of the following (in thousands):

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

	December 31,	
	2000	2001
DARS license	$ 122,944	$ --
Satellite system	521,573	18,557
Terrestrial system	84,715	--
Spacecraft control facilities	13,046	--
Broadcast facilities	27,971	40
Computer systems	15,910	--
	$ 786,159	$ 18,597

(5) Property and Equipment

Property and equipment consists of the following (in thousands):

	December 31,	
	2000	2001
DARS license	$ --	$ 146,271
Satellite system	--	521,251
Terrestrial system	--	243,755
Spacecraft control facilities	--	24,353
Broadcast facilities	16,752	55,686
Computer systems, furniture and fixtures, and equipment	21,063	68,824
Leasehold improvements	14,574	14,574
	52,389	1,074,714
Accumulated depreciation and amortization	(2,337)	(42,904)
Net property and equipment, net	$ 50,052	$ 1,031,810

In July 2001, the Company received notification from BSS that the expected life of its satellites was extended due to the accuracy of the respective launches, which used less fuel than anticipated The Company, therefore, changed the useful life estimate for the satellite system and the DARS license from 15 years to 17.5 years.

In September 2001, BSS advised the Company of a progressive degradation problem with the solar array output power of 702 class satellites, including XM "Rock" and XM "Roll". At the present time, the output power of the solar arrays and the broadcast signal strength are above minimum acceptable levels and are expected to remain that way at least through 2005, permitting full operation of the XM System (based on patterns projected by BSS). The Company has advised its insurance carriers of the situation. Since the issue is common to 702 class satellites, the manufacturer is closely watching the progression of the problem, including data from a satellite in orbit approximately 18 months' longer than XM "Rock" and XM "Roll" With this 18-month advance visibility of performance levels, insurance arrangements in place, a spare satellite under construction that is being modified to address the solar array anomaly and availability of additional satellites, the Company believes that it will be able to launch additional satellites prior to the time the solar power problem might cause the broadcast signal strength to fall below acceptable levels The Company's management will continue to monitor this situation carefully over the next few years

In December 2001, the Company determined that the planned number of terrestrial repeater sites could be reduced due to a network optimization study that was conducted The Company established a formal plan and recognized a charge of $26,300,000 with respect to the terrestrial repeater sites no longer required. The costs are principally related to the site acquisition and build-out of the identified sites. These costs have been included within system operations at December 31, 2001 Included within the charge is $8,595,000 for costs to be incurred in 2002 related to these sites (see note 15 (h))

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

(6) Goodwill and Other Intangible Assets

On July 7, 1999, Motient acquired a former investor's remaining debt and equity interests in the Parent in exchange for approximately 8,600,000 shares of Motient's common stock. Concurrent with Motient's acquisition of the remaining interest in the Parent, the Company recognized goodwill and other intangible assets of $51,624,000, which has been allocated as follows (in thousands)·

DARS License	$25,024
Goodwill	13,738
Programming agreements	8,000
Receiver agreements	4,600
Other intangibles	262
	$51,624

(7) Other Assets

Other assets consist of the following at December 31, 2000 and 2001 (in thousands)

	December 31,	
	2000	2001
14% senior secured notes deferred financing fees	$ 8,493	$ 8,858
Refundable deposits and other long-term prepaid expenses	1,444	1,911
	9,937	10,769
Less accumulated amortization	(672)	(1,587)
Other assets, net	$ 9,265	$ 9,182

(8) Long-Term Debt

Long-term debt at December 31, 2000 and 2001 consist of the following (in thousands)

	December 31,	
	2000	2001
14% senior secured notes	$ 325,000	$ 325,000
Less unamortized discount on 14% senior secured notes	(63,702)	(60,694)
Capital leases	1,923	6,158
Total long-term debt	263,221	270,464
Less current installments	(556)	(1,530)
Long-term debt, excluding current installments	$ 262,665	$ 268,934

14% Senior Secured Notes

On March 15, 2000, the Parent and the Company closed a private placement of 325,000 units, each unit consisting of $1,000 principal amount of 14% senior secured notes due 2010 of the Company and one warrant to purchase 8 024815 shares of the Parent's Class A common stock at a price of $49.50 per share The Company realized net proceeds of $191,500,000, excluding $123,000,000 used to acquire securities that will be used to pay interest payments due under the notes for the first three years. The $325,000,000 face value of the notes was offset by a discount of $65,746,000 associated with the fair value of the warrants sold, which was contributed to the Company. The Company had amortized $2,044,000 and $5,052,000 of the discount through December 31, 2000 and 2001, respectively.

(9) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2000 and 2001 (in thousands) The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

	December 31,			
	2000		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 203,191	$ 203,191	$ 62,368	$ 62,368
Short-term investments	--	--	10,296	10,296
Restricted investments	161,166	162,226	70,734	72,088
Accounts receivable	--	--	478	478
Letters of credit	--	12	--	13
Financial liabilities.				
Accounts payable	31,706	31,706	35,308	35,308
Accrued expenses	3,465	3,465	22,941	22,941
Accrued network optimization expenses	--	--	8,595	8,595
Due to related parties	15,366	15,366	25,900	25,900
Royalty payable	5,165	5,165	5,357	5,357
Long-term debt	263,221	181,486	270,464	263,314
Other non-current liabilities	4,787	4,787	3,857	3,857

The carrying amounts shown in the table are included in the consolidated balance sheets under the indicated captions. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, short-term investments, accounts receivable, prepaid and other current assets, other assets, accounts payable, accrued expenses, accrued network optimization expenses, due to related parties, royalty payable and other non-current liabilities The carrying amounts approximate fair value because of the short maturity of these instruments.

Restricted investments· The fair values of debt securities (held-to-maturity investments) are based on quoted market prices at the reporting date for those or similar investments.

Letters of credit· The value of the letters of credit is based on the fees paid to obtain the letters of credit.

Long-term debt: 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 by quoted market prices at the reporting date for the traded debt securities (the carrying value of the Company's 14% senior secured notes is significantly less than face value because the notes were sold at a discount for value allocated to the related warrants).

(10) Stock-Based Compensation

The Company operates three separate stock plans, the details of which are described below.

(a) 1998 Shares Award Plan

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

On June 1, 1998, the Parent adopted the 1998 Shares Award Plan (the "Plan") under which employees, consultants, and non-employee directors may be granted options to purchase shares of Class A common stock of the Parent. The Parent initially authorized 1,337,850 shares of Class A common stock under the Plan, which was increased to 2,675,700 in July 1999, 5,000,000 in May 2000, and 8,000,000 in May 2001. The options are exercisable in installments determined by the compensation committee of the Parent's board of directors. The options expire as determined by the committee, but no later than ten years from the date of grant. On July 8, 1999, the Parent's board of directors voted to reduce the exercise price of the options outstanding in the shares award plan from $16.35 to $9.52 per share, which represented the fair value of the stock on the date of repricing

Transactions and other information relating to the Plan for the years ended December 31, 1999, 2000 and 2001 are summarized below:

	Outstanding Options	
	Number of Shares	Weighted-Average Exercise Price
Balance, January 1, 1999	787,297	$ 16.35
Options granted	2,188,988	10.50
Option repricing	(818,339)	16.35
Options canceled or expired	(57,786)	13.91
Options exercised	(1,071)	9.52
Balance, December 31, 1999	2,099,089	$ 10.32
Options granted	1,176,683	30.21
Options canceled or expired	(131,267)	17.01
Options exercised	(48,817)	9.52
Balance, December 31, 2000	3,095,688	$ 17.61
Options granted	2,680,415	15.54
Options canceled or expired	(23,570)	9.55
Options exercised	(253,593)	17.88
Balance, December 31, 2001	5,498,940	$ 16.62

	Options Outstanding				Options Exercisable	
	Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise
1999	$9.52-$12 00	2,099,089	9.24 years	$10.32	416,294	$ 9.52
2000	$9.52-$12 00	2,120,400	8.26 years	$10.39	1,110,756	$10.06
	$12.01-$30.50	297,685	9.03 years	$23.13	5,334	$13 13
	$30.51-$45.44	677,603	9 54 years	$37 92	20,000	$43.69
2001	$4.82-$9.42	363,700	9.31 years	$ 7.91	55,000	$ 8.46
	$9 44-$12.00	2,256,263	7.50 years	$10.37	1,716,153	$10.21
	$12.06-$26.88	2,142,409	9.14 years	$17.75	165,132	$18 90
	$27.63-$45.44	736,568	8.52 years	$36.81	272,681	$36.93

There were 416,294, 1,136,090 and 2,208,966 stock options exercisable at December 31, 1999, 2000 and 2001, respectively. At December 31, 2001, there were 2,197,579 shares available under the plan for future grants. At December 31, 2001, all options have been issued to employees, officers and directors, except for 76,000 options granted to non-employees for which the Company recognized $1,147,000 in non-cash compensation.

The per share weighted-average fair value of employee options granted during the year ended December 31, 1999, 2000 and 2001 was $6.21, $22 06 and $8 77, respectively, on the date of grant using the Black-Scholes Option Pricing Model with the following weighted-average assumptions

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

	December 31,		
	1999	2000	2001
Expected dividend yield	0%	0%	0%
Volatility	63.92%	68.21%	62.40%
Risk-free interest rate range	5.47% to 5.97%	4 99% to 6 71%	3.66% to 4.99%
Expected life	5 years	5 years	5 years

(b) Employee Stock Purchase Plan

In 1999, the Parent established an employee stock purchase plan that provides for the issuance of 300,000 shares of Class A common stock, which was increased to 600,000 shares in 2001. All employees whose customary employment is more than 20 hours per week and for more than five months in any calendar year are eligible to participate in the stock purchase plan, provided that any employee who would own 5% or more of the Parent's total combined voting power immediately after an offering date under the plan is not eligible to participate. Eligible employees must authorize the Parent to deduct an amount from their pay during offering periods established by the compensation committee The purchase price for shares under the plan will be determined by the compensation committee but may not be less than 85% of the lesser of the market price of the common stock on the first or last business day of each offering period As of December 31, 1999, 2000 and 2001, the Parent had issued 28,791, 53,539 and 217,401 shares, respectively, under this plan At December 31, 2001, there were 382,599 shares available under the plan for future sale.

The per share weighted-average fair value of purchase rights granted during the year was $3 30, $11 28, and $5.37 for the years ended December 31, 1999, 2000 and 2001, respectively. The estimates were calculated at the grant date using the Black-Scholes Option Pricing Model with the following assumptions at December 31, 1999, 2000 and 2001.

	December 31,		
	1999	2000	2001
Expected dividend yield	0%	0%	0%
Volatility	62.92%	68.21%	62 40%
Risk-free interest rate range	4.73%	5.33%-6.23%	2.4%-5.89%
Expected life	0.23 years	0.24 years	0 24 years

The Company applies APB 25 in accounting for stock-based compensation for both plans and, accordingly, no compensation cost has been recognized for its stock options and stock purchase plan in the financial statements other than for performance based stock options, for options granted with exercise prices below fair value on the date of grant and for repriced options under FIN No. 44. During 1999, 2000 and 2001, the Company incurred $4,070,000, $2,557,000, $2,336,000, respectively, in compensation cost for these options Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS 123, the Company's net loss and net loss per share would have been increased to the pro forma amounts indicated below (in thousands)

	Year ended December 31,		
	1999	2000	2001
Net loss:			
As reported	$30,180	$51,927	$283,975
Pro forma	30,990	60,171	300,127

(c) Talent Option Plan

In May 2000, the Parent adopted the XM Talent Option Plan ("Talent Plan") under which non-employee programming consultants to the Company may be granted

options to purchase shares of Class A common stock of the Parent. The Parent authorized 500,000 shares of Class A common stock under the Talent Plan The options are exercisable in installments determined by the talent committee of the Parent's board of directors. The options expire as determined by the talent committee, but no later than ten years from the date of the grant. As of December 31, 2000 and 2001, no and 144,500 options had been granted under the Talent Plan. In 2001, the Company recognized $575,000 in non-cash compensation expense related to these options under SFAS 123. At December 31, 2001, there were 355,500 options available under the plan for future grant.

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

(11) Profit Sharing and Employee Savings Plan

On July 1, 1998, the Company adopted a profit sharing and employee savings plan under Section 401(k) of the Internal Revenue Code. This plan allows eligible employees to defer up to 15 % of their compensation on a pre-tax basis through contributions to the savings plan The Company contributed $0.50 in 1999, 2000 and 2001 for every dollar the employees contributed up to 6% of compensation, which amounted to $164,000, $229,000 and $543,000, respectively.

(12) Interest Cost

The Company capitalizes a portion of interest cost as a component of the cost of the XM Radio System. The following is a summary of interest cost incurred during December 31, 1999, 2000 and 2001 (in thousands):

	1999	2000	2001
Interest cost capitalized	$ 210	$ 39,022	$ 36,153
Interest cost charged to expense	43	--	15,157
Total interest cost incurred	$ 253	$ 39,022	$ 51,310

(13) Income Taxes

For the period from December 15, 1992 (date of inception) to October 8, 1999, the Parent and the Company filed consolidated federal and state tax returns with its majority stockholder Motient. The Company generated net operating losses and other deferred tax benefits that were not utilized by Motient. As no formal tax sharing agreement has been finalized, the Company was not compensated for the net operating losses Had the Company filed on a stand-alone basis for the three-year period ending December 31, 2001, the Company's tax provision would be as follows·

Taxes on income included in the Statements of Operations consists of the following (in thousands).

	December 31,		
	1999	2000	2001
Current taxes:			
Federal	$ --	$ --	$ --
State	--	--	--
Total current taxes	--	--	--
Deferred taxes.			
Federal	$ --	$ --	$ --
State	--	--	--
Total deferred taxes	--	--	--
Total tax expense (benefit)	$ --	$ --	$ --

A reconciliation of the statutory tax expense, assuming all income is taxed at the statutory rate applicable to the income and the actual tax expense is as follows (in thousands)

	December 31,		
	1999	2000	2001
Income (loss) before taxes on income, as reported in the statements of operations	$(30,181)	$(51,972)	$(283,975)
Theoretical tax benefit on the above amount at 35%	(10,563)	(18,174)	(99,391)
State tax, net of federal benefit	1,370	(2,877)	(13,274)
Increase in taxes resulting from permanent differences, net	2,120	562	2,701
Adjustments arising from differences in the basis of measurement			

Source. XM SATELLITE RADIO H, 10-K405, March 19, 2002

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

for tax purposes and financial reporting purposes and other	13,252	7	--
Change in valuation allowance	(6,179)	20,482	109,964
Taxes on income for the reported year	$ --	$ --	$ --

At December 31, 1999, 2000 and 2001, deferred income tax consists of future tax assets/(liabilities) attributable to the following (in thousands):

	December 31,		
	1999	2000	2001
Deferred tax assets			
Net operating loss/other tax attribute carryovers	$ 2,054	$ 12,396	$ 58,377
Start-up costs	14,972	42,252	106,609
Other deferred tax assets	--	--	11,533
Gross total deferred tax assets	17,026	54,648	176,519
Valuation allowance for deferred tax assets	(1,590)	(22,072)	(132,036)
Net deferred assets	15,436	32,576	44,483
Deferred tax liabilities:			
Fixed assets	(51)	(16,532)	(29,541)
DARS license	(10,160)	(9,821)	(9,670)
Other intangible assets	(5,225)	(6,223)	(5,272)
Net deferred tax liabilities	(15,436)	(32,576)	(44,483)
Deferred income tax, net	$ --	$ --	$ --

At December 31, 2001, the Company had accumulated net operating losses of $145,945,000 for Federal income tax purposes that are available to offset future regular taxable income These operating loss carryforwards expire between the years 2012 and 2021. Utilization of these net operating losses are subject to limitations because there have been significant changes in the stock ownership of the Company. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

(14) Supplemental Cash Flows Disclosures

The Company paid $0, $11,198,000, and $14,026,000 for interest (net of amounts capitalized) during 1999, 2000, and 2001, respectively. Additionally, the Company incurred the following non-cash financing and investing activities (in thousands):

	December 31,		
	1999	2000	2001
Increase in DARS license, goodwill and intangibles	$ 51,624	$ --	$ --
Non-cash capitalized interest	--	16,302	3,923
Accrued system milestone payments	15,500	30,192	37,775
Systems under construction placed into service	--	--	971,861
Contribution of fixed assets from Parent	--	--	36,624
Transfer of ground spare satellite bus to Parent	--	--	3,721
Property acquired through capital leases	470	1,688	6,177
Use of deposit/escrow for terrestrial repeater contracts	--	3,422	80,431

(15) Commitments and Contingencies

(a) DARS License

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

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 Company. The DARS license requires that the Company comply with a construction and launch schedule specified by the FCC for each of the 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. The Company believes that the exercise of such authority to rescind the license is unlikely. Additionally, the FCC has not yet issued final rules permitting the Company to deploy its terrestrial repeaters to fill gaps in satellite coverage The Company is operating its repeaters on a non-interference basis pursuant to a grant of special temporary authority from the FCC, which expired March 18, 2002 On March 11, 2002, the Company applied for an extension of this special temporary authority and can continue to operate its terrestrial repeaters pursuant to the special temporary authority pending a final determination on this extension request. This authority is currently being challenged by operators of terrestrial wireless systems who have asserted that the Company's repeaters may cause interference.

(b) Application for Review of DARS License

One of the losing bidders for the DARS licenses filed an Application for Review by the full FCC of the Licensing Order that granted the Company its DARS license. The Application for Review alleges that a former investor had effectively taken control of the Company without FCC approval. The FCC has denied the Application for Review and the losing bidder has appealed to the United States Court of Appeals for the District of Columbia Circuit. The FCC or the U S. Court of Appeals has the authority to overturn the award of the DARS license should they rule in favor of the losing bidder Although the Company believes that its right to the DARS license will withstand the challenge as the former investor is no longer a stockholder in the Parent, no prediction of the outcome of this challenge can be made with any certainty. The FCC's approval of the transfer of control of the DARS license to a diffuse group of owners, granted in December 2000, is conditioned upon the outcome of the application for review

(c) Technology Licenses

Effective January 1, 1998, the Company entered into a technology licensing agreement with Motient and WorldSpace Management Corporation ("WorldSpace MC") by which as compensation for certain licensed technology then under development to be used in the XM Radio System, the Company will pay up to $14,300,000 to WorldSpace MC over a ten-year period. As of December 31, 2001, the Company incurred costs of $6,696,000 payable to WorldSpace MC Any additional amounts to be incurred under this agreement are dependent upon further development of the technology, which is at the Company's option. No liability exists to Motient or WorldSpace MC should such developments prove unsuccessful. The Company maintains an accrual of $5,357,000 payable to WorldSpace MC, for quarterly royalty payments to be made after the Company recognizes $5,000,000 in revenue

(d) Satellite Contract

During the first half of 1999, the Company and BSS amended the satellite contract to construct and launch the Company's satellites to implement a revised work timetable, payment schedule to reflect the timing of the receipt of additional funding, and technical modifications. BSS has delivered two satellites in orbit and is to complete the construction of a ground spare satellite. BSS has also provided ground equipment and software used in the XM Radio System and certain launch and operations support services. The contract also provides for in-orbit incentives to be earned depending on the performance of the in-orbit satellites over their useful lives. Such payments could total up to an additional $68,700,000 over the useful lives of the satellites As of December 31, 2001, the Company had paid $470,376,000 under the satellite contract and had accrued $741,000.

On December 5, 2001, the Company and Boeing amended the satellite contract so as to permit the deferral of approximately $31,000,000 of payments to be made under the agreement, as well as to provide certain additional rights and obligations to the Company; including the launch of the ground spare satellite on the SeaLaunch launch vehicle should the ground spare satellite be launched between specified dates. Under the amendment, deferred amounts must be repaid by December 5, 2006 and the amounts deferred bear interest at the rate of 8%, compounded annually, and are payable quarterly in arrears.

(e) Terrestrial Repeater System Contracts

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

As of December 31, 2001, the Company had incurred aggregate costs of approximately $243,500,000 for its terrestrial repeater system These costs covered the capital costs of the design, development and installation of a system of terrestrial repeaters to cover approximately 60 cities and metropolitan areas. In August 1999, the Company signed a contract with LCCI calling for engineering and site preparation. As of December 31, 2001, the Company had paid $109,860,000 and accrued an additional $15,407,000 under this contract. The Company also entered into a contract effective October 22, 1999 with Hughes for the design, development and manufacture of the terrestrial repeaters Payments under the contract are expected to be approximately $128,000,000, which could be modified based on the number of terrestrial repeaters that are required for the system. As of December 31, 2001, the Company had paid $95,788,000 and accrued an additional $7,685,000 under this contract.

(f) GM Distribution Agreement

The Company has signed a long-term distribution agreement with the OnStar division of GM providing for the installation of XM radios in GM vehicles. During the term of the agreement, which expires 12 years from the commencement date of the Company's commercial operations, GM has agreed to distribute the service to the exclusion of other S-band satellite digital radio services. The Company will also have a non-exclusive right to arrange for the installation of XM radios included in OnStar systems in non-GM vehicles that are sold for use in the United States. The Company has significant annual, fixed payment obligations to General Motors through 2004. These payments approximate $35,000,000 in the aggregate during this period Additional annual fixed payment obligations beyond 2004 range from less than $35,000,000 to approximately $130,000,000 through 2009, aggregating approximately $400,000,000. In order to encourage the broad installation of XM radios in GM vehicles, the Company has agreed to subsidize a portion of the cost of XM radios, and to make incentive payments to GM when the owners of GM vehicles with installed XM radios become subscribers for the Company's service The Company must also share with GM a percentage of the subscription revenue attributable to GM vehicles with installed XM radios, which percentage increases until there are more than 8 million GM vehicles with installed XM radios. The Company will also make available to GM bandwidth on the Company's systems. The agreement is subject to renegotiation at any time based upon the installation of radios that are compatible with a unified standard or capable of receiving Sirius Satellite Radio, Inc 's ("Sirius Radio") service. The agreement is subject to renegotiation if, four years after the commencement of the Company's commercial operations and at two-year intervals thereafter GM does not achieve and maintain specified installation levels of GM vehicles capable of receiving the Company's service, starting with 1,240,000 units after four years, and thereafter increasing by the lesser of 600,000 units per year and amounts proportionate to target market shares in the satellite digital radio service market There can be no assurances as to the outcome of any such renegotiation. GM's exclusivity obligations will discontinue if, four years after the Company commences commercial operations and at two-year intervals thereafter, the Company fails to achieve and maintain specified minimum market share levels in the satellite digital radio service market Prior to 2001, the Company had not incurred any costs under the contract As of December 31, 2001, the Company has paid $608,000 and accrued costs of $656,000 under the agreement

(g) Joint Development Agreement

On January 12, 1999, Sirius Radio, the other holder of an FCC satellite radio license, commenced an action against the Company in the United States District Court for the Southern District of New York, alleging that the Company was infringing or would infringe three patents assigned to Sirius Radio. In its complaint, Sirius Radio sought money damages to the extent the Company manufactured, used or sold any product or method claimed in their patents and injunctive relief. On February 16, 2000, this suit was resolved in accordance with the terms of a joint development agreement between the Company and Sirius Radio and both companies agreed to cross-license their respective property. Each party is obligated to fund one half of the development cost for a unified standard for satellite radios Each party will be entitled to license fees or a credit towards its one half of the cost based upon the validity, value, use, importance and available alternatives of the technology it contributes. The amounts for these fees or credits will be determined over time by agreement of the parties or by arbitration The parties have yet to agree on the validity, value, use, importance and available alternatives of their respective technologies. The companies have agreed to seek arbitration to resolve issues with respect to certain existing technology. If this agreement is terminated before the value of the license has been determined due to the Company's failure to perform a material covenant or obligation, then this suit could be refiled.

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

(h) Accrued Network Optimization Expenses

In December 2001, the Company determined that the planned number of terrestrial repeater sites could be reduced due to a network optimization study that was conducted. The Company established a formal plan and recognized a charge of $26,300,000 with respect to the terrestrial repeater sites no longer required Included within the charge is $8,595,000 for costs to be incurred in 2002 related to these sites.

The Company estimated lease termination costs based upon contractual lease costs and expected negotiation results as determined by discussions with landlords and consultants Approximately 53% of these leases are subject to master lease agreements with large tower companies Based upon preliminary discussions with the tower companies, the Company assumed that they would be able to swap a portion of the existing sites for other sites in other areas in which terrestrial repeater networks will be developed in the future, without incurring all of the contractual obligations. As a result, the Company estimated the total of the lease termination costs would be substantially lower than the contractual lease obligations. The contractual payments amount to approximately $35,100,000 Additionally, the Company's leases typically contain a clause that requires the Company to return a site to its original condition upon lease termination The Company has established an accrual of $8,595,000 for the estimated lease termination costs and costs to deconstruct the sites. The actual amount to be incurred could vary significantly from this estimate.

(i) Warrants

Sony Warrant

In February 2000, the Parent issued a warrant to Sony exercisable for shares of the Parent's Class A common stock The warrant will vest at the time that the Company attains its millionth customer, and the number of shares underlying the warrant will be determined by the percentage of XM Radios that have a Sony brand name as of the vesting date If Sony achieves its maximum performance target, the warrant will be exercisable for 2% of the total number of shares of the Parent's Class A common stock on a fully-diluted basis. The exercise price of the Sony warrant will equal 105% of fair market value of the Class A common stock on the vesting date, determined based upon the 20-day trailing average As the Company has commenced commercial operations and Sony began selling its radios in the fourth quarter of 2001, the Company recognized $131,000 of compensation expense related to this warrant in 2001

CNBC Warrant

In May 2001, the Parent granted a warrant to purchase 90,000 shares of the Parent's Class A common stock consisting of three 30,000 share tranches to purchase shares at $26.50 per share, which expire in 11, 12, and 13 years, respectively. The warrants began to vest on September 25, 2001 when the Company reached its commercial launch and will be vested on September 1, 2002, 2003, and 2004, respectively. The Company recognized $290,000 in non-cash compensation expense related to these warrants in 2001

(j) 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 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, 1999, 2000 and 2001 the Company incurred expenses of $0, $0 and $19,545,000, 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 revenue increase

(k) Programming Agreements

The Company has entered into various programming agreements. Under the terms of these agreements, the Company is obligated to provide payments and commissions to other entities that may include fixed payments,

Source. XM SATELLITE RADIO H, 10-K405, March 19, 2002

advertising commitments and revenue sharing arrangements The amount of these costs related to these agreements cannot be estimated, but are expected to be substantial future costs During the years ended December 31, 1999, 2000, 2001, the Company incurred expenses of $0, $0 and $7,230,000, 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 revenue increase.

(l) Leases

The Company has noncancelable operating leases for office space and terrestrial repeater sites and noncancelable capital leases for equipment that expire over the next ten years. The future minimum lease payments and rentals under noncancelable leases as of December 31, 2001 are (in thousands):

	Capital Lease Payments	Operating Lease Payments
Year ending December 31:		
2002	$ 2,974	$ 23,771
2003	2,835	24,385
2004	1,098	25,166
2005	141	21,205
2006	--	10,658
Thereafter	--	72,328
Total	7,048	$177,513
Less amount representing interest	(890)	
Present value of net minimum lease payments	6,158	
Less current maturities	(1,530)	
Long-term obligations	$ 4,628	

Rent expense for 1999, 2000 and 2001 was $649,000, $6,082,000 and $24,236,000, respectively.

As discussed in note 15(h), in December 2001, the Company determined that the planned number of terrestrial repeater sites could be reduced due to the relative signal strength provided by the Company's satellites. The Company recognized a charge of $26,300,000 with respect to the terrestrial repeater sites no longer required. This charge includes a lease termination accrual of $8,595,000 for 646 terrestrial site leases, which would reduce the future minimum lease payments

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

Independent Auditors' Report on Consolidated Financial Statement Schedule

The Board of Directors
XM Satellite Radio Inc.:

Under date of January 23, 2002, we reported on the consolidated balance sheets of XM Satellite Radio Inc. and subsidiaries as of December 31, 2000 and 2001, and the related consolidated statements of operations, stockholder's equity, and cash flows for each of the years in the three-year period ended December 31, 2001, which are included in the XM Satellite Radio Inc. and subsidiaries annual report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule. This consolidated financial statement schedule is the responsibility of the Company's management Our responsibility is to express an opinion on this consolidated financial statement schedule based on our audits.

In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein

The audit report on the consolidated financial statements of XM Satellite Radio Inc and subsidiaries referred to above contains an explanatory paragraph that states that the Company is dependent upon additional debt or equity financing, which raises substantial doubt about its ability to continue as a going concern. The consolidated financial statement schedule does not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

McLean, VA
January 23, 2002

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

Schedule I--Valuation And Qualifying Accounts
(in thousands)

Description	Balance January 1	Charged to Costs and Expenses	Charged to Other Accounts--Describe	Write-Offs/ Payments/ Other	Balance December 31
Year Ended December 31, 1999					
Allowance for doubtful accounts	$ --	--	--	--	$ --
Deferred Tax Assets--Valuation Allowance	$ 7,769	(6,179)	--	--	$ 1,590
Accrued network optimization expenses	$ --	--	--	--	$ --
Year Ended December 31, 2000					
Allowance for doubtful accounts	$ --	--	--	--	$ --
Deferred Tax Assets--Valuation Allowance	$ 1,590	20,482	--	--	$ 22,072
Accrued network optimization expenses	$ --	--	--	--	$ --
Year Ended December 31, 2001					
Allowance for doubtful accounts	$ --	10	--	--	$ 10
Deferred Tax Assets--Valuation Allowance	$ 22,072	109,964	--	--	$ 132,036
Accrued network optimization expenses	$ --	8,595	--	--	$ 8,595

Source: XM SATELLITE RADIO H, 10-K405, March 19, 2002

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
President and Chief Executive Officer
Date: March 18, 2002

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	President, Chief Executive Officer and Director (Principal Executive Officer)	March 18, 2002
/s/ Heinz Stubblefield Heinz Stubblefield	Senior Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	March 18, 2002
/s/ Gary M. Parsons Gary M. Parsons	Chairman of the Board of Directors	March 18, 2002
/s/ Nathaniel A. Davis Nathaniel A. Davis	Director	March 18, 2002
/s/ Thomas J. Donohue Thomas J. Donohue	Director	March 18, 2002
/s/ Chester A. Huber, Jr. Chester A Huber, Jr.	Director	March 18, 2002
/s/ Randall T. Mays Randall T. Mays	Director	March 18, 2002
/s/ Pierce J Roberts, Jr. Pierce J. Roberts, Jr.	Director	March 18, 2002

Source XM SATELLITE RADIO H, 10-K405, March 19, 2002

/S/ Jack Shaw ---------- Jack Shaw	Director	March 18, 2002
/S/ Dr. Rajendra Singh ---------- Dr. Rajendra Singh	Director	March 18, 2002

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Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
XM Satellite Radio Holdings Inc.:

We consent to the incorporation by reference in the registration statements Nos 333-47570, 333-93529 and 333-39176 on Forms S-3 and Nos. 333-92049 and 333-42590 on Form S-8 of XM Satellite Radio Holdings Inc. and subsidiaries of our reports dated January 23, 2002 with respect to the consolidated balance sheets of XM Satellite Radio Holdings Inc. and subsidiaries as of December 31, 2000 and 2001 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the years in the three-year period ended December 31, 2001, and related schedule, which reports appear in the December 31, 2001 annual report on Form 10-K of XM Satellite Radio Holdings Inc. and subsidiaries

Our reports, dated January 23, 2002, contain an explanatory paragraph that states that the Company is dependent upon additional debt or equity financing, which raises substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty.

/s/ KPMG LLP

McLean, VA
March 18, 2002

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FORM 10-K

XM SATELLITE RADIO HOLDINGS INC - XMSR

Filed: March 31, 2003 (period: December 31, 2002)

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

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EX-3.6 (EXHIBIT 3.6)

EX-21.1 (EXHIBIT 21.1)

EX-23.1 (EXHIBIT 23.1)

EX-99.1 (EXHIBIT 99.1)

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For The Fiscal Year Ended December 31, 2002

XM SATELLITE RADIO HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Commission file number 000-27441

DELAWARE	54-1878819
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1500 ECKINGTON PLACE, NE
WASHINGTON, DC 20002-2194
(Address of principal executive offices)
(Zip code)

202-380-4000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Not Applicable

Securities registered pursuant to Section 12(g) of the Act:
Class A Common Stock, par value $.01 per share
8.25% Series B Convertible Redeemable Preferred Stock, par value $ 01 per share
(Title of Classes)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☒
Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2) Yes ☒ No ☐

The aggregate market value of common stock held by non-affiliates of the registrant, based upon the closing price of the registrant's Class A common stock as of June 28, 2002, is $487,350,445

Indicate the number of shares outstanding of the issuer's classes of common stock, as of the latest practicable date

(Class) (Outstanding as of February 28, 2003)
CLASS A COMMON STOCK, $0 01 PAR VALUE 101,304,256 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 22, 2003, 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 10-13 of this Form 10-K

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
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Except for any historical information, the matters we discuss in this Form 10-K contain forward-looking statements. Any statements in this Form 10-K that are not statements of historical fact, are intended to be, and are, "forward-looking statements" under the safe harbor provided by Section 27(a) of the Securities Act of 1933 Without limitation, the words "anticipates," "believes," "estimates," "expects," "intends," "plans" and similar expressions are intended to identify forward-looking statements. The important factors we discuss below and under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as other factors identified in our filings with the SEC and those presented elsewhere by our management from time to time, could cause actual results to differ materially from those indicated by the forward-looking statements made in this Form 10-K

EXPLANATORY NOTE

This annual report is filed by XM Satellite Radio Holdings Inc. ("Holdings"). Unless the context requires otherwise, the terms "we," "our" and "us" refer to Holdings and its subsidiaries. Holdings' principal subsidiary is XM Satellite Radio Inc. ("XM"), which is separately filing an annual report with the SEC.

This annual report and all other reports and amendments filed by us with the SEC can be accessed, free of charge, through our website at http://www.xmradio.com/investor/investor_financial_and_company.html on the same day that they are electronically filed with the SEC.

PART I

ITEM 1. BUSINESS

Overview

We are a nationwide provider of audio entertainment and information programming for reception by vehicle, home and portable radios Our digital audio XM Radio service offers 100 channels of music, news, talk, sports and children's programming for a current monthly subscription price of $9 99, we also offer one premium channel. We believe XM Radio appeals to consumers because of our innovative and diverse programming, nationwide coverage, numerous commercial free music and talk channels and digital sound quality. Since our nationwide launch on November 12, 2001, we built our subscriber base to 347,159 subscribers as of December 31, 2002 through multiple distribution channels, including an exclusive distribution arrangement with General Motors, other automotive manufacturers, car audio dealers and national electronics retailers.

From our nationwide launch through the end of the third quarter of 2002, distribution of our product was almost exclusively through the aftermarket (the sale of radios by consumer electronics retailers and others for installation in automobiles after purchase) Starting with the 2003 automobile model year, which began in late summer 2002, General Motors began making XM Radio available as original equipment in new vehicles. Through an exclusive distribution arrangement with us, General Motors is currently offering 25 models of XM Radio-equipped cars, light trucks and SUVs under the Buick, Chevrolet, Oldsmobile, Cadillac, Pontiac and GMC brand names and will expand to 44 GM models for the 2004 model year Honda, Isuzu, Nissan, Infiniti, Toyota and Volkswagen/Audi have announced that XM Radio will be available in several popular makes and models, including the Honda Accord, Nissan Pathfinder and Toyota Scion. Broad distribution of XM Radio through the new automobile market is a central element in our business strategy.

We also continue to promote XM Radio actively in the automobile aftermarket. XM radios are available under the Sony, Alpine, Pioneer and Delphi brand names at national consumer electronics retailers, such as Circuit City, Best Buy, participating Radio Shack dealers and franchisees, Wal-Mart and others. Delphi has introduced the XM SKYFi, a plug-and-play device that offers an enhanced display and attractive pricing. We consider the introduction of the SKYFi product a significant milestone, marking the launch of the second generation of XM radios at a lower cost to consumers than the first generation products, with an enhanced display and true portability from the car to home stereo systems to a boom box After the retail aftermarket and factory-installed automobile market, this opening up of the home and portable radio market is the third major element of a marketing strategy to increase the availability of XM radio across new markets At the 2003 Consumer Electronics Show, the SKYFi audio system was named a finalist for the Best of CES award

We believe, based on our experience in the marketplace, surveys, work with focus groups and market data, that there is a significant market for XM Radio. Over 75% of the entire United States population age 12 and older listens to the radio daily, and over 95% listens to the radio weekly However, many radio listeners have access to only a limited number of radio stations and listening formats offered by traditional AM/FM radio

We offer our consumers a unique listening experience by providing diverse programming, coast-to-coast coverage, a substantial number of commercial free channels and clear sound with our digital signals. Our 100 channels (plus one premium channel) include diverse programming designed to appeal to a large audience, and to specific groups that our research has shown are most likely to subscribe to our service, including urban and rural listeners of virtually all ages Based on listener feedback after our first nine months of broadcasting, we updated our channel lineup and began offering our first premium channel, Playboy Radio. We have original music and talk channels created by our in-house programming unit as well as channels created by well-known providers of brand name programming, including MTV, VH1, ESPN Radio, Radio Disney, CNN, CNBC, Discovery, Fox News, E!, NASCAR, Radio One, Clear Channel, and Hispanic Broadcasting Corporation. We have a team of programming professionals with a successful record of introducing new radio formats and building local and national listenership.

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

In addition to our subscription fee, we generate revenues from sales of limited advertising time on a number of channels. XM Radio offers a new national radio platform for advertisers that solves many of the problems associated with buying radio advertising nationally on a spot or syndicated basis on traditional AM/FM radio. Through affinity and niche programming, we offer advertisers an effective way to aggregate geographically disparate groups of listeners in their targeted demographic markets Advertisers on the XM network have included Warner Bros., JC Penney, U S Navy, Allstate and Pennzoil.

We transmit the XM Radio signal throughout the continental United States from our two satellites "Rock" and "Roll." We are planning to launch our spare satellite, presently being modified, as part of a plan to address a solar power anomaly in our existing satellites We also have a network of approximately 800 terrestrial repeaters, which receive and re-transmit the satellite signals in 60 cities to augment our satellite signal coverage where it might otherwise be affected by buildings, tunnels or terrain.

We raised $1.7 billion of equity and debt net proceeds through December 31, 2002 from investors and strategic partners to fund our operations On January 28, 2003, we completed a $475 million financing, which included $225 million of new funds (bringing to $1.9 billion the amount of equity and debt raised) and $250 million of payment deferrals and a line of credit. As of March 31, 2003, our strategic investors include General Motors, Hughes Electronics/DIRECTV, Clear Channel Communications, American Honda and Hearst Communications; our financial investors include Columbia Capital, Madison Dearborn Partners, AEA Investors, BayStar Capital and Eastbourne Capital. We hold one of only two licenses issued by the Federal Communications Commission to provide satellite digital audio radio service in the United States

Recent Development

On January 28, 2003, we completed

- an exchange of $300 2 million aggregate principal amount of XM's previously outstanding 14% Senior Secured Notes due 2010 for $438.0 million aggregate principal amount at maturity ($300 2 million accreted value as of March 15, 2003) of 14% Senior Secured Discount Notes due 2009, cash and warrants to purchase Class A common stock;

- various transactions with General Motors under which we converted $115 million in guaranteed payments we will owe to General Motors for 2003 through 2006 through the issuance of a 10% Senior Secured Convertible Note due 2009 and could pay an additional $135 million we will or in the future may owe to General Motors through advances under a credit agreement or in the case of $35 million of payments and interest under the credit facility the issuance of shares of our Class A common stock; and

- a financing that raised gross proceeds of approximately $225 million through a private placement of 10% Senior Secured Discount Convertible Notes due 2009 and common stock

Following the financing, so long as we meet the revenue, expense and cash flow projections of our refined business plan, we expect to be fully funded and will not need to raise additional financing to continue operations Our business plan contemplates the use of either insurance proceeds and/or vendor financing to launch replacement satellite(s).

Market Opportunity

Based on our experience in the marketplace to date, as well as market research, we believe that there is a significant market for our satellite radio service.

Initial Marketplace Results

Consumer response to our service has been positive As of December 31, 2002, we had 347,159 subscribers This subscriber growth represents a faster adoption rate than for any other consumer audio product introduced over the past 20 years, including CD players and DVD players (NPD Techworld/data 2002) Importantly, we have achieved this subscriber growth while spending significantly less in subscriber acquisition costs (SAC costs) per subscriber than we had originally projected. A more in-depth discussion of our SAC costs can be found under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations".

We have also received positive feedback from our subscribers. In a survey of a random sample of our subscribers, the vast majority rated our overall service, our programming, our sound quality and the value for the money as "excellent" or "good " We have also found a broad appeal of our service across age groups, with people in their twenties, thirties, forties and fifties each representing comparable percentages of XM subscribers

Demand for Satellite Radio

Market studies show strong demand for radio service, as evidenced by radio listening trends, data relating to sales and distribution of radios and the general growth in radio advertising In many markets, traditional AM/FM audio programming choices are limited to mass appeal formats We believe our national subscription service complements traditional local radio Moreover, the success of subscription entertainment services in other media such as cable television and satellite television further indicates potential for significant consumer demand for satellite radio services.

Penetration data relating to cable, satellite television, and premium movie channels suggest that consumers are willing to pay for services that dramatically expand programming choice or enhance quality. There are more than 19.2 million digital cable subscribers and 20 million satellite television subscribers as of 2002. As of 2002, 69% of TV households subscribe to basic cable television, and 18 5% of TV households subscribe to satellite television (National Cable Television Association website and skyreport com website)

The Yankee Group projects satellite radio will achieve 15 million subscribers by 2006 (May 2002 study) and market studies conducted for us project that as many as 49 million people may subscribe to satellite radio by 2012.

Auto Radio Market

In 2001, radio manufacturers sold over 30 million car radios, including original equipment automobile radios and aftermarket automobile radios, as well as 1 million aftermarket automobile CD changers. In the same year, 17.2 million new cars were sold, including 4 9 million by General Motors The vast majority of these new cars were sold with car radios (The OEM and Aftermarket for 12–Volt Electronics, Venture Development Corporation).

Radio Listening

On average, adults listen to the radio 3 2 hours a day, with the amount of radio listening fairly evenly distributed across gender and age groups The percentage of people listening to radio is also high Market data show that over 75% of the entire United States population age 12 and older listen to the radio daily, and over 95% listen on a weekly basis (Radio Marketing Guide and Factbook for Advertisers, Radio Advertising Bureau, 2001–2002)

Current Limitations on Programming Choice

Many consumers have access to a limited number of stations and programming formats offered by traditional AM/FM radio. Our service is expected to be attractive to underserved radio listeners who want expanded radio choices

Limited Number of Radio Stations. The number of radio stations available to many consumers in their local market is limited in comparison to the 101 channels we offer on a nationwide basis In recent years, there were fewer than 50 AM/FM radio stations as listed by Arbitron broadcasting in New York City, the largest radio market in the United States. Many of these radio stations are of the same five formats In fact, many metropolitan areas outside the largest 50 markets, such as Jacksonville, FL, Louisville, KY, and Oklahoma City, OK, have 30 or fewer AM/FM radio stations as listed by Arbitron (American Radio, Winter 2001 Ratings Report, Duncan's American Radio, 2001)

Of the total listener base tracked by Arbitron, we estimate that our coast–to–coast service reaches over 112 million listeners age 12 and over beyond the range of the largest 50 markets as measured Of these listeners, 46 million live beyond the largest 283 markets (2002 Market Rankings, The Arbitron Company). In addition, there are 22 million people age 12 and above who receive five or fewer stations (The Satellite Report 1999, C E. Unterberg, Towbin)

Limited Programming Formats We believe that there is significant demand for a satellite radio service that expands the current programming choices available to these potential listeners Over 48% of all commercial radio stations use one of only three general programming formats—country, news/talk/sports, and adult contemporary (Veronis, Suhler & Associates Communications Industry Forecast 2002). Over 71% of all commercial radio stations use one of only five general formats—the same three, plus oldies and religion. The small number of available programming choices means that artists representing other niche music formats are likely to receive little or no airtime in many markets Radio stations prefer featuring artists they believe appeal to the broadest market However, according to the Recording Industry Association of America, recorded music sales of niche music formats such as classical, jazz, movie and Broadway soundtracks, religious programming, new age, children's programming and others comprised up to 27% of total recorded music sales in 2001 (2001 Consumer Profile).

We Are Differentiating XM Radio from Traditional AM/FM Radio

We have designed the XM Radio service to address the tastes of each of our targeted market segments through a combination of niche and broad appeal programming, and we believe that XM is an appealing alternative to traditional AM/FM radio as well as other in–vehicle audio entertainment options Local radio stations, even those which are part of national networks, focus on maximizing listener share within local markets. This limits the types of programming they can profitably provide to mass appeal formats In contrast, our nationwide reach and ability to provide over 100 channels in each radio market allow us to aggregate listeners from markets across the country, expanding the types of programming we can provide. The following chart indicates differences between XM Radio and traditional AM/FM radio

	XM Radio	Traditional AM/FM Radio
Programming quality and choice	100 channels with an extensive variety of programming plus a premium channel	Limited formats in many markets
Coast–to–coast coverage	Virtually seamless signal coverage in the contiguous United States	Local area coverage
Improved audio quality	Digital quality sound	Analog AM/FM quality sound
Limited commercials	Over 30 music channels commercial–free, other music channels carry limited commercials	Average 13–17 minutes per hour
Enhanced information	Text display with title/name of song/artist	No visual display

Marketing

Our marketing strategy is designed to build awareness and demand among potential subscribers in our target markets and the advertising community

We promote XM Radio as the leader in the new satellite radio category, offering appealing features compared to traditional radio. Our commercial launch was supported by a comprehensive advertising program

Source· XM SATELLITE RADIO H, 10–K, March 31, 2003

including television, radio, print, outdoor and direct marketing. General Motors is sponsoring national and local print and television advertising that features the XM logo and message. Our ongoing advertising and promotional activities include television, radio and print advertising and distributing sample programming and marketing materials at retail outlets, concert venues, NASCAR events and on the Internet to generate consumer interest For instance, we have an agreement with Clear Channel Entertainment (formerly SFX) to be the exclusive satellite radio advertiser at live concerts and sporting events presented by, and live entertainment venues managed by, Clear Channel Entertainment

XM Radio promotes subscriber acquisition activities with both automobile original equipment and aftermarket radio manufacturers This includes.

- promotional campaigns directed towards automobile manufacturers and dealers;
- in-store promotional campaigns, including displays located in electronics, music and other retail stores, rental car agencies and automobile dealerships;
- incentive programs for retailer sales forces; and
- jointly funded local advertising campaigns with retailers.

Distribution

We market our satellite radio service through several distribution channels including national electronics retailers, car audio dealers, mass retailers and automotive manufacturers and dealers In the first nine months following our commercial launch, we primarily focused on distribution of radios through radio manufacturers and retail distributors to promote rapid market penetration. Starting with the 2003 automobile model year (which began in late summer 2002), we significantly increased our focus on distribution through automotive manufacturers

National and Regional Retail Electronics Distributors. XM radios and the XM Radio service are marketed and distributed through major consumer electronics retail channels, including Circuit City, Best Buy, participating Radio Shack dealers and franchisees, Wal-Mart and others. We develop in-store merchandising materials, including end-aisle displays for several retailers, and trained the sales forces of all major retailers.

Exclusive Distribution Agreement with General Motors. Under our agreement with the OnStar division of General Motors, for a 12-year period, General Motors will exclusively distribute and market the XM Radio service and install XM radios in General Motors vehicles. General Motors sold 4.8 million automobiles in 2002, which represented more than 28.5% of the United States automobile market. General Motors first made XM radios available as an option in Cadillac Sevilles and Devilles for the 2002 model year in the fall of 2001 For the 2003 model year commencing in September 2002, General Motors is manufacturing 25 models of XM radio-equipped cars, light trucks and sport utility vehicles under the Buick, Chevrolet, Oldsmobile, Cadillac, Pontiac and GMC brand names General Motors has recently announced that XM radios would be available in 44 models for the 2004 model year. General Motors has made XM radios available in diverse price categories, ranging from the Chevy Cavalier to the Cadillac Escalade Under this agreement, we have substantial payment obligations to General Motors, including among others, certain guaranteed, annual, fixed payment obligations. We recently issued a note to General Motors in lieu of our guaranteed payment obligations for 2003 through 2006 and have put in place financing for subscriber acquisition, revenue share and certain other payments. While we have discussed with General Motors certain installation projections, General Motors is not required to meet any minimum targets for installing XM radios in General Motors vehicles In addition, certain of the payments to be made by us under this agreement will not be directly related to the number of XM radios installed in General Motors vehicles

Honda. Honda has announced that it will offer XM in the 2003 Honda Accord and Honda Pilot, as dealer installed options, and the 2004 Honda Accord, Acura RL and Acura TL, as factory installed features. American Honda is a major investor in XM

Source· XM SATELLITE RADIO H, 10-K, March 31, 2003

Other Automobile and Truck Manufacturers. XM will be available as an option on six Infiniti and Nissan 2003 models. Isuzu dealers offer XM radios to buyers of their Axiom and Rodeo models. Toyota will offer XM in its new youth-oriented Scion brand models. We are currently in discussions with other car manufacturers as well as large independent dealer groups regarding additional distribution agreements 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 and Winnebago RVs

Expanding Product Configurations. In the fall of 2002, Delphi introduced the first of the second generation of XM radios, the Delphi SKYFi, a plug and play device that can be adapted for home, automobile or portable use (boom box) The SKYFi features an enhanced display that shows channel number, channel name, artist name, song title and channel category and is available at a significantly lower cost than earlier XM radios. More than 100,000 SKYFi units were sold to retailers during 2002 The SKYFi product line has been expanded to include a "boom box" unit, the first portable boom box satellite radio We also plan to expand our product offerings in the home and portable categories in 2003, and to use specialized data and other services in certain markets.

We have contracts with Motorola, Pioneer, Alpine, Mitsubishi Electric, Clarion, Blaupunkt, Fujitsu Ten, Hyundai Autonet, Bontec, Visteon, Panasonic and Sanyo for the development, manufacture and distribution of XM radios for use in cars and contracts with Sony Electronics and Delphi-Delco to design, manufacture and market XM radios for the portable, home, aftermarket and original equipment manufacture car stereo markets Pioneer Electronics Corporation, Alpine Electronics and Sony, which each manufacture XM Radios for the car audio aftermarket, together sold over 43% of aftermarket car radios sold in the United States in 2001 (NPD Intellect, 2001) 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 These leading radio manufacturers have strong retail and dealer distribution networks in the United States. We are pursuing additional agreements for the manufacture and distribution of XM radios for the home and portable markets

We plan to expand retail aftermarket distribution in 2003 in two important areas First, we intend to expand our retail presence within existing retailers by establishing displays in the home audio (or home stereo) section of the store. We now have hardware configurations, such as the Delphi SKYFi radio, that easily connect to home stereo systems or plug into the SKYFi "boom box " We expect more than 80,000 SKYFi "boom box" units to be shipped to retailers during the first half of 2003.

Second, we expect to expand distribution to retailers focusing on other important market segments for satellite radio For example, we plan to expand distribution to the major truck stop chains (Pilot, Truckstops of America, Petro and Flying J), marine dealers and distributors of home satellite TV systems

Future Interoperability Distribution Arrangements. We have signed an agreement with Sirius Radio to develop a unified standard for satellite radios to facilitate the ability of consumers to purchase one radio capable of receiving both our and Sirius Radio's services. Both companies expect to work with their automobile and radio manufacturing partners to integrate the new standard Future agreements with automakers will specify the unified satellite radio standard Furthermore, future agreements with retail and automotive distribution partners and content providers will be on a non-exclusive basis and may not reward any distribution partner for not distributing the satellite radio system of the other party

The XM Radio Service

Our 101 channel offering (100 basic service channels plus one premium channel) includes channels designed to appeal to different groups of listeners, including urban and rural listeners of different ages, and to specific groups that our research has shown are most likely to subscribe to our service, and thereby aggregate 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

Table of Contents

The following is a list of channels included in our current service offering

	Channel Name	Channel Description
Preview	XM Preview	XM Preview
Decades	The 40s	Forties/Swing
	The 50s	Fifties
	The 60s	Sixties
	The 70s	Seventies
	The 80s	Eighties
	The 90s	Nineties
Country	America	Classic Country
	Nashville[1]	Top Country Hits
	X Country	Progressive Country
	Hank's Place	Traditional Country
	Bluegrass Junction	Bluegrass
	The Village	Folk
Hits	20 on 20	Top 20 Hits
	KISS	LA Rock
	MIX	Pop Mix
	The Heart	Love Songs
	Sunny	Beautiful Music
	MTV Radio	Rock/Pop
	VH1 Radio	Rock/Pop
	Cinemagic	Movie Soundtracks
	On Broadway	Showtunes
	U-Pop	Euro Chart Hits
	Special X	Special Topics
Christian	The Torch	Christian Rock
	The Fish	Christian Pop
Rock	Deep Tracks	Deep Album Rock
	Boneyard	Hard Rock
	XM Liquid Metal	Heavy Rock
	XMU	New Rock
	Fred	Classic Alternative
	XM Cafe	Modern/Soft alt
	Top Tracks	Classic Rock Hits
	Ethel	Alternative Hits
	Squizz	Hard Alternative
	The Loft	Acoustic/Folk
	XM Music Lab	Progressive/Fusion
	Unsigned[1]	Emerging Acts
Urban	Soul Street	Classic Soul
	The Flow	Neo Soul
	Suite 62	Urban
	Spirit	Gospel
	The Groove	Old School R&B
	The Rhyme	Classic Rap
	RAW	Uncut Hip Hop
	The City	Urban Top 40
Jazz & Blues	Real Jazz	Traditional Jazz
	Watercolors	Contemporary Jazz
	Beyond Jazz	Modern Jazz
	Frank's Place	Great Vocals/Stds
	Bluesville	Blues
	Luna	Latin Jazz
	On the Rocks	Cocktail Mix
Dance	The Move	Underground Dance
	BPM	Club Hits
	The System	Electronica
	Chrome	Disco

	Channel Name	Channel Description
Latin	Aguila	Spanish Top 40
	Caricia	Spanish Pop Hits
	Vibra	Rock in Spanish
	Tejano	Tejano
	Caliente	Caribbean
World	World Zone	World Music
	The Joint	Reggae
	Ngoma	Music from Africa
	Audio Visions	New Age
	Fine Tuning	Eclectic
Classical	XM Classics	Traditional Classical
	Voxl	Opera
	XM Pops	Classical Hits
Kids	Radio Disney	Children
	XM Kids	Children

News	Fox News	News
	CNN	News
	CNN Headline News	News
	ABC News & Talk	News and Talk
	The Weather Channel	24 Hr Weather Network
	CNBC	Business News
	Bloomberg	News and Business
	CNET Radio	Tech News
	BBC World Service	World Affairs
	C-SPAN Radio	US Gov't/Public Affairs
	CNN en Espanol	News in Spanish
Sports	ESPN Radio	Talk/Play-by-Play
	ESPN News	Sports News
	Fox Sports Radio	Sports News Talk
	The Sporting News	Sports Talk
	NASCAR Radio	Automotive/Racing
Comedy	XM Comedy	Comedy
	Laugh USA	Family Comedy
	Extreme XM	Comedy
Variety	Discovery Radio	Health/General Science
	E! Entertainment Radio	Entertainment News
	Sonic Theater	Books & Drama
	Radio Classics	Old Time Radio
	Ask!	Experts Talk
	Buzz XM	Hot Talk Stars
	XM Live	Concerts/Interviews
	The Power	African American Topics
	FamilyTalk	Christian Talk
	Open Road	Trucker's Channel
Premium	Playboy Radio	Adult

Summary

70	Music
30	Talk
1	Premium
101	TOTAL

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

Hallmarks of XM's channel lineup include.

Broad range of music genres and live radio entertainment XM offers 70 channels of music–oriented entertainment. Each channel is programmed in its own distinct format, many generally not previously available on radio, and some newly created by XM to appeal to emerging listening tastes

Musical formats unavailable in many markets XM Radio offers many music formats that are popular but currently unavailable in many markets More than 71% of all commercial radio stations in markets measured by Arbitron use one of only five programming formats country; adult contemporary, news/talk/sports, oldies; or religious Furthermore, the number of radio stations available to many consumers in their local market is limited in comparison to the 100 channels (plus one premium channel) we offer on a nationwide basis. In 2000, there were only 49 AM/FM radio stations as listed by Arbitron broadcasting in New York City, the largest radio market in the United States, many of which are of the same five formats. We offer many types of music with significant popularity, as measured by recorded music sales and concert revenues, that are unavailable in many traditional AM/FM radio markets. Such music includes classical recordings and popular blues music that have retail appeal but are not commonly played on traditional AM/FM radio. Recorded music sales of niche music formats such as classical, jazz, movie and Broadway soundtracks, religious programming, new age, children's programming and others comprised up to 27% of total recorded music sales in 2000 We have channels devoted to all of these formats and many other popular musical styles that are not currently heard in many small and medium sized markets, such as heavy metal, modern electronic dance, disco and blues.

Superserve popular musical formats We offer more specific programming choices than traditional AM/FM radio generally offers for even the most popular listening formats For example, on traditional AM/FM radio oldies music is often generalized on a single format. We segment this category by offering several channels devoted to the music of each decade from the 1940's to the 1990's. We also offer eight channels dedicated to urban formats and six distinct country music formats.

Popular brand name content available 24/7 on radio. The advent of multichannel cable and satellite television services has spawned the emergence of many popular and easily recognized brand names, spanning a wide range of content categories and niche topics XM is bringing many of these to radio, available nationwide Among these are:

— CNBC
— CNN
— CNN Headline News
— Discovery
— E! Entertainment
— ESPN
— Fox News
— MTV
— VH1
— NASCAR
— The Weather Channel

Sports and Entertainment Programming. XM offers a broad array of sports and variety programming, including sports talk, ESPN Radio and ESPN News, the nation's only dedicated NASCAR channel, three comedy channels, an old–time radio channel, and a channel dedicated to books and dramas The ESPN Radio channel includes play–by–play NBA and Major League Baseball games including the all–star games, playoffs, championships and World Series; and the channel also carries the college football Bowl Championship Series games This type of programming is not available in many radio markets and we believe it makes our service appealing to dedicated sports fans and listeners whose tastes are not served by existing AM/FM radio stations

A wide range of popular talk radio stars Over the last two decades talk radio has emerged as a major component of radio listening XM showcases many well–known talk radio personalities on its channels, including Bill O'Reilly, Sean Hannity, Michael Reagan, Phil Hendrie, Art Bell, Bruce Williams, Glenn Beck, Rick Dees, and many others.

A wide range of ethnic and informational / affinity programming. We provide a variety of formats that target specific ethnic and special interest groups who are rarely served by traditional AM/FM radio. We believe by using our national platform to aggregate geographically disparate groups who share common cultural and/or listening interests through affinity programming, we provide advertisers a valuable way to market products and services to these groups by advertising on these channels For instance, we have channels devoted to urban formats, the nation's first African American talk channel, five channels devoted to Latin music, as well as CNN *en Español*, three comedy channels and two channels devoted to kids and parents.

State-of-the-art facilities XM creates most of its music channels (as well as most of its comedy and children's channels, NASCAR radio and the Open Road trucker channel) at its studio facilities in Washington DC, midtown Manhattan in New York City, and in Nashville at the Country Music Hall of Fame and Museum These interconnected facilities comprise an all digital radio complex that is one of the world's largest, with over 80 sound-proof studios of different configurations. The studios tap a centralized digital database of over 200,000 CDs and more than 1.2 million songs We also have two performance studios for visiting artist interviews and performances

Dedicated, highly skilled staff. Our dedicated and experienced radio programming and production talent and on-air staff includes leading radio and music experts in their genres Collectively, they hold over 300 gold records reflecting their involvement with the music industry and have more than a thousand years of radio programming experience

XM's own approach to creation of radio entertainment XM's goal is to create fans, not just listeners, who will come to identify with the music, personalities and attitude of their favorite channels. We believe several important features differentiate XM·

- *Branding of each channel, with audio signatures* and sounds to create an audio ambience that is specific to each genre. Audio signatures for one channel have already won a New York Festival award

- *Live programming* to allow listeners to interact with their favorite channels and personalities. XM music channels deliver over 5,000 hours per month of live shows, and in the month of February 2003 the channels received a total of more than 50,000 telephone calls from listeners nationwide, requesting songs, seeking information about an artist, or engaging in dialog.

- *Targeted features and shows* to appeal to specific audiences. These include regularly scheduled shows such as sub-genre showcases, mini-histories, and shows featuring artists such as Wynton Marsalis and Quincy Jones. The XM Kids channel has already won five Parents Choice awards for its five distinct shows.

- *Live performances and artist interviews.* To date XM has hosted more than 700 visits by prominent and emerging artists in virtually every musical genre. Most of these visits include extensive interviews covering their careers and interests as well as performances Performances included the Wynton Marsalis Septet, and Billy Joel discussing his classical music roots and interests

- *More extensive playlists* than traditional radio Traditional AM/FM radio stations frequently use limited playlists that focus on the artists and specific music that target the largest audience With our large channel capacity and focus on specific formats, we strive to provide more variety to attract listeners dissatisfied with repetitive and/or limited playlist selection For example, in the rock genre, we have a channel dedicated to "deep tracks" not generally heard on rock radio stations.

- *Quick response when major music and cultural events occur* XM Radio programmers aim to respond quickly to changing musical tastes, seasonal music and emerging popular culture by providing listeners with coverage of major music and other cultural events For instance, one of our channels, "Special X," plays only patriotic music on July 4th and holiday music during December In addition, our diverse channel format has enabled us to pay special tribute to the passing of George Harrison, cover the MTV Video Music Awards, mark the 25th anniversary of Elvis Presley's death, celebrate Black History Month with a wide range of programming across many channels, and broadcast a programming event that covered every top 40 hit in sequence from 1940 through 1999.

Special focus on the demands of mobile listeners A significant percentage of radio listeners, such as truckers, routinely travel through two or more radio markets on a frequent basis. This audience has responded enthusiastically to our nationwide coverage and the programs of popular trucking radio personalities Bill Mack, Dale "the Truckin' Bozo" Somers and Dave Nemo on "Open Road," our channel dedicated to truckers.

Superior digital sound quality. Our digital signal transmitted via satellite and our terrestrial repeater network provides nationwide, virtually uninterrupted coverage Our internal research with small groups of listeners indicates that most listeners cannot distinguish a song played over XM from the CD Our digital sound quality is a particular benefit for music formats that have strong demand on a nationwide basis but have been relegated to AM stations with weaker signals due to lack of available FM frequencies By having specific channels dedicated to classic country, the 1940s and gospel, for example, we provide superior sound quality to formats that are traditionally found only on AM stations.

Channels that are either completely ad-free or have a reduced amount of advertising relative to terrestrial radio. We believe that a significant portion of the listening market will pay to subscribe to a radio service that provides commercial-free channels and channels with reduced advertising, as demonstrated by the appeal of limited periods of non-stop music used by some traditional AM/FM stations. We target this audience with over 30 commercial-free music channels covering popular music formats. The remainder of our music channels have reduced amounts of advertising, carrying less than one third the advertising spots of typical AM/FM music stations

Informative digital display Accompanying the audio portion of the broadcast, the digital display of XM Radio indicates the channel name, number and category. It also can be adjusted to indicate the name of the song and artist, or the name of the talk show being aired.

Future content arrangements. Under our agreement with Sirius Radio, all new arrangements with providers of programming or content, including celebrity talent, must be non-exclusive and may not reward any provider for not providing content to the other party.

Channel changes After approximately nine months of operations, we revised our channel lineup based on listener feedback We replaced certain of our previous channels with channels dedicated to neo-soul, books and drama, old-time radio drama, folk music, easy listening and other formats, and responses have been favorable.

Subscriber and Advertising Revenue

We derive revenues from two primary sources: subscriber revenues and advertising revenues. We charge subscribers a monthly fee for 100 channels of our programming In September 2002, we introduced our first premium channel, Playboy Radio, which customers can subscribe to for an additional monthly fee As of December 31, 2002, we had 347,159 subscribers, of whom 9,000 also subscribe to our premium channel.

Advertising revenue provides an additional revenue source While we offer over 30 commercial free channels, the remaining channels provide what we believe is an attractive advertising medium for national advertisers. XM Radio offers a new national radio platform that solves many of the problems associated with buying AM/FM radio advertising nationally on a spot or syndicated basis For example, advertisers on XM will have their ads run nationwide and not miss smaller markets or lose coverage by running on weak stations or stations that cover only a portion of a particular market

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

Advertiser Development and Acquisition. Our ability to aggregate various local niche market segments into national audiences will be attractive to national advertisers and agencies. We have held extensive meetings with media directors, planners and buyers at advertising and media buying agencies to develop advertiser awareness of the benefits of satellite radio We have advertising sales offices in several major media markets to sell directly to advertising agencies and media buying groups and have engaged Premiere Radio Networks, an affiliate of Clear Channel Communications, to be an advertising sales representative We have sold advertising packages to a variety of advertisers and agencies, including Warner Bros., JC Penney, U.S Navy, Allstate and Pennzoil. Arbitron which produces radio listenership reports, is working with us to quantify our listenership and channel ratings for the benefit of national media buyers.

The XM Radio System

Our system provides satellite radio to the continental United States and coastal waters using radio frequencies allocated by the FCC for satellite radio. These radio frequencies are within a range of frequencies called the S-Band The XM Radio system is capable of providing high quality satellite services to XM radios in automobiles, trucks, recreation vehicles and pleasure craft, as well as to fixed or portable XM radios in the home, office or other fixed locations. The XM Radio system uses a network consisting of two high-power satellites, an uplink facility, and ground-based repeaters primarily in dense urban areas to provide coverage where the satellite signal is obstructed

Consumer Hardware

XM Radios. We transmit XM content throughout the continental United States to vehicle, portable, home and plug and play radios Most of our radios are capable of receiving both XM content and traditional AM/FM stations. As discussed above, we have recently introduced SKYFi by Delphi, the second generation of XM's plug and play device, offering more advanced user features including a large display showing channel number, channel name, artist name, song title and channel category, more convenient channel navigation including 20 channel presets; and a "favorite mode" letting users preview the artist name and song title currently playing on their favorite channels before making a selection. XM radios are available under the Sony, Alpine, Pioneer and Delphi brand names at national consumer electronics retailers, such as Circuit City, Best Buy, participating Radio Shack dealers and franchisees, Wal-Mart and others. The plug and play devices are designed to augment the existing radio that provides AM/FM stations in the car or home ST Microelectronics manufactures the chipsets that decode the XM Radio signal

Product Innovation We continue to implement our technology plan, which aims to reduce the cost of XM radios while increasing their functionality. We intend to achieve cost reduction through chipset integration, as the industry trend is for the ongoing introduction of less expensive and smaller-sized chipsets and products We expect to introduce several new XM radio products in 2003 for home, portable, PC and vehicle use

Unified Standard for Satellite Radio. On February 16, 2000, we signed an agreement with Sirius Radio to develop a unified standard for satellite radios allowing consumers to purchase one radio capable of receiving both Sirius Radio's and our services The technology relating to this unified standard is being jointly developed and funded by the two companies, who will share ownership of it. This unified standard is intended to meet FCC rules requiring interoperability with both licensed satellite radio systems

As part of the agreement, each company has licensed to the other its intellectual property relating to the unified standard and its system

We anticipate that it will take several years to develop radios capable of receiving both services. Currently, consumers are able to purchase radios capable of receiving only one service

Both companies expect to work with their automobile and radio manufacturing partners to integrate the new standard. Future agreements with automakers and radio manufacturers will specify the unified satellite radio

standard. Furthermore, future agreements with retail and automotive distribution partners and content providers will be on a non-exclusive basis.

Sirius Radio and we have also agreed to negotiate in good faith to provide service to each other's subscribers in the event of a catastrophic failure of the XM Radio system or the Sirius Radio system

Space Segment

Satellite System Boeing Satellite Systems (BSS), formerly Hughes Space and Communications, has built, launched and delivered in-orbit two Boeing 702 high-power satellites ("Rock" and "Roll") for the XM Radio system. The satellites were launched on March 18, 2001 and May 8, 2001, respectively, and are transmitting the XM signal. BSS is also completing one ground spare satellite, which was originally intended to be available in the event of a failure of any satellite or to accommodate our satellite system growth.

The Boeing 702 is the highest powered commercial communications satellite currently available Both of our satellites contain communications payloads provided by Alcatel. The communications payload electronics are designed to make best use of technologies that have already been developed or used in previous satellite programs The design includes significant redundancy and protective measures to prevent loss of service.

In September 2001, BSS advised us of a progressive degradation problem with the solar array output power of Boeing 702 class satellites, including Rock and Roll At the present time, the output power of the solar arrays and the broadcast signal strength are above minimum acceptable levels and are expected to remain that way at least through 2005, permitting full operation of the XM System (based on patterns projected by BSS). We have spacecraft launch and in-orbit insurance policies that provide coverage to us for a total, constructive total or partial loss of either of our satellites where such loss arises from an occurrence within the first five years after launch The aggregate sum insured in the event of the total or constructive total loss of our satellites is $400 million ($200 million per satellite) In September 2001, we advised our insurance carriers that the aforementioned solar array situation was likely to result in a claim under our in-orbit insurance policies and, in the first quarter of 2003, we filed a claim with the insurance carriers for the aggregate sum insured (less applicable salvage), we believe we will ultimately receive insurance payments adequate to launch our spare satellite and commence work on an additional satellite, although there is no assurance that would be the case Since the issue is common to Boeing 702 class satellites, the manufacturer and we are closely watching the progression of the problem, including data from a satellite that has been in orbit longer than either of our two satellites by approximately 15 and 17 months, respectively. With this advance visibility of performance levels, insurance arrangements in place and claim filed, a spare satellite under construction that is being modified to address the solar power anomaly, the ability to provide full service for some period of time with Rock and Roll collocated in one orbit slot and the spare located in the other slot (which would allow partial use of the existing satellites through the first quarter of 2008), availability of comparable satellites from more than one vendor, and various mitigation actions to extend the full or partial use of the satellites, we believe that we will be able to launch additional satellites prior to the time the solar power problem might cause the broadcast signal strength to fall below minimum acceptable levels Based on the consistency of the degradation trends (with no substantial improvement to date) and continuing analyses by BSS and us, our management adjusted the estimated useful lives of our in-orbit satellites, with effect from September 2002, to the period running through first quarter 2008 (approximately 6.75 years from launch). Our management will continue to monitor this situation carefully and may re-adjust the estimated useful lives of our in-orbit satellites based on future information

Satellite Transmission Our two satellites are deployed at 85 West Longitude and 115 West Longitude At their designated orbital locations, the satellites receive audio signals from our programming center and retransmit the signals across the continental United States. The satellites are 30° apart in longitude in order to enhance the probability of clear line-of-sight communication between the satellites and XM mobile radios

The transmission coverage areas, or footprints, of our satellites encompass the 48 contiguous states and nearby coastal waters We have tailored these footprints to provide nearly uniform availability over the United States and to minimize transmission spillage across the United States borders into Canada and Mexico However, because coverage does extend to the Gulf of Mexico, the California coast and the Atlantic coast, we also expect to be able to provide XM Radio to the cruise ships, cargo vessels and leisure boats that frequent these waters

Our satellites transmit audio programming within a 12 5 MHz bandwidth operating in the S–Band radio frequency spectrum that the FCC has allocated for our exclusive use. Megahertz is a unit of measurement of frequency. This 12.5 MHz bandwidth is subdivided into six carrier transmission signals, two signals transmitted from each of our two satellites and two signals transmitted by the terrestrial repeater network. The audio programming for XM Radio is carried on two satellite signals, and the remaining two satellite signals and the terrestrial repeater signals repeat the audio programming to enhance overall signal reception The transmission of higher quality sound requires the use of more kilobits per second than the transmission of lesser quality sound. We are currently using our allocated bandwidth in such a way as to provide 101 channels of programming, in high–quality digital sound.

Insurance. We bear the risk of loss for each of the satellites, and we have obtained insurance to cover that risk. We have launch and in–orbit insurance policies from global space insurance underwriters. These policies provide coverage for a total, constructive total or partial loss of either of the satellites that occurs during a period ending five years after launch Our insurance will not cover the full cost of constructing, launching and insuring two new satellites, nor will it protect us from the adverse effect on our business operations due to the loss of a satellite, however, we believe we will ultimately receive insurance payments adequate to launch our spare satellite and commence work on an additional satellite, although there is no assurance that would be the case. Our policies contain standard commercial satellite insurance provisions, including standard coverage exclusions We have filed a claim under our in–orbit insurance policy, as described above under the heading "—Satellite System "

Ground Segment

Satellite Control Each of our satellites is monitored by a telemetry, tracking and control station, and both satellites are controlled by a spacecraft control station Each of the stations has a backup station We have a contract with Telesat Canada, Inc., an experienced satellite operator, to perform the telemetry, tracking and control functions.

Broadcast Facility. Programming from both our studios and external sources is sent to our broadcast facility in Washington, DC, which packages and retransmits signals to our satellites through the uplink station In addition, financial services and certain administrative support are carried on at our Washington, DC facilities. 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.

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

Competition

We face competition for both listeners and advertising dollars. In addition to pre–recorded music purchased or playing in cars, homes and using portable players, we compete most directly with the following providers of radio or other audio services:

Sirius Satellite Radio

Our direct competitor in satellite radio service is Sirius Radio, the only other FCC licensee for satellite radio service in the United States Since October 1997, Sirius Radio's common stock has traded on the Nasdaq National Market. Sirius recently announced it had completed a recapitalization that is expected to fund the

Source· XM SATELLITE RADIO H, 10–K, March 31, 2003

company into 2004. Sirius began commercial operations in February 2002, and began nationwide service during the third quarter of 2002. Sirius offers its service for a monthly fee, featuring 100 channels. As of December 31, 2002, Sirius announced that it had 29,947 subscribers.

Traditional AM/FM Radio

Our competition also includes traditional AM/FM radio Unlike XM Radio, traditional AM/FM radio already has a well established market for its services and generally offers free broadcast reception paid for by commercial advertising rather than by a subscription fee. Also, many radio stations offer information programming of a local nature, such as traffic and weather reports, which XM Radio initially will be unable to offer as effectively as local radio, or at all. The AM/FM radio broadcasting industry is highly competitive. Radio stations compete for listeners and advertising revenues directly with other radio stations within their markets on the basis of a variety of factors, including

- program content;
- on-air talent,
- transmitter power,
- source frequency;
- audience characteristics,
- local program acceptance, and
- the number and characteristics of other radio stations in the market.

Currently, traditional AM/FM radio stations broadcast by means of analog signals, not digital transmission We believe, however, that in the future traditional AM/FM radio broadcasters may be able to transmit digitally into the bandwidth occupied by current AM/FM stations. iBiquity Digital recently received FCC approval to begin digital broadcasting in the AM and FM bands. Radio broadcast groups and stations in 40 large, midsize and small markets expect to begin digital broadcasting during 2003.

Internet Radio

A number of Internet radio broadcasts provide listeners with radio programming from around the country and the world Although we believe that the current sound quality of Internet radio is below standard and may vary depending on factors that can distort or interrupt the broadcast, such as network traffic, we expect that improvements from higher bandwidths, faster modems and wider programming selection may make Internet radio a more significant competitor in the future

There are a number of Internet-based audio formats in existence or in development that could compete directly with XM Radio. For example, Internet users with the appropriate hardware and software can download sound files for free or for a nominal charge and play them from their personal computers or from specialized portable players or compact disk players 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 disk 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 would make XM Radio a more attractive option to consumers, Internet-based audio formats may become increasingly competitive as quality improves and costs are reduced.

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

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

Regulatory Matters

XM Radio and Sirius Radio received licenses from the FCC in October 1997 to construct and operate satellite radio service systems The FCC has allocated 25 MHz for the new service in a range of radio frequencies known as the S-Band.

As the owner of one of two FCC licenses to operate a commercial satellite radio service in the United States, we will continue to be subject to regulatory oversight by the FCC. Our development, implementation and operation of our system is subject to significant regulation by the FCC under authority granted under 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 support our business plan.

One of the two losing bidders in the satellite radio license auction filed a petition to deny our application for an FCC license, but the petition was denied. The losing bidder asked the FCC to review this decision The losing bidder also asked a federal court of appeals to mandate that the FCC review this decision. On November 30, 2001, the FCC denied the losing bidder's application for review and upheld the FCC's previous decision denying its petition to deny The losing bidder appealed the decision to the United States Court of Appeals for the District of Columbia Circuit ("D.C Circuit"). The losing bidder argued that WorldSpace had effectively taken control of us without FCC approval and that WorldSpace has circumvented the FCC's application cut-off procedures. WorldSpace is no longer a stockholder in us. We, along with the FCC, opposed this appeal and denied the allegations contained in the challenge. In February 2003, the D C Circuit rejected the losing bidder's claims and upheld the FCC's decision to grant us our license. The losing bidder can request that the D.C. Circuit rehear its case or can request that the United States Supreme Court review the D.C. Circuit's decision. The FCC's order granting our license remains in effect during the pendency of the appeal In December 2000, the FCC approved a transfer of control of our FCC license from Motient Corporation to a diffuse group of owners, none of whom will have a controlling interest in us The FCC has conditioned this approval on the outcome of the losing bidder's application for review Although we believe that the award of the license to us will continue to be upheld, we cannot predict the ultimate outcome of this challenge. If this challenge is successful, the FCC could take a range of actions, any of which could harm our ability to proceed with our satellite radio service

Our license, which is held by a subsidiary wholly owned by XM, has a term of eight years from commencement of XM's operations and may be renewed The FCC requires the satellite radio licensees, including us, to adhere to certain milestones in the development of their systems, including a requirement that the licensees begin full operation by October 2003 We have certified to the FCC that we have met all of the milestones applicable to our license.

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.

The FCC's rules require interoperability with all licensed satellite radio systems that are operational or under construction The FCC conditioned our license on certification by us that our final receiver design is interoperable with the final receiver design of the other licensee, Sirius Radio, which uses a different transmission technology than we use Depending on what level of interoperability is required, we may not initially meet this interoperability requirement. We have signed an agreement with Sirius Radio to develop a unified standard for satellite radios, but we anticipate that it will take several years to develop the technologies necessary for radios that will be capable of receiving both our service and Sirius Radio's service. Furthermore, complying with the interoperability requirement could make the radios more difficult and costly to manufacture. Together with Sirius Radio, we have informed the FCC of the progress that has been made to date in meeting the interoperability requirement

Source XM SATELLITE RADIO H, 10-K, March 31, 2003

The FCC is currently conducting a rulemaking proceeding to establish rules for terrestrial repeater transmitters, which we have deployed and plan to continue deploying to fill in gaps in satellite coverage. The FCC has proposed to permit us to deploy these facilities. Specifically, the FCC has proposed a form of blanket licensing for terrestrial repeaters and service rules which would prohibit satellite radio licensees from using terrestrial repeating transmitters to originate local programming or transmit signals other than those received from the satellite radio satellites Various parties, including the National Association of Broadcasters, Wireless Communications Service (WCS) licensees, Multipoint Distribution Service (MDS) licensees, and Instructional Television Fixed Service (ITFS) licensees have asked the FCC to.

- limit the number of repeaters operating at greater than 2 kW EIRP that may be deployed,
- limit the power level of the repeaters operating at greater than 2 kW EIRP that are deployed;
- delay consideration of terrestrial repeater rules until XM Radio and Sirius Radio provide additional information regarding planned terrestrial repeaters;
- require individual licensing of each terrestrial repeater, and
- impose a waiting period on the use of repeaters in order to determine if signal reception problems can be resolved through other means.

Our deployment of terrestrial repeaters may be impacted by whatever rules the FCC issues in this regard although we believe these impacts are not likely to be material to our business We have made a proposal to the FCC to set a 40 kW EIRP limit or, alternatively, a limit of 18 kW EIRP calculated by averaging power over 360 degrees, on the power of terrestrial repeaters We have also proposed to coordinate with WCS licensees in certain cases prior to operating terrestrial repeaters above 2 kW EIRP The coordination may include our providing filters in certain instances to limit the interference WCS licensees claim will result from our operation of repeaters operating above 2 kW EIRP.

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

We are currently operating terrestrial repeaters pursuant to Special Temporary Authority ("STA") granted by the FCC in September 2001 This STA authorizes us to operate our terrestrial repeaters for commercial service on a non-interference basis. Because the STA was conditioned on a non-interference basis, we are required to either reduce power or cease operating a repeater upon receipt of a written complaint of interference. One party that opposed XM Radio's request for STA has 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 pending This STA expired on March 18, 2002 On March 11, 2002, we applied for an extension of this STA. Pursuant to the FCC's rules, we can continue to operate our terrestrial repeaters pursuant to the STA pending a final determination on our extension request

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.

We are required to coordinate the XM Radio system with systems operating in the same frequency bands in adjacent countries Canada and Mexico are the countries whose radio systems are most likely to be affected by satellite radio. The United States government, which conducts the coordination process, has entered into coordination agreements with both the Canadian and Mexican governments.

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

We operate the communication uplinks between our own earth station and our satellites in a band of radio frequencies that are used for several other services. The FCC has granted us a license for this earth station which expires in March 2011. The other services operating in this band are known under FCC rules as fixed services, broadcast auxiliary services, electronic news gathering services, and mobile satellite services for uplink station networks Although we are optimistic that we will succeed in coordinating any additional domestic uplink earth stations, we may not be able to coordinate any such further use of this spectrum in a timely manner, or at all

We also need to protect our system from out-of-band emissions from licensees operating in adjacent frequency bands.

- WCS licensees operating in frequency bands adjacent to the satellite radio's S-Band allocation must comply with certain out-of-band emissions limits imposed by the FCC to protect satellite radio systems. These limits, however, are less stringent than those we proposed

- In July 2002, the FCC requested comment on a report issued by the National Telecommunications and Information Administration ("NTIA") in which NTIA proposed to relocate current Department of Defense ("DOD") operations from the 1710-1755 MHz band to the 2360-2395 MHz band In the event that these DOD operations are relocated to the 2360-2395 MHz band, we and Sirius Radio have jointly proposed that the FCC apply the same out-of-band emissions limits to these relocated users that are applied to WCS licensees. In November 2002, the FCC released an Order in this proceeding but did not address our concerns. We have filed a Petition for Reconsideration of this decision asking the FCC to consider our concerns.

- In February 2002, the FCC initiated a rulemaking proceeding regarding rules for future licensees in the 2385-2390 MHz band, which will be able to provide both fixed and mobile services We have proposed that the FCC apply the same out-of-band emissions limits on these licensees that are applied to WCS licensees. In May 2002, the FCC issued a decision rejecting this proposal. In July 2002, we filed a Petition for Reconsideration of this decision which is pending

Interference from other devices that operate on an unlicensed basis may also adversely affect our signal.

- In April 1998, the FCC proposed to establish rules for radio frequency ("RF") lighting devices that operate in an adjacent radio frequency band We opposed the proposal on the grounds that the proliferation of this new kind of lighting and its proposed emissions limits, particularly if used for street lighting, may interfere with XM Radio Jointly with Sirius Radio, we have proposed to the FCC an emissions limit for these RF lighting devices that we believe will protect DARS receivers from interference In addition, we have proposed that the FCC require existing RF lighting devices that exceed our proposed limit to cease operations. A manufacturer of RF lights has conducted tests which it claims demonstrate that RF lights do not cause interference to our receivers. While our proposal is pending, these RF lighting devices may continue to be produced and used, which could adversely affect our signal quality The FCC may not adopt our proposal, a decision which could adversely affect our signal quality.

- In May 2000, the FCC proposed to amend its rules to allow for the operation of devices incorporating ultra-wideband (UWB) technology on an unlicensed basis We opposed this proposal on the basis that the operation of these devices may interfere with XM Radio. In February 2002, the FCC decided to allow for the operation of these devices and, in doing so, adopted out-of-band emissions limits for these devices that are less stringent than XM Radio proposed In addition, the FCC has stated that it intends to review and potentially relax these emissions limits and may allow for the operation of additional types of UWB devices in the future. Jointly with Sirius Radio, we have filed a Petition for Reconsideration of this decision and have asked that the FCC impose stricter emissions limits on UWB devices. In February 2003, the FCC denied our Petition for Reconsideration and did not impose the stricter emission limits that we requested. In addition, the FCC has proposed to authorize additional types of UWB devices which may interfere with XM Radio's operations

- In May 2001, the FCC issued a notice of proposed rulemaking seeking to facilitate the development of new unlicensed spread spectrum wireless devices operating in a frequency band adjacent to XM Radio XM Radio opposed this proposal on the basis that the operation of these devices pursuant to the FCC's current emissions limits may interfere with XM Radio's operations In May 2002, the FCC issued a decision rejecting our opposition

- In October 2001, the FCC initiated a rulemaking proceeding reviewing its rules for unlicensed devices. XM Radio has proposed in this proceeding that the FCC adopt out-of-band emissions limits for certain unlicensed devices sufficient to protect our system XM Radio has proposed that the FCC apply these emissions limits to products sold 18 months after a final rule is published Some manufacturers of unlicensed devices have opposed these limits on the grounds that they are too stringent and that it will be costly for them to meet these limits. Our proposal is pending

- In December 2002, the FCC issued a notice of inquiry seeking input on whether it should authorize an increase in the power of unlicensed devices that operate in rural areas. Jointly with Sirius Radio, we have opposed this proposal because of the potential for unlicensed devices operating with increased power to interfere with satellite radio.

We also need to protect our system from in-band emissions of licensees operating in our frequency band.

- In October 2002, the FCC released a notice proposing to allow aeronautical telemetry to continue to operate in our licensed frequency band, but on a non-interference basis.

The FCC order granting our license determined that because we are a private satellite system providing a subscription service on a non-common carrier basis, we would not be subject to the FCC's foreign ownership restrictions However, such restrictions would apply to us if we were to offer non-subscription services, which may appear more lucrative to potential advertisers than subscription services The FCC also stated in its order that it may reconsider its decision not to subject satellite radio licensees to its foreign ownership restrictions.

Intellectual Property

System Technology

We have contracted with several technology companies to implement portions of the XM Radio system These technology companies include Boeing Satellite Systems and Alcatel (satellites), Delphi-Delco, Sony, Pioneer, Alpine, Audiovox and Clarion, among others, (car and home radios); ST Microelectronics (chipsets), Fraunhofer Institute (various technologies) LCC International (design of repeater network); and Hughes Electronics (design and manufacture of terrestrial repeaters). We will not acquire any intellectual property rights in the satellites. We have joint ownership of or a license to use the technology developed by the radio and chipset manufacturers. We also license various other technologies used in our system 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.

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. WorldSpace 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 Under our agreement with WorldSpace we must pay one time, annual or percentage royalty fees or reimburse WorldSpace for various costs for various elements of the licensed technology that we decide to use in the XM Radio system We have incurred costs of $7 2 million to WorldSpace under this agreement through December 31, 2002. We will not be required to pay royalties to WorldSpace for licensed technology that we do not use in our system

We anticipate the Fraunhofer Institute will continue to provide various development services for us in connection with the design of our system. Motient Corporation has granted us a royalty-free license with respect to certain ground segment communications technology and antenna technology.

Motient and WorldSpace have also granted us royalty-free, non-exclusive and irrevocable licenses to use and sublicense all improvements to their technology. The technology licenses from Motient and WorldSpace renew automatically on an annual basis unless terminated for a breach which has not been or cannot be remedied.

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

We believe that the intellectual property rights we have licensed under our technology license were independently developed or duly licensed by Motient or WorldSpace, as the case may be 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 unified standard for satellite radios to facilitate the ability of consumers to purchase one radio capable of receiving both our and Sirius Radio's services. The technology relating to this unified standard will be jointly developed, funded and owned by the two companies As part of the agreement, each company has licensed to the other its intellectual property relating to the unified standard and to its system We and Sirius recently resolved an arbitration to value the technologies cross-licensed under the agreement, which also resolved prior patent litigation between the two companies We believe that the ongoing cost of developing a unified standard for satellite radio will not be significant

As of March 31, 2003, we own 16 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. These organizations negotiate with copyright users, collect royalties and distribute them to songwriters and music publishers. We have reached five-year agreements with ASCAP and SESAC which establish the license fee amounts owed to those entities We expect to establish license fees with BMI through negotiation. The royalty arrangements with BMI may be more costly than anticipated

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 We have recently reached agreement with the Recording Industry Association of America, through its unincorporated division, SoundExchange, establishing royalty payment arrangements for these performance rights.

The XM Trademark

We believe that XM Radio will be seen as the complement to AM and FM radio. We have registered the trademark "XM" with the United States Patent and Trademark Office in connection with the transmission services offered by our company. Our brand name and logo is generally prominently displayed on the surface of XM radios together with the radio manufacturer's brand name This will identify the equipment as being XM Radio-compatible and build awareness of XM Radio. We intend to maintain our trademark and registration. We are not aware of any material claims of infringement or other challenges to our right to use the "XM" trademark in the United States

Personnel

As of December 31, 2002, we had 384 employees. In addition, we rely upon a number of consultants and other advisors. 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

Risk Factors

You could lose money on your investment because we are in the early stages of generating revenues.

We were a development stage company through September 30, 2001. We began to generate revenues and emerged from the development stage during the fourth quarter of 2001 Unless we generate significant revenues, you could lose money on your investment. Our ability to generate revenues and ultimately to become profitable will depend upon several factors, including·

- whether we can attract and retain enough subscribers and advertisers to XM Radio,
- whether our XM Radio system continues to operate at an acceptable level;
- whether we compete successfully; and
- whether the FCC grants us all additional necessary authorizations in a timely manner

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

As of December 31, 2002, we had incurred capital expenditures of $1.1 billion and aggregate net losses approximating $886.0 million from our inception through December 31, 2002 We expect our aggregate net losses and negative cash flow to grow as we make payments under our various distribution contracts, incur marketing and subscriber acquisition costs and make interest payments on our outstanding indebtedness. With commencement of operations, our monthly operating expenses have increased substantially as compared to our pre–operating stage If we are unable ultimately to generate sufficient revenues to become profitable and have 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 new service, we cannot estimate with any certainty the potential consumer demand for such a service or the degree to which we will meet that demand Among other things, 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 to pay subscription fees to obtain satellite 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 develop as expected, we may not be able to generate enough revenues to generate positive cash flow or become profitable

Premature degradation or failure of our satellites could damage our business.

If one of our satellites were to fail or suffer performance degradation prematurely and unexpectedly, it likely would affect the quality of our service, interrupt the continuation of our service and harm our business This harm to our business would continue until we either launched our ground spare satellite or had additional satellites built or launched In September 2001, Boeing Satellite Systems (BSS) advised us of a progressive degradation problem with the solar array output power of Boeing 702 class satellites, including both XM "Rock" and XM "Roll." We have filed a claim with the insurance carriers for the aggregate sum insured ($200 million per satellite) less applicable salvage under our in–orbit insurance policies in respect of the aforementioned solar array situation Since the issue is common to Boeing 702 class satellites, the manufacturer and we are closely watching the progression of the problem, including data from a satellite that has been in orbit longer than either of our two satellites by approximately 15 and 17 months, respectively. With this advance visibility of performance levels, insurance arrangements in place and claim filed, a spare satellite under construction that is being modified to address the solar power anomaly, the ability to provide full service for some period of time with Rock and Roll collocated in one orbit slot and the spare located in the other slot (which would allow partial use of the satellites through the first quarter of 2008), availability of comparable satellites from more than one vendor, and various

Source· XM SATELLITE RADIO H, 10–K, March 31, 2003

mitigation actions to extend the full or partial use of the satellites, we believe that we will be able to launch additional satellites prior to the time the solar power problem might cause the broadcast signal strength to fall below minimum acceptable levels Based on the consistency of the degradation trends (with no substantial improvement to date) and continuing analyses by BSS and us, our management adjusted the estimated useful lives of our in-orbit satellites, with effect from September 2002, to the period running through first quarter 2008 (approximately 6 75 years from launch) There is no assurance that such actions will allow us to maintain adequate broadcast signal strength Our management will continue to monitor this situation carefully and may re-adjust the estimated useful lives of our in-orbit satellites based on future information.

A number of other factors could decrease the useful lives of our satellites, including·

- defects in construction;
- loss of on board station-keeping system,
- failure of satellite components that are not protected by back-up units;
- electrostatic storms, and
- collisions with other objects in space

In addition, our network of terrestrial repeaters communicates principally with one satellite If the satellite communicating with the repeater network fails unexpectedly, we would have to repoint all the repeaters to communicate with the other satellite. This would result in a degradation of service that could last several days and could harm our business.

Losses from satellite degradation may not be fully covered by insurance, and insurance proceeds may not be available in a timely manner.

We purchased launch and in-orbit insurance policies from global space insurance underwriters covering XM Rock and XM Roll, our existing satellites Due to the solar array degradation, we have filed a claim for the aggregate sum insured on both satellites ($200 million per satellite) less applicable salvage under our insurance policies Our insurance may not fully cover our losses For example, our insurance does not cover the full cost of constructing, launching and insuring two new satellites, nor will it cover and we do not have protection against business interruption, loss of business or similar losses Also, our insurance contains customary exclusions, salvage value provisions, material change and other conditions that could limit our recovery. As discussed above, we expect to have to replace our satellites in the next several years We do not currently have the capital to launch our spare satellite or replace our satellites We may not receive adequate insurance proceeds on a timely basis in order to launch our spare satellite or construct and launch replacement satellites, and this may impair our ability to make timely payments on our notes and other financial obligations. We expect to negotiate with our insurance underwriters over the next several months regarding the insurance recovery for the solar array anomaly. However, we have the right to seek arbitration under our insurance policies if the insurance recovery for the solar array anomaly relating to XM Rock and XM Roll is not resolved in a timely manner.

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 the date on which we expect our business to generate positive cash flow, 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 As discussed above, we likely will have to replace our existing satellites in the next several years Our business plan contemplates the use of insurance proceeds and/or vendor financing to launch replacement satellites. Although we believe that we would have adequate proceeds from our insurance coverage and/or vendor financing, we cannot assure you that any insurance proceeds or vendor financing would be received in a timely manner. If additional financing is needed, we may not be able to raise sufficient funds on favorable terms or at all. If we fail to obtain any necessary financing on a timely basis, a number of adverse effects could occur We could default on our commitments to creditors or others and may have to discontinue operations or seek a purchaser for our business or assets

Our substantial indebtedness could adversely affect our financial health, which could reduce the value of our securities.

After giving effect to the exchange offer and financing transactions completed in January 2003, our total long-term indebtedness is expected to be $614 2 million, subject to the final valuation of warrants and other consideration provided This amount will increase significantly over the next several years as our indebtedness accretes Most of our indebtedness will mature in 2009 and 2010. However, our substantial indebtedness could have important consequences to you For example, it could·

- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to fund future working capital, capital expenditures, research and development costs and other general corporate requirements,
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate purposes,
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds.

Failing to comply with those covenants could result in an event of default, which, if not cured or waived, could cause us to have to discontinue operations or seek a purchaser for our business or assets

The terms of the notes issued in our recent financing transactions may not be favorable to us, our creditors or our stockholders.

- Under the terms of the 10% senior secured convertible note due 2009 issued to OnStar Corporation and the 10% senior secured discount convertible notes due 2009 issued to private investors, we are subject to various restrictive covenants, including covenants that limit our ability to pay dividends and make other types of restricted payments and incur indebtedness in particular. These covenants may significantly limit our ability to complete transactions or take other actions that could be in our interests or the interests of our creditors or stockholders
- We do not have the right to prepay or redeem the private investor notes, but have the ability after four years to require the conversion of the notes into Class A common stock in limited circumstances This mandatory conversion would only be available to us if:
  - we achieve break-even in our earnings before interest, taxes, depreciation and amortization;
  - our Class A common stock trades at 200% of the conversion price then in effect;
  - the amount of our outstanding indebtedness after conversion would be less than $250 million, and
  - we no longer have any Series C preferred stock outstanding.
- OnStar and the private investors have consent rights that prohibit us from taking certain actions without their consent Without the consent of 75% of the notes held by OnStar and the new investors, we cannot take certain actions, including the
  - issuance of Class A common stock in an amount that increases the amount outstanding by 20% or more;
  - incurrence of indebtedness with financial or operational covenants;
  - entrance into certain transactions with affiliates, or

merger or sale of all or substantially all of our assets.

We cannot assure you that OnStar and the private investors will exercise their consent rights in a manner consistent with your best interests

Weaker than expected market and advertiser acceptance of our XM radio service could adversely affect our advertising revenue and results of operations.

Because we expect to derive a significant part of our future revenues from advertising, market and advertiser acceptance of our XM Radio service will be critical to the success of our business. Our ability to generate advertising revenues will be directly affected by the number of subscribers to our XM Radio service and the amount of time subscribers spend listening to our various channels Our ability to generate advertising revenues will also depend on several factors, including the level and type of market penetration of our service, competition for advertising dollars from other media, and changes in the advertising industry and economy generally. We directly compete for audiences and advertising revenues with Sirius Satellite Radio, the other satellite radio licensee, and traditional AM/FM radio stations, some of which maintain longstanding relationships with advertisers and possess greater resources than we do. Because FCC regulations limit our ability to offer our radio service other than to subscribers on a pay-for-service basis, certain advertisers may be less likely to advertise on our radio service

We believe that advertising is a discretionary business expense for many business organizations and industries. Consequently, the current slowdown in the United States economy generally, and further downturns in the economy or in a particular business sector that represents a significant share of our advertising revenues, could adversely affect our advertising revenues and, therefore, our results of operations.

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

We have issued and outstanding securities exercisable for or convertible into a significant number of our shares of Class A common stock, including the General Motors securities and 10% senior secured discount convertible notes, some of which also give us the option to make interest or other payments in our Class A common stock or securities convertible into Class A common stock. As of January 28, 2003, we had outstanding 97,261,613 shares of Class A common stock. On a pro forma basis as of January 28, 2003, if we issued all shares issuable upon conversion of the new notes (but not including accreted value and any in-kind interest payments), exercise of the exchange warrants, and conversion or exercise of other outstanding securities (many of which have a conversion or exercise price significantly above our current market price), we would have had 272,147,662 shares of Class A common stock outstanding on that date (not including a performance-based warrant held by Sony Electronics that may in the future be exercisable for up to 2% of our Class A common stock on a fully diluted basis). Issuances of such large numbers of shares could adversely affect the market price of our Class A common stock.

In addition to the shares of our Class A common stock that are already publicly-traded, the holders of approximately 29,268,288 shares of our Class A common stock, all of our Series A preferred stock, all of our Series C preferred stock, GM and the holders of our 10% senior secured discount convertible notes have the right to request registration of their shares, including in future public offerings of our equity securities We have previously filed registration statements under the Securities Act to cover all 14,500,000 shares of our Class A common stock subject to outstanding stock options or reserved for issuance under our stock plans We are registering a total of 127,228,179 shares under separate registration statements to cover shares issuable under our recent financing transactions The sale into the public market of a large number of privately-issued shares could adversely affect the market price of our Class A common stock and could impair our ability to raise funds in additional stock offerings.

Failure of third parties to perform could affect our revenues.

We need to assure continued proper manufacturing and distribution of XM radios and development and provision of programming in connection with our service. Many of these tasks depend on the efforts of third parties. If one or more of these matters is not performed in a sufficient manner, our revenues could be less than expected and our business may suffer.

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

Higher than expected subscriber acquisition costs or subscriber turnover could adversely affect our financial performance.

We are spending substantial funds on advertising and marketing and in transactions with car and radio manufacturers and other parties to obtain or as part of the expense of attracting new subscribers If the costs of attracting new subscribers or incentivizing other parties are greater than expected, our financial performance and results of operations could be adversely affected.

We expect to experience some subscriber turnover, or churn. Because we have been in commercial operations for a relatively short period of time, we cannot predict the amount of churn we will experience We also cannot predict how successful we will be at retaining customers who purchase or lease vehicles that include a subscription to our service Subscriber turnover or our inability to retain customers who purchase or lease new vehicles with our service could adversely affect our financial performance and results of operations

Competition from Sirius Satellite Radio and traditional and emerging audio entertainment providers could adversely affect our revenues.

In seeking market acceptance, we will encounter competition for both listeners and advertising revenues from many sources, including Sirius Satellite Radio, the other U S. satellite radio licensee, traditional and, when available, digital AM/FM radio; Internet based audio providers, direct broadcast satellite television audio service; and cable systems that carry audio service. iBiquity Digital recently received FCC approval to begin digital broadcasting in the AM and FM bands Radio broadcast groups and stations in 40 large, midsize and small markets expect to begin digital broadcasting during 2003. Sirius Satellite Radio has three operational satellites in-orbit Sirius began commercial operations in the first quarter of 2002. Sirius offers its service for a monthly charge, featuring 100 channels. If Sirius is able to offer a more attractive service or enhanced features, or has stronger marketing or distribution channels, it may gain a competitive advantage over us.

Unlike XM Radio, traditional AM/FM radio already has a well-established and dominant market presence for its services and generally offers free broadcast reception supported by commercial advertising, rather than by a subscription fee. Further, the incumbent terrestrial broadcasters have announced intentions to enhance their existing broadcasts with additional digital quality services utilizing new technology in the near future Also, many radio stations offer information programming of a local nature, such as traffic and weather reports, which XM Radio is not expected to offer as effectively as local radio, or at all. To the extent that consumers place a high value on these features of traditional AM/FM radio, we are at a competitive disadvantage to the dominant providers of audio entertainment services

Large payment obligations under our distribution agreement with General Motors may prevent us from becoming profitable.

We have significant payment obligations under our long-term agreement with General Motors for the installation of XM radios in General Motors vehicles and the distribution of our service to the exclusion of other satellite radio services These payment obligations, which could total several hundred million dollars over the life of the contract, including an $89.0 million note issued in January 2003, may prevent us from becoming profitable. A significant portion of these payments are fixed in amount, and we must pay these amounts even if General Motors does not meet performance targets in the contract. Although this agreement is subject to renegotiation in certain limited circumstances, we cannot predict the outcome of any such renegotiation.

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

Development of the XM Radio system has depended largely upon the intellectual property that we have developed and licensed from third parties If the intellectual property that we have developed or use is not adequately protected, others will be permitted to and may duplicate the XM Radio system or service without liability. In addition, others may challenge, invalidate or circumvent our intellectual property rights, patents or existing sublicenses. Some of the know-how and technology we have developed and plan to develop will not be

covered by United States patents. Trade secret protection and contractual agreements may not provide adequate protection if there is any unauthorized use or disclosure The loss of necessary technologies could require us to obtain substitute technology of lower quality performance standards, at greater cost or on a delayed basis, which could harm our business.

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

Third parties may bring suit against us for patent or other infringement of intellectual property rights Any such litigation could result in substantial cost to, and diversion of effort by, our company, and adverse findings in any proceeding could subject us to significant habilities to third parties; require us to seek licenses from third parties, block our ability to operate the XM Radio system or license its technology; or otherwise adversely affect our ability to successfully develop and market the XM Radio system.

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, we are subject to FCC rules and regulations, and the terms of our license, which require us to meet certain conditions such as interoperability of our system with 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 conditions could result in fines, additional license conditions, license revocation or other detrimental FCC actions We may also be subject to interference from adjacent radio frequency users if the FCC does not adequately protect us against such interference in its rulemaking process. In addition, 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 a grant of special temporary authority from the FCC, which expired March 18, 2002. We have applied for an extension of this authority and can continue to operate our terrestrial repeaters pending a final determination on this request. This authority is currently being challenged by operators of terrestrial wireless systems who have asserted that our repeaters may cause interference. Our deployment of terrestrial repeaters may be impacted by the FCC's further actions, when taken

If the challenge to our FCC license is successful, our business could be harmed.

The award of our FCC license was challenged by one of the losing bidders in the initial FCC licensing procedure. The challenge was denied by the FCC, but the losing bidder filed with the FCC an application for review of this decision The FCC has denied this application for review, but the losing bidder appealed to the United States Court of Appeals for the District of Columbia Circuit In February 2003, the D C. Circuit rejected the losing bidder's claims and upheld the FCC's decision to grant us our license The losing bidder can request that the D C. Circuit rehear its case or can request that the United States Supreme Court review the D C Circuit's decision If this challenge is successful, the FCC could take a range of actions, any of which could harm our business.

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 do not have replacement or redundant facilities that can be used to assume the functions of our repeater network or of our central production and broadcast facility 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 complete loss of service in affected areas. Damage to our central production and broadcast facility would restrict our production of programming and require us to obtain programming from third parties to continue our service

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 could be more costly than anticipated.

We must negotiate and enter into music programming royalty arrangements with Broadcast Music, Inc. and in the future will have to re-negotiate our existing arrangements with the American Society of Composers, Authors and Publishers, SESAC, Inc , and the Recording Industry Association of America. We expect to establish license fees with BMI through negotiation, but such royalty arrangements may be more costly than anticipated

Rapid technological and industry changes could make our service obsolete.

The satellite industry and the audio entertainment industry are both characterized by rapid technological change, frequent new product innovations, changes in customer requirements and expectations, and evolving industry standards. If we are unable to keep pace with these changes, our business may be unsuccessful Products using new technologies, or emerging industry standards, could make our technologies obsolete. In addition, we may face unforeseen problems in operating the XM Radio system that could harm our business Because we have depended on third parties to develop technologies used in key elements of the XM Radio system, more advanced technologies that we may wish to use may not be available to us on reasonable terms or in a timely manner. Further, our competitors may have access to technologies not available to us, which may enable them to produce entertainment products of greater interest to consumers, or at a more competitive cost.

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

Historically, securities prices and trading volumes for emerging companies 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 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 significantly decrease

The holders of our Series C preferred stock, GM and holders of our recently issued notes have consent rights that may prevent us from engaging in transactions otherwise beneficial to holders of our Class A common stock.

Under the terms of our Series C preferred stock, the consent of holders of at least 60% of the Series C preferred stock is required before we can take certain actions, including issuances of additional equity securities and the incurrence of indebtedness under which we must meet financial covenants to avoid default These requirements could hamper our ability to raise additional funds. The consent of holders of at least 60% of the Series C preferred stock is also required for transactions with affiliates, other than on an arm's-length basis, and for any merger or sale of our assets. The approval for a merger could make it difficult for a third party to acquire us and thus could depress our stock price As a result of the closing of our recent financing transactions, GM and holders of our 10% senior secured discount convertible notes now have similar veto rights We cannot assure you that these rights will be exercised in a manner consistent with your best interests

We need people with special skills to develop and maintain our new service. If we cannot find and keep these people, our business and stock price could suffer.

We 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

Source. XM SATELLITE RADIO H, 10-K, March 31, 2003

industry and subscription services. If we lose the services of one or more of these employees, or fail to attract qualified replacement personnel, it could harm our business and our future prospects

We depend upon certain on-air talent, the loss of whom could reduce the attractiveness of our XM service to subscribers and advertisers and could adversely affect our business.

We employ or independently contract with certain on-air talent who maintain significant loyal audiences in or across various demographic groups. The fame of our on-air talent and their ability to retain and grow their respective audiences is a significant factor in our ability to sell advertising. We cannot be certain 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

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 could make it difficult for a third party to acquire us, even if doing so would benefit our stockholders. The rights issued under the plan have certain antitakeover 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

ITEM 2. PROPERTY

We own approximately 150,000 square feet of executive offices, studio and production facilities located at 1500 Eckington Place, N E , Washington, D C. 20002. We lease approximately 19,000 square feet of office and technical space in South Florida, 4,000 square feet in New York for studios and offices and approximately 4,500 square feet in Virginia for the Listener Care Center. We have also entered into license or lease agreements with regard to our terrestrial repeater system throughout the United States

ITEM 3. LEGAL PROCEEDINGS

Except for the FCC proceedings described under the caption "Business—Regulatory Matters", we are not a party to any material litigation or other proceedings

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 2002. A special meeting of stockholders was held on March 27, 2003. At the special meeting, the stockholders voted on the following matter.

	Votes For	Votes Against	Votes Abstained
To approve an amendment to the Restated Certificate of Incorporation to increase the number of authorized shares of Class A common stock.	76,997,878	4,654,589	120,988

The item described above was approved at the special meeting of stockholders by (i) a majority of the Class A common stock voting as a separate class, (ii) a majority of Class A common stock and Series C preferred stock voting together, and (iii) greater than 60% of the Series C preferred stock

Source XM SATELLITE RADIO H, 10-K, March 31, 2003

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRICE RANGE OF COMMON STOCK

Holdings' Class A common stock has been quoted on the Nasdaq National Market under the symbol "XMSR" since its initial public offering on October 5, 1999 The following table presents, for the period indicated, the high and low sales prices per share of the Class A common stock as reported on the Nasdaq National Market.

	High	Low
2001:		
First Quarter	$ 21.063	$ 6 375
Second Quarter	$ 17.500	$ 3.870
Third Quarter	$ 17 200	$ 4.020
Fourth Quarter	$ 20.680	$ 4.300
2002:		
First Quarter	$ 19.200	$ 10.700
Second Quarter	$ 14 700	$ 6 260
Third Quarter	$ 7.700	$ 2.630
Fourth Quarter	$ 4.120	$ 1 660
2003:		
First Quarter (through March 28, 2003)	$ 6 200	$ 2.400

On March 28, 2003, the last reported sale price of Holdings' Class A common stock on the Nasdaq National Market was $6 20. As of March 21, 2003, there were 1,017 holders of record of Holdings' Class A common stock

DIVIDEND POLICY

Holdings has not declared or paid any dividends on its common stock since its date of inception. Currently, Holdings' 8 25% Series B Convertible Redeemable preferred stock restricts Holdings from paying dividends on its common stock unless full cumulative dividends have been paid or set aside for payment on all shares of the Series B preferred stock. The terms of Holdings' 8 25% Series C Convertible Redeemable preferred stock contain similar restrictions. The terms of our 10% senior secured discount convertible notes issued in January 2003 also restrict Holdings' ability to pay dividends In accordance with its terms, Holdings has paid dividends on the Series B preferred stock in common stock The Series C preferred stock provides for cumulative dividends payable in cash As no dividends have been declared on the Series C preferred stock, the value of the cumulative dividends has increased the liquidation preference. The indenture governing XM's 14% senior secured discount notes issued in January 2003 restricts XM from paying dividends to Holdings which, in turn, will significantly limit the ability of Holdings to pay dividends. Holdings does not intend to pay cash dividends on its common stock in the foreseeable future Holdings anticipates that it will retain any earnings for use in its operations and the expansion of its business.

Source· XM SATELLITE RADIO H, 10-K, March 31, 2003

RECENT SALES OF UNREGISTERED SECURITIES

On January 28, 2003, we completed (1) an exchange of over $300 million of the $325 million aggregate principal amount of outstanding debt issued by XM Satellite Radio Inc., (2) a restructuring of $250 million in payment obligations to General Motors Corporation through 2006, and (3) a private placement resulting in gross proceeds to us of $225 million. The following summary of these transactions is qualified in its entirety by reference to the principal transaction documents, filed as exhibits to this Annual Report

The Exchange Offer

We accepted for exchange $300 2 million aggregate principal amount of the previously outstanding $325.0 million of XM's 14% Senior Secured Notes due 2010. For each $1,000 principal amount of notes tendered for exchange, the tendering holder received

- $1,459 principal amount at maturity of 14% Senior Secured Discount Notes due 2009 issued by XM Satellite Radio Inc. and guaranteed by XM Satellite Radio Holdings;
- a warrant to purchase 85 shares of our Class A common stock at an exercise price of $3 18 per share, and
- $70 in cash

The exercise price of each warrant may be paid either in cash or without the payment of cash by reducing the number of shares of Class A common stock that would be obtainable upon the exercise of a warrant. The warrants are fully vested and expire December 31, 2009

Transactions with General Motors

Under certain agreements with General Motors and its subsidiary, OnStar Corporation, we issued to OnStar a 10% Senior Secured Convertible Note due December 31, 2009 with an aggregate principal amount of $89 million in lieu of our obligation to make $115 million in guaranteed payments from 2003 to 2006 under our distribution agreement with OnStar Corporation and issued a warrant to General Motors to purchase 10 million shares of Class A common stock at an exercise price of $3 18 per share. The warrant is fully vested and expires after five years. The note issued to OnStar is convertible and the warrant exercisable only to the extent General Motors would not beneficially own more than 19 9% of our Class A common stock, unless we and General Motors otherwise agree and certain stockholder approvals are obtained

OnStar will be able to convert the note into shares of Class A common stock pursuant to a vesting schedule so that on each date prior to and including December 31, 2006 that we would have been obligated to make scheduled guaranteed payments under the distribution agreement, a pro rata portion of the OnStar note corresponding to the scheduled guaranteed payment will become convertible at the option of OnStar at a conversion price equal to 90% of the fair market value of a share of Class A common stock (calculated as described above) on the date of conversion; provided that, the conversion price will be not less than $5 per share nor greater than $10 per share during 2003, not less than $5 per share nor greater than $15 per share during 2004, and not less than $5 per share nor greater than $20 per share thereafter.

Source· XM SATELLITE RADIO H, 10-K, March 31, 2003

Transactions with New Investors

We sold $210.0 million of 10% Senior Secured Discount Convertible Notes due December 31, 2009 to certain institutional and accredited investors, including some of our current investors. Holdings and XM are co-obligors on these new investor notes. At any time, a holder of new investor notes may convert all or part of the accreted value of its notes at a conversion price of $3 18 per share

We are not able to prepay or redeem the new investor notes Beginning four years after the issuance of the new investor notes, we will be able to convert all, but not less than all of the notes at the conversion price if: (i) shares of our 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) we have 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 we report our financial results, (iii) immediately following such conversion, the aggregate amount of Holdings' and its subsidiaries' indebtedness is less than $250 million, and (iv) no shares of our Series C preferred stock remain outstanding

We also sold $15.0 million of our Class A common stock at a per share purchase price of $2.70 to a private investor and issued a warrant to purchase 900,000 shares of our Class A common stock at an exercise price of $3 18 per share to R Stephen Hicks, who joined our board of directors in connection with these transactions

Exemptions; Use of Proceeds

We issued the exchange notes and warrants in reliance on the exemption from registration afforded by Section 3(a)(9) of the Securities Act We have not sold securities of the same class as the exchange notes and no such sales are planned We did not pay or give, and will not pay or give, directly or indirectly, any commission or remuneration to any broker, dealer, salesman, agent or other person for soliciting tenders in the exchange offer. To the extent solicitations were undertaken by our officers and employees, such officers and employees did not and will not receive additional compensation for making such solicitations and such activities were merely incidental to their normal duties and responsibilities

We issued the OnStar note, the General Motors warrant, the new investor notes, the Class A common stock and the Hicks warrant in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act and Rule 506 thereunder. Proceeds from the sale of the new investor notes and the Class A common stock and the exercise of the warrants will be used for general business and administrative expenses.

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

XM Satellite Radio Holdings Inc. and Subsidiaries

In considering the following selected consolidated financial data, you should also read our consolidated financial statements and notes and the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations " The consolidated statements of operations data for the five-year period ended December 31, 2002 and the consolidated balance sheets data as of December 31, 2002, 2001, 2000, 1999 and 1998 are derived from our consolidated financial statements. These statements have been audited by KPMG LLP, independent certified public accountants

	Years Ended December 31,				
	2002	2001	2000	1999	1998
	(In thousands, except subscriber and share amounts)				
Consolidated Statements of Operations Data					
Revenue					
Subscriber revenue	$ 17,585	$ 246	$ —	$ —	$ —
Net ad sales revenue	2,333	251	—	—	—
Royalties & other	263	36	—	—	—
Total revenue	20,181	533	—	—	—
Operating expenses					
Cost of revenue (excludes depreciation & amortization, shown below)					
Revenue share & royalties	12,954	687	—	—	—
Customer care & billing	15,627	5,720	699	—	—
Satellite & terrestrial	44,818	62,641	8,104	1,536	203
Broadcast & operations	19,851	21,041	19,570	5,449	1,782
Programming & content	25,379	17,649	4,025	965	642
Cost of revenue	118,629	107,738	32,398	7,950	2,627
Research & development (excludes depreciation & amortization, shown below)	10,843	13,689	11,948	6,510	7,311
General & administrative (excludes depreciation & amortization, shown below)	26,448	21,168	17,312	11,534	4,869
Marketing & ad sales (excludes depreciation & amortization, shown below)	172,992	96,884	14,248	3,185	1,329
Impairment of goodwill	11,461	—	—	—	—
Depreciation & amortization	118,588	42,660	3,573	1,512	57
Total operating expenses	458,961	282,139	79,479	30,691	16,193
Operating Loss	(438,780)	(281,606)	(79,479)	(30,691)	(16,193)
Other income (expense)					
Interest income	$ 5,111	$ 15,198	$ 27,606	$ 2,915	26
Interest expense	(63,573)	(18,131)	—	(9,120)	—
Other income (expense)	2,230	160	—	—	—
Net loss	(495,012)	(284,379)	(51,873)	(36,896)	(16,167)
8 25% Series B preferred stock dividend requirement	(3,766)	(3,766)	(5,935)	—	—
8.25% Series C preferred stock dividend requirement	(17,093)	(19,387)	(9,277)	—	—
Series B preferred stock deemed dividend	—	—	(11,211)	—	—
Series C preferred stock beneficial conversion feature	—	—	(123,042)	—	—
Net loss attributable to common stockholders	$ (515,871)	$ (307,532)	$ (201,338)	$ (36,896)	$ (16,167)
Net loss per share					
Basic and diluted	$ (5 95)	$ (5.13)	$ (4 15)	$ (2.40)	$ (2 42)
Weighted average shares used in computing net loss per share—basic and diluted	86,735,257	59,920,196	48,508,042	15,344,102	6,689,250
Other data					
EBITDA(1)	$ (317,962)	$ (238,786)	$ (75,906)	$ (29,179)	$ (16,136)
Cash flow from operating activities	(294,289)	(203,048)	(37,447)	(16,785)	(1,301)
Cash flow from investing activities	(7,037)	(221,361)	(559,401)	(234,412)	(43,912)
Cash flow from financing activities	151,646	382,003	771,053	301,585	45,522
XM subscriptions (end of period)(2)	347,159	27,733	—	—	—

Source XM SATELLITE RADIO H, 10-K, March 31, 2003

	December 31,				
	2002	2001	2000	1999	1998
	(In thousands)				
Consolidated Balance Sheets Data.					
Cash, cash equivalents and short-term investments	$ 42,815	$ 210,852	$ 224,903	$ 120,170	$ 310
Restricted investments	29,742	72,759	161,166	—	—
System under construction	55,016	55,056	674,796	229,940	78,998
Property and equipment, net	847,936	922,149	50,052	2,551	1,146
Goodwill, net	—	11,461	12,376	13,294	—
Other intangibles, net	153,732	155,207	151,845	144,504	90,031
Total assets	1,160,280	1,456,203	1,293,218	515,189	170,485
Total long-term debt, net of current portion	412,540	411,520	262,665	212	140,332
Total liabilities	567,969	529,552	337,266	30,172	177,668
Stockholders' equity (deficit)	592,311	926,651	955,952	485,017	(7,183)

(1) Net loss before interest income, interest expense, income taxes, depreciation and amortization is commonly referred to in our business as "EBITDA." EBITDA is not a measure of financial performance under generally accepted accounting principles. We believe EBITDA is often a useful measure of a company's operating performance and is a significant basis used by our management to measure the operating performance of our business Because we have funded and completed 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. EBITDA, which excludes this information, provides helpful information about the operating performance of our business, apart from the expenses associated with our physical plant or capital structure EBITDA is frequently used as one of the bases for comparing businesses in our industry, although our measure of EBITDA may not be comparable to similarly titled measures of other companies EBITDA does not purport to represent operating loss or cash flow from operating activities, as those terms are defined under generally accepted accounting principles, and should not be considered as an alternative to those measurements as an indicator of our performance

	Years Ended December 31,				
	2002	2001	2000	1999	1998
	(In thousands)				
Reconciliation of Net Loss to EBITDA.					
Net loss as reported	$ (495,012)	$ (284,379)	$ (51,873)	$ (36,896)	$ (16,167)
Add back non-EBITDA items included in net loss:					
Interest income	(5,111)	(15,198)	(27,606)	(2,915)	(26)
Interest expense	63,573	18,131	—	9,120	—
Depreciation & amortization	118,588	42,660	3,573	1,512	57
EBITDA	$ (317,962)	$ (238,786)	$ (75,906)	$ (29,179)	$ (16,136)

(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.

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

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

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our financial condition and consolidated results of operations. This discussion should be read together with our consolidated financial statements and related notes beginning on page F-1 of this report.

This annual report on Form 10-K is filed by XM Satellite Radio Holdings Inc XM Satellite Radio Inc. is filing separately The principal differences between the financial condition of Holdings and XM, which are not significant in amount, are:

- the ownership by Holdings of the corporate headquarters building since August 2001, and the lease of the building from Holdings by XM,
- the presence at Holdings of additional indebtedness not guaranteed by XM; and
- the existence of cash balances at Holdings

Accordingly, the results of operations for XM and its subsidiaries are substantially the same as the results for Holdings and its subsidiaries discussed above except that XM incurs

- additional rent, less depreciation and amortization expense and less other income, in each case principally related to XM's rental of its corporate headquarters from Holdings, which are intercompany transactions that have been eliminated in the Holdings financial statements,
- less interest expense principally related to the additional indebtedness at Holdings; and
- less interest income because of the additional cash balances at Holdings

Overview

XM was incorporated in Delaware in 1992 and Holdings became a holding company for XM in early 1997. We emerged from the development stage in the fourth quarter of 2001, following the commencement of our service in two test markets on September 25, 2001 and nationwide launch on November 12, 2001 Accordingly, the results for the year ended December 31, 2001 reflect limited commercial operations and the direct comparison of the results of operations for the years ended December 31, 2002 and 2001 may not be meaningful with respect to revenue and various other line items. At completion of the year ended December 31, 2002, our first full year of operations, we had 347,159 subscribers

We raised $1 7 billion of equity and debt net proceeds through December 31, 2002 from investors and strategic partners to fund our operations On January 28, 2003, we completed a $475 million financing, which included $225 million of new funds (bringing to $1.9 billion the amount of equity and debt raised) and $250 million of payment deferrals and a line of credit Following completion of this January 2003 financing, so long as we meet the revenue, expense and cash flow projections of our refined business plan, we expect to be fully funded and will not need to raise additional financing to continue operations Our business plan contemplates the use of either insurance proceeds and/or vendor financing to launch replacement satellite(s).

We will continue to incur operating losses until we substantially increase the number of our subscribers and develop a stream of cash flow sufficient to cover operating costs We also have significant outstanding contracts and commercial commitments that need to be paid in cash or through credit facilities over the next several years, including to fund subsidies and distribution costs, particularly under our arrangement with General Motors, programming costs, repayment of long-term debt, lease payments and service payments, as further described below under the heading "Liquidity and Capital Resources—Contractual Obligations and Commercial Commitments " Our ability to become profitable also depends upon other factors identified below under the heading "Liquidity and Capital Resources—Future Operating and Capital Requirements "

Source XM SATELLITE RADIO H, 10-K, March 31, 2003

Results of Operations

To better explain our performance for 2002 and on an on-going basis, we have expanded the number of revenue and expense categories to better reflect the drivers of the business Descriptions for expanded revenue and expense categories are outlined below.

Subscription Revenue

Subscription includes fees from basic and premium service net of subscription-related promotions.

Activation & Equipment Revenue

Activation & Equipment includes amortization of subscription activation fees over the estimated average life of a subscriber, and revenues from XM direct sales of radios.

Net Ad Sales Revenue

Net Ad Sales includes revenue from sales of advertisements and programming sponsorships to advertisers on the XM network, net of agency commissions.

Cost of Revenue

Costs of Revenue are those expenses directly related to the generation of subscriber revenue and have variable and fixed components. Cost of Equipment, Revenue Share & Royalties, along with Customer Care & Billing tend to fluctuate along with increases and decreases in revenues and/or subscribers. Satellite & Terrestrial, Broadcast & Operations and Programming & Content are not expected to fluctuate directly with changes in revenue and/or subscribers.

Research & Development

Research & Development is a discretionary expense of the Company used primarily to drive new product development and radio component and radio unit cost reductions

General & Administrative

General & Administrative expenses include legal, human resources, accounting and other overhead costs.

Marketing & Ad Sales

Marketing & Ad Sales includes: Retention & Support, which are those indirect costs that are not associated with gaining a subscriber and are not expected to fluctuate directly with changes in revenue and/or subscribers; Subsidies & Distribution, which includes commissions to radio manufacturers and distribution partners that are based on the number of radios manufactured or the number of new subscribers added in the period (these costs have previously been referred to as "Subscriber Acquisition Costs" or "SAC"), Advertising & Marketing, which are those discretionary costs including advertising, media and events, as well as marketing materials for retail and automotive dealer points of presence; Ad Sales, which includes costs directly associated with selling advertisements on the XM network. Amortization of the GM Liability includes the straight-line accounting treatment of the fixed obligation to General Motors. We consider subscriber acquisition costs to include radio manufacturer subsidies, certain sales, activation and installation commissions, and subscriber product- and hardware-related incentives. (Subscriber acquisition costs do not include ongoing loyalty payments to retailers and distribution partners, payments under revenue sharing arrangements with radio manufacturers and distributors and certain guaranteed payments to General Motors) We consider Cost Per Gross Addition (CPGA) to include the amounts in SAC, as well as advertising, media and most marketing expenses

EBITDA

Net loss before interest income, interest expense, income taxes, depreciation and amortization is commonly referred to in our business as "EBITDA " EBITDA is not a measure of financial performance under generally accepted accounting principles as described above under "Selected Consolidated Financial Data " As a result of regulatory changes, EBITDA now includes the Impairment of Goodwill, as well as Other Income (Expense).

	2002	2001	2000
	(In thousands, except share amounts)		
Revenue			
Subscriber revenue.			
Subscription	$ 16,344	$ 238	$ —
Activation & equipment	1,241	8	—
Total subscriber	17,585	246	—
Net ad sales	2,333	251	—
Royalties & other	263	36	—
Total revenue	20,181	533	—
Operating expenses			
Cost of revenue (excludes depreciation and amortization, shown below)			
Revenue share & royalties			
Cost of equipment	1,679	—	—
Revenue share & royalties	11,275	687	—
Total revenue share & royalties	12,954	687	—
Customer care & billing	15,627	5,720	699
Satellite & terrestrial	44,818	62,641	8,104
Broadcast & operations.			
Broadcast	7,745	6,155	1,420
Operations	12,106	14,886	18,150
Total broadcast & operations	19,851	21,041	19,570
Programming & content	25,379	17,649	4,025
Total cost of revenue	118,629	107,738	32,398
Research & development (excludes depreciation and amortization, shown below)	10,843	13,689	11,948
General & administrative (excludes depreciation and amortization, shown below)	26,448	21,168	17,312
Marketing & ad sales (excludes depreciation and amortization, shown below):			
Retention & support	12,931	10,161	6,293
Subsidies & distribution	54,086	9,217	—
Advertising & marketing	90,508	74,824	6,723
Marketing	157,525	94,202	13,016
Ad sales	1,869	2,243	1,232
Amortization of GM liability	13,598	439	—
Total marketing & ad sales	172,992	96,884	14,248
Impairment of goodwill	11,461	—	—
Depreciation & amortization	118,588	42,660	3,573
Total operating expenses	458,961	282,139	79,479
Operating loss	(438,780)	(281,606)	(79,479)
Interest income	5,111	15,198	27,606
Interest expense	(63,573)	(18,131)	—
Other income (expense)	2,230	160	—
Net loss	(495,012)	(284,379)	(51,873)
8 25% Series B and C preferred stock dividend requirement	(20,859)	(23,153)	(15,212)
Series C preferred stock beneficial and incentivized conversion charges	—	—	(134,253)
Net loss attributable to common stockholders	$ (515,871)	$ (307,532)	$ (201,338)
Basic and diluted net loss per share	$ (5.95)	$ (5.13)	$ (4.15)
Weighted average shares used in computing net loss per share—basic and diluted	86,735,257	59,920,196	48,508,042
EBITDA(1)	$ (317,962)	$ (238,786)	$ (75,906)

(1) EBITDA is not a measure of financial performance under generally accepted accounting principles, as described above under "Selected Consolidated Financial Data"

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

Year Ended December 31, 2002 Compared With Year Ended December 31, 2001
XM Satellite Radio Holdings Inc. and Subsidiaries

Revenue

Revenue. Our revenue consists of subscription fees, activation charges, limited direct sales of radios, advertising sales, and revenue earned from royalties. In 2002, we recognized $20 2 million in total revenue, compared to $0.5 million in 2001, an increase of $19.7 million. In 2002, subscription related revenues comprised over 87% of our total revenues. As of December 31, 2002, we had 347,159 subscribers, compared to 27,733 at December 31, 2001, an increase of 319,426 subscribers 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 who are currently in promotional periods. We expect revenue to increase substantially during 2003 as we continue to add subscribers and attract additional advertisers.

Subscriber Revenue Revenue from subscribers consists of subscription revenue, activation revenue and equipment sales Subscriber related revenue was $17.6 million for 2002, compared to $246,000 for 2001. Subscription revenue consists primarily of our monthly subscription fees charged to consumers, commercial establishments and fleets, which is recognized as the service is provided Subscription revenue also includes revenues from premium service Our subscriber arrangements are cancelable, without penalty Promotions and discounts are treated as a reduction to revenue during the period of the promotion Sales incentives, consisting of rebates to subscribers, offset revenue.

Subscription Revenue. Total subscription revenue during 2002 was $16.3 million, compared to $0.2 million during 2001, an increase of $16.1 million Average monthly subscription revenue per subscriber (ARPU) was approximately $9.43 during 2002, and $8.57 during 2001. 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 ending subscribers for the period reported. We made two changes to our calculation of ARPU (as compared to numbers presented in prior quarters) in an effort to provide a metric that we feel is more reflective of our earned recurring monthly subscription revenue First, we no longer include earned activation revenue as part of the ARPU calculation. We also refined our methodology to calculate ARPU using a denominator of monthly weighted average customers rather than our previous approach of daily weighted average customers to be consistent with how we manage our business Average monthly revenue per subscriber is a measure of operational performance and not a measure of financial performance under generally accepted accounting principles. We expect average monthly revenue per subscriber to remain relatively stable to reflect promotions implemented in 2003, multiradio discount plans (such as the new family plan) and the introduction of new subscription services

Activation & Equipment Revenue. Activation & equipment revenue is comprised of one-time activation charges billed to customers and revenues from any direct sales of radios. Activation fees are non-refundable, and are recognized on a pro-rata basis over the estimated average term of the subscriber relationship We expect this estimate to be further refined in the future as additional historical data becomes available In 2002 we recognized $484,000 in activation revenue compared to $8,000 during 2001, an increase of $476,000. Revenue from the sale of equipment was $757,000 during 2002 compared to $0 in 2001 We expect activation revenue to increase during 2003 as we increase subscribers, and we expect revenue from the sale of equipment to increase proportionately with the increase in direct sales of equipment by XM

Net Ad Sales Revenue Advertising revenue consists of sales of advertisements and program sponsorships on the XM network to advertisers that are recognized in the period in which they are broadcast Advertising revenue includes advertising aired in exchange for goods and services (barter), which is recorded at fair value. Advertising revenue is presented net of agency fees in the Results of Operations, which is consistent with industry practice In 2002 we recognized $2 3 million in net advertising revenue, compared to $251,000

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

during 2001. These amounts are net of agency commissions, which were $350,000 during 2002, compared to $43,000 in 2001. We expect advertising revenue to increase during 2003 as we increase our subscribers and attract additional advertisers.

Royalties & Other Revenue Royalty & other revenue earned during 2002 consisted of royalty revenue from certain tuners manufactured during 2002, and other broadcast revenue. We recognized $263,000 of royalty and other revenue during 2002 compared with $36,000 during 2001. We expect other revenue to increase slightly during 2003

Operating Expenses

Total Operating Expenses. Total operating expenses were $459 million for 2002 compared to $282 1 million in 2001, an increase of $177 million or 63%. The increase was primarily a result of a full year of operations

Cost of Revenue Cost of revenue includes costs of radios associated with radio sales, revenue share & royalties, customer care & billing costs, satellite & terrestrial operating costs, cost of broadcast and operations and programming & content. These combined costs were $118.6 million for 2002, up from $107 7 million in 2001, and increase of $10.9 million or 10 1%.

Cost of Equipment During 2002 we incurred $1 7 million relating to promotional radios and radio kits that we sold directly to subscribers, compared to $0 in 2001. We expect the cost of equipment to increase during 2003 as we increase direct radio sales

Revenue Share & Royalties Revenue share & royalties includes royalties paid to radio technology providers, revenue share payments to content providers, and performance rights obligations to composers, artists, and copyright owners for public performances of their creative works broadcast on XM These costs were $11.3 million in 2002 compared to $0 7 million in 2001 This increase of $10 6 million was a result of our growth in subscriber base and revenues along with completion of negotiations for performance rights royalties. We expect these total costs to increase during 2003 as subscriber growth continues but to decrease slightly as a percentage of total revenue.

Customer Care & Billing Customer care & billing operations expense was $15 6 million during 2002, compared with $5.7 million during 2001, an increase of $9.9 million This increase resulted from a full year of commercial operations and increase of subscribers. We expect customer care & billing operations expense in total to increase during 2003 as we continue to add subscribers, but we expect the average cost per subscriber to decrease

Satellite & Terrestrial. Satellite & terrestrial includes telemetry, tracking and control of our two 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 lease payments. These expenses were $44.8 million in 2002, compared with $62 6 million in 2001, a decrease of $17.8 million or 28% This decrease primarily resulted from a charge of $4 0 million in 2002 compared to a charge of $26 3 million in 2001 related to terrestrial repeater sites no longer required. Exclusive of this charge, we incurred increased operating expenses in 2002 compared to 2001 as our satellites and terrestrial repeater network performed over a first full year of operations We expect system operating costs to decline slightly in 2003 as we complete optimization efforts with respect to our terrestrial repeater network.

Broadcast & Operations

Broadcast 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 The advertising trafficking (scheduling and insertion) functions are also included. Broadcast costs were $7.7 million for 2002, compared to $6 2 million in 2001, an increase of $1 5 million or 24% The increase reflects a full year of operations for 2002. Based on our current channel lineup, these costs are expected to remain stable in 2003

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

Operations Operations, which includes facilities and information technology expense, was $12.1 million in 2002, compared with $14 9 million in 2001, a decrease of $2.8 million or 19% The decrease in operations expense in 2002 is attributed to a decrease in rent expense which was a direct result of the purchase of our corporate headquarters in the third quarter of 2001 and a decrease in costs incurred for professional services related to information technology as a result of a decreased need for post-implementation support. These costs are expected to remain stable in 2003

Programming & Content. Programming & content includes the creative and production costs associated with our 101 channels of XM-original and third party content. This includes costs of programming staff and fixed payments for third party content Programming & content expense was $25 4 million during 2002, compared with $17 6 million during 2001, an increase of $7.8 million or 44%. The increase reflects a full year of operations for 2002 Based on our current channel line-up, these costs are expected to remain stable in 2003

Research & Development Research & development includes the costs of new product development, chipset design, and engineering These combined expenses were $10 8 million in 2002, compared with $13.7 million in 2001, a decrease of $2 9 million or 21% The decrease in research and development expense primarily resulted from the higher cost of designing the initial chipset in 2001 compared with subsequent chipset designs in 2002 when the manufacturers absorbed a portion of the engineering charges We expect research & development expense to increase substantially in 2003 compared to 2002 levels as a result of development of future telematics applications and new products, including interoperable radios

General & Administrative General & administrative expense was $26 4 million during 2002, compared with $21 2 million during 2001, an increase of $5.2 million or 25% The increase in general & administrative expense primarily resulted from increased director and officer insurance premiums in the fourth quarter, and costs incurred in 2002 for the 2003 bond exchange transaction. We expect general & administrative expense to remain relatively stable throughout 2003

Marketing & Ad Sales Marketing & ad sales costs includes the costs of retention & support, subsidies & distribution, advertising & marketing, ad sales, and amortization of our liability to GM These combined costs were $173 0 million for 2002, compared to $96.9 million in 2001, an increase of $76 1 million, or 79%. Marketing expense increased as a result of a full year of commercial operations and includes expenses related to our distribution partners, personnel, advertising creation and media costs

Retention & Support. Personnel related expenses and costs associated with maintaining the corporate web site comprise the majority of retention and support In 2002, these costs were $12 9 million compared to $10 2 million in 2001, an increase of $2 7 million or 26% We expect these expenses to remain relatively stable during 2003.

Subsidies & Distribution We currently provide incentives and subsidies for the manufacture, purchase, installation and activation of XM radios to attract and retain our manufacturing and distribution partners. Our subsidy and distribution costs are significant and totaled approximately $54 1 million during 2002, compared with $9 2 million during 2001, an increase of $44 9 million due to 2002 being a full year of operations We expect total subsidy & distribution expense to increase during 2003 as our number of subscribers increases, however, we expect the cost per new subscriber to decrease

Subscriber Acquisition Costs We consider subscriber acquisition costs to include radio manufacturer subsidies, certain sales, activation and installation commissions, and subscriber product- and hardware-related incentives These costs are represented in Subsidies & Distribution Subscriber acquisition costs do not include ongoing loyalty payments to retailers and distribution partners, payments under revenue sharing arrangements with radio manufacturers and distributors and certain guaranteed payments to General Motors During the years ended December 31, 2002, 2001, and 2000, we incurred expenses of $54 1 million, $9 2 million and $0 million, respectively, related to subscriber acquisition costs Our average subscriber acquisition cost was $116.03 during 2002

Source XM SATELLITE RADIO H, 10-K, March 31, 2003

Advertising & Marketing Activities comprising these expenses include media, advertising, events and direct marketing programs. Advertising & marketing costs were $90 5 million in 2002 compared with $74 8 million in 2001, an increase of $15.7 million or 21% as a result of a full year of operations We expect these expenses to decrease during 2003.

Cost Per Gross Addition We consider CPGA to include the amounts in SAC, as well as advertising, media and most marketing expenses. In our financial statements, SAC costs are captured in the Subsidies & Distribution, while CPGA costs are captured by the combination of the Subsidies & Distribution, Advertising & Marketing, plus the negative margins from equipment sales. CPGA does not include marketing staff and subscriber communication costs (found in Retention & Support) or the amortization of the GM guaranteed payments (found in Amortization of GM Liability) During the years ended December 31, 2002, 2001, and 2000, we incurred expenses of $145.5 million, $84.0 million and $6 7 million, respectively CPGA for the full year 2002 was $430 Due to our launch late in 2001 and significant pre-operations costs recorded, CPGA figures for 2001 and prior are not meaningful. The amount of these total costs will vary in future years, but is expected to decrease on a per-subscriber addition basis during 2003, spreading the less variable components of our costs over a larger subscriber base.

Ad Sales Ad sales expense was $1 9 million in 2002 compared to $2.2 million in 2001, a decrease of $0 3 million or 14%. We expect ad sales costs to increase in 2003 in support of advertising revenue growth.

Amortization of GM Liability. These costs include the amortization of annual fixed guaranteed payment commitments to General Motors, aggregating to $439 million, under our long-term distribution agreement with the OnStar division of GM providing for the installation of XM radios in GM vehicles In 2001 we expensed $439,000, the annual fixed payment for that year. We amended the agreement in June 2002, and following the amendment began amortizing the annual fixed payments due through November 2005, which approximated $63.6 million, on a straight-line basis We expensed $13 6 million for 2002, reflecting a pro rata portion of the 2002 fixed annual payment for the period from January 2002 through June 2002 and the straight-line portion of the $63 6 million for the remainder of 2002. The distribution agreement was amended again in January 2003, as described above under the captions "Recent Sales of Unregistered Securities—Transactions with General Motors" and "Liquidity and Capital Resources—Capital Resources and Financing." As a result of the January 2003 amendment and GM's current roll out plans, commencing in February 2003 we will recognize the fixed annual payments due through September 2013, which approximate $397 3 million, on a straight-line basis. Consequently, we expect these expenses to increase to $35 6 million for 2003 and $37.3 million per annum in subsequent years

Impairment of Goodwill. We recognized an impairment charge of $11.5 million during the fourth quarter of 2002 in accordance with the provisions of SFAS No. 142 *Goodwill and Other Intangible Assets* SFAS No. 142 required that we perform an assessment of the fair value of our reporting unit and compared it to the carrying value of the reporting unit. As a result of the value of our stock and other securities being impacted by negative trends in the capital markets during 2002, our market capitalization had fallen below our book value, indicating that our reporting unit's goodwill may be impaired. In accordance with SFAS No 142, we performed the second step of the annual impairment test during the fourth quarter of 2002 and recognized an impairment charge of $11 5 million as required by SFAS No. 142.

Depreciation & Amortization. Depreciation & amortization expense was $118 6 million during 2002, compared with $42 7 million during 2001, an increase of $75 9 million The increase in depreciation and amortization expense primarily resulted from our commencing depreciation of major components of our system, including our satellites and terrestrial systems, upon commencement of commercial operations in September 2001. During 2002, we ceased amortizing goodwill and our DARS license in accordance with our adoption of SFAS No. 142 As a result of a solar array output power anomaly, during 2002, we reduced the useful lives of our in-orbit satellites from 17 5 years to 6 75 years. As a result of reducing the lives of our satellites, we expect depreciation and amortization expense to trend significantly higher during 2003

Interest Income Interest income was $5 1 million during 2002, compared with $15.2 million during 2001, a decrease of $10 1 million or 66%. The decrease was the result of lower average balances of cash and cash equivalents during 2002 coupled with lower yields on our investments due to market conditions

Interest Expense. We recorded interest expense of $63.6 million and $18.1 million during 2002 and 2001, respectively In addition, we capitalized interest costs of $0 0 million and $45 2 million associated with our DARS license and our XM Radio system during 2002 and 2001

Other Income (Expense), net Other income (expense), net consists primarily of income from rental of office space in our corporate headquarters to third parties Other income (expense), net was $2.2 million in 2002, compared with $0.2 million in 2001, an increase of $2.0 million. The increase reflects a full year's rental income in 2002 compared with four month's rental income in 2001, as we purchased our corporate headquarters in August 2001.

Net Loss Net loss for 2002 was $495 0 million, compared with $284.4 million for 2001, an increase of $210 6 million or 74% The increase primarily reflects increases in operating expense, depreciation and amortization expense and interest expense in connection with our ramp-up of commercial operations, offset in part by the growth in our revenue.

EBITDA. Net loss before interest income, interest expense, income taxes, depreciation and amortization is commonly referred to in our business as "EBITDA " EBITDA is not a measure of financial performance under generally accepted accounting principles as previously described in "Selected Consolidated Financial Data." The decrease is due primarily to an increase in operating expense in connection with our ramp-up of commercial operations, offset in part by the growth in our revenue. EBITDA for 2002 was ($318 0 million), compared with ($238.8 million) for 2001.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

XM Satellite Radio Holdings Inc. and Subsidiaries

Revenue

We recognized revenue of $533,000 from the date of launch through December 31, 2001. Total revenue included $238,000 in subscription revenue, $8,000 in activation revenue, $251,000 in net ad sales revenue which includes agency fees of $42,000 and other revenue of $36,000. During 2000 we had no revenue from operations.

Operating Expenses

Total Operating Expenses Total operating expenses for 2001 were $282 million compared to $79 5 million for 2000, an increase of $202 5 million, resulting from the launch of our commercial operations.

Cost of Revenue Cost of revenue includes revenue share royalty payments, customer care & billing costs, satellite & terrestrial operating costs, cost of broadcast & operations and programming & content. These combined costs were $107 7 million for 2001, up from $32.4 million in 2000

Revenue Share & Royalties Revenue share & royalties includes royalties paid to radio technology providers, revenue share payments to content providers, and performance rights obligations to composers, artists, and copyright owners for public performances of their creative works broadcast on XM. These costs were $0 7 million in 2001, compared to $0 for 2000.

Customer Care & Billing Customer care & billing operations expense was $5.7 million during 2001, compared with $0.7 million during 2000. This increase is a result of building out the organization and launching commercial operations.

Satellite & Terrestrial Satellite & terrestrial includes: telemetry, tracking and control of our two satellites, in-orbit satellite insurance, and all costs associated with operating our terrestrial repeater network such as power, maintenance and lease payments These expenses were $62 6 million in 2001, compared with $8.1 million in 2000, an increase of $54.5 million. This increase primarily resulted from initiating operation of our satellites and terrestrial repeater network and a charge of $26 3 million related to terrestrial repeater sites no longer required

Source. XM SATELLITE RADIO H, 10-K, March 31, 2003

Broadcast & Operations

Broadcast 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 Advertising trafficking (scheduling and insertion) functions are also included. These costs were $6.2 million for 2001, compared to $1 4 million in 2000

Operations. Operations, which includes facilities and information technology expense, was $14 9 million in 2001, compared with $18.2 million in 2000, a decrease of $3 3 million or 18% The decrease is primarily attributed to reduced professional services incurred in 2001 as key business systems development was completed in anticipation of our commencing commercial operations

Programming & Content. Programming & content includes the creative and production costs associated with 100 channels of XM–original and third party content. This includes costs of programming staff and fixed payments for third party content Programming and content expense was $17.7 million during 2001, compared with $4.0 million during 2000, an increase of $13.7 million as a result of commencement of commercial operations

Research & Development Research & development includes the costs of new product development, chipset design, and engineering. These combined expenses were $13 7 million in 2001, compared with $11.9 million in 2000, an increase of $1.8 million or 15% The increase in research and development expense primarily resulted from increased activity relating to our system technology development, including chipset design and uplink technology, in 2001.

General & Administrative General & administrative expense was $21 2 million in 2001, compared with $17 3 million in 2000, an increase of $3 9 million or 23% The increase primarily reflects expenses incurred from additional overhead costs to support the commencement of commercial operations

Marketing & Ad Sales Marketing costs includes the costs of the subsidies and distribution, advertising and marketing, customer retention and support, cost of advertising sales and amortization of our liability to GM These combined costs were $96 9 million for 2001, compared to $14.2 million in 2000 Marketing expense increased as a result of our launching commercial operations and includes expenses related to our distribution partners, personnel, advertising creation and media costs

Retention & Support. Personnel related expenses and costs associated with maintaining the corporate web site comprise the majority of retention & support. In 2001 these costs were $10 2 million compared to $6.3 million in 2000

Subsidies & Distribution. We provide incentives and subsidies for the manufacture, purchase, installation and activation of XM radios to attract new subscribers. Our subsidy and distribution costs totaled approximately $9.2 million during 2001, compared with $0 during 2000

Advertising & Marketing. Activities comprising these expenses include media, advertising, events and direct marketing programs. These costs were $74 8 million in 2001, up from from $6 7 million in 2000

Ad Sales. Ad sales expense was $2 2 million in 2001, compared to $1.2 million in 2000, an increase of $1 0 million.

Amortization of GM Liability. These costs include the amortization of certain payment commitments to General Motors through our long–term distribution agreement with the OnStar division of GM, providing for the installation of XM radios in GM vehicles. In 2001, these costs totaled $439,000 compared to $0 for 2000

Depreciation & Amortization. Depreciation & amortization expense was $42 6 million in 2001, compared with $3.6 million in 2000, an increase of $39 0 million The increase in depreciation and amortization expense primarily resulted from our taking delivery of major components of our system during 2001, including our two satellites and our terrestrial repeater network

Interest Income Interest income was $15 2 million in 2001, compared with $27 6 million in 2000, a decrease of $12.4 million or 45%. The decrease was the result of lower average balances of cash and cash equivalents in 2001 as well as lower yields on our investments due to market conditions

Interest Expense. We incurred interest costs of $63 3 million, including a $6.5 million charge due to the incentivized conversion of Holdings' 7.75% convertible notes, and $39 1 million in 2001 and 2000, respectively We capitalized interest costs of $45.2 million and $39.1 million associated with our DARS license and our XM Radio system and expensed $18.1 million and $0 in 2001 and 2000, respectively.

Other Income (Expense), net. Other income (expense), net consists primarily of income from rental of office space in our corporate headquarters to third parties Other income (expense), net was $300,000 in 2001, compared with $200,000 in 2000, an increase of $100,000 The increase reflects four months' rental income in 2001, as we purchased our corporate headquarters in August 2001.

Net Loss Net loss for 2001 was $284.4 million, compared with $51 9 million in 2000, an increase of $232 5 million The increase primarily reflects increases in operating expense, depreciation & amortization expense and general & administrative expense in connection with our commencement of commercial operations.

EBITDA. EBITDA for 2001 was ($238.8 million), compared with ($75.9 million) in 2000. EBITDA is not a measure of financial performance under generally accepted accounting principles as previously described under "Selected Consolidated Financial Data." The decrease in EBITDA is due primarily to the increases in operating expense and general and administrative expense in connection with our commencement of commercial operations.

Liquidity and Capital Resources

At December 31, 2002, we had total cash, cash equivalents and short-term investments of $42.8 million, which excludes $29 7 million of restricted investments, and working capital of $(49 5) million This amount reflects the use of cash, cash equivalents and short-term investments of $210 9 million at December 31, 2001, plus the proceeds of $151.6 million from financing activities, to fund $294.3 million of cash used in operations and $7.0 million in investing activities The proceeds from financing activities resulted primarily from an equity offering during 2002 Cash flow used in operations reflected the net loss from the Company's first full year of commercial operations of $495 0 million, and the accumulation of current liabilities as part of the Company's efforts to conserve cash. Investing activities consisted primarily of capital expenditures for infrastructure and terrestrial system completion The cash amount on hand at December 31, 2002 does not reflect the additional proceeds from financing activities in January 2003, discussed below.

By comparison, at December 31, 2001 we had cash, cash equivalents and short-term investments of $210 9 million, which excludes $72 8 million of restricted investments, and working capital of $160 0 million This amount reflects $203 0 million cash used in operations, $221.4 million cash used in investing activities, and $382 0 million of proceeds from financing activities during 2001. Cash flow used in operations in 2001 reflected continuing preparations for commercial operation Investing activities consisted primarily of capital expenditures for infrastructure and system completion. The proceeds from financing activities resulted primarily from equity offerings during 2001.

We expect that our future working capital, capital expenditures, and debt service requirements will be satisfied from existing cash, cash equivalents, and short-term investments augmented by the results of our January 2003 financing activities described below and by cash generated from operations, except for the financing of replacement satellites Our business plan contemplates that financing for replacement satellites would be provided by insurance proceeds and/or vendor financing

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

Capital Resources and Financing

We raised $1 7 billion of equity and debt net proceeds from inception through December 31, 2002 from investors and strategic partners to fund our operations. On January 28, 2003, we completed a $475 million financing, which included $225 million of new funds (bringing to $1.9 billion the amount of equity and debt raised) and $250 million of payment deferrals and a line of credit So long as our business generates positive cash flow in accordance with our recently refined business plan, we will not need to raise additional financing to continue operations as further described in Future Operating and Capital Resource Requirements Our refined business plan contemplates the use of either insurance proceeds and/or vendor financing to launch replacement satellite(s) These funds have been used to acquire our DARS license, make required payments for our system, including the satellites, terrestrial repeater system, and ground networks, and for working capital and operating expenses

On April 17, 2002, we completed a follow-on offering of 13,387,000 shares of our Class A common stock, which yielded net proceeds of $146.2 million On April 29, 2002, the underwriters exercised the over-allotment option and Holdings issued 1,090,443 shares of Class A Common Stock, which resulted in net proceeds of $11 9 million In August 2002, we adopted a stockholder rights plan in which preferred stock purchase rights were granted as a dividend at the rate of one right for each share of Common Stock held of record as of the close of business on August 15, 2002.

In January 2003, we completed a private placement of $279 3 million aggregate principal amount at maturity of our 10% Senior Secured Discount Convertible Notes due December 31, 2009, which yielded gross proceeds of $210.0 million, and a private placement of 5,555,556 shares of our Class A common stock, which yielded gross proceeds of $15 0 million Concurrently with these transactions, we completed an exchange offer in which we exchanged $300 2 million aggregate principal amount of XM's previously outstanding 14% Senior Secured Notes due 2010 for $438 0 million aggregate principal amount at maturity ($300 2 million accreted value as of March 15, 2003) of 14% Senior Secured Discount Notes due 2009, cash and warrants to purchase Class A common stock

In January 2003, General Motors provided us with a $100.0 million Senior Secured Credit Facility, maturing as late as December 2009, that enables us to make monthly draws to finance payments that become due under our distribution agreement with OnStar Corporation and other GM payments. Holdings and XM are co-borrowers under this credit facility The outstanding principal amount of all draws will be due December 31, 2009 and bear interest at the applicable 90-day LIBOR rate plus 10%. We will be able to make interest payments in shares of Class A common stock having an aggregate fair market value at the time of payment equal to the amount of interest due The fair market value will be based on the average daily trading prices of the Class A common stock over the ten business days prior to the day the interest payment is due We have the option to prepay all draws in whole or in part at any time but will not be able to re-borrow any prepaid amounts Beginning in 2005, we will be required to prepay the amount of any outstanding advances in an amount equal to the lesser of (i) 50% of our excess cash and (ii) the amount necessary to prepay the draws in full In order to make draws under the credit facility, we are required to have a certain minimum number of subscribers that are not originated by GM and a minimum pre-marketing cash flow

In January 2003, General Motors and XM completed a 10% Senior Secured Convertible Note Purchase Agreement due December 31, 2009 in the amount of $89.0 million. The note purchase agreement was provided in lieu of our obligation to make $115 million in guaranteed payments to OnStar under the distribution agreement from 2003 to 2006 The notes become convertible at the holder's option on a quarterly basis through 2006, at 90% of the then fair market value of our Class A common stock but subject to a $5.00 per share minimum and escalation maximum (up to $20 per share) for each fiscal year Interest would be payable in cash or shares of our Class A common stock, at our option, at fair market value at the time of payment.

In January 2003, General Motors provided XM with the ability to satisfy up to $35 0 million in future subscriber bounty payments ("subscriber acquisition payments") that we may owe to OnStar under the distribution agreement in shares of our Class A common stock, valued at fair market value at the time of payment.

Source. XM SATELLITE RADIO H, 10-K, March 31, 2003

As a result of our financings and other issuances of securities, the conversion price of the Series C preferred stock has been adjusted from $26.50 to $9 39, the exercise price of the warrants sold in March 2000 from $49 50 to $44 72 and the number of warrant shares from 8 024815 to 8.883124

Future Operating and Capital Resource Requirements

We have refined our business plan based on what we have learned during our first full year of commercial service and our available resources. We are focusing on the new automobile market to take advantage of our relationships with automobile manufacturers, the introduction of lower-priced and more user-friendly radio technology in the retail aftermarket and the use of our most productive distribution channels. We have also reduced spending on advertising and streamlined our workforce Provided that we meet the revenue, expense and cash flow projections of our refined business plan, we expect to be fully funded and will not need to raise additional financing to continue operations Our business plan contemplates the use of either insurance proceeds and/or vendor financing to launch replacement satellite(s)

Our business plan is based on estimates regarding expected future costs and expected revenue. Our costs may exceed or our revenues may fall short of our estimates, our estimates may change, and future developments may affect our estimates Any of these factors may increase our need for funds, which would require us to seek additional financing In addition, we may seek additional financing to undertake initiatives not contemplated by our business plan or obtain additional cushion against possible shortfalls We may pursue a range of different sizes or types of financing as opportunities arise, particularly the sale of additional equity securities However, we may not be able to raise additional funds on favorable terms or at all Our ability to obtain additional financing depends on several factors, including future market conditions; our success or lack of success in developing, implementing and marketing our satellite radio service; our future creditworthiness, and restrictions contained in agreements with our investors or lenders These financings could increase our level of indebtedness or result in further dilution to our equity holders We have and may continue to take advantage of opportunities to reduce our level of indebtedness in exchange for issuing equity securities, if these transactions can be completed on favorable terms

If we fail to obtain necessary financing on a timely basis, a number of adverse effects could occur. We could default on our commitments to creditors or others and may have to discontinue operations or seek a purchaser for our business or assets.

Our need for additional funds may also be affected by future developments In September 2001, BSS advised us of a progressive degradation problem with the solar array output power of Boeing 702 class satellites, including XM "Rock" and XM "Roll." At the present time, the output power of the solar arrays and the broadcast signal strength are above minimum acceptable levels and are expected to remain that way at least through 2005, permitting full operation of the XM System (based on patterns projected by BSS). We have launch and in-orbit insurance policies that provide coverage to us for a total, constructive total or partial loss of either of our satellites where such loss arises from an occurrence within the first five years after launch (both satellites were launched during the first half of 2001) The aggregate sum insured in the event of the total or constructive total loss of our satellites is $400 million ($200 million per satellite). In September 2001, we advised our insurance carriers that the aforementioned solar array situation was likely to result in a claim under our in-orbit insurance policies and, in the first quarter of 2003, we filed a claim with the insurance carriers for the aggregate sum insured (less applicable salvage); we believe we will ultimately receive insurance payments adequate to launch our spare satellite and commence work on an additional satellite, although there is no assurance that will be the case. Since the issue is common to Boeing 702 class satellites, the manufacturer and we are closely watching the progression of the problem, including data from a satellite that has been in orbit longer than either of our two satellites by approximately 15 and 17 months, respectively. With this advance visibility of performance levels, insurance arrangements in place and claim filed, a spare satellite under construction that is being modified to address the solar power anomaly, the ability to provide full service for some period of time with Rock and Roll collocated in one orbit slot and the spare located in the other slot (which would allow partial use of the existing satellites through the first quarter of 2008), availability of comparable satellites from more than one vendor, and various mitigation actions to extend the full or partial use of the satellites, we believe that we will be able to launch additional satellites prior to the time the solar power problem might cause the broadcast signal strength to fall below minimum acceptable levels. Based on the consistency of the degradation trends (with no substantial improvement to date) and continuing analyses by BSS and us, our management adjusted the estimated useful lives of our in-orbit satellites, with effect from September 2002, to the period running through first quarter 2008 (approximately 6 75 years from launch). Our management will continue to monitor this situation carefully and may re-adjust the estimated useful lives of our in-orbit satellites based on future information. 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 We have not adjusted the estimated useful lives of our spacecraft control facilities, as we believe that these facilities will continue to be of use in our system.

Contractual Obligations and Commercial Commitments

We are obligated to make significant payments under a variety of contracts and other commercial arrangements, including the following

Service Providers. We have entered into an agreement with a service provider for customer care functions to subscribers of our service through November 2003. Employees of this service provider have access to our customer care systems to establish customer accounts, activate radios, update program and account information and respond to general inquires from subscribers. We pay an hourly rate for each customer care representative supporting our subscribers. During the years ended December 31, 2002, 2001, and 2000, we incurred $8,713,000, $2,042,000, and $0, respectively, in relation to this agreement.

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

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

payments, advertising commitments and revenue sharing arrangements During the years ended December 31, 2002, 2001, and 2000, we incurred expenses of $20.3 million, $7 2 million and $0, 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 amount of the costs related to these agreements cannot be estimated, but are expected to be substantial future costs Of these amounts, $339,000, $52,000 and $0, respectively, are included in Revenue Share & Royalties, and $9.0 million, $4.2 million, and $0, respectively, are included in Advertising & Marketing.

Royalty Agreements. We have entered into fixed and variable revenue share payment agreements with performance rights organizations that expire as late as 2006. During the years ended December 31, 2002, 2001 and 2000, we incurred expenses of $9.5 million, $45,000 and $0, respectively, in relation to these agreements

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 As previously described, 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 manufactured or shipped from the factory. Consequently, the expense is most often recognized in advance of when revenue, if any, is realized. 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, 2002, 2001, and 2000, we incurred expenses of $55.7 million, $19.1 million and $0, respectively, in relation to these agreements, excluding expenses related to GM.

General Motors Distribution Agreement. We have significant payment obligations under our distribution agreement with General Motors During the term of the agreement, which expires 12 years from the commencement date of our commercial operations, GM has agreed to distribute the service to the exclusion of other S-band satellite digital radio services. We will also have a non-exclusive right to arrange for the installation of XM radios included in OnStar systems in non-GM vehicles that are sold for use in the United States 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 are due to GM and confirming the date of our commencement of commercial operations, and to provide that we may make certain payments to GM in the form of indebtedness or shares of our Class A common stock, as described above under the captions "Recent Sales of Unregistered Securities—Transactions with General Motors" and "Liquidity and Capital Resources—Capital Resources and Financing." XM's total cash payment obligations were not increased We have significant annual, fixed payment obligations to GM As a result of the June 2002 amendment, we commenced recognizing these fixed payment obligations for the period ending through November 2005, which approximate $63 6 million, on a straight-line basis. However, due to the January 2003 amendment to the Distribution Agreement and GM's current roll out plans which demonstrate a likelihood that GM will exceed minimum installation targets, in 2003 we are now prospectively recognizing these fixed payments due through September 2013, which approximate $397 3 million, on a straight-line basis. We have issued a 10% Senior Secured Convertible Note due 2009 with an aggregate principal amount of $89,042,387 to OnStar in lieu of making these fixed payments to OnStar for amounts otherwise due in 2003 through 2006

In order to encourage the broad installation of XM radios in GM vehicles, we have agreed to subsidize a portion of the cost of XM radios, and to make incentive payments to GM when the owners of GM vehicles with installed XM radios become subscribers for our service. We must also share with GM a percentage of the subscription revenue attributable to GM vehicles with installed XM radios, which percentage increases until there are more than 8 million GM vehicles with installed XM radios (at which point the percentage remains constant). We will also make available to GM bandwidth on our system. As part of the agreement, OnStar

Source· XM SATELLITE RADIO H, 10-K, March 31, 2003

provides certain call-center related services directly to XM subscribers who are also OnStar customers and XM must reimburse OnStar for these XM-related call center services The agreement is subject to renegotiation at any time based upon the installation of radios that are compatible with a unified standard or capable of receiving Sirius Satellite Radio's service. The agreement is subject to renegotiation if as of November 2005, and at two-year intervals thereafter, GM does not achieve and maintain specified installation levels of GM vehicles capable of receiving our service, starting with 1,240,000 units by November 2005, and thereafter increasing by the lesser of 600,000 units per year and amounts proportionate to target market shares in the satellite digital radio service market There can be no assurances as to the outcome of any such renegotiations General Motors' exclusivity obligations will discontinue if, by November 2005 and at two-year intervals thereafter, we fail to achieve and maintain specified minimum market share levels in the satellite digital radio service market (we are currently in excess of the minimum market share levels). Prior to 2001, we had not incurred any costs under the distribution agreement. As of December 31, 2002 and 2001, we had paid $9.9 million and $0 6 million, respectively, and incurred total costs of $30 1 million and $1 3 million, respectively, under the distribution agreement.

Non-Cash Stock-Based Expense

We incurred non-cash compensation charges of approximately $1 5 million and $4 9 million during 2002 and 2001, respectively These charges relate to stock options granted to employees and non-employees and warrants granted to Sony and CNBC. Additional compensation charges may result depending upon the market value of our Class A common stock at each balance sheet date.

Related Party Transactions

We developed strategic relationships with certain companies that were instrumental in the construction and development of our system. In connection with our granting to them of large supply contracts, some of these strategic companies have become large investors in us and have been granted rights to designate directors or observers to our board of directors. The negotiation of these supply contracts and investments primarily occurred at or prior to the time these companies became related parties

We are a party to a long-term distribution agreement with the OnStar division of General Motors that provides for the installation of XM radios in General Motors vehicles, as further described above under the heading "Liquidity and Capital Resources—Contractual Obligations and Commercial Commitments " In connection with the development of our terrestrial repeater network, we are a party to a contract with Hughes Electronics Corporation and were under a contract with LCC International (LCCI), as further described under the heading "Liquidity and Capital Resources—Funds Raised to Date " DIRECTV has provided consulting services in connection with the development of our customer care center and billing operations. We have agreements with OnStar, Clear Channel Communications, DIRECTV, Telcom Ventures and American Honda to make available use of our bandwidth We have a sponsorship agreement with Clear Channel Entertainment to advertise our service at Clear Channel Entertainment concerts and venues Premiere Radio Networks, a subsidiary of Clear Channel Communications, is our advertising sales representative. We also run advertisements on a spot and network basis on radio stations owned by Clear Channel

During November 2002, we initiated joint promotional activities with General Motors, targeted at new GM car buyers who subscribe to XM service. At December 31, 2002, approximately 31,000 subscribers took advantage of the joint promotion. In addition, GM purchased XM service for approximately 7,000 of their dealers These subscriptions are included in our total year end subscriptions. Subscriber revenues from both these activities are recorded as related party revenue

General Motors is one of our largest shareholders and Chester A. Huber, Jr , the president of OnStar, is a member of our board of directors Hughes Electronics is one of our largest shareholders and is a subsidiary of General Motors Jack Shaw, a member of our board of directors, is Chief Executive Officer of Hughes Electronics Corporation. Dr Rajendra Singh, who was a member of our board of directors until May 23, 2002, is a member of the board of directors of LCCI and controls the largest shareholder of LCCI.

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

LCCI ceased to be a related party of ours during 2002. DIRECTV, a subsidiary of Hughes Electronics, was a holder of our Series C preferred stock during 2002. Randall Mays, a member of our board of directors, is executive vice president and chief financial officer of Clear Channel Communications Thomas G. Elliott, a member of our board of directors, is Executive Vice President, Automobile Operations of American Honda Motor Company. Gary Parsons, the chairman of our board of directors, was until May 1, 2002 chairman of the board of directors of Motient, a significant early investor and formerly our controlling stockholder Mr Parsons no longer serves on Motient's board of directors and Motient is no longer a significant stockholder of ours.

We earned the following revenue in connection with the sale of XM service to related parties described above (in thousands)

	Year	GM
Subscriber revenue	2000	—
	2001	—
	2002	256

We have incurred the following costs in transactions with the related parties described above (in thousands)

	Year	GM	Hughes	DIRECTV	Clear Channel	LCCI	Motient
Terrestrial repeater network engineering and manufacturing	2000	—	11,858	—	—	58,731	—
	2001	—	88,116	—	—	59,958	—
	2002	—	10,386	—	—	3,089	—
Terrestrial repeater site leases	2000	—	—	—	5	—	—
	2001	—	—	—	36	—	—
	2002	—	—	—	57	—	—
Customer care & billing operations	2000	—	—	1,008	—	—	—
	2001	—	—	623	—	—	—
	2002	178	—	—	—	—	—
Marketing & ad sales	2000	—	—	—	3,175	—	—
	2001	1,264	—	—	4,351	—	—
	2002	29,915	—	125	10,182	—	—
General & administrative	2000	—	—	—	3	—	252
	2001	—	—	—	—	—	193
	2002	—	—	3	—	—	—

Capital Expenditures

Satellite Contract. Under our satellite contract, Boeing Satellite Systems (BSS) delivered two satellites in orbit and is to complete construction of a ground spare satellite. BSS also provided ground equipment and software used in the XM Radio system and certain launch and operations support services. The contract also provides for in-orbit incentives to be earned depending on the performance of the in-orbit satellites over their useful lives Future payments under the satellite contract could total up to an additional $68.8 million over the useful lives of the satellites.

On December 5, 2001, BSS and we amended the satellite contract so as to permit the deferral of approximately $31 4 million of payments to be made under the agreement, as well as to provide certain additional rights and obligations to us, including the launch of the ground spare satellite on the SeaLaunch launch vehicle should the ground spare satellite be launched between specified dates Amounts deferred under the

Source. XM SATELLITE RADIO H, 10-K, March 31, 2003

satellite contract include (i) $15 0 million of the purchase price for the ground spare satellite and (ii) $16.4 million of in-orbit incentive payments relating to our two existing satellites, XM "Rock" and XM "Roll" Interest will accrue on the $15 0 million commencing when the ground spare satellite is available for shipment (it is currently being modified to address the solar power anomaly), and the principal of such amount is to be paid on December 5, 2006 Similarly, the $16 4 million of incentive payments relating to Rock and Roll has been deferred (with interest payable currently), with the principal amount (to the extent earned) payable on December 5, 2006. After December 5, 2006, BSS must repay us incentive amounts that are not earned on a current basis Incentive payment amounts are earned (and expensed through operations) on a daily basis for each day that a satellite meets or exceeds its applicable performance specifications. Under the amendment, the deferred amounts bear interest at the rate of 8%, compounded annually, and are payable quarterly in arrears.

As of December 31, 2002, we had paid approximately $470 8 million under our satellite contract and had recognized an additional liability of $2.1 million for deferred in-orbit incentives and related interest.

Terrestrial Repeater System. As of December 31, 2002, we incurred aggregate costs of approximately $267 0 million for a terrestrial repeater system. These costs covered the capital cost of the design, development and installation of a system of terrestrial repeaters to cover approximately 60 cities and metropolitan areas In August 1999, we signed a contract with LCC International (LCCI) for engineering and site preparation As of December 31, 2002, we had paid $128 4 million under this contract There are no further payments due under the LCCI contract We also entered into a contract effective October 22, 1999, with Hughes Electronics Corporation for the design, development and manufacture of the terrestrial repeaters As of December 31, 2002, we had paid $113 8 million under this contract and recorded an additional liability of $58,000

Ground Segment. As of December 31, 2002, we incurred aggregate ground segment costs of approximately $130 1 million. These costs were related to the satellite control facilities, programming production studios and various other equipment and facilities.

Joint Development Agreement Funding Requirements. We may require additional funds to contribute toward the development of technologies supporting a unified standard for satellite radios under our joint development agreement with Sirius Radio. Each party is obligated to fund one half of the development cost for such technologies. The prior arbitration with Sirius has been resolved, with no payment by either side.

Long-term debt. We have raised funds from issuing long-term debt on several occasions. In March 2000, XM issued $325.0 million aggregate principal amount of 14% Senior Secured Notes due 2010 Following our January 2003 financing, less than $25 million of these notes remained outstanding. Principal on the 14% Senior Secured Notes due 2010 is payable at maturity, while interest is payable semi-annually.

- In March 2001, we issued $125 0 million aggregate principal amount of 7 75% convertible subordinated notes due 2006. In July and August 2001, holders of convertible subordinated notes exchanged $45 9 million of notes for 4,194,272 shares of our Class A common stock. As a result of these transactions, approximately $79.1 million of the notes remained. Principal on the convertible subordinated notes is payable at maturity, while interest is payable semi-annually

- In August 2001, we borrowed $29.0 million to finance the purchase of our headquarters facility. This loan is for a term of five years and bears interest at a rate based on the six-month London Interbank Offer Rate plus an indicated spread. We make monthly payments of principal and interest on this loan.

- In December 2001, we borrowed $35 0 million from a subsidiary of The Boeing Company. This loan is for a term of five years and bears interest at a rate based on the six-month London Interbank Offer Rate plus an indicated spread. Principal is payable at maturity, while interest is payable quarterly

Source XM SATELLITE RADIO H, 10-K, March 31, 2003

- On January 28, 2003, we completed a three-part financing.

  - We issued $279 3 million aggregate principal amount at maturity of 10% Senior Secured Discount Convertible Notes in a private placement Principal on the 10% Senior Secured Discount Convertible Notes is payable at maturity, while interest accretes until January 1, 2006 and is thereafter payable semi-annually in cash or, at our option, in additional notes. If all of the interest is paid in additional notes, these notes would aggregate $412.6 million when they come due in 2009.

  - We issued to OnStar $89 0 million in aggregate principal amount of a 10% Senior Secured Convertible Note due December 31, 2009 in lieu of our obligation to make $115 million in guaranteed payments from 2003 to 2006 under the General Motors distribution agreement. Principal on the OnStar note is payable at maturity, while interest, which is due semi-annually, is payable at our option in shares of our Class A common stock Based on the various terms of our long-term debt, our ability to redeem any long-term debt is limited

  - We completed an exchange of $300 2 million aggregate principal amount of the 14% Senior Secured Notes due 2010 for $438 0 million aggregate principal amount at maturity ($300.2 million accreted value as of March 15, 2003) of 14% Senior Secured Discount Notes due 2009, cash and warrants to purchase Class A common stock. Principal on the 14% Senior Secured Discount Notes due 2009 is payable at maturity, while interest accretes until December 31, 2005 and is thereafter payable semi-annually.

Lease obligations We have noncancelable operating leases for office space and terrestrial repeater sites and noncancelable capital leases for equipment that expire over the next ten years. As discussed below, in December 2001, we determined that the planned number of terrestrial repeater sites could be reduced due to the relative signal strength provided by our satellites. We recognized a charge of $26 3 million with respect to terrestrial repeater sites no longer required. This charge includes a lease termination liability of $8.6 million for 646 terrestrial repeater site leases, which would reduce the future minimum lease payments. This liability was increased by $4 0 million during 2002. As of December 31, 2002, we maintained a liability of $2.2 million for the estimated lease termination costs and costs to deconstruct the sites.

The following table represents our contractual obligations as of December 31, 2002, as adjusted for the January 2003 financing.

	Payments Due by Period						
Contractual Obligations	2003	2004	2005	2006	2007	2008 and Beyond	Total
	(In thousands)						
GM Distribution Agreement(1)	$ —	$ —	$ —	$ —	$ 80,753	$ 239,577	$ 320,330
GM Credit Facility(1)	—	—	—	100,000	—	—	100,000
GM Note(1)	—	—	—	—	—	89,000	89,000
Other long-term debt (1)	437	502	580	141,111	—	742,116	884,746
Capital Lease Obligations	3,885	1,908	680	3	—	—	6,476
Operating Lease Obligations	15,378	15,642	13,045	5,252	3,073	2,248	54,638
Total	$ 19,700	$ 18,052	$ 14,305	$ 246,366	$ 83,826	$ 1,072,941	$ 1,455,190

(1) The above amounts do not include interest, which in some cases is variable in amount

The long-term debt payments due in 2006 include the maturity of our $79.1 million of 7 75% convertible subordinated notes, our $27.1 million loan to finance the purchase of our headquarters facility, and our $35 0 million borrowing from Boeing We expect our $100 million credit facility with General Motors, which may be payable prior to maturity based on cash flows, to become payable as early as 2006. The long-term debt payments due in 2008 and beyond include the maturity of XM's remaining outstanding

Source XM SATELLITE RADIO H, 10-K, March 31, 2003

$24.8 million of 14% Senior Secured Notes, which come due in 2010, the maturity of XM's $438 0 million aggregate principal amount at maturity of 14% Senior Secured Discount Notes, which come due in 2009, and the maturity of our $279.3 million aggregate principal amount at maturity of 10% Senior Secured Discount Convertible Notes, which come due in 2009

Critical Accounting Policies

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 The significant accounting policies that we believe are most critical to understanding and evaluating our reported financial results include those pertaining to the following policies Senior management has discussed with the audit committee of the board of directors the development and selection of estimates and assumptions required for the following accounting policies.

- *Revenue Recognition*—Revenue from subscribers consists of our monthly subscription fee, which is recognized as the service is provided, and a non-refundable activation fee, which is recognized on a pro-rata basis over an estimated term of the subscriber relationship (currently 40 months), which was based upon market studies and management's judgment. We expect to refine this estimate as more data becomes available Promotions and discounts are treated as an offset to revenue during the period of promotion. Sales incentives, consisting of discounts and rebates to subscribers, offset earned revenue. If the actual term of our subscriber relationships is significantly greater than our current estimate of 40 months, the period over which we recognize the non-refundable activation fee will be extended to reflect the actual term of our subscriber relationships.

- *Estimates of payments due to manufacturers and distributors*—Payments owed to manufacturing and distribution partners are expensed during the month in which the manufacture, sale, and/or activation of the radio unit occurs. The amount of these expenses are dependent upon units provided by our internal systems and processes, (such as subscriber management system and supply chain management system) and partner systems and processes However, due to lags in receiving manufacturing and sales data from partners, estimates of amounts due are necessary in order to record monthly expenses. In subsequent months when lagged data is received from partners, expenses are reconciled, and adjusted where necessary. Since launching commercial operations, we continue to refine the estimation process based on an increased understanding of the timing lags, and close working relationships with our partners Generally, estimates recorded on our books are adjusted to actuals within two months.

- *Useful Life of Satellites and Spacecraft Control Facilities*—Following receipt of our satellites, we extended their expected lives from 15 years, the initial design life, to 17.5 years based upon updated technical estimates we received from our satellite provider following our satellite launches However, based on the consistency of the degradation trends (with no substantial improvement to date) and continuing analyses by Boeing Satellite Systems and us, as described above under the heading "Liquidity and Capital Resources—Future Operating and Capital Resource Requirements," we adjusted the estimated useful life of our in-orbit satellites with effect from September 2002, to the period running through first quarter of 2008 (approximately 6 75 years from launch) We continue to monitor the situation and may need to re-adjust the estimated useful lives of our in-orbit satellites based on future information 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. 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.

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

- *Accrued Network Optimization Expenses*—As a result of the planned reduction of the number of terrestrial repeater sites, we recognized a charge of $4 0 million in 2002 compared to $26.3 million in 2001 The charge of $26.3 million in 2001 included $17.7 million of site–specific capitalized costs that were written off and a lease termination accrual of $8.6 million for 646 terrestrial repeater site leases The charge of $4 0 million in 2002 represents additional costs associated with terminating leases on terrestrial repeater sites no longer required. At December 31, 2002, we had recorded a lease termination accrual of $2 2 million that represents an estimate of the costs to terminate the remaining 98 leases based on management's judgment, advice of lease consultants, and early negotiations with landlords The liability also includes the estimated costs to deconstruct the existing sites, which are based upon quotes from contractors. This amount could vary significantly from the actual amount incurred, which will be primarily based on our ability to negotiate lease termination settlements

- *Programming Agreements*—We have entered into various programming agreements Under the terms of these agreements, we are obligated to provide payments and commissions to other entities that may include fixed payments, advertising commitments and revenue sharing arrangements Fixed amounts due under programming agreements are recognized on a straight–line basis though the termination and/or renegotiation date defined in the agreements. Revenue share agreements that contain minimum guarantees are recorded as an expense based upon the greater of the revenue share amount or a pro–rata portion of the guarantee over the guarantee period.

- *Distribution Agreement with General Motors*—We have significant payment obligations under our distribution agreement with General Motors, which was amended on January 28, 2003 to provide that we could make certain payments by issuance of indebtedness or shares of Class A common stock. This agreement is subject to renegotiation if General Motors does not achieve and maintain specified installation levels, starting with 1,240,000 by November 2005 and thereafter increasing by the lesser of 600,000 units per year and amounts proportionate to our share of the satellite digital radio market. In light of GM's initial roll–out plans, the June 2002 amendment of the distribution agreement and management's assessment of the likelihood of renegotiating during the period ending 2005, we recognized the fixed payment obligations due to GM for the period through November 2005, which approximate $63 6 million, on a straight–line basis In light of the January 2003 amendment of the distribution agreement and GM's current roll out plans which demonstrate a likelihood of GM exceeding minimum installation targets, in 2003 we are prospectively recognizing fixed payment obligations to GM for the period through September 2013, which approximate $397.3 million, on a straight–line basis Additional annual fixed payment obligations beyond 2006 range from $80 8 million to approximately $132 9 million through 2009, aggregating approximately $320 3 million

- *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.

Recent Accounting Pronouncements

In June 2001, the FASB issued SFAS No 143, *Accounting for Asset Retirement Obligations*. SFAS No 143, which is effective January 1, 2003, requires entities to record the fair value of a legal liability for an asset

Source· XM SATELLITE RADIO H, 10–K, March 31, 2003

retirement obligation in the period in which it is incurred When a new liability is recorded beginning in 2003, the entity will capitalize the costs of the liability by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset Upon settlement of the liability, an entity settles the obligation for its recorded amount or incurs a gain or loss upon settlement. We will adopt SFAS No 143 effective January 1, 2003 and do not expect the adoption of SFAS No 143 to have a material effect on our financial statements.

In April 2002, the FASB issued SFAS No 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections* SFAS No. 145 amends existing guidance on reporting gains and losses on the extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies SFAS No 145 also amends SFAS No. 13 to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of the Statement related to the rescission of Statement No. 4 is applied in fiscal years beginning after May 15, 2002 Earlier application of these provisions is encouraged. The provisions of the Statement related to Statement No 13 were effective for transactions occurring after May 15, 2002, with early application encouraged. The adoption of SFAS No. 145 is not expected to have a material effect on our financial statements.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.* SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when incurred at fair value. The Statement in turn eliminates the definition and requirements of EITF Issue 94-3 SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No 146 may have an effect on the timing of future restructuring charges taken, if and when they occur

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34* This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on our financial statements. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No 123.* This Statement amends FASB Statement No 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to these consolidated financial statements

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51* This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. For public enterprises with a variable interest in a variable interest entity created before February 1, 2003, the Interpretation is applied to that enterprise no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. The application of this Interpretation is not expected to have a material effect on our financial statements. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that we will consolidate or disclose information about variable interest entities when the Interpretation becomes effective.

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

The Emerging Issues Task Force issued EITF No 00-21, *Revenue Arrangements with Multiple Deliverables* addressing the allocation of revenue among products and services in bundled sales arrangements EITF 00-21 is effective for arrangements entered into in fiscal periods after June 15, 2003 Based on our current sales and marketing programs, we do not anticipate the application of the new pronouncement will have a material impact on our financial statements However, our sales and marketing programs may change over time and we will continue to evaluate the applicability of EITF 00-21 as it relates to sales of service and hardware.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2002, we do not have any derivative financial instruments and do not intend to use derivatives. We do not hold or issue any free-standing derivatives We invest our cash in short-term commercial paper, investment-grade corporate and government obligations and money market funds Our long-term debt includes fixed interest rates and the fair market value of the debt is sensitive to changes in interest rates. We run the risk that market rates will decline and the required payments will exceed those based on current market rates Under our current policies, we do not use interest rate derivative instruments to manage our exposure to interest rate fluctuations. The mortgage on our corporate headquarters has a variable interest rate that may not exceed a ceiling rate of 14% or a floor rate of 8% Our loan from Boeing also has a variable interest rate A change of one percentage point in the interest rate applicable to this $63.6 million of variable rate debt at December 31, 2002 would result in a fluctuation of approximately $0.6 million in our annual interest expense. Additionally, we believe that our exposure to interest rate risk is not material to our results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of XM Satellite Radio Holdings Inc., including consolidated balance sheets as of December 31, 2002 and 2001, 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, 2002 and notes to the consolidated financial statements, together with a report thereon of KPMG LLP, dated March 28, 2003, are attached hereto as pages F-1 through F-34

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

None.

Source. XM SATELLITE RADIO H, 10-K, March 31, 2003

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANTS

The information is incorporated herein by reference to Holdings' definitive 2003 Proxy Statement Holdings and XM have the same directors and executive officers

ITEM 11. EXECUTIVE COMPENSATION

The information is incorporated herein by reference to Holdings' definitive 2003 Proxy Statement

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information is incorporated herein by reference to Holdings' definitive 2003 Proxy Statement

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information is incorporated herein by reference to Holdings' definitive 2003 Proxy Statement

ITEM 14. CONTROLS AND PROCEDURES.

Within the 90-day period prior to the filing of this report, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. No significant changes were made in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

ITEM 15. EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) The following Consolidated Financial Statements of and report of independent public accountants for XM Satellite Radio Holdings Inc are included in Item 8 of this Form 10-K

Report of Independent Auditors.

Consolidated Balance Sheets as of December 31, 2002 and 2001

Consolidated Statements of Operations for the years ended December 31, 2002, 2001 and 2000.

Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 2002, 2001 and 2000

Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000, and for the period from December 15, 1992.

Notes to Consolidated Financial Statements

Schedule I—Valuation and Qualifying Accounts.

(a)(2) The following consolidated financial statement schedule is filed as part of this report and attached hereto as page F-37:

Schedule I—Valuation and Qualifying Accounts for Holdings.

All other schedules for which provision is made in the applicable accounting regulations of the Commission have been included in the Consolidated Financial Statements of XM Satellite Radio Holdings Inc. or the notes thereto, are not required under the related instructions or are inapplicable, and therefore have been omitted.

(a)(3) The following exhibits are either provided with this Form 10-K or are incorporated herein by reference·

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

EXHIBIT INDEX

Exhibit No.	Description
3 1^	Restated Certificate of Incorporation of XM Satellite Radio Holdings Inc
3.2^	Restated Bylaws of XM Satellite Radio Holdings Inc.
3.3	Restated Certificate of Incorporation of XM Satellite Radio Inc (incorporated by reference to XM's Registration Statement on Form S-4, File No 333-39178)
3 4	Amended and Restated Bylaws of XM Satellite Radio Inc. (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178)
3 5	Certificate of Amendment of Restated Certificate of Incorporation of XM Satellite Radio Holdings Inc (incorporated by reference to Amendment No. 1 to Holdings' Registration Statement on Form S-3, File No. 333-89132)
3 6	Certificate of Amendment of Restated Certificate of Incorporation of XM Satellite Radio Holdings Inc
4 1	Form of Certificate for Holdings' Class A common stock (incorporated by reference to Exhibit 3 to Holdings' Registration Statement on Form 8-A, filed with the SEC on September 23, 1999).
4.2	Form of Certificate for Holdings' 8 25% Series B Convertible Redeemable Preferred Stock (incorporated by reference to Holdings' Registration Statement on Form S-1, File No 333-93529)
4 3	Certificate of Designation Establishing the Voting Powers, Designations, Preferences, Limitations, Restrictions and Relative Rights of 8 25% Series B Convertible Redeemable Preferred Stock due 2012 (incorporated by reference to Holdings' Annual Report on Form 10-K for the fiscal year ended December 31, 1999, filed with the SEC on March 16, 2000).
4.4	Warrant to purchase shares of Holdings' Class A common stock, dated February 9, 2000, issued to Sony Electronics, Inc (incorporated by reference to Holdings' quarterly report on Form 10-Q for the quarter ended March 31, 2000, filed with the SEC on May 12, 2000)
4 5	Warrant Agreement, dated March 15, 2000, between XM Satellite Radio Holdings Inc. as Issuer and United States Trust Company of New York as Warrant Agent (incorporated by reference to Holdings' Registration Statement on Form S-1, File No 333-39176).
4 6	Warrant Registration Rights Agreement, dated March 15, 2000, between XM Satellite Radio Holdings Inc and Bear, Stearns & Co , Inc , Donaldson, Lufkin and Jenrette Securities Corporation, Salomon Smith Barney Inc. and Lehman Brothers Inc (incorporated by reference to Holdings' Registration Statement on Form S-1, File No 333-39176)
4 7	Form of Warrant (incorporated by reference to Holdings' Registration Statement on Form S-1, File No 333-39176).
4 8	Certificate of Designation Establishing the Powers, Preferences, Rights, Qualifications, Limitations and Restrictions of the 8 25% Series C Convertible Redeemable Preferred Stock due 2012 (incorporated by reference to Holdings' Registration Statement on Form S-1, File No 333-39176)
4.9	Form of Certificate for Holdings' 8.25% Series C Convertible Redeemable Preferred Stock (incorporated by reference to the Registrant's Registration Statement on Form S-1, File No. 333-39176).

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

Exhibit No.	Description
4 10	Indenture, dated as of March 15, 2000, between XM Satellite Radio Inc and United States Trust Company of New York (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178)
4 11	Registration Rights Agreement, dated March 15, 2000, between XM Satellite Radio Inc. and Bear, Stearns & Co Inc , Donaldson, Lufkin and Jenrette Securities Corporation, Salomon Smith Barney Inc and Lehman Brothers Inc (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178)
4 12	Form of 14% Senior Secured Note of XM Satellite Radio Inc. (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178).
4.13	Security Agreement, dated March 15, 2000, between XM Satellite Radio Inc. and United States Trust Company of New York (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178).
4 14	Pledge Agreement, dated March 15, 2000, between XM Satellite Radio Inc. and United States Trust Company of New York (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178).
4.15	Indenture, dated March 6, 2001, between XM Satellite Radio Holdings Inc. and United States Trust Company of New York (incorporated by reference to Holdings' annual report on Form 10-K for the year ended December 31, 2000, filed with the SEC on March 15, 2001)
4.16	Supplemental Indenture, dated as of November 15, 2001, by and between XM Satellite Radio Inc. and The Bank of New York (successor to United States Trust Company of New York) (incorporated by reference to Holdings' Current Report on Form 8-K, filed with the SEC on December 6, 2001).
4 17	Form of 7.75% convertible subordinated note (incorporated by reference to Holdings' annual report on Form 10-K for the year ended December 31, 2000, filed with the SEC on March 15, 2001)
4 18	Customer Credit Agreement dated as of December 5, 2001 between Holdings and Boeing Capital Services Corporation (incorporated by reference to Holdings' Current Report on Form 8-K, filed with the SEC on December 6, 2001)
4.19	Security Agreement dated as of December 5, 2001, between Holdings and Boeing Capital Services Corporation (incorporated by reference to Holdings' Current Report on Form 8-K, filed with the SEC on December 6, 2001)
4.20	Indenture, dated as of January 28, 2003, among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc., XM Equipment Leasing LLC and The Bank of New York, as trustee (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
4.21	Security Agreement, dated as of January 28, 2003, among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc , XM Equipment Leasing LLC, and The Bank of New York (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
4 22	Amended and Restated Security Agreement, dated as of January 28, 2003, between XM Satellite Radio Inc. and The Bank of New York (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
4 23	Intercreditor and Collateral Agency Agreement (General Security Agreement), dated as of January 28, 2003, by and among the Noteholders named therein, The Bank of New York, as trustee, General Motors Corporation, OnStar Corporation and The Bank of New York, as collateral agent (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

Exhibit No.	Description
4 24	Intercreditor and Collateral Agency Agreement (FCC License Subsidiary Pledge Agreement), dated as of January 28, 2003, by and among the Noteholders named therein, The Bank of New York, as trustee, General Motors Corporation, OnStar Corporation and The Bank of New York, as collateral agent (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
4 25	Warrant Agreement, dated as of January 28, 2003, between XM Satellite Radio Holdings Inc. and The Bank of New York (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
4 26	Amended and Restated Amendment No. 1 to Rights Agreement, dated as of January 22, 2003, by and among XM Satellite Radio Holdings Inc. and Equiserve Trust Company, N.A. (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
4.27	Form of 10% Senior Secured Convertible Note due 2009 (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
4 28	Form of 10% Senior Secured Discount Convertible Note due 2009 (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
4 29	Global 14% Senior Secured Discount Note due 2009 (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
4 30	Global Common Stock Purchase Warrant (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
4.31	Common Stock Purchase Warrant issued to General Motors Corporation (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
4 32	Common Stock Purchase Warrant issued to R. Steven Hicks (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
4 33	Second Supplemental Indenture, dated as of December 23, 2002, by and among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc , XM Equipment Leasing LLC and The Bank of New York, as trustee (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 15, 2003).
4 34	Third Supplemental Indenture, dated January 27, 2003, among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc , XM Equipment Leasing LLC and The Bank of New York, as trustee (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
10 1	Second Amended and Restated Shareholders and Noteholders 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 Holdings' Current Report on Form 8-K filed with the SEC on January 29, 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 Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
10 3^	Note Purchase Agreement, dated June 7, 1999, by and between XM Satellite Radio Holdings Inc , XM Satellite Radio Inc , Clear Channel Communications, Inc , DIRECTV Enterprises, Inc , General Motors Corporation, Telcom-XM Investors, L L C , Columbia XM Radio Partners, LLC, Madison Dearborn Capital Partners III, L P., Madison Dearborn Special Equity III, L P , and Special Advisors Fund I, LLC (including form of Series A subordinated convertible note of XM Satellite Radio Holdings Inc attached as Exhibit A thereto)

Exhibit No.	Description
10.4^*	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.
10.5	Intentionally omitted.
10.6	Intentionally omitted.
10.7^*	Amended and Restated Agreement by and between XM Satellite Radio Inc. and ST Microelectronics Srl, dated September 27, 1999
10.8*	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 Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
10 9^*	Operational Assistance Agreement, dated as of June 7, 1999, between XM Satellite Radio Inc and DIRECTV, INC.
10.10^*	Operational Assistance Agreement, dated as of June 7, 1999, between XM Satellite Radio Inc. and Clear Channel Communication, Inc.
10.11^*	Operational Assistance Agreement, dated as of June 7, 1999, between XM Satellite Radio Inc. and TCM, LLC.
10 12	Intentionally omitted
10.13	Intentionally omitted.
10.14	Intentionally omitted.
10.15	Intentionally omitted.
10 16	Intentionally omitted
10 17^	Form of Indemnification Agreement between XM Satellite Radio Holdings Inc and each of its directors and executive officers.
10 18	1998 Shares Award Plan (incorporated by reference to Holdings' Registration Statement on Form S-8, File No. 333-65020).
10.19^	Form of Employee Non-Qualified Stock Option Agreement.
10.20^*	Firm Fixed Price Contract #001 between XM Satellite Radio Inc. and the Fraunhofer Gesellschaft zur Foderung Der angewandten Forschung e.V., dated July 16, 1999.
10 21^*	Contract for Engineering and Construction of Terrestrial Repeater Network System by and between XM Satellite Radio Inc. and LCC International, Inc , dated August 18, 1999.
10 22	Employee Stock Purchase Plan (incorporated by reference to Holdings' Registration Statement on Form S-8, File No 333-65020)
10 23^	Non-Qualified Stock Option Agreement between Gary Parsons and XM Satellite Radio Holdings Inc., dated July 16, 1999.
10.24^	Non-Qualified Stock Option Agreement between Hugh Panero and XM Satellite Radio Holdings Inc., dated July 1, 1998, as amended.
10.25^	Form of Director Non-Qualified Stock Option Agreement.
10 26	Intentionally omitted
10.27	Intentionally omitted.

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

Exhibit No.	Description
10 28*	Contract for the Design, Development and Purchase of Terrestrial Repeater Equipment by and between XM Satellite Radio Inc. and Hughes Electronics Corporation, dated February 14, 2000 (incorporated by reference to Holdings' Annual Report on Form 10-K for the fiscal year ended December 31, 1999, filed with the SEC on March 16, 2000)
10.29*	Joint Development Agreement, dated February 16, 2000, between XM Satellite Radio Inc and Sirius Satellite Radio Inc (incorporated by reference to Holdings' quarterly report on Form 10-Q for the quarter ended March 31, 2000, filed with the SEC on May 12, 2000).
10 30	XM Satellite Radio Holdings Inc. Talent Option Plan (incorporated by reference to Holdings' Registration Statement on Form S-8, File No. 333-65022).
10 31	Employment Agreement, dated as of June 1, 2001, between XM Satellite Radio Holdings Inc. and Hugh Panero (incorporated by reference to Holdings' quarterly report on Form 10-Q for the quarter ended June 30, 2001, filed with the SEC on August 13, 2001).
10.32	Form of Employment Agreement, dated as of July 1, 2001, between XM Satellite Radio Holdings Inc. and Gary Parsons (incorporated by reference to Holdings' quarterly report on Form 10-Q for the quarter ended June 30, 2001, filed with the SEC on August 13, 2001).
10 33	Loan and Security Agreement, dated as of August 24, 2001, by and between Fremont Investment & Loan and XM 1500 Eckington LLC (incorporated by reference to Holdings' quarterly report on Form 10-Q for the quarter ended September 30, 2001, filed with the SEC on November 13, 2001).
10 34	Limited Recourse Obligations Guaranty, dated as of August 24, 2001, by XM Satellite Radio Holdings Inc. in favor of Fremont Investment & Loan (incorporated by reference to Holdings' quarterly report on Form 10-Q for the quarter ended September 30, 2001, filed with the SEC on November 13, 2001).
10 35	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 Holdings' Current Report on Form 8-K filed with the SEC on December 6, 2001).
10 36*	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 Holdings' Registration Statement on Form S-3, File No. 333-89132).
10.37*	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 with the SEC on December 6, 2001)
10.38	Note Purchase Agreement, dated as of December 21, 2002, by and among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc and OnStar Corporation (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
10.39	Amendment No. 1 to Note Purchase Agreement, dated as of January 16, 2003, by and among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc. and OnStar Corporation (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
10.40	Note Purchase Agreement, dated as of December 21, 2002, by and among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc and certain investors named therein (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
10 41	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 Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).

Source XM SATELLITE RADIO H, 10-K, March 31, 2003

Exhibit No.	Description
10 42	Director Designation Agreement, dated as of January 28, 2003, by and among XM Satellite Radio Holdings Inc. and the shareholders and noteholders named therein (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
10.43	GM/DIRECTV Director Designation Agreement, dated as of January 28, 2003, among XM Satellite Radio Holdings Inc., General Motors Corporation and DIRECTV Enterprises LLC (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
10.44	Clear Channel Director Designation Agreement, dated as of January 28, 2003, among XM Satellite Radio Holdings Inc. and Clear Channel Investments, Inc (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
10 45	Amended and Restated Assignment and Use Agreement, dated as of January 28, 2003 between XM Satellite Radio Inc and XM Radio Inc (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
10 46	Agreements not to convert, dated as of January 28, 2003, among XM Satellite Radio Holdings Inc. and certain noteholders named therein (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
10.47	Credit Agreement, dated as of January 28, 2003, among XM Satellite Radio Inc., as a borrower, and XM Satellite Radio Holdings Inc., as a borrower, and General Motors Corporation, as lender (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
10 48	Voting Agreement, dated as of December 21, 2002, among the shareholders named therein (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
10 49	Employment Agreement, dated as of June 21, 2002, between XM Satellite Radio Holdings Inc and XM Satellite Radio Inc , and Joseph J. Euteneuer (incorporated by reference to Holdings' Quarterly Report on Form 10-Q, filed with the SEC on August 14, 2002)
21.1	Subsidiaries of the registrant
23 1	Consent of KPMG LLP.
99.1	Written Statement of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U S C. Section 1350)

^ Incorporated by reference to Holdings' Registration Statement on Form S-1, File No. 333-83619.

* Pursuant to the Commission's Orders Granting Confidential Treatment under Rule 406 of the Securities Act of 1933 or Rule 24(b)-2 under the Securities Exchange Act of 1934, certain confidential portions of this Exhibit were omitted by means of redacting a portion of the text.

Source. XM SATELLITE RADIO H, 10-K, March 31, 2003

(b) Reports on Form 8-K.

On January 29, 2003, Holdings and XM filed a Current Report on Form 8-K that reported the closing of their exchange offer, $225 million financing package and various transactions with General Motors Corporation.

On January 15, 2003, Holdings and XM filed a Current Report on Form 8-K that contained certain information in connection with their exchange offer, $225 million financing package and various transactions with General Motors Corporation.

On December 24, 2002, Holdings and XM filed a Current Report on Form 8-K that contained certain information in connection with their exchange offer, $225 million financing package and various transactions with General Motors Corporation.

On December 24, 2002, Holdings and XM filed a Current Report on Form 8-K that contained certain information in connection with their exchange offer, $225 million financing package and various transactions with General Motors Corporation

On December 23, 2002 Holdings and XM filed a Current Report on Form 8-K that contained certain information in connection with their $225 million financing package and various transactions with General Motors

On December 20, 2002, Holdings filed a Current Report on Form 8-K that contained certain interim financial information

(c) Exhibits

XM Satellite Radio Holdings Inc. and XM Satellite Radio Inc hereby file as part of this Form 10-K the Exhibits listed in the Index to Exhibits

(d) Consolidated Financial Statement Schedules.

The following consolidated financial statement schedule is filed herewith·

Schedule I—Valuation and Qualifying Accounts for Holdings

Schedules not listed above have been omitted because they are inapplicable or the information required to be set forth therein is provided in the Consolidated Financial Statements of XM Satellite Radio Holdings Inc. or notes thereto.

Source· XM SATELLITE RADIO H, 10-K, March 31, 2003

Table of Contents

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
President and Chief Executive Officer

Date: March 31, 2003

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**	President, Chief Executive Officer and Director (Principal Executive Officer)	March 31, 2003
/s/ JOSEPH J EUTENEUER **Joseph J. Euteneuer**	Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2003
/s/ GARY M PARSONS **Gary M. Parsons**	Chairman of the Board of Directors	March 31, 2003
/s/ NATHANIEL A DAVIS **Nathaniel A. Davis**	Director	March 31, 2003
/s/ THOMAS J DONOHUE **Thomas J. Donohue**	Director	March 31, 2003
/s/ CHESTER A. HUBER, JR. **Chester A. Huber, Jr.**	Director	March 31, 2003
Randall T. Mays	Director	March , 2003
/s/ PIERCE J ROBERTS, JR **Pierce J. Roberts, Jr.**	Director	March 31, 2003
/s/ JACK SHAW **Jack Shaw**	Director	March 31, 2003
R. Stephen Hicks	Director	March , 2003
/s/ JAMES N PERRY, JR **James N. Perry, Jr.**	Director	March 31, 2003
/s/ THOMAS G ELLIOTT **Thomas G. Elliott**	Director	March 31, 2003

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

CERTIFICATIONS

I, Hugh Panero, President and Chief Executive Officer of XM Satellite Radio Holdings Inc , 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 annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have.

a) Designed such disclosure controls and procedures 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 quarterly report is being prepared,

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date,

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses

Date March 31, 2003

By: /s/ HUGH PANERO

Hugh Panero
President and Chief Executive Officer
(principal executive officer)

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CERTIFICATIONS

I, Joseph J. Euteneuer, Executive Vice President and Chief Financial Officer of XM Satellite Radio Holdings Inc , 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 annual 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 annual report,

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures 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 annual report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5 The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls, and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses

Date· March 31, 2003

By /s/ JOSEPH J. EUTENEUER

Joseph J. Euteneuer
Executive Vice President and Chief Financial Officer
(principal financial officer)

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XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

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Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
XM Satellite Radio Holdings Inc ·

We have audited the accompanying consolidated balance sheets of XM Satellite Radio Holdings Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2002 These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of XM Satellite Radio Holdings Inc and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America

As discussed in Note 1(g) to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

/s/ KPMG LLP

McLean, VA
March 27, 2003

Source· XM SATELLITE RADIO H, 10-K, March 31, 2003

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2002 AND 2001

	2002	2001
	(In thousands, except share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 32,818	$ 182,497
Short-term investments	9,997	28,355
Restricted investments	25,014	44,861
Accounts receivable, net of allowance for doubtful accounts of $241 and $10	3,756	478
Due from related parties	1,478	—
Prepaid and other current assets	10,362	15,720
Total current assets	83,425	271,911
Restricted investments, net of current portion	4,728	27,898
System under construction	55,016	55,056
Property and equipment, net of accumulated depreciation and amortization of $158,266 and $41,155	847,936	922,149
DARS license, net of accumulated amortization of $2,229 and $2,229	144,042	144,042
Intangibles, net of accumulated amortization of $3,172 and $1,697	9,690	11,165
Goodwill, net of accumulated amortization of $0 and $2,277	—	11,461
Deferred financing fees & other assets, net of accumulated amortization of $3,898 and $2,167	15,443	12,521
Total assets	$ 1,160,280	$ 1,456,203
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 40,006	$ 36,559
Accrued expenses	46,924	22,043
Accrued network optimization expenses	2,201	8,595
Current portion of long-term debt	3,845	1,910
Due to related parties	13,410	26,052
Accrued interest	16,651	15,664
Deferred revenue	9,925	1,055
Total current liabilities	132,962	111,878
Long-term debt, net of current portion	412,540	411,520
Due to related parties, net of current portion	10,618	—
Deferred revenue, net of current portion	2,372	—
Other non-current liabilities	9,477	6,154
Total liabilities	567,969	529,552
Stockholders' equity		
Series A convertible preferred stock, par value $0 01 (liquidation preference of $102,739 at December 31, 2002 and December 31, 2001), 15,000,000 shares authorized, 10,786,504 shares issued and outstanding at December 31, 2002 and December 31, 2001	108	108
Series B convertible redeemable preferred stock, par value $0 01 (liquidation preference of $43,364 at December 31, 2002 and December 31, 2001), 3,000,000 shares authorized, 867,289 shares issued and outstanding at December 31, 2002 and December 31, 2001	9	9
Series C convertible redeemable preferred stock, par value $0 01 (liquidation preference of $239,508 and $263,664 at December 31, 2002 and December 31, 2001, respectively), 250,000 shares authorized, 200,000 shares and 235,000 shares issued and outstanding at December 31, 2002 and December 31, 2001, respectively.	2	2
Series D convertible redeemable preferred stock, par value $0 01 (liquidation preference of $0 at December 31, 2002 and December 31, 2001), 250,000 shares and no shares authorized at December 31, 2002, and December 31, 2001, no shares issued and outstanding at December 31, 2002 and December 31, 2001	—	—
Class A common stock, par value $0 01, 225,000,000 shares and 180,000,000 shares authorized at December 31, 2002 and December 31, 2001, respectively, 91,706,056 shares and 74,482,168 shares issued and outstanding at December 31, 2002 and December 31, 2001, respectively	917	745
Class B common stock, par value $0 01; no shares and 30,000,000 shares authorized at December 31, 2002 and December 31, 2001, respectively, no shares issued and outstanding at December 31, 2002 and December 31, 2001	—	—
Class C common stock, par value $0 01, 15,000,000 shares and 30,000,000 shares authorized at December 31, 2002 and December 31, 2001, respectively, no shares issued and outstanding at December 31, 2002 and December 31, 2001	—	—
Additional paid-in capital	1,477,261	1,316,761
Accumulated deficit	(885,986)	(390,974)
Total stockholders' equity	592,311	926,651
Commitments and contingencies		
Total liabilities and stockholders' equity	$ 1,160,280	$ 1,456,203

See accompanying notes to consolidated financial statements.

Source XM SATELLITE RADIO H, 10-K, March 31, 2003

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2000
	(in thousands, except share amounts)		
Revenue			
Subscriber revenue	$ 17,585	$ 246	$ —
Net ad sales revenue	2,333	251	—
Royalties & other	263	36	—
Total revenue	20,181	533	—
Operating expenses:			
Cost of revenue (excludes depreciation & amortization, shown below):			
Revenue share & royalties	12,954	687	—
Customer care & billing	15,627	5,720	699
Satellite & terrestrial	44,818	62,641	8,104
Broadcast & operations	19,851	21,041	19,570
Programming & content	25,379	17,649	4,025
Cost of revenue	118,629	107,738	32,398
Research & development (excludes depreciation and amortization, shown below)	10,843	13,689	11,948
General & administrative (excludes depreciation and amortization, shown below)	26,448	21,168	17,312
Marketing & ad sales (excludes depreciation and amortization, shown below)	172,992	96,884	14,248
Impairment of goodwill	11,461	—	—
Depreciation & amortization	118,588	42,660	3,573
Total operating expenses	458,961	282,139	79,479
Operating loss	(438,780)	(281,606)	(79,479)
Other income (expense)			
Interest income	5,111	15,198	27,606
Interest expense	(63,573)	(18,131)	—
Other income (expense)	2,230	160	—
Net loss	(495,012)	(284,379)	(51,873)
8.25% Series B preferred stock dividend requirement	(3,766)	(3,766)	(5,935)
8.25% Series C preferred stock dividend requirement	(17,093)	(19,387)	(9,277)
Series B preferred stock deemed dividend	—	—	(11,211)
Series C preferred stock beneficial conversion feature	—	—	(123,042)
Net Loss attributable to common stockholders	$ (515,871)	$ (307,532)	$ (201,338)
Net loss per share:			
Basic and diluted	$ (5.95)	$ (5.13)	$ (4.15)
Weighted average shares used in computing net loss per share—basic and diluted	86,735,257	59,920,196	48,508,042

See accompanying notes to consolidated financial statements.

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2000
		(in thousands)	
Cash flows from operating activities			
Net loss	$ (495,012)	$ (284,379)	$ (51,873)
Adjustments to reconcile net loss to net cash used in operating activities:			
Bad debt expense	493	10	—
Barter Revenue	(330)	—	—
Depreciation and amortization	118,588	42,660	3,573
Loss on disposal computer equipment	—	197	204
Amortization of deferred financing fees and debt discount	5,323	—	—
Non-cash stock-based compensation	1,507	4,867	2,743
Impairment of goodwill	11,461	—	—
Changes in operating assets and liabilities:			
Increase in accounts receivable	(3,771)	(488)	—
Increase in due from related parties	(1,478)	—	—
(Increase) Decrease in prepaid and other current assets	5,688	(6,905)	(7,738)
Increase in accounts payable and accrued expenses	20,349	29,531	16,026
Increase in amounts due to related parties	30,664	2,696	26
Increase in deferred revenue	11,242	—	—
Increase in accrued interest	987	8,763	—
Net cash used in operating activities	(294,289)	(203,048)	(37,447)
Cash flows from investing activities:			
Purchase of property and equipment	(35,598)	(58,520)	(41,925)
Additions to system under construction	(32,813)	(142,321)	(424,342)
Net purchase/maturity of short-term investments	18,358	(28,355)	69,472
Net purchase/maturity of restricted investments	45,500	40,317	(106,338)
Other investing activities	(2,483)	(32,482)	(56,268)
Net cash used in investing activities	(7,036)	(221,361)	(559,401)
Cash flows from financing activities:			
Proceeds from sale of common stock and capital contribution	159,074	199,219	133,235
Proceeds from issuance of Series B convertible redeemable preferred stock	—	—	96,472
Proceeds from issuance of 14% senior secured notes and warrants	—	—	322,889
Proceeds from issuance of Series C convertible redeemable preferred stock	—	—	226,822
Proceeds from issuance of 7.75% convertible subordinated notes	—	125,000	—
Payments on mortgage on corporate facility	(335)	29,000	—
Proceeds from loan payable	—	35,000	—
Payments on capital lease obligations	(2,440)	—	—
Payments for deferred financing costs	(4,653)	(6,124)	(8,365)
Other net financing activities	—	(92)	—
Net cash provided by financing activities	151,646	382,003	771,053
Net increase (decrease) in cash and cash equivalents	(149,679)	(42,406)	174,205
Cash and cash equivalents at beginning of period	182,497	224,903	50,698
Cash and cash equivalents at end of period	$ 32,818	$ 182,497	$ 224,903

See accompanying notes to consolidated financial statements.

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	Series A Convertible Preferred Stock		Series B Convertible Redeemable Preferred Stock		Series C Convertible Redeemable Preferred Stock		Class A Common Stock		Class B Common Stock		Class C Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
	(in thousands, except share data)														
Balance at January 1, 2000	10,786,504	$ 108	—	$ —	—	$ —	26,465,333	$ 265	17,872,176	$ 179	—	$ —	$ 539,187	$ (54,722)	$ 485,017
Secondary public offering	—	—	—	—	—	—	4,370,000	44	—	—	—	—	132,026	—	$ 132,070
Sale of Series B convertible redeemable preferred stock	—	—	2,000,000	20	—	—	—	—	—	—	—	—	96,452	—	96,472
Sale of Series C convertible redeemable preferred stock	—	—	—	—	235,000	2	—	—	—	—	—	—	226,820	—	226,822
Incentivized conversion of Series B convertible redeemable preferred stock	—	—	(1,132,711)	(11)	—	—	1,700,016	17	—	—	—	—	(6)	—	—
Sale of warrants to purchase Class A common stock	—	—	—	—	—	—	—	—	—	—	—	—	63,536	—	63,536
Conversion of Class B common stock	—	—	—	—	—	—	1,314,914	13	(1,314,914)	(13)	—	—	—	—	—
Series B convertible redeemable preferred stock dividends	—	—	—	—	—	—	145,166	1	—	—	—	—	(1)	—	—
Issuance of shares to employees through stock option and purchase plans	—	—	—	—	—	—	73,565	1	—	—	—	—	1,164	—	1,165
Non-cash stock compensation	—	—	—	—	—	—	5,000	—	—	—	—	—	2,743	—	2,743
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(51,873)	(51,873)
Balance at December 31, 2000	10,786,504	$ 108	867,289	$ 9	235,000	$ 2	34,073,994	$ 341	16,557,262	$ 166	—	$ —	$ 1,061,921	$ (106,595)	$ 955,952
Conversion of Class B common stock	—	—	—	—	—	—	16,557,262	166	(16,557,262)	(166)	—	—	—	—	—
Incentivized conversion of convertible subordinated notes to Class A common stock	—	—	—	—	—	—	4,194,272	42	—	—	—	—	50,950	—	50,992
Secondary public offerings	—	—	—	—	—	—	19,000,000	190	—	—	—	—	197,896	—	198,086
Series B convertible redeemable preferred stock dividends	—	—	—	—	—	—	466,180	5	—	—	—	—	(5)	—	—
Issuance of shares to employees through stock option and purchase plans	—	—	—	—	—	—	190,460	1	—	—	—	—	1,132	—	1,133
Non-cash stock compensation	—	—	—	—	—	—	—	—	—	—	—	—	4,867	—	4,867
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(284,379)	(284,379)
Balance at December 31, 2001	10,786,504	$ 108	867,289	$ 9	235,000	$ 2	74,482,168	$ 745	—	$ —	—	$ —	$ 1,316,761	$ (390,974)	$ 926,651
Conversion of Series C convertible preferred	—	—	—	—	(35,000)	—	1,964,354	19	—	—	—	—	(19)	—	—

stock															
Secondary public offering	—	—	—	—	—	—	14,477,443	145	—	—	—	—	157,985	—	158,130
Issuance of shares to employees through stock option and purchase plans	—	—	—	—	—	—	200,751	2	—	—	—	—	1,032	—	1,034
Series B convertible redeemable preferred stock dividends	—	—	—	—	—	—	581,340	6	—	—	—	—	(5)	—	1
Non-cash stock compensation	—	—	—	—	—	—	—	—	—	—	—	—	1,507	—	1,507
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(495,012)	(495,012)
Balance at December 31, 2002	10,786,504	$ 108	867,289	$ 9	200,000	$ 2	91,706,056	$ 917	—	$ —	—	$ —	$ 1,477,261	$ (885,986)	$ 592,311

See accompanying notes to consolidated financial statements

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

(1) Summary of Significant Accounting Policies and Practices

(a) Nature of Business

XM Satellite Radio Inc. ("XMSR"), was incorporated on December 15, 1992 in the State of Delaware for the purpose of operating a digital audio radio service ("DARS") under a license from the Federal Communications Commission ("FCC"). XM Satellite Radio Holdings Inc. (the "Company") was formed as a holding company for XMSR on May 16, 1997. In 2001, the Company's satellites, "Rock" and "Roll", were successfully launched on March 18, 2001 and May 8, 2001, respectively. The Company commenced commercial operations in two markets on September 25, 2001 and completed its national rollout on November 12, 2001.

(b) Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of XM Satellite Radio Holdings Inc. and its subsidiaries All significant intercompany transactions and accounts have been eliminated The Company emerged from the development stage in the fourth quarter of 2001 as its principal operations had commenced and its national rollout had been completed Accordingly, the Company revised the presentation of its Consolidated Statements of Operations to reflect that of a commercial enterprise

(c) Cash and Cash Equivalents

The Company considers short-term, highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company had the following cash and cash equivalents balances (in thousands):

	December 31,	
	2002	2001
Cash on deposit	$ 9,286	$ (4,216)
Overnight investments	—	140,250
Money market funds	18,527	2,794
Commercial paper	5,005	43,669
	$ 32,818	$ 182,497

(d) Short-term Investments

At December 31, 2002 and 2001, the Company held commercial paper with maturity dates of less than one year that were stated at amortized cost, which approximated fair value

(e) Restricted Investments

Restricted investments consist of fixed income securities and are stated at amortized cost plus accrued interest income At December 31, 2002 and 2001, restricted investments represented securities held in escrow to secure the Company's future performance with regard to certain contracts and obligations, which include the interest payments required on the Company's 14% senior secured notes due 2010 through March 2003, payments

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

under the Hughes Electronics Corporation ("Hughes") terrestrial repeater contract, and certain facility leases and other secured credits. The interest reserve consists of US Treasury securities and are classified as held-to-maturity investments The remaining investments are principally money market funds and certificates of deposit. The amortized cost, gross unrealized holding gains, gross unrealized holding losses and fair value of the restricted investments at December 31, 2002 and 2001, were as follows (in thousands):

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
At December 31, 2002:				
Interest reserve	$ 22,914	$ 126	$ —	$ 23,040
Contract escrow	—	—	—	—
Collateral for letters of credit and other secured credit	6,828	—	—	6,828
	$ 29,742	$ 126	$ —	$ 29,868
At December 31, 2001:				
Interest reserve	$ 66,020	$ 1,354	$ —	$ 67,374
Contract escrow	2,930	—	—	2,930
Collateral for letters of credit and other secured credit	3,809	—	—	3,809
	$ 72,759	$ 1,354	$ —	$ 74,113

XM Satellite Radio established a restricted cash account for the purpose of satisfying certain interest payments on its 14% high-yield notes maturing in 2010 in March 2000 Cash maintained in the restricted account is primarily invested in a US Treasury Strip As of December 31, 2002, XM had one Treasury Strip investment on a held-to-maturity basis maturing in February 2003 The fair value of the US Treasury Strips at December 31, 2002, was $22,713,600, and the maturity value was $22,750,000. The remainder of the balance consisted of a $200,000 Treasury Bill that matures in March 2003.

(f) Accounts Receivable

Accounts receivable is recorded at the invoiced amount The allowance for doubtful accounts is the Company's best estimate of the amount of probable losses in the Company's existing accounts receivable The Company determines the allowance based on the Company's actual write-off experience

Source. XM SATELLITE RADIO H, 10-K, March 31, 2003

(g) Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization Equipment under capital leases is stated at the present value of minimum lease payments Depreciation and amortization is calculated using the straight-line method over the following estimated useful lives:

Spacecraft system	6.75 years
Terrestrial repeater network	5–10 years
Spacecraft control facilities	17.5 years
Broadcast facilities	3–7 years
Computer systems	3–7 years
Building and improvements	20 years
Furniture and fixtures	3–7 years
Equipment under capital leases and leasehold improvements	Lesser of useful life or remaining lease term

Depreciation of the Company's in-orbit satellites commenced in May and June 2001 upon their acceptance from Boeing Satellite Systems (BSS). Amortization and depreciation of the ground systems/spacecraft control facilities and related computer systems commenced on September 25, 2001, which was the date the service was launched in the Company's lead markets Depreciation of the broadcast facilities and the terrestrial repeaters commenced when they were placed in service

In September 2001, BSS advised the Company of a progressive degradation problem with the solar array output power of Boeing 702 class satellites, including XM "Rock" and XM "Roll." At the present time, the output power of the solar arrays and the broadcast signal strength are above minimum acceptable levels and are expected to remain that way at least through 2005, permitting full operation of the XM System (based on patterns

Source. XM SATELLITE RADIO H, 10-K, March 31, 2003

projected by BSS). The Company has launch and in-orbit insurance policies that provide coverage to the Company for a total, constructive total or partial loss of either of its satellites where such loss arises from an occurrence within the first five years after launch (both satellites were launched during the first half of 2001). The aggregate sum insured in the event of the total or constructive total loss of the Company's satellites is $400 million ($200 million per satellite) In September 2001, the Company advised its insurance carriers that the aforementioned solar array situation was likely to result in a claim under its in-orbit insurance policies and, in the first quarter of 2003, the Company filed a claim with the insurance carriers for the aggregate sum insured (less applicable salvage); the Company believes it will ultimately receive insurance payments adequate to launch its spare satellite and commence work on an additional satellite, although there is no assurance that will be the case Since the issue is common to Boeing 702 class satellites, the Company and the manufacturer are closely watching the progression of the problem, including data from a satellite that has been in orbit longer than either of its two satellites by approximately 15 and 17 months, respectively With this advance visibility of performance levels, insurance arrangements in place and claim filed, a spare satellite under construction that is being modified to address the solar power anomaly, the ability to provide full service for some period of time with Rock and Roll collocated in one orbit slot and the spare located in the other slot (which would allow partial use of the existing satellites through the first quarter of 2008), availability of comparable satellites from more than one vendor, and various mitigation actions to extend the full or partial use of the satellites, the Company believes that it will be able to launch additional satellites prior to the time the solar power problem might cause the broadcast signal strength to fall below minimum acceptable levels. Based on the consistency of the degradation trends (with no substantial improvement to date) and continuing analyses by BSS and the Company, the Company's management adjusted the estimated useful lives of the Company's in-orbit satellites, with effect from September 2002, to the period running through first quarter 2008 (approximately 6 75 years from launch) The Company's management will continue to monitor this situation carefully and may re-adjust the estimated useful lives of its in-orbit satellites based on future information The Company is not recording an impairment at this time, due to its forecasted cash flows (which are sufficient to recover the system assets), however, should the Company reduce or not meet its forecasted cash flows or reduce further the estimated useful lives of the satellites, the Company may be required to record an impairment (which may be substantial) at that time The Company has not adjusted the estimated useful lives of its spacecraft control facilities, as the Company believes that these facilities will continue to be of use in its system. The following table shows what net income would have been in all periods presented had the satellites been depreciated at the reduced lives.

	Year ended December 31,		
	2002	2001	2000
	(amounts in thousands, except per share data)		
Net loss as reported attributable to common stockholders	$ 515,871	$ 307,532	$ 201,338
Add affect of change on depreciation of satellites	31,622	26,575	—
Adjusted net loss attributable to common stockholders	$ 547,493	$ 334,107	$ 201,338
Per share amounts			
Adjusted net loss per share—basic and diluted	$ 6 31	$ 5 58	$ 4.15

SFAS No 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, (SFAS No 144) provides a single accounting model for long-lived assets to be disposed of SFAS No 144 also changes the criteria for classifying an asset as held for sale; and broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. The Company adopted SFAS No. 144 on January 1, 2002 The adoption of SFAS No. 144 did not affect the Company's financial statements.

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

In accordance with SFAS No. 144, long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Goodwill and intangible assets not subject to amortization are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

Prior to the adoption of SFAS No. 144, the Company accounted for long-lived assets in accordance with SFAS No 121, *Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*

(h) DARS License, Goodwill and Other Intangible Assets

The Company adopted the provisions of SFAS No. 141, *Business Combinations* ("SFAS No 141") and SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No 142") as of January 1, 2002 SFAS No. 141 requires that the purchase method of accounting be used for all business combinations. SFAS No 141 establishes criteria which intangible assets acquired in a business combination must meet in order to be recognized and reported separately from goodwill SFAS No 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No 142 SFAS No 142 also requires that intangible assets with estimated useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with SFAS No. 144

In applying the standards established by SFAS No. 142, the Company determined that its DARS license was an intangible asset having an indefinite useful life While the DARS license has a renewable eight-year term, the Company believes 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 the Company has met all of the established milestones specified in the FCC license agreement. The Company also anticipates no difficulties in renewing the license as long as the Company continues to adhere to the various regulatory requirements established in the license grant Although the Company faces competition from a variety of sources, the Company does not believe that the risk of the technology becoming obsolete or that a decrease in demand for the DARS service is significant. Further, the Company believes that its license is comparable with the licenses granted to other broadcasters, which are also classified as indefinite lived intangible assets. Upon adoption, the Company was required to evaluate its existing acquired intangible assets and goodwill, and to make any necessary reclassifications in order to conform to the new classification criteria in SFAS No. 141 for recognition separate from goodwill. The Company was also required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments. Since the Company's DARS license, with a carrying amount of $144,042,000 at January 1, 2002, is an intangible asset having an indefinite useful life, it was tested for impairment in accordance with the provisions of SFAS No. 142. Impairment is measured as the excess of carrying value over the fair value of an intangible asset with an indefinite life. Based on the Company's analysis, no impairment existed. In connection with SFAS No. 142's transitional goodwill impairment evaluation, the Company is required to

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. The goodwill balance was $11,461,000 as of January 1, 2002. The Company identified one reporting unit and determined the carrying value; the fair value of the reporting unit was computed by determining its enterprise value, which consisted of the Company's market capitalization and the fair value its long-term debt The Company determined that the fair value exceeded the carrying value and that there were no indications that goodwill had been impaired.

Amortization expense related to goodwill was $0, $915,000 and $918,000, during the years ended December 31, 2002, 2001 and 2000, respectively Amortization expense for the DARS license was $0, $2,229,000 and $0, during the years ended December 31, 2002, 2001 and 2000, respectively. The DARS license did not start being amortized until September 25, 2001, when the Company commenced commercial operations, and no amortization has been taken since January 1, 2002, when the Company adopted SFAS No. 142. Amortization expense for the other intangibles was $1,475,000, $460,000 and $461,000 during the years ended December 31, 2002, 2001 and 2000, respectively. The Company did not begin amortizing the $8,022,000 related to acquired programming agreements until September 25, 2001, when the Company commenced commercial operations. The Company is continuing to amortize intangible assets consisting of programming and receiver agreements that had a carrying value of $9,690,000 and $11,165,000, respectively, as of December 31, 2002, over their estimated useful lives of 10 years The estimated amortization for the programming and receiver agreements for the years ended 2003 to 2007 is $1,262,000 for each year

As part of the annual impairment testing, the Company performed an assessment of the fair value of its sole reporting unit as defined by SFAS No 142 and compared it to the carrying value of its reporting unit The Company's market capitalization had fallen below the Company's book value, indicating that the reporting unit's indefinite lived intangible assets, goodwill and the DARS license, may be impaired. The Company recorded an impairment charge of $11 5 million to write-off the entire net book value of its goodwill upon completing the annual impairment review required by SFAS No. 142, as fully described in note 4

The following table shows what net income would have been in all periods presented exclusive of amortization expense recognized in those periods related to goodwill and indefinite-lived intangible assets (both of which are no longer amortized under the provisions of SFAS No. 142).

	Year ended December 31,		
	2002	2001	2000
	(amounts in thousands, except per share data)		
Net loss attributable to common stockholders	$ (515,871)	$ (307,532)	$ (201,338)
Add back: Amortization of goodwill amortization	—	915	918
Amortization of DARS license	—	2,229	—
Amortization of other intangibles	1,475	460	461
Adjusted net loss attributable to common stockholders	$ (514,396)	$ (303,928)	$ (199,959)
Per share amounts			
Adjusted net loss per share	$ (5.93)	$ (5 07)	$ (4 12)

Source· XM SATELLITE RADIO H, 10-K, March 31, 2003

(i) Deferred Financing Fees and Other Assets

Deferred financing fees consist primarily of attorney, accounting, printer and banker fees associated with our debt financing Deferred financing fees are amortized over the life of the corresponding debt facility.

(j) Revenue Recognition

The Company derives revenue primarily from basic and premium subscriber subscription and activation fees as well as advertising.

Subscriber revenue, which is generally billed in advance, consists of (i) fixed charges for service, which are recognized as the service is provided and (ii) non-refundable activation fees that are recognized ratably over the expected 40-month life of the customer relationship. Direct activation costs are expensed as incurred Promotions and discounts are treated as a reduction to revenue during the period of the promotion. Sales incentives, consisting of rebates to subscribers, offset earned revenue.

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

Advertising revenue for the year ended December 31, 2002 included advertisements sold in exchange for goods and services (barter) recorded at fair value Revenue from barter transactions is recognized when advertisements are broadcast Merchandise or services received are charged to expense when received or used. Barter transactions are not significant to the Company's consolidated financial statements

(k) Stock-Based Compensation

The Company accounts for stock-based compensation arrangements in accordance with the provisions of Accounting Principle Board ("APB") Opinion No 25, *Accounting for Stock Issued to Employees* ("APB 25"),

Source. XM SATELLITE RADIO H, 10-K, March 31, 2003

and related interpretations including FASB Interpretation ("FIN") No 44, *Accounting for Certain Transactions Involving Stock Compensation*, an interpretation of APB opinion No. 25 issued in March 2000, and complies with the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation. Under APB 25, compensation expense is based upon the difference, if any, on the date of grant, between the fair value of the Company's stock and the exercise price. All stock-based awards to non-employees are accounted for at their fair value in accordance with SFAS No 123

The Company adopted FIN No. 44 in July 2000 to account for stock options that were repriced in July 1999. The application resulted in additional compensation of $1,000 and $1,232,000 during the year ended December 31, 2002 and 2001, respectively. Additional compensation charges may result depending upon the market value of the common stock at each balance sheet date.

At December 31, 2002, the Company had one stock-based employee compensation plan, which is described more fully in note 10 (h). The Company accounts for the plan under the recognition and measurement principles of APB Opinion No 25, *Accounting for Stock Issued to Employees*, and related Interpretations No stock-based employee compensation cost is reflected in net income (loss), as all options granted under the plan had an exercise price equal to the determined market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income (loss) if the Company had applied the fair value recognition provisions of SFAS No 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation

	2002	2001	2000
	(amounts in thousands, except per share data)		
Net income (loss) attributable to common stockholders, as reported	$ (515,871)	$ (307,532)	$ (201,338)
Add stock-based employee compensation expense included in net income (loss), net of tax	941	2,540	2,557
Less: Total stock-based employee compensation expense determined under fair value-based method for all awards	(23,067)	(18,693)	(10,801)
Pro forma net loss	$ (537,997)	$ (323,685)	$ (209,582)
As reported – net loss per share – basic and diluted	(5.95)	(5.13)	(4 15)
Pro forma – net loss per share – basic and diluted	(6 20)	(5.40)	(4 32)

(l) Research & Development

Research & development costs are expensed as incurred

(m) Advertising & Marketing

Advertising & marketing costs, including media, events, training and marketing materials for retail and automotive dealer points of presence, are discretionary costs that are expensed as incurred These costs are included in marketing & ad sales During the years ended December 31 2002, 2001, and 2000, the Company expensed $90 5 million, $74 8 million, and $6.7 million, respectively.

(n) Net Income (Loss) Per Share

The Company computes net income (loss) per share in accordance with SFAS No. 128, *Earnings Per Share* and SEC Staff Accounting Bulletin No. 98 ("SAB 98"). Under the provisions of SFAS No. 128 and SAB 98, basic net income (loss) per share is computed by dividing the net income (loss) available to common

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

stockholders (after deducting preferred dividend requirements) for the period by the weighted average number of common shares outstanding during the period Diluted net income (loss) available per share is computed by dividing the net income (loss) available to common stockholders for the period by the weighted average number of common and dilutive common equivalent shares outstanding during the period. The Company has presented historical basic and diluted net income (loss) per share in accordance with SFAS No 128 As the Company had a net loss in each of the periods presented, basic and diluted net income (loss) per share is the same

(o) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and the financial reporting amounts at each year-end and operating loss and tax credit carryforwards, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized Income tax expense is the sum of taxes payable for the period and the change during the period in deferred tax assets and liabilities.

(p) Comprehensive Income

The Company has not engaged in any transactions during the years ended December 31, 2002, 2001 and 2000 that would be classified as other comprehensive income

(q) Accounting Estimates

The preparation of the Company's consolidated financial statements in conformity with 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, various future factors which are difficult to predict and are beyond the control of the Company. Significant estimates include valuation of the Company's investment in the DARS license, the allowance for doubtful accounts, the valuation of goodwill and intangible assets, the recoverability of the XM Radio System assets, the costs to terminate certain terrestrial repeater site leases, the allocation of purchase price of assets acquired, the estimated life of a subscriber's subscription, the payments to be made to distributors and manufacturers for radios sold or activated, the amount of royalties to be paid on radios and/or components manufactured or revenue generated, the amount of stock-based compensation arrangements and the valuation allowances against deferred tax assets Accordingly, actual amounts could differ from these estimates.

Payments owed to manufacturing and distribution partners are expensed during the month in which the manufacture, sale, and/or activation of the radio unit occurs The amount of these expenses are dependent upon units provided by internal Company systems and processes (i e subscriber management system and supply chain management system) and partner systems and processes However, due to lags in receiving manufacturing and sales data from partners, estimates of amounts due are necessary in order to record monthly expenses In subsequent months when lagged data is received from partners, expenses are reconciled, and adjusted where necessary Since launching commercial operations, the Company continues to refine the estimation process based on an increased understanding of the timing lags, and close working relationships with business partners Estimates recorded on the Company's books are generally adjusted to actuals within two months

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

(r) Reclassifications

Certain 2001 and 2000 amounts have been reclassified to conform to the current year presentation

(s) Derivative Instruments and Hedging Activities

In June 1998, the FASB issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. In June 2000 the FASB issued SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activity*, an amendment of SFAS 133. SFAS No. 133 and SFAS No. 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values SFAS No 133 and SFAS No. 138 are effective for all fiscal quarters of all fiscal years beginning after June 30, 2000. The Company adopted SFAS No. 133 and SFAS No. 138 on January 1, 2001. The Company has reviewed its contracts and has determined that it has no stand alone derivative instruments and does not engage in hedging activities

(t) Recent Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143, which is effective January 1, 2003, requires entities to record the fair value of a legal liability for an asset retirement obligation in the period in which it is incurred. When a new liability is recorded beginning in 2003, the entity will capitalize the costs of the liability by increasing the carrying amount of the related long-lived asset The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset Upon settlement of the liability, an entity settles the obligation for its recorded amount or incurs a gain or loss upon settlement The Company will adopt SFAS No. 143 effective January 1, 2003, and does not expect the adoption of SFAS No 143 to have a material effect on its financial statements.

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections* SFAS No 145 amends existing guidance on reporting gains and losses on the extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies SFAS No. 145 also amends SFAS No 13 to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of the Statement related to the rescission of Statement No. 4 is applied in fiscal years beginning after May 15, 2002. Earlier application of these provisions is encouraged The provisions of the Statement related to Statement No. 13 were effective for transactions occurring after May 15, 2002, with early application encouraged The adoption of SFAS No. 145 is not expected to have a material effect on the Company's financial statements

In June 2002, the FASB issued SFAS No 146, *Accounting for Costs Associated with Exit or Disposal Activities* SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when incurred at fair value The Statement in turn eliminates the definition and requirements of EITF Issue 94-3 SFAS No 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 may have an effect on the timing of future restructuring charges taken, if and when they occur.

In November 2002, the FASB issued Interpretation No 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34* This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at

Source XM SATELLITE RADIO H, 10-K, March 31, 2003

inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on the Company's financial statements The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002.

In December 2002, the FASB issued SFAS No 148, *Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No 123* This Statement amends FASB Statement No. 123, *Accounting for Stock-Based Compensation,* to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to these consolidated financial statements.

In January 2003, the FASB issued Interpretation No 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51.* This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003 For public enterprises with a variable interest in a variable interest entity created before February 1, 2003, the Interpretation is applied to that enterprise no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. The application of this Interpretation is not expected to have a material effect on the Company's financial statements The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective

The Emerging Issues Task Force issued EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables* addressing the allocation of revenue among products and services in bundled sales arrangements EITF 00-21 is effective for arrangements entered into in fiscal periods after June 15, 2003 Based on the Company's current sales and marketing programs, the Company does not anticipate the application of the new pronouncement will have a material impact on the Company's financial statements However, the Company's sales and marketing programs may change over time and the Company will continue to evaluate the applicability of EITF 00-21 as it relates to sales of service and hardware

(2) Liquidity

The Company is devoting its efforts to market its digital audio radio service and to increase its subscriber base This effort involves substantial risk and future operating results will be subject to significant business, economic, regulatory, technical, and competitive uncertainties and contingencies. The Company commenced commercial operations in the fourth quarter of 2001 and has an accumulated deficit of $886 million On January 28, 2003, the Company completed a $475 million financing, which included $225 million of new funds (bringing to $1.9 billion the amount of equity and debt raised) and $250 million of payment deferrals and a line of credit Following completion of this January 2003 financing, so long as the Company meets the revenue, expense and cash flow projections of its refined business plan, the Company expects to be fully funded and will not need to raise additional financing to continue operation. The Company's business plan contemplates the use of either insurance proceeds and/or vendor financing to launch replacement satellite(s).

(3) Related Party Transactions

The Company had the following amounts due from related parties at December 31, 2002 and 2001 (in thousands):

	December 31,	
	2002	2001
General Motors Corporation ("GM")	$ 1,478	$ —

Source. XM SATELLITE RADIO H, 10-K, March 31, 2003

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

The Company had the following amounts outstanding to related parties at December 31, 2002 and 2001 (in thousands):

	December 31,	
	2002	2001
GM	$ 20,908	$ 656
Hughes	58	7,686
DIRECTV, Inc. ("DIRECTV")	3	50
Clear Channel	3,059	2,101
LCC International ("LCCI")	—	15,407
Motient	—	152
	$ 24,028	$ 26,052

During November 2002, the Company initiated joint promotional activities with General Motors targeted at new GM car buyers who subscribe to XM service. At December 31, 2002, approximately 31,000 (unaudited) subscribers took advantage of the joint promotion. In addition, GM purchased XM service for approximately 7,000 (unaudited) of their dealers. These subscribers are included in the Company's year-end subscriber totals. Subscriber revenues earned from related parties are as follows (in thousands)

	Year ended December 31,		
		GM	
	2002	2001	2000
Subscriber Revenue	$ 256	—	—

The Company has relied upon certain related parties for legal, technical marketing and other services during the years ended December 31, 2002, 2001 and 2000 Total costs incurred in transactions with related parties are as follows (in thousands)·

	Year ended December 31, 2002					
	GM	Hughes	DIRECTV	Clear Channel	LCCI	Motient
Terrestrial repeater network engineering and manufacturing	$ —	$ 10,386	$ —	$ —	$ 3,089	$ —
Terrestrial repeater site leases	—	—	—	57	—	—
Customer care & and billing operations	178	—	—	—	—	—
Marketing & ad sales	29,915	—	125	10,182	—	—
General & administrative	—	—	3	—	—	—

	Year ended December 31, 2001					
	GM	Hughes	DIRECTV	Clear Channel	LCCI	Motient
Terrestrial repeater network engineering and manufacturing	$ —	$ 88,116	$ —	$ —	$ 59,958	$ —
Terrestrial repeater site leases	—	—	—	36	—	—
Customer care & billing operations	—	—	623	—	—	—
Marketing & ad sales	1,264	—	—	4,351	—	—
General & administrative	—	—	—	—	—	193

Source· XM SATELLITE RADIO H, 10-K, March 31, 2003

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

	Year ended December 31, 2000					
	GM	Hughes	DIRECTV	Clear Channel	LCCI	Motient
Terrestrial repeater network engineering and manufacturing	$ —	$ 11,858	$ —	$ —	$ 58,731	—
Terrestrial repeater site leases	—	—	—	5	—	—
Customer care & billing operations	—	—	1,008	—	—	—
Marketing & ad sales	—	—	—	3,175	—	—
General & administrative	—	—	—	3	—	252

(a) GM

In 1999, the Company established a distribution agreement with GM (see note 15 (f)). Under the terms of the agreement, GM distributes the XM Radio Service in various models of its vehicles This agreement was amended in June 2002 and January 2003 (see note 15(f))

(b) Hughes

In 1999, the Company entered into a terrestrial repeater manufacturing agreement with Hughes (see note 15 (e)).

(c) DIRECTV

In 1999, the Company entered into a consulting services agreement with DIRECTV. The agreement provides for DIRECTV professionals to aid the Company's efforts in establishing its customer care center and billing operations on a time and materials basis.

(d) Clear Channel

Pursuant to an operational assistance agreement with Clear Channel Communications, the Company receives programming service In addition, in 2000, the Company entered into a sponsorship agreement with SFX Marketing, now Clear Channel Entertainment, to advertise our service at Clear Channel Entertainment events and venues. Since 2000, Premiere Radio Networks, a subsidiary of Clear Channel Communications has served as one of our ad sales representatives Under separate agreements, we also run advertisements on a spot and network basis on radio stations owned by Clear Channel Communications

(e) LCCI

In 1999, the Company entered into the LCCI Services Contract (see note 15(e)), and LCCI also provides certain ongoing consulting engineering work for the Company relating to the terrestrial repeater network on a time and materials basis. LCCI ceased to be a related party in 2002.

(f) Motient

In 1998, the Company entered into an agreement with Motient, in which Motient would provide technical and administrative support relating to the Company's operations. Payments for services provided under this agreement were made based on negotiated hourly rates. Motient ceased to be a related party in 2002.

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

(4) Impairment Charge for Goodwill

As part of the annual impairment testing, the Company performed an assessment of the fair value of its sole reporting unit as defined by SFAS No. 142 and compared it to the carrying value of its reporting unit. The Company's market capitalization had fallen below the Company's book value, indicating that the reporting unit's indefinite lived intangible assets, goodwill and the DARS license may be impaired under the test established by SFAS No. 142

The Company determined the fair value of its assets on a class-by-class basis. The fair values of the Company's assets were based upon the expected cash flow from the Company's business, as adjusted for the investment and time that would be required to develop the Company's business, and assuming a discount rate that reflects the degree of risk involved with this type of business. The fair value of the DARS license was in excess of its net book value, and therefore, no impairment was recorded. After valuing all of the Company's remaining assets, the total value of the identifiable, individual tangible and intangible assets was in excess of the value of entire Company based upon market capitalization under SFAS No 142. As such, no value was ascribed to the Company's goodwill Therefore, the Company recorded an impairment charge of $11.5 million as required by SFAS No.142 to write-off the net book value of its goodwill as of November 30, 2002.

(5) System Under Construction

The Company has capitalized costs related to the development of its XM Radio System to the extent that they have future benefits. During 2002 and 2001, the Company placed its Boeing 702 satellites "Rock" and "Roll" into service as well as its DARS license, ground systems/spacecraft control facilities, related computer systems, and its terrestrial repeater network and broadcast facilities by transferring $2,147,000 and $1,000,228,000, respectively, from system under construction to property and equipment and intangibles. The components in system under construction during 2002 and 2001 include the ground spare satellite and costs incurred for the performance broadcasting studio. The amounts recorded as system under construction consist of the following (in thousands)

	December 31,	
	2002	2001
Spacecraft system	$ 55,016	$ 55,016
Broadcast facilities	—	40
	$ 55,016	$ 55,056

Source. XM SATELLITE RADIO H, 10-K, March 31, 2003

(6) Property and Equipment

Property and equipment consists of the following (in thousands):

	2002	2001
Spacecraft system	$ 521,226	$ 521,251
Terrestrial system	266,982	243,755
Spacecraft control facilities	24,848	24,353
Broadcast facilities	59,045	55,686
Land	7,156	7,156
Building and improvements	41,884	42,269
Computer systems, furniture and fixtures, and equipment	85,061	68,834
	1,006,202	963,304
Accumulated depreciation and amortization	(158,266)	(41,155)
Net property and equipment, net	$ 847,936	$ 922,149

In August 2001, the Company acquired its corporate headquarters, which was previously subject to a long-term lease The related leasehold improvements have been classified as buildings and improvements as of December 31, 2001

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

In December 2001, the Company determined that the planned number of terrestrial repeater sites could be reduced due to a network optimization study that was conducted. The Company established a formal plan and recognized a charge of $26,300,000 in 2001 and $4,013,000 in 2002 with respect to the terrestrial repeater sites no longer required The costs are principally related to the site acquisition and build-out of the identified sites These costs have been included within system operations at December 31, 2001 and December 31, 2002. The charge of $26,300,000 in 2001 included $17,705,000 of site-specific capitalized costs that were written off and a lease termination accrual of $8,595,000 for 646 terrestrial repeater site leases. The charge of $4,013,000 in 2002 represents additional costs associated with terminating leases on terrestrial repeater sites no longer required. At December 31, 2002, the Company had recorded a lease termination accrual of $2,202,000 which represents an estimate of the costs to terminate the remaining 98 leases based on management's judgment, advice of lease consultants, and early negotiations with landlords The liability also includes the estimated costs to deconstruct the existing sites, which are based upon quotes from contractors.

(7) Deferred Financing Fees and Other Assets

Deferred financing fees and other assets consist of the following at December 31, 2002 and 2001 (in thousands).

	December 31,	
	2002	2001
14% senior secured notes deferred financing fees	$ 8,868	$ 8,858
7.75% convertible subordinated notes deferred financing fees	2,665	2,665
Mortgage deferred financing fees	496	496
Loan payable deferred financing fees	977	943
January 2003 financing fees (note 16)	4,166	—
Refundable deposits and other long-term prepaid expenses	2,169	1,726
	$ 19,341	$ 14,688
Less accumulated amortization	(3,898)	(2,167)
Deferred financing fees and other assets, net	$ 15,443	$ 12,521

(8) Long-Term Debt

Long-term debt at December 31, 2002 and 2001 consists of the following (in thousands)

	December 31,	
	2002	2001
14% senior secured notes	$ 325,000	$ 325,000
Less unamortized discount on 14% senior secured notes	(57,102)	(60,694)
7.75% convertible subordinated notes	79,057	79,057
Mortgage	28,573	28,909
Loan payable	35,000	35,000
Capital leases	5,857	6,158
Total debt	$ 416,385	$ 413,430
Less current installments	(3,845)	(1,910)
Long-term debt, excluding current installments	$ 412,540	$ 411,520

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
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Long-Term Debt Maturity Table

Year ending December 31:	
2003	3,845
2004	1,394
2005	615
2006	142,633
2007	0
Thereafter	267,898
Total debt	416,385

(a) 14% Senior Secured Notes

On March 15, 2000, the Company closed a private placement of 325,000 units, each unit consisting of $1,000 principal amount of 14% senior secured notes due 2010 of XMSR and one warrant to purchase 8 024815 shares of the Company's Class A common stock at a price of $49.50 per share. The Company realized net proceeds of $191,500,000, excluding $123,000,000 used to acquire securities that will be used to pay interest payments due under the notes for the first six coupons The $325,000,000 face value of the notes was offset by a discount of $65,746,000 associated with the fair value of the related warrants. The Company had amortized $8,644,000 and $5,052,000 of the discount through December 31, 2002 and 2001, respectively See note 10(e) for further discussion regarding adjustments that have occurred to the related warrants See note 16(a) for discussion of the troubled debt restructuring that occurred in January 2003.

(b) 7.75% Convertible Subordinated Notes

On March 6, 2001, the Company closed a public offering of $125,000,000 of its 7 75% convertible subordinated notes due 2006, which yielded net proceeds of $120,700,000 The subordinated notes are convertible into shares of the Company's Class A common stock at a conversion price of $12 23 per share Interest payments on the 7 75% convertible subordinated notes are paid in March and September In July and August 2001, the holders of the 7 75% convertible subordinated notes exchanged $45,900,000 of notes for 4,194,272 shares of the Company's Class A common stock The Company incurred a charge to interest for the incentivized conversion of $6,500,000

(c) Mortgage

On August 24, 2001, the Company entered into a loan and security agreement with a lender that provided it with $29,000,000 to purchase its corporate headquarters and incurred $500,000 in financing costs associated with the transaction. The loan bears interest at 8% until it adjusts on March 1, 2002 to the six month LIBOR rate plus 3 5% The interest rate will then be adjusted every six months and may not exceed the ceiling rate of 14% or the floor rate of 8%. The loan will mature on September 1, 2006. The Company used the proceeds along with $5,000,000 to purchase its corporate headquarters for $34,000,000 and incurred $800,000 in closing costs on the transaction The mortgage is secured by the building and an escrow of $3,000,000 at December 31, 2002. The Company is obligated to either increase the escrow $500,000 in 2003 or establish letters of credit to provide for these obligations.

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

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(d) Loan Payable

On December 5, 2001, the Company entered into a Customer Credit Agreement with Boeing Capital Corporation ("BCC") pursuant to which the Company borrowed $35,000,000 from BCC at an interest rate equal to six-month LIBOR plus 3.5%, increasing to six-month LIBOR plus 4.5% after December 5, 2003, which is compounded annually and payable quarterly in arrears. The principal is due on the earlier of December 5, 2006 or the launch of the ground spare satellite The principal would also become due should the Boeing Satellite Contract (note 15(d)) be terminated. The loan is secured by the Company's interest in the ground spare satellite, excluding its payload

(9) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2002 and 2001 (in thousands). The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties

	December 31,			
	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets.				
Cash and cash equivalents	32,818	32,818	$182,497	$182,497
Short-term investments	9,997	9,997	28,355	28,355
Restricted investments	29,742	29,869	72,759	74,113
Accounts receivable	3,756	3,756	478	478
Due from related parties	1,478	1,478	—	—
Letters of Credit	—	10	—	13
Financial liabilities				
Accounts payable	40,006	40,006	36,559	36,559
Accrued expenses	46,924	46,924	22,541	22,541
Accrued network optimization expenses	2,201	2,201	8,595	8,595
Due to related parties	24,028	24,028	26,052	26,052
Total debt	416,385	317,529	413,430	456,294
Other non-current liabilities	9,477	9,477	6,154	6,154

The carrying amounts shown in the table are included in the consolidated balance sheets under the indicated captions The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and cash equivalents, short-term investments, accounts receivable, prepaid and other current assets, other assets, accounts payable, accrued expenses, accrued network optimization expenses, due to related parties, royalty payable and other non-current liabilities The carrying amounts approximate fair value because of the short maturity of these instruments.

Restricted investments The fair values of debt securities (held-to-maturity investments) are based on quoted market prices at the reporting date for those or similar investments

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

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Letters of credit· The value of the letters of credit is based on the fees paid to obtain the letters of credit.

Long–term debt· 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 by quoted market prices at the reporting date for the traded debt securities (the carrying value of XMSR's 14% senior secured notes is significantly less than face value because the notes were sold at a discount for value allocated to the related warrants).

(10) Equity

(a) Capitalization

During 2001 and 2002 until June 25, 2002, the Company had authorized 180,000,0000 shares of Class A common stock, which is entitled to one vote per share, 30,000,000 shares of Class B common stock, which had three votes per share, all of which was held by Motient; and 30,000,000 shares of non–voting Class C common stock On December 22, 2000, the FCC approved the Company's application to allow the Company to transfer control of the Company from Motient to a diffuse group of owners, none of whom will have controlling interest. In 2001, Motient converted its remaining shares of the Company's Class B common stock into Class A common stock on a one–for–one basis. On June 25, 2002, the Company filed an amendment to its Certificate of Incorporation, which was approved at the annual meeting of stockholders, to increase the authorized number of shares of Class A common stock to 225,000,000, decrease the authorized number of shares of Class C common stock to 15,000,000 and eliminate the Class B common stock. On March 27, 2003, the Company filed an amendment to its Certificate of Incorporation, which was approved at a special meeting of stockholders, to increase the authorized number of shares of Class A common stock to 600,000,000.

During 2001 and 2002, the Company had authorized 60,000,000 shares of preferred stock, of which 15,000,000 shares were designated Series A convertible preferred stock, 3,000,000 shares were designated 8 25% Series B convertible redeemable preferred stock, and 250,000 shares were designated 8.25% Series C convertible redeemable preferred stock, which are all par value $0 01 per share. The Series A convertible preferred stock is convertible into Class A common stock at the option of the holder. The Series A preferred stock is non–voting and receives dividends, if declared, ratably with the common stock. The Series B and C convertible redeemable preferred stock are convertible to Class A common stock at the option of the holder and are mandatorily redeemable in Class A common stock The Series B convertible redeemable preferred stock is non–voting The Series C redeemable preferred stock contains voting and certain veto rights On August 15, 2002, the Company filed an amendment to its Certificate of Incorporation to designate 250,000 shares of $0.01 par value preferred stock as Series D Junior Participating Preferred Stock. The Series D Junior Participating Preferred Stock is non–voting, ranks junior to all other classes of preferred stock and was designated in connection with the adoption of the Shareholders' Rights Plan. There are no outstanding shares of Series D Participating Preferred Stock as of December 31, 2002.

Source· XM SATELLITE RADIO H, 10–K, March 31, 2003

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(b) Stock Dividends on Preferred Stock

The Company paid 2001 quarterly dividends for the Series B Convertible Redeemable Preferred Stock on February 1, 2001, May 1, 2001, August 1, 2001 and November 1, 2001 by issuing 56,269, 178,099, 63,934 and 167,878 shares of Class A common stock, respectively, to the respective holders of record. The Company paid 2002 quarterly dividends on the 8 25% Series B convertible redeemable preferred stock on February 1, 2002, May 1, 2002, August 1, 2002 and November 1, 2002 by issuing 60,971, 74,409, 160,235, and 285,725 shares of Class A common stock, respectively, to the respective holders of record

The terms of the Company's 8.25% Series C convertible redeemable preferred stock provide for cumulative dividends payable in cash. Because no dividends have been declared on the Series C preferred stock, the value of the cumulative dividends has increased the liquidation preference of the Series C preferred stock. The net loss attributable to common stockholders reflects the accrual of the dividends to preferred stockholders for the year ended December 31, 2002

(c) Conversion of Series C Convertible Redeemable Preferred Stock

On January 3, 2002, a Series C preferred stockholder converted 14,131 shares of Series C preferred stock to 744,446 shares of Class A common stock. This conversion resulted in a decrease of the liquidation preference for the Series C preferred stock of $15,752,000 and a decrease in the quarterly dividend requirement of $291,000. On May 2, 2002, a Series C preferred stockholder converted 20,869 shares of Series C preferred stock to 1,219,908 shares of Class A common stock This conversion resulted in a decrease of the liquidation preference for the Series C preferred stock of $24,008,000 and a decrease in the quarterly dividend requirement of $430,000

(d) Class A Common Stock Offering

On April 17, 2002, the Company completed a follow–on offering of 13,387,000 shares of its Class A common stock, which yielded net proceeds of $146,186,000 On April 29, 2002, the underwriters exercised the over–allotment option and the Company issued 1,090,443 shares of Class A common stock, which resulted in net

Source. XM SATELLITE RADIO H, 10–K, March 31, 2003

proceeds of $11,944,000. The closing of the offering caused the conversion price of the Series C preferred stock to be adjusted from $21 16 to $19 68, the exercise price of the warrants sold in March 2000 to be adjusted from $45 27 to $44.84 and the number of warrant shares to be increased to 8 859385 per warrant

(e) Shareholders' Rights Plan

In August 2002, the Company adopted a Shareholders' Rights Plan (commonly known as a "poison pill") in which preferred stock purchase rights were granted as a dividend at the rate of one right for each share of common stock held of record as of the close of business on August 15, 2002. The rights would be exercisable only upon the occurrence of certain events relating to an unsolicited take-over or change of control of the Company.

(f) Stock-Based Compensation

The Company operates three separate stock plans, the details of which are described below

1998 Shares Award Plan

On June 1, 1998, the Company adopted the 1998 Shares Award Plan (the "Plan") under which employees, consultants, and non-employee directors may be granted options to purchase shares of Class A common stock of the Company. The Company initially authorized 1,337,850 shares of Class A common stock under the Plan, which was increased to 2,675,700 in July 1999, 5,000,000 in May 2000, 8,000,000 in May 2001, and 13,400,000 in May 2002. The options are exercisable in installments determined by the compensation committee of the Company's board of directors The options expire as determined by the committee, but no later than ten years from the date of grant On July 8, 1999, the Company's board of directors voted to reduce the exercise price of the options outstanding in the shares award plan from $16 35 to $9 52 per share, which represented the fair value of the stock on the date of repricing

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

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Transactions and other information relating to the Plan for the years ended December 31, 2000, 2001 and 2002 are summarized below

	Outstanding Options	
	Number of Shares	Weighted-Average Exercise Price
Balance, January 1, 2000	2,099,089	$ 10.32
Options granted	1,176,683	30.21
Options canceled or expired	(131,267)	17.01
Options exercised	(48,817)	9 52
Balance, December 31, 2000	3,095,688	$ 17.61
Options granted	2,680,415	15.54
Options canceled or expired	(23,570)	9 55
Options exercised	(253,593)	17.88
Balance, December 31, 2001	5,498,940	$ 16 62
Options granted	2,765,352	12.93
Options canceled or expired	(633,457)	17 13
Options exercised	(15,772)	9.47
Balance, December 31, 2002	7,615,063	$ 15.24

	Options Outstanding			Options Exercisable		
	Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
2000	$ 9.52–$12 00	2,120,400	8.26 years	$ 10.39	1,110,756	$ 10.06
	$ 12 01–$30.50	297,685	9.03 years	$ 23.13	5,334	$ 13.13
	$ 30.51–$45.44	677,603	9.54 years	$ 37.92	20,000	$ 43.69
2001	$ 4.82–$9.42	363,700	9.31 years	$ 7.91	55,000	$ 8 46
	$ 9 44–$12 00	2,256,263	7 50 years	$ 10.37	1,716,153	$ 10.21
	$ 12 06–$26.88	2,142,409	9.14 years	$ 17.75	165,132	$ 18.90
	$ 27 63–$45 44	736,568	8.52 years	$ 36 81	272,681	$ 36.93
2002	$ 2.13–$9 52	2,214,875	7 37 years	$ 8.46	1,523,261	$ 9.17
	$ 9.55–$14.99	2,698,371	8.41 years	$ 13.76	908,247	$ 12 10
	$ 15.00–$18.69	1,959,457	8.26 years	$ 17.58	745,019	$ 17.65
	$ 18 82–$45.44	742,360	7.53 years	$ 35.12	524,301	$ 35 23

There were 3,700,828, 2,208,966 and 1,136,090 stock options exercisable at December 31, 2002, 2001 and 2000, respectively At December 31, 2002, there were 5,784,737 shares available under the plan for future grants During 2002, the Company granted 50,000 restricted shares At December 31, 2002, all options have been issued to employees, officers and directors, except for 101,000 options granted to non-employees for which the Company recognized $1,398,000 in non-cash compensation

Source XM SATELLITE RADIO H, 10-K, March 31, 2003

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The per share weighted-average fair value of employee options granted during the year ended December 31, 2002, 2001 and 2000 was $10 88, $8 77 and $22 06, respectively, on the date of grant using the Black-Scholes Option Pricing Model with the following weighted-average assumptions:

	Year ended December 31,		
	2002	2001	2000
Expected dividend yield	0%	0%	0%
Volatility	122 25%	62.40%	68 21%
Risk-free interest rate range	2.63% to 4.91%	3.66% to 4.99%	4.99% to 6.71%
Expected life	5 years	5 years	5 years

Employee Stock Purchase Plan

In 1999, the Company established an employee stock purchase plan that provides for the issuance of 300,000 shares of Class A common stock, which was increased to 600,000 shares in 2001. All employees whose customary employment is more than 20 hours per week and for more than five months in any calendar year are eligible to participate in the stock purchase plan, provided that any employee who would own 5% or more of the Company's total combined voting power immediately after an offering date under the plan is not eligible to participate. Eligible employees must authorize the Company to deduct an amount from their pay during offering periods established by the compensation committee. The purchase price for shares under the plan will be determined by the compensation committee but may not be less than 85% of the lesser of the market price of the common stock on the first or last business day of each offering period As of December 31, 2002, 2001 and 2000, the Company had issued 402,380, 217,401 and 53,539 shares, respectively, under this plan At December 31, 2002, there were 197,620 shares available under the plan for future sale.

The per share weighted-average fair value of purchase rights granted during the year was $4 80, $5.37, and $11 28 for the years ended December 31, 2002, 2001 and 2000, respectively. The estimates were calculated at the grant date using the Black-Scholes Option Pricing Model with the following assumptions at December 31, 2002, 2001 and 2000.

	Year ended December 31,		
	2002	2001	2000
Expected dividend yield	0%	0%	0%
Volatility	122 25%	62.40%	68.21%
Risk-free interest rate range	1 57%-1.79%	2.4%-5.89%	5.33%-6 23%
Expected life	0.24 years	0 24 years	0 24 years

The Company applies APB 25 in accounting for stock-based compensation for both plans and, accordingly, no compensation cost has been recognized for its stock options and stock purchase plan in the financial statements other than for performance based stock options, for options granted with exercise prices below fair value on the date of grant and for repriced options under FIN No. 44 During 2002, 2001 and 2000, the Company incurred $1,082,000, $2,336,000, and $2,557,000 respectively, in compensation cost for these options Had the Company determined compensation cost based on the fair value at the grant date for its stock options under

Source XM SATELLITE RADIO H, 10-K, March 31, 2003

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SFAS 123, the Company's net loss and net loss per share would have been increased to the pro forma amounts indicated below (in thousands).

	Year ended December 31,		
	2002	2001	2000
Net loss:			
As reported	$ (515,871)	$ (307,532)	$ (201,338)
Pro forma	$ (537,997)	(323,685)	(209,582)
As reported—net loss per share—basic and diluted	(5.95)	(5.13)	(4 15)
Pro forma—net loss per share—basic and diluted	(6.20)	(5.40)	(4.32)

Talent Option Plan

In May 2000, the Company adopted the XM Talent Option Plan ("Talent Plan") under which non-employee programming consultants to the Company may be granted options to purchase shares of Class A common stock of the Company. The Company authorized 500,000 shares of Class A common stock under the Talent Plan. The options are exercisable in installments determined by the talent committee of the Company's board of directors The options expire as determined by the talent committee, but no later than ten years from the date of the grant. As of December 31, 2002 and 2001, 146,000 and 144,500 options had been granted under the Talent Plan, respectively In 2002 and 2001, the Company recognized ($16,000) and $575,000 in non-cash compensation expense related to these options under SFAS 123 At December 31, 2002, there were 354,000 options available under the plan for future grant.

(11) Profit Sharing and Employee Savings Plan

On July 1, 1998, the Company adopted a profit sharing and employee savings plan under Section 401(k) of the Internal Revenue Code. This plan allows eligible employees to defer up to 15% of their compensation on a pre-tax basis through contributions to the savings plan. The Company contributed $0 50 in 2002, 2001 and 2000 for every dollar the employees contributed up to 6% of compensation, which amounted to $738,000, $543,000 and $229,000, respectively.

(12) Interest Cost

The Company capitalizes a portion of interest cost as a component of the cost of the XM Radio System The following is a summary of interest cost incurred during December 31, 2002, 2001 and 2000 (in thousands).

	2002	2001	2000
Interest cost capitalized	$ —	$ 45,211	$ 39,052
Interest cost charged to expense	63,573	18,131	—
Total interest cost incurred	$ 63,573	$ 63,342	$ 39,052

The Company exceeded its capitalization threshold and incurred a charge to interest of $18,131,000 in 2001. In 2002, the Company had no items that were considered qualified expenditures.

Source XM SATELLITE RADIO H, 10-K, March 31, 2003

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
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(13) Income Taxes

The provision for the income taxes for the three years ended December 31, 2002 consists of the following

Taxes on income included in the Statements of Operations consists of the following (in thousands):

	December 31,		
	2002	2001	2000
Current taxes:			
Federal	$ —	$ —	$ —
State	—	—	—
Total current taxes	—	—	—
Deferred taxes:			
Federal	$ —	$ —	$ —
State	—	—	—
Total deferred taxes	—	—	—
Total tax expense (benefit)	$ —	$ —	$ —

A reconciliation of the statutory tax expense, assuming all income is taxed at the statutory rate applicable to the income and the actual tax expense is as follows (in thousands)

	December 31,		
	2002	2001	2000
Income (loss) before taxes on income, as reported in the statements of income	$ (495,012)	$ (284,379)	$ (51,873)
Theoretical tax benefit on the above amount at 35%	(173,254)	(99,533)	(18,156)
State tax, net of federal benefit	(24,163)	(13,225)	(2,588)
Increase in taxes resulting from permanent differences, net	4,110	2,701	562
Other	—	—	9
Change in valuation allowance	193,307	110,057	20,173
Taxes on income for the reported year	$ —	$ —	$ —

Source. XM SATELLITE RADIO H, 10-K, March 31, 2003

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At December 31, 2002, 2001 and 2000, deferred income tax consists of future tax assets/(liabilities) attributable to the following (in thousands):

	December 31,		
	2002	2001	2000
Deferred tax assets:			
Net operating loss/other tax attribute carryovers	$ 232,796	$ 60,369	$ 14,716
Capitalized research and experimental expenditures	23,439	—	—
Start-up costs	59,342	99,822	40,033
Deferred Revenue	4,910	—	—
Other deferred tax assets	20,046	18,886	—
Gross total deferred tax assets	340,533	179,077	54,749
Valuation allowance for deferred tax assets	(328,356)	(135,049)	(24,992)
Net deferred assets	12,177	44,028	29,757
Deferred tax liabilities			
Property and equipment	(5,701)	(29,437)	(15,500)
DARS license	(2,210)	(9,670)	(9,735)
Other intangible assets	(4,266)	(4,921)	(4,522)
Net deferred tax liabilities	(12,177)	(44,028)	(29,757)
Deferred income tax, net	$ —	$ —	$ —

At December 31, 2002, the Company had accumulated net operating losses of $581,906,000 for Federal income tax purposes that are available to offset future regular taxable income. These operating loss carryforwards expire between the years 2012 and 2022. Utilization of these net operating losses are subject to Internal Revenue Code Section 382 for loss limitations because there have been significant changes in the stock ownership of the Company. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

(14) Supplemental Cash Flows Disclosures

The Company paid $62,586,000, $9,174,000 and $11,198,000 for interest (net of amounts capitalized) during 2002, 2001 and 2000, respectively Additionally, the Company incurred the following non-cash financing and investing activities (in thousands):

	December 31,		
	2002	2001	2000
Non-cash capitalized interest	—	4,571	16,302
Accrued system milestone payments	5,123	37,775	30,192
Systems under construction placed into service	2,147	1,000,228	—
Property acquired through capital leases	2,139	6,177	1,688
Conversion of debt to equity	—	50,992	—
Use of deposit/escrow for terrestrial repeater contracts	—	80,431	3,422

(15) Commitments and Contingencies

(a) 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 Company The DARS license requires that the Company comply with a construction and launch schedule specified by the FCC for each of the 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 The Company believes that the exercise of such authority to rescind the license is unlikely. If necessary, the Company could seek FCC authority to launch additional satellites for use in its system, which management believes would likely be approved Additionally, the FCC has not yet issued final rules permitting the Company to deploy its terrestrial repeaters to fill gaps in satellite coverage. The Company is operating its repeaters on a non-interference basis pursuant to a grant of special temporary authority from the FCC This grant originally expired March 18, 2002. However, on March 11, 2002, the Company applied for an extension of this special temporary authority and the Company can continue to operate its terrestrial repeaters pursuant to the special temporary authority pending a final determination on this extension request This authority is currently being challenged by operators of terrestrial wireless systems who have asserted that the Company's repeaters may cause interference The Company believes it is not likely that an FCC order would materially impact the terrestrial repeater system design currently in operation

(b) Application for Review of DARS License

One of the losing bidders for the DARS licenses filed an Application for Review by the full FCC of the Licensing Order that granted the Company its DARS license The Application for Review alleged that a former investor had effectively taken control of the Company without FCC approval. The FCC denied the Application for Review and the losing bidder appealed to the United States Court of Appeals for the District of Columbia Circuit. On February 21, 2003, the Court of Appeals rejected the losing bidder's claims and upheld the FCC's decision to grant the Company its license The losing bidder can request that the D C Circuit rehear its case or can request the United States Supreme Court review the D C Circuit's decision The FCC's order granting the Company's license remains in effect pending any further appeal by the losing bidder.

(c) Technology Licenses

Effective January 1, 1998, XMSR entered into a technology licensing agreement with Motient and WorldSpace Management Corporation ("WorldSpace MC") by which as compensation for certain licensed technology then under development to be used in the XM Radio System, XMSR will pay up to $14,300,000 to WorldSpace MC over a ten-year period As of December 31, 2002, XMSR incurred costs of $6,696,000 payable to WorldSpace MC Any additional amounts to be incurred under this agreement are dependent upon further development of the technology, which is at XMSR's option. No liability exists to Motient or WorldSpace MC should such developments prove unsuccessful XMSR maintains an accrual of $5,877,000 payable to WorldSpace MC for quarterly royalty payments to be made after XMSR recognizes $5,000,000 in revenue, which occurred during the quarter ended September 30, 2002

(d) Satellite Contract

Under the Company's satellite contract, BSS delivered two satellites in orbit and is to complete construction of a ground spare satellite BSS also provided ground equipment and software used in the XM Radio system and certain launch and operations support services. The contract also provides for in-orbit incentives to be earned

Source. XM SATELLITE RADIO H, 10-K, March 31, 2003

depending on the performance of the in-orbit satellites over their useful lives. Future payments under the satellite contract could total up to an additional $68,763,000 over the useful lives of the satellites

On December 5, 2001, the Company and BSS amended the satellite contract so as to permit the deferral of $31,350,000 of payments to be made under the agreement, as well as to provide certain additional rights and obligations of the Company, including the launch of the ground spare satellite on the SeaLaunch launch vehicle should the ground spare satellite be launched between specified dates. Amounts deferred under the satellite contract include (i) $15,000,000 of the purchase price for the ground spare satellite and (ii) $16,350,000 of in-orbit incentive payments relating to the Company's two existing satellites, XM "Rock" and XM "Roll" Interest will accrue on the $15,000,000 commencing when the ground spare satellite is available for shipment (it is currently being modified to address the solar power anomaly), and the principal of such amount is to be paid on December 5, 2006 Similarly, the $16,350,000 of incentive payments relating to Rock and Roll has been deferred (with interest payable currently), with the principal amount (to the extent earned) payable on December 5, 2006. After December 5, 2006, BSS must repay the Company incentive amounts that are not earned on a current basis Incentive payment amounts are earned (and expensed through operations) on a daily basis for each day that a satellite meets or exceeds its applicable performance specifications. Under the amendment, the deferred amounts bear interest at the rate of 8%, compounded annually, and are payable quarterly in arrears.

As of December 31, 2002, the Company had paid approximately $470,803,000 under the satellite contract and had recognized an additional liability of $2,141,000 for in-orbit incentives and related interest

(e) Terrestrial Repeater System Contracts

As of December 31, 2002, the Company had incurred aggregate costs of approximately $266,982,000 for its terrestrial repeater system. These costs covered the capital costs of the design, development and installation of a system of terrestrial repeaters to cover approximately 60 cities and metropolitan areas In August 1999, the Company signed a contract with LCCI calling for engineering and site preparation. As of December 31, 2002, the Company had paid $128,356,000 under this contract. There are no further payments due under the LCCI contract. The Company also entered into a contract effective October 22, 1999 with Hughes for the design, development and manufacture of the terrestrial repeaters As of December 31, 2002, the Company had paid $113,802,000 under this contract and recorded an additional liability of $58,000

(f) Accrued Network Optimization Expenses

As a result of the planned reduction of the number of terrestrial repeater sites, the Company recognized a charge of $4,013,000 in 2002 compared to $26,300,000 in 2001. The charge of $26,300,000 in 2001 included $17,705,000 of site-specific capitalized costs that were written off and a lease termination accrual of $8,595,000 for 646 terrestrial repeater site leases. The charge of $4,013,000 in 2002 represents additional costs associated with terminating leases on terrestrial repeater sites no longer required. At December 31, 2002, the Company had recorded a lease termination accrual of $2,202,000 that represents an estimate of the costs to terminate the remaining 98 leases based on management's judgment, advice of lease consultants, and early negotiations with landlords The liability also includes the estimated costs to deconstruct the existing sites, which are based upon quotes from contractors This amount could vary significantly from the actual amount incurred, which will be primarily based on the Company's ability to negotiate lease termination settlements.

(g) GM Distribution Agreement

The Company has a long-term distribution agreement with OnStar, a subsidiary of General Motors. During the term of the agreement, which expires 12 years from the commencement date of our commercial operations,

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

GM has agreed to distribute the service to the exclusion of other S-band satellite digital radio services. The Company will also have a non-exclusive right to arrange for the installation of XM radios included in OnStar systems in non-GM vehicles that are sold for use in the United States. 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 are due to GM and confirming the date of our commencement of commercial operations, and to provide that the Company may make certain payments to GM in the form of indebtedness or shares of our Class A common stock, as described below under note 16 The Company's total cash payment obligations were not increased. The Company has significant annual, fixed payment obligations to GM. As a result of the June 2002 amendment, the Company commenced recognizing these fixed payment obligations for the period ending through November 2005, which approximate $63.6 million, on a straight-line basis. However, due to the January 2003 amendment to the Distribution Agreement and GM's current roll out plans which demonstrate a likelihood of GM exceeding minimum installation targets, in 2003 the Company is now prospectively recognizing these fixed payments due through September 2013, which approximate $397.3 million, on a straight-line basis. The Company issued a 10% Senior Secured Convertible Note due 2009 with an aggregate principal amount of $89,042,387 to OnStar in lieu of making these fixed payments to OnStar for amounts otherwise due in 2003 through 2006

In order to encourage the broad installation of XM radios in GM vehicles, the Company has agreed to subsidize a portion of the cost of XM radios, and to make incentive payments to GM when the owners of GM vehicles with installed XM radios become subscribers to the Company's service The Company must also share with GM a percentage of the subscription revenue attributable to GM vehicles with installed XM radios, which percentage increases until there are more than 8 million GM vehicles with installed XM radios The Company will also make available to GM bandwidth on our system. As part of the agreement, OnStar provides certain call-center related services directly to XM subscribers who are also OnStar customers and XM must reimburse OnStar for these XM-related call center services The agreement is subject to renegotiation at any time based upon the installation of radios that are compatible with a unified standard or capable of receiving Sirius Satellite Radio's service The agreement is subject to renegotiation if as of November 2005, and at two-year intervals thereafter, GM does not achieve and maintain specified installation levels of GM vehicles capable of receiving our service, starting with 1,240,000 units by November 2005, and thereafter increasing by the lesser of 600,000 units per year and amounts proportionate to target market shares in the satellite digital radio service market. There can be no assurances as to the outcome of any such renegotiations. General Motors' exclusivity obligations will discontinue if, by November 2005 and at two-year intervals thereafter, the Company fails to achieve and maintain specified minimum market share levels in the satellite digital radio service market Prior to 2001, the Company had not incurred any costs under the distribution agreement As of December 31, 2002 and 2001 the Company paid $9.9 million and $0 6 million, respectively, and incurred total costs of $30.1 million and $1.3 million, respectively, under the distribution agreement.

(h) 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 unified standard for satellite radios. The prior arbitration with Sirius has been resolved, with no payment by either side. There were no significant costs incurred in 2002 The costs related to the joint development agreement are being expensed as incurred in research and development.

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

(i) 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 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, 2002, 2001, and 2000, the Company incurred expenses of $55,725,000, $19,145,000, and $0 respectively, in relation to these agreements excluding the GM distribution agreement. 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 revenue increase

(j) 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, 2002, 2001, and 2000, the Company incurred expenses of $20,300,000, $7,230,000 and $0 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 amount of the costs related to these agreements cannot be estimated, but are expected to be substantial future costs

(k) Royalty Agreements

The Company has entered into fixed and variable revenue share payment agreements with performance rights organizations that expire as late as 2006 During the years ended December 31, 2002, 2001 and 2000, we incurred expenses of $9 5 million, $45,000 and $0, respectively, in relation to these agreements

(l) Warrants

Sony Warrant

In February 2000, the Company issued a warrant to Sony exercisable for shares of the Company's Class A common stock. The warrant will vest at the time that the Company attains its millionth customer, and the number of shares underlying the warrant will be determined by the percentage of XM Radios that have a Sony brand name as of the vesting date If Sony achieves its maximum performance target, the warrant will be exercisable for 2% of the total number of shares of the Company's Class A common stock on a fully-diluted basis The exercise price of the Sony warrant will equal 105% of fair market value of the Class A common stock on the vesting date, determined based upon the 20-day trailing average For the years ended December 31, 2002, 2001 and 2000, the Company recognized $208,000, $131,000 and $0, respectively, in non-cash compensation expense related to these warrants.

CNBC Warrant

In May 2001, the Company granted a warrant to purchase 90,000 shares of Class A common stock consisting of three 30,000 share tranches to purchase shares at $26.50 per share, which expire in 11, 12, and 13 years, respectively. The warrants began to vest on September 25, 2001 when the Company reached its commercial launch and will be vested on September 1, 2002, 2003, and 2004, respectively For the years ended December 31, 2002 and 2001, the Company recognized $(156,000) and $290,000, respectively, in non-cash compensation expense related to these warrants.

Source. XM SATELLITE RADIO H, 10-K, March 31, 2003

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

(m) Leases

The Company has noncancelable operating leases for office space and terrestrial repeater sites and noncancelable capital leases for equipment that expire over the next ten years. Additionally, the Company owns a building and leases a portion of the space to other entities. The future minimum lease payments and rentals under noncancelable leases as of December 31, 2002 are (in thousands)

	Capital Lease Payments	Operating Lease Payments	Rental Income
Year ending December 31:			
2003	$ 3,885	$ 15,894	$ 1,427
2004	1,908	16,314	1,698
2005	680	13,717	1,802
2006	3	5,924	1,804
2007	—	3,433	1,807
Thereafter	—	3,472	24,133
Total	6,476	$ 58,754	$ 32,671
Less amount representing interest	(619)		
Present value of net minimum lease payments	5,857		
Less current maturities	(3,408)		
Long-term obligations	$ 2,449		

Rent expense for 2002, 2001 and 2000 was $19,938,000, $22,724,000 and $6,082,000, respectively

As discussed in note 15(h), in December 2001, the Company determined that the planned number of terrestrial repeater sites could be reduced due to the relative signal strength provided by the Company's satellites. The Company recognized a charge of $26,300,000 with respect to the terrestrial repeater sites no longer required This charge included a lease termination accrual of $8,595,000 for 646 terrestrial site leases, which would reduce the future minimum lease payments In 2002, the Company recognized a charge of $4,013,000 for additional costs associated with terminating leases on sites no longer required.

(n) Service Providers

The Company has entered into an agreement with a service provider for customer care functions to subscribers of its service through November 2003. Employees of the service provider have access to the Company's customer care systems to establish customer accounts, activate radios, update program and account information and respond to general inquires from subscribers The Company pays Convergys an hourly rate for each customer care representative supporting its subscribers. During the years ended December 31, 2002, 2001, and 2000, the Company incurred $8,713,000, $2,042,000 and $0, respectively, in relation to this agreement

(16) January 2003 Financing

On January 28, 2003, the Company completed (1) an exchange of over $300 million of the $325 million aggregate principal amount of outstanding debt issued by XM Satellite Radio Inc , (2) a restructuring of $250 million in payment obligations to General Motors Corporation through 2006, and (3) a private placement resulting in gross proceeds to the Company of $225 million.

Source XM SATELLITE RADIO H, 10-K, March 31, 2003

The Company accepted for exchange $300 2 million aggregate principal amount of the previously outstanding $325.0 million of XMSR's 14% Senior Secured Notes due 2010 For each $1,000 principal amount of notes tendered for exchange, the tendering holder received.

- $1,459 principal amount at maturity of 14% Senior Secured Discount Notes due 2009 issued by XM Satellite Radio Inc. and guaranteed by XM Satellite Radio Holdings;
- a warrant to purchase 85 shares of the Company's Class A common stock at an exercise price of $3.18 per share, and
- $70 in cash

The exercise price of each warrant may be paid either in cash or without the payment of cash by reducing the number of shares of Class A common stock that would be obtainable upon the exercise of a warrant The warrants are fully vested and expire December 31, 2009.

Under certain agreements with General Motors and its subsidiary, OnStar Corporation, the Company and XMSR issued to OnStar a 10% Senior Secured Convertible Note due December 31, 2009 with an aggregate principal amount of $89 million in lieu of XMSR's obligation to make $115 million in guaranteed payments from 2003 to 2006 under the distribution agreement with OnStar Corporation. The Company entered into a $100 million credit facility with General Motors and issued a warrant to General Motors to purchase 10 million shares of Class A common stock at an exercise price of $3 18 per share. The warrant is fully vested and expires after five years. The note issued to OnStar is convertible and the warrant exercisable only to the extent General Motors would not beneficially own more than 19 9% of the Company's Class A common stock, unless the Company and General Motors otherwise agree and certain stockholder approvals are obtained.

OnStar will be able to convert the note into shares of Class A common stock pursuant to a vesting schedule so that on each date prior to and including December 31, 2006 that the Company would have been obligated to make scheduled guaranteed payments under the distribution agreement, a pro rata portion of the OnStar note corresponding to the scheduled guaranteed payment will become convertible at the option of OnStar at a conversion price equal to 90% of the fair market value of a share of Class A common stock (calculated as described above) on the date of conversion, provided that, the conversion price will be not less than $5 per share nor greater than $10 per share during 2003, not less than $5 per share nor greater than $15 per share during 2004, and not less than $5 per share nor greater than $20 per share thereafter.

General Motors provided the Company and XMSR with a $100.0 million Senior Secured Credit Facility, maturing as late as December 2009, that enables us to make monthly draws to finance payments that become due under the Company's distribution agreement with OnStar Corporation and other GM payments The Company and XMSR are co-borrowers under this credit facility The outstanding principal amount of all draws will be due December 31, 2009 and bear interest at the applicable 90-day LIBOR rate plus 10% The Company will be able to make interest payments in shares of Class A common stock having an aggregate fair market value at the time of payment equal to the amount of interest due The fair market value will be based on the average daily trading prices of the Class A common stock over the ten business days prior to the day the interest payment is due. The Company has the option to prepay all draws in whole or in part at any time but will not be able to re-borrow any prepaid amounts. Beginning in 2005, the Company will be required to prepay the amount of any outstanding advances in an amount equal to the lesser of (i) 50% of the Company's excess cash and (ii) the amount necessary to prepay the draws in full. In order to make draws under the credit facility, the Company is required to have a certain minimum number of subscribers that are not originated by GM and a minimum pre-marketing cash flow

General Motors provided XM with the ability to make up to $35 0 million in future subscriber bounty payments ("subscriber acquisition payments") that the Company may owe to OnStar under the distribution agreement in shares of Class A common stock, valued at fair market value at the time of payment

The Company sold $210 0 million of 10% Senior Secured Discount Convertible Notes due December 31, 2009 to certain institutional and accredited investors, including some of its current investors The Company and XMSR are co– obligors on these new investor notes At any time, a holder of new investor notes may convert all or part of the accreted value of its notes at a conversion price of $3.18 per share.

The Company is not able to prepay or redeem the new investor notes Beginning four years after the issuance of the new investor notes, the Company will be able to convert all, but not less than all of the notes at the conversion price 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 we report our financial results, (iii) immediately following such conversion, the aggregate amount of Holdings' and its subsidiaries' indebtedness is less than $250 million, and (iv) no shares of the Company's Series C preferred stock remain outstanding.

The Company also sold $15.0 million of its Class A common stock at a per share purchase price of $2 70 to a private investor and issued a warrant to purchase 900,000 shares of its Class A common stock at an exercise price of $3.18 per share to R. Stephen Hicks, who joined the Company's board of directors in connection with these transactions

Source· XM SATELLITE RADIO H, 10-K, March 31, 2003

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

(18) Quarterly Data (Unaudited, in thousands)

	2002			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 1,785	$ 3,839	$ 5,552	$ 9,005
Operating loss	(98,361)	(103,869)	(95,673)	(140,877)
Loss before income taxes	(112,250)	(117,205)	(109,646)	(155,911)
Net loss attributable to common stockholders	(117,746)	(122,415)	(114,712)	(160,998)
Net loss per share—basic and diluted	$ (1.56)	$ (1.38)	$ (1.26)	$ (1.76)

The operating loss during the 4th quarter of 2002 of $140.9 million includes an impairment charge of $11.5 million as fully described in note 4. In addition, the operating loss includes a charge of $8.0 million as a result of completion of negotiation for performance rights royalties, which includes the period from commencement of commercial operations.

	2001			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ —	$ —	$ 1	$ 532
Operating loss	(42,124)	(41,815)	(63,392)	(135,274)
Loss before income taxes	(36,948)	(38,478)	(64,982)	(143,971)
Net loss attributable to common stockholders	(42,736)	(44,267)	(70,770)	(149,759)
Net loss per share—basic and diluted	$ (0.80)	$ (0.76)	$ (1.14)	$ (2.26)

	2000			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ —	$ —	$ —	$ —
Operating loss	(16,888)	(13,937)	(28,109)	(20,544)
Loss before income taxes	(12,740)	(5,088)	(20,060)	(13,985)
Net loss attributable to common stockholders	(14,212)	(7,259)	(160,095)	(19,773)
Net loss per share—basic and diluted	$ (0.30)	$ (0.15)	$ (3.26)	$ (0.40)

The sum of quarterly per share net losses do not necessarily agree to the net loss per share for the year due to the timing of stock issuances.

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENT SCHEDULE

The Board of Directors
XM Satellite Radio Holdings Inc .

Under date of March 27, 2003, we reported on the consolidated balance sheets of XM Satellite Radio Holdings Inc. and subsidiaries as of December 31, 2001 and 2002, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2002, which are included in the XM Satellite Radio Holdings Inc. and subsidiaries annual report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated financial statement schedule based on our audits

In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The audit report on the consolidated financial statements of XM Satellite Radio Holdings Inc and subsidiaries referred to above contains an explanatory paragraph that states that the Company adopted the provisions of Statement of Financial Accounting Standards No 142, *Goodwill and Other Intangible Assets*.

/s/ KPMG LLP

McLean, VA
March 27, 2003

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

Schedule I—Valuation And Qualifying Accounts
(In thousands)

Description	Balance January 1	Charged to Costs and Expenses	Charged to Other Accounts—Describe	Write-Offs/ Payments/ Other	Balance December 31
Year Ended December 31, 2000					
Allowance for doubtful accounts	$ —	—	—	—	$ —
Deferred Tax Assets—Valuation Allowance	$ 4,819	20,173	—	—	$ 24,992
Accrued network optimization expenses	$ —	—	—	—	$ —
Year Ended December 31, 2001					
Allowance for doubtful accounts	$ —	10	—	—	$ 10
Deferred Tax Assets—Valuation Allowance	$ 24,992	110,057	—	—	$ 135,049
Accrued network optimization expenses	$ —	8,595	—	—	$ 8,595
Year Ended December 31, 2002					
Allowance for doubtful accounts	$ 10	493	—	(262)	$ 241
Deferred Tax Assets—Valuation Allowance	$ 135,049	193,307	—	—	$ 328,356
Accrued network optimization Expenses	$ 8,595	2,201	—	(8,595)	$ 2,201

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

Exhibit 3 6

CERTIFICATE OF AMENDMENT TO
RESTATED CERTIFICATE OF INCORPORATION OF
XM SATELLITE RADIO HOLDINGS INC.

XM Satellite Radio Holdings Inc , (the "Corporation"), a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows·

FIRST: Pursuant to Section 242 of the General Corporation Law of the State of Delaware, the Board of Directors of the Corporation adopted resolutions proposing and declaring advisable and in the best interests of the Corporation certain amendments to the Restated Certificate of Incorporation of the Corporation, as set forth below.

SECOND: The first paragraph of Article FOURTH of the Restated Certificate of Incorporation of the Corporation is hereby amended and restated as follows.

> **FOURTH.** A The total number of shares of all classes of capital stock which the Corporation shall have authority to issue is Six Hundred Seventy Five Million (675,000,000), consisting of (i) Sixty Million (60,000,000) shares of Preferred Stock with a par value of $0 01 per share, and (ii) Six Hundred Fifteen Million (615,000,000) shares of Common Stock with a par value of $0 01 per share, of which Six Hundred Million (600,000,000) shares shall be designated "Class A Common Stock" and Fifteen Million (15,000,000) shares shall be designated "Class C Common Stock "

THIRD: These amendments to the Restated Certificate of Incorporation of the Corporation were approved at the Corporation's special meeting of stockholders, held on March 27, 2003, by the holders of (a) at least a majority of the voting rights of the outstanding shares of Class A common stock and Series C preferred stock of the Corporation, voting together as a single class, (b) at least a majority of the outstanding shares of Class A common stock of the Corporation, and (c) at least 60% of the outstanding shares of Series C preferred stock of the Corporation.

FOURTH: These amendments to the Restated Certificate of Incorporation of the Corporation were duly adopted and approved in accordance with the provisions of Section 242 of the Delaware General Corporation Law.

IN WITNESS WHEREOF, XM Satellite Radio Holdings Inc. has caused this Certificate of Amendment to its Restated Certificate of Incorporation to be executed this 27th day of March, 2003

XM SATELLITE RADIO HOLDINGS INC.

By: /s/ Joseph M Titlebaum

Joseph M Titlebaum
Executive Vice President, General Counsel
and Secretary

Exhibit 21 1

Subsidiaries of XM Satellite Radio Holdings Inc.

XM Satellite Radio Inc.
XM Equipment Leasing LLC

Source: XM SATELLITE RADIO H, 10-K, March 31, 2003

Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
XM Satellite Radio Holdings Inc

We consent to the incorporation by reference in the registration statements Nos. 333-47570, 333-93529, 333-89132 and 333-85804 on Forms S-3 and Nos 333-92049, 333-65022, 333-65020 and 333-97611 on Form S-8 of XM Satellite Radio Holdings Inc. and subsidiaries of our reports dated March 27, 2003 with respect to the consolidated balance sheets of XM Satellite Radio Holdings Inc. and subsidiaries as of December 31, 2002 and 2001 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2002, and related schedule, which reports appear in the December 31, 2002 annual report on Form 10-K of XM Satellite Radio Holdings Inc and subsidiaries. Those reports contain an explanatory paragraph that states that the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "*Goodwill and Other Intangible Assets.*"

/s/ KPMG LLP

McLean, VA
March 28, 2003

Exhibit 99 1

Written Statement of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 906 of the Sarbanes–Oxley Act of 2002

The undersigned, the President and 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 year ended December 31, 2002 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

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

Date: March 31, 2003

By: /s/ Hugh Panero

Hugh Panero
President and Chief Executive Officer
(principal executive officer)

Date: March 31, 2003

By: /s/ Joseph J. Euteneuer

Joseph J. Euteneuer
Executive Vice President and Chief
Financial Officer
(principal financial officer)

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FORM 10-K

XM SATELLITE RADIO HOLDINGS INC - XMSR

Filed: March 15, 2004 (period: December 31, 2003)

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

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EX-10.57 (EXHIBIT 10.57)

EX-10.58 (EXHIBIT 10 58)

EX-10.59 (EXHIBIT 10.59)

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EX-23.1 (EXHIBIT 23.1)

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For The Fiscal Year Ended December 31, 2003

XM SATELLITE RADIO HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Commission file number 000-27441

DELAWARE	54-1878819
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1500 ECKINGTON PLACE NE,
WASHINGTON, DC 20002-2194
(Address of principal executive offices)
(Zip code)

202-380-4000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Not Applicable

Securities registered pursuant to Section 12(g) of the Act:
Class A Common Stock, par value $.01 per share
8 25% Series B Convertible Redeemable Preferred Stock, par value $.01 per share
(Title of Classes)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes ☒ No ☐

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2) Yes ☒ No ☐

The aggregate market value of common stock held by non-affiliates of the registrant, based upon the closing price of the registrant's Class A common stock as of June 30, 2003, is $1,212,717,871.

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 February 28, 2004)
XM SATELLITE RADIO HOLDINGS INC.	
CLASS A COMMON STOCK, $0 01 PAR VALUE	184,954,232 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 27, 2004, 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

Source· XM SATELLITE RADIO H, 10-K, March 15, 2004

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

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Except for any historical information, the matters we discuss in this Form 10-K contain forward-looking statements. Any statements in this Form 10-K that are not statements of historical fact, are intended to be, and are, "forward-looking statements" under the safe harbor provided by Section 27(a) of the Securities Act of 1933 Without limitation, the words "anticipates," "believes," "estimates," "expects," "intends," "plans" and similar expressions are intended to identify forward-looking statements The important factors we discuss below and under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as other factors identified in our filings with the SEC and those presented elsewhere by our management from time to time, could cause actual results to differ materially from those indicated by the forward-looking statements made in this Form 10-K

EXPLANATORY NOTE

This annual report is filed by XM Satellite Radio Holdings Inc. ("XM"). Unless the context requires otherwise, the terms "we," "our" and "us" refer to XM and its subsidiaries XM's principal subsidiary is XM Satellite Radio Inc ("Inc "), which is separately filing an annual report with the SEC

This annual report and all other reports and amendments filed by us with the SEC can be accessed, free of charge, through our website at http://www xmradio com/investor/investor_financial_and_company html on the same day that they are electronically filed with the SEC.

PART I

ITEM 1. BUSINESS

We are America's leading satellite radio service company, providing music, entertainment and information programming for reception by vehicle, home and portable radios nationwide to over 1.3 million subscribers as of December 31, 2003. We announced in February 2004 that we have in excess of 1.5 million subscribers. In 2003, our digital audio XM Radio service offered 100 channels of music, news, talk, sports and children's programming for a monthly subscription fee and one premium channel for an additional fee. We believe XM Radio appeals to consumers because of our innovative and diverse programming, nationwide coverage commercial-free music channels and digital sound quality In 2003, we surpassed 1 million subscribers making us the second fastest mass market technology product to achieve 1 million subscribers (according to Greystone Communications, Yankee Group).

In February 2004, we launched our 2004 channel line-up featuring 68 commercial-free music channels; 32 news, sports, talk and variety channels; and, as of March 2004, 15 instant traffic and weather channels reporting continuously updated information from major markets such as New York, Los Angeles, Chicago and Washington, DC. We plan to expand the number of local traffic and weather channels we offer to 21 later in 2004. These channels will be offered to subscribers as part of the basic monthly service fee. We also announced that XM Radio will be available on Jet Blue and AirTran airplanes beginning in fall 2004

XM's targeted market is the over 200 million registered vehicles in the U S. along with over 100 million TV households in the U.S Since our nationwide launch on November 12, 2001, we have built our subscriber base through multiple distribution channels, including an exclusive factory-installation distribution arrangement with General Motors and arrangements with other automotive manufacturers, car audio dealers and national electronics retailers. XM Radio is currently available in over 80 new vehicle models.

Through an exclusive arrangement with us, General Motors, a major investor in our company, currently offers XM Radio in 43 vehicle lines of the 2004 model year, including passenger cars, light trucks and SUVs GM factory installs the XM Radio option in Buick, Cadillac, Chevrolet, GMC, Pontiac and Saturn brand vehicles. For the 2005 model year, General motors has announced plans to expand the XM Radio, factory-installed, option to over 50 vehicle lines including HUMMER, Buick, Cadillac, Chevrolet, GMC, Pontiac and Saturn brand vehicles. GM recently commemorated its one-millionth XM-equipped vehicle, during an event at their Detroit world headquarters in February 2004. Honda, a major investor in our company, currently offers XM Radio in the Accord EX, Acura RL and Acura TL as a factory-installed feature and in the Pilot, S2000 and other Accord models as a dealer-installed option XM expects Honda and Acura to factory install over 200,000 2004 model year vehicles Toyota/Lexus/Scion, Nissan/Infiniti, Isuzu and Volkswagen/Audi offer XM Radio as a dealer-installed option in numerous popular makes and models, including the Toyota Camry Solara Coupe and Scion xA and xB, the Lexus LS 430, Nissan Pathfinder and Titan, Infiniti G35 and FX45, the Audi A4, S4, A6 and allroad quattro, and the Volkswagen Beetle Broad distribution of XM Radio through the new automobile market is a central element of our business strategy.

From our nationwide launch through the end of the third quarter of 2002, distribution of our product was almost exclusively through the aftermarket (the sale of radios by consumer electronics retailers and others for installation in automobiles after purchase) and we continue to promote XM Radio actively in this market. Although it varies from quarter to quarter, our subscriber additions in 2003 were approximately 50% from automotive manufacturers and approximately 50% from aftermarket retailers. XM radios are available under the Delphi, Pioneer, Alpine and Sony brand names at national consumer electronics retailers, such as Best Buy, Circuit City, Wal-Mart and other national and regional retailers

As part of our strategy to make XM Radio available everywhere, we have also created brand awareness through the many ways in which potential subscribers can experience the XM service. The XM radios in General Motors' vehicles come pre-activated with service so GM's dealers can offer the XM experience to new car prospects during vehicle test drives, and to new car purchasers during the vehicle delivery process The entire 115 channel service is available as a trial to GM new vehicle buyers, and GM's own internal research indicates that GM vehicle buyers provide demonstrations, on average, seven times during the first 60 days of vehicle ownership. XM Radio is also available in approximately 20,000 Avis rental cars Additionally, XM Radio will be available on Jet Blue and AirTran airplanes beginning in fall 2004. Jet Blue and AirTran serve over 20 million passengers per year.

Source· XM SATELLITE RADIO H, 10-K, March 15, 2004

We have also introduced a wide variety of mass market products that can deliver our service in the automobile, home and portable markets, as well as specific applications such as marine and aviation Our XM WX satellite weather service is a real-time graphical data weather service provided to the marine and aviation markets After initially focusing on the automobile retail aftermarket and the automobile factory-installed market, the opening up of the home and portable market is the third major element of our marketing strategy to increase the availability of XM Radio across new markets.

In the fall of 2002, Delphi introduced the XM SKYFi, a plug-and-play device available for use in the car, at home or in a portable "boombox" that offers an enhanced display and attractive pricing. At the 2003 Consumer Electronics Show, the SKYFi audio system was named a finalist for the Best of CES award In October 2003, Delphi introduced the XM Roady, the industry's smallest satellite radio that offers a complete satellite radio system for vehicles in one simple, easy to install package that retails for a cost less than the XM SKYFi. Also in October 2003, we introduced the XM Commander, an all-in-one receiver package that works with nearly all AM/FM car stereos, regardless of make, brand or year, and is sized and styled to integrate with the dashboard of most vehicles, including luxury cars. In November 2003, we introduced XM Direct, an ultra-compact XM tuner module for car stereos that can be connected to any satellite-radio-ready car stereo with adaptors developed and distributed by third parties We expect that XM Direct will be particularly attractive to OEM dealers of a wide variety of satellite-radio-ready cars In December 2003, Alpine introduced the industry's first in-dash CD receiver with an integrated XM tuner, the CDA-9820XM, which eliminates the need for a separate XM tuner for easier installation and delivers high quality sound performance. These new products represent the second generation of XM Radios, reflecting enhanced features and a significantly lower price to consumers.

In addition to these products for the automobile market, we have introduced products specifically targeted at the home and portable markets. In April 2003, we introduced the XM PCR, the first satellite radio receiver designed for personal computers, and in August 2003, Audio Design Associates introduced the Tune Suite, the first high-end, multizone home audio system to feature XM Satellite Radio In December 2003, Delphi introduced the Delphi CD Audio System, the industry's first boombox capable of playing AM/FM radio, XM radio, compact discs and MP3 files We believe that these products along with the best-selling SKYFi radio will continue to open up new markets beyond the traditional automobile market and increase the penetration of XM Radio Finally, in addition to the automobile, home and portable markets, we have also worked with manufacturers to develop radios for specific applications such as the marine and aviation markets to further enhance the availability of XM Radio.

We believe, based on our experience in the marketplace, surveys, work with focus groups and market data, that there is a significant market for XM Radio Over 75% of the entire United States population age 12 and older listens to the radio daily, and over 94% listens to the radio weekly. However, many radio listeners have access to only a limited number of radio stations and listening formats offered by traditional AM/FM radio

We believe we offer our consumers a unique listening experience by providing diverse programming, coast-to-coast coverage, commercial free music channels and clear sound with our digital signals. In February 2004, our channel lineup began featuring additional 100% commercial free channels, including all 68 of our music channels, and as of March 2004 also features 15 channels of instant traffic and weather, expanding to 21 channels by the end of 2004. Our channels include diverse programming designed to appeal to a large audience, and to specific groups that our research has shown are most likely to subscribe to our service, including urban and rural listeners of virtually all ages We have original music and talk channels created by our in-house programming unit as well as channels created by well-known providers of brand name programming, including our exclusive MTV, VH1 and NASCAR channels, as well as ESPN Radio, Radio Disney, CNN, CNBC, MSNBC, Discovery, Fox News, E! and Clear Channel We have a team of experienced programming professionals with a successful record of introducing new radio formats and building local and national listenership.

In addition to our subscription fee, we generate revenues from sales of limited advertising time on our talk, entertainment and variety channels Advertisers on the XM network include JC Penney, Radio Shack, Allstate, Autozone, Pfizer, Anheuser-Busch and ABC Networks. Although our new channel lineup has 100% commercial free music channels, we plan to sell advertising time on our 21 new instant traffic and weather channels.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

We transmit the XM Radio signal throughout the continental United States from our two satellites XM Rock and XM Roll. We are planning to launch our spare satellite, presently being modified, in late 2004 as part of a plan to address a solar power anomaly in our existing satellites initially identified in late 2001. We have contracted for a fourth satellite, to serve as a ground spare and to be launched around the 2007 timeframe to replace XM Rock and XM Roll We also have a network of approximately 800 terrestrial repeaters, which receive and re-transmit the satellite signals in 60 cities to augment our satellite signal coverage where it might otherwise be affected by buildings, tunnels or terrain We hold one of only two licenses issued by the Federal Communications Commission to provide satellite digital audio radio service in the United States.

We have raised $2 6 billion of equity and debt net proceeds from investors and strategic partners to fund our operations from inception through January 2004 In 2003, we raised net proceeds of $601 million. This includes $150 million of net proceeds from the sale of Class A common stock in September 2003 and $66 million of net proceeds from the sale of Class A common stock through our Direct Stock Purchase Program This also includes $179 million of net proceeds (including amounts related to the over-allotment option) from the sale of 12% senior secured notes due 2010 in June 2003 and $206 million of net funds raised in January 2003. The January 2003 financing transactions also included $250 million of payment deferrals and a line of credit from GM In January 2004, we also raised $177 million of net proceeds from the sale of Class A common stock.

From January 1, 2003 to December 31, 2003, we eliminated $245.9 million carrying value of indebtedness or approximately $280 7 million of face amount at maturity through the issuance of 31 2 million shares of Class A common stock and $17 million of cash. These de-leveraging transactions eliminated convertible debt and preferred stock with a carrying value of $178 3 million or $184 5 million of face amount at maturity. The convertible notes and preferred stock would have been convertible into 32 0 million shares through maturity of the instruments. In total, these de-leveraging transactions eliminated approximately $429 million in future interest, dividends, accretion and principal payments

In March 2004, the holders of the $45.7 million 7 75% Convertible Subordinated Notes due 2006 called for redemption following our January offering elected to convert into 3 7 million shares of our Class A Common Stock in accordance with the terms of the notes. This represented the retirement of all our remaining outstanding $45 7 million of 7.75% Subordinated Convertible Notes. In February 2004, we completed the redemption of $89 million in principal amount of our 10% Senior Secured Convertible Note due 2009 held by General Motors Corp. As part of the redemption, General Motors converted $7 8 million in principal amount of the Notes, representing the entire principal amount of the Notes that had vested conversion rights at the time of the redemption, into 980,670 shares of the Company's Class A common stock in accordance with the terms of the Notes. The remaining $81 2 million in principal amount plus accrued interest was repaid with cash. We used proceeds from our January 2004 offering to cover these payments.

So long as we meet the revenue, expense and cash flow projections of our business plan, we expect to be fully funded and will not need to raise additional financing to continue operations. We are continuing to pursue insurance proceeds in connection with the solar anomaly on our existing satellites, and would use the insurance proceeds to repay vendor financing contemplated to be used to launch replacement satellite(s). However, with the sale of Class A common stock completed in September 2003 and the sale of notes completed in June 2003, we have raised substantially all of the funds we would need for the completion and launch of XM-3 and the construction of XM-4 in case the receipt of insurance proceeds does not occur in a timely manner In addition, any proceeds of our January 2004 common stock offering not applied to the repayment of debt could be used to fund the launch of XM-4 to the extent needed.

Market Opportunity

Based on our experience in the marketplace to date, as well as market research, we believe that there is a significant market for our satellite radio service

Initial Marketplace Results

Consumer response to our service has been positive. As of December 31, 2003, we had over 1 3 million subscribers In 2003 we surpassed 1 million subscribers making us the second fastest mass market technology product to achieve 1 million subscribers (according to Greystone Communications, Yankee Group). Importantly, we have

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

achieved this subscriber growth while spending significantly less in costs to acquire a new subscriber (CPGA costs) than we had originally projected. A more in-depth discussion of our CPGA costs can be found under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations."

We have also received positive feedback from our subscribers. In a survey of a random sample of 645 subscribers, 95% rated our overall service, and our sound quality as "excellent" or "good." We have also found a broad appeal of our service across age groups, with people in their twenties, thirties, forties and fifties each representing comparable percentages of XM subscribers.

Demand for Satellite Radio

Market studies show strong demand for radio service, as evidenced by radio listening trends, data relating to sales and distribution of radios and the general growth in radio advertising. In many markets, traditional AM/FM audio programming choices are limited to mass appeal formats We believe our national subscription service complements traditional local radio Moreover, the success of subscription entertainment services in other media such as cable television and satellite television further indicates potential for significant consumer demand for satellite radio services.

Penetration data relating to cable, satellite television, and premium movie channels suggest that consumers are willing to pay for services that dramatically expand programming choice or enhance quality. There were more than 21.5 million digital cable subscribers as of September 2003 and 22 0 million satellite television subscribers as of December 2003 As of December 2003, 67 7% of TV households subscribe to cable television, and as of December 2003, 20.3% of TV households subscribe to satellite television (National Cable Television Association website and skyreport com website).

Radio Listening

Studies show that, on average, adults listen to the radio 19.5 hours a week, with the amount of radio listening fairly evenly distributed across gender and age groups. Based on a XM-commissioned Arbitron's custom listening survey (Fall 2003), our subscribers listen to approximately 38 hours of radio per week, including AM, FM and XM Market data shows that over 75% of the entire United States population age 12 and older listen to the radio daily, and over 94% listen on a weekly basis (Radio Marketing Guide and Factbook for Advertisers, Radio Advertising Bureau, 2003-2004)

Current Limitations on Programming Choice

Many consumers have access to a limited number of stations and programming formats offered by traditional AM/FM radio. Our service is expected to be attractive to underserved radio listeners who want expanded radio choices.

Limited Number of Radio Stations. The number of radio stations available to many consumers in their local market is limited in comparison to the over 100 channels we offer on a nationwide basis In recent years, there were fewer than 50 AM/FM radio stations as listed by Arbitron broadcasting in New York City, the largest radio market in the United States Many of these radio stations are of the same five formats. In fact, many metropolitan areas outside the largest 50 markets, such as Jacksonville, FL, Louisville, KY, and Oklahoma City, OK, have 30 or fewer AM/FM radio stations as listed by Arbitron (American Radio, Winter 2001 Ratings Report, Duncan's American Radio, 2001).

Of the total listener base tracked by Arbitron, we estimate that our coast-to-coast service reaches over 109 million listeners age 12 and over beyond the range of the largest 50 markets as measured. Of these listeners, 39 million live beyond the largest 286 markets (Fall 2003 Market Rankings, Arbitron)

Limited Programming Formats. We believe that there is significant demand for a satellite radio service that expands the current programming choices available to these potential listeners. Over 47% of all commercial radio stations use one of only three general programming formats—country, news/talk/sports, and adult contemporary (Veronis, Suhler & Associates Communications Industry Forecast, July 2003) Over 64% of all commercial radio stations use one of only five general formats—the same three, plus oldies and religion The small number of available programming choices means that artists representing other niche music formats are likely to receive little or no airtime

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

in many markets Radio stations prefer featuring artists they believe appeal to the broadest market. However, according to the Recording Industry Association of America, recorded music sales of niche music formats such as classical, jazz, movie and Broadway soundtracks, religious programming, new age, children's programming and others comprised up to 23% of total recorded music sales in 2002 (2002 Consumer Profile)

We Are Differentiating XM Radio from Traditional AM/FM Radio

We have designed the XM Radio service to address the tastes of each of our targeted market segments through a combination of niche and broad appeal programming, and we believe that XM is an appealing alternative to traditional AM/FM radio as well as other in-vehicle audio entertainment options. Local radio stations, even those which are part of national networks, focus on maximizing listener share within local markets. This limits the types of programming they can profitably provide to mass appeal formats. In contrast, our nationwide reach and ability to provide 115 channels plus one premium channel in each radio market allow us to aggregate listeners from markets across the country, expanding the types of programming we can provide The following chart indicates differences between XM Radio and traditional AM/FM radio.

	XM Radio	Traditional AM/FM Radio
Programming quality and choice	115 channels with an extensive variety of programming plus one premium channel	Limited formats in many markets
Coast-to-coast coverage	Virtually seamless signal coverage in the contiguous United States	Local area coverage
Improved audio quality	Digital quality sound	Analog AM/FM quality sound
Commercial free music	68 100% commercial-free music channels	Average 13-17 minutes of commercial breaks per hour
Limited commercials	Entertainment and talk channels with limited commercials	Average 13-17 minutes of commercial breaks per hour
Enhanced information	Text display with title/name of song/artist	No visual display

Marketing

Our marketing strategy is designed to build awareness and demand among potential subscribers in our target markets and the advertising community. Our strategy also includes providing potential subscribers with the opportunity to experience the XM service, because it is available to new car prospects during vehicle test drives of XM-enabled General Motors vehicles, on approximately 20,000 AVIS rental cars, and on Jet Blue and AirTran airplanes beginning in the fall of 2004. Jet Blue and AirTran serve over 20 million passengers per year.

We promote XM Radio as the leader in the new satellite radio category, offering appealing features compared to traditional radio Our commercial launch was supported by a comprehensive advertising program including television, radio, print, outdoor and direct marketing. General Motors is sponsoring national and local print and television advertising that features the XM logo and message Our ongoing advertising and promotional activities include television, radio and print advertising and distributing sample programming and marketing materials at retail outlets, concert venues, NASCAR events and on the Internet to generate consumer interest For instance, we have an agreement with Clear Channel Entertainment (formerly SFX) to be the exclusive satellite radio advertiser at live concerts and sporting events presented by, and live entertainment venues managed by, Clear Channel Entertainment.

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

XM Radio promotes subscriber acquisition activities with both automobile original equipment and aftermarket radio manufacturers This includes·

- promotional campaigns directed towards automobile manufacturers and dealers,
- in-store promotional campaigns, including displays located in electronics, music and other retail stores, rental car agencies and automobile dealerships;
- incentive programs for retailer sales forces, and
- jointly funded local advertising campaigns with retailers

Distribution

We market our satellite radio service through several distribution channels including automotive manufacturers and dealers, national and regional electronics retailers, car audio dealers and mass retailers, rental car companies and, commencing in fall 2004, airlines In the first nine months following our commercial launch, we primarily focused on distribution of radios through radio manufacturers and retail distributors to promote rapid market penetration. Starting with the 2003 automobile model year (which began in late summer 2002), we significantly increased our focus on distribution through automotive manufacturers.

Automotive Manufacturers and Dealers. XM Radio is currently available as original equipment in over 80 new vehicle models

Exclusive Distribution Agreement with General Motors. Under our agreement with OnStar Corporation, a subsidiary of General Motors, for a 12-year period ending in September 2013, General Motors will exclusively distribute and market the XM Radio service and install XM radios in General Motors vehicles General Motors sold 4 8 million automobiles in 2003, which represented more than 28% of the United States automobile market General Motors currently offers XM Radio in 43 vehicle lines of the 2004 model year, including passenger cars, light trucks and SUVs. GM factory installs the XM Radio option in Buick, Cadillac, Chevrolet, GMC, Pontiac and Saturn brand vehicles. For the 2005 model year, General Motors has announced plans to expand the XM Radio, factory-installed, option to over 50 vehicle lines including HUMMER, Buick, Cadillac, Chevrolet, GMC, Saturn, and Pontiac brand vehicles. GM recently commemorated its one-millionth XM-equipped vehicle, during an event at their Detroit world headquarters in February 2004. General Motors has made XM radios available in diverse price categories, ranging from the Chevy Cavalier to the Cadillac Escalade. Under this agreement, we have substantial payment obligations to General Motors, including substantial guaranteed fixed payment obligations (2007 to 2009) General Motors is a major investor in XM

Honda. Honda currently offers XM Radio in the Accord EX, Acura RL and Acura TL as a factory-installed feature and in the Pilot, S2000 and other Accord models as a dealer-installed option American Honda is a major investor in our company.

Other Automobile and Truck Manufacturers. Toyota/Lexus,/Scion Nissan/Infiniti, Isuzu and Volkswagen/Audi offer XM Radio as a dealer-installed option in numerous popular makes and models, including the Toyota Camry Solara Coupe and Scion xA and xB, the Lexus LS 430, the Nissan Pathfinder and Titan, Infiniti G35 and FX45, the Audi A4, S4, A6 and allroad quattro and the Volkswagen Beetle. We are continuing to seek additional distribution agreements with other car manufacturers as well as large independent dealer groups. 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.

National and Regional Retail Electronics Distributors XM radios are available under the Delphi, Pioneer, Alpine and Sony brand names and are marketed and distributed together with the XM Radio service through major consumer electronics retail channels, including Best Buy, Circuit City, Wal-Mart and other national and regional retailers We develop in-store merchandising materials, including end-aisle displays for several retailers, and train the sales forces of all major retailers

Source. XM SATELLITE RADIO H, 10-K, March 15, 2004

Brand Awareness and Other Distribution Arrangements.

Rental Cars. XM service became available in June 2003 to Avis car rental customers in 30 major cities nationwide Avis currently offers the XM service in approximately 20,000 of its vehicles, included at no additional cost to consumers in many of its luxury and premium classified GM vehicles

Airplanes. In January 2004, we announced that XM Radio will be available on Jet Blue and AirTran airplanes beginning in fall 2004

Expanding Product Configurations Beginning in the fall of 2002 and continuing through 2003, a second generation of XM Radios, reflecting enhanced features and a significantly lower cost, became available to consumers

Product	Date of Introduction	Description
Delphi XM SKYFi	Fall 2002	Plug-and-play device for the car, home and portable boombox
XM PCR	April 2003	Designed for personal computers
Tune Suite	August 2003	High-end home audio system
Delphi XM Roady	October 2003	Plug-and-play device
XM Commander	October 2003	All-in-one receiver package that works with nearly all AM/FM car stereos
XM Direct	November 2003	Ultra-compact tuner module for satellite-ready car stereos
Alpine CDA-9820XM	December 2003	First in-dash CD receiver with an integrated XM tuner
Delphi CD Audio System	December 2003	First AM/FM/XM/CD/MP3 capable boombox

In the fall of 2002, Delphi introduced the Delphi SKYFi, a plug and play device that can be adapted for home, automobile or portable use (boom box). The SKYFi features an enhanced display that shows channel number, channel name, artist name, song title and channel category and is available at a significantly lower cost than earlier XM radios In April 2003, we introduced the XM PCR, the first satellite radio receiver designed for personal computers In August 2003, Audio Design Associates introduced the Tune Suite, the first high-end, multizone home audio system to feature XM Satellite Radio In October 2003, we introduced the Delphi XM Roady, a complete satellite radio system for vehicles in one simple, easy to install package that retails for a cost less than the SKYFi Also, in October 2003, we introduced the XM Commander, an all-in-one receiver package that works with nearly all AM/FM car stereos, regardless of make, brand or year, and is sized and styled to integrate with the dashboard of most vehicles, including luxury cars In November 2003, we introduced XM Direct, an ultra-compact XM tuner module for car stereos that can be connected to any satellite-radio-ready car stereo with adaptors developed and distributed by third parties. In December 2003, Alpine introduced the industry's first in-dash CD receiver with an integrated XM tuner, the CDA-9820XM, which eliminates the need for a separate XM tuner for easier installation and delivers high quality sound performance. Delphi has begun offering the Delphi CD Audio System, the industry's first boom box capable of playing AM/FM radio, XM radio, compact discs and MP3 files. We plan to continue to expand our product offerings in 2004

We have contracts with Motorola, Pioneer, Alpine, Mitsubishi Electric, Clarion, Blaupunkt, Fujitsu Ten, Hyundai Autonet, Bontec, Visteon, Panasonic and Sanyo for the development, manufacture and distribution of XM radios for use in cars and contracts with Sony Electronics and Delphi-Delco to design, manufacture and market XM radios for the portable, home, aftermarket and original equipment manufacture car stereo markets. 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 These leading radio manufacturers have strong retail and dealer distribution networks in the United States We are pursuing additional agreements for the manufacture and distribution of XM radios for the home and portable markets.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

We expanded retail aftermarket distribution in 2003 in two important areas. First, we expanded our retail presence within existing retailers by establishing displays in the home audio (or home stereo) section of the store to promote hardware configurations, such as the Delphi SKYFi radio, that easily connect to home stereo systems or plug into the SKYFi "boom box." More than 265,000 SKYFi "boom box" units were manufactured during 2003. Second, we expanded distribution in 2003 to retailers focusing on other important market segments for satellite radio. For example, we expanded distribution to the major truck stop chains (Pilot, Truckstops of America, Petro and Flying J), marine dealers and distributors of home satellite TV systems We plan to continue expansion in these markets in 2004.

Future Interoperability Distribution Arrangements We have signed an agreement with Sirius Radio to develop a unified standard for satellite radios to facilitate the ability of consumers to purchase one radio capable of receiving both our and Sirius Radio's services Both companies expect to work with their automobile and radio manufacturing partners to integrate the new standard Future agreements with automakers will specify the unified satellite radio standard. Furthermore, future agreements with retail and automotive distribution partners and content providers will be on a non-exclusive basis and may not reward any distribution partner for not distributing the satellite radio system of the other party.

The XM Radio Service

Our channel offering includes channels designed to appeal to different groups of listeners, including urban and rural listeners of different ages, and to specific groups that our research has shown are most likely to subscribe to our service, and thereby aggregate 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

The following is a list of channels included in our service offering as of February 2004, except as otherwise noted.

	Channel Name	Channel Description
Preview	XM Preview	XM Preview
Decades	The 40s	Big Band/Swing/Forties
	The 50s	Fifties Hits
	The 60s	Sixties Hits
	The 70s	Seventies Hits
	The 80s	Eighties Hits
	The 90s	Nineties Hits
Country	America	Classic Country
	Nashville[1]	90s & Today
	X Country	Progressive Country
	Hank's Place	Traditional Country
	Bluegrass Junction	Bluegrass
	The Village	Folk
	Highway 16	Top Country Hits
Pop & Hits	Top 20 on 20	Top 20 Hits
	KISS	Pop Hits
	MIX	Contemporary Hits
	The Heart	Love Songs
	Sunny	Beautiful Music
	The Blend	Adult Contemporary
	XM Live	Concerts
	Cinemagic	Movie Soundtracks
	On Broadway	Show Tunes
	U-Pop	Euro & Global Chart Hits
Classical	XM Classics	Traditional Classical
	Vox	Opera/Classical Vocals
	XM Pops	Popular Classical
Kids	Radio Disney	Children
	XM Kids	Children
News	Fox News	News
	CNN	News
	CNN Headline News	News
	ABC News & Talk	News & Talk
	The Weather Channel	24 Hr. Weather Radio Network
	CNBC	Business News
	Bloomberg Radio	News & Business
	MSNBC	News
	BBC World Service	World Affairs
	C-SPAN Radio	US Gov't & Public Affairs
	CNN en Español	News in Spanish
Sports	ESPN Radio	Sports Talk/Play-by-Play
	ESPN News	Sports News
	Fox Sports Radio	Sports News Talk
	The Sporting News	Sports Talk
	NASCAR Radio	NASCAR Racing

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

	Channel Name	Channel Description
Christian	The Torch	Christian Rock
	The Fish	Christian Pop
	Spirit	Gospel
Rock	Deep Tracks	Deep Album Rock
	Boneyard	Hard Rock
	XM Liquid Metal	Heavy Rock
	XMU	New Music
	Fred	Deep Classic Alternative
	XM Cafe	Modern/Soft Alternative
	Top Tracks	Classic Rock
	Ethel	Nineties & Today's Alternative
	Squizz	Hard Alternative
	Fine Tuning	Eclectic
	The Loft	Acoustic/Rock
	Music Lab	Jambands/Progressive
	Unsigned!	Unsigned Artists
	Fungus	Punk/Hardcore/Ska
	Lucy	Classic Alternative Hits
Hip Hop/ Urban	Soul Street	Classic Soul
	The Flow	Neo Soul
	Suite 62	Urban Adult
	The Groove	Old School R&B
	The Rhyme	Classic Hip-Hop/Rap
	RAW	Uncut Hip-Hop
	The City	Urban Top 40
Jazz & Blues	Real Jazz	Traditional Jazz
	Watercolors	Contemporary Jazz
	Beyond Jazz	Modern Jazz
	Frank's Place	Great Vocals/Standards
	Bluesville	Blues
	Luna	Latin Jazz
	On the Rocks	Cocktail Mix
Dance	The Move	Underground Dance
	BPM	Dance Hits
	The System	Electronica
	Chrome	Disco
Latin	Caricia	Spanish Pop Hits
	Caliente	Salsa/Caribbean
World	World Zone	World
	The Joint	Reggae
	Ngoma	African
	Audio Visions	New Age

	Channel Name	Channel Description
Comedy	XM Comedy	Comedy
	Laugh USA	Family Comedy
	Extreme XM	Extreme Talk
Talk & Variety	MTV	MTV Radio
	VHI	VHI Radio
	Discovery Radio	Real Life Stories & News
	E!	Entertainment News
	Sonic Theater	Books & Drama
	Radio Classics	Old Time Radio
	Ask	Experts & Advice
	Buzz XM	Talk & Opinion
	The Power	African American Talk
	Family Talk	Christian Talk
	Open Road	Truckers' Channel
Instant Traffic and Weather*	Boston**	
	New York City	
	Philadelphia	
	Baltimore	
	Washington, DC	
	Pittsburgh	
	Detroit	
	Chicago	
	St Louis	
	Minneapolis/St Paul+	
	Seattle+	
	San Francisco	
	Los Angeles	
	San Diego+	
	Phoenix	
	Dallas/Ft Worth	
	Houston	
	Atlanta+	
	Tampa/St. Petersburg	
	Orlando	
	Miami/Ft Lauderdale+	
	*Available March 1, 2004 unless otherwise noted	
	**Available April 1, 2004	
	+Available later in 2004	
Premium	Playboy Radio	Adult

Hallmarks of XM's channel lineup include·

Broad range of music genres—all commercial free—and live radio entertainment. XM offers 68 channels of music-oriented entertainment Each channel is programmed in its own distinct format, many generally not previously available on radio, and some newly created by XM to appeal to emerging listening tastes Recently, XM shifted its approach to music programming, eliminating commercial advertisements on all of its music channels to enhance the listening experience.

Musical formats unavailable in many markets. XM Radio offers many music formats that are popular but currently unavailable in many markets More than 64% of all commercial radio stations in markets measured by Arbitron use one of only five programming formats: country; adult contemporary, news/talk/sports, oldies, or religious Furthermore, the number of radio stations available to many consumers in their local market is limited in comparison to

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

the 115 channels (plus one premium channel), we offer on a nationwide basis. We offer many types of music with significant popularity, as measured by recorded music sales and concert revenues, that are unavailable in many traditional AM/FM radio markets Such music includes classical recordings and popular blues music that have retail appeal but are not commonly played on traditional AM/FM radio. Recorded music sales of niche music formats such as classical, jazz, movie and Broadway soundtracks, religious programming, new age, children's programming and others comprised up to 23% of total recorded music sales in 2002 We have channels devoted to all of these formats and many other popular musical styles that are not currently heard in many small and medium sized markets, such as heavy metal, modern electronic dance, disco and blues.

Superserve popular musical formats We offer more specific programming choices than traditional AM/FM radio generally offers for even the most popular listening formats For example, on traditional AM/FM radio oldies music is often generalized on a single format. We segment this category by offering several channels devoted to the music of each decade from the 1940's to the 1990's We also offer seven channels dedicated to urban formats and seven distinct country music formats.

Popular brand name content available 24/7 on radio The advent of multichannel cable and satellite television services has spawned the emergence of many popular and easily recognized brand names, spanning a wide range of content categories and niche topics XM is bringing many of these to radio, available nationwide. Among these are:

— CNBC
— CNN
— CNN Headline News
— Discovery
— E! Entertainment
— ESPN
— Fox News
— MSNBC
— MTV (exclusively on XM)
— VH1 (exclusively on XM)
— NASCAR (exclusively on XM)
— The Weather Channel

Sports and Entertainment Programming XM offers a broad array of sports and variety programming, including sports talk, ESPN Radio and ESPN News, the nation's only dedicated NASCAR channel, three comedy channels, an old-time radio channel, and a channel dedicated to books and dramas. Our NASCAR, MTV and VH1 channels are exclusive to XM Radio. The ESPN Radio channel includes play-by-play NBA and Major League Baseball games including the all-star games, playoffs, championships and World Series; and the channel also carries the college football Bowl Championship Series games. This type of programming is not available in many radio markets and we believe it makes our service appealing to dedicated sports fans and listeners whose tastes are not served by existing AM/FM radio stations

Local Traffic and Weather Programming Beginning March 1, 2004, we launched our Instant Traffic and Weather service, a set of audio channels dedicated to keeping drivers and other listeners informed with in-depth up-to-the-moment updates on traffic and weather conditions in their local market. Each market served has a dedicated channel, so listeners can tune to the channel/city of their choice and rely on instant traffic and weather to help aid their driving and planning decisions XM plans to repeat weather and traffic information in a pattern familiar to listeners. Initial markets launched in March 2004 are Baltimore, Chicago, Dallas/Ft. Worth, Detroit, Houston, Los Angeles, New York City, Orlando, Philadelphia, Phoenix, Pittsburgh, San Francisco/Oakland, St. Louis, Tampa and Washington DC Other markets will be added later in 2004. The data is provided by Mobility Technologies for traffic information and by The Weather Channel for weather information. XM creates the audio for the channels from its headquarters facility in Washington DC. We believe this will be a valuable part of our service offering and that it offers several key advantages over what is currently available on terrestrial radio. These include near instant availability due to the pattern of repeating information frequently, 24/7 availability of the service and wider availability as compared to terrestrial broadcasts available only to drivers within the coverage area

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

A wide range of popular talk radio stars. Over the last two decades talk radio has emerged as a major component of radio listening XM showcases many well-known talk radio personalities on its channels, including Bill O'Reilly, Sean Hannity, Michael Reagan, Phil Hendrie, Art Bell, Bruce Williams, Glenn Beck and many others.

State-of-the-art facilities XM creates most of its music channels (as well as most of its comedy and children's channels, NASCAR radio and the Open Road trucker channel) at its studio facilities in Washington DC, midtown Manhattan in New York City, and in Nashville at the Country Music Hall of Fame and Museum. These interconnected facilities comprise an all digital radio complex that is one of the world's largest, with over 80 sound-proof studios of different configurations The studios tap a centralized digital database of over 200,000 CDs and more than 1 5 million recordings We also have two performance studios for visiting artist interviews and performances.

Dedicated, highly skilled staff Our dedicated and experienced radio programming and production talent and on-air staff includes leading radio and music experts in their genres Collectively, they hold over 300 gold records reflecting their involvement with the music industry, have more than a thousand years of radio programming experience, 62 record industry awards, two Emmy awards, four New York Festival awards and include one Rock and Roll Hall of Fame inductee

XM's own approach to creation of radio entertainment XM's goal is to create fans, not just listeners, who will come to identify with the music, personalities and attitude of their favorite channels We believe several important features differentiate XM.

- *Branding of each channel, with audio signatures* and sounds to create an audio ambience that is specific to each genre Audio signatures for one channel have already won a New York Festival award

- *Live programming* to allow listeners to interact with their favorite channels and personalities. XM music channels deliver over 5,000 hours per month of live shows, and in the month of December 2003 the channels received a total of more than 60,000 telephone calls from listeners nationwide, requesting songs, seeking information about an artist, or engaging in dialog

- *Targeted features and shows* to appeal to specific audiences. These include regularly scheduled shows such as sub-genre showcases, mini-histories, and shows featuring artists such as Wynton Marsalis and Quincy Jones The XM Kids channel has already won five Parents Choice awards for its five distinct shows

- *Live performances and artist interviews.* To date, XM has hosted more than 800 visits by prominent and emerging artists in virtually every musical genre Most of these visits include extensive interviews covering their careers and interests as well as performances. Performances included the Wynton Marsalis Septet and Cassandra Wilson

- *More extensive playlists than traditional radio* Traditional AM/FM radio stations frequently use limited playlists that focus on the artists and specific music that target the largest audience. With our large channel capacity and focus on specific formats, we strive to provide more variety to attract listeners dissatisfied with repetitive and/or limited playlist selection. For example, in the rock genre, we have a channel dedicated to "deep tracks" not generally heard on rock radio stations.

- *Quick response when major music and cultural events occur* XM Radio programmers aim to respond quickly to changing musical tastes, seasonal music, special events and emerging popular culture by providing listeners with coverage of major music and other cultural events. In December 2003, we had three channels of holiday music. In January 2004, we celebrated Elvis Presley's birthday on "Fifties on Five", and in February 2004, we had extensive programming for Black History month and for commemorating the 40th Anniversary of the Beatles first U S tour.

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

Special focus on the demands of mobile listeners A significant percentage of radio listeners, such as truckers, routinely travel through two or more radio markets on a frequent basis This audience has responded enthusiastically to our nationwide coverage and the programs of popular trucking radio personalities Bill Mack, Dale "the Truckin' Bozo" Somers and Dave Nemo on "Open Road," our channel dedicated to truckers.

Superior digital sound quality. Our digital signal transmitted via satellite and our terrestrial repeater network provides nationwide, virtually uninterrupted coverage. Our internal research with small groups of listeners indicates that most listeners cannot distinguish a song played over XM from the CD. Our digital sound quality is a particular benefit for music formats that have strong demand on a nationwide basis but have been relegated to AM stations with weaker signals due to lack of available FM frequencies By having specific channels dedicated to classic country, the 1940s and gospel, for example, we provide superior sound quality to formats that are traditionally found only on AM stations.

Channels that are either completely ad-free or have a reduced amount of advertising relative to terrestrial radio We believe that a significant portion of the listening market will pay to subscribe to a radio service that provides commercial-free channels, as demonstrated by the appeal of limited periods of non-stop music used by some traditional AM/FM stations. Since February 2004, we are targeting this audience with 68 commercial-free music channels covering popular music formats.

Informative digital display Accompanying the audio portion of the broadcast, the digital display of XM Radio indicates the channel name, number and category. It also can be adjusted to indicate the name of the song and artist, or the name of the talk show being aired.

Future content arrangements. Under our agreement with Sirius Radio, subject to certain exceptions, arrangements with providers of programming or content, including celebrity talent, must be non-exclusive and may not reward any provider for not providing content to the other party.

Subscriber and Advertising Revenue

We derive revenues from two primary sources. subscriber revenues and advertising revenues. We charge subscribers a monthly fee for 115 channels of our programming. In September 2002, we introduced our first premium channel, which customers can subscribe to for an additional monthly fee We offer family plan discounts to subscribers who have multiple XM radios We also offer pre-paid multi-year subscription discounts

Advertising revenue provides an additional revenue source. Our non-commercial free channels, including our traffic and weather channels, provide what we believe is an attractive advertising medium for national advertisers. We have held extensive meetings with media directors, planners and buyers at advertising and media buying agencies to develop advertiser awareness of the benefits of satellite radio We have advertising sales offices in several major media markets to sell directly to advertising agencies and media buying groups We have sold advertising packages to a variety of advertisers and agencies, including JC Penney, Radio Shack, Allstate, Autozone, Pfizer, Anheuser-Busch and ABC Networks. Arbitron, which produces radio listenership reports, is working with us to quantify our listenership and channel ratings for the benefit of national media buyers.

The XM Radio System

Our system provides satellite radio to the continental United States and coastal waters using radio frequencies allocated by the FCC for satellite radio. These radio frequencies are within a range of frequencies called the S-Band. The XM Radio system is capable of providing high quality satellite services to XM radios in automobiles, trucks, recreation vehicles and pleasure craft, as well as to fixed or portable XM radios in the home, office or other fixed locations. The XM Radio system uses a network consisting of two high-power satellites, an uplink facility, and ground-based repeaters primarily in dense urban areas to provide coverage where the satellite signal is obstructed.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Consumer Hardware

XM Radios We transmit XM content throughout the continental United States to vehicle, portable, home and plug and play radios Most of our radios are capable of receiving both XM content and traditional AM/FM stations. Beginning in the fall of 2002 we introduced the second generation of XM radios, offering enhanced features and more attractive pricing than earlier XM radios

Delphi introduced the XM SKYFi, a plug-and-play device offering more advanced user features including a large display and more convenient channel navigation, in the fall of 2002 In April 2003, we introduced the XM PCR, the first satellite radio receiver designed for personal computers In August 2003, Audio Design Associates introduced the Tune Suite, the first high-end, multizone home audio system to feature XM Satellite Radio. In October 2003, Delphi introduced the XM Roady, a complete satellite radio system for vehicles in one simple, easy to install package that retails for less than the XM SKYFi. In October 2003, we introduced the XM Commander, an all-in-one receiver package that works with nearly all AM/FM car stereos, regardless of make, brand or year, and is sized and styled to integrate with the dashboard of most vehicles, including luxury cars In November 2003, we introduced XM Direct, an ultra-compact XM tuner module for car stereos that can be connected to any satellite-radio-ready car stereo with adaptors developed and distributed by third parties In December 2003, Alpine introduced the industry's first in-dash CD receiver with an integrated XM tuner, the CDA-9820XM, which eliminates the need for a separate XM tuner for easier installation and delivers high quality sound performance. In December 2003, Delphi introduced the Delphi CD Audio System, the industry's first boombox capable of playing AM/FM radio, XM radio, compact discs and MP3 files. These new products represent the second generation of XM Radios, reflecting enhanced features and a significantly lower cost. XM radios are available under the Delphi, Pioneer, Alpine and Sony brand names at national consumer electronics retailers, such as Best Buy, Circuit City, Wal-Mart and other national and regional retailers. The plug and play devices are designed to augment the existing radio that provides AM/FM stations in the car or home. ST Microelectronics manufactures the chipsets that decode the XM Radio signal.

Unified Standard for Satellite Radio. On February 16, 2000, we signed an agreement with Sirius Radio to develop a unified standard for satellite radios enabling consumers to purchase one radio capable of receiving both Sirius Radio's and our services The technology relating to this unified standard is being jointly developed and funded by the two companies, who will share ownership of it This unified standard is intended to meet FCC rules requiring interoperability with both licensed satellite radio systems

As part of the agreement, each company has licensed to the other its intellectual property relating to the unified standard and its system

We anticipate that it will take several years to develop radios capable of receiving both services Currently, consumers are able to purchase radios capable of receiving only one service

Both companies expect to work with their automobile and radio manufacturing partners to integrate the new standard. Future agreements with automakers and radio manufacturers will specify the unified satellite radio standard

Space Segment

Satellite System. Boeing Satellite Systems (BSS), has built, launched and delivered in-orbit two Boeing 702 high-power satellites for the XM Radio system The satellites were launched on March 18, 2001 and May 8, 2001, respectively, and are transmitting the XM signal BSS is also completing our ground spare satellite, XM-3, which we plan to launch by year-end 2004. In 2007, we plan to launch XM-4.

The Boeing 702 is the highest powered commercial communications satellite currently available. Both of our satellites contain communications payloads provided by Alcatel. The communications payload electronics are designed to make best use of technologies that have already been developed or used in previous satellite programs. The design includes significant redundancy and protective measures to prevent loss of service

In the first quarter of 2003, we filed the proofs of loss for constructive total loss claims on both our satellites with our insurance carriers for the aggregate sum insured (less applicable salvage), relating to a progressive degradation problem with the solar array output power of Boeing 702 class satellites, including XM Rock and XM Roll, identified to our insurers in September 2001 We have launch and in-orbit insurance policies that provide coverage to us for a

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

total, constructive total or partial loss of each of our satellites where such loss arises from an occurrence within the first five years after launch (both satellites were launched during the first half of 2001) The aggregate sum insured in the event of the total or constructive total loss of both satellites is $400 million ($200 million per satellite). During the third quarter of 2003, we received letters from our insurers rejecting our proofs of loss and denying our claims We anticipate continuing correspondence and meetings with individual and groups of insurers to resolve this matter and will proceed with negotiations, arbitration or litigation as necessary to recover the losses We continue to believe that we will ultimately receive insurance payments adequate to launch our spare satellite and fund a portion of XM-4, although there can be no assurance as to the amount of any insurance proceeds, or that any insurance proceeds will be received in a timely manner.

In light of the progressive degradation noted above, we plan to launch our ground spare satellite (XM-3) into one orbital slot by year-end 2004, and operate XM Rock and XM Roll collocated in the other orbital slot. In 2007, we plan to launch XM-4 to replace the collocated XM Rock and XM Roll In this way, we will have replacement satellites in orbit and operating prior to the times XM Rock and XM Roll can no longer provide full service, or half service in collocated mode We currently expect XM Rock and XM Roll to operate in collocated mode through the first quarter of 2008. Our commitments regarding XM-3 and XM-4 are described under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Expenditures," below.

Since the solar array power degradation issue is common to the first six Boeing 702 class satellites now in orbit, the manufacturer and we are closely watching the progression of the problem, including data from a satellite that has been in orbit longer than either of our two satellites by approximately 15 and 17 months, respectively. With this advance visibility of performance levels, a firm launch commitment for our spare satellite in the fourth quarter of 2004, the ability to provide full service for an extended period of time with XM Rock and XM Roll collocated in one orbital slot and the spare located in the other slot (which would allow partial use of the existing satellites through the first quarter of 2008), firm commitments to build a fourth satellite and provide launch services therefore and various mitigation actions to extend the full or partial use of the existing satellites, we believe that we will be able to launch additional satellites prior to the time the solar array power problem might cause the broadcast signal strength to fall below minimum acceptable levels

Based on the consistency of the degradation trends (with no substantial improvement to date) and continuing analyses by BSS and us, we adjusted the estimated useful lives of our in-orbit satellites, with effect from September 2002, to the period running through first quarter 2008 (approximately 6 75 years from launch) We will continue to monitor this situation carefully and may re-adjust the estimated useful lives of our in-orbit satellites based on future information.

We have set the launch period for our ground spare satellite for the three-month period commencing October 1, 2004. In addition to the modifications to address the solar anomaly as noted above, BSS will make certain alterations to optimize the ground spare for the specific orbital slot into which the spare will be launched.

Satellite Transmission. Our two satellites are deployed at 85 West Longitude and 115 West Longitude. At their designated orbital locations, the satellites receive audio signals from our programming center and retransmit the signals across the continental United States. The satellites are 30° apart in longitude in order to enhance the probability of clear line-of-sight communication between the satellites and XM mobile radios

The transmission coverage areas, or footprints, of our satellites encompass the 48 contiguous states and nearby coastal waters We have tailored these footprints to provide nearly uniform availability over the United States and to minimize transmission spillage across the United States borders into Canada and Mexico However, because coverage does extend to the Gulf of Mexico, the California coast and the Atlantic coast, we also expect to be able to provide XM Radio to the cruise ships, cargo vessels and leisure boats that frequent these waters.

Our satellites transmit audio programming within a 12 5 MHz bandwidth operating in the S-Band radio frequency spectrum that the FCC has allocated for our exclusive use Megahertz is a unit of measurement of frequency. This 12.5 MHz bandwidth is subdivided into six carrier transmission signals, two signals transmitted from each of our two satellites and two signals transmitted by the terrestrial repeater network. The audio programming for XM Radio is carried on two satellite signals, and the remaining two satellite signals and the terrestrial repeater signals repeat the

Source· XM SATELLITE RADIO H, 10-K, March 15, 2004

audio programming to enhance overall signal reception. The transmission of higher quality sound requires the use of more kilobits per second than the transmission of lesser quality sound We are currently using our allocated bandwidth in such a way as to provide up to 122 channels by later in 2004.

Insurance. We bear the risk of loss for each of the satellites, and we have obtained insurance to cover that risk. We have launch and in-orbit insurance policies from global space insurance underwriters. These policies provide coverage for a total, constructive total or partial loss of either of the satellites that occurs during a period ending five years after launch Our insurance will not cover the full cost of constructing, launching and insuring two new satellites, nor will it protect us from the adverse effect on our business operations due to the loss of a satellite Our policies contain standard commercial satellite insurance provisions, including standard coverage exclusions. We have filed a claim under our in-orbit insurance policy, as described above under the heading "Space Segment—Satellite System."

Ground Segment

Satellite Control. Each of our satellites is monitored by a telemetry, tracking and control station, and both satellites are controlled by a spacecraft control station Each of the stations has a backup station. We have a contract with Telesat Canada, Inc., an experienced satellite operator, to perform the telemetry, tracking and control functions.

Broadcast Facility Programming from both our studios and external sources is sent to our broadcast facility in Washington, DC, which packages and retransmits signals to our satellites through the uplink station In addition, financial services and certain administrative support are carried on at our Washington, DC facilities. 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

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

Competition

We face competition for both listeners and advertising dollars In addition to pre-recorded music purchased or playing in cars, homes and using portable players, we compete most directly with the following providers of radio or other audio services

Sirius Satellite Radio

Our direct competitor in satellite radio service is Sirius Radio, the only other FCC licensee for satellite radio service in the United States Since October 1997, Sirius Radio's common stock has traded on The Nasdaq National Market Sirius completed a recapitalization in March 2003, a $146 million financing in June 2003 and a $150 million financing in November 2003. Sirius began commercial operations in February 2002, and began nationwide service during the third quarter of 2002 Sirius has announced that it had 261,061 subscribers as of December 31, 2003 Sirius, which features 100 channels, offers its service for a monthly charge of $12.95. Sirius offers certain programming that we do not offer, including exclusive channels for National Hockey League games, National Basketball Association games, National Public Radio, and beginning at the start of the 2004 football season, regular season National Football League games Sirius radio service is offered as a dealer-installed option on car model brands such as Ford,

Source· XM SATELLITE RADIO H, 10-K, March 15, 2004

Lincoln-Mercury, BMW, MINI, Chrysler, Dodge, Jeep, Nissan, Infiniti and Audi and as a factory-installed option on the BMW 5 Series and the Dodge Durango.

Traditional AM/FM Radio

Our competition also includes traditional AM/FM radio Unlike XM Radio, traditional AM/FM radio already has a well established market for its services and generally offers free broadcast reception paid for by commercial advertising rather than by a subscription fee. Also, many radio stations offer information programming of a local nature, such as local news and sports, which XM Radio cannot offer as effectively as local radio. The AM/FM radio broadcasting industry is highly competitive Radio stations compete for listeners and advertising revenues directly with other radio stations within their markets on the basis of a variety of factors, including

- program content,
- on-air talent,
- transmitter power,
- source frequency,
- audience characteristics,
- local program acceptance; and
- the number and characteristics of other radio stations in the market.

Currently, traditional AM/FM radio stations broadcast by means of analog signals, not digital transmission We believe, however, that in the future traditional AM/FM radio broadcasters may be able to transmit digitally into the bandwidth occupied by current AM/FM stations. iBiquity Digital recently received FCC approval to begin digital broadcasting in the AM and FM bands iBiquity recently announced that over 280 radio stations in over 100 markets have licensed its technology and begun digital broadcasting or are in the process of converting to digital broadcasting

Internet Radio

A number of Internet radio broadcasts provide listeners with radio programming from around the country and the world. Although we believe that the current sound quality of Internet radio is below standard and may vary depending on factors that can distort or interrupt the broadcast, such as network traffic, we expect that improvements from higher bandwidths, faster modems and wider programming selection may make Internet radio a more significant competitor in the future

There are a number of Internet-based audio formats in existence or in development that could compete directly with XM Radio For example, Internet users with the appropriate hardware and software can download sound files for free or for a nominal charge and play them from their personal computers or from specialized portable players or compact disk players. 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 disk 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 would make XM Radio a more attractive option to consumers, Internet-based audio formats may become increasingly competitive as quality improves and costs are reduced.

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

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

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

Regulatory Matters

XM Radio and Sirius Radio received licenses from the FCC in October 1997 to construct and operate satellite radio service systems. The FCC has allocated 25 MHz for the new service in a range of radio frequencies known as the S-Band.

As the owner of one of two FCC licenses to operate a commercial satellite radio service in the United States, we will continue to be subject to regulatory oversight by the FCC. Our development, implementation and operation of our system is subject to significant regulation by the FCC under authority granted under 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 support our business plan.

Our license, which is held by a subsidiary wholly owned by XM, has a term of eight years from commencement of XM's operations and may be renewed. The FCC requires the satellite radio licensees, including us, to adhere to certain milestones in the development of their systems, including a requirement that the licensees begin full operation by October 2003. We have certified to the FCC that we have met all of the milestones applicable to our license The U.S government is responsible for coordinating our satellites through the International Telecommunication Union (ITU) and must make periodic filings at the ITU

In February 2004, we applied to the FCC for authority to launch and operate XM-3 and XM-4 and to relocate XM Roll to the 115W orbital location These applications are pending.

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

The FCC's rules require interoperability with all licensed satellite radio systems that are operational or under construction. The FCC conditioned our license on certification by us that our final receiver design is interoperable with the final receiver design of the other licensee, Sirius Radio, which uses a different transmission technology than we use Depending on what level of interoperability is required, we may not initially meet this interoperability requirement We have signed an agreement with Sirius Radio to develop a unified standard for satellite radios, but we anticipate that it will take several years to develop the technologies necessary for radios that will be capable of receiving both our service and Sirius Radio's service Furthermore, complying with the interoperability requirement could make the radios more difficult and costly to manufacture. Together with Sirius Radio, we have informed the FCC of the progress that has been made to date in meeting the interoperability requirement

The FCC is currently conducting a rulemaking proceeding to establish rules for terrestrial repeater transmitters, which we have deployed and plan to continue deploying to fill in gaps in satellite coverage The FCC has proposed to permit us to deploy these facilities Specifically, the FCC has proposed a form of blanket licensing for terrestrial repeaters and service rules which would prohibit satellite radio licensees from using terrestrial repeating transmitters to originate local programming or transmit signals other than those received from the satellite radio satellites. Various parties, including the National Association of Broadcasters, Wireless Communications Service (WCS) licensees, Multipoint Distribution Service (MDS) licensees, and Instructional Television Fixed Service (ITFS) licensees have asked the FCC to

- limit the number of repeaters operating at greater than 2 kW EIRP that may be deployed;
- limit the power level of the repeaters operating at greater than 2 kW EIRP that are deployed;
- delay consideration of terrestrial repeater rules until XM Radio and Sirius Radio provide additional information regarding planned terrestrial repeaters;

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

- require individual licensing of each terrestrial repeater, and

- impose a waiting period on the use of repeaters in order to determine if signal reception problems can be resolved through other means.

Our deployment of terrestrial repeaters may be impacted by whatever rules the FCC issues in this regard, although we believe these impacts are not likely to be material to our business. We have made a proposal to the FCC to set a 40 kW EIRP limit or, alternatively, a limit of 18 kW EIRP calculated by averaging power over 360 degrees, on the power of terrestrial repeaters We have also proposed to coordinate with WCS licensees in certain cases prior to operating terrestrial repeaters above 2 kW EIRP The coordination may include our providing filters in certain instances to limit the interference WCS licensees claim will result from our operation of repeaters operating above 2 kW EIRP

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.

We are currently operating terrestrial repeaters pursuant to Special Temporary Authority ("STA") granted by the FCC in September 2001. This STA authorizes us to operate our terrestrial repeaters for commercial service on a non-interference basis. Because the STA was conditioned on a non-interference basis, we are required to either reduce power or cease operating a repeater upon receipt of a written complaint of interference. One party that opposed XM Radio's request for STA has 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 pending This STA expired on March 18, 2002. On March 11, 2002, we applied for an extension of this STA Pursuant to the FCC's rules, we can continue to operate our terrestrial repeaters pursuant to the STA pending a final determination on our extension request.

On November 26, 2003, we applied for STA to operate an additional forty-nine repeaters in new markets that are not authorized under our current STA to operate repeaters This request is pending

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.

We are required to coordinate the XM Radio system with systems operating in the same frequency bands in adjacent countries Canada and Mexico are the countries whose radio systems are most likely to be affected by satellite radio. The United States government, which conducts the coordination process, has entered into coordination agreements with both the Canadian and Mexican governments.

We operate the communication uplinks between our own earth station in Washington, DC and our satellites in a band of radio frequencies that are used for several other services. The FCC has granted us a license for this earth station which expires in March 2011. The other services operating in this band are known under FCC rules as fixed services, broadcast auxiliary services, electronic news gathering services, and mobile satellite services for uplink station networks. Although we are optimistic that we will succeed in coordinating any additional domestic uplink earth stations, we may not be able to coordinate any such further use of this spectrum in a timely manner, or at all

We also need to protect our system from out-of-band emissions from licensees operating in adjacent frequency bands·

- WCS licensees operating in frequency bands adjacent to the satellite radio's S-Band allocation must comply with certain out-of-band emissions limits imposed by the FCC to protect satellite radio systems. These limits, however, are less stringent than those we proposed

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

- In July 2002, the FCC requested comment on a report issued by the National Telecommunications and Information Administration ("NTIA") in which NTIA proposed to relocate current Department of Defense ("DOD") operations from the 1710–1755 MHz band to the 2360–2395 MHz band. In the event that these DOD operations are relocated to the 2360–2395 MHz band, we and Sirius Radio have jointly proposed that the FCC apply the same out–of–band emissions limits to these relocated users that are applied to WCS licensees. In November 2002, the FCC released an Order in this proceeding but did not address our concerns. We have filed a Petition for Reconsideration of this decision asking the FCC to consider our concerns In July 2003, the FCC initiated a rulemaking to implement NTIA's proposal to allow DOD and other Federal government agencies to operate in the 2360–2395 MHz band. The FCC has also proposed to expand the frequency band used for non–governmental aeronautical telemetry from 2360–2385 MHz to 2360–2395 MHz In this rulemaking, the FCC has sought comment on what out–of–band emissions limit is necessary to protect satellite radio reception from interference We and Sirius Radio have jointly filed Comments proposing that the FCC apply the same out–of–band emissions limit to new users in the 2360–2395 MHz band that is applied to WCS licensees. Our proposal has been opposed by entities that claim that this out–of–band emissions limit is not necessary to protect satellite radio reception from interference from the new users in this band.

- In February 2002, the FCC initiated a rulemaking proceeding regarding rules for future licensees in the 2385–2390 MHz band, which will be able to provide both fixed and mobile services. We have proposed that the FCC apply the same out–of–band emission limits on these licensees that are applied to WCS licensees In May 2002, the FCC issued a decision rejecting this proposal. In July 2002, we filed a Petition for Reconsideration of this decision which is pending In July 2003, the FCC initiated a rulemaking proposing to reverse its previous decision to allow these new licensees to operate in the 2385–2390 MHz band.

Interference from other devices that operate on an unlicensed basis may also adversely affect our signal·

- In April 1998, the FCC proposed to establish rules for radio frequency ("RF") lighting devices that operate in an adjacent radio frequency band We opposed the proposal on the grounds that the proliferation of this new kind of lighting and its proposed emissions limits, particularly if used for street lighting, may interfere with XM Radio Jointly with Sirius Radio, we have proposed to the FCC an emissions limit for these RF lighting devices that we believe will protect DARS receivers from interference In addition, we have proposed that the FCC require existing RF lighting devices that exceed our proposed limit to cease operations A manufacturer of RF lights has conducted tests which it claims demonstrate that RF lights do not cause interference to our receivers. While our proposal is pending, these RF lighting devices may continue to be produced and used, which could adversely affect our signal quality The FCC may not adopt our proposal, a decision which could adversely affect our signal quality In May 2003, the FCC terminated this proceeding because no party expressed a continuing interest in producing these RF lights. In July 2003, we and Sirius Radio asked the FCC to clarify that, by terminating this proceeding without establishing any rules, the FCC is prohibiting RF lighting devices from operating in the adjacent radio frequency band and that, before the FCC considers permitting any such operations, it will either establish another rulemaking or provide us with ample notice to object to any equipment certification application for an RF light designed to operate in this adjacent radio frequency band.

- In May 2000, the FCC proposed to amend its rules to allow for the operation of devices incorporating ultra–wideband (UWB) technology on an unlicensed basis We opposed this proposal on the basis that the operation of these devices may interfere with XM Radio In February 2002, the FCC decided to allow for the operation of these devices and, in doing so, adopted out–of–band emissions limits for these devices that are less stringent than XM Radio proposed In addition, the FCC has stated that it intends to review and potentially relax these emissions limits and may allow for the operation of additional types of UWB devices in the future. Jointly with Sirius Radio, we have filed a Petition for Reconsideration of this decision and have asked that the FCC impose stricter

Source· XM SATELLITE RADIO H, 10–K, March 15, 2004

emissions limits on UWB devices. In February 2003, the FCC denied our Petition for Reconsideration and did not impose the stricter emission limits that we requested. In addition, the FCC has proposed to authorize additional types of UWB devices which may interfere with XM Radio's operations. In August 2003, we and Sirius Radio jointly filed Comments on an FCC proposal to allow UWB vehicular radar systems to operate in the 3 1 to 10.6 GHz band We have asked the FCC to refrain from adopting its proposal until proponents of this technology demonstrate how they will avoid causing interference to satellite radio. To the extent the FCC adopts its proposal without requiring this information, we have asked the FCC to provide us with notice and opportunity to object to any equipment certification application for a UWB vehicular radar system in the 3.1 to 10 6 GHz band

- In May 2001, the FCC issued a notice of proposed rulemaking seeking to facilitate the development of new unlicensed spread spectrum wireless devices operating in a frequency band adjacent to XM Radio XM Radio opposed this proposal on the basis that the operation of these devices pursuant to the FCC's current emissions limits may interfere with XM Radio's operations. In May 2002, the FCC issued a decision rejecting our opposition.

- In October 2001, the FCC initiated a rulemaking proceeding reviewing its rules for unlicensed devices. XM Radio has proposed in this proceeding that the FCC adopt out-of-band emissions limits for certain unlicensed devices sufficient to protect our system XM Radio has proposed that the FCC apply these emissions limits to products sold 18 months after a final rule is published Some manufacturers of unlicensed devices have opposed these limits on the grounds that they are too stringent and that it will be costly for them to meet these limits In July 2003, the FCC rejected our proposal because it was beyond the scope of this proceeding

- In December 2002, the FCC issued a notice of inquiry seeking input on whether it should authorize an increase in the power of unlicensed devices that operate in rural areas Jointly with Sirius Radio, we have opposed this proposal because of the potential for unlicensed devices operating with increased power to interfere with satellite radio The FCC has subsequently initiated a rulemaking proceeding proposing to authorize an increase in the power of unlicensed devices that operate in rural areas.

We also need to protect our system from in-band emissions of licensees operating in our frequency band:

- In October 2002, the FCC released a notice proposing to allow aeronautical telemetry to continue to operate in our licensed frequency band, but on a non-interference basis. In November 2003, the FCC declined to adopt this proposal and instead decided to no longer allow aeronautical telemetry to operate in our licensed frequency band. This decision is still subject to reconsideration at the FCC or appeal to a federal court of appeals

The FCC order granting our license determined that because we are a private satellite system providing a subscription service on a non-common carrier basis, we would not be subject to the FCC's foreign ownership restrictions. However, such restrictions would apply to us if we were to offer non-subscription services, which may appear more lucrative to potential advertisers than subscription services The FCC also stated in its order that it may reconsider its decision not to subject satellite radio licensees to its foreign ownership restrictions.

Intellectual Property

System Technology

Several technology companies have implemented portions of the XM Radio system. These technology companies include Boeing Satellite Systems and Alcatel (satellites), Delphi-Delco, Sony, Pioneer and Alpine, among others, (car and home radios); ST Microelectronics (chipsets); Fraunhofer Institute (various technologies); LCC International (design of repeater network) and Hughes Electronics (design and manufacture of terrestrial repeaters) We have not acquired any intellectual property rights in the technology used in constructing and launching our satellites.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

We do have joint ownership of or a license to use the technology developed by the radio and chipset manufacturers. We also license various other technologies used in our system. 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

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. Under our agreement with WorldSpace we must pay one-time, annual or percentage royalty fees or reimburse WorldSpace for various costs for various elements of the licensed technology that we decide to use in the XM Radio system. We will not be required to pay royalties to WorldSpace for licensed technology that we do not use in our system.

WorldSpace has also granted us royalty-free, non-exclusive and irrevocable license to use and sublicense all improvements to its technology The technology license from WorldSpace renews automatically on an annual basis unless terminated for a breach which has not been or cannot be remedied

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 unified standard for satellite radios to facilitate the ability of consumers to purchase one radio capable of receiving both our and Sirius Radio's services. The technology relating to this unified standard will be jointly developed, funded and owned by the two companies As part of the agreement, each company has licensed to the other its intellectual property relating to the unified standard and to its system We and Sirius resolved an arbitration to value the technologies cross-licensed under the agreement, which also resolved prior patent litigation between the two companies.

We currently own 26 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 These organizations negotiate with copyright users, collect royalties and distribute them to songwriters and music publishers. We have reached five-year agreements with ASCAP and SESAC which establish the license fee amounts owed to those entities We expect to establish license fees with BMI through negotiation. The royalty arrangements with BMI may be more costly than anticipated.

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 We have reached agreement with the Recording Industry Association of America, through its unincorporated division, SoundExchange, establishing royalty payment arrangements for these performance rights.

The XM Trademark

We believe that XM Radio will be seen as the complement to AM and FM radio. We have registered the trademark "XM" with the United States Patent and Trademark Office in connection with the transmission services offered by our company. Our brand name and logo is generally prominently displayed on the surface of XM radios together with the radio manufacturer's brand name. This identifies the equipment as being XM Radio-compatible and builds awareness of XM Radio We intend to maintain our trademark and registration We are not aware of any material claims of infringement or other challenges to our right to use the "XM" trademark in the United States. We have also registered and intend to maintain trademarks of the names of certain of our channels.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Personnel

As of December 31, 2003, we had 425 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.

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

RISK FACTORS

Potential investors are urged to read and consider the risk factors relating to an investment in XM Satellite Radio Holdings Inc contained herein Before making an investment decision, you should carefully consider these risks as well as other information we include or incorporate by reference in this Annual Report on Form 10-K The risks and uncertainties we have described are not the only ones facing our company Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also affect our business operations

You could lose money on your investment because we are in the early stages of generating revenues.

Unless we generate significant 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 generate revenues and ultimately to become profitable will depend upon several factors, including·

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

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

As of December 31, 2003, we had incurred capital expenditures of $1.05 billion and aggregate net losses approximating $1.5 billion from our inception through December 31, 2003 We expect our aggregate net losses and negative cash flow to grow as we make payments under our various distribution 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 have 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 new service, we cannot estimate with any certainty the potential consumer demand for such a service or the degree to which we will meet that demand Among other things, 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 satellite 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 develop as expected, we may not be able to generate enough revenues to generate positive cash flow or become profitable

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. These customers constitute a growing portion of our subscriber base, but we have limited information on the

Source· XM SATELLITE RADIO H, 10-K, March 15, 2004

percentage, or conversion rate, of these customers who will continue to receive and pay for our service beyond the initial promotion period

- We experience subscriber turnover, or churn, with respect to our customers as well Because we have been in commercial operations for a relatively short period of time, we cannot predict the amount of churn we will experience over the longer term

Our inability to retain customers who purchase or lease new vehicles with our service beyond the promotional period and subscriber turnover could adversely affect our financial performance and results of operations.

Higher than expected subscriber acquisition costs could adversely affect our financial performance.

We are still spending substantial funds on advertising and marketing and in transactions with car and radio manufacturers and other parties to obtain or as part of the expense of attracting new subscribers. Although we have recently been able to reduce our subscriber acquisition cost on a per subscriber basis and cost per gross addition, our ability to achieve cash flow breakeven within the expected timeframe depends on our ability to continue to maintain or lower these costs If the costs of attracting new subscribers or incentivizing other parties are greater than expected, our financial performance and results of operations could be adversely affected

Large payment obligations under our distribution agreement with General Motors may prevent us from becoming profitable or from achieving profitability in a timely manner.

We have significant payment obligations under our long-term distribution agreement with General Motors for the installation of XM radios in General Motors vehicles and the distribution of our service to the exclusion of other satellite radio services These payment obligations, which could total several hundred million dollars over the life of the contract, may prevent us from becoming profitable A significant portion of these payments are fixed in amount, and we must pay these amounts even if General Motors does not meet performance targets in the contract Although this agreement is subject to renegotiation in certain limited circumstances, we cannot predict the outcome of any such renegotiation.

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 the date on which we expect our business to generate positive cash flow, 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. If we fail to obtain any necessary financing on a timely basis, a number of adverse effects could occur. We could default on our commitments to creditors or others and may have to seek a purchaser for our business or assets.

Premature degradation or failure of our satellites could damage our business.

If one of our satellites were to fail or suffer performance degradation prematurely and unexpectedly, it likely would affect the quality of our service, interrupt the continuation of our service and harm our business This harm to our business would continue until we either launched our ground spare satellite or had additional satellites built or launched In late August 2001, Boeing Satellite Systems, or BSS, advised us of a progressive degradation problem with the solar array output power of Boeing 702 class satellites, including both XM Rock and XM Roll Since the issue is common to Boeing 702 class satellites, we and the manufacturer are closely watching the progression of the problem, including data from a satellite that has been in orbit longer than either of our two satellites by approximately 15 and 17 months, respectively. With this advance visibility of performance levels, a firm launch commitment for our spare satellite in the fourth quarter of 2004, the ability to provide full service for an extended period of time with XM Rock and XM Roll collocated in one orbital slot and the spare located in the other slot (which would allow partial use of the existing satellites through the first quarter of 2008), firm commitments to build a fourth satellite and provide launch services therefor, and various mitigation actions to extend the full or partial use of the existing satellites, we believe that we will be able to launch additional satellites prior to the time the solar array power problem might cause the broadcast

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

signal strength to fall below minimum acceptable levels Based on the consistency of the degradation trends (with no substantial improvement to date) and continuing analyses by BSS and us, our management adjusted the estimated useful lives of our in-orbit satellites, with effect from September 2002, to the period running through first quarter 2008 (approximately 6 75 years from launch). There is no assurance that such actions will allow us to maintain adequate broadcast signal strength Our management will continue to monitor this situation carefully and may re-adjust the estimated useful lives of our in-orbit satellites based on future information.

A number of other factors could decrease the useful lives of our satellites, including:

- defects in construction;
- loss of on board station-keeping system,
- failure of satellite components that are not protected by back-up units;
- electrostatic storms, and
- collisions with other objects in space.

In addition, our network of terrestrial repeaters communicates principally with one satellite If the satellite communicating with the repeater network fails unexpectedly, we would have to repoint all the repeaters to communicate with the other satellite. This would result in a degradation of service that could last several days and could harm our business

Losses from satellite degradation may not be fully covered by insurance, and insurance proceeds may not be available in a timely manner.

We purchased launch and in-orbit insurance policies from global space insurance underwriters covering XM Rock and XM Roll. Due to the solar array degradation, we have filed a claim for the aggregate sum insured on both satellites ($200 million per satellite) less applicable salvage under our insurance policies In the third quarter of 2003, our insurance carriers denied our claim and asserted that XM Rock and XM Roll are still performing above insured levels, that the power trend lines are not definitive and that we failed to comply with certain policy provisions regarding material change and other matters We are continuing our correspondence and meetings with individual and groups of insurers to resolve this matter and will proceed with negotiations, arbitration or litigation as necessary to recover the losses, but we may not prevail in this matter or recover the amounts we are seeking from the insurers.

In addition, any amounts we recover from our insurance may not fully cover our losses. For example, our insurance does not cover the full cost of constructing, launching and insuring two new satellites, nor will it cover and we do not have protection against business interruption, loss of business or similar losses Also, our insurance contains customary exclusions, salvage value provisions, material change and other conditions that could limit our recovery Further, any insurance proceeds may not be received on a timely basis in order to launch our spare satellite or construct and launch a replacement satellite. Although we have funds available for the completion and launch of XM-3 and construction of XM-4, if adequate insurance proceeds are not received in a timely manner we may need additional funds to launch XM-4. This may impair our ability to make timely payments on our outstanding notes and other financial obligations

Competition from Sirius Satellite Radio and traditional and emerging audio entertainment providers could adversely affect our revenues.

In seeking market acceptance, we will encounter competition for both listeners and advertising revenues from many sources, including Sirius Satellite Radio, the other U.S satellite radio licensee; traditional and, when available, digital AM/FM radio; Internet based audio providers; direct broadcast satellite television audio service, and cable systems that carry audio service. Sirius began commercial operations in the first quarter of 2002 and has announced that it had 261,061 subscribers as of December 31, 2003 Sirius offers certain programming that we do not

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

offer, including exclusive channels for National Hockey League games, National Basketball Association games, National Public Radio, and beginning at the start of the 2004 football season, regular season National Football League games Sirius, which features 100 channels, offers its service for a monthly charge of $12.95. Sirius radio service is offered as a dealer-installed option on car model brands such as Ford, Lincoln-Mercury, BMW, MINI, Chrysler, Dodge, Jeep, Nissan, Infiniti and Audi and as a factory-installed option on the BMW 5 Series and the Dodge Durango. If Sirius is able to offer a more attractive service or enhanced features, or has stronger marketing or distribution channels, it may gain a competitive advantage over us.

Unlike XM Radio, traditional AM/FM radio already has a well-established and dominant market presence for its services and generally offers free broadcast reception supported by commercial advertising, rather than by a subscription fee. Also, many radio stations offer information programming of a local nature, such as news and sports reports, which XM Radio is not expected to offer as effectively as local radio, or at all. To the extent that consumers place a high value on these features of traditional AM/FM radio, we are at a competitive disadvantage to the dominant providers of audio entertainment services.

iBiquity Digital Corporation, or iBiquity, which develops and licenses digital radio broadcast technology, received FCC approval of technology enabling digital broadcasting in the AM and FM bands in October 2002 In October 2003, iBiquity announced that over 280 radio stations in over 100 markets have licensed its technology and begun digital broadcasting or are in the process of converting to digital broadcasting. 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, other technologies in the mobile audio environment could emerge to compete with our service

We need to obtain rights to programming, which 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 may not be able to obtain the third-party content we need at all or within the costs contemplated by our business plan. The significant fees that Sirius Satellite Radio has agreed to pay to the National Football League could make obtaining similar third-party programming more costly for us to obtain. In addition, we are currently in the process of amending certain of our existing third-party programming agreements in connection with the recently announced changes to our channel lineup and there will likely be costs associated with these amendments. We also must negotiate and enter into music programming royalty arrangements with Broadcast Music, Inc , which we refer to as BMI, and in the future will have to re-negotiate our existing arrangements with the American Society of Composers, Authors and Publishers, SESAC, Inc., and the Recording Industry Association of America. We expect to establish license fees with BMI through negotiation, and such royalty arrangements may be more costly than anticipated As our number of subscribers increases, these royalty fees will increase. Our ability to obtain necessary third-party content at a reasonable cost, complete the amendment of certain programming agreements in connection with the changes to our channel lineup and negotiate royalty arrangements will impact our financial performance and results of operations.

Weaker than expected market and advertiser acceptance of our XM radio service could adversely affect our advertising revenue and results of operations.

Our ability to generate advertising revenues will be directly affected by the number of subscribers to our XM Radio service and the amount of time subscribers spend listening to our talk, entertainment and variety channels or our new traffic and weather service. Our ability to generate advertising revenues will also depend on several factors, including the level and type of market penetration of our service, competition for advertising dollars from other media, and changes in the advertising industry and economy generally We directly compete for audiences and advertising revenues with Sirius Satellite Radio, the other satellite radio licensee, and traditional AM/FM radio stations, some of which maintain longstanding relationships with advertisers and possess greater resources than we do. Because FCC regulations limit our ability to offer our radio service other than to subscribers on a pay-for-service basis, certain advertisers may be less likely to advertise on our radio service.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

The holders of our Series C preferred stock, General Motors and holders of our convertible notes issued in January 2003 have consent rights that may prevent us from engaging in transactions otherwise beneficial to holders of our securities.

Under the terms of our Series C preferred stock, the consent of holders of at least 60% of the Series C preferred stock is required before we can take certain actions, including issuances of additional equity securities and the incurrence of indebtedness under which we must meet financial covenants to avoid default These requirements could hamper our ability to raise additional funds. The consent of holders of at least 60% of the Series C preferred stock is also required for transactions with affiliates, other than on an arm's-length basis, and for any merger or sale of our assets. The approval for a merger could make it difficult for a third party to acquire us and thus could depress our stock price. As a result of the closing of our January 2003 financing transactions, holders of our 10% senior secured discount convertible notes now have similar consent rights. Without the consent of greater than 50% of the notes held by the convertible notes investors, we cannot take certain actions, including the:

- issuance of Class A common stock in an amount that increases the amount outstanding on a fully diluted basis by 20% or more;
- incurrence of indebtedness with financial or operational covenants;
- entrance into certain transactions with affiliates; or
- merger or sale of all or substantially all of our assets

We cannot assure you that these rights will be exercised in a manner consistent with your best interests.

Our substantial indebtedness could adversely affect our financial health, which could reduce the value of our securities.

As of December 31, 2003, the total accreted value of our indebtedness was $1 1 billion ($781.9 million carrying value) The carrying amount will increase significantly over the next several years as our indebtedness accretes Most of our indebtedness will mature in 2009 and 2010. However, our substantial indebtedness could have important consequences to you. For example, it could

- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to fund future working capital, capital expenditures, research and development costs and other general corporate requirements;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate purposes,
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate,
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds

Failing to comply with those covenants could result in an event of default, which, if not cured or waived, could cause us to have to discontinue operations or seek a purchaser for our business or assets In addition, the covenants allow us to incur more debt in the future, which could increase our total indebtedness.

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

The terms of the notes issued in our January 2003 financing transactions may not be favorable to us, our creditors or our stockholders.

Under the terms of the 10% senior secured convertible note due 2009 issued to General Motors' subsidiary, OnStar Corporation, and the 10% senior secured discount convertible notes due 2009 issued to private investors in January 2003, we are subject to various restrictive covenants, including covenants that limit our ability to pay dividends and make other types of restricted payments and incur indebtedness in particular. These covenants may significantly limit our ability to complete transactions or take other actions that could be in our interests or the interests of our creditors or stockholders.

We do not have the right to prepay or redeem the private investor notes, but have the ability after four years to require the conversion of the notes into Class A common stock in limited circumstances This mandatory conversion would only be available to us if·

- we achieve break-even in our earnings before interest, taxes, depreciation and amortization,
- our Class A common stock trades at 200% of the conversion price then in effect;
- the amount of our outstanding indebtedness after conversion would be less than $250 million; and
- we no longer have any Series C preferred stock outstanding.

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

Development of the XM Radio system has depended largely upon the intellectual property that we have developed and licensed from third parties. If the intellectual property that we have developed or use is not adequately protected, others will be permitted to and may duplicate the XM Radio system or service without liability. In addition, others may challenge, invalidate or circumvent our intellectual property rights, patents or existing sublicenses. Some of the know-how and technology we have developed and plan to develop will not be covered by United States patents Trade secret protection and contractual agreements may not provide adequate protection if there is any unauthorized use or disclosure The loss of necessary technologies could require us to obtain substitute technology of lower quality performance standards, at greater cost or on a delayed basis, which could harm our business.

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

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

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, we are subject to FCC rules and regulations, and the terms of our license, which require us to meet certain conditions such as interoperability of our system with 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 conditions could result in fines, additional license conditions, license revocation or other detrimental FCC actions. Our recent offering of instant traffic and weather channels that provide continuously

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

updated information for certain local markets may be challenged by terrestrial radio broadcasters who may contend that our FCC license only allows us to provide national programming

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

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 a grant of special temporary authority from the FCC, which expired March 18, 2002. We have applied for an extension of this authority and can continue to operate our terrestrial repeaters pending a final determination on this request This authority is currently being challenged by operators of terrestrial wireless systems who have asserted that our repeaters may cause interference. Our deployment of terrestrial repeaters may be impacted by the FCC's further actions, when taken.

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 do not have replacement or redundant facilities that can be used to assume the functions of our repeater network or of our central production and broadcast facility 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 complete loss of service in affected areas. Damage to our central production and broadcast facility would restrict our production of programming and require us to obtain programming from third parties to continue our service.

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 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 certain on-air talent who maintain significant loyal audiences in or across various demographic groups We cannot be certain 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 these employees, or fail to attract qualified replacement personnel, it could harm our business and our future prospects

Rapid technological and industry changes could make our service obsolete.

The satellite industry and the audio entertainment industry are both characterized by rapid technological change, frequent new product innovations, changes in customer requirements and expectations, and evolving industry standards. If we are unable to keep pace with these changes, our business may be unsuccessful Because we have depended on third parties to develop technologies used in key elements of the XM Radio system,

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

more advanced technologies that we may wish to use may not be available to us on reasonable terms or in a timely manner. Further, our competitors may have access to technologies not available to us, which may enable them to produce entertainment products of greater interest to consumers, or at a more competitive cost.

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

Historically, securities prices and trading volumes for emerging companies 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 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 significantly decrease

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

We have issued and outstanding securities exercisable for or convertible into a significant number of our shares of Class A common stock, including securities issued to General Motors, some of which accrue interest which is convertible into Class A common stock or give us the option to make interest or other payments in our Class A common stock or securities convertible into Class A common stock. These existing instruments therefore could lead to a significant increase in the amount of Class A common stock outstanding. As of December 31, 2003, we had outstanding 160,665,194 shares of Class A common stock On a pro forma basis as of December 31, 2003, if we included the shares issued in connection with the sale of Class A common stock in January 2004, prepaid in full the unvested portion of the $89 0 million 10% Senior Secured Convertible Note due 2009 held by OnStar, and issued all shares issuable upon conversion or exercise of outstanding securities (many of which have a conversion or exercise price significantly above our current market price), we would have had 307,716,262 shares of Class A common stock outstanding on that date. Issuances of a large number of 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 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 could make it difficult for a third party to acquire us, even if doing so would benefit our securityholders 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.

Source· XM SATELLITE RADIO H, 10-K, March 15, 2004

ITEM 2. PROPERTY

We own approximately 150,000 square feet of executive offices, studio and production facilities located at 1500 Eckington Place, N E , Washington, D C 20002 We lease approximately 19,000 square feet of office and technical space in South Florida, 7,109 square feet in New York for studios and offices, approximately 1,500 square feet of space in Georgia as a backup facility and 6,564 square feet of space in Virginia for warehouse facilities. We also lease space for our advertising sales offices in New York, Los Angeles, Chicago, Dallas and San Francisco. We use space in Tennessee for studios. We have also entered into license or lease agreements with regard to our terrestrial repeater system throughout the United States.

ITEM 3. LEGAL PROCEEDINGS

Except for the FCC proceedings described above under the caption "Business—Regulatory Matters," we are not a party to any material litigation. In the ordinary course of business, we become aware from time to time of claims or potential claims, or may become party to legal proceedings arising out of various matters, such as contract matters, employment related matters, issues relating to our repeater network, product liability issues, and copyright, patent, trademark or other intellectual property matters Third parties may bring suit relating to such matters. We cannot predict the outcome of any such claim, potential claim or these lawsuits and legal proceedings with certainty. Nevertheless, we believe that the outcome of any such claim, potential claim or proceeding, of which we are currently aware, even if determined adversely, would not have a material adverse effect on our business, financial condition and results of operations

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 2003

Source. XM SATELLITE RADIO H, 10-K, March 15, 2004

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRICE RANGE OF OUR CLASS A COMMON STOCK

Our Class A common stock has been quoted on The Nasdaq National Market under the symbol "XMSR" since its initial public offering on October 5, 1999 at a price to the public of $12 00 per share. The following table presents, for the period indicated, the high and low sales prices per share of the Class A common stock as reported on The Nasdaq National Market.

	High	Low
2002:		
First Quarter	19 200	10.700
Second Quarter	14.700	6.260
Third Quarter	7 700	2 630
Fourth Quarter	4.120	1.660
2003:		
First Quarter	6.900	2.400
Second Quarter	13 280	5 560
Third Quarter	16.900	10.020
Fourth Quarter	27 300	15 560
2004:		
First Quarter (through March 8, 2004)	29.960	20.550

On March 8, 2004, the reported last sale price of our Class A common stock on The Nasdaq National Market was $ 26 22 per share. As March 8, 2004, there were 1,719 holders of record of our Class A common stock

DIVIDEND POLICY

We have not declared or paid any dividends on our Class A common stock since our date of inception Currently, our Series B convertible redeemable preferred stock restricts us from paying dividends on our Class A common stock unless full cumulative dividends have been paid or set aside for payment on all shares of our Series B preferred stock. The terms of our Series C convertible redeemable preferred stock contain similar restrictions. In accordance with its terms, we have paid dividends on the Series B preferred stock in Class A common stock The Series C preferred stock provides for cumulative dividends payable in cash. As no dividends have been declared on the Series C preferred stock, the value of the cumulative dividends has increased the liquidation preference. The indentures governing our subsidiary XM Satellite Radio Inc 's senior secured notes restrict XM Satellite Radio Inc. from paying dividends to us, which, in turn, will significantly limit our ability to pay dividends We do not intend to pay cash dividends on our Class A common stock in the foreseeable future. We anticipate that we will retain any earnings for use in our operations and the expansion of our business.

RECENT SALES OF UNREGISTERED SECURITIES

From October 1, 2003 through December 31, 2003, Holdings issued 3,833,979 shares of Class A common stock in exchange for $21 1 million carrying value (or $23 2 million fully accreted face value at maturity) of its

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

7 75% and 10% convertible notes in transactions that were exempt from registration under Section 3(a)(9) of the Securities Act of 1933, as amended Holdings issued 3,329,863 shares of Class A common stock for warrants to purchase 3,342,030 shares of Class A common stock in transactions that were exempt from registration under Section 3(a)(9) of the Securities Act. Holdings also issued 3,020,323 shares of Class A common stock for 20,000 shares of 8.25% Series C convertible redeemable preferred stock and accrued dividends in transactions that were exempt from registration under Section 3(a)(9) of the Securities Act During 2003, the Company issued approximately 31,200,000 shares of Class A common stock, and eliminated approximately $429 million in future interest, dividends, accretion and principal payments

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

XM Satellite Radio Holdings Inc. and Subsidiaries

In considering the following selected consolidated financial data, you should also read our consolidated financial statements and notes and the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations." The consolidated statements of operations data for the five-year period ended December 31, 2003 and the consolidated balance sheets data as of December 31, 2003, 2002, 2001, 2000 and 1999 are derived from our consolidated financial statements These statements have been audited by KPMG LLP, independent certified public accountants

	Years Ended December 31,				
	2003	2002	2001	2000	1999
	(In thousands, except subscriber and share amounts)				
Consolidated Statements of Operations Data:					
Revenue:					
Subscriber revenue	$ 78,275	$ 16,344	$ 238	$ —	$ —
Activation revenue	1,868	484	8	—	—
Equipment revenue	6,692	757	—	—	—
Net ad sales revenue	4,065	2,333	251	—	—
Other revenue	881	263	36	—	—
Total revenue	91,781	20,181	533	—	—
Operating expenses:					
Cost of revenue (excludes depreciation & amortization, shown below):					
Revenue share & royalties	26,440	12,790	1,739	—	—
Customer care & billing	25,945	16,069	5,724	699	—
Cost of equipment	9,797	1,679	—	—	—
Ad sales	3,257	1,870	2,243	1,232	356
Satellite & terrestrial	39,692	44,818	62,641	8,104	1,536
Broadcast & operations	19,712	19,851	21,960	19,570	5,449
Programming & content	23,109	25,379	17,649	4,025	965
Cost of revenue	147,952	122,456	111,956	33,630	8,306
Research & development (excludes depreciation & amortization, shown below)	12,285	10,843	13,689	11,948	6,510
General & administrative (excludes depreciation & amortization, shown below)	27,418	26,448	20,250	17,312	11,534
Marketing (excludes depreciation & amortization, shown below)	200,267	169,165	93,584	13,016	2,829
Impairment of goodwill	—	11,461	—	—	—
Depreciation & amortization	158,317	118,588	42,660	3,573	1,512
Total operating expenses	546,239	458,961	282,139	79,479	30,691
Operating Loss	(454,458)	(438,780)	(281,606)	(79,479)	(30,691)
Other income (expense):					
Interest income	3,066	5,111	15,198	27,606	2,915
Interest expense	(110,349)	(63,573)	(18,131)	—	(9,120)
Other income (expense)	(22,794)	2,230	160	—	—
Net loss	(584,535)	(495,012)	(284,379)	(51,873)	(36,896)
8 25% Series B preferred stock dividend requirement	(2,471)	(3,766)	(3,766)	(5,935)	—
8.25% Series C preferred stock dividend requirement	(15,098)	(17,093)	(19,387)	(9,277)	—
Series B preferred stock (deemed dividend)/retirement gain	8,761	—	—	(11,211)	—
Series C preferred stock beneficial conversion feature	—	—	—	(123,042)	—
Series C preferred stock retirement loss	(11,537)	—	—	—	—
Net loss attributable to common stockholders	$ (604,880)	$ (515,871)	$ (307,532)	$ (201,338)	$ (36,896)
Net loss per share Basic and diluted	$ (4 83)	$ (5 95)	$ (5 13)	$ (4 15)	$ (2 40)
Weighted average shares used in computing net loss per share—basic and diluted	125,176,320	86,735,257	59,920,196	48,508,042	15,344,102
Other data					
EBITDA(1)	$ (318,935)	$ (317,962)	$ (238,786)	$ (75,906)	$ (29,179)
Cash flow from operating activities	$ (245,123)	(294,289)	(203,048)	(37,447)	(16,785)
Cash flow from investing activities	$ 14,621	(7,036)	(221,361)	(559,401)	(234,412)
Cash flow from financing activities	$ 615,991	151,646	382,003	771,053	301,585
XM subscriptions (end of period)(2)	1,360,228	347,159	27,733	—	—

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

	December 31,				
	2003	2002	2001	2000	1999
	(In thousands)				
Consolidated Balance Sheets Data					
Cash, cash equivalents and short-term investments	$ 418,307	$ 42,815	$ 210,852	$ 224,903	$ 120,170
Restricted investments	4,151	29,742	72,759	161,166	—
System under construction	92,577	55,016	55,056	674,796	229,940
Property and equipment, net	709,501	847,936	922,149	50,052	2,551
Goodwill, net	—	—	11,461	12,376	13,294
DARS license and other intangibles, net	149,629	153,732	155,207	151,845	144,504
Total assets	1,526,782	1,160,280	1,456,203	1,293,218	515,189
Total long-term debt, net of current portion	743,254	412,540	411,520	262,665	212
Total liabilities	993,894	567,969	529,552	337,266	30,172
Stockholders' equity	532,888	592,311	926,651	955,952	485,017

(1) Net loss before interest income, interest expense, income taxes, depreciation and amortization is commonly referred to in our business as "EBITDA." EBITDA is not a measure of financial performance under generally accepted accounting principles. Consistent with regulatory requirements, EBITDA includes Other Income (Expense). We believe EBITDA is often a useful measure of a company's operating performance and is a significant basis used by our management to measure the operating performance of our business. Because we have funded and completed 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. EBITDA, which excludes this information, provides helpful information about the operating performance of our business, apart from the expenses associated with our physical plant or capital structure. EBITDA is frequently used as one of the bases for comparing businesses in our industry, although our measure of EBITDA may not be comparable to similarly titled measures of other companies. EBITDA does not purport to represent operating loss or cash flow from operating activities, as those terms are defined under generally accepted accounting principles, and should not be considered as an alternative to those measurements as an indicator of our performance.

	Years Ended December 31,				
	2003	2002	2001	2000	1999
	(In thousands)				
Reconciliation of Net Loss to EBITDA:					
Net loss as reported	$(584,535)	$(495,012)	$(284,379)	$(51,873)	$(36,896)
Add back non-EBITDA items included in net loss:					
Interest income	(3,066)	(5,111)	(15,198)	(27,606)	(2,915)
Interest expense	110,349	63,573	18,131	—	9,120
Depreciation & amortization	158,317	118,588	42,660	3,573	1,512
EBITDA	$(318,935)	$(317,962)	$(238,786)	$(75,906)	$(29,179)

(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 for 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.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

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

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our financial condition and consolidated results of operations This discussion should be read together with our consolidated financial statements and related notes beginning on page F-1 of this report.

This annual report on Form 10-K is filed by XM Satellite Radio Holdings Inc. ("XM"). XM Satellite Radio Inc ("Inc ") is filing separately The principal differences between the financial condition of XM and Inc , which are not significant in amount, are.

- the ownership by XM of the corporate headquarters building since August 2001, and the lease of the building from XM by Inc ;
- the presence at XM of additional indebtedness not guaranteed by Inc ; and
- the existence of cash balances at XM.

Accordingly, the results of operations for Inc and its subsidiaries are substantially the same as the results for XM and its subsidiaries discussed above except that Inc incurs.

- additional rent, less depreciation and amortization expense and less other income, in each case principally related to Inc.'s rental of its corporate headquarters from XM, which are intercompany transactions that have been eliminated in the XM financial statements,
- less interest expense principally related to the additional indebtedness at XM; and
- less interest income because of the additional cash balances at XM.

Overview

Our 2003 highlights include the following:

- growing the XM business to over 1.3 million subscribers at year end, including over 1 million new subscribers added during the year,
- the continued introduction of innovative retail products at attractive price points and broad OEM factory-installed penetration across numerous vehicle models,
- ending 2003 with a recurring subscription revenue run rate of $127 million, and
- achieving a positive gross margin (calculated as revenues less variable costs, which include revenue share & royalties, customer care & billing, cost of equipment and ad sales) during 2003 while containing our fixed costs and reducing our costs to acquire each new subscriber.

The key metrics we use to monitor our business growth and our operational results are. ending subscribers, Average Monthly Subscription Revenue Per Subscriber ("ARPU"), Subscriber Acquisition Cost ("SAC"), Cost Per Gross Addition ("CPGA") and EBITDA, presented as follows:

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

	Years Ended December 31,	
	2003	2002
Net Subscriber Additions	1,013,069	319,426
Aftermarket, OEM & Other Subscribers	1,018,963	315,842
Subscribers in OEM Promotional Periods(1)	320,473	31,317
XM Activated Vehicles with Rental Car Companies(2)	20,792	—
Total Ending Subscribers(1)(2)(3)	1,360,228	347,159
Average Monthly Subscription Revenue Per Subscriber(4)	$ 8.97	$ 9.43
Average Monthly Subscription Revenue Per Aftermarket, OEM & Other Subscriber(4)	$ 9.59	$ 9.54
Average Monthly Subscription Revenue Per Subscriber in OEM Promotional Periods(4)	$ 6.48	$ 2.81
Average Monthly Subscription Revenue per XM Activated Vehicle with Rental Car Companies(4)	$ 5.54	$ —
Subscriber Acquisition Costs (SAC)(5)	$ 75	$ 116
Cost Per Gross Addition (CPGA)(6)	$ 137	$ 425
EBITDA (in thousands)(7)	$ (318,935)	$(317,962)

(1) OEM promotional periods typically range from three months to one year in duration and are paid for by the vehicle manufacturers At the time of sale, vehicle owners generally receive a 3-month trial subscription and are included in OEM Promotional Subscribers. XM generally receives payment for two months of the 3-month trial subscription from the vehicle manufacturer.
(2) Rental car activity commenced in late June 2003.
(3) Ending subscribers—Please see definition and further discussion under *Subscriber Count* on page 64.
(4) Average Monthly Subscription Revenue per Subscriber—Please see definition and further discussion under *Average Monthly Subscription Revenue Per Subscriber* on page 42.
(5) SAC—Please see definition and further discussion under *Subscriber Acquisition Costs* on page 45.
(6) CPGA—Please see definition and further discussion under *Cost Per Gross Addition* on page 45.
(7) EBITDA—Please see definition and further discussion under EBITDA on page 39.

We raised $2 6 billion of equity and debt net proceeds from inception through January 2004 from investors and strategic partners to fund our operations In 2003, we raised net proceeds of $601 million. This includes $206 million of net funds raised in the January 2003 financing transactions, $179 million of net funds raised in June 2003 (including $10 million raised in July 2003 from the exercise of an over-allotment option), $150 million of net funds raised in September 2003, and $66 million of net funds raised through the Direct Stock Purchase Program in 2003. In January 2004, we also raised $177 million of net funds The January 2003 financing transactions also included $250 million of payment deferrals and a line of credit The proceeds received have been used to acquire our DARS license, make required payments for our system, including the satellites, terrestrial repeater system, and ground networks, and for working capital and operating expenses. Provided that we meet the revenue, expense and cash flow projections of our business plan, we expect to be fully funded with no need to raise additional financing to continue operations.

From January 1, 2003 to December 31, 2003, we eliminated $245 9 million carrying value of indebtedness, or approximately $280.7 million face value at maturity, through the issuance of 31 2 million shares of Class A common stock and $17 million of cash These transactions also eliminated approximately $429 million in future interest, dividends, accretion and principal payments as well as 32 million shares of incremental dilution.

We will continue to incur operating losses until we substantially increase the number of our subscribers and develop a stream of cash flow sufficient to cover operating costs. We are focused on managing growth and

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

containing costs while increasing subscribers and scaling processes We also have significant outstanding contracts and commercial commitments that need to be paid in cash or through credit facilities over the next several years, including to fund subsidies and distribution costs, particularly under our arrangement with General Motors, programming costs, repayment of long-term debt, lease payments and service payments, as further described below under the heading "Liquidity and Capital Resources—Contractual Obligations and Commercial Commitments " Our ability to become profitable also depends upon other factors identified below under the heading "Liquidity and Capital Resources—Future Operating and Capital Resource Requirements."

Inc was incorporated in Delaware in 1992 and XM became a holding company in early 1997. We emerged from the development stage in the fourth quarter of 2001, following the commencement of our service in two test markets on September 25, 2001 and nationwide launch on November 12, 2001. Accordingly, the results for the years ended December 31, 2002 and 2001 reflect limited commercial operations and the direct comparison of the results of operations for the years ended December 31, 2003, and 2002 and for the years ended December 31, 2002 and 2001 may not be meaningful with respect to revenue and various other line items.

Results of Operations

To explain our performance, we discuss our results of operations using the following revenue and expense categories that reflect the drivers of the business

Subscription Revenue

Subscription includes fees from basic and premium service net of subscription-related promotions.

Activation Revenue

Activation includes amortization of subscription activation fees over the estimated average life of a subscriber

Equipment Revenue

Equipment includes revenue from XM's direct sales of radios and other related equipment.

Net Ad Sales Revenue

Net Ad Sales includes revenue from sales of advertisements and programming sponsorships to advertisers on the XM radio network, net of agency commissions

Cost of Revenue

Costs of Revenue are those expenses directly related to the generation of subscriber and advertising revenue and have variable and fixed components Cost of Equipment, Revenue Share & Royalties, along with Customer Care & Billing tend to fluctuate along with increases and decreases in revenues and/or subscribers Ad Sales, which includes internal and external costs directly associated with selling advertisements on the XM network, tends to fluctuate with increases and decreases in advertising revenue. Satellite & Terrestrial, Broadcast & Operations and Programming & Content are not expected to fluctuate directly with changes in revenue and/or subscribers

Research & Development

Research & Development is a discretionary expense used primarily to drive new product development and radio component and radio unit cost reductions.

General & Administrative

General & Administrative expenses include legal, human resources, accounting and other overhead costs.

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

Marketing

Marketing includes· Retention & Support, which are those indirect costs, primarily labor, that are not associated with gaining a subscriber and are not expected to fluctuate directly with changes in revenue and/or subscribers; Subsidies & Distribution, which includes commissions to radio manufacturers and distribution partners that are based on the number of radios or vehicles manufactured or the number of new subscribers added in the period, Marketing, which are those discretionary costs including advertising, media and events, as well as marketing materials for retail and automotive dealer points of presence. Amortization of the GM Liability includes the straight-line accounting treatment of the fixed obligation to General Motors. We consider subscriber acquisition costs (SAC) to include radio manufacturer subsidies, certain sales, activation and installation commissions, and hardware-related promotions These costs are reported in subsidies & distribution on the consolidated statement of operations Subscriber acquisition costs also include the negative margins on equipment sales. (Subscriber acquisition costs do not include ongoing loyalty payments to retailers and distribution partners, payments under revenue sharing arrangements with radio manufacturers and distributors and the amortization of the GM liability). We consider Cost Per Gross Addition (CPGA) to include the amounts in SAC, as well as advertising, media and marketing expenses except for retention and support and the amortization of the GM liability.

EBITDA

Net loss before interest income, interest expense, income taxes, depreciation and amortization is commonly referred to in our business as "EBITDA." EBITDA is not a measure of financial performance under generally accepted accounting principles. Consistent with regulatory requirements, EBITDA includes Other Income (Expense) We believe EDITDA is often a useful measure of a company's operating performance and is a significant basis used by our management to measure the operating performance of our business. Because we have funded and completed 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 EBITDA, which excludes this information, provides helpful information about the operating performance of our business, apart from the expenses associated with our physical plant or capital structure. EBITDA is frequently used as one of the bases for comparing businesses in our industry, although our measure of EBITDA may not be comparable to similarly titled measures of other companies EBITDA does not purport to represent operating activities, as those terms are defined under generally accepted accounting principles, and should not be considered as an alternative to those measurements as an indicator of our performance

Source. XM SATELLITE RADIO H, 10-K, March 15, 2004

	2003	2002	2001
	(In thousands, except share amounts)		
Revenue:			
Subscription	$ 78,275	$ 16,344	$ 238
Activation	1,868	484	8
Equipment	6,692	757	—
Net ad sales	4,065	2,333	251
Other	881	263	36
Total revenue	91,781	20,181	533
Operating expenses			
Cost of revenue (excludes depreciation and amortization, shown below):			
Revenue share & royalties	26,440	12,790	1,739
Customer care & billing	25,945	16,069	5,724
Cost of equipment	9,797	1,679	—
Ad sales	3,257	1,870	2,243
Satellite & terrestrial	39,692	44,818	62,641
Broadcast & operations.			
Broadcast	7,689	7,745	6,155
Operations	12,023	12,106	15,805
Total broadcast & operations	19,712	19,851	21,960
Programming & content	23,109	25,379	17,649
Total cost of revenue	147,952	122,456	111,956
Research & development (excludes depreciation and amortization, shown below):	12,285	10,843	13,689
General & administrative (excludes depreciation and amortization, shown below)	27,418	26,448	20,250
Marketing (excludes depreciation and amortization, shown below):			
Retention & support	7,873	9,857	8,445
Subsidies & distribution	92,521	54,086	9,217
Advertising & marketing	64,309	91,624	75,483
Marketing	164,703	155,567	93,145
Amortization of GM liability	35,564	13,598	439
Total marketing	200,267	169,165	93,584
Impairment of goodwill	—	11,461	—
Depreciation & amortization	158,317	118,588	42,660
Total operating expenses	546,239	458,961	282,139
Operating loss	(454,458)	(438,780)	(281,606)
Interest income	3,066	5,111	15,198
Interest expense	(110,349)	(63,573)	(18,131)
Other income (expense)	(22,794)	2,230	160
Net loss	(584,535)	(495,012)	(284,379)
8 25% Series B and C preferred stock dividend requirement	(17,569)	(20,859)	(23,153)
Series B preferred stock retirement gain	8,761	—	—
Series C preferred stock retirement loss	(11,537)	—	—
Net loss attributable to common stockholders	$ (604,880)	$ (515,871)	$ (307,532)
Basic and diluted net loss per share	$ (4.83)	$ (5.95)	$ (5.13)
Weighted average shares used in computing net loss per share—basic and diluted	125,176,320	86,735,257	59,920,196
EBITDA(1)	$ (318,935)	$ (317,962)	$ (238,786)
XM subscriptions (end of period)(2)	1,360,228	347,159	27,733

(1) Net loss before interest income, interest expense, income taxes, depreciation and amortization is commonly referred to in our business as "EBITDA." EBITDA is not a measure of financial performance under generally accepted accounting principles Consistent with regulatory requirements, EBITDA includes Other Income (Expense) We believe EBITDA is often a useful measure of a company's operating performance and is a significant basis used by our management to measure the operating performance

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

of our business Because we have funded and completed 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. EBITDA, which excludes this information, provides helpful information about the operating performance of our business, apart from the expenses associated with our physical plant or capital structure. EBITDA is frequently used as one of the bases for comparing businesses in our industry, although our measure of EBITDA may not be comparable to similarly titled measures of other companies EBITDA does not purport to represent operating loss or cash flow from operating activities, as those terms are defined under generally accepted accounting principles, and should not be considered as an alternative to those measurements as an indicator of our performance

	2003	2002	2001
		(In thousands)	
Reconciliation of net loss to EBITDA:			
Net loss as reported	$ (584,535)	$ (495,012)	$ (284,379)
Add back non-EBITDA items included in net loss:			
Interest income	$ (3,066)	$ (5,111)	(15,198)
Interest expense	110,349	63,573	18,131
Depreciation and amortization	158,317	118,588	42,660
EBITDA	$ (318,935)	$ (317,962)	$ (238,786)

(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 for 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.

Year Ended December 31, 2003 Compared With Year Ended December 31, 2002

XM Satellite Radio Holdings Inc. and Subsidiaries

Revenue

Revenue Our revenue consists of subscription fees, activation charges, limited direct sales of radios, advertising sales, and revenue earned from royalties and invoice fees. In 2003, we recognized $91 8 million in total revenue, compared to $20.2 million in 2002, an increase of $71.6 million During 2003, subscription revenue comprised over 85% of our total revenues.

Subscribers As of December 31, 2003, we had 1,360,228 subscribers, compared to 347,159 at December 31, 2002, an increase of 1,013,069 subscribers. Our subscribers include 1,018,963 self-paying subscribers, 320,473 subscribers in OEM promotional periods (typically ranging from three months to one-year in duration) paid for by the vehicle manufacturers and 20,792 XM activated vehicles with rental car companies At the time of sale, vehicle owners generally receive a 3-month trial subscription and are included in OEM promotional subscribers. XM generally receives two months of the 3-month trial subscription from the vehicle manufacturer. The number of subscribers electing to continue with the XM service beyond the initial OEM promotional period, the conversion rate, has ranged from 65%—80% through the end of 2003 and averaged approximately 74% for 2003. Beginning in late September 2003, we began an interim auto activation program whereby XM-enabled radios in new vehicles manufactured by General Motors and Honda are automatically activated to receive the XM service as a subscriber at the time of the sale to the vehicle purchaser In March 2004, we began a fully automated factory activation program whereby XM-enabled radios in new vehicles manufactured by General Motors are activated to receive the XM service at the time of manufacture. These vehicles are not included in our subscriber count until the vehicle is sold to a customer who becomes an OEM promotional subscriber. The fully automated factory activation program was initiated to streamline the process for activating the XM service in vehicles that previously required the auto manufacturers' dealers to contact our listener care center. The fully automated factory activation program also provides activated radios on the dealer lots for test drives In addition, GM will now provide standard on the window sticker 3 months free of XM service with every XM-enabled vehicle. We cannot predict how the change to this auto activation program will impact our overall conversion rate. However, we expect that the implementation of the fully automated factory activation program will increase the number of subscribers provided by our OEM distribution channel, but will result in a decline in our overall conversion rate due to a larger number of cars activated for trial service. Our subscribers also include 20,792 XM activated vehicles with rental car companies For the initial model year 2003 XM-enabled rental vehicles, XM receives payments based on the use of XM service. Customers are charged $2 99 per day per vehicle for use of the XM service, on which XM receives

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

a revenue share. For subsequent model year 2004 and later vehicles, XM receives $10 per subscription per month. Additionally, 100,872 family plan subscriptions at a multi-unit rate of $6 99 per radio per month are included in our total subscriber count. 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 who are currently in promotional periods paid for by vehicle manufacturers, as well as XM activated 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

Subscription Revenue. Subscription revenue was $78 3 million during 2003 compared to $16.3 million in 2002, an increase of $62 0 million. Subscription revenue consists primarily of our monthly subscription fees charged to consumers, commercial establishments and fleets, which are recognized as the service is provided Revenues received from vehicle manufacturers for promotional service programs are included in subscription revenue. At the time of sale, vehicle owners generally receive a three-month trial subscription and are included in OEM promotional subscribers Beginning in 2004, a standard promotion of 3 months free will be placed on the window sticker of all XM-enabled GM vehicles We generally receive payment for two months of the three-month trial subscription period from the vehicle manufacturer For 2003, subscription revenue included $8.5 million from related parties for subscription fees paid under certain promotional agreements, compared with $184,000 in 2002. Subscription revenue also includes revenues from a premium service. Our subscriber arrangements are cancelable without penalty. Promotions and discounts are treated as a reduction to revenue during the period of the promotion. Sales incentives, consisting of rebates to subscribers, offset revenue Discounts on equipment sold with service are allocated to equipment and service based on relative fair value.

Average Monthly Subscription Revenue Per Subscriber. Average monthly subscription revenue per subscriber (ARPU) was approximately $8 97 during 2003 and $9 43 during 2002. ARPU from our aftermarket, OEM and other subscribers was $9 59 during 2003, compared to $9.54 during 2002. The difference from our retail rate of $9.99 is due primarily to multi-year prepayment plan and family plan discounts. ARPU from our OEM promotional subscribers was $6 48 during 2003, compared to $2 81 during 2002 The OEM promotional programs began in November 2002. ARPU from our rental car fleet subscribers was $5.54 during 2003. ARPU from our family plan subscribers was $6.91 during 2003. 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 generally accepted accounting principles Average monthly revenue per subscriber will fluctuate based on promotions implemented in 2004, as well as the adoption rate of multiyear prepayment plans, multiradio discount plans (such as the family plan), premium and data services

Activation Revenue Activation revenue is comprised of one-time activation charges billed to customers. Activation fees are non-refundable, and are recognized on a pro-rata basis over the estimated 40-month life of the subscriber relationship. We expect this estimate to be further refined in the future as additional historical data becomes available During 2003, we recognized $1.9 million in activation revenue compared to $0 5 million in 2002, an increase of $1 4 million due to an increase in subscribers. The growth in activation revenue will be impacted by the amount of discounts given as a result of the competitive environment

Equipment Revenue. Equipment revenue is comprised of revenues from any direct sales of radios. Through December 31, 2003, the direct sales of radios have generally been for promotional purposes During 2003, we recognized $6.7 million in equipment revenue compared to $0 8 million during 2002. For 2003, equipment revenue included $3 0 million from direct sales of radios to related parties compared with $72,000 in 2002. We expect revenue from the sale of equipment to increase proportionately with the increase in direct sales of equipment by XM

Net Ad Sales Revenue. Advertising revenue consists of sales of advertisements and program sponsorships on the XM network to advertisers that are recognized in the period in which they are broadcast. Advertising revenue includes advertising aired in exchange for goods and services (barter), which is recorded at fair value Advertising revenue is presented net of agency commissions in the results of operations, which is consistent with industry practice. In 2003, we recognized $4 1 million in net advertising revenue compared to $2 3 million during 2002. These amounts are net of agency commissions, which were $486,000 during 2003, compared to $350,000 during 2002 The increase in net advertising revenue is due primarily to increased demand for advertising on the XM network that results from our subscriber growth, listenership and audience reach During 2003, we recognized $1 1 million in

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

advertising barter revenue compared to $0.3 million during 2002 For 2003, advertising revenue included $512,000 from sales of advertisements to related parties compared with $0 in 2002. We expect advertising revenue to increase during 2004 due to increased demand for advertising on the XM network resulting from our subscriber growth, listenership, and audience reach In March 2004, we will launch our Instant Traffic & Weather channels. Advertising sales on these channels is expected to offset the forgone revenue from the implementation of our 100% commercial-free music format that began February 1, 2004.

Other Revenue. Other revenue earned during 2003 consists of processing fees charged to invoiced subscribers, royalty revenue from certain tuners manufactured, and other revenue. We recognized $0 9 million of other revenue during 2003 compared with $0 3 million during 2002. We expect other revenue to increase during 2004

Operating Expenses

Total Operating Expenses. Total operating expenses were $546 2 million for 2003 compared to $459.0 million in 2002, an increase of $87.2 million or 19% The increase was due primarily to an increase in cost of revenue of $25.5 million attributable to increased sales, an increase in marketing expenses of $31.1 million due to increased distribution expenses as a result of the growth in subscribers and an increase in depreciation and amortization of $39 7 million resulting from a reduction in the useful life of our satellites in third quarter of 2002, offset in part by an impairment charge of $11.5 million relating to goodwill recognized in 2002

Cost of Revenue. Cost of revenue includes revenue share & royalties, customer care & billing costs, costs of radios associated with direct sales of radios, costs directly associated with sales of advertising, satellite & terrestrial operating costs, as well as costs related to broadcast & operations and programming & content These combined costs were $148 0 million for 2003, up from $122.5 million in 2002, an increase of $25 5 million or 21%

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 payments to manufacturing and distribution partners and content providers. These costs were $26.4 million in 2003 compared to $12 8 million in 2002 This increase of $13 6 million was a result of our growth in subscriber base and revenues along with completion of negotiations for performance rights royalties. We expect these total costs to increase during 2004 as subscriber growth continues but to decrease slightly as a percentage of total revenue.

Customer Care & Billing Customer care & billing operations expense includes expenses from outsourced customer care functions as well as internal IT costs associated with front office applications These expenses were $25.9 million during 2003, compared with $16.1 million during 2002, an increase of $9.8 million. This increase resulted from the increase in subscribers. We expect customer care & billing operations expense in total to increase during 2004 as we continue to add subscribers, but we expect the average cost per subscriber to decrease.

Cost of Equipment. During 2003, we incurred $9 8 million relating to promotional radios and radio kits that we sold directly to subscribers, compared to $1.7 million in 2002. We expect the cost of equipment to increase during 2004 as we increase direct sales of equipment

Ad Sales Ad sales expense was $3 3 million in 2003 compared to $1 9 million in 2002, an increase of $1 4 million or 74% The increase in ad sales expense is due primarily to an increase in staffing and marketing costs to support ad sales growth We expect ad sales costs to increase in 2004 in support of advertising revenue growth.

Satellite & Terrestrial. Satellite & terrestrial includes· telemetry, tracking and control of our two 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 lease payments. These expenses were $39 7 million in 2003, compared with $44.8 million in 2002, a decrease of $5.1 million or 11% The decrease primarily resulted from previously accrued performance incentives payable to Boeing relating to XM Rock and XM Roll that were reversed in 2003 as a result of the December 2003 amendment of our contract with Boeing, which removed this obligation We expect system operating costs in 2004 to be in line with the costs incurred in 2003

Source· XM SATELLITE RADIO H, 10-K, March 15, 2004

Broadcast & Operations

Broadcast. 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. The advertising trafficking (scheduling and insertion) functions are also included Broadcast costs were $7.7 million for 2003, compared to $7 7 million in 2002 Broadcast costs are expected to increase with enhancements to and maintenance of the broadcast systems infrastructure.

Operations. Operations, which includes facilities and back office information technology expense, was $12.0 million in 2003, compared with $12 1 million in 2002, a decrease of $0 1 million These costs are expected to remain stable in 2004

Programming & Content. Programming & content includes the creative and production costs associated with our 101 channels of XM–original and third party content. This includes costs of programming staff and fixed payments for third party content. Programming & content expense was $23 1 million during 2003, compared with $25 4 million during 2002, a decrease of $2 3 million or 9% The decrease is due primarily to decreases in payroll and payroll related costs from a reduction in headcount which occurred in November 2002 and lower fixed payments to certain content providers as a result of contract renegotiations These costs are expected to increase in 2004 as we make changes to our channel line–up and enhance our programming In 2004, we expect to launch 20 instant traffic and weather channels, each dedicated to the traffic and weather of a specific market.

Research & Development Research & development includes the costs of new product development, chipset design, and engineering These combined expenses were $12 3 million in 2003, compared with $10 8 million in 2002, an increase of $1.5 million or 14%. The increase in research and development expense resulted from the development of four new products, XM PCR, Delphi XM Roady, XM Commander and XM Direct, brought to market in 2003, as well as the commencement of activities under the joint development agreement with Sirius Radio Research and development expenses will continue to increase in 2004 as we accelerate the development of future telematics applications and new products, including interoperable radios.

General & Administrative General & administrative expense was $27.4 million during 2003, compared with $26 4 million during 2002, an increase of $1.0 million or 4%. The increase in general & administrative expense primarily resulted from an increase in director and officer insurance premiums, and an increase in non–cash stock–based compensation charges, offset in part by a decrease in costs incurred for professional services. We expect general and administrative expense to increase slightly during 2004.

Marketing. Marketing includes the costs of retention & support, subsidies & distribution, advertising & marketing, and amortization of our liability to GM These combined costs were $200 3 million for 2003, compared to $169.2 million in 2002, an increase of $31.1 million, or 18% Marketing expense increased primarily due to increases in subsidies & distribution of $38.4 million and amortization of GM liability of $22.0 million, offset in part by decreases in retention and support of $2 0 million and advertising and marketing of $27 3 million.

Retention & Support. Personnel–related expenses comprise the majority of retention and support. In 2003, these costs were $7 9 million compared to $9 9 million in 2002, a decrease of $2 0 million or 20%, primarily due to a reduction in staffing levels, and a decrease in non–cash stock compensation expense resulting from the reversal of an accrual relating to the Sony warrants In September 2003, it was evident that Sony did not achieve the minimum performance target required for the vesting of its warrants Therefore, the non–cash compensation charges of $0 4 million recorded in prior years in relation to these warrants were reversed in 2003

Subsidies & Distribution We currently provide incentives and subsidies for the manufacture, purchase, installation and activation of XM radios to attract and retain our manufacturing and distribution partners Our subsidy and distribution costs are significant and totaled approximately $92 5 million during 2003, compared with $54 1 million during 2002, an increase of $38 4 million or 71%. This increase is due primarily to the increase in subscribers, new activations, and GM vehicles equipped with XM radios, offset in part by a decrease in manufacturing subsidies resulting from changes in the subsidy timing and lower subsidy rates Subsidy and distribution expense will increase as the number of XM radios that are manufactured, installed and activated increase, however, we expect the cost per new subscriber to decrease.

Source XM SATELLITE RADIO H, 10–K, March 15, 2004

Subscriber Acquisition Costs. We consider subscriber acquisition costs to include radio manufacturer subsidies, certain sales, activation and installation commissions, and hardware-related promotions. These costs are reported in Subsidies & Distribution The negative margins from equipment sales are also included in subscriber acquisition costs Subscriber acquisition costs do not include ongoing loyalty payments to retailers and distribution partners, payments under revenue sharing arrangements with radio manufacturers and distributors and certain guaranteed payments to General Motors During the years ended December 31, 2003, and 2002, we incurred expenses of $88 8 million, and $54 1 million, respectively, related to subscriber acquisition costs. Our average subscriber acquisition cost was $75 and $116 during 2003 and 2002, respectively The decline in SAC for 2003 as compared to 2002 is due primarily to the decline in manufacturer subsidies. We expect SAC to decline in 2004

Advertising & Marketing. Activities comprising these expenses include media, advertising, events and direct marketing programs Advertising & marketing costs were $64 3 million during 2003, compared with $91 6 million during 2002, a decrease of $27.3 million or 30% The decrease is due primarily to our decreased purchase of consumer advertising media We expect these expenses to increase during 2004

Cost Per Gross Addition We consider CPGA to include the amounts in SAC, as well as advertising, media and other discretionary marketing expenses In our financial statements, SAC costs are captured in Subsidies & Distribution and the negative margins from equipment sales, while CPGA costs are primarily captured by the combination of Subsidies & Distribution, Advertising & Marketing, plus the negative margins from equipment sales. CPGA does not include marketing staff (included in Retention & Support) or the amortization of the GM guaranteed payments (included in Amortization of GM Liability). During the years ended December 31, 2003, and 2002, we incurred CPGA expenses of $159.9 million, and $145 5 million, respectively. CPGA for 2003 and 2002 was $137 and $425, respectively. The decline in CPGA for 2003 as compared to 2002 is due to the combined impacts of the declines in manufacturer subsidies, discretionary advertising and marketing expenses and an increase in the number of activations We expect CPGA to decline in 2004

Amortization of GM Liability. These costs include the amortization of annual fixed guaranteed payment commitments to General Motors, aggregating to $439 million, under our long-term distribution agreement with the OnStar division of GM providing for the installation of XM radios in GM vehicles Amortization of the GM liability was $35.6 million for 2003, compared with $13 6 million for 2002. The distribution agreement was amended in June 2002 and then again in January 2003, as described under the captions "Liquidity and Capital Resources—Capital Resources and Financing " As a result of the January 2003 amendment and GM's current roll out plans, commencing in February 2003 we began recognizing the fixed payments, which approximate $397 3 million, on a straight-line basis through September 2013. In January 2003, we expensed the pro rata portion of the fixed payment that was based on the June 2002 amendment to the agreement We expect these expenses to increase to $37.3 million in 2004 and to remain at $37.3 million per annum through September 2013.

Impairment of Goodwill We recognized an impairment charge of $11 5 million during the fourth quarter of 2002.

Depreciation & Amortization. Depreciation & amortization expense was $158 3 million during 2003, compared with $118 6 million during 2002, an increase of $39 7 million or 33% The increase in depreciation and amortization expense primarily resulted from the reduction in the useful lives of our in-orbit satellites from 17.5 years to 6 75 years during the third quarter of 2002 due to a solar array output power anomaly.

Interest Income. Interest income was $3 1 million during 2003, compared with $5 1 million during 2002, a decrease of $2.0 million or 39% The decrease was the result of lower yields on our investments due to market conditions as well as lower average balances of cash and cash equivalents in 2003

Interest Expense We recorded interest expense of $110.3 million and $63 6 million during 2003 and 2002, respectively The increase in interest expense is due to an increase in debt outstanding from the January 2003 and June 2003 financing transactions, as well as a charge of $7.2 million to interest expense attributable to the beneficial conversion feature on the exchange of $24 0 million carrying value of our 10% senior secured discount convertible notes due 2009 into 8,072,081 shares of Class A common stock

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Other Income (Expense), net Other income (expense), net was $(22.8) million during 2003, compared with $2 2 million during 2002, a decrease of $25 0 million. The expense during 2003 resulted primarily from losses of $24 7 million from the retirement of debt with a carrying value including accrued interest of $125.2 million, offset in part by income from rental of office space in our corporate headquarters to third parties Other income (expense), net for 2002 consists primarily of income from rental of office space in our corporate headquarters to third parties.

Net Loss Net loss for 2003 was $584.5 million, compared with $495 0 million for 2002, an increase of $89.5 million or 18%. The increase primarily reflects the losses recorded in other expense from our deleveraging transactions, increases in interest expense and increases in operating expenses, primarily depreciation and amortization expense, offset in part by the growth in our revenue.

EBITDA. Net loss before interest income, interest expense, income taxes, depreciation and amortization is commonly referred to in our business as "EBITDA." EBITDA is not a measure of financial performance under generally accepted accounting principles. EBITDA during 2003 was $(318.9) million, compared with $(318 0) million during 2002. Included in the 2003 EBITDA are losses of $24.7 million recorded from the deleveraging transactions Consistent with regulatory requirements, EBITDA includes Other Income (Expense). We believe EDITDA is often a useful measure of a company's operating performance and is a significant basis used by our management to measure the operating performance of our business. Because we have funded and completed 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. EBITDA, which excludes this information, provides helpful information about the operating performance of our business, apart from the expenses associated with our physical plant or capital structure EBITDA is frequently used as one of the bases for comparing businesses in our industry, although our measure of EBITDA may not be comparable to similarly titled measures of other companies. EBITDA does not purport to represent operating activities, as those terms are defined under generally accepted accounting principles, and should not be considered as an alternative to those measurements as an indicator of our performance. The reconciliation of net loss to EBITDA is as follows (in thousands):

	Year Ended December 31,	
	2003	2002
Net loss as reported	$(584,535)	$(495,012)
Add back non-EBITDA items included in net loss.		
Interest income	(3,066)	(5,111)
Interest expense	110,349	63,573
Depreciation & amortization	158,317	118,588
EBITDA	$(318,935)	$(317,962)

Year Ended December 31, 2002 Compared With Year Ended December 31, 2001
XM Satellite Radio Holdings Inc. and Subsidiaries

Revenue

Revenue. Our revenue consists of subscription fees, activation charges, limited direct sales of radios, advertising sales, and revenue earned from royalties. In 2002, we recognized $20.2 million in total revenue, compared to $0.5 million in 2001, an increase of $19.7 million. During 2002, subscription revenue comprised approximately 81% of our total revenues.

Subscribers As of December 31, 2002, we had 347,159 subscribers, compared to 27,733 at December 31, 2001, an increase of 319,426 subscribers Our subscribers at December 31, 2002 included 31,317 subscribers in OEM promotional periods We began offering OEM promotional programs in November 2002 We consider subscribers to be those who are receiving and have agreed to pay for our service, either by credit

Source. XM SATELLITE RADIO H, 10-K, March 15, 2004

card or by invoice, including those who are currently in promotional periods, as well as XM activated 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.

Subscription Revenue. Subscription revenue was $16.3 million during 2002 compared to $0.2 million during 2001, an increase of $16 1 million. Subscription revenue consists primarily of our monthly subscription fees charged to consumers, commercial establishments and fleets, which are recognized as the service is provided. Revenues received from vehicle manufacturers for promotional service programs are included in subscription revenue For 2002, subscription revenue included $184,000 from related parties for subscription fees paid under certain promotional agreements. Subscription revenue also includes revenues from a premium service Our subscriber arrangements are cancelable, without penalty Promotions and discounts are treated as a reduction to revenue during the period of the promotion Sales incentives, consisting of rebates to subscribers, offset revenue

Average Monthly Subscription Revenue Per Subscriber Average monthly subscription revenue per subscriber (ARPU) was approximately $9 43 during 2002, and $8 57 during 2001 In 2002, ARPU from our aftermarket, OEM and other subscribers was $9.54. In 2001, we had just launched commercial operations and essentially all of our subscribers were aftermarket, OEM and other subscribers. 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 ending subscribers for the period reported We made two changes to our calculation of ARPU at the end of 2002 in an effort to provide a metric that we feel is more reflective of our earned recurring monthly subscription revenue First, we no longer include earned activation revenue as part of the ARPU calculation. We also refined our methodology to calculate ARPU using a denominator of monthly weighted average customers rather than our previous approach of daily weighted average customers to be consistent with how we manage our business. Average monthly revenue per subscriber is a measure of operational performance and not a measure of financial performance under generally accepted accounting principles.

Activation Revenue. Activation revenue is comprised of one-time activation charges billed to customers. Activation fees are non-refundable, and are recognized on a pro-rata basis over the estimated 40-month life of the subscriber relationship. During 2002, we recognized $484,000 in activation revenue compared to $8,000 during 2001, an increase of $476,000 due to an increase in subscribers.

Equipment Revenue Equipment revenue is comprised of revenues from any direct sales of radios. Through December 31, 2002, the direct sales of radios have generally been for promotional purposes. During 2002, we recognized $757,000 in equipment revenue compared to $0 million during 2001. For 2002, equipment revenue included $72,000 from direct sales of radios to related parties.

Net Ad Sales Revenue. Advertising revenue consists of sales of advertisements and program sponsorships on the XM network to advertisers that are recognized in the period in which they are broadcast Advertising revenue includes advertising aired in exchange for goods and services (barter), which is recorded at fair value Advertising revenue is presented net of agency commissions in the consolidated statements of operations, which is consistent with industry practice. During 2002, we recognized $2 3 million in net advertising revenue compared to $251,000 during 2001. These amounts are net of agency commissions, which were $350,000 during 2002, compared to $43,000 during 2001. The increase in net advertising revenue is due primarily to increased demand for advertising on the XM network that results from our subscriber growth, listenership and audience reach. During 2002, we recognized $330,000 in advertising barter revenue compared to $0 during 2001.

Other Revenue. Other revenue earned during 2002 consisted of royalty revenue from certain tuners manufactured during 2002, and other broadcast revenue We recognized $263,000 of other revenue during 2002 compared with $36,000 during 2001.

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

Operating Expenses

Total Operating Expenses Total operating expenses were $459.0 million for 2002 compared to $282 1 million in 2001, an increase of $176 9 million or 63% The increase was primarily a result of a full year of operations in 2002.

Cost of Revenue Cost of revenue includes revenue share & royalties, customer care & billing costs, costs of radios associated with radio sales, costs directly associated with sales of advertising, satellite & terrestrial operating costs, as well as costs related to broadcast & operations and programming & content These combined costs were $122.5 million for 2002, up from $112.0 million in 2001, an increase of $10.5 million or 9%.

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 payments to manufacturing and distribution partners and content providers These costs were $12.8 million in 2002 compared to $1.7 million in 2001. This increase of $11.1 million was a result of our growth in subscriber base and revenues along with completion of negotiations for performance rights royalties

Customer Care & Billing. Customer care & billing operations expense includes expenses from outsourced customer care functions as well as internal IT costs associated with front office applications These expenses were $16.1 million during 2002, compared with $5 7 million during 2001, an increase of $10 4 million. This increase resulted from a full year of commercial operations and increase in subscribers

Cost of Equipment During 2002 we incurred $1.7 million relating to promotional radios and radio kits that we sold directly to subscribers, compared to $0 in 2001

Ad Sales. Ad sales expense was $1.9 million in 2002 compared to $2 2 million in 2001, a decrease of $0.3 million or 14%.

Satellite & Terrestrial. Satellite & terrestrial includes: telemetry, tracking and control of our two 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 lease payments. These expenses were $44 8 million in 2002, compared with $62 6 million in 2001, a decrease of $17 8 million or 28% This decrease primarily resulted from a charge of $4.0 million in 2002 compared to a charge of $26.3 million in 2001 related to terrestrial repeater sites no longer required. Exclusive of this charge, we incurred increased operating expenses in 2002 compared to 2001 as our satellites and terrestrial repeater network performed over a first full year of operations

Broadcast & Operations

Broadcast. 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. The advertising trafficking (scheduling and insertion) functions are also included. Broadcast costs were $7.7 million for 2002, compared to $6 2 million in 2001, an increase of $1 5 million or 24%. The increase reflects a full year of operations for 2002.

Operations. Operations, which includes facilities and information technology expense, was $12.1 million in 2002, compared with $15.8 million in 2001, a decrease of $3.7 million or 23%. The decrease in operations expense in 2002 is attributed to a decrease in rent expense which was a direct result of the purchase of our corporate headquarters in the third quarter of 2001 and a decrease in costs incurred for professional services related to information technology as a result of a decreased need for post-implementation support.

Programming & Content. Programming & content includes the creative and production costs associated with our 101 channels of XM-original and third party content This includes costs of programming staff and fixed payments for third party content. Programming & content expense was $25.4 million during 2002, compared with $17 6 million during 2001, an increase of $7 8 million or 44%. The increase reflects a full year of operations for 2002.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Research & Development Research & development includes the costs of new product development, chipset design, and engineering. These combined expenses were $10 8 million in 2002, compared with $13.7 million in 2001, a decrease of $2.9 million or 21% The decrease in research and development expense primarily resulted from the higher cost of designing the initial chipset in 2001 compared with subsequent chipset designs in 2002 when the manufacturers absorbed a portion of the engineering charges.

General & Administrative. General & administrative expense was $26.4 million during 2002, compared with $20 3 million during 2001, an increase of $6 1 million or 30% The increase in general & administrative expense primarily resulted from increased director and officer insurance premiums in the fourth quarter, and costs incurred in 2002 for the 2003 bond exchange transaction.

Marketing. Marketing includes the costs of retention & support, subsidies & distribution, advertising & marketing, and amortization of our liability to GM. These combined costs were $169 2 million for 2002, compared to $93.6 million in 2001, an increase of $75 6 million, or 81%. Marketing expense increased due to increases in subsidies & distribution of $44 9 million, advertising & marketing of $16 1 million, amortization of GM liability of $13.2 million, and retention and support of $1 4 million

Retention & Support Personnel related expenses comprise the majority of retention and support In 2002, these costs were $9 9 million compared to $8 4 million in 2001, an increase of $1 5 million or 18%

Subsidies & Distribution. We currently provide incentives and subsidies for the manufacture, purchase, installation and activation of XM radios to attract and retain our manufacturing and distribution partners Our subsidy and distribution costs are significant and totaled approximately $54.1 million during 2002, compared with $9.2 million during 2001, an increase of $44 9 million due to 2002 being a full year of operations.

Subscriber Acquisition Costs We consider subscriber acquisition costs to include radio manufacturer subsidies, sales, activation and installation commissions, and hardware-related promotions. These costs are reported in Subsidies & Distribution. The negative margins from equipment are also included in subscriber acquisition costs. Subscriber acquisition costs do not include ongoing loyalty payments to retailers and distribution partners, payments under revenue sharing arrangements with radio manufacturers and distributors and guaranteed payments to General Motors During the years ended December 31, 2002, and 2001, we incurred expenses of $54 1 million, and $9.2 million, respectively, related to subscriber acquisition costs. Our average subscriber acquisition cost was $116 during 2002

Advertising & Marketing Activities comprising these expenses include media, advertising, events and direct marketing programs. Advertising & marketing costs were $91 6 million in 2002 compared with $75.5 million in 2001, an increase of $16 1 million or 21% as a result of a full year of operations in 2002.

Cost Per Gross Addition We consider CPGA to include the amounts in SAC, as well as advertising, media and other discretionary marketing expenses. In our financial statements, SAC costs are captured in Subsidies & Distribution and the negative margins from equipment sales, while CPGA costs are captured by the combination of Subsidies & Distribution, Advertising & Marketing, plus the negative margins from equipment sales CPGA does not include marketing staff (included in Retention & Support) or the amortization of the GM guaranteed payments (included in Amortization of GM Liability). During the years ended December 31, 2002, and 2001, we incurred expenses of $145 5 million, and $84 0 million, respectively. CPGA for the full year 2002 was $425 Due to our launch late in 2001 and significant pre-operations costs recorded, CPGA figures for 2001 and prior are not meaningful

Amortization of GM Liability. These costs include the amortization of annual fixed guaranteed payment commitments to General Motors, aggregating to $439 million, under our long-term distribution agreement with the OnStar division of GM providing for the installation of XM radios in GM vehicles In 2001 we expensed $439,000, the annual fixed payment for that year We amended the agreement in June 2002, and following the amendment began amortizing the annual fixed payments due through November 2005, which approximated $63 6 million, on a straight-line basis. We expensed $13.6 million for 2002, reflecting a pro rata portion of the 2002 fixed annual payment for the period from January 2002 through June 2002 and the straight-line portion of the $63 6 million for the remainder of 2002 The distribution agreement

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

was amended again in January 2003. As a result of the January 2003 amendment and GM's current roll out plans, commencing in February 2003 we are recognizing the guaranteed payments due under the long-term distribution agreement, which approximate $397 3 million, on a straight-line basis through September 2013, the remaining term of the agreement

Impairment of Goodwill We recognized an impairment charge of $11.5 million during the fourth quarter of 2002 in accordance with the provisions of SFAS No 142 *Goodwill and Other Intangible Assets.* SFAS No 142 required that we perform an assessment of the fair value of our reporting unit and compare it to the carrying value of the reporting unit As a result of the value of our stock and other securities being impacted by negative trends in the capital markets during 2002, our market capitalization had fallen below our book value, indicating that our reporting unit's goodwill may be impaired. In accordance with SFAS No 142, we performed the second step of the annual impairment test during the fourth quarter of 2002 and recognized an impairment charge of $11 5 million as required by SFAS No 142

Depreciation & Amortization Depreciation & amortization expense was $118.6 million during 2002, compared with $42.7 million during 2001, an increase of $75 9 million The increase in depreciation and amortization expense primarily resulted from our commencing depreciation of major components of our system, including our satellites and terrestrial systems, upon commencement of commercial operations in September 2001. During 2002, we ceased amortizing goodwill and our DARS license in accordance with our adoption of SFAS No 142 As a result of a solar array output power anomaly, during 2002, we reduced the useful lives of our in-orbit satellites from 17.5 years to 6 75 years.

Interest Income Interest income was $5 1 million during 2002, compared with $15.2 million during 2001, a decrease of $10 1 million or 66%. The decrease was the result of lower average balances of cash and cash equivalents during 2002 coupled with lower yields on our investments due to market conditions.

Interest Expense. We recorded interest expense of $63.6 million and $18.1 million during 2002 and 2001, respectively In addition, we capitalized interest costs of $0 0 million and $45 2 million associated with our DARS license and our XM Radio system during 2002 and 2001.

Other Income (Expense), net. Other income (expense), net consists primarily of income from rental of office space in our corporate headquarters to third parties Other income (expense), net was $2 2 million in 2002, compared with $0.2 million in 2001, an increase of $2 0 million The increase reflects a full year's rental income in 2002 compared with four month's rental income in 2001, as we purchased our corporate headquarters in August 2001.

Net Loss Net loss for 2002 was $495 0 million, compared with $284 4 million for 2001, an increase of $210 6 million or 74%. The increase primarily reflects increases in operating expense, depreciation and amortization expense and interest expense in connection with our ramp-up of commercial operations, offset in part by the growth in our revenue.

EBITDA Net loss before interest income, interest expense, income taxes, depreciation and amortization is commonly referred to in our business as "EBITDA." EBITDA is not a measure of financial performance under generally accepted accounting principles EBITDA for 2002 was ($318 0 million), compared with ($238 8 million) for 2001 The increased loss is due primarily to an increase in operating expense in connection with our ramp-up of commercial operations, offset in part by the growth in our revenue. Consistent with regulatory requirements, EBITDA includes Other Income (Expense) We believe EDITDA is often a useful measure of a company's operating performance and is a significant basis used by our management to measure the operating performance of our business Because we have funded and completed 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. EBITDA, which excludes this information, provides helpful information about the operating performance of our business, apart from the expenses associated with our physical plant or capital structure. EBITDA is frequently used as one of the bases for comparing businesses in our industry, although our measure of EBITDA may not be comparable to similarly titled measures of other companies. EBITDA does not purport to represent operating activities, as those terms are defined under generally accepted accounting principles, and should not be considered as an alternative to those measurements as an indicator of our performance. The reconciliation of net loss to EBITDA is as follows (in thousands):

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

	Year Ended December 31,	
	2002	2001
Net loss as reported	$(495,012)	$(284,379)
Add back non-EBITDA items included in net loss:		
Interest income	(5,111)	(15,198)
Interest expense	63,573	18,131
Depreciation & amortization	118,588	42,660
EBITDA	$(317,962)	$(238,786)

Liquidity and Capital Resources

At December 31, 2003, we had total cash and cash equivalents of $418.3 million, which excludes $0 1 million of restricted investments, and working capital of $295 3 million. Cash and cash equivalents increased $385.5 million during 2003. The increase resulted from $616.0 million provided by financing activities and $14.6 million provided by investing activities, offset by $245.1 million used in operating activities. The proceeds from financing activities resulted primarily from a private placement in January 2003 that resulted in the issuance of our 10% Senior Secured Discount Convertible Notes that yielded gross proceeds of $210 million, the issuance of 5.5 million shares of Class A common stock that yielded gross proceeds of $15 million, the issuance of our 12% Senior Secured Notes that yielded gross proceeds of $185 million, and the issuance of 11 3 million shares of Class A common Stock that yielded gross proceeds of $150 million The financing activities completed during the year are more fully discussed below. Investing activities consisted primarily of proceeds provided from the maturity of restricted investments. Cash flows used in operating activities includes the net loss of $584 5 million and the net cash used by our operating assets and habilities, offset in part by non-cash expenses included in the net loss.

By comparison, at December 31, 2002, we had total cash, cash equivalents and short-term investments of $42.8 million, which excludes $29.7 million of restricted investments, and working capital of $(49.5) million This amount reflects the use of cash, cash equivalents and short-term investments of $210 9 million at December 31, 2001, plus the proceeds of $151 6 million from financing activities, to fund $294.3 million of cash used in operations and $7.0 million in investing activities. The proceeds from financing activities resulted primarily from an equity offering during 2002. Cash flow used in operations reflected the net loss from the Company's first full year of commercial operations of $495 0 million, and the accumulation of current habilities as part of the Company's efforts to conserve cash. Investing activities consisted primarily of capital expenditures for infrastructure and terrestrial system completion.

We expect that our future working capital, capital expenditures, and debt service requirements will be satisfied from existing cash, cash equivalents, and short-term investments augmented by the results of our January 2004 financing activities described below and by cash received from revenue-generating activities. Our business plan contemplates the use of cash on hand to fund the completion and launch of XM-3 and the construction of XM-4. We may need to raise additional funding for the launch of XM-4 depending on the amount and timing of the receipt of the insurance proceeds and other factors

Capital Resources and Financing

We raised $2.6 billion of equity and debt gross proceeds from inception through December 31, 2003 from investors and strategic partners to fund our operations In 2003, we raised $626 million of gross funds. This includes $225 million of gross funds raised in the January 2003 financing transactions, $185 million of gross funds raised in the June 2003 transaction, including $10 million raised in July 2003 from the exercise of an over-allotment

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

option, and $150 million of gross funds raised in the September 2003 transactions, as well as $66 million of funds raised through the Direct Stock Purchase Program The January 2003 financing transactions also included $250 million of payment deferrals and a line of credit. The proceeds received have been used to acquire our DARS license, make required payments for our system, including the satellites, terrestrial repeater system, and ground networks, and for working capital and operating expenses Provided that we meet the revenue, expense and cash flow projections of our business plan, we expect to be fully funded and will not need to raise additional financing to continue operations or to fund the completion and launch of XM-3 and the construction of XM-4 We may need to raise additional funding for the launch of XM-4 depending on the amount and timing of the receipt of the insurance proceeds and other factors

January 2004 Financing Transaction

On January 28, 2004, we completed a public offering of 20,000,000 shares of our Class A Common Stock at $26.50 per share, 13,000,000 shares of which were offered for sale by certain selling stockholders This 7,000,000 share offering resulted in gross proceeds to us of $185 5 million The proceeds from this offering were used in part to repay the unvested portion of the 10% Senior Secured Convertible Note held by OnStar, a subsidiary of General Motors. We expect to use the proceeds for the prepayment of a portion of our outstanding debt as well as for working capital and general corporate purposes

September 2003 Financing Transaction

On September 11, 2003, we completed a public offering of 11,320,755 shares of our Class A Common Stock at $13 25 per share to Legg Mason Funds Management, Inc , Legg Mason Capital Management, Inc. and another large institutional investor, each on behalf of its investment advisory clients. This offering resulted in gross proceeds of $150 million. We expect that all or a significant portion of the net proceeds may be used for funding for the construction of XM-4, our new ground spare satellite, if insurance proceeds are not received in a timely manner We expect to otherwise use the proceeds for working capital and general corporate purposes, which may include the repurchase or pre-payment of outstanding debt.

June 2003 Financing Transaction

On June 17, 2003, we completed an offering of $185 million, including $10 million related to the over-allotment option in July 2003, of Inc.'s 12% Senior Secured Notes due June 15, 2010. Interest on the notes is payable every six months in cash in arrears on December 15 and June 15, commencing on December 15, 2003. The notes, which are Inc.'s senior secured obligations, are secured by substantially all of Inc.'s assets, are guaranteed by the Company and will rank equally in right of payment with all of Inc 's other existing and future senior indebtedness and senior in right of payment to all of Inc.'s existing and future subordinated indebtedness Inc. may, at its option, redeem the notes at declining redemption prices at any time on or after June 15, 2007. At any time on or prior to June 15, 2006, Inc may redeem a portion of the outstanding notes with the proceeds of certain equity offerings as long as the redemption occurs within 90 days of the date of the closing of such equity offering and at least $100 million aggregate principal amount of notes remains outstanding after the redemption We expect to use the proceeds from the June 2003 financing transaction to fund the construction and launch of XM-3, if insurance proceeds are not received in a timely manner We expect to otherwise use the proceeds for working capital and general corporate purposes, which may include the repurchase or pre-payment of outstanding debt.

January 2003 Financing Transactions

In January 2003, we completed a private placement of $279 3 million aggregate principal amount at maturity of our 10% Senior Secured Discount Convertible Notes due December 31, 2009, which yielded gross proceeds of $210.0 million, and a private placement of 5,555,556 shares of our Class A common stock, which yielded gross proceeds of $15 0 million Concurrently with these transactions, we completed an exchange offer in which we exchanged $300.2 million aggregate principal amount of Inc 's previously outstanding 14% Senior Secured Notes due 2010 for $438.0 million aggregate principal amount at maturity ($300.2 million accreted value as of March 15, 2003) of 14% Senior Secured Discount Notes due 2009, cash and warrants to purchase Class A common stock

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

In January 2003, General Motors provided us with a $100 0 million Senior Secured Credit Facility, maturing as late as December 2009, that enables us to make monthly draws to finance payments that become due under our distribution agreement with OnStar Corporation and other GM payments In January 2004, this facility was amended and became a revolver. XM and Inc. are co-borrowers under this credit facility. The outstanding principal amount of all draws will be due December 31, 2009 and bear interest at the applicable 90-day LIBOR rate plus 10% through December 31, 2003, and presently bear interest at a per annum rate of LIBOR plus 8% We will be able to make interest payments semi-annually in shares of Class A common stock having an aggregate fair market value at the time of payment equal to the amount of interest due. The fair market value will be based on the average daily trading prices of the Class A common stock over the ten business days prior to the day the interest payment is due We have the option to prepay all draws in whole or in part at any time, and, with effect from the January 2004 amendment, may re-borrow prepaid amounts. Beginning in 2005, we will be required to prepay the amount of any outstanding advances in an amount equal to the lesser of (i) 50% of our excess cash and (ii) the amount necessary to prepay the draws in full. In order to make draws under the credit facility, we are required to have a certain minimum number of subscribers that are not originated by GM and a minimum pre-marketing cash flow.

In January 2003, we issued a 10% Senior Secured Convertible Note due December 31, 2009 in the amount of $89 0 million to General Motors' subsidiary, OnStar Corporation. The note was provided in lieu of our obligation to make $115 million in guaranteed payments to OnStar under the distribution agreement from 2003 to 2006. The note becomes convertible at the holder's option on a quarterly basis through 2006, at 90% of the then fair market value of our Class A common stock but subject to a $5.00 per share minimum and escalation maximum (up to $20 per share) for each fiscal year. Interest is payable semi-annually in cash or shares of our Class A common stock, at our option, at fair market value at the time of payment. In February 2004, we completed the redemption of the note As part of the redemption, General Motors converted $7 8 million in principal amount of the note, representing the entire principal amount of the note that had vested conversion rights at the time of the redemption, into 980,670 shares of our Class A Common Stock in accordance with the terms of the note The remaining $81 2 million in principal amount plus accrued interest was repaid with cash

In January 2003, General Motors provided us with the ability to satisfy up to $35.0 million in future subscriber acquisition payments that we may owe to OnStar under the distribution agreement in shares of our Class A common stock, valued at fair market value at the time of each semi-annual payment

Other Equity Issuances and De-leveraging Transactions

During the year ended December 31, 2003, we issued 10,814,500 shares of Class A common stock for proceeds of $66 million under our Direct Stock Purchase Program (DSPP)

Concurrent with the funds raised through the DSPP, we entered into agreements with certain holders of our notes to exchange $125.2 million carrying value, or $160.1 million fully accreted face value at maturity, of their notes, for $6 8 million in cash consideration and 19,232,230 shares of Class A common stock Also concurrent with the funds raised through the DSPP, we entered into agreements with certain holders of our 8 25% Series B convertible redeemable preferred stock to exchange $19 7 million in shares of Series B preferred stock for $10.2 million in cash consideration We also entered into agreements with certain holders of our 8 25% Series C convertible redeemable preferred stock to exchange $101.0 million carrying value, in shares of Series C preferred stock, for 11,951,381 shares of Class A common stock Additionally, we entered into agreements with certain holders of Class A common stock warrants to exchange 55,846 warrants convertible into 4,746,910 shares of Class A common stock for 3,579,818 shares of common stock and received $13 0 million in cash proceeds from the exercise of 47,962 warrants converted into 4,076,770 shares of Class A common stock.

As a result of these de-leveraging transactions, we have eliminated approximately $245.9 million of carrying value including accrued interest of debt and preferred securities or approximately $280 7 million of face amount at maturity We have eliminated $2.1 million carrying value including accrued interest ($2 0 million face amount at maturity) of our 14% Senior Secured Notes due 2010, $65 5 million carrying value including accrued interest ($94 2 million face amount at maturity) of our 14% Senior Secured Discount Notes due 2009 issued in January 2003, $33 6 million carrying value including accrued interest ($33 4 million of face amount at maturity) of our 7.75% Convertible Subordinated Notes due 2006, $24.0 million carrying value including accrued interest ($30.5 million

Source· XM SATELLITE RADIO H, 10-K, March 15, 2004

face amount at maturity) of our 10% Senior Secured Discount Convertible Notes due 2009, $19 7 million of our Series B preferred stock and $101 0 million carrying value of our Series C preferred stock In total, these de-leveraging transactions have eliminated approximately $429 million in future interest, dividends, accretion and principal payments as well as 32 million shares of incremental dilution.

As a result of our financings and other issuances of securities, the conversion price of the Series C preferred stock issued in August 2000 has been adjusted from $9 39 at December 31, 2002 to $8 90 at December 31, 2003, the exercise price of the warrants sold in March 2000 has been adjusted to $45.24 and the number of warrant shares has been adjusted to 8.780294 The exercise price of the warrants sold in January 2003 remained at $3.18 and the number of warrant shares remained at 85.00000 There was no impact on the consolidated results of operations as a result of the adjustments to these prices

We expect that our future working capital, capital expenditures, and debt service requirements will be satisfied from existing cash, cash equivalents, and short-term investments and by cash received from revenue-generating activities Our business plan contemplates the use of cash on hand to fund the construction and launch of XM-3 and the construction of XM-4. We may need to raise additional funding for the launch of XM-4 depending on the amount and timing of the receipt of the insurance proceeds with respect to XM "Rock" and XM "Roll," and other factors.

Future Operating and Capital Resource Requirements

Our funding requirements are based on our current business plan, which in turn is based on our operating experience to date and our available resources. We are pursuing a business plan designed to increase subscribers and revenues while reducing or maintaining subscriber acquisition costs and avoiding large expenditures to the extent practicable. Our plan contemplates our focusing on the new automobile market where we have relationships with automobile manufacturers, the continuing introduction of lower-priced and more user-friendly radio technology in the retail aftermarket and the use of our most productive distribution channels. We have also maintained a lower level of spending on advertising and kept our workforce streamlined.

Provided that we meet the revenue, expense and cash flow projections of our business plan, we expect to be fully funded and will not need to raise additional financing to continue operations Our business plan is based on estimates regarding expected future costs and expected revenue. Our costs may exceed or our revenues may fall short of our estimates, our estimates may change, and future developments may affect our estimates Any of these factors may increase our need for funds, which would require us to seek additional financing to continue implementing our current business plan.

Our business plan contemplates the use of cash on hand to fund the completion and launch of XM-3 and the construction of XM-4. We may need to raise additional funding for the launch of XM-4 depending on the amount and timing of the receipt of the insurance proceeds with respect to XM Rock and XM Roll, and other factors.

In the first quarter of 2003, we filed the proofs of loss for constructive total loss claims on both our satellites with our insurance carriers for the aggregate sum insured (less applicable salvage), relating to a progressive degradation problem with the solar array output power of Boeing 702 class satellites, including XM Rock and XM Roll, identified to our insurers in September 2001 We have launch and in-orbit insurance policies that provide coverage to us for a total, constructive total or partial loss of each of our satellites where such loss arises from an occurrence within the first five years after launch (both satellites were launched during the first half of 2001). The aggregate sum insured in the event of the total or constructive total loss of both satellites is $400 million ($200 million per satellite) During the third quarter of 2003, we received letters from our insurers rejecting our proofs of loss and denying our claims We anticipate continuing correspondence and meetings with individual and groups of insurers to resolve this matter and will proceed with negotiations, arbitration or litigation as necessary to recover the losses We continue to believe that we will ultimately receive insurance payments adequate to launch our spare satellite and fund a portion of XM-4, although there can be no assurance as to the amount of any insurance proceeds, or that any insurance proceeds will be received in a timely manner.

In light of the progressive degradation noted above, we plan to launch our ground spare satellite (XM-3) into one orbital slot by year-end 2004, and operate XM Rock and XM Roll collocated in the other orbital slot In 2007, we plan to launch XM-4 to replace the collocated XM Rock and XM Roll. In this way, we will have replacement satellites

Source. XM SATELLITE RADIO H, 10-K, March 15, 2004

in orbit and operating prior to the times XM Rock and XM Roll can no longer provide full service, or half service in collocated mode. Our commitments regarding XM-3 and XM-4 are described under "Capital Expenditures" below.

Since the solar array power degradation issue is common to the first six Boeing 702 class satellites now in orbit, the manufacturer and we are closely watching the progression of the problem, including data from a satellite that has been in orbit longer than either of our two satellites by approximately 15 and 17 months, respectively. With this advance visibility of performance levels, a firm launch commitment for our spare satellite in the fourth quarter of 2004, the ability to provide full service for an extended period of time with XM Rock and XM Roll collocated in one orbital slot and the spare located in the other slot (which would allow partial use of the existing satellites through the first quarter of 2008), firm commitments to build a fourth satellite and provide launch services therefore, and various mitigation actions to extend the full or partial use of the existing satellites, we believe that we will be able to launch additional satellites prior to the time the solar array power problem might cause the broadcast signal strength to fall below minimum acceptable levels

Based on the consistency of the degradation trends (with no substantial improvement to date) and continuing analyses by BSS and us, our management adjusted the estimated useful lives of our in-orbit satellites, with effect from September 2002, to the period running through first quarter 2008 (approximately 6 75 years from launch). Our management will continue to monitor this situation carefully and may re-adjust the estimated useful lives of our in-orbit satellites based on future information. We have not recorded any impairment 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 We have not adjusted the estimated useful lives of our spacecraft control facilities, as we believe that these facilities will continue to be of use in our system as XM-3 and if necessary XM-4 are launched.

We plan to seek additional financing for the launch of XM-4 to the extent needed. In addition, we may seek additional financing to undertake initiatives not contemplated by our current business plan or obtain additional cushion against possible shortfalls. We may pursue a range of different sizes or types of financing as opportunities arise, particularly the sale of additional equity securities We have and may continue to take advantage of opportunities to reduce our level of indebtedness and preferred stock in exchange for issuing common or other equity securities, if these transactions can be completed on favorable terms.

In the event of unfavorable future developments, such as adverse developments in the debt and equity market of the type experienced during much of 2001 and 2002, we may not be able to raise additional funds on favorable terms or at all. Our ability to obtain additional financing depends on several factors, including future market conditions; our success or lack of success in developing, implementing and marketing our satellite radio service, our future creditworthiness; and restrictions contained in agreements with our investors or lenders. Additional financings could increase our level of indebtedness or result in further dilution to our equity holders If we fail to obtain necessary financing on a timely basis, a number of adverse effects could occur, or we may have to revise our business plan

Contractual Obligations and Commercial Commitments

We are obligated to make significant payments under a variety of contracts and other commercial arrangements, including the following.

Service Providers We have entered into an agreement with a service provider for customer care functions to subscribers of our service. Employees of this service provider 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, 2003, 2002, and 2001, we incurred $14 2 million, $8.7 million, and $2.0 million, respectively, in relation to services provided for customer care functions. We changed service providers during 2003 and received reduced hourly rates

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, 2003, 2002, and 2001, we incurred expenses of $19 6 million, $20 3 million and $7 2 million, respectively, in relation to

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

these agreements. The amount of these costs will vary in future years, but is expected to increase next year as the number of subscribers and advertising revenue increase The amount of the costs related to these agreements cannot be estimated, but are expected to be substantial future costs. Of these amounts, $391,000, $339,000 and $52,000, respectively, are included in Revenue Share & Royalties, and $10.1 million, $9 0 million, and $4.2 million, respectively, are included in Advertising & Marketing.

Royalty Agreements We have entered into fixed and variable revenue share payment agreements with performance rights organizations that expire as late as 2006. During the years ended December 31, 2003, 2002 and 2001, we incurred expenses of $9.5 million, $9 5 million and $45,000, respectively, in relation to these agreements

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 As previously described, 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, 2003, 2002, and 2001, we incurred expenses of $56 3 million, $55.7 million and $19 1 million, respectively, in relation to these agreements, excluding expenses related to GM

General Motors Distribution Agreement. We have significant payment obligations under our distribution agreement with General Motors. During the term of the agreement, which expires 12 years from the commencement date of our commercial operations, GM has agreed to distribute the service to the exclusion of other S-band satellite digital radio services We will also have a non-exclusive right to arrange for the installation of XM radios in vehicles equipped with OnStar systems in non-GM vehicles that are sold for use in the United States. 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 are due to GM and confirming the date of our commencement of commercial operations, and to provide that we may make certain payments to GM in the form of indebtedness or shares of our Class A common stock, as described above under the caption "Liquidity and Capital Resources—Capital Resources and Financing " XM's total cash payment obligations were not increased. We have significant annual, fixed payment obligations to GM. As a result of the June 2002 amendment, we commenced recognizing these fixed payment obligations for the period ending through November 2005, which approximate $63.6 million, on a straight-line basis However, due to the January 2003 amendment to the Distribution Agreement and GM's current roll out plans which demonstrate a likelihood that GM will exceed minimum installation targets, in 2003 we are now prospectively recognizing these fixed payments, which approximate $397.3 million, on a straight-line basis over the remaining term of the contract We have issued a 10% Senior Secured Convertible Note due 2009 with an aggregate principal amount of $89.0 million to OnStar in lieu of making these fixed payments to OnStar for amounts otherwise due in 2003 through 2006 In February 2004, we completed the redemption of the note As part of the redemption, GM converted $7 8 million in principal amount of the note, representing the entire principal amount of the note that had vested conversion rights at the time of the redemption, into 980,670 shares of our Class A common stock in accordance with the terms of the note. The remaining $81 2 million in principal amount plus accrued interest was repaid with cash. Additional payments totaling $320.3 million are due as follows: $80 7 million in 2007, $106 7 million in 2008 and $132.9 million in 2009.

In order to encourage the broad installation of XM radios in GM vehicles, we have agreed to subsidize a portion of the cost of XM radios, and to make incentive payments to GM when the owners of GM vehicles with installed XM radios become subscribers for our service. We must also share with GM a percentage of the subscription revenue attributable to GM vehicles with installed XM radios, which percentage increases until there are more than 8 million GM vehicles with installed XM radios (at which point the percentage remains constant). We will also make available to GM bandwidth on our system. As part of the agreement, OnStar provides certain call-center related services directly to XM subscribers who are also OnStar customers and XM must reimburse OnStar for these XM-related call center services The agreement is subject to renegotiation at any time based upon the installation of radios that are compatible with a unified standard or capable of receiving Sirius Satellite Radio's service. The agreement is subject to renegotiation if as of November 2005, and at two-year intervals thereafter, GM does not achieve and maintain specified installation levels of GM vehicles capable of receiving our service, starting with 1,240,000 units by November 2005, and thereafter increasing by the lesser of 600,000 units per year and

Source· XM SATELLITE RADIO H, 10-K, March 15, 2004

amounts proportionate to target market shares in the satellite digital radio service market There can be no assurances as to the outcome of any such renegotiations General Motors' exclusivity obligations will discontinue if, by November 2005 and at two-year intervals thereafter, we fail to achieve and maintain specified minimum market share levels in the satellite digital radio service market (we are currently in excess of the minimum market share levels) Prior to 2001, we had not incurred any costs under the distribution agreement As of December 31, 2003, 2002 and 2001, we had paid $29.4 million, $9.9 million and $0.6 million, respectively, and incurred total costs of $108 3 million, $30.1 million and $1 3 million, respectively, under the distribution agreement

Satellite Contracts We have entered into contractual agreements for our satellites that are more fully described under the heading "Capital Expenditures."

Non-Cash Stock-Based Expense

We incurred non-cash compensation charges of approximately $3.0 million, $1 5 million and $4.9 million during 2003, 2002 and 2001, respectively. These charges relate to stock options granted to employees, consultants, talent and vendors and warrants granted to vendors. Additional compensation charges may result depending upon the market value of our Class A common stock at each balance sheet date.

Related Party Transactions

We developed strategic relationships with certain companies that were instrumental in the construction and development of our system. In connection with our granting to them of large supply contracts, some of these strategic companies have become large investors in us and have been granted rights to designate directors or observers to our board of directors The negotiation of these supply contracts and investments primarily occurred at or prior to the time these companies became related parties.

We are a party to a long-term distribution agreement with OnStar Corporation, a subsidiary of General Motors that provides for the installation of XM radios in General Motors vehicles, as further described above under the heading "Liquidity and Capital Resources—Contractual Obligations and Commercial Commitments " In connection with the development of our terrestrial repeater network, we are a party to a contract with Hughes Electronics Corporation and were under a contract with LCC International ("LCCI"), as further described under the heading "Liquidity and Capital Resources—Capital Expenditures." DIRECTV has provided consulting services in connection with the development of our customer care center and billing operations. We have agreements with OnStar and American Honda to make available use of our bandwidth. Clear Channel Communications provides certain programming services to us We have a sponsorship agreement with Clear Channel Entertainment to advertise our service at Clear Channel Entertainment concerts and venues Premiere Radio Networks, a subsidiary of Clear Channel Communications, has in the past served as one of our advertising sales representatives. We also run advertisements on a spot and network basis on radio stations owned by Clear Channel. In addition, we lease 4 sites for our terrestrial repeaters from Clear Channel Communications.

As of December 31, 2003, we are engaged in activities with GM and Honda to jointly promote new car buyers to subscribe to the XM service At December 31, 2003, there were approximately 320,473 subscribers in promotional periods (ranging from three-months to one year to three years in duration) paid for by the vehicle manufacturers These subscriptions are included in our year-end subscriber total. Subscriber revenues received from GM and Honda for these programs are recorded as related party revenue

General Motors is one of our largest shareholders and Chester A. Huber, Jr , the president of OnStar, is a member of our board of directors. Hughes Electronics was one of our largest shareholders until January 2004 and was a subsidiary of General Motors until December 2003 Jack Shaw, a member of our board of directors, was Chief Executive Officer of Hughes Electronics Corporation until December 2003. DIRECTV, a subsidiary of Hughes Electronics, was a holder of our Series C preferred stock until January 2003 Randall Mays, a member of our board of directors, is Executive Vice President and Chief Financial Officer of Clear Channel Communications. Thomas G Elliott, a member of our board of directors, is Executive Vice President, Automobile Operations of American Honda Motor Company

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

We earned the following revenue from transactions with related parties described above (in thousands).

	Years ended December 31,		
	2003	2002	2001
GM	$11,630	$256	$—
Honda	368	—	—
	$11,998	$256	$—

We have incurred the following costs in transactions with the related parties described above (in thousands):

	Year ended December 31, 2003					
	GM	Hughes	DIRECTV	Clear Channel	LCCI	Motient
Terrestrial repeater network	$—	$278	$—	$—	$—	$—
Terrestrial repeater site leases	—	—	—	60	—	—
Customer care & billing operations	960	—	—	—	—	—
Marketing	107,346	—	—	8,646	—	—
General & administrative	—	—	—	—	—	—

	Year ended December 31, 2002					
	GM	Hughes	DIRECTV	Clear Channel	LCCI	Motient
Terrestrial repeater network	$—	$10,386	$—	$—	$ 3,089	$—
Terrestrial repeater site leases	—	—	—	57	—	—
Customer care & and billing operations	178	—	—	—	—	—
Marketing	29,915	—	125	10,182	—	—
General & administrative	—	—	3	—	—	—

	Year ended December 31, 2001					
	GM	Hughes	DIRECTV	Clear Channel	LCCI	Motient
Terrestrial repeater network	$—	$88,116	$—	$—	$59,958	$—
Terrestrial repeater site leases	—	—	—	36	—	—
Customer care & billing operations	—	—	623	—	—	—
Marketing	1,264	—	—	4,351	—	—
General & administrative	—	—	—	—	—	193

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

Capital Expenditures

As of December 31, 2003, we had paid approximately $474.8 million, including financing charges and interest under the satellite contract related to XM Rock, or XM-2, XM Roll, or XM-1, XM-3 and XM-4. We originally entered into our satellite contract in March 1998 with Boeing Satellite Systems International, Inc , or BSS, and have subsequently amended the contract, including in July 2003 and December 2003

Satellite Contract—XM Rock and XM Roll Under our satellite contract, BSS has delivered two satellites in-orbit, XM Rock and XM Roll, supplied ground equipment and software used in the XM Radio system and provided certain launch and operations support services

Satellite Contract—Replacement Satellites Deployment Plan. In light of the progressive degradation affecting Rock and Roll noted above, we plan to launch our ground spare satellite, XM-3, into one orbital slot by year-end 2004, and then temporarily operate XM Rock and XM Roll collocated in the other orbital slot. In 2007, we plan to launch XM-4 to replace the collocated XM Rock and XM Roll. In this way, we will have replacement satellites in orbit and operating prior to the times XM Rock and XM Roll can no longer provide full service, or half service in the collocated mode.

Satellite Contract and Other Costs—XM-3. Construction of our ground spare satellite, XM-3, is currently being completed, including certain modifications to correct the solar array degradation issues experienced by Rock and Roll, as well as other changes agreed with BSS discussed below. As of December 31, 2003, with respect to XM-3, we have deferred $15 million at an interest rate of 8% through December 5, 2006 and borrowed $35 million from Boeing Capital in a separate transaction to be repaid prior to launch of XM-3.

In addition to the modifications to address the solar array degradation issues as noted above, BSS is making certain alterations to optimize XM-3 for the specific orbital slot into which it will be launched during a three-month launch period commencing October 15, 2004 The aggregate remaining cost, excluding the above $15 million deferral and $35 million loan, of the launch, optimization for the specific orbital slot, appropriate software and certain pre and post-launch services is approximately $100 million to be paid during the first quarter 2004. Further, BSS has the right to earn 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

Satellite Insurance—XM-3 In addition to the XM-3 related costs noted above, we plan to acquire and pay for launch and in-orbit insurance in connection with the launch of XM-3 The cost of launch and in-orbit insurance for this launch is subject to market prices and conditions at the time during 2004 when such insurance is obtained

Satellite Contract and Other Costs—XM-4 We have committed in our satellite contract, as amended in July 2003, and by a separate August 2003 contract with Sea Launch Company, LLC, or Sea Launch, to acquire from BSS a fourth satellite, XM-4, which should be available for shipment to the launch services provider no later than October 31, 2005, and from Sea Launch the associated launch services for the satellite. The fixed prices for XM-4 and the associated launch services total $186.5 million, excluding in-orbit performance incentives and financing charges on certain amounts deferred prior to launch Following our payment of $3 million in total for XM-4 and the associated launch services during the third quarter 2003, satellite construction payments aggregating approximately $104 million are deferred until as late as the first quarter 2006 Interest accrues monthly at a rate of 10.75% per annum through December 2004 and is payable thereafter on a current basis, pursuant to the December 2003 amendment, which extends the deferral from the first quarter 2005 and reduces the applicable interest rate from 12 75% to 10 75%. Of this deferred amount, $22 3 million is in the Other Non-Current Liabilities line on our balance sheet as of December 31, 2003 Most of the remaining portion of the fixed costs for XM-4 and the associated launch services are payable during construction with the last payment due one month following launch.

After launch of XM-4, 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 performance above specification 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. If XM-3 is launched successfully and operates satisfactorily, we may elect, under

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

the above contracts, to defer launch of XM-4 and, as a result, approximately $50 million in payments related to launch services could be postponed until the 2007 timeframe.

Options to Procure Fifth Satellite and Associated Launch Services We have also obtained fixed price options to acquire a fifth satellite from BSS, under the July 2003 amendment, on pricing and performance incentive terms similar to those applicable to XM-4 and associated launch services from Sea Launch under the August 2003 contract

Satellite Contract—Warrant to BSS. Pursuant to our satellite contract, we issued a warrant to BSS in July 2003 to purchase 500,000 shares of our Class A common stock at $13 524 per share. The fair value of these warrants was determined to be $5.8 million using a Black-Scholes based methodology and is included in the System Under Construction balance as of December 31, 2003

Terrestrial Repeater System. As of December 31, 2003, we incurred aggregate costs of approximately $267.7 million for a terrestrial repeater system These costs covered the capital cost of the design, development and installation of a system of terrestrial repeaters to cover approximately 60 cities and metropolitan areas. In August 1999, we signed a contract with LCCI for engineering and site preparation. As of December 31, 2003, we had paid $128 4 million under this contract There are no further payments due under the LCCI contract. We also entered into a contract effective October 22, 1999, with Hughes Electronics Corporation for the design, development and manufacture of the terrestrial repeaters; there are no further payments due under this contract except those related to ongoing out-of-warranty repairs As of December 31, 2003, we had paid $114 1 million under this contract and recorded an additional liability of $59,000

Ground Segment As of December 31, 2003, we incurred aggregate ground segment costs of approximately $138.6 million These costs were related to the satellite control facilities, programming production studios and various other equipment and facilities

Joint Development Agreement Funding Requirements. The costs related to our agreement with Sirius Radio for joint development of a unified standard for satellite radios are being expensed as incurred in research & development. During 2003, we incurred $0.6 million compared to no expense during 2002. We expect this expense to increase steadily this year; each party is obligated to fund one half of the development cost for a unified standard for satellite radios.

Long-term debt

We have raised funds from the following issuances of long-term debt.

- In March 2001, we issued $125.0 million aggregate principal amount of 7 75% Convertible Subordinated Notes due 2006 In July and August 2001, holders of these 7 75% Convertible Subordinated Notes exchanged $45.9 million of notes for 4,194,272 shares of our Class A common stock. In 2003, an additional $33.4 million of these notes were exchanged for 2,711,649 shares of Class A common stock. As a result of these transactions, approximately $45 7 million of the notes remained at December 31, 2003. Principal on the convertible subordinated notes is payable at maturity, while interest is payable semi-annually In March 2004, the holders of the $45 7 million 7.75% Convertible Subordinated Notes due 2006 called for redemption following our January offering elected to convert into 3.7 million shares of our Class A common stock in accordance with the terms of the notes. This represented the retirement of all our remaining outstanding 7 75% Subordinated Convertible Notes

- In August 2001, we borrowed $29 0 million to finance the purchase of our headquarters facility. This loan is for a term of five years and bears interest at a rate based on the six-month London Interbank Offer Rate plus an indicated spread We make monthly payments of principal and interest on this loan.

- In December 2001, we borrowed $35 0 million from a subsidiary of The Boeing Company. This loan is for a term of five years and bears interest at a rate based on the six-month London Interbank Offer Rate plus an indicated spread. Principal is payable at maturity, while interest is payable quarterly. This loan must be repaid when we launch XM-3, presently expected to occur in late 2004

- On January 28, 2003, we completed a three-part financing

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

- We issued $279.3 million aggregate principal amount at maturity of 10% Senior Secured Discount Convertible Notes in a private placement. Principal on the 10% Senior Secured Discount Convertible Notes is payable at maturity, while interest accretes until January 1, 2006 and is thereafter payable semi-annually in cash or, at our option, in additional notes. If all of the interest is paid in additional notes, these notes would aggregate $412 6 million when they come due in 2009.

- We issued to OnStar, a subsidiary of General Motors, $89 0 million in aggregate principal amount of a 10% Senior Secured Convertible Note due December 31, 2009 in lieu of our obligation to make $115 million in guaranteed payments from 2003 to 2006 under the General Motors distribution agreement Principal on the OnStar note is payable at maturity, while interest, which is due semi-annually, is payable at our option in shares of our Class A common stock In February 2004, we completed the redemption of the note. As part of the redemption, General Motors converted $7 8 million in principal amount of the note, representing the entire principal amount of the note that had vested conversion rights at the time of the redemption, into 980,670 shares of our Class A Common Stock in accordance with the terms of the note. The remaining $81 2 million in principal amount plus accrued interest was repaid with cash.

- We completed an exchange of $300.2 million aggregate principal amount of the 14% Senior Secured Notes due 2010 for $438.0 million aggregate principal amount at maturity ($300 2 million accreted value as of March 15, 2003) of 14% Senior Secured Discount Notes due 2009, cash and warrants to purchase Class A common stock. Principal on the 14% Senior Secured Discount Notes due 2009 is payable at maturity, while interest accretes until December 31, 2005 and is thereafter payable semi-annually. Through December 31, 2003, we have extinguished $65.5 million carrying value, or $94 2 million face amount at maturity, of these notes.

- In June 2003, Inc. issued $185 0 million aggregate principal amount of 12% Senior Secured Notes due 2010, $10 million of which were issued in July 2003, pursuant to the overallotment option. Principal on the 12% Senior Secured Notes due 2010 is payable at maturity, while interest is payable semi-annually

Based on the various terms of our long-term debt, our ability to redeem any long-term debt is limited. We have and may continue to take advantage of opportunities to reduce our level of indebtedness in exchange for issuing equity securities, if these transactions can be completed on favorable terms

Lease obligations. We have noncancelable operating leases for office space and terrestrial repeater sites and noncancelable capital leases for equipment that expire over the next ten years As discussed below, in December 2001, we determined that the planned number of terrestrial repeater sites could be reduced due to the relative signal strength provided by our satellites. We recognized a charge of $26.3 million with respect to terrestrial repeater sites no longer required. This charge includes a lease termination liability of $8 6 million for 646 terrestrial repeater site leases, which would reduce the future minimum lease payments. This liability was increased by $4.0 million during 2002 and by $4 8 million during 2003 As of December 31, 2003, we maintained a liability of $4.1 million for the estimated lease termination costs and costs to deconstruct the sites.

The following table represents our contractual obligations as of December 31, 2003, adjusted for the conversion of our 7.75% Convertible Subordinated Notes into Class A common stock in March of 2004 and the repayment of our $89 million 10% Senior Secured Convertible Note due 2009 held by OnStar Corporation, a subsidiary of General Motors, in February of 2004·

Source. XM SATELLITE RADIO H, 10-K, March 15, 2004

Contractual Obligations	Payments Due by Period						
	2004	2005	2006	2007	2008	2009 and Beyond	Total
	(In thousands)						
GM Distribution Agreement(1)	$ —	$ —	$ —	$ 80,753	$106,688	$ 132,889	$ 320,330
GM Revolver(1)	—	—		—	—	100,000	100,000
GM Note(1)	89,042	—	—	—	—	—	89,042
Boeing Note	35,000	—	—	—	—	—	35,000
Other long-term debt(1)	1,309	2,352	27,136	—	—	786,913	817,710
Capital Lease Obligations	2,377	1,226	252	—	—	—	3,855
Other Operating Agreements(2)	21,576	30,262	35,241	10,765	5,300	436	103,580
Operating Lease Obligations	18,192	15,375	5,680	3,379	1,416	2,911	46,953
XM-3(3)	100,000	—	—	—	—	—	100,000
XM-4(3)	3,000	26,700	105,300	48,500	—	—	183,500
Total	$270,496	$75,915	$173,609	$143,397	$113,404	$1,023,149	$1,799,970

(1) The above amounts do not include interest, which in some cases is variable in amount.
(2) Other operating agreements include programming, marketing and royalty agreements. The above amounts include agreements amended or entered into in January 2004.
(3) Exclude financing charges, in-orbit incentives, and launch insurance, and assumes launch of XM-4 in 2007.

The long-term debt payments due in 2006 include the maturity of our $27 1 million loan to finance the purchase of our headquarters facility. The long-term debt payments due in 2009 and beyond include the maturity of XM's remaining outstanding $22 8 million of 14% Senior Secured Notes, which come due in 2010, the maturity of XM's $343 5 million aggregate principal amount at maturity of 14% Senior Secured Discount Notes, which come due in 2009, the maturity of our $235 6 million aggregate principal amount at maturity of 10% Senior Secured Discount Convertible Notes, which come due in 2009, and the maturity of our $185.0 million aggregate principal amount at maturity of 12% Senior Secured Notes due 2010 In January 2004, the credit facility arrangement with GM was renegotiated to become a revolver providing for borrowings up to a maximum of $100 million through the maturity of the instrument in December 2009 In March 2004, the holders of the $45 7 million 7 75% Convertible Subordinated Notes due 2006 called for redemption following our January offering elected to convert into 3 7 million shares of our Class A common stock in accordance with the terms of the notes. This represented the retirement of all our remaining outstanding 7 75% Subordinated Convertible Notes Also, in February 2004, we repaid the $89 million 10% Senior Secured Convertible Note through the issuance of cash and shares of Class A common stock. XM's 12% Senior Secured Notes due 2010 provide for a partial redemption up to a maximum of $85 million within 90 days of an equity issuance XM completed an equity issuance on January 22, 2004, and thus has 90 days to redeem a portion of these notes.

Critical Accounting and Subscriber Policies

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. The significant accounting policies that we believe are most critical to understanding and evaluating our reported financial results include those pertaining to the following policies. Senior management has discussed with the audit committee of the board of directors the development and selection of estimates and assumptions required for the following accounting policies·

Source· XM SATELLITE RADIO H, 10-K, March 15, 2004

- *Revenue Recognition*—Revenue from subscribers consists of our monthly subscription fee, which is recognized as the service is provided, and a non-refundable activation fee, which is recognized on a pro-rata basis over an estimated term of the subscriber relationship (currently 40 months), which was based upon market studies and management's judgment. We expect to refine this estimate as more data becomes available. Promotions and discounts are treated as an offset to revenue during the period of promotion Sales incentives, consisting of discounts and rebates to subscribers, offset earned revenue Discounts to equipment which is sold with service are allocated to equipment and service based on relative fair value. If the actual term of our subscriber relationships is significantly greater than our current estimate of 40 months, the period over which we recognize the non-refundable activation fee will be extended to reflect the actual term of our subscriber relationships.

- *Estimates of payments due to manufacturers and distributors*—Payments owed to manufacturing and distribution partners are expensed during the month in which the manufacture, sale, and/or activation of the radio unit occurs The amounts of these expenses are dependent upon units provided by our internal systems and processes, (such as subscriber management system and supply chain management system) and partner systems and processes However, due to lags in receiving manufacturing and sales data from partners, estimates of amounts due are necessary in order to record monthly expenses. In subsequent months when lagged data is received from partners, expenses are reconciled, and adjusted where necessary Since launching commercial operations, we continue to refine the estimation process based on an increased understanding of the timing lags, and close working relationships with our partners Generally, estimates recorded on our books are adjusted to actuals within two months

- *Useful Life of Satellites and Spacecraft Control Facilities*—Following receipt of our satellites, we extended their expected lives from 15 years, the initial design life, to 17.5 years based upon updated technical estimates we received from our satellite provider following our satellite launches. However, based on the consistency of the degradation trends (with no substantial improvement to date) and continuing analyses by Boeing Satellite Systems and us, as described above under the heading "Liquidity and Capital Resources—Future Operating and Capital Resource Requirements," we adjusted the estimated useful life of our in-orbit satellites with effect from September 2002, to the period running through first quarter of 2008 (approximately 6.75 years from launch). We continue to monitor the situation and may need to re-adjust the estimated useful lives of our in-orbit satellites based on future information 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 An impairment, if recorded, would be calculated as the amount by which the carrying value of the assets exceeds the undiscounted future cash flows. At December 31, 2003, the combined carrying value of XM-1 and XM-2 is $369 million The receipt of insurance proceeds would reduce the carrying values of XM-1 and XM-2 and would mitigate the risk of a future impairment Based on the forecasted cash flows in our current business plan and without receipt of insurance proceeds, a reduction of 5 months in the estimated useful lives of XM-1 and XM-2 could result in an impairment charge in the period in which the estimated useful lives are reduced 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

- *Accrued Network Optimization Expenses*—As a result of the planned reduction of the number of terrestrial repeater sites, we recognized charges of $4 8 million, $4 0 million and $26 3 million in 2003, 2002, and 2001, respectively. The charge of $26 3 million in 2001 included $17 7 million of site-specific capitalized costs that were written off and a lease termination accrual of $8.6 million for 646 terrestrial repeater site leases The charges of $4 8 million and $4 0 million in 2003 and 2002, respectively, represent additional costs associated with terminating leases on terrestrial repeater sites no longer required. At December 31, 2003, we had recorded a lease termination accrual of $4 1 million that represents an estimate of the costs to terminate the remaining 78 leases based on management's judgment, advice of lease consultants, and early negotiations with landlords The liability also includes the estimated costs to deconstruct the existing sites, which are based upon quotes from contractors This amount could vary significantly from the actual amount incurred, which will be primarily based on our ability to negotiate lease termination settlements.

- *Programming Agreements*—We have entered into various programming agreements. Under the terms of these agreements, we are obligated to provide payments and commissions to other entities that may include fixed

Source· XM SATELLITE RADIO H, 10-K, March 15, 2004

payments, advertising commitments and revenue sharing arrangements Fixed amounts due under programming agreements are recognized on a straight-line basis though the termination and/or renegotiation date defined in the agreements. Revenue share agreements that contain minimum guarantees are recorded as an expense based upon the greater of the revenue share amount or a pro-rata portion of the guarantee over the guarantee period

- *Distribution Agreement with General Motors*—We have significant payment obligations under our distribution agreement with General Motors, which was amended on January 28, 2003 to provide that we could make certain payments by issuance of indebtedness or shares of Class A common stock. This agreement is subject to renegotiation if General Motors does not achieve and maintain specified installation levels, starting with 1,240,000 by November 2005 and thereafter increasing by the lesser of 600,000 units per year and amounts proportionate to our share of the satellite digital radio market. In light of GM's initial roll-out plans, the June 2002 amendment of the distribution agreement and management's assessment of the likelihood of renegotiating during the period ending 2005, we recognized the fixed payment obligations due to GM for the period through November 2005, which approximate $63 6 million, on a straight-line basis. In light of the January 2003 amendment of the distribution agreement and GM's current roll out plans which demonstrate a likelihood of GM exceeding minimum installation targets, in 2003 we are prospectively recognizing fixed payment obligations to GM, which approximate $397 3 million, on a straight-line basis through the remaining term of the agreement in September 2013 Additional fixed payment obligations beyond 2006 range from $80 7 million to approximately $132.9 million through 2009, aggregating approximately $320 3 million.

- *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

- *Subscriber Count.* 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, 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. Approximately 24% of our subscribers at year end were in promotional periods with sponsored accounts. A change in our methodology of counting subscribers that excluded subscribers in promotional periods with sponsored accounts would delay the timing of the recognition of the subscriber until the end of the promotional period, which is generally 3 months Subscribers with delinquent account balances are included in the subscriber count until such time as the radio is deactivated for non-payment in accordance with our normal procedures

Recent Accounting Pronouncements

We adopted Statement of Financial Accounting Standards ("SFAS") No 143, *Accounting for Asset Retirement Obligations*, effective January 1, 2003, and SFAS No. 143 does not have a material impact on the financial statements Our asset retirement obligations are limited to deconstruction of its terrestrial repeater sites. SFAS No. 143 requires entities to record the fair value of a legal liability for an asset retirement obligation in the period in which it is incurred When a new liability is recorded, we will capitalize the costs of the liability by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity settles the obligation for its recorded amount or incurs a gain or loss upon settlement

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No 145, *Rescission of FASB Statements No 4, 44 and 64, Amendment of FASB Statement No 13, and Technical Corrections.* SFAS No. 145 amends existing guidance on reporting gains and losses on the extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies. SFAS No. 145 also amends SFAS No 13 to require sale-leaseback

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. We recorded losses of $24 7 million during the year ended December 31, 2003, respectively from the early retirement of debt with a carrying value including accrued interest of $125.2 million The loss is reported in other income (expense) in the consolidated statement of operations for the year ended December 31, 2003.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.* SFAS No 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when incurred at fair value SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 may have an effect on the timing of future restructuring charges taken, if and when they occur

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No 123 This Statement amends FASB Statement No 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements The disclosures required by SFAS No. 148 are included in note 1 (k) to the consolidated financial statements.

In January 2003, the FASB issued Interpretation No 46 ("FIN 46"), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation The Interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. On December 24, 2003, the FASB issued final modified FASB Interpretation No. 46 ("FIN 46R"), primarily to clarify the required accounting for interests in VIEs Application of FIN 46R is required in financial statements of public entities that have interests in entities that are commonly referred to as special-purpose entities, or SPEs, for periods ending after December 15, 2003. Application by public entities for all other types of VIEs (i e., non-SPEs) is required in financial statements for periods ending after March 15, 2004. The adoption of FIN 46R is not expected to have a material impact on the financial position or the financials results of the Company.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* SFAS No 150 addresses the classification and measurement of mandatorially redeemable freestanding financial instruments, including those that comprise more than one option or forward contract, and requires an issuer to classify certain instruments as liabilities. SFAS No 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period after June 15, 2003. The adoption of SFAS No 150 has not had a material effect on the classification and measurement of our financing transactions but may have an effect on the classification and measurement of future mandatorially redeemable financing transactions, if and when they occur.

The Emerging Issues Task Force issued EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables* addressing the allocation of revenue among products and services in bundled sales arrangements EITF 00-21 is effective for arrangements entered into in fiscal periods after June 15, 2003 Based on the sales and marketing programs in place during 2003, the application of the new pronouncement has not had a material impact on our financial statements. However, our sales and marketing programs may change over time and we will continue to evaluate the applicability of EITF 00-21 as it relates to sales of service and hardware This new pronouncement has no impact on the economics of our sales and marketing programs, but it does impact the timing and classification of revenue reported within the financial statements and has a corresponding impact on the Average Revenue per Subscriber ("ARPU"). As a result of this new pronouncement, the Company recognized a lower subscriber ARPU for the period

In July 2003, the Emerging Issues Task Force provided additional guidance on Topic D-42, *The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock* The additional guidance states that the carrying amount of preferred stock should be reduced by the issuance costs of the preferred stock in the calculation of earnings per share This guidance is effective in fiscal periods ending after September 15, 2003 and is retroactively reflected in the financial statements of prior quarters. This guidance resulted in a reduction of the gains recorded on the retirement of our Series B preferred stock during 2003 of $727,000 to reflect the amount

Source. XM SATELLITE RADIO H, 10-K, March 15, 2004

of the issuance costs of the preferred stock retired. The net loss available to common stockholders for 2003 reflects these adjustments. This guidance did not impact our net loss or financial position

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2003, we do not have any derivative financial instruments and do not intend to use derivatives We do not hold or issue any free-standing derivatives We invest our cash in short-term commercial paper, investment-grade corporate and government obligations and money market funds. Our long-term debt includes fixed interest rates and the fair market value of the debt is sensitive to changes in interest rates We run the risk that market rates will decline and the required payments will exceed those based on current market rates Under our current policies, we do not use interest rate derivative instruments to manage our exposure to interest rate fluctuations. The mortgage on our corporate headquarters has a variable interest rate that may not exceed a ceiling rate of 14% or a floor rate of 8%. Our loan of $35 0 million from Boeing also has a variable interest rate Included in our related party long-term debt owed to GM is a balance of $52 8 million, of which $2 8 million may be converted to shares of Class A common stock under our distribution agreement with OnStar and $50 0 million will be drawn under our Senior Secured Credit Facility with GM. This facility also has a variable interest rate. A change of one percentage point in the interest rate applicable to this $113 2 million of variable rate debt at December 31, 2003 would result in a fluctuation of approximately $1 1 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. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of XM Satellite Radio Holdings Inc., including consolidated balance sheets as of December 31, 2003 and 2002, and consolidated statements of operations, consolidated statements of stockholders' equity and consolidated statements of cash flows for the three-year period ended December 31, 2003 and notes to the consolidated financial statements, together with a report thereon of KPMG LLP, dated February 5, 2004, except for Note 9(i), which is as of March 3, 2004 are attached hereto as pages F-1 through F-49

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Within the 75-day period prior to the filing of this report, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective No significant changes were made in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information is incorporated herein by reference to our definitive 2004 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information is incorporated herein by reference to our definitive 2004 Proxy Statement

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information is incorporated herein by reference to our definitive 2004 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information is incorporated herein by reference to our definitive 2004 Proxy Statement

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information is incorporated herein by reference to our definitive 2004 Proxy Statement

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

ITEM 15. EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) The following Consolidated Financial Statements and report of independent public accountants for XM Satellite Radio Holdings Inc. are included in Item 8 of this Form 10-K:

Report of Independent Auditors
Consolidated Balance Sheets as of December 31, 2003 and 2002.
Consolidated Statements of Operations for the years ended December 31, 2003, 2002 and 2001.
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2003, 2002 and 2001.
Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001.

(a)(2) The following consolidated financial statement schedule is filed as part of this report and attached hereto as page F-49.
Schedule I—Valuation and Qualifying Accounts.

All other schedules for which provision is made in the applicable accounting regulations of the Commission have been included in the Consolidated Financial Statements of XM Satellite Radio Holdings Inc. or the notes thereto, are not required under the related instructions or are inapplicable, and therefore have been omitted

(a)(3) The following exhibits are either provided with this Form 10-K or are incorporated herein by reference:

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

Exhibit Index

Exhibit No.	Description
3 1^	Restated Certificate of Incorporation of XM Satellite Radio Holdings Inc.
3.2	Amended and Restated Bylaws of XM Satellite Radio Holdings Inc. (incorporated by reference to Holdings' Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, filed with the SEC on November 12, 2003).
3 3	Restated Certificate of Incorporation of XM Satellite Radio Inc. (incorporated by reference to XM's Registration Statement on Form S-4, File No 333-39178).
3.4	Amended and Restated Bylaws of XM Satellite Radio Inc. (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178)
3 5	Certificate of Amendment of Restated Certificate of Incorporation of XM Satellite Radio Holdings Inc. (incorporated by reference to Amendment No. 1 to Holdings' Registration Statement on Form S-3, File No. 333-89132)
3 6	Certificate of Amendment of Restated Certificate of Incorporation of XM Satellite Radio Holdings Inc (incorporated by reference to Holdings' Annual Report on Form 10-K, filed with the SEC on March 31, 2003).
4.1	Form of Certificate for Holdings' Class A common stock (incorporated by reference to Exhibit 3 to Holdings' Registration Statement on Form 8-A, filed with the SEC on September 23, 1999).
4 2	Form of Certificate for Holdings' 8 25% Series B Convertible Redeemable Preferred Stock (incorporated by reference to Holdings' Registration Statement on Form S-1, File No. 333-93529).
4.3	Certificate of Designation Establishing the Voting Powers, Designations, Preferences, Limitations, Restrictions and Relative Rights of Holdings' 8 25% Series B Convertible Redeemable Preferred Stock due 2012 (incorporated by reference to Holdings' Annual Report on Form 10-K for the fiscal year ended December 31, 1999, filed with the SEC on March 16, 2000)
4.4	Intentionally left blank.
4.5	Warrant Agreement, dated March 15, 2000, between XM Satellite Radio Holdings Inc as Issuer and United States Trust Company of New York as Warrant Agent (incorporated by reference to Holdings' Registration Statement on Form S-1, File No. 333-39176).
4 6	Warrant Registration Rights Agreement, dated March 15, 2000, between XM Satellite Radio Holdings Inc and Bear, Stearns & Co , Inc , Donaldson, Lufkin and Jenrette Securities Corporation, Salomon Smith Barney Inc and Lehman Brothers Inc. (incorporated by reference to Holdings' Registration Statement on Form S-1, File No 333-39176)
4.7	Form of Warrant (incorporated by reference to Holdings' Registration Statement on Form S-1, File No. 333-39176).
4 8	Certificate of Designation Establishing the Powers, Preferences, Rights, Qualifications, Limitations and Restrictions of the 8.25% Series C Convertible Redeemable Preferred Stock due 2012 (incorporated by reference to Holdings' Registration Statement on Form S-1, File No 333-39176).
4.9	Form of Certificate for Holdings' 8.25% Series C Convertible Redeemable Preferred Stock (incorporated by reference to the Registrant's Registration Statement on Form S-1, File No 333-39176)

Source· XM SATELLITE RADIO H, 10-K, March 15, 2004

Exhibit No.	Description
4 10	Indenture, dated as of March 15, 2000, between XM Satellite Radio Inc. and United States Trust Company of New York (incorporated by reference to XM's Registration Statement on Form S-4, File No 333-39178).
4 11	Registration Rights Agreement, dated March 15, 2000, between XM Satellite Radio Inc and Bear, Stearns & Co Inc , Donaldson, Lufkin and Jenrette Securities Corporation, Salomon Smith Barney Inc. and Lehman Brothers Inc. (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178).
4 12	Form of 14% Senior Secured Note of XM Satellite Radio Inc. (incorporated by reference to XM's Registration Statement on Form S-4, File No 333-39178).
4 13	Security Agreement, dated March 15, 2000, between XM Satellite Radio Inc and United States Trust Company of New York (incorporated by reference to XM's Registration Statement on Form S-4, File No 333-39178).
4 14	Pledge Agreement, dated March 15, 2000, between XM Satellite Radio Inc and United States Trust Company of New York (incorporated by reference to XM's Registration Statement on Form S-4, File No 333-39178)
4.15	Indenture, dated March 6, 2001, between XM Satellite Radio Holdings Inc. and United States Trust Company of New York (incorporated by reference to Holdings' annual report on Form 10-K for the year ended December 31, 2000, filed with the SEC on March 15, 2001).
4 16	Supplemental Indenture, dated as of November 15, 2001, by and between XM Satellite Radio Inc. and The Bank of New York (successor to United States Trust Company of New York) (incorporated by reference to Holdings' Current Report on Form 8-K, filed with the SEC on December 6, 2001).
4 17	Form of 7.75% convertible subordinated note (incorporated by reference to Holdings' annual report on Form 10-K for the year ended December 31, 2000, filed with the SEC on March 15, 2001)
4 18	Customer Credit Agreement, dated as of December 5, 2001, between Holdings and Boeing Capital Services Corporation (incorporated by reference to Holdings' Current Report on Form 8-K, filed with the SEC on December 6, 2001).
4 19	Security Agreement, dated as of December 5, 2001, between Holdings and Boeing Capital Services Corporation (incorporated by reference to Holdings' Current Report on Form 8-K, filed with the SEC on December 6, 2001).
4.20	Rights Agreement, dated as of August 2, 2002, between Holdings and Equiserve Trust Company as Rights Agent (incorporated by reference to Holdings' Current Report on Form 8-K, filed with the SEC on August 2, 2002)
4.21	Indenture, dated as of January 28, 2003, among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc., XM Equipment Leasing LLC and The Bank of New York, as trustee (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
4 22	Security Agreement, dated as of January 28, 2003, among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc., XM Equipment Leasing LLC, and The Bank of New York (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
4 23	Amended and Restated Security Agreement, dated as of January 28, 2003, between XM Satellite Radio Inc and The Bank of New York (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Exhibit No.	Description
4 24	Intercreditor and Collateral Agency Agreement (General Security Agreement), dated as of January 28, 2003, by and among the Noteholders named therein, The Bank of New York, as trustee, General Motors Corporation, OnStar Corporation and The Bank of New York, as collateral agent (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
4.25	Intercreditor and Collateral Agency Agreement (FCC License Subsidiary Pledge Agreement), dated as of January 28, 2003, by and among the Noteholders named therein, The Bank of New York, as trustee, General Motors Corporation, OnStar Corporation and The Bank of New York, as collateral agent (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
4 26	Warrant Agreement, dated as of January 28, 2003, between XM Satellite Radio Holdings Inc. and The Bank of New York (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
4 27	Amended and Restated Amendment No 1 to Rights Agreement, dated as of January 22, 2003, by and among XM Satellite Radio Holdings Inc. and Equiserve Trust Company, N A. (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
4.28	Form of 10% Senior Secured Convertible Note due 2009 (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
4 29	Form of 10% Senior Secured Discount Convertible Note due 2009 (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
4 30	Global 14% Senior Secured Discount Note due 2009 (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
4.31	Global Common Stock Purchase Warrant (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
4.32	Common Stock Purchase Warrant issued to General Motors Corporation (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
4.33	Common Stock Purchase Warrant issued to R. Steven Hicks (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
4 34	Second Supplemental Indenture, dated as of December 23, 2002, by and among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc , XM Equipment Leasing LLC and The Bank of New York, as trustee (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 15, 2003).
4 35	Third Supplemental Indenture, dated January 27, 2003, among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc., XM Equipment Leasing LLC and The Bank of New York, as trustee (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
4 36	Indenture, dated as of June 17, 2003, among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc and The Bank of New York, as trustee (incorporated by reference to XM's Registration Statement on Form S-4, File No 333-106823).
4.37	Registration Rights Agreement, dated as of June 17, 2003, among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc and Bear, Stearns & Co. Inc. (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-106823)
4.38	Form of 12% Senior Secured Note due 2010 (incorporated by reference to Exhibit A to Exhibit 4 36 hereof)

Source· XM SATELLITE RADIO H, 10-K, March 15, 2004

Exhibit No.	Description
4 39	First Supplemental Indenture, dated as of June 12, 2003, by and among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc , XM Equipment Leasing LLC and The Bank of New York (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-106823).
4 40	First Amendment to Security Agreement, dated as of June 12, 2003, by and among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc., XM Equipment Leasing LLC and The Bank of New York (incorporated by reference to XM's Registration Statement on Form S-4, File No 333-106823).
4 41	Warrant to purchase XM Satellite Radio Holdings Inc Class A Common Stock, dated July 31, 2003, issued to Boeing Satellite Systems International, Inc. (incorporated by reference to Holdings' Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the SEC on August 14, 2003)
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 Holdings' Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the SEC on August 14, 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 Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
10.3^	Note Purchase Agreement, dated June 7, 1999, by and between XM Satellite Radio Holdings Inc , XM Satellite Radio Inc , Clear Channel Communications, Inc , DIRECTV Enterprises, Inc , General Motors Corporation, Telcom-XM Investors, L L.C., Columbia XM Radio Partners, LLC, Madison Dearborn Capital Partners III, L P , Madison Dearborn Special Equity III, L P , and Special Advisors Fund I, LLC (including form of Series A subordinated convertible note of XM Satellite Radio Holdings Inc. attached as Exhibit A thereto)
10 4^*	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.
10.5	Intentionally omitted
10 6	Intentionally omitted.
10 7^*	Amended and Restated Agreement by and between XM Satellite Radio Inc and ST Microelectronics Srl, dated September 27, 1999
10 8*	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 Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
10 9	Intentionally omitted.
10 10^*	Operational Assistance Agreement, dated as of June 7, 1999, between XM Satellite Radio Inc. and Clear Channel Communications, Inc.
10 11	Intentionally omitted
10.12	Intentionally omitted
10 13	Intentionally omitted.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Exhibit No.	Description
10.14	Intentionally omitted
10 15	Intentionally omitted.
10 16	Intentionally omitted
10 17^	Form of Indemnification Agreement between XM Satellite Radio Holdings Inc. and each of its directors and executive officers
10.18	1998 Shares Award Plan (incorporated by reference to Holdings' Registration Statement on Form S-8, File No 333-106827).
10 19^	Form of Employee Non-Qualified Stock Option Agreement.
10 20	Intentionally omitted
10.21^*	Contract for Engineering and Construction of Terrestrial Repeater Network System by and between XM Satellite Radio Inc and LCC International, Inc , dated August 18, 1999.
10 22	Employee Stock Purchase Plan (incorporated by reference to Holdings' Registration Statement on Form S-8, File No. 333-106827).
10 23^	Non-Qualified Stock Option Agreement between Gary Parsons and XM Satellite Radio Holdings Inc., dated July 16, 1999
10 24^	Non-Qualified Stock Option Agreement between Hugh Panero and XM Satellite Radio Holdings Inc., dated July 1, 1998, as amended
10 25^	Form of Director Non-Qualified Stock Option Agreement.
10 26	Intentionally omitted.
10 27	Intentionally omitted.
10 28*	Contract for the Design, Development and Purchase of Terrestrial Repeater Equipment by and between XM Satellite Radio Inc. and Hughes Electronics Corporation, dated February 14, 2000 (incorporated by reference to Holdings' Annual Report on Form 10-K for the fiscal year ended December 31, 1999, filed with the SEC on March 16, 2000)
10 29*	Joint Development Agreement, dated February 16, 2000, between XM Satellite Radio Inc. and Sirius Satellite Radio Inc (incorporated by reference to Holdings' quarterly report on Form 10-Q for the quarter ended March 31, 2000, filed with the SEC on May 12, 2000)
10.30	XM Satellite Radio Holdings Inc Talent Option Plan (incorporated by reference to Holdings' Registration Statement on Form S-8, File No 333-65022)
10 31	Intentionally omitted
10 32	Intentionally omitted
10 33	Loan and Security Agreement, dated as of August 24, 2001, by and between Fremont Investment & Loan and XM 1500 Eckington LLC (incorporated by reference to Holdings' quarterly report on Form 10-Q for the quarter ended September 30, 2001, filed with the SEC on November 13, 2001).
10 34	Limited Recourse Obligations Guaranty, dated as of August 24, 2001, by XM Satellite Radio Holdings Inc. in favor of Fremont Investment & Loan (incorporated by reference to Holdings' quarterly report on Form 10-Q for the quarter ended September 30, 2001, filed with the SEC on November 13, 2001).

Source· XM SATELLITE RADIO H, 10-K, March 15, 2004

Exhibit No.	Description
10 35	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 Holdings' Current Report on Form 8-K filed with the SEC on December 6, 2001)
10.36*	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 Holdings' Registration Statement on Form S-3, File No. 333-89132).
10 37*	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 with the SEC on December 6, 2001).
10 38	Note Purchase Agreement, dated as of December 21, 2002, by and among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc. and OnStar Corporation (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
10 39	Amendment No 1 to Note Purchase Agreement, dated as of January 16, 2003, by and among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc and OnStar Corporation (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
10.40	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 Holdings' Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the SEC on August 14, 2003).
10.41	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 Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
10.42	Amended and Restated Director Designation Agreement, dated as of February 1, 2003, by and among XM Satellite Radio Holdings Inc and the shareholders and noteholders named therein (incorporated by reference to Holdings' Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, filed with the SEC on May 15, 2003)
10 43	GM/DIRECTV Director Designation Agreement, dated as of January 28, 2003, among XM Satellite Radio Holdings Inc , General Motors Corporation and DIRECTV Enterprises LLC (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
10 44	Intentionally omitted.
10 45	Amended and Restated Assignment and Use Agreement, dated as of January 28, 2003, between XM Satellite Radio Inc. and XM Radio Inc. (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
10 46	Agreements not to convert, dated as of January 28, 2003, among XM Satellite Radio Holdings Inc and certain noteholders named therein (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003).
10 47	Credit Agreement, dated as of January 28, 2003, among XM Satellite Radio Inc , as a borrower, and XM Satellite Radio Holdings Inc., as a borrower, and General Motors Corporation, as lender (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

Exhibit No.	Description
10 48	Voting Agreement, dated as of December 21, 2002, among the shareholders named therein (incorporated by reference to Holdings' Current Report on Form 8-K filed with the SEC on January 29, 2003)
10 49	Employment Agreement, dated as of June 21, 2002, between XM Satellite Radio Holdings Inc. and XM Satellite Radio Inc., and Joseph J Euteneuer (incorporated by reference to Holdings' Quarterly Report on Form 10-Q, filed with the SEC on August 14, 2002)
10 50	Form of Employment Agreement, dated as of March 20, 2003, between XM Satellite Radio Holdings Inc. and XM Satellite Radio Inc , and Hugh Panero (incorporated by reference to Holdings' Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, filed with the SEC on May 15, 2003)
10 51	Form of Employment Agreement, dated as of March 20, 2003, between XM Satellite Radio Holdings Inc. and XM Satellite Radio Inc , and Gary Parsons (incorporated by reference to Holdings' Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, filed with the SEC on May 15, 2003)
10 52	Form of 2003 Executive Stock Option Agreement (incorporated by reference to Holdings' Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, filed with the SEC on May 15, 2003)
10.53**	Amended and Restated Amendment to the Satellite Purchase Contract for In-Orbit Delivery, dated May 2003, by and between XM Satellite Radio Inc. and XM Satellite Radio Holdings Inc and Boeing Satellite Systems International, Inc (incorporated by reference to Holdings' Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the SEC on August 14, 2003)
10 54**	July 2003 Amendment to the Satellite Purchase Contract for In-Orbit Delivery, dated July 31, 2003, by and between XM Satellite Radio Inc and XM Satellite Radio Holdings Inc and Boeing Satellite Systems International, Inc (incorporated by reference to Holdings' Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the SEC on August 14, 2003).
10 55**	Contract for Launch Services, dated August 5, 2003, between Sea Launch Limited Partnership and XM Satellite Radio Holdings Inc (incorporated by reference to Holdings' Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the SEC on August 14, 2003).
10.56	Amendment No. 1 to Amended and Restated Director Designation Agreement, dated as of September 9, 2003, by and among XM Satellite Radio Holdings Inc and the shareholders and noteholders named therein (incorporated by reference to Holdings' Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, filed with the SEC on November 12, 2003)
10 57**	December 2003 Amendment to the Satellite Purchase Contract for In-Orbit Delivery, dated December 19, 2003, by and between XM Satellite Radio Inc and XM Satellite Radio Holdings Inc and Boeing Satellite Systems International, Inc
10 58	First Amendment to Credit Agreement, dated January 13, 2004, by and between XM Satellite Radio Inc , XM Satellite Radio Holdings Inc and General Motors Corporation
10 59	First Amendment to Second Amended and Restated Distribution Agreement, dated as of January 13, 2004, by and among OnStar Corporation, XM Satellite Radio Holdings Inc , and XM Satellite Radio Inc.
10 60	Second Amendment to Note Purchase Agreement, dated as of January 13, 2004, by and among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc , and OnStar Corporation.
10 61	Form of Amendment to Third Amended and Restated Shareholders and Noteholders Agreement, dated as of January 13, 2004, by and among XM Satellite Radio Holdings Inc and the parties thereto.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Exhibit No.	Description
21 1	Subsidiaries of XM Satellite Radio Holdings Inc.
23.1	Independent Auditors' Consent
31.1	Certification pursuant to Section 302 of the Sarbanes–Oxley Act of 2002 (18 U.S.C. Section 1350).
31 2	Certification pursuant to Section 302 of the Sarbanes–Oxley Act of 2002 (18 U.S C Section 1350).
32.1	Written Statement of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes–Oxley Act of 2002 (18 U S C Section 1350).

^ Incorporated by reference to Holdings' Registration Statement on Form S–1, File No. 333–83619.

* Pursuant to the Commission's Orders Granting Confidential Treatment under Rule 406 of the Securities Act of 1933 or Rule 24(b)–2 under the Securities Exchange Act of 1934, certain confidential portions of this Exhibit were omitted by means of redacting a portion of the text.

** Confidential treatment has been requested for portions of this document.

(b) Reports on Form 8–K

On February 12, 2004, XM filed a Current Report on Form 8–K to report results for the year ended December 31, 2003

On January 23, 2004, XM filed a Current Report on Form 8–K that reported an offering of common stock by XM and certain selling stockholders and XM's intention to use the net proceeds of the offering to pre–pay certain outstanding debt and for working capital and general corporate purposes

On January 14, 2004, XM filed a Current Report on Form 8–K that reported certain information contained in a preliminary prospectus supplement in connection with a proposed offering of common stock by XM and certain selling stockholders

On January 9, 2004, XM filed a Current Report on Form 8–K that reported year–end subscription totals, certain business developments and certain guidance for 2004

On November 6, 2003, XM filed a Current Report on Form 8–K to report results for the quarter ended September 30, 2003.

(c) Exhibits.

XM Satellite Radio Holdings Inc hereby files as part of this Form 10–K the Exhibits listed in the Index to Exhibits.

(d) Consolidated Financial Statement Schedules.

The following consolidated financial statement schedule is filed herewith.

Schedule I—Valuation and Qualifying Accounts

Schedules not listed above have been omitted because they are inapplicable or the information required to be set forth therein is provided in the Consolidated Financial Statements of XM Satellite Radio Holdings Inc or notes thereto

Source: XM SATELLITE RADIO H, 10–K, March 15, 2004

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
President and Chief Executive Officer

Date. March 15, 2004

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**	President, Chief Executive Officer and Director (Principal Executive Officer)	March 15, 2004
/s/ JOSEPH J. EUTENEUER **Joseph J. Euteneuer**	Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	March 15, 2004
/s/ GARY M. PARSONS **Gary M. Parsons**	Chairman of the Board of Directors	March 15, 2004
/s/ NATHANIEL A DAVIS **Nathaniel A. Davis**	Director	March 15, 2004
/s/ THOMAS J DONOHUE **Thomas J. Donohue**	Director	March 15, 2004
/s/ CHESTER A. HUBER, JR. **Chester A. Huber, Jr.**	Director	March 15, 2004
/s/ RANDALL T MAYS **Randall T. Mays**	Director	March 15, 2004
/s/ PIERCE J. ROBERTS, JR. **Pierce J. Roberts, Jr.**	Director	March 15, 2004
/s/ JACK SHAW **Jack Shaw**	Director	March 15, 2004
/s/ R STEVEN HICKS **R. Steven Hicks**	Director	March 15, 2004
	Director	March 15, 2004

/s/ JAMES N. PERRY, JR James N. Perry, Jr.	Director	March 15, 2004
/s/ THOMAS G ELLIOTT Thomas G. Elliott		

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

IN DEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES
XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

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Source. XM SATELLITE RADIO H, 10-K, March 15, 2004

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
XM Satellite Radio Holdings Inc

We have audited the accompanying consolidated balance sheets of XM Satellite Radio Holdings Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2003 These consolidated financial statements are the responsibility of the Company's management Our responsibility is to express an opinion on these consolidated financial statements based on our audits

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of XM Satellite Radio Holdings Inc and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1(h) to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No 142, *Goodwill and Other Intangible Assets*, as of January 1, 2002.

/s/ KPMG LLP

McLean, VA
February 5, 2004, except for Note 9(i),
which is as of March 3, 2004

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

	2003	2002
	(in thousands, except share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 418,307	$ 32,818
Short-term investments	—	9,997
Restricted investments	116	25,014
Accounts receivable, net of allowance for doubtful accounts of $796 and $241	13,160	3,756
Due from related parties	5,176	1,478
Related party prepaid expenses	22,261	—
Prepaid and other current assets	19,542	10,362
Total current assets	478,562	83,425
Restricted investments, net of current portion	4,035	4,728
System under construction	92,577	55,016
Property and equipment, net of accumulated depreciation and amortization of $315,063 and $158,266	709,501	847,936
DARS license	141,200	144,042
Intangibles, net of accumulated amortization of $4,433 and $3,172	8,429	9,690
Deferred financing fees, net of accumulated amortization of $10,561 and $3,898	43,999	13,276
Related party prepaid expenses, net of current portion	44,521	—
Prepaid and other assets, net of current portion	3,958	2,167
Total assets	$ 1,526,782	$ 1,160,280
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 35,773	$ 40,006
Accrued expenses	57,293	46,924
Accrued network optimization expenses	4,136	2,201
Current portion of long-term debt	38,686	3,845
Due to related parties	2,103	13,410
Accrued interest	5,427	16,651
Deferred revenue	39,722	9,925
Total current liabilities	183,140	132,962
Related party long-term debt, net of current portion	141,891	—
Long-term debt, net of current portion	601,363	412,540
Due to related parties, net of current portion	23,921	10,618
Deferred revenue, net of current portion	14,162	2,372
Other non-current liabilities	29,417	9,477
Total liabilities	993,894	567,969
Stockholders' equity		
Series A convertible preferred stock, par value $0 01 (liquidation preference of $102,739 at December 31, 2003 and December 31, 2002), 15,000,000 shares authorized, 10,786,504 shares issued and outstanding at December 31, 2003 and December 31, 2002	108	108
Series B convertible redeemable preferred stock, par value $0 01 (liquidation preference of $23,714 and $43,364 at December 31, 2003 and December 31, 2002, respectively), 3,000,000 shares authorized, 474,289 and 867,289 shares issued and outstanding at December 31, 2003 and December 31, 2002, respectively	5	9
Series C convertible redeemable preferred stock, par value $0 01 (liquidation preference of $153,605 and $239,508 at December 31, 2003 and December 31, 2002, respectively); 250,000 shares authorized, 120,000 and 200,000 shares issued and outstanding at December 31, 2003 and December 31, 2002, respectively	1	2
Series D convertible redeemable preferred stock, par value $0 01 (liquidation preference of $0 at December 31, 2003 and December 31, 2002), 250,000 authorized; no shares issued and outstanding at December 31, 2003 and December 31, 2002, respectively	—	—
Class A common stock, par value $0 01, 600,000,000 and 225,000,000 shares authorized, 160,665,194 and 91,706,056 shares issued and outstanding at December 31, 2003 and December 31, 2002, respectively	1,607	917
Class C common stock, par value $0 01; 15,000,000 shares authorized, no shares issued and outstanding at December 31, 2003 and December 31, 2002, respectively	—	—
Additional paid-in capital	2,001,688	1,477,261
Accumulated deficit	(1,470,521)	(885,986)
Total stockholders' equity	532,888	592,311
Commitments and contingencies		
Total liabilities and stockholders' equity	$ 1,526,782	$ 1,160,280

See accompanying notes to consolidated financial statements.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	2003	2002	2001
	(in thousands except share amounts)		
Revenue			
Subscription revenue	$ 78,275	$ 16,344	$ 238
Activation revenue	1,868	484	8
Equipment revenue	6,692	757	—
Net ad sales revenue	4,065	2,333	251
Other	881	263	36
Total revenue	91,781	20,181	533
Operating expenses:			
Cost of revenue (excludes depreciation & amortization, shown below)			
Revenue share & royalties	26,440	12,790	1,739
Customer care & billing	25,945	16,069	5,724
Cost of equipment	9,797	1,679	—
Ad sales	3,257	1,870	2,243
Satellite & terrestrial	39,692	44,818	62,641
Broadcast & operations	19,712	19,851	21,960
Programming & content	23,109	25,379	17,649
Total cost of revenue	147,952	122,456	111,956
Research & development (excludes depreciation and amortization, shown below)	12,285	10,843	13,689
General & administrative (excludes depreciation and amortization, shown below)	27,418	26,448	20,250
Marketing (excludes depreciation and amortization, shown below)	200,267	169,165	93,584
Impairment of goodwill	—	11,461	—
Depreciation & amortization	158,317	118,588	42,660
Total operating expenses	546,239	458,961	282,139
Operating loss	(454,458)	(438,780)	(281,606)
Other income (expense):			
Interest income	3,066	5,111	15,198
Interest expense	(110,349)	(63,573)	(18,131)
Other income (expense)	(22,794)	2,230	160
Net loss	(584,535)	(495,012)	(284,379)
8.25% Series B preferred stock dividend requirement	(2,471)	(3,766)	(3,766)
8.25% Series B preferred stock retirement gain	8,761	—	—
8.25% Series C preferred stock dividend requirement	(15,098)	(17,093)	(19,387)
8.25% Series C preferred stock retirement loss	(11,537)	—	—
Net loss attributable to common stockholders	$ (604,880)	$ (515,871)	$ (307,532)
Net loss per share:			
Basic and diluted	$ (4.83)	$ (5.95)	$ (5.13)
Weighted average shares used in computing net loss per share—basic and diluted	125,176,320	86,735,257	59,920,196

See accompanying notes to consolidated financial statements

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	2003	2002	2001
		(in thousands)	
Cash flows from operating activities:			
Net loss	$ (584,535)	$ (495,012)	$ (284,379)
Adjustments to reconcile net loss to net cash used in operating activities:			
Provision for doubtful accounts	2,077	493	10
Ad sales barter revenue	(1,127)	(330)	—
Depreciation and amortization	158,317	118,588	42,660
Accretion of interest	45,227	—	—
Loss on disposal of computer equipment	464	—	197
Net non-cash loss on conversion or redemption of notes	24,777	—	—
Amortization of deferred financing fees and debt discount	17,409	5,323	—
Non-cash stock-based compensation	3,003	1,507	4,867
Impairment of goodwill	—	11,461	—
Changes in operating assets and liabilities:			
Increase in accounts receivable	(11,480)	(3,771)	(488)
Increase in due from related parties	(3,698)	(1,478)	—
(Increase) decrease in prepaid and other current assets	(9,611)	5,688	(6,905)
Increase in accounts payable and accrued expenses	59,435	20,349	29,531
Increase in amounts due to related parties	24,256	30,664	2,696
Increase in deferred revenue	41,587	11,242	—
Increase (decrease) in accrued interest	(11,224)	987	8,763
Net cash used in operating activities	(245,123)	(294,289)	(203,048)
Cash flows from investing activities:			
Purchase of property and equipment	(15,685)	(35,598)	(58,520)
Additions to system under construction	(4,108)	(32,813)	(142,321)
Net (purchase) maturity of short-term investments	—	18,358	(28,355)
Net maturity of restricted investments	22,750	45,500	40,317
Other investing activities	11,664	(2,483)	(32,482)
Net cash provided by (used in) investing activities	14,621	(7,036)	(221,361)
Cash flows from financing activities:			
Proceeds from sale of common stock and capital contribution	253,102	159,074	199,219
Proceeds from issuance of 10% senior secured discount convertible notes	210,000	—	—
Proceeds from issuance of 12% senior secured notes	185,000	—	—
Proceeds from issuance of 7.75% convertible subordinated notes	—	—	125,000
Proceeds from loan payable	—	—	35,000
Repayment of 7.75% convertible subordinated notes	(6,723)	—	—
Repurchase of Series B preferred stock	(10,162)	—	—
Payments on mortgage on facility	(420)	(335)	29,000
Payments on capital lease obligations	(2,722)	(2,440)	—
Payments for deferred financing costs	(12,084)	(4,653)	(6,124)
Other net financing activities	—	—	(92)
Net cash provided by financing activities	615,991	151,646	382,003
Net increase (decrease) in cash and cash equivalents	385,489	(149,679)	(42,406)
Cash and cash equivalents at beginning of period	32,818	182,497	224,903
Cash and cash equivalents at end of period	$ 418,307	$ 32,818	$ 182,497

See accompanying notes to consolidated financial statements.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	Series A Convertible Preferred Stock		Series B Convertible Redeemable Preferred Stock		Series C Convertible Redeemable Preferred Stock		Class A Common Stock		Class B Common Stock		Class C Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
							(in thousands, except share data)								
Balance at January 1, 2001	10,786,504	$ 108	867,289	$ 9	235,000	$ 2	34,073,994	$ 341	16,557,262	$ 166	—	$ —	$ 1,061,921	$ (106,595)	$ 955,952
Conversion of Class B common stock	—	—	—	—	—	—	16,557,262	166	(16,557,262)	(166)	—	—	—	—	—
Incentivized conversion of convertible subordinated notes to Class A common stock	—	—	—	—	—	—	4,194,272	42	—	—	—	—	50,950	—	50,992
Secondary public offerings	—	—	—	—	—	—	19,000,000	190	—	—	—	—	197,896	—	198,086
Series B convertible redeemable preferred stock dividends	—	—	—	—	—	—	466,180	5	—	—	—	—	(5)	—	—
Issuance of shares to employees through stock option and purchase plans	—	—	—	—	—	—	190,460	1	—	—	—	—	1,132	—	1,133
Non-cash stock compensation	—	—	—	—	—	—	—	—	—	—	—	—	4,867	—	4,867
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(284,379)	(284,379)
Balance at December 31, 2001	10,786,504	$ 108	867,289	$ 9	235,000	$ 2	74,482,168	$ 745	—	$ —	—	$ —	$ 1,316,761	$ (390,974)	$ 926,651
Conversion of Series C convertible preferred stock	—	—	—	—	(35,000)	—	1,964,354	19	—	—	—	—	(19)	—	—
Secondary public offering	—	—	—	—	—	—	14,477,443	145	—	—	—	—	157,985	—	158,130
Issuance of shares to employees through stock option and purchase plans	—	—	—	—	—	—	200,751	2	—	—	—	—	1,032	—	1,034
Series B convertible redeemable preferred stock dividends	—	—	—	—	—	—	581,340	6	—	—	—	—	(5)	—	1
Non-cash stock compensation	—	—	—	—	—	—	—	—	—	—	—	—	1,507	—	1,507
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(495,012)	(495,012)
Balance at December 31, 2002	10,786,504	$ 108	867,289	$ 9	200,000	$ 2	91,706,056	$ 917	—	$ —	—	$ —	$ 1,477,261	$ (885,986)	$ 592,311
Conversion of Series C convertible preferred stock	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Sale of shares of Class A common stock	—	—	—	—	—	—	27,690,811	277	—	—	—	—	229,183	—	229,460

Source. XM SATELLITE RADIO H, 10-K, March 15, 2004

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	Series A Convertible Preferred Stock		Series B Convertible Redeemable Preferred Stock		Series C Convertible Redeemable Preferred Stock		Class A Common Stock		Class B Common Stock		Class C Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
	(in thousands, except share data)														
Issuance of 10% senior secured discount notes—beneficial conversion feature	—	—	—	—	—	—	—	—	—	—	—	—	68,879	—	68,879
Conversion of Series B convertible redeemable preferred stock	—	—	(393,000)	(4)	—	—	—	—	—	—	—	—	(10,160)	—	(10,164)
Conversion of Series C convertible redeemable preferred stock	—	—	—	—	(80,000)	(1)	11,951,381	120	—	—	—	—	(118)	—	1
Issuance of shares of Class A common stock to convert or redeem notes outstanding	—	—	—	—	—	—	19,232,230	193	—	—	—	—	115,739	—	115,932
Issuance of shares of Class A common stock from redemption of warrants	—	—	—	—	—	—	8,393,804	83	—	—	—	—	107,259	—	107,342
Issuance of shares through stock-based compensation plans	—	—	—	—	—	—	1,206,149	12	—	—	—	—	10,643	—	10,655
Series B convertible redeemable preferred stock dividends	—	—	—	—	—	—	484,763	5	—	—	—	—	(1)	—	4
Non-cash stock compensation	—	—	—	—	—	—	—	—	—	—	—	—	3,003	—	3,003
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(584,535)	(584,535)
Balance at December 31, 2003	10,786,504	$ 108	474,289	$ 5	120,000	$ 1	160,665,194	$ 1,607	—	$ —	—	$ —	$ 2,001,688	$ (1,470,521)	$ 532,888

See accompanying notes to consolidated financial statements

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

(1) Summary of Significant Accounting Policies and Practices

(a) Nature of Business

XM Satellite Radio Inc ("Inc."), was incorporated on December 15, 1992 in the State of Delaware for the purpose of operating a digital audio radio service ("DARS") under a license from the Federal Communications Commission ("FCC") XM Satellite Radio Holdings Inc. (the "Company") was formed as a holding company for XMSR on May 16, 1997 In 2001, the Company's satellites, "Rock" and "Roll", were successfully launched on March 18, 2001 and May 8, 2001, respectively. The Company commenced commercial operations in two markets on September 25, 2001 and completed its national rollout on November 12, 2001

(b) Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of XM Satellite Radio Holdings Inc and its subsidiaries. All significant intercompany transactions and accounts have been eliminated

In the Company's opinion, the accompanying consolidated financial statements reflect all adjustments, consisting of only normal recurring entries, necessary for a fair presentation of the consolidated financial position of XM Satellite Radio Holdings Inc. and its subsidiaries as of December 31, 2003 and 2002, and the results of operations and cash flows for the years ended December 31, 2003, 2002 and 2001. Certain reclassifications have been made to prior-period amounts to conform with the 2003 presentation, including the reclassification of ad sales expense and certain revenue share payments to cost of revenue In addition, in July 2003, the Emerging Issues Task Force provided additional guidance on Topic D-42, *The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock* The additional guidance states that the carrying amount of preferred stock should be reduced by the issuance costs of the preferred stock in the calculation of earnings per share This guidance was effective in fiscal periods ending after September 15, 2003 The net loss available to common stockholders for the year ended December 31, 2003 reflects these adjustments (see Note 17).

(c) Cash and Cash Equivalents

The Company considers short-term, highly liquid investments with an original maturity of three months or less to be cash equivalents The Company had the following cash and cash equivalents balances (in thousands).

	December 31,	
	2003	2002
Cash on deposit	$ 8,075	$ 9,286
Money market funds	410,232	18,527
Commercial paper	—	5,005
	$418,307	$ 32,818

(d) Short-term Investments

At December 31, 2002, the Company held commercial paper with maturity dates of less than one year that were stated at amortized cost, which approximated fair value

(e) Restricted Investments

Restricted investments consist of fixed income securities and are stated at amortized cost plus accrued interest income. At December 31, 2003 and 2002, restricted investments represented securities held in escrow to secure the Company's future performance with regard to certain contracts and obligations, which include certain facility leases and other secured credits The investments are principally money market funds and certificates of deposit. At December 31, 2002 restricted investments included securities held in escrow to secure the Company's future performance with regard to payments under the Hughes Electronics Corporation ("Hughes") terrestrial repeater contract, and the interest payments required on the Company's 14%

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

senior secured notes due 2010 through March 2003. The interest reserve consisted of US Treasury securities classified as held-to-maturity investments The amortized cost, gross unrealized holding gains and fair value of the restricted investments at December 31, 2003 and 2002, were as follows (in thousands).

	Amortized Cost	Gross Unrealized Holding Gains	Fair Value
At December 31, 2003:			
Contract escrow	$ 116	$ —	$ 116
Collateral for letters of credit and other secured credit	4,035	—	4,035
	$ 4,151	$ —	$ 4,151
At December 31, 2002:			
Interest reserve	$ 22,914	$ 126	$ 23,040
Collateral for letters of credit and other secured credit	6,828	—	6,828
	$ 29,742	$ 126	$ 29,868

The Company established a restricted cash account for the purpose of satisfying certain interest payments, the last of which was made in March 2003, on its 14% high-yield notes maturing in 2010 Cash maintained in the restricted account was primarily invested in a US Treasury Strip As of December 31, 2002, XM had one Treasury Strip investment on a held-to-maturity basis maturing in February 2003. The fair value of the US Treasury Strips at December 31, 2002, was $22,713,600, and the maturity value was $22,750,000. The remainder of the fair value at December 31, 2002, consisted of a $327,000 Treasury Bill that matured in March 2003.

(f) Accounts Receivable

Accounts receivable is recorded at the invoiced amount. The allowance for doubtful accounts is the Company's best estimate of the amount of probable losses in the Company's existing accounts receivable The Company determines the allowance based on the Company's actual write-off experience.

(g) Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization. Equipment under capital leases is stated at the present value of minimum lease payments Depreciation and amortization is calculated using the straight-line method over the following estimated useful lives·

Spacecraft system	6.75 years
Terrestrial repeater network	5–10 years
Spacecraft control facilities	17.5 years
Broadcast facilities	3–7 years
Computer systems	3–7 years
Building and improvements	20 years
Furniture and fixtures	3–7 years
Equipment under capital leases and leasehold improvements	Lesser of useful life or remaining lease term

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Depreciation of the Company's in-orbit satellites commenced in May and June 2001 upon acceptance from Boeing Satellite Systems (BSS) Amortization and depreciation of the ground systems/spacecraft control facilities and related computer systems commenced on September 25, 2001, which was the date the service was launched in the Company's lead markets. Depreciation of the broadcast facilities and the terrestrial repeaters commenced when they were placed in service.

In the first quarter of 2003, the Company filed the proofs of loss for constructive total loss claims on both its satellites with its insurance carriers for the aggregate sum insured (less applicable salvage), relating to a progressive degradation problem with the solar array output power of Boeing 702 class satellites, including XM Rock and XM Roll, identified to its insurers in September 2001. The Company has launch and in-orbit insurance policies that provide coverage to it for a total, constructive total or partial loss of each of its satellites where such loss arises from an occurrence within the first five years after launch (both satellites were launched during the first half of 2001) The aggregate sum insured in the event of the total or constructive total loss of both satellites is $400 million ($200 million per satellite) During the third quarter of 2003, the Company received letters from its insurers rejecting its proofs of loss and denying its claims The Company is continuing correspondence and meetings with individual and groups of insurers to resolve this matter and will proceed with negotiations, arbitration or litigation as necessary to recover the losses. The Company continues to believe that it will ultimately receive insurance payments adequate to launch its spare satellite and fund a portion of XM-4, although there can be no assurance as to the amount of any insurance proceeds, or that any insurance proceeds will be received in a timely manner.

In light of the progressive degradation noted above, the Company plans to launch its ground spare satellite ("XM-3") into one orbital slot by year-end 2004, and operate XM Rock and XM Roll collocated in the other orbital slot In 2007, the Company plans to launch XM-4 to replace the collocated XM Rock and XM Roll In this way, the Company will have replacement satellites in orbit and operating prior to the times XM Rock and XM Roll can no longer provide full service, or half service in collocated mode

Since the solar array power degradation issue is common to the first six Boeing 702 class satellites now in orbit, the manufacturer and the Company are closely watching the progression of the problem, including data from a satellite that has been in orbit longer than either of the Company's two satellites by approximately 15 and 17 months, respectively. With this advance visibility of performance levels, a firm launch commitment for a spare satellite in the fourth quarter of 2004, the ability to provide full service for an extended period of time with XM Rock and XM Roll collocated in one orbital slot and the spare located in the other slot (which would allow partial use of the existing satellites through the first quarter of 2008), firm commitments to build a fourth satellite and provide launch services therefore, and various mitigation actions to extend the full or partial use of the existing satellites, the Company believes that it will be able to launch additional satellites prior to the time the solar array power problem might cause the broadcast signal strength to fall below minimum acceptable levels

Based on the consistency of the degradation trends (with no substantial improvement to date) and continuing analyses by BSS and the Company, the Company's management adjusted the estimated useful lives of its in-orbit satellites, with effect from September 2002, to the period running through first quarter 2008 (approximately 6.75 years from launch) The Company's management will continue to monitor this situation carefully and may re-adjust the estimated useful lives of its in-orbit satellites based on future information. The Company has not recorded any impairment due to its forecasted cash flows (which are sufficient to recover the system assets), however, should the Company reduce or not meet its forecasted cash flows or reduce further the estimated useful lives of the satellites, it may be required to record an impairment (which may be substantial) at that time The Company has not adjusted the estimated useful lives of its spacecraft control facilities, as it believes these facilities will continue to be of use in its system as XM-3 and if necessary XM-4 are launched.

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

Had the Company used 6 75 years for the life of the satellites from the in-service date, the net loss attributable to common stockholders would have been impacted as follows·

	Year ended December 31,		
	2003	2002	2001
	(amounts in thousands, except per share data)		
Net loss as reported attributable to common stockholders	$(604,880)	$(515,871)	$(307,532)
Add effect of change on depreciation of satellites	—	(31,622)	(26,575)
Adjusted net loss attributable to common stockholders	$(604,880)	$(547,493)	$(334,107)
Per share amounts			
Adjusted net loss per share—basic and diluted	$ (4.83)	$ (6 31)	$ (5 58)

In accordance with SFAS No 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Goodwill and intangible assets not subject to amortization are tested annually for impairment, and are tested for impairment more frequently, if events and circumstances indicate that the asset might be impaired An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

(h) DARS License, Goodwill and Other Intangible Assets

The Company adopted the provisions of SFAS No 141, *Business Combinations* ("SFAS No 141") and SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No 142") as of January 1, 2002. SFAS No 141 requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 establishes criteria which intangible assets acquired in a business combination must meet in order to be recognized and reported separately from goodwill SFAS No 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No 142 SFAS No 142 also requires that intangible assets with estimated useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with SFAS No 144.

In applying the standards established by SFAS No 142, the Company determined that its DARS license was an intangible asset having an indefinite useful life. While the DARS license has a renewable eight-year term, the Company believes that the administrative fees necessary to renew the license will be *de minimis* compared to the initial fee to obtain the license, and the Company has met all of the established milestones specified in the FCC license agreement. The Company also anticipates no difficulties in renewing the license as long as the Company continues to adhere to the various regulatory requirements established in the license grant. Although the Company faces competition from a variety of sources, the Company does not believe that the risks of the technology becoming obsolete or of a decrease in demand for the DARS service are significant Further, the Company believes that its license is comparable with the licenses granted to other broadcasters, which are also classified as indefinite-lived intangible assets. Upon adoption, the Company was required to evaluate its existing acquired intangible assets and goodwill, and to make any necessary reclassifications in order to conform to the new classification criteria in SFAS No. 141 for recognition separate from goodwill. The Company was also required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments Since the Company's DARS license, with a carrying amount of $144.0 million at January 1, 2002, is an intangible asset having an indefinite useful life, it was tested for impairment in

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

accordance with the provisions of SFAS No 142. Impairment is measured as the excess of carrying value over the fair value of an intangible asset with an indefinite life. Based on the Company's analysis, no impairment existed In connection with SFAS No 142's transitional goodwill impairment evaluation, the Company was required to perform an assessment of whether there was an indication that goodwill was impaired as of the date of adoption The goodwill balance was $11 5 million as of January 1, 2002 (the date the Company implemented SFAS No 142). The Company identified one reporting unit and determined the carrying value; the fair value of the reporting unit was computed by determining its enterprise value, which consisted of the Company's market capitalization and the fair value of its long-term debt. The Company determined that the fair value exceeded the carrying value and that there were no indications that goodwill had been impaired as of January 1, 2002, the date of implementation

Amortization expense related to goodwill was $915,000 during the year ended December 31, 2001 Amortization expense for the DARS license was $2.2 million during the year ended December 31, 2001. Amortization of the DARS license did not begin until September 25, 2001, when the Company commenced commercial operations, and no amortization has been taken since January 1, 2002, when the Company adopted SFAS No. 142. Amortization expense for the other intangibles was $1.3 million, $1.5 million and $460,000 during the years ended December 31, 2003, 2002 and 2001, respectively The Company did not begin amortizing acquired programming agreements until September 25, 2001, when the Company commenced commercial operations The Company is continuing to amortize intangible assets consisting of programming and receiver agreements that had a carrying value of $8 4 million and $9 7 million, respectively, as of December 31, 2003 and 2002, respectively, over their estimated useful lives of 10 years. The estimated amortization for the programming and receiver agreements for the years ended 2004 to 2007 is $1.3 million for each year

In connection with the January 2003 financing transactions (see Note 3), the carrying value of the DARS license was reduced by $2 8 million, which was allocated as a discount associated with the fair value of the consideration provided to certain of these investors at the time of the issuance of the 10% Senior Secured Discount Convertible Notes

As part of the annual impairment testing in 2002, the Company performed an assessment of the fair value of its sole reporting unit as defined by SFAS No. 142 and compared it to the carrying value of its reporting unit The Company's market capitalization had fallen below the Company's book value, indicating that the reporting unit's indefinite lived intangible assets, goodwill and the DARS license, may be impaired. During 2002, the Company recorded an impairment charge of $11.5 million to write-off the entire net book value of its goodwill upon completing the annual impairment review required by SFAS No 142, as fully described in Note 5.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

The following table shows what net loss would have been for the year ended December 31, 2001, exclusive of amortization expense recognized related to goodwill and indefinite-lived intangible assets (both of which were no longer amortized after December 31, 2001)

	Year ended December 31, 2001
	(in thousands)
Net loss attributable to common stockholders	$ (307,532)
Add back: Amortization of goodwill	915
Amortization of DARS license	2,229
Amortization of other intangibles	460
Adjusted net loss attributable to common stockholders	$ (303,928)
Per share amounts	
Adjusted net loss per share	$ (5.07)

(i) Deferred Financing Fees and Other Assets

Deferred financing fees consist primarily of legal, accounting, printing and investment banking fees as well as fees paid for lines of credit associated with the Company's debt financing. Deferred financing fees are amortized over the life of the corresponding debt facility

(j) Revenue Recognition

The Company derives revenue primarily from basic and premium subscriber subscription and activation fees as well as advertising, direct sales of equipment and royalties

Revenue from subscribers, which is generally billed in advance, consists of (i) fixed charges for service, which are recognized as the service is provided and (ii) non-refundable activation fees that are recognized ratably over the expected 40-month life of the customer relationship. Direct activation costs are expensed as incurred. Promotions for free or discounted service are treated as a reduction to revenue during the period of the promotion. Sales incentives, consisting of rebates to subscribers, are recorded as reductions to revenue when claimed Discounts to equipment which are sold with service are allocated to equipment and service based on relative fair value

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 statement of operations. Advertising revenue for the years ended December 31, 2003 and 2002, respectively, included advertisements sold in exchange for goods and services (barter) recorded at fair value. Revenue from barter transactions is recognized when advertisements are broadcast. Merchandise or services received are charged to expense when received or used. Barter transactions are not significant to the Company's consolidated financial statements.

Equipment revenue is recognized at the time of shipment of the equipment Royalty and other revenue is recognized when earned.

(k) Stock-Based Compensation

The Company accounts for stock-based compensation arrangements in accordance with the provisions of Accounting Principle Board ("APB") Opinion No 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related interpretations including FASB Interpretation ("FIN") No 44, *Accounting for Certain Transactions Involving Stock Compensation*, an interpretation of APB opinion No 25 issued in March 2000, and complies with the disclosure provisions of SFAS

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

No. 123, *Accounting for Stock-Based Compensation,* as amended by SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure,* issued in December of 2002 Under APB 25, compensation expense is based upon the difference, if any, on the date of grant, between the fair value of the Company's stock and the exercise price. All stock-based awards to non-employees are accounted for at their fair value in accordance with SFAS No 123.

The Company adopted FIN No. 44 in July 2000 to account for stock options that were repriced in July 1999 The application resulted in additional compensation of $0, $1,000 and $1,232,000 during the years ended December 31, 2003, 2002 and 2001, respectively. Additional compensation charges may result depending upon the market value of the common stock at each balance sheet date.

At December 31, 2003, the Company had one stock-based employee compensation plan, which is described more fully in Note 11(f). The Company accounts for the plan under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and related Interpretations. No stock-based employee compensation cost is reflected in net loss, other than compensation charges associated with repriced options under FIN No 44 in 2002 and 2001, as all options granted under the plan had an exercise price equal to the determined market value of the underlying common stock on the date of grant. The following table illustrates the effect on net loss if the Company had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation,* to stock-based employee compensation.

	2003	2002	2001
	(amounts in thousands, except per share data)		
Net loss attributable to common stockholders, as reported	$ (604,880)	$ (515,871)	$ (307,532)
Add, stock-based employee compensation expense included in net loss, net of tax	—	941	2,540
Less. Total stock-based employee compensation expense determined under fair value-based method for all awards	(25,769)	(23,067)	(18,693)
Pro forma net loss	$ (630,649)	$ (537,997)	$ (323,685)
As reported net loss per share—basic and diluted	$ (4.83)	$ (5.95)	$ (5.13)
Pro forma net loss per share—basic and diluted	$ (5 04)	$ (6.20)	$ (5 40)

For SFAS No. 123 disclosures purposes, the weighted average-fair value of each employee option grant has been estimated as of the date of grant using the Black-Scholes option-pricing model The assumptions used are described more fully in Note 11(f)

(l) Research & Development

Research & development costs are expensed as incurred

(m) Advertising & Marketing

Advertising & marketing costs, including media, events, training and marketing materials for retail and automotive dealer points of presence, are discretionary costs that are expensed as incurred. These costs are included in marketing. During the years ended December 31 2003, 2002, and 2001, the Company expensed approximately $64 3 million, $91 6 million, and $75.5 million, respectively

(n) Net Income (Loss) Per Share

Basic net loss per share is computed by dividing the net loss available to common stockholders (after deducting preferred dividend requirements) for the period by the weighted average number of

Source. XM SATELLITE RADIO H, 10-K, March 15, 2004

common shares outstanding during the period Diluted net loss available per share is computed by dividing the net loss available to common stockholders for the period by the weighted average number of common and dilutive common equivalent shares outstanding during the period. The Company has presented historical basic and diluted net loss per share. As the Company had a net loss in each of the periods presented, basic and diluted net loss per share is the same.

(o) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the tax benefits and consequences in future years of differences between the tax bases of assets and liabilities and the financial reporting amounts at each year-end and operating loss and tax credit carryforwards, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized Income tax expense is the sum of taxes payable for the period and the change during the period in deferred tax assets and liabilities.

(p) Accounting Estimates

The preparation of the Company's consolidated financial statements in conformity with 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, various future factors which are difficult to predict and are beyond the control of the Company. Significant estimates include valuation of the Company's investment in the DARS license and its identification as an asset with an indefinite life, the allowance for doubtful accounts, the valuation of intangible assets, the recoverability of the long-lived assets, the costs to terminate certain terrestrial repeater site leases, the estimated life of a subscriber's subscription, the payments to be made to distributors and manufacturers for radios sold or activated, the amount of royalties to be paid on radios and/or components manufactured or revenue generated, the amount of stock-based compensation arrangements and the valuation allowances against deferred tax assets. Accordingly, actual amounts could differ from these estimates

Payments owed to manufacturing and distribution partners are expensed during the month in which the manufacture, sale, and/or activation of the radio unit occurs The amounts of these expenses are dependent upon units provided by internal Company systems and processes (i e subscriber management system and supply chain management system) and partner systems and processes. However, due to lags in receiving manufacturing and sales data from partners, estimates of amounts due are necessary in order to record monthly expenses. In subsequent months when lagged data is received from partners, expenses are reconciled, and adjusted where necessary. Since launching commercial operations, the Company continues to refine the estimation process based on an increased understanding of the timing lags, and close working relationships with business partners. Estimates recorded on the Company's books are generally adjusted to actuals within two months

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

(q) Reclassifications

Certain 2002 and 2001 amounts have been reclassified to conform to the current year presentation.

(r) Derivative Instruments and Hedging Activities

The Company has reviewed its contracts and has determined that it has no stand alone derivative instruments. The Company does not engage in hedging activities

(s) Recent Accounting Pronouncements

The Company adopted Statement of Financial Accounting Standards ("SFAS") No 143, *Accounting for Asset Retirement Obligations*, effective January 1, 2003, and SFAS No. 143 does not have a material impact on the financial statements. The Company's asset retirement obligations are limited to deconstruction of its terrestrial repeater sites. SFAS No. 143 requires entities to record the fair value of a legal liability for an asset retirement obligation in the period in which it is incurred When a new liability is recorded, the Company will capitalize the costs of the liability by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, *Rescission of FASB Statements No 4, 44 and 64, Amendment of FASB Statement No 13, and Technical Corrections* SFAS No 145 amends existing guidance on reporting gains and losses on the extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies. SFAS No 145 also amends SFAS No. 13 to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions The Company recorded losses of $24.7 million during the year ended December 31, 2003 from the early retirement of debt with a carrying value including accrued interest of $125.2 million. The loss is reported in other income (expense) in the consolidated statement of operations for the year ended December 31, 2003

In June 2002, the FASB issued SFAS No 146, *Accounting for Costs Associated with Exit or Disposal Activities* SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when incurred at fair value. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002 The adoption of SFAS No 146 may have an effect on the timing of future restructuring charges taken, if and when they occur.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*, an amendment of FASB Statement No 123 This Statement amends FASB Statement No 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. The disclosures required by SFAS No 148 are included in note 1(k) to these consolidated financial statements

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. On December 24, 2003, the FASB issued final modified FASB Interpretation No. 46 ("FIN 46R"), primarily to clarify the required accounting for interests in VIEs Application of FIN 46R is required in financial statements of public entities that have interests in VIEs that are commonly referred to as special-purpose entities, or SPEs, for periods ending after December 15, 2003 Application by public entities for all other types of VIEs (i e , non-SPEs) is required in financial statements for periods ending after March 15, 2004. The adoption of FIN 46R is not expected to have a material impact on the financial position or the financials results of the Company.

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

In May 2003, the FASB issued SFAS No 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. SFAS No 150 addresses the classification and measurement of mandatorially redeemable freestanding financial instruments, including those that comprise more than one option or forward contract, and requires an issuer to classify certain instruments as habilities SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period after June 15, 2003. The adoption of SFAS No. 150 has not had a material effect on the classification and measurement of the Company's financing transactions but may have an effect on the classification and measurement of future mandatorially redeemable financing transactions, if and when they occur.

The Emerging Issues Task Force issued EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables* addressing the allocation of revenue among products and services in bundled sales arrangements EITF 00-21 is effective for arrangements entered into in fiscal periods after June 15, 2003 Based on the Company's sales and marketing programs in place during 2003, the application of the new pronouncement has not had a material impact on the Company's financial statements However, the Company's sales and marketing programs may change over time, and the Company will continue to evaluate the applicability of EITF 00-21 as it relates to sales of service and hardware. This new pronouncement has no impact on the economics of the Company's sales and marketing programs, but it does impact the timing and classification of revenue reported within the financial statements and has a corresponding impact on the Average Revenue per Subscriber ("ARPU"). As a result of this new pronouncement, the Company recognized a lower subscriber ARPU for the period

In July 2003, the Emerging Issues Task Force provided additional guidance on Topic D-42, *The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock* The additional guidance states that the carrying amount of preferred stock should be reduced by the issuance costs of the preferred stock in the calculation of earnings per share This guidance is effective in fiscal periods ending after September 15, 2003 and is retroactively reflected in the financial statements of prior quarters This guidance resulted in a reduction of the gains recorded on the retirement of the Company's Series B preferred stock during 2003 of $727,000 to reflect the amount of the issuance costs of the preferred stock retired The net loss available to common stockholders for 2003 reflects these adjustments. This guidance did not impact the net loss or financial position of the Company.

(2) Liquidity

The Company is devoting its efforts to market its digital audio radio service and to increase its subscriber base. This effort involves substantial risk and future operating results will be subject to significant business, economic, regulatory, technical, and competitive uncertainties and contingencies The Company commenced commercial operations in the fourth quarter of 2001 and has an accumulated deficit of $1,471 million as of December 31, 2003. The Company has raised $2 4 billion of equity and debt net proceeds from inception through December 31, 2003 from investors and strategic partners to fund its operations. This includes $206 million of net funds raised in the January 2003 financing transactions, $179 million of net funds raised in the June 2003 transaction (including $10 million raised in July 2003 from the exercise of an over-allotment option), $150 million of net funds raised in the September 2003 transactions and $66 million of net funds raised through the Direct Stock Purchase Program in 2003. The January 2003 financing transactions also included $250 million of payment deferrals and a line of credit. The proceeds received have been used to acquire the Company's DARS license, make required payments for the Company's system, including the satellites, terrestrial repeater system, and ground networks, and for working capital and operating expenses. In January 2004, we also raised $177 million of net proceeds from the sale of Class A common stock, augmenting the Company's liquidity Provided that the Company meets the revenue, expense and cash flow projections of its business plan, the Company expects to be fully funded and will not need to raise additional financing to continue operations or to fund the completion and launch of XM-3 and the construction of XM-4. The Company may need to raise additional funding for the launch of XM-4 depending on the amount and timing of the receipt of the insurance proceeds and other factors.

(3) Recent Financing and De-leveraging Transactions

(a) January 2004 Financing

Offering of shares of Class A common stock

On January 28, 2004, the Company completed a public offering of 20,000,000 shares of its Class A Common Stock at $26 50 per share, 13,000,000 shares of which were offered for sale by certain selling stockholders This 7,000,000 share offering resulted in gross proceeds of $185 5 million to the Company The proceeds from this offering were used in part to repay the unvested portion of the 10% Senior Secured Convertible Note due December 31, 2009 to Onstar.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

(b) September 2003 Financing

Offering of shares of Class A common stock

On September 11, 2003, the Company completed a public offering of 11,320,755 shares of its Class A Common Stock at $13 25 per share to Legg Mason Funds Management, Inc , Legg Mason Capital Management, Inc., and another large institutional investor, each on behalf of its investment advisory clients This offering resulted in gross proceeds of $150 million

(c) June 2003 Financing

Offering of 12% Senior Secured Notes due 2010

On June 17, 2003, the Company completed an offering of $175 million of Inc.'s 12% Senior Secured Notes due June 15, 2010 In July 2003, an additional $10 million of these 12% senior secured notes due 2010 were issued upon exercise of the over-allotment option. Interest on the notes is payable every six months in cash in arrears on December 15 and June 15, commencing on December 15, 2003. The notes, which are Inc.'s senior secured obligations, are secured by substantially all of Inc 's assets, are guaranteed by the Company and will rank equally in right of payment with all of Inc 's other existing and future senior indebtedness and senior in right of payment to all of Inc 's existing and future subordinated indebtedness. Inc may, at its option, redeem the notes at declining redemption prices at any time on or after June 15, 2007 At any time on or prior to June 15, 2006, Inc. may redeem a portion of the outstanding notes with the proceeds of certain equity offerings as long as the redemption occurs within 90 days of the date of the closing of such equity offering and at least $100 million aggregate principal amount of notes remains outstanding after the redemption.

(d) January 2003 Financing

On January 28, 2003, the Company completed (1) an exchange of over $300 million of the $325 million aggregate principal amount of outstanding debt issued by Inc., (2) a restructuring of $250 million in payment obligations to General Motors Corporation ("GM") due through 2006, and (3) a private placement resulting in gross proceeds to the Company of $225 million

14% Senior Secured Discount Notes Issued in Exchange

The Company accepted for exchange $300.2 million aggregate principal amount of the previously outstanding $325 0 million of Inc.'s 14% Senior Secured Notes due 2010 ("Old Notes"). For each $1,000 principal amount of notes tendered for exchange, the tendering holder received.

- $1,459 principal amount at maturity of 14% Senior Secured Discount Notes due 2009 ("New Notes") issued by Inc. and guaranteed by XM;
- a warrant to purchase 85 shares of the Company's Class A common stock at an exercise price of $3 18 per share; and
- $70 in cash.

The exercise price of each warrant may be paid either in cash or without the payment of cash by reducing the number of shares of Class A common stock that would be obtainable upon the exercise of a warrant. The warrants are fully vested and expire December 31, 2009 The face value of the New Notes is reduced by a discount of $60,981,000 associated with the fair value of the related warrants. The fair value of the warrants was calculated using a Black-Scholes based methodology The face value of these notes is also reduced by an allocation of the unamortized discount on the Old Notes of $52,421,000. This exchange was accounted for as a troubled debt restructuring, and therefore, the modification of terms has been accounted for prospectively from the time of the restructuring The New Notes are reported on the Company's consolidated balance sheet as of December 31, 2003 as follows (in thousands)

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Face amount of notes at January 28, 2003	$ 300,176
Discount at January 28, 2003	(113,402)
Carrying amount of notes at January 28, 2003	$ 186,774
Discount amortization/interest accretion	31,270
Extinguishments	(40,964)
Carrying amount of notes at December 31, 2003	$ 177,080

Restructuring of GM Obligations

Under certain agreements with General Motors ("GM") and its subsidiary, OnStar Corporation ("OnStar"), the Company and Inc issued to OnStar a 10% Senior Secured Convertible Note due December 31, 2009 with an aggregate principal amount of $89 million in lieu of Inc.'s obligation to make $115 million in guaranteed payments from 2003 to 2006 under the distribution agreement with OnStar Corporation. The Company also entered into a $100 million credit facility with GM and issued a warrant to GM to purchase 10 million shares of Class A common stock at an exercise price of $3.18 per share. The warrant is fully vested and expires after five years The Company determined that the fair value of the warrant was $25 2 million, and the unamortized amount is included in deferred financing fees on the Company's consolidated balance sheet as of December 31, 2003. The fair value of the warrant was calculated using a Black–Scholes based methodology The note issued to OnStar is convertible and the warrant exercisable only to the extent GM would not beneficially own more than 19 9% of the Company's Class A common stock, unless the Company and GM otherwise agree and certain stockholder approvals are obtained.

OnStar will be able to convert the note into shares of Class A common stock pursuant to a vesting schedule so that on each date prior to and including December 31, 2006 that the Company would have been obligated to make scheduled guaranteed payments under the distribution agreement, a pro rata portion of the OnStar note corresponding to the scheduled guaranteed payment will become convertible at the option of OnStar at a conversion price equal to 90% of the fair market value of a share of Class A common stock (calculated as described above) on the date of conversion, provided that, the conversion price will be not less than $5 per share nor greater than $10 per share during 2003, not less than $5 per share nor greater than $15 per share during 2004, and not less than $5 per share nor greater than $20 per share thereafter. In February 2004, the Company completed the redemption of the OnStar note As described in Note 9(i), in February 2004, the Company completed the redemption of the OnStar note

GM provided the Company and Inc. with a $100 0 million Senior Secured Credit Facility, maturing as late as December 2009, that enables the Company to make monthly draws to finance payments that become due under the Company's distribution agreement with OnStar Corporation and other GM payments. This facility was amended in January 2004 and became a revolver. The Company and Inc are co–borrowers under this credit facility. The outstanding principal amount of all draws will be due December 31, 2009 and bear interest at the applicable 90–day LIBOR rate plus 10% through December 31, 2003, and effective January of 2004 bears interest at a per annum rate of LIBOR plus 8% The Company will be able to make interest payments semiannually in shares of Class A common stock having an aggregate fair market value at the time of payment equal to the amount of interest due. The fair market value will be based on the average daily trading prices of the Class A common stock over the ten business days prior to the day the interest payment is due The Company has the option to prepay all draws in whole or in part at any time, and, with effect from the January 2004 amendment, may re–borrow prepaid amounts. Beginning in 2005, the Company will be required to prepay the amount of any outstanding advances in an amount equal to the lesser of (i) 50% of the Company's excess cash and (ii) the amount necessary to prepay the draws in full. In order to make draws under the credit facility, the Company is required to have a certain minimum number of subscribers that are not originated by GM and a minimum pre–marketing cash flow

GM provided the Company with the ability to make up to $35 0 million in future subscriber bounty payments ("subscriber acquisition payments") that the Company may owe to OnStar under the distribution agreement in shares of Class A common stock, valued at fair market value at the time of payment

Source XM SATELLITE RADIO H, 10–K, March 15, 2004

Private Placement of 10% Senior Secured Discount Convertible Notes and Class A Common Stock

The Company sold $210 0 million of 10% Senior Secured Discount Convertible Notes due December 31, 2009 to certain institutional and accredited investors, including some of its current investors The Company and Inc are co-obligors on these new investor notes At any time, a holder of new investor notes may convert all or part of the accreted value of its notes at a conversion price of $3 18 per share. The face value of the 10% senior secured discount convertible notes is reduced by a discount of $2,842,000 associated with the fair value of the consideration provided to certain of these investors at the time of issuance The face value of these notes is further reduced by a beneficial conversion feature of $68,879,000. These notes are reported on the Company's consolidated balance sheet as of December 31, 2003 as follows (in thousands)

Face amount of notes at January 28, 2003	$210,000
Warrant discount at January 28, 2003	(2,842)
Beneficial conversion feature	(68,879)
Carrying amount at January 28, 2003	$138,279
Discount amortization/interest accretion	21,402
Extinguishments	(16,165)
Carrying amount at December 31, 2003	$143,516

The Company is not able to prepay or redeem the new investor notes. Beginning four years after the issuance of the new investor notes, the Company will be able to convert all, but not less than all of the notes at the conversion price 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 Holdings' and its subsidiaries' indebtedness is less than $250 million, and (iv) no shares of the Company's Series C preferred stock remain outstanding. The Company has committed to refer (or may provide directly as described below) one of the investors in its January 2003 convertible notes offering to potential sources of freely tradable shares of its Class A common stock for borrowing and hedging activities. To date its efforts have included identifying other significant holders of the Class A common stock who may be interested in entering into an arrangement with this investor Should these referrals not result in this investor obtaining a stock loan, the Company may issue up to 7 5 million shares to this investor for a purchase price payable by an interest-bearing promissory note and concurrently enter into a repurchase/resale agreement with this investor at the same purchase price, with a repurchase or resale to occur after two years. The accounting impact of an issuance and then repurchase or resale would ultimately depend on how the transaction is structured. One of the members of the Company's board of directors is a limited partner of this investor.

The Company also sold $15 0 million of its Class A common stock at a per share purchase price of $2.70 to a private investor and issued a warrant to purchase 900,000 shares of its Class A common stock at an exercise price of $3 18 per share to R Steven Hicks, who joined the Company's board of directors in connection with these transactions This warrant was valued at $2.3 million using a Black-Scholes based methodology, and the unamortized amount is included in deferred financing fees on the consolidated balance sheet as of December 31, 2003

De-leveraging Transactions

During the year the Company entered into agreements with certain holders of its notes to exchange $125.2 million carrying value, or $160.1 million fully accreted face value at maturity, of their notes, for $6 8 million in cash consideration and 19,232,230 shares of Class A common stock. The Company recorded a net loss of $24.7 million from these debt extinguishments in other expense on the consolidated statement of operations for the year ended December 31, 2003.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Also, the Company entered into agreements with certain holders of its 8 25% Series B convertible redeemable preferred stock to exchange $19 7 million in shares of Series B preferred stock for $10 2 million in cash consideration. The Company recorded an increase of $9.5 million in additional paid-in capital on the consolidated balance sheet as of December 31 2003 and reduced the net loss attributable to common stockholders for the year ended December 31, 2003 by $8.8 million from the retirement of this preferred stock. The Company also entered into agreements with certain holders of its 8 25% Series C convertible redeemable preferred stock to exchange $101 0 million carrying value, in shares of Series C preferred stock, for 11,951,381 shares of Class A common stock. The Company recorded a decrease of $11 5 million in additional paid-in-capital on the consolidated balance sheet as of December 31, 2003 and increased the net loss attributable to common stockholders for the year ended December 31, 2003 by a corresponding amount from the exchange of this preferred stock Additionally, the Company entered into agreements with certain holders of Class A common stock warrants to exchange 55,846 warrants convertible into 4,746,910 shares of Class A common stock for 3,579,818 shares of common stock and received $13 0 million in cash proceeds from the exercise of 47,962 warrants converted into 4,076,770 shares of Class A common stock.

As a result of these de-leveraging transactions, during 2003 the Company eliminated approximately $245 9 million of carrying value including accrued interest of debt and preferred securities or approximately $280.7 million of face amount at maturity The Company eliminated $2 1 million carrying value including accrued interest ($2 0 million face amount at maturity) of its 14% Senior Secured Notes due 2010, $65.5 million carrying value including accrued interest ($94 2 million face amount at maturity) of its 14% Senior Secured Discount Notes due 2009 issued in January 2003, $33 6 million carrying value including accrued interest ($33 4 million of face amount at maturity) of its 7 75% Convertible Subordinated Notes due 2006, $24.0 million carrying value including accrued interest ($30 5 million face amount at maturity) of its 10% Senior Secured Discount Convertible Notes due 2009, $19.7 million of its Series B preferred stock and $101 0 million carrying value of its Series C preferred stock

(4) Related Party Transactions

The Company had the following amounts due from related parties at December 31, 2003 and 2002 (in thousands):

	December 31,	
	2003	2002
General Motors Corporation ("GM")	$ 4,124	$1,478
Honda	1,052	—
Total	$ 5,176	$1,478

The Company had the following amount as related party prepaid expense at December 31, 2003 and December 31, 2002 (in thousands)

	December 31,	
	2003	2002
GM	$ 66,782	$ —

The Company had the following amounts outstanding to related parties at December 31, 2003 and 2002 (in thousands)

	December 31,	
	2003	2002
GM	$ 25,204	$ 20,908
Hughes	59	58
DIRECTV, Inc. ("DIRECTV")	—	3
Clear Channel	761	3,059
	$ 26,024	$ 24,028

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

The Company had the following long-term related party debt at December 31, 2003 and December 31, 2002 (in thousands):

	December 31,	
	2003	2002
GM	$141,891	$ —

Beginning in the fourth quarter of 2002, the Company engaged in activities with GM and Honda to jointly promote XM service subscriptions to new car buyers. At December 31, 2003, there were 320,473 subscribers in promotional periods (typically ranging from three months to one year in duration) paid for by the vehicle manufacturers. These subscriptions are included in the Company's subscriber total. Revenues earned from related parties, primarily from these subscriptions, are as follows (in thousands)

	Years Ended December 31,	
	2003	2002
General Motors Corporation ("GM")	$11,630	$ 256
Honda	368	—
	$11,998	$ 256

The Company has relied upon certain related parties for legal, technical, marketing and other services during the years ended December 31, 2003, 2002 and 2001. Total costs incurred in transactions with related parties are as follows (in thousands).

	Year ended December 31, 2003					
	GM	Hughes	DIRECTV	Clear Channel	LCCI	Motient
Terrestrial repeater network	$ —	$ 278	$ —	$ —	$ —	$ —
Terrestrial repeater site leases	—	—	—	60	—	—
Customer care & billing operations	960	—	—	—	—	—
Marketing	107,346	—	—	8,646	—	—
General & administrative	—	—	—	—	—	—

	Year ended December 31, 2002					
	GM	Hughes	DIRECTV	Clear Channel	LCCI	Motient
Terrestrial repeater network	$ —	$10,386	$ —	—	$ 3,089	$ —
Terrestrial repeater site leases	—	—	—	57	—	—
Customer care & and billing operations	178	—	—	—	—	—
Marketing	29,915	—	125	10,182	—	—
General & administrative	—	—	3	—	—	—

	Year ended December 31, 2001					
	GM	Hughes	DIRECTV	Clear Channel	LCCI	Motient
Terrestrial repeater network	$ —	$88,116	$ —	$ —	$59,958	$ —
Terrestrial repeater site leases	—	—	—	36	—	—
Customer care & billing operations	—	—	623	—	—	—
Marketing	1,264	—	—	4,351	—	—
General & administrative	—	—	—	—	—	193

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

(a) GM

In 1999, the Company established a distribution agreement with GM (see Note 16 (g)) Under the terms of the agreement, GM distributes the XM Radio Service in various models of its vehicles. This agreement was amended in June 2002 and January 2003.

(b) Hughes

In 1999, the Company entered into a terrestrial repeater manufacturing agreement with Hughes (see Note 16(e)).

(c) DIRECTV

In 1999, the Company entered into a consulting services agreement with DIRECTV The agreement provides for DIRECTV professionals to aid the Company's efforts in establishing its customer care center and billing operations on a time and materials basis

(d) Clear Channel

Clear Channel Communications provides certain programming services to the Company. In 2000, the Company entered into a sponsorship agreement with SFX Marketing, now Clear Channel Entertainment, to advertise and promote the Company's service at Clear Channel Entertainment events and venues. Since 2000, Premiere Radio Networks, a subsidiary of Clear Channel Communications has in the past served as one of the Company's ad sales representatives. Under separate agreements, the Company also runs advertisements on a spot and network basis on radio stations owned by Clear Channel Communications In addition, the Company leases 4 sites for its terrestrial repeaters from Clear Channel Communications

(e) LCCI

In 1999, the Company entered into the LCCI Services Contract (see Note 16(e)), and LCCI also provides certain ongoing consulting engineering work for the Company relating to the terrestrial repeater network on a time and materials basis. LCCI ceased to be a related party in 2002.

Source. XM SATELLITE RADIO H, 10-K, March 15, 2004

(f) Motient

In 1998, the Company entered into an agreement with Motient, in which Motient would provide technical and administrative support relating to the Company's operations Payments for services provided under this agreement were made based on negotiated hourly rates. Motient ceased to be a related party in 2002.

(5) Impairment Charge for Goodwill

In 2002, as part of the annual impairment testing, the Company performed an assessment of the fair value of its sole reporting unit as defined by SFAS No. 142 and compared it to the carrying value of its reporting unit. The Company's market capitalization had fallen below the Company's book value, indicating that the reporting unit's indefinite lived intangible assets, goodwill and the DARS license may be impaired under the test established by SFAS No 142

The Company determined the fair value of its assets on a class–by–class basis. The fair values of the Company's assets were based upon the expected cash flow from the Company's business, as adjusted for the investment and time that would be required to develop the Company's business, and assuming a discount rate that reflects the degree of risk involved with this type of business. The fair value of the DARS license was in excess of its net book value, and therefore, no impairment was recorded After valuing all of the Company's remaining assets, the total value of the identifiable, individual tangible and intangible assets was in excess of the value of entire Company based upon market capitalization under SFAS No 142. As such, no value was ascribed to the Company's goodwill. Therefore, the Company recorded an impairment charge of $11.5 million to write–off the net book value of its goodwill as of November 30, 2002.

(6) System Under Construction

The Company has capitalized costs related to the development of its XM Radio System to the extent that they have future benefits. The amounts recorded as system under construction consist of the following (in thousands):

	December 31,	
	2003	2002
Spacecraft system	$ 92,450	$ 55,016
Spacecraft control facilities	127	—
	$ 92,577	$ 55,016

(7) Property and Equipment

Property and equipment consists of the following (in thousands)

	2003	2002
Spacecraft system	$ 521,226	$ 521,226
Terrestrial system	267,730	266,982
Spacecraft control facilities	27,016	24,848
Broadcast facilities	59,143	59,045
Land	7,156	7,156
Building and improvements	41,906	41,884
Computer systems, furniture and fixtures, and equipment	100,387	85,061
	1,024,564	1,006,202
Accumulated depreciation	(315,063)	(158,266)
Property and equipment, net	$ 709,501	$ 847,936

Source: XM SATELLITE RADIO H, 10–K, March 15, 2004

In December 2001, the Company conducted a network optimization study and determined that the planned number of terrestrial repeater sites could be reduced The Company established a formal plan and recognized a charge of $4.8 million, $4.0 million and $26.3 million for the years ended December 31, 2003, 2002 and 2001, respectively, with respect to the terrestrial repeater sites no longer required. The costs are principally related to the site acquisition and build-out of the identified sites These charges have been recorded in satellite & terrestrial on the consolidated statements of operations for each of the years in the three-year period ended December 31, 2003 The charges of $4 8 million and $4 0 million in 2003 and 2002, respectively, represent additional costs associated with terminating leases on terrestrial repeater sites no longer required The charge of $26 3 million in 2001 included $17.7 million of site-specific capitalized costs that were written off and a lease termination accrual of $8.6 million for 646 terrestrial repeater site leases At December 31, 2003 and 2002, the Company had recorded a lease termination accrual of $4 1 million and $2 2 million, respectively which represents an estimate of the costs to terminate the remaining leases based on management's judgment, advice of lease consultants, and early negotiations with landlords. The liability also includes the estimated costs to deconstruct the existing sites, which are based upon quotes from contractors At December 31, 2003, 78 leases remain to be terminated.

(8) Deferred Financing Fees

Deferred financing fees consist of the following at December 31, 2003 and 2002 (in thousands):

	December 31,	
	2003	2002
14% senior secured discount notes due 2009	$ 6,424	$ —
14% senior secured notes due 2010	622	8,868
12% senior secured notes due 2010	6,510	—
10% senior secured discount convertible notes due 2009	10,666	4,168
7.75% convertible subordinated notes due 2006	1,541	2,665
Valuation of warrants issued to GM in conjunction with credit facility	25,151	—
Valuation of warrants issued to related party in conjunction with the issuance of 10% senior secured discount convertible notes	2,288	—
Valuation of warrants issued to vendors	178	—
Mortgage	533	496
Loan payable	647	977
	$ 54,560	$17,174
Less accumulated amortization	(10,561)	(3,898)
Deferred financing fees, net	$ 43,999	$13,276

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

(9) Long-Term Debt

Long-term debt at December 31, 2003 and 2002 consists of the following (in thousands):

	December 31,	
	2003	2002
14% Senior Secured Notes due 2010 (Old Notes)	$ 22,824	$325,000
Less: unamortized discount	(3,726)	(57,102)
14% Senior Secured Notes due 2009 (New Notes)	262,211	—
Less unamortized discount	(85,131)	—
12% Senior Secured Notes due 2010	185,000	—
10% Senior Secured Discount Convertible Notes due 2009	205,068	—
Less: unamortized discount	(61,552)	—
7 75% Convertible Subordinated Notes due 2006	45,703	79,057
Mortgage	28,153	28,573
Loan	35,000	35,000
Notes payable	2,644	—
Related party long-term debt	141,891	—
Capital leases	3,855	5,857
Total debt	$781,940	$416,385
Less current installments	(38,686)	(3,845)
Long-term debt, excluding current installments	$743,254	$412,540

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

The following table presents a summary of the debt activity in 2003 (in thousands)

	December 31, 2002	Issuances / Additions	January 2003 Exchange	Discount Amortization	Interest Expense	Payments	Retirements / Extinguishments	December 31, 2003
14% Senior Secured Notes due 2010 (Old Notes)	$ 325,000	—	$ (300,176)	—	—	—	$ (2,000)	$ 22,824
Less: discount	(57,102)	—	52,421	606	—	—	349	(3,726)
14% Senior Secured Notes due 2009 (New Notes)	—	—	300,176	—	—	—	(64,733)	235,443
Add: accretion of interest	—	—	—	—	27,518	—	(750)	26,768
Less: discount	—	(60,981)	(52,421)	4,502	—	—	23,769	(85,131)
12% Senior Secured Notes due 2010	—	185,000	—	—	—	—	—	185,000
10% Senior Secured Discount Convertible Notes	—	210,000	—	—	—	—	(23,391)	186,609
Add: accretion of interest	—	—	—	—	19,104	—	(645)	18,459
Less: discount	—	(71,721)	—	2,943	—	—	7,226	(61,552)
7.75% Convertible Subordinated Notes due 2006	79,057	—	—	—	—	—	(33,354)	45,703
Mortgage	28,573	—	—	—	—	(420)	—	28,153
Loan	35,000	—	—	—	—	—	—	35,000
Notes payable	—	2,644	—	—	—	—	—	2,644
Related party long-term debt	—	141,891	—	—	—	—	—	141,891
Capital leases	5,857	1,894	—	—	—	(2,722)	(1,174)	3,855
Total	$ 416,385	$ 408,727	$ —	$ 8,051	$ 46,622	$ (3,142)	$ (94,703)	$ 781,940

Future maturities of long-term debt are as follows as of December 31, 2003 (in thousands):

Year ending December 31:	
2004	$ 38,686
2005	3,578
2006	125,940
2007	—
2008	—
Thereafter	613,736
Total debt	$781,940

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

The long-term debt payments due in 2006 include the maturity of the $45 7 million of 7 75% Convertible Subordinated Notes and the payment of $52 8 million due to Onstar under the related credit facility and distribution agreement. Of the $52.8 million due to GM as of December 31, 2003, $50.0 million was drawn from the credit facility and $2 8 million related to subscription acquisition payments that may be paid in Class A common stock In January 2004, the credit facility with GM was renegotiated to become a revolver providing for borrowings up to a maximum of $100 million through the maturity of the instrument in December 2009 As described below in Note 9(i), in March 2004, the holders of the $45.7 million 7 75% Convertible Subordinated Notes due 2006 converted into shares of Class A common stock This represented the retirement of all the Company's remaining outstanding 7.75% Subordinated Convertible Notes

The long-term debt payments due in 2009 and beyond include the maturity of the $89.0 million of 10% Senior Secured Convertible Note to GM As described below in Note 9(i), in February 2004, the Company completed the redemption of the $89 0 million of 10% Senior Secured Convertible Note.

(a) 14% Senior Secured Notes

On March 15, 2000, the Company closed a private placement of 325,000 units, each unit consisting of $1,000 principal amount of Old Notes and one warrant to purchase 8 024815 shares of the Company's Class A common stock at a price of $49.50 per share. The Company realized net proceeds of $191,500,000, excluding $123,000,000 used to acquire securities that was used to pay interest payments due under the notes for the first three years. The $325,000,000 face value of the notes was offset by a discount of $65,746,000 associated with the fair value of the related warrants. In January 2003, the Company completed an exchange of 300,176 Old Notes for $437,956,784 principal amount at maturity of New Notes, warrants to purchase 25,514,960 shares of the Company's Class A common stock at a price of $3.18 per share and $21,012,320 in cash The face value of the New Notes was offset by a discount of $60,981,000 associated with the fair value of the related warrants. The face value of these notes is also reduced by a discount of $52,421,000 associated with the allocation of the discount on the Old Notes As of December 31, 2003 and December 31, 2002, the Company had amortized $13,752,000 and $8,644,000 of the discount, respectively During the year ended December 31, 2003, the Company also extinguished $2,000,000 principal amount at maturity, of Old Notes plus accrued interest and $65,483,000 carrying value, or $94,208,000 fully accreted face value at maturity, of New Notes by issuing 8,448,500 shares of its Class A common stock

(b) 12% Senior Secured Notes

On June 17, 2003, the Company sold $175,000,000 of 12% senior secured notes due June 15, 2010 to certain institutional and accredited investors, including some of its current investors In July 2003, an additional $10,000,000 of these 12% senior secured notes due 2010 were issued pursuant to the over-allotment option

(c) 10% Senior Secured Discount Convertible Notes

On January 28, 2003, the Company sold $210,000,000 of 10% senior secured discount convertible notes due December 31, 2009 to certain institutional and accredited investors, including some of its current investors. The $210,000,000 face value of the notes was offset by a discount of $2,842,000 associated with the fair value of the consideration provided to certain of these investors at the time of issuance. In connection with this transaction, the Company also recognized a beneficial conversion feature of $68,879,000. During the year ended December 31, 2003, the Company also exchanged $24,036,000 carrying value, or $30,502,000 principal amount at maturity, of 10% senior secured discount convertible notes due 2009 by issuing 8,072,081 shares of its Class A common stock The Company recorded the discount of $7,226,000 attributable to the beneficial conversion of these exchanged notes to interest expense during the year ended December 31, 2003 The Company may require conversion on or after January 28, 2007 of all of the notes into shares of Class A common stock at a conversion price of $3 18 per share The holders of the notes may convert their notes into Class A common stock at any time prior to maturity

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

(d) 7.75% Convertible Subordinated Notes

On March 6, 2001, the Company closed a public offering of $125,000,000 of its 7.75% convertible subordinated notes due 2006 The subordinated notes are convertible into shares of the Company's Class A common stock at a conversion price of $12 23 per share. In July and August 2001, the holders of the 7.75% convertible subordinated notes exchanged $45,900,000 of notes for 4,194,272 shares of the Company's Class A common stock During the year ended December 31, 2003, the holders of the 7 75% convertible subordinated notes exchanged $33,354,000 of notes for 2,711,649 shares of the Company's Class A common stock and $6,843,000 in cash. The Company may redeem at any time after March 3, 2004 all or part of the notes at declining redemption prices The holders of the notes may convert their notes into Class A common stock at any time prior to maturity. As described below in Note 9(i), in March 2004, the holders of these notes converted into shares of Class A common stock.

(e) Mortgage

On August 24, 2001, the Company entered into a loan and security agreement with a lender that provided it with $29,000,000 to purchase its corporate headquarters and incurred $500,000 in financing costs associated with the transaction. The loan bore interest at 8% until it adjusted on March 1, 2002 to the six-month LIBOR rate plus 3.5% The interest rate is adjusted every six months and may not exceed the ceiling rate of 14% or the floor rate of 8% The loan will mature on September 1, 2006 The Company used the proceeds along with $5,000,000 to purchase its corporate headquarters for $34,000,000 and incurred $800,000 in closing costs on the transaction The mortgage is secured by the building and an escrow of $3,500,000 at December 31, 2003.

(f) Loan Payable

On December 5, 2001, the Company entered into a Customer Credit Agreement with Boeing Capital Corporation ("BCC") pursuant to which the Company borrowed $35,000,000 from BCC at an interest rate equal to LIBOR plus 3.5%, increasing to LIBOR plus 4.5% after December 5, 2003, which is compounded annually and payable quarterly in arrears The principal is due on the earlier of December 5, 2006 or the launch of the ground spare satellite (XM-3), presently scheduled for the three-month period commencing October 15, 2004. The principal would also become due should the Boeing Satellite Contract (Note 16(d)) be terminated The loan is secured by the Company's interest in the ground spare satellite, excluding its payload

(g) Related Party Notes

On January 28, 2003, the Company and Inc issued to Onstar, a subsidiary of GM, a 10% senior secured convertible note due December 31, 2009 with an aggregate principal amount of $89,042,000 in lieu of Inc.'s obligation to make $115,000,000 in guaranteed payments from 2003 to 2006 under the distribution agreement with Onstar As described below in Note 9(i), in February 2004, the Company completed the redemption of this note through repayment with cash and GM's conversion of a portion of the principal amount into the Company's Class A common stock GM also provided the Company with the ability to make up to $35,000,000 in future subscriber acquisition payments that the Company may owe to Onstar under the distribution agreement in shares of Class A common stock and provided the Company with a $100,000,000 credit facility agreement The credit facility was amended in January 2004 and became a revolver providing for borrowings up to a maximum of $100 million through maturity of the facility in December 2009. As of December 31, 2003, the Company has incurred $52,849,000 in expenses due to Onstar which is reported in marketing expenses on the Company's consolidated statement of operations for the year ended December 31, 2003 Of this amount, $50,043,000 has been drawn from the credit facility and $2,806,000 relates to subscriber acquisition payments due to Onstar that may be paid in Class A common stock

(h) Notes Payable

The Company has established notes payable for credit facilities to vendors for the deferral of up to $6,000,000 million in amounts owed. These notes are payable in 2004 and 2005 and accrue interest at 6% As of December 31, 2003, the balance due on these credit facilities was $2,644,000. The Company also issued warrants in connection with these notes. The fair value of these warrants is $169,000 and is included in deferred financing fees

(i) Subsequent Conversions and Retirement

In February 2004, the Company completed the redemption of the 10% Senior Secured Convertible Note As part of the redemption, GM converted $7 8 million in principal amount of the note, representing the entire principal amount of the note that had vested conversion rights at the time of the redemption, into 980,670 shares of the Company's Class A Common Stock in accordance with the terms of the note. The remaining $81.2 million in principal amount plus accrued interest was repaid with cash

In March 2004, the holders of the $45.7 million 7.75% Convertible Subordinated Notes due 2006 called for redemption following the Company's January 2004 offering elected to convert into 3.7 million shares of Class A Common Stock in accordance with the terms of the notes This represented the retirement of all remaining outstanding 7 75% Subordinated Convertible Notes

Source. XM SATELLITE RADIO H, 10-K, March 15, 2004

(10) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2003 and 2002 (in thousands) The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

	December 31,			
	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$418,307	$ 418,307	$ 32,818	$ 32,818
Short-term investments	—	—	9,997	9,997
Restricted investments	4,151	4,151	29,742	29,869
Accounts receivable	13,160	13,160	3,756	3,756
Due from related parties	5,176	5,176	1,478	1,478
Letters of Credit	—	4	—	10
Financial liabilities				
Accounts payable	35,773	35,804	40,006	40,006
Accrued expenses	57,293	57,293	46,924	46,924
Accrued network optimization expenses	4,136	4,136	2,201	2,201
Due to related parties	26,024	25,993	24,028	24,028
Total debt	781,940	2,500,994	416,385	317,529
Other non-current liabilities	29,417	29,417	9,477	9,477

Source. XM SATELLITE RADIO H, 10-K, March 15, 2004

The carrying amounts shown in the table are included in the consolidated balance sheets under the indicated captions. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, short-term investments, accounts receivable, due from related parties, accounts payable, accrued expenses, accrued network optimization expenses, due to related parties and other non-current liabilities: The carrying amounts approximate fair value because of the short maturity of these instruments

Restricted investments: The fair values of debt securities (held-to-maturity investments) are based on quoted market prices at the reporting date for those or similar investments.

Letters of credit. The value of the letters of credit is based on the fees paid to obtain the letters of credit

Long-term debt. 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 by quoted market prices at the reporting date for the traded debt securities.

(11) Equity

(a) Capitalization

As of June 25, 2002, the Company had authorized 180,000,0000 shares of Class A common stock, which is entitled to one vote per share, 30,000,000 shares of Class B common stock, which had three votes per share, and 30,000,000 shares of non-voting Class C common stock. On June 25, 2002, the Company filed an amendment to its Certificate of Incorporation, which was approved at the annual meeting of stockholders, to increase the authorized number of shares of Class A common stock to 225,000,000, decrease the authorized number of shares of Class C common stock to 15,000,000 and eliminate the Class B common stock. On March 27, 2003, the Company filed an amendment to its Certificate of Incorporation, which was approved at a special meeting of stockholders, to increase the authorized number of shares of Class A common stock to 600,000,000.

During 2003 and 2002, the Company had authorized 60,000,000 shares of preferred stock, of which 15,000,000 shares were designated Series A convertible preferred stock, 3,000,000 shares were designated 8 25% Series B convertible redeemable preferred stock, and 250,000 shares were designated 8 25% Series C convertible redeemable preferred stock, which are all par value $0 01 per share. The Series A convertible preferred stock is convertible into Class A common stock at the option of the holder. The Series A preferred stock is non-voting and receives dividends, if declared, ratably with the common stock The Series B and C convertible redeemable preferred stock are convertible to Class A common stock at the option of the holder. The Series B convertible redeemable preferred stock is non-voting The

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Series C redeemable preferred stock contains voting and certain veto rights. On August 15, 2002, the Company filed an amendment to its Certificate of Incorporation to designate 250,000 shares of $0 01 par value preferred stock as Series D Junior Participating Preferred Stock. The Series D Junior Participating Preferred Stock is non-voting, ranks junior to all other classes of preferred stock and was designated in connection with the adoption of the Shareholders' Rights Plan There are no outstanding shares of Series D Participating Preferred Stock as of December 31, 2003.

(b) Stock Dividends on Preferred Stock

The Company paid 2003 quarterly dividends on the 8 25% Series B convertible redeemable preferred stock on February 1, 2003, May 1, 2003, August 1, 2003 and November 1, 2003 by issuing 306,167, 109,812, 39,390, and 29,394 shares of Class A common stock, respectively, to the respective holders of record.

The Company paid 2002 quarterly dividends on the 8 25% Series B convertible redeemable preferred stock on February 1, 2002, May 1, 2002, August 1, 2002 and November 1, 2002 by issuing 60,971, 74,409, 160,235, and 285,725 shares of Class A common stock, respectively, to the respective holders of record.

The terms of the Company's 8.25% Series C convertible redeemable preferred stock provide for cumulative dividends payable in cash. Because no dividends have been declared on the Series C preferred stock, the value of the cumulative dividends has increased the liquidation preference of the Series C preferred stock The net loss attributable to common stockholders reflects the accrual of the dividends to preferred stockholders for the years ended December 31, 2003, 2002 and 2001.

(c) Conversions of Series B Convertible Redeemable Preferred Stock and Series C Convertible Redeemable Preferred Stock

During the first half of 2003, the Company entered into agreements with certain holders of its 8 25% Series B convertible redeemable preferred stock to exchange $19 7 million in shares of Series B preferred stock for $10 2 million in cash consideration. These exchanges resulted in a decrease of the liquidation preference for the Series B preferred stock of $19 7 million and a decrease in the quarterly dividend requirement of $427,000

During the second half of 2003, the Company entered into agreements with certain holders of its 8 25% Series C convertible redeemable preferred stock to exchange 80,000 shares of Series C preferred stock plus accrued dividends through the date of the exchange (carrying value of $101 0 million) for 11,951,381 shares of Class A common stock. These exchanges resulted in a decrease of the liquidation preference for the Series C preferred stock of $101 0 million and a decrease in the quarterly dividend requirement of $1 7 million. As a result of our financings and other issuances of securities, the conversion price of the Series C preferred stock was adjusted from $9 39 at December 31, 2002 to $8 90 at December 31, 2003.

The following table provides a summary of the changes in the liquidation preferences for Series B preferred stock and Series C preferred stock in 2003 (in thousands):

	December 31, 2002	Conversions	Accrued Dividends	December 31, 2003
Series B Convertible Preferred Stock:				
Face amount	$ 43,364	$ (19,650)	$ —	$ 23,714
Carrying amount of liquidation preference	$ 43,464	$ (19,650)	$ —	$ 23,714
Series C Convertible Preferred Stock				
Face amount	$ 200,000	$ (80,000)	$ —	120,000
Cumulative dividends payable	39,508	(21,001)	15,098	33,605
Carrying amount of liquidation preference	$ 239,508	$ (101,001)	15,098	153,605

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

On January 3, 2002, a Series C preferred stockholder converted 14,131 shares of Series C preferred stock to 744,446 shares of Class A common stock This conversion resulted in a decrease of the liquidation preference for the Series C preferred stock of $15 8 million and a decrease in the quarterly dividend requirement of $291,000 On May 2, 2002, a Series C preferred stockholder converted 20,869 shares of Series C preferred stock to 1,219,908 shares of Class A common stock. This conversion resulted in a decrease of the liquidation preference for the Series C preferred stock of $24 0 million and a decrease in the quarterly dividend requirement of $430,000 As a result of our financings and other issuances of securities, the conversion price of the Series C preferred stock issued in August 2000 was adjusted from $26 50 at December 31, 2001 to $9 39 at December 31, 2002.

(d) Class A Common Stock Issuances

During the year ended December 31, 2003, the Company entered into agreements with certain holders of its notes to exchange $125 2 million carrying value, or $160.1 million fully accreted face value at maturity, of their notes, for $6 8 million in cash consideration and 19,232,230 shares of Class A common stock The Company also entered into agreements with certain holders of Class A common stock warrants to exchange 55,846 warrants convertible into 4,746,910 shares of Class A common stock for 3,579,818 shares of Class A Common stock and received $13 0 million in cash proceeds from the exercise of 47,962 warrants converted into 4,076,770 shares of Class A common stock.

On September 11, 2003, the Company completed a public offering of 11,320,755 shares of its Class A Common Stock to Legg Mason Funds Management, Inc , Legg Mason Capital Management, Inc , and another large institutional investor, each on behalf of its investment advisory clients. This offering resulted in net proceeds of $150 million

During the first half of 2003, the Company issued 10,814,500 shares of Class A common stock for net proceeds of $66 million under its Direct Stock Purchase Program, or DSPP

In January 2003, the Company completed a private placement of 5,555,556 shares of its Class A Common Stock at a per share purchase price of $2.70, which yielded net proceeds of $15.0 million

In connection with the January 2003 financings (see note 3), the Company issued a warrant to purchase 900,000 shares of its Class A common stock at an exercise price of $3.18 per share to R Steven Hicks, who joined the Company's board of directors in connection with these transactions. This warrant was valued at $2.3 million using a Black–Scholes based methodology, and the unamortized amount is included in deferred financing fees on the consolidated balance sheet as of December 31, 2003 During the second half of 2003, R Steven Hicks exercised a warrant to purchase 900,000 shares of its Class A common stock at a purchase price of $3 18 per share and received 737,216 net shares of Class A common stock The warrant was originally issued pursuant to the January 2003 transactions

As a result of our financings and other issuances of securities, the exercise price of the warrants sold in March 2000 has been adjusted to $45 24 and the number of warrant shares has been adjusted to 8 78. The exercise price of the warrants sold in January 2003 remained at $3 18 and the number of warrant shares remained at 85.

On April 17, 2002, the Company completed a follow–on offering of 13,387,000 shares of its Class A common stock, which yielded net proceeds of $146 million. On April 29, 2002, the underwriters exercised the over–allotment option and the Company issued 1,090,443 shares of Class A common stock, which resulted in net proceeds of $12 million. The closing of the offering caused the conversion price of the Series C preferred stock to be adjusted from $21.16 to $19.68, the exercise price of the warrants sold in March 2000 to be adjusted from $45 27 to $44.84 and the number of warrant shares to be increased to 8 86 per warrant

(e) Shareholders' Rights Plan

In August 2002, the Company adopted a Shareholders' Rights Plan (commonly known as a "poison pill") in which preferred stock purchase rights were granted as a dividend at the rate of one right for each share of common stock held of record as of the close of business on August 15, 2002. The rights would be exercisable only upon the occurrence of certain events relating to an unsolicited take–over or change of control of the Company

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

(f) Stock-Based Compensation

The Company operates three separate stock plans, the details of which are described below

1998 Shares Award Plan

On June 1, 1998, the Company adopted the 1998 Shares Award Plan (the "Plan") under which employees, consultants, and non-employee directors may be granted options to purchase shares of Class A common stock of the Company The Company has authorized 25,000,000 shares of Class A common stock under the Plan. The options are exercisable in installments determined by the compensation committee of the Company's board of directors The options expire as determined by the committee, but no later than ten years from the date of grant On July 8, 1999, the Company's board of directors voted to reduce the exercise price of the options outstanding in the shares award plan from $16 35 to $9.52 per share, which represented the fair value of the stock on the date of repricing.

Transactions and other information relating to the Plan for the years ended December 31, 2003, 2002 and 2001 are summarized below

	Outstanding Options	
	Number of Shares	Weighted-Average Exercise Price
Balance, January 1, 2001	3,095,688	$ 17.61
Options granted	2,680,415	15 54
Options canceled or expired	(23,570)	9.55
Options exercised	(253,593)	17.88
Balance, December 31, 2001	5,498,940	$ 16.62
Options granted	2,765,352	12.93
Options canceled or expired	(633,457)	17.13
Options exercised	(15,772)	9 47
Balance, December 31, 2002	7,615,063	$ 15 24
Options granted	5,548,305	5.99
Options canceled or expired	(517,762)	15.37
Options exercised	(680,568)	11 36
Balance, December 31, 2003	11,965,038	$ 11.21

Source. XM SATELLITE RADIO H, 10-K, March 15, 2004

December 31,	Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
2001	$ 4.82–$9.42	363,700	9.31 years	$ 7.91	55,000	$ 8.46
	$ 9.44–$12.00	2,256,263	7.50 years	$ 10.37	1,716,153	$ 10.21
	$ 12.06–$26.88	2,142,409	9.14 years	$ 17.75	165,132	$ 18.90
	$ 27.63–$45.44	736,568	8.52 years	$ 36.81	272,681	$ 36.93
2002	$ 2.13–$9.52	2,214,875	7.37 years	$ 8.46	1,523,261	$ 9.17
	$ 9.55–$14.99	2,698,371	8.41 years	$ 13.76	908,247	$ 12.10
	$ 15.00–$18.69	1,959,457	8.26 years	$ 17.58	745,019	$ 17.65
	$ 18.82–$45.44	742,360	7.53 years	$ 35.12	524,301	$ 35.23
2003	$ 2.67	2,100	9.01 years	$ 2.67	0	$ 0.00
	$ 2.77–$5.34	4,995,218	9.17 years	$ 5.31	41,452	$ 3.72
	$ 5.67–$14.99	4,404,292	7.12 years	$ 11.54	2,723,468	$ 10.86
	$ 15.00–$45.44	2,563,428	7.21 years	$ 22.16	1,848,581	$ 23.67

There were 4,613,501, 3,700,828 and 2,208,966 stock options exercisable at December 31, 2003, 2002 and 2001, respectively. At December 31, 2003, there were 12,128,751 shares available under the plan for future grants. During 2002, the Company granted 50,000 restricted shares. At December 31, 2003, all options have been issued to employees, officers and directors, except for 216,000 options granted to non-employees for which the Company recognized $1.2 million in non-cash compensation expense during 2003.

The per share weighted-average fair value of employee options granted during the year ended December 31, 2003, 2002 and 2001 was $4.72, $10.88 and $8.77, respectively, on the date of grant using the Black-Scholes Option Pricing Model with the following weighted-average assumptions:

	Year ended December 31,		
	2003	2002	2001
Expected dividend yield	0%	0%	0%
Volatility	107.38%	122.25%	62.40%
Risk-free interest rate range	2.30% to 3.37%	2.63% to 4.91%	3.66% to 4.99%
Expected life	5 years	5 years	5 years

Employee Stock Purchase Plan

In 1999, the Company established an employee stock purchase plan that provides for the issuance of 300,000 shares of Class A common stock, which was increased to 600,000 shares in 2001 and 1,000,000 shares in 2003. All employees whose customary employment is more than 20 hours per week and for more than five months in any calendar year are eligible to participate in the stock purchase plan, provided that any employee who would own 5% or more of the Company's total combined voting power immediately after an offering date under the plan is not eligible to participate. Eligible employees must authorize the Company to deduct an amount from their pay during offering periods established by the compensation committee. The purchase price for shares under the plan will be determined by the compensation committee but may not be less than 85% of the lesser of the market price of the common stock on the first or last business day of each offering period. As of December 31, 2003, 2002 and 2001, the Company had issued a cumulative total of 528,044, 402,380 and 217,401 shares, respectively, under this plan. At December 31, 2003, there were 471,956 shares available under the plan for future sale.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

The per share weighted-average fair value of purchase rights granted was $5.22, $4.80 and $5.37 for the years ended December 31, 2003, 2002 and 2001, respectively. The estimates were calculated at the grant date using the Black-Scholes Option Pricing Model with the following assumptions at December 31, 2003, 2002 and 2001.

	Year ended December 31,		
	2003	2002	2001
Expected dividend yield	0%	0%	0%
Volatility	107.38%	122.25%	62.40%
Risk-free interest rate range	0.90% to 1.22%	1.57%-1.79%	2.4%-5.89%
Expected life	0.24 years	0.24 years	0.24 years

The Company applies APB 25 in accounting for stock-based compensation for both plans and, accordingly, no compensation cost has been recognized for its stock options and stock purchase plan in the financial statements other than for performance based stock options, for options granted with exercise prices below fair value on the date of grant and for repriced options under FIN No 44 During 2003, 2002 and 2001, the Company incurred $0, $1.1 million and $2.4 million, respectively, in compensation cost for these options.

Talent Option Plan

In May 2000, the Company adopted the XM Talent Option Plan ("Talent Plan") under which non-employee programming consultants to the Company may be granted options to purchase shares of Class A common stock of the Company. The Company authorized 500,000 shares of Class A common stock under the Talent Plan. The options are exercisable in installments determined by the talent committee of the Company's board of directors The options expire as determined by the talent committee, but no later than ten years from the date of the grant. As of December 31, 2003 and 2002, 291,500 and 146,000 options had been granted under the Talent Plan, respectively. In 2003, 2002 and 2001, the Company recognized $936,000 and $(16,000) and $575,000, respectively, in non-cash compensation expense related to these options under SFAS 123. At December 31, 2003, there were 208,500 options available under the plan for future grant.

(12) Profit Sharing and Employee Savings Plan

On July 1, 1998, the Company adopted a profit sharing and employee savings plan under Section 401(k) of the Internal Revenue Code. This plan allows eligible employees to defer up to 15% of their compensation on a pre-tax basis through contributions to the savings plan The Company contributed $0.50 in 2003, 2002 and 2001 for every dollar the employees contributed up to 6% of compensation, which amounted to $679,000, $738,000 and $543,000, respectively

(13) Interest Cost

The Company capitalizes a portion of interest cost as a component of the cost of the XM Radio System The following is a summary of interest cost incurred during December 31, 2003, 2002 and 2001 (in thousands)

	2003	2002	2001
Interest cost capitalized	$ 4,799	$ —	$ 45,211
Interest cost charged to expense	110,349	63,573	18,131
Total interest cost incurred	$ 115,148	$ 63,573	$ 63,342

The Company exceeded its capitalization threshold and incurred charges to interest of $110,349,000 and $18,131,000 during 2003 and 2001, respectively In 2002, the Company had no items that were considered qualified expenditures.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

(14) Income Taxes

The provision for the income taxes for the three years ended December 31, 2003 consists of the following:

Taxes on income included in the Statements of Operations consists of the following (in thousands):

	December 31,		
	2003	2002	2001
Current taxes:			
Federal	$—	$ —	$ —
State	—	—	—
Total current taxes	—	—	—
Deferred taxes:			
Federal	$—	$ —	$ —
State	—	—	—
Total deferred taxes	—	—	—
Total tax expense (benefit)	$—	$ —	$ —

A reconciliation of the statutory tax expense, assuming all income is taxed at the statutory rate applicable to the income and the actual tax expense is as follows (in thousands)

	December 31,		
	2003	2002	2001
Income (loss) before taxes on income, as reported in the statements of income	$(584,535)	$(495,012)	$(284,379)
Theoretical tax benefit on the above amount at 35%	(204,587)	(173,254)	(99,533)
State tax, net of federal benefit	(20,459)	(24,163)	(13,225)
Increase in taxes resulting from change to effective tax rate	12,507	—	—
Increase in taxes resulting from permanent differences, net	7,817	4,110	2,701
Change in valuation allowance	204,722	193,307	110,057
Taxes on income for the reported year	$ —	$ —	$ —

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

At December 31, 2003, 2002 and 2001, deferred income tax consists of future tax assets/(liabilities) attributable to the following (in thousands)

	December 31,		
	2003	2002	2001
Deferred tax assets			
Net operating loss/other tax attribute carryovers	$ 431,660	$ 251,518	$ 52,678
Book expenses capitalized and amortized for tax purposes	89,039	101,650	106,584
Deferred revenue	20,745	4,918	418
Other deferred tax assets	5,764	—	512
Gross total deferred tax assets	547,208	358,086	160,192
Valuation allowance for deferred tax assets	(533,078)	(328,356)	(135,049)
Net deferred assets	14,130	29,730	25,143
Deferred tax liabilities			
Property, equipment and intangible assets	(14,130)	(29,149)	(25,143)
Other deferred tax liabilities	—	(581)	—
Net deferred tax liabilities	(14,130)	(29,730)	(25,143)
Deferred income tax, net	$ —	$ —	$ —

At December 31, 2003, the Company had accumulated net operating losses of $1,121,195,000 for Federal income tax purposes that are available to offset future regular taxable income. These operating loss carryforwards expire between the years 2012 and 2023. Utilization of these net operating losses are subject to Internal Revenue Code Section 382 for loss limitations because there have been significant changes in the stock ownership of the Company. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

(15) Supplemental Cash Flows Disclosures

The Company paid $76,347,000, $62,586,000, and $9,174,000 for interest (net of amounts capitalized) during 2003, 2002 and 2001, respectively Additionally, the Company incurred the following non-cash financing and investing activities (in thousands)

	December 31,		
	2003	2002	2001
Accrued system milestone payments	$ 29,193	$5,123	$ 37,775
Issuance of note for prepaid expenses	89,042	—	—
Issuance of warrants for deferred financing fees	27,439	—	—
Issuance of warrants for satellite contract	5,790	—	—
Issuance of notes for accrued expenses	55,493	—	—
Discount on debt securities	101,707	—	—
Conversion of debt to equity	118,401	—	50,992
Systems under construction placed in service	—	2,147	1,000,228
Use of deposit/escrow for capital lease agreement	1,174	—	—
Use of deposit/escrow for terrestrial repeater contracts	—	—	80,431
Property acquired through capital leases	1,894	2,139	6,177
Non-cash capitalized interest	4,799	—	4,751

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

(16) Commitments and Contingencies

(a) 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 Company. The DARS license requires that the Company comply with a construction and launch schedule specified by the FCC for each of the 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. The Company believes that the exercise of such authority to rescind the license is unlikely If necessary, the Company could seek FCC authority to launch additional satellites for use in its system, which management believes would likely be approved. Additionally, the FCC has not yet issued final rules permitting the Company to deploy its terrestrial repeaters to fill gaps in satellite coverage The Company is operating its repeaters on a non-interference basis pursuant to a grant of special temporary authority from the FCC. This grant originally expired March 18, 2002 However, on March 11, 2002, the Company applied for an extension of this special temporary authority and the Company can continue to operate its terrestrial repeaters pursuant to the special temporary authority pending a final determination on this extension request. This authority is currently being challenged by operators of terrestrial wireless systems who have asserted that the Company's repeaters may cause interference. The Company believes it is not likely that an FCC order would materially impact the terrestrial repeater system design currently in operation.

The Company has entered into a Memorandum of Agreement contemplating the establishment of a joint venture entity that would be authorized to provide the XM service in Canada. This entity has begun the process of seeking authority from the Canadian government to provide satellite radio service in Canada XM anticipates that the joint venture, once established, would be independently financed and would not require XM to commit capital to the venture.

(b) Application for Review of DARS License

One of the losing bidders for the DARS licenses filed an Application for Review by the full FCC of the Licensing Order that granted the Company its DARS license. The Application for Review alleged that a former investor had effectively taken control of the Company without FCC approval. The FCC denied the Application for Review and the losing bidder appealed to the United States Court of Appeals for the District of Columbia Circuit. On February 21, 2003, the Court of Appeals rejected the losing bidder's claims and upheld the FCC's decision to grant the Company its license.

(c) Technology Licenses

Effective January 1, 1998, the Company entered into a technology licensing agreement with Motient and WorldSpace Management Corporation ("WorldSpace MC") by which as compensation for certain licensed technology then under development to be used in the XM Radio System, the Company pays certain amounts to WorldSpace MC The actual amounts to be incurred under this agreement are dependent upon further development of the technology, which is at the Company's option. The agreement includes provisions for sharing certain costs related to the further development of technology and for royalty payments from the Company to WorldSpace MC. At December 31, 2003 and 2002, respectively, the Company had recorded an accrual of $5.2 million and $5.9 million payable to Worldspace for royalty payments.

(d) Satellite Contract

As of December 31, 2003, the Company had paid approximately $474.8 million, including financing charges and interest under the satellite contract related to XM Rock, or XM-2, XM Roll, or XM-1, XM-3 and XM-4 The Company originally entered into its satellite contract in March 1998 with Boeing Satellite Systems International, Inc , or BSS, and has subsequently amended the contract, including in July 2003 and December 2003.

Satellite Contract—XM Rock and XM Roll. Under the satellite contract, BSS has delivered two satellites in-orbit, XM Rock and XM Roll, supplied ground equipment and software used in the XM Radio system and provided certain launch and operations support services.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Satellite Contract—Replacement Satellites Deployment Plan In light of the progressive degradation affecting Rock and Roll noted above, the Company plans to launch its ground spare satellite, XM-3, into one orbital slot by year-end 2004, and then temporarily operate XM Rock and XM Roll collocated in the other orbital slot In 2007, the Company plans to launch XM-4 to replace the collocated XM Rock and XM Roll. In this way, the Company will have replacement satellites in orbit and operating prior to the times XM Rock and XM Roll can no longer provide full service, or half service in the collocated mode.

Satellite Contract and Other Costs—XM-3 Construction of the Company's ground spare satellite, XM-3, is currently being completed, including certain modifications to correct the solar array degradation issues experienced by Rock and Roll, as well as other changes agreed with BSS discussed below. As of December 31, 2003, with respect to XM-3, the Company has deferred $15 million at an interest rate of 8% through December 5, 2006 and borrowed $35 million from Boeing Capital in a separate transaction to be repaid prior to launch of XM-3.

In addition to the modifications to address the solar array degradation issues as noted above, BSS is making certain alterations to optimize XM-3 for the specific orbital slot into which it will be launched during a three-month launch period commencing October 15, 2004. The aggregate remaining cost, excluding the above $15 million deferral and $35 million loan, of the launch, optimization for the specific orbital slot, appropriate software and certain pre and post-launch services is approximately $100 million to be paid during the first quarter 2004. Further, BSS has the right to earn 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.

Satellite Insurance—XM-3 In addition to the XM-3 related costs noted above, the Company plans to acquire and pay for launch and in-orbit insurance in connection with the launch of XM-3 The cost of launch and in-orbit insurance for this launch is subject to market prices and conditions at the time during 2004 when such insurance is obtained

Satellite Contract and Other Costs—XM-4. The Company has committed in its satellite contract, as amended in July 2003, and by a separate August 2003 contract with Sea Launch Company, LLC, or Sea Launch, to acquire from BSS a fourth satellite, XM-4, which should be available for shipment to the launch services provider no later than October 31, 2005, and from Sea Launch the associated launch services for the satellite. The fixed prices for XM-4 and the associated launch services total $186 5 million, excluding in-orbit performance incentives and financing charges on certain amounts deferred prior to launch. Following the Company's payment of $3 million in total for XM-4 and the associated launch services during the third quarter 2003, satellite construction payments aggregating approximately $104 million are deferred until as late as the first quarter 2006. Interest accrues monthly at a rate of 10.75% per annum through December 2004 and payable thereafter on a current basis, pursuant to the December 2003 amendment, which extends the deferral from the first quarter 2005 and reduces the applicable interest rate from 12 75% to 10 75% Of this deferred amount, $22 3 million is in the Other Non-Current Liabilities line on the Company's balance sheet as of December 31, 2003 Most of the remaining portion of the fixed costs for XM-4 and the associated launch services are payable during construction with the last payment due one month following launch

After launch of XM-4, 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 performance above specification 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 If XM-3 is launched successfully and operates satisfactorily, the Company may elect, under the above contracts, to defer launch of XM-4 and, as a result, approximately $50 million in payments related to launch services could be postponed until the 2007 timeframe

Options to Procure Fifth Satellite and Associated Launch Services The Company has also obtained fixed price options to acquire a fifth satellite from BSS, under the July 2003 amendment, on pricing and performance incentive terms similar to those applicable to XM-4 and associated launch services from Sea Launch under the August 2003 contract

Satellite Contract—Warrant to BSS Pursuant to the Company's satellite contract, it issued a warrant to BSS in July 2003 to purchase 500,000 shares of its Class A common stock at $13.524 per share. The fair value of these warrants was determined to be $5 8 million using a Black-Scholes based methodology and is included in the System Under Construction balance as of December 31, 2003.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Satellite Insurance and System Risk Mitigation

In the first quarter of 2003, the Company filed the proofs of loss for constructive total loss claims on both its satellites with its insurance carriers for the aggregate sum insured (less applicable salvage), relating to a progressive degradation problem with the solar array output power of Boeing 702 class satellites, including XM Rock and XM Roll, identified to its insurers in September 2001. The Company has launch and in-orbit insurance policies that provide coverage to it for a total, constructive total or partial loss of each of its satellites where such loss arises from an occurrence within the first five years after launch (both satellites were launched during the first half of 2001) The aggregate sum insured in the event of the total or constructive total loss of both satellites is $400 million ($200 million per satellite) During the third quarter of 2003, the Company received letters from its insurers rejecting its proofs of loss and denying its claims. The Company anticipates continuing correspondence and meetings with individual and groups of insurers to resolve this matter and will proceed with negotiations, arbitration or litigation as necessary to recover the losses The Company continues to believe that it will ultimately receive insurance payments adequate to launch its spare satellite and fund a portion of XM-4, although there can be no assurance as to the amount of any insurance proceeds, or that any insurance proceeds will be received in a timely manner

In light of the progressive degradation noted above, the Company plans to launch its ground spare satellite (XM-3) into one orbital slot by year-end 2004, and operate XM Rock and XM Roll collocated in the other orbital slot In 2007, the Company plans to launch XM-4 to replace the collocated XM Rock and XM Roll In this way, the Company will have replacement satellites in orbit and operating prior to the times XM Rock and XM Roll can no longer provide full service, or half service in collocated mode.

Since the solar array power degradation issue is common to the first six Boeing 702 class satellites now in orbit, the manufacturer and the Company are closely watching the progression of the problem, including data from a satellite that has been in orbit longer than either of the Company's two satellites by approximately 15 and 17 months, respectively. With this advance visibility of performance levels, a firm launch commitment for a spare satellite in the fourth quarter of 2004, the ability to provide full service for an extended period of time with XM Rock and XM Roll collocated in one orbital slot and the spare located in the other slot (which would allow partial use of the existing satellites through the first quarter of 2008), firm commitments to build a fourth satellite and provide launch services therefore, and various mitigation actions to extend the full or partial use of the existing satellites, the Company believes that it will be able to launch additional satellites prior to the time the solar array power problem might cause the broadcast signal strength to fall below minimum acceptable levels

Based on the consistency of the degradation trends (with no substantial improvement to date) and continuing analyses by BSS and the Company, the Company's management adjusted the estimated useful lives of its in-orbit satellites, with effect from September 2002, to the period running through first quarter 2008 (approximately 6.75 years from launch) The Company's management will continue to monitor this situation carefully and may re-adjust the estimated useful lives of its in-orbit satellites based on future information. The Company has not recorded any impairment due to its forecasted cash flows (which are sufficient to recover the system assets), however, should the Company reduce or not meet its forecasted cash flows or reduce further the estimated useful lives of the satellites, it may be required to record an impairment (which may be substantial) at that time. The Company has not adjusted the estimated useful lives of its spacecraft control facilities, as it believes these facilities will continue to be of use in its system as XM-3 and if necessary XM-4 are launched.

(e) Terrestrial Repeater System Contracts

As of December 31, 2003, the Company had incurred aggregate costs of approximately $267 7 million for its terrestrial repeater system. These costs covered the capital costs of the design, development and installation of a system of terrestrial repeaters to cover approximately 60 cities and metropolitan areas. In August 1999, the Company signed a contract with LCCI calling for engineering and site preparation As of December 31, 2003, the Company had paid $128.4 million under this contract There are no further payments due under the LCCI contract. The Company also entered into a contract effective October 22, 1999 with Hughes for the design, development and manufacture of the terrestrial repeaters, there are no further payments due under this contract except those related to ongoing out-of-warranty repairs The Company has paid $114 1 million under this contract as of December 31, 2003 and has an additional liability recorded of $59,000 at December 31, 2003.

Source· XM SATELLITE RADIO H, 10-K, March 15, 2004

(f) Accrued Network Optimization Expenses

As a result of the planned reduction of the number of terrestrial repeater sites (see note 7), the Company recognized a charge of $4 8 million in 2003, $4.0 million in 2002 and $26 3 million in 2001 The charge of $26 3 million in 2001 included $17.7 million of site-specific capitalized costs that were written off and a lease termination accrual of $8.6 million for 646 terrestrial repeater site leases. The charges of $4 8 million and $4.0 million in 2003 and 2002, respectively, represent additional costs associated with terminating leases on terrestrial repeater sites no longer required. At December 31, 2003 and 2002, the Company had recorded a lease termination accrual of $4.1 million and $2.2 million, respectively, that represent an estimate of the costs to terminate the remaining leases based on management's judgment, advice of lease consultants, and early negotiations with landlords At December 31, 2003, 78 leases remained to be terminated The liability also includes the estimated costs to deconstruct the existing sites, which are based upon quotes from contractors This amount could vary significantly from the actual amount incurred.

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

(g) GM Distribution Agreement

The Company has a long-term distribution agreement with OnStar, a subsidiary of General Motors. During the term of the agreement, which expires 12 years from the commencement date of the Company's commercial operations, GM has agreed to distribute the service to the exclusion of other S-band satellite digital radio services. The Company will also have a non-exclusive right to arrange for the installation of XM radios included in OnStar systems in non-GM vehicles that are sold for use in the United States 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 are due to GM and confirming the date of the Company's commencement of commercial operations, and to provide that the Company may make certain payments to GM in the form of indebtedness or shares of the Company's Class A common stock. The Company's total cash payment obligations were not increased. The Company has significant annual, fixed payment obligations to GM As a result of the June 2002 amendment, the Company commenced recognizing these fixed payment obligations for the period ending through November 2005, which approximate $63.6 million, on a straight-line basis However, due to the January 2003 amendment to the Distribution Agreement and GM's current roll out plans which demonstrate a likelihood of GM exceeding minimum installation targets, in 2003 the Company is now prospectively recognizing these fixed payments due under the Distribution Agreement, which approximate $397 3 million, on a straight-line basis through September 2013, the remaining term of the agreement. The Company issued a 10% Senior Secured Convertible Note due 2009 with an aggregate principal amount of $89,042,387 to OnStar in lieu of making these fixed payments to OnStar for amounts otherwise due in 2003 through 2006. The fixed payments due to be paid in years 2007, 2008 and 2009 are $80.7 million, $106 7 million and $132.9 million, respectively As described in note 9(i), in February 2004, the Company completed the redemption of the note.

In order to encourage the broad installation of XM radios in GM vehicles, the Company has agreed to subsidize a portion of the cost of XM radios, and to make incentive payments to GM when the owners of GM vehicles with installed XM radios become subscribers to the Company's service The Company must also share with GM a percentage of the subscription revenue attributable to GM vehicles with installed XM radios, which percentage increases until there are more than 8 million GM vehicles with installed XM radios (at which point the percentage remains constant). The Company will also make available to GM bandwidth on its system As part of the agreement, OnStar provides certain call-center related services directly to XM subscribers who are also OnStar customers and the Company must reimburse OnStar for these XM-related call center services. The agreement is subject to renegotiation at any time based upon the installation of radios that are compatible with a unified standard or capable of receiving Sirius Satellite Radio's service. The agreement is subject to renegotiation if as of November 2005, and at two-year intervals thereafter, GM does not achieve and maintain specified installation levels of GM vehicles capable of receiving the Company's service, starting with 1,240,000 units by November 2005, and thereafter increasing by the lesser of 600,000 units per year and amounts proportionate to target market shares in the satellite digital radio service market There can be no assurances as to the outcome of any such renegotiations General Motors' exclusivity obligations will discontinue if, by November 2005 and at two-year intervals thereafter, the Company fails to achieve and maintain specified minimum market share levels in the satellite digital radio service market As of December 31, 2003, 2002 and 2001 the Company paid $29 4 million, $9 9 million and $0 6 million, respectively, and incurred total costs of $108 3 million, $30 1 million and $1 3 million, respectively, under the distribution agreement

(h) 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 unified standard for satellite radios During the year ended December 31, 2003, the Company incurred costs of $0 6 million in relation to this agreement No expenses were incurred during the years ended December 31, 2002 and 2001. The costs related to the joint development agreement are being expensed as incurred in research and development. The Company is currently unable to determine the expenditures necessary to complete this process, but they may be significant.

Pursuant to the joint development agreement, in November of 2003, XM and Sirius formed a limited liability company for the purpose of developing a unified standard for satellite radios.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

(i) 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 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, 2003, 2002, and 2001, the Company incurred expenses of $56 3 million, $55 7 million, and $19 1 million respectively, in relation to these agreements excluding the GM distribution agreement. 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 revenue increase

(j) 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, 2003, 2002, and 2001, the Company incurred expenses of $19.6 million, $20 3 million and $7.2 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 amount of the costs related to these agreements cannot be estimated, but future costs are expected to be substantial.

(k) Royalty Agreements

The Company has entered into fixed and variable revenue share payment agreements with performance rights organizations that expire as late as 2006. During the years ended December 31, 2003, 2002 and 2001, the Company incurred expenses of $9 5 million, $9 5 million and $45,000, respectively, in relation to these agreements.

(l) Warrants

Sony Warrant

In February 2000, the Company issued a warrant to Sony exercisable for shares of the Company's Class A common stock The warrant would have vested, if at all, at the time that the Company reached its one-millionth customer and the number of shares underlying the warrant would have been determined by the percentage of XM Radios that had a Sony brand name as of the vesting date. If Sony had achieved its maximum performance target, the warrant would have been exercisable for 2% of the total number of shares of the Company's Class A common stock on a fully-diluted basis. The exercise price of the Sony warrant would have equaled 105% of fair market value of the Class A common stock on the vesting date, determined based upon the 20-day trailing average When the measurement date was reached, Sony had not achieved the minimum performance target, and therefore, none of the warrants were vested In the third quarter of 2003, the Company reversed the non-cash compensation expense that had been recorded related to these warrants. For the years ended December 31, 2003, 2002 and 2001, the Company recognized ($339,000), $208,000 and $131,000, respectively, in non-cash compensation expense

CNBC Warrant

In May 2001, the Company granted a warrant to purchase 90,000 shares of Class A common stock consisting of three 30,000 share tranches to purchase shares at $26 50 per share, which expire in 11, 12, and 13 years, respectively. The warrants began to vest on September 25, 2001 when the Company reached its commercial launch and became or will be vested on September 1, 2002, 2003, and 2004, respectively. For the years ended December 31, 2003, 2002 and 2001, the Company recognized $942,000 and $(156,000) and $290,000, respectively, in non-cash compensation expense related to these warrants.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

(m) Leases

The Company has noncancelable operating leases for office space and terrestrial repeater sites and noncancelable capital leases for equipment that expire over the next ten years. Additionally, the Company owns a building and leases a portion of the space to other entities. The future minimum lease payments and rentals under noncancelable leases as of December 31, 2003 are (in thousands)

	Capital Lease Payments	Operating Lease Payments	Rental Income
Year ending December 31:			
2004	$ 2,593	$ 18,192	$ 1,698
2005	1,288	15,375	1,802
2006	281	5,680	1,804
2007	—	3,379	1,807
2008	—	1,416	1,809
Thereafter	—	2,911	22,521
Total	4,162	46,953	$ 31,441
Less amount representing interest	(307)		
Present value of net minimum lease payments	3,855		
Less current maturities	(2,377)		
Long-term obligations	$ 1,478		

Rent expense for 2003, 2002 and 2001 was $22.6 million, $19 9 million, and $22 7 million, respectively

As discussed in Note 16(f), in December 2001, the Company determined that the planned number of terrestrial repeater sites could be reduced due to the relative signal strength provided by the Company's satellites. In 2001, the Company recognized a charge of $26 3 million with respect to the terrestrial repeater sites no longer required This charge included a lease termination accrual of $8 6 million for 646 terrestrial site leases, which reduced the future minimum lease payments In 2003 and 2002, the Company recognized charges of $4 8 million and $4 0 million, respectively, for additional costs associated with terminating leases on sites no longer required

(n) Service Providers

The Company has entered into an agreement with a service provider for customer care functions to subscribers of its service. Employees of the service provider have access to the Company's customer care systems to establish customer accounts, activate radios, update program and account information and respond to general inquires from subscribers. The Company pays its service provider an hourly rate for each customer care representative supporting its subscribers. During the years ended December 31, 2003, 2002, and 2001, the Company incurred $14.2 million, $8.7 million and $2 0 million, respectively, in relation to services provided for customer care functions. The Company changed service providers during 2003.

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

(17) Quarterly Data (Unaudited, in thousands)

	2003			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 13,052	$ 18,321	$ 26,913	$ 33,495
Operating loss	(106,770)	(116,830)	(100,075)	(130,783)
Loss before income taxes	(126,282)	(161,856)	(133,448)	(162,949)
Net loss attributable to common stockholders	(124,011)	(164,330)	(145,617)	(170,195)
Net loss per share—basic and diluted	$ (1.26)	$ (1.38)	$ (1.12)	$ (1.12)

The sum of quarterly per share net losses does not agree to the net loss per share for the year due to the timing of stock issuances The sum of quarterly net losses attributable to common stockholders does not equal the annual amount due to the impact of the implementation of the additional guidance on Topic D-42, *The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock* This guidance was effective in fiscal periods ending after September 15, 2003 and was retroactively reflected in the financial statements of prior quarters This guidance resulted in a reduction of the gains recorded on the retirement of the Company's Series B preferred stock during the three months ended March 31, 2003 and June 30, 2003, of $453,000 and $274,000, respectively, to reflect the amount of the issuance costs of the preferred stock retired.

	2002			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 1,785	$ 3,839	$ 5,552	$ 9,005
Operating loss	(98,361)	(103,869)	(95,673)	(140,877)
Loss before income taxes	(112,250)	(117,205)	(109,646)	(155,911)
Net loss attributable to common stockholders	(117,746)	(122,415)	(114,712)	(160,998)
Net loss per share—basic and diluted	$ (1.56)	$ (1.38)	$ (1.26)	$ (1.76)

The operating loss during the 4th quarter of 2002 of $140 9 million includes an impairment charge of $11.5 million as described in note 5 In addition, the operating loss includes a charge of $8.0 million as a result of completion of negotiation for performance rights royalties, which includes the period from commencement of commercial operations.

	2001			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ —	$ —	$ 1	$ 532
Operating loss	(42,124)	(41,815)	(63,392)	(135,274)
Loss before income taxes	(36,948)	(38,478)	(64,982)	(143,971)
Net loss attributable to common stockholders	(42,736)	(44,267)	(70,770)	(149,759)
Net loss per share—basic and diluted	$ (0 80)	$ (0 76)	$ (1.14)	$ (2.26)

The sum of quarterly per share net losses does not agree to the net loss per share for the year due to the timing of stock issuances.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

INDEPENDENT AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENT SCHEDULE

The Board of Directors
XM Satellite Radio Holdings Inc

Under the date of February 5, 2003, except for Note 9(i), which is as of March 3, 2004, we reported on the consolidated balance sheets of XM Satellite Radio Holdings Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2003, which are included in the XM Satellite Radio Holdings Inc and subsidiaries annual report on Form 10-K In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated financial statement schedule based on our audits

In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The audit report on the consolidated financial statements of XM Satellite Radio Holdings, Inc. and subsidiaries referred to above contains an explanatory paragraph that states that the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, as of January 1, 2002

/s/ KPMG LLP

McLean, VA
February 5, 2004, except for Note 9(i)
to the consolidated financial
statements, which is as of
March 3, 2004

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Schedule I—Valuation And Qualifying Accounts
(in thousands)

Description	Balance January 1	Charged to Costs and Expenses	Charged to Other Accounts—Describe	Write-Offs/ Payments/ Other	Balance December 31
Year Ended December 31, 2001					
Allowance for doubtful accounts	$ —	10	—	—	$ 10
Deferred tax assets—valuation allowance	$ 24,992	110,057	—	—	$ 135,049
Accrued network optimization expenses	$ —	8,595	—	—	$ 8,595
Year Ended December 31, 2002					
Allowance for doubtful accounts	$ 10	493	—	(262)	$ 241
Deferred tax assets—valuation allowance	$ 135,049	193,307	—	—	$ 328,356
Accrued network optimization expenses	$ 8,595	4,013	—	(10,407)	$ 2,201
Year Ended December 31, 2003					
Allowance for doubtful accounts	$ 241	2,077	—	(1,522)	$ 796
Deferred tax assets—valuation allowance	$ 328,356	204,722	—	—	$ 533,078
Accrued network optimization expenses	$ 2,201	4,842	—	(2,907)	$ 4,136

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

Confidential treatment has been requested for portions of this contract The copy filed herewith omits the information subject to the confidentiality request Omissions are designated as [***] A complete version of this contract has been filed separately with the Securities and Exchange Commission

Exhibit 10 57

DECEMBER 2003 AMENDMENT

TO THE

SATELLITE PURCHASE CONTRACT FOR IN-ORBIT DELIVERY

BETWEEN

XM SATELLITE RADIO INC.,

XM SATELLITE RADIO HOLDINGS INC.

and

BOEING SATELLITE SYSTEMS INTERNATIONAL, INC.

CONTRACT NUMBER L0634

*** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission Confidential treatment has been requested with respect to the omitted portions.

DECEMBER 2003 AMENDMENT
TO THE
SATELLITE PURCHASE CONTRACT FOR IN-ORBIT DELIVERY

This December 2003 Amendment to the Satellite Purchase Contract for In-Orbit Delivery effective March 23, 1998 as amended, assigned, restated, superseded and/or supplemented from time to time and in effect through and including the date hereof (the "Contract") is made as of December 19, 2003 by and between **XM Satellite Radio Inc. and XM Satellite Radio Holdings Inc.**, Delaware corporations with their principal offices located at 1500 Eckington Place, N.E. Washington DC 20002 (hereinafter referred to together, or individually as may be appropriate, as "Customer" or "XM") and **Boeing Satellite Systems International, Inc.**, a Delaware corporation with its principal offices located at 2260 E Imperial Highway, El Segundo, California 90245 (hereinafter "Contractor" or "BSSI"). Capitalized terms used but not otherwise defined in this December 2003 Amendment shall have the respective meanings as set forth in the Contract.

WHEREAS, the Parties entered into and executed the Contract, which Contract provides for the procurement by Customer (or its subsidiaries) from Contractor of three (3) Boeing 702 Satellites, two (2) of which (XM-1 and XM-2) have been delivered in-orbit and one (1) of which (XM-3) was originally being constructed as a ground spare and is now scheduled to be delivered in-orbit (referred to herein as "XM-3" or the "Ground Spare Satellite)", together with related items, services and activities;

WHEREAS, in December 2001, the Contract, as it relates to the Ground Spare Satellite Bus, was assigned by XM Satellite Radio Inc. to XM Satellite Radio Holdings;

WHEREAS, in December 2001, Customer and Contractor entered into certain arrangements (the "December 2001 Amendment") relating to the completion and launch of the Ground Spare Satellite,

WHEREAS, in May 2003, Customer and Contractor amended certain provisions of the Contract to provide for basic additional terms concerning the aforementioned completion and launch of the Ground Spare Satellite [***] (the "Amended and Restated May 2003 Amendment"),

WHEREAS, in July 2003, Customer and Contractor amended certain provisions of the Contract to include procurement by Customer from Contractor of a fourth Satellite (the "XM-4 Satellite") to be delivered at Contractor's facility and accepted in-orbit and an option for a fifth Satellite (the "XM-5 Satellite"), together with related items, services and activities (the "July 2003 Amendment"),

WHEREAS, Customer and Contractor desire to amend certain provisions of the Contract to reflect revisions [***]

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

*** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions
[***]

NOW, THEREFORE, in consideration of the mutual benefits to be derived, the Parties hereto agree that the Contract is amended as follows:

1. Amendment of Article 1.1 (Definitions) Article 1.1 is hereby amended as follows

(a) In paragraph (cccc) "Milestone", the phrase added to the end of such paragraph in the July 2003 Amendment is hereby deleted and replaced with the following phrase ", Exhibit G-2 (FM2 (XM-3) Payment Plan (including Sea Launch Launch Services), [***] Termination Liability Schedule and Payment Plans for In-Orbit Performance Incentive Amounts) and Exhibit G-3 (XM-4 Payment Plan, Termination Liability Schedule and Payment Plans for Incentive Amounts, High Performance Incentives and Extended Life Incentives)".

(b) In paragraph (dddd) "Milestone Payment", the phrase added to the end of such paragraph in the July 2003 Amendment is hereby deleted and replaced with the following phrase: ", Exhibit G-2 (FM2 (XM-3) Payment Plan (including Sea launch Launch Services), [***] Termination Liability Schedule and Payment Plans for In-Orbit Performance Incentive Amounts) and Exhibit G-3 (XM-4 Payment Plan, Termination Liability Schedule and Payment Plans for Incentive Amounts, High Performance Incentives and Extended Life Incentives)". For clarification, the term "Exhibit G (Payment Plan and Termination Liability Amounts)" as used in the Contract means Exhibit G (Payment Plan and Termination Liability Amounts) and Exhibit G-1 (PFM (XM1) and FM1 (XM2) Payment Plans for In-orbit Performance Incentive Amounts) with respect to XM-1 and XM-2, Exhibit G-2 (FM2 (XM-3) Payment Plan (including Sea launch Launch Services), [***] Termination Liability Schedule and Payment Plans for In-Orbit Performance Incentive Amounts) with respect to XM-3, and Exhibit G-3 (XM-4 Payment Plan, Termination Liability Schedule and Payment Plans for Incentive Amounts, High Performance Incentives and Extended Life Incentives) with respect to XM-4.

2 Amendment to Article 1.3 (Integration and Construction) Paragraphs (a) through (l) in Article 1.3 (Integration and Construction) are deleted in their entirety and replaced with the following

"(a) Terms and Conditions

(b) Exhibit G—Payment Plan and Termination Liability Amounts

(c) Exhibit G-1—PFM (XM1) and FM1 (XM2) Payment Plans for In-Orbit Incentive Amounts

(d) Exhibit G-2—FM2 (XM3) Payment Plan (including Sea Launch Launch Services), [***] Termination Liability Schedule, Payment Plans for In-

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Orbit Performance Incentive Amounts

(e) Exhibit G-3—XM4 Payment Plan, Termination Liability Schedule and Payment Plans for Incentive Amounts, High Performance Incentives and Extended Life Incentives

(f) Exhibit B—Statement of Work

(g) Exhibit B-2—XM-4 Statement of Work

(h) Exhibit A—Spacecraft Performance Specifications

(i) Exhibit A-2—XM-4 Spacecraft Performance Specifications

(j) Exhibit D—Test Plan Requirements

(k) Exhibit C—Product Assurance Plan

(l) Exhibit E—Radiation Environment

(m) Exhibit F—Long-Lead Activities and Items

(n) Exhibit H—Initial Satellite Operations Phase and Criteria for Final Handover Statement of Work

(o) Exhibit I—Form of Warrant"

3. Amendment of Article 2 (Scope of Work) Article 2 is hereby amended as follows

(a) Paragraphs (1) through (15) in Article 2.1(b) are deleted in their entirety and replaced with the following:

1 "Terms and Conditions

2. Exhibit A—Spacecraft Performance Specifications

3 Exhibit A-2—XM-4 Spacecraft Performance Specifications

4. Exhibit B—Statement of Work

5 Exhibit B-2—XM-4 Statement of Work

6 Exhibit C—Product Assurance Plan

7 Exhibit D—Test Plan Requirements (On-Ground and In-Orbit)

Source. XM SATELLITE RADIO H, 10-K, March 15, 2004

*** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission Confidential treatment has been requested with respect to the omitted portions

8. Exhibit E—Radiation Environment

9 Exhibit F—Long-Lead Activities and Items

10 Exhibit G—Payment Plan and Termination Liability Amounts

11. Exhibit G-1—PFM (XM1) and FM1 (XM2) Payment Plans for In-Orbit Incentive Amounts

12. Exhibit G-2—FM2 (XM3) Payment Plan (including Sea Launch Launch Services), [***] Termination Liability Schedule, Payment Plans for In-Orbit Performance Incentive Amounts

13. Exhibit G-3—XM4 Payment Plan, Termination Liability Schedule and Payment Plans for Incentive Amounts, High Performance Incentives and Extended Life Incentives

14. Exhibit H—Initial Satellite Operations Phase and Criteria for Final Handover Statement of Work

15. Exhibit I—Form of Warrant"

(b) Article 2 5 (added to Article 2 in the July 2003 Amendment) is hereby deleted in its entirety and replaced with the following
"2.5 XM 3/4/5 [***]
(c) Article 2.6 (added to Article 2 in the July 2003 Amendment) shall be deleted in its entirety and replaced with the following:
"2.6 [***]
(d) The following new Article 2 7 is added to Article 2.
"2.7 [***]
(e) The following new Article 2.8 is added to Article 2:
"2.8 [***]

4. Amendment of Article 4.1 (Contract Price).

(a) Paragraphs 5(c) and 5(d) of the Amended and Restated May 2003 Amendment pertaining to Article 4.1 shall be deleted in their entirety.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

*** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission Confidential treatment has been requested with respect to the omitted portions

(b) A new Item 7 is hereby added to Table 4 1 as set forth below Accordingly, the Contract Price set forth in Article 4.1 is revised to be [***]

"7 XM-3 [***] $ [***]

5. Amendment of Article 5 (Payment) Article 5 is hereby amended as follows·

(a) Amendment of Article 5 6(b) The last sentence of Article 5 6(b) (added to Article 5.6(b) in the Amended and Restated May 2003 Amendment) shall be deleted in its entirety and replaced with the following

"Notwithstanding this Article 5 6(b) and Article 28(g), the Parties acknowledge that certain payments will still be paid subsequent to shipping the Satellite to the launch processing facility (e.g., with respect to XM-3, the payments due on the Deferred Payment Date and rolled over Incentive Amounts)."

(b) Amendment of Article 5.7(c). Article 5.7(c)(5) (the subparagraph added to Article 5.7(c) in the Amended and Restated May 2003 Amendment) is amended to delete the phrase [***] at the end thereof

(c) Amendment of Article 5.9(b) Paragraph 5.9(b) (added to Article 5 in the July 2003 Amendment) shall be deleted in its entirety and replaced with the following:

"(b) [***]

6 Amendment to Article 12 (In-Orbit Performance Incentive Payments)

(a) Article 12.5 (as amended in the Amended and Restated May 2003 Amendment) is deleted in its entirety and is replaced with the following.

"XM-3 Incentive Amounts set forth in Exhibit G-2 Revision D (i e., the version of Exhibit G-2 in effect and applicable prior to the Amended and Restated May 2003 Amendment) [***] The Parties agreed in the Amended and Restated May 2003 Amendment to rollover certain XM-1 and XM-2 Incentives [***] XM-1/XM-2 Incentives") as set forth in Exhibit G-1 Revision E (i e , the version of Exhibit G-1 in effect and applicable prior to this December 2003 Amendment, which version is hereby superseded by Exhibit G-1 Revision F) and the Parties have further agreed to [***], all as set forth in this Article 12.5 and Exhibit G-2 Revision F. [***] Accordingly, commencing with [***] will be able to be earned by Contractor and paid by Customer as follows·

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

*** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission Confidential treatment has been requested with respect to the omitted portions.

(i) The [***] and shall be available to be earned and paid in equal quarterly installments over the fifteen (15) year Orbital Design Life of XM-3. Earning and payment of such rolled-over Incentive Amounts shall be in accordance with Article 12 3, together with interest on such Incentive Amounts calculated in accordance with Article 12.6(b); [***]

(ii) The [***] shall be available to be earned and paid in equal quarterly installments over the fifteen (15) year Orbital Design Life of XM-3 Earning and payment of such rolled-over Incentive Amounts shall be in accordance with Article 12.3, [***] together with interest on such Incentive Amounts calculated in accordance with Article 12 6(b); [***]

(b) Article 12 6(c) shall be deleted in its entirety and replaced with "RESERVED"

(c) Article 12.7 (as amended in the Amended and Restated May Amendment) is deleted in its entirety and replaced with·

"12.7 Adjustment of Quarterly Incentive Payment Amounts to Reflect Actual Satellite Performance.
The Payment Schedules for In-orbit Incentives (also referred to as In-orbit Performance Incentives, Incentive Amounts and Incentives) set forth in the Exhibit G-2 Revision F [***] Performance Incentive Payment Plan and the Exhibit G-2 Revision F [***] Performance Incentive Payment Plan reflect the case where XM-3 is in operation [***] and earns its In-orbit Incentives throughout its fifteen (15) year Orbital Design Life." Should XM-3 not be operational by [***] should XM-3 fail to earn any of its Incentives, these payments will be adjusted accordingly.

7 Amendment of Article 14(g)(i) The following subparagraph (ii) of Article 14(g)(i) is hereby deleted in its entirety· "(ii) the cumulative BSSI principal portion of the Quarterly Incentive Payment Amounts pursuant to Article 12.6(c)".

8 Amendment of Article 28 (Launch Services)

(a) Article 28(f)(1) (as amended in the Amended and Restated 2003 Amendment) is hereby deleted in its entirety and replaced with the following:
"(f)(1) On May 22, 2003, Customer directed Contractor to schedule, and enter into a Launch Agreement for the same, the Launch of XM-3 to occur during the three month Launch Period beginning October 15, 2004. The price for said Sea Launch Launch Services for the Launch Period beginning October 15, 2004 shall be [***] and the price for transportation to the launch site, Sea Launch Launch

Source· XM SATELLITE RADIO H, 10-K, March 15, 2004

*** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Campaign, Mission Support Services and LEOP for the XM-3 Satellite shall be [***] (notwithstanding Article 30 4, where the price stated therein shall not apply to XM-3) Such pricing for Sea Launch Launch Services and the related services described above are including in the Contract Price and Exhibit G-2 Rev. F "

(b) Article 28(f)(2) (as added to Article 28 in the December 2001 Amendment) is hereby deleted in its entirety and is replaced with "RESERVED".

(c) Article 28(f)(3) (as added to Article 28 in the December 2001 Amendment and amended in the Amended and Restated 2003 Amendment) is hereby deleted in its entirety and is replaced with "RESERVED"

9 Amendment to Article 34.1 (Assignment) Paragraph 34 1(a) shall be deleted in its entirety and replaced with the following paragraph:

"Contractor shall not, without the prior written approval of Customer and except on such terms and conditions as are determined in writing by Customer, assign, mortgage, charge, or encumber this Contract or any part thereof, any of its rights, duties, or obligations hereunder, or the Work to any person or entity (except to its parent company or a wholly-owned direct or indirect subsidiary company of Contractor or Contractor's parent company at any level (i e , Boeing Satellite Systems, Inc. or The Boeing Company)), or any person or entity acquiring all or substantially all the assets of Contractor (through merger, stock or asset acquisition, recapitalization, or reorganization) where such merger, acquisition, recapitalization, or reorganization does not adversely affect Customer's rights under this Contract), provided, however, Customer shall provide its approval, if in Customer's reasonable judgment, Customer's rights under this Contract are not and would not be adversely affected thereby."

10. Amendment of Exhibits G-1, G-2 and G-3 Exhibit G-1 Revision E, Exhibit G-2 Revision E and Exhibit G-3 Revision A of the Contract shall be amended and restated and superseded in their entirety by the new exhibits attached hereto, namely Exhibit G-1 Revision F, Exhibit G-2 Revision F and Exhibit G-3 Revision B.

11 Entire Agreement, Counterparts There is no modification to the Contract except as expressly set forth in this December 2003 Amendment and all terms, provisions and conditions of the Contract shall be in full force and effect, provided that any provisions in the Contract that are inconsistent with this December 2003 Amendment shall be construed so as to be consistent with this December 2003 Amendment. This December 2003 Amendment may be executed in one or more counterparts, which together shall constitute a fully executed agreement

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

IN WITNESS WHEREOF, the Parties hereto have executed this December 2003 Amendment to the Satellite Purchase Contract No. L0634, effective as of the date first written above (the "Effective Date")

BOEING SATELLITE SYSTEMS INTERNATIONAL, INC.

BY.

Name. Lisa Dull
Title Director, Comm/Intl Business
Date: December 19, 2003

XM SATELLITE RADIO INC.

BY:

Name: Joe Euteneuer
Title· Executive Vice President and CFO
Date· December 19, 2003

Source· XM SATELLITE RADIO H, 10-K, March 15, 2004

XM Satellite Radio Inc.

Exhibit G-1 Rev F

PM2 (XM1) and FM1 (XM2) Payment Plans for In-Orbit Performance Incentive Amounts

Approved by:

Joe Euteneuer
Executive Vice President and Chief Financial Officer,
XM Satellite Radio Inc.

Date

Approved by:

Lisa Dull
Contract Manager: XM Satellite Radio
Boeing Satellite Systems International, Inc

Date

***** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions

[***]

***** Certain information on this page has been omitted and filed separetly with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

XM Satellite Radio Inc.

Exhibit G-2 Rev F

FM2 (XM3) Payment Plan (including Sea Launch Launch Services), [***] Termination Liability Schedule and Payment Plans for In-Orbit Performance Incentive Amounts

Approved by:

Joe Euteneuer
Executive Vice President and Chief Financial Officer,
XM Satellite Radio Inc.

Date

Approved by.

Lisa Dull
Contract Manager. XM Satellite Radio
Boeing Satellite Systems International, Inc.

Date

***** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission Confidential treatment has been requested with respect to the omitted portions.

[***]

XM-4 Payment Plan, Termination Liability Schedule, Payment Plans for In-Orbit Incentive Amounts, High Performance Incentives and Extended Life Incentives

Approved by:

Joe Euteneuer
Executive Vice President and Chief Financial Officer,
XM Satellite Radio Inc.

Date

Approved by.

Lisa Dull
Contract Manager XM Satellite Radio
Boeing Satellite Systems International, Inc.

Date

***** Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission Confidential treatment has been requested with respect to the omitted portions.

[***]

Exhibit 10.58

FIRST AMENDMENT TO CREDIT AGREEMENT

This **FIRST AMENDMENT TO CREDIT AGREEMENT** is dated as of January 13, 2004 (this "*Amendment*") and entered into by and among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc , and General Motors Corporation (collectively, the "*Parties*," and each, a "*Party*").

WITNESSETH:

WHEREAS, the Parties have entered into a Credit Agreement dated as of January 28, 2003 (the "*Original Agreement*"); providing for advances in an aggregate maximum principal amount of $100,000,000,

WHEREAS, the Parties desire to amend the Original Agreement pursuant to the terms hereof to provide, among other things, for a change in the interest rate, a change in the interest payment dates, and a right to reborrow any amounts that are voluntarily prepaid from time to time; and

WHEREAS, certain capitalized terms used herein without definition shall have the respective meanings set forth in the Original Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows·

ARTICLE I
AMENDMENTS

1.1 **Deletion of Certain Definitions.** Section 1.1 of the Original Agreement is amended by deleting the following definitions· "*Quarterly Date*", and "*Quarterly Period*".

1.2 **Amendments to Existing Definitions.** Section 1.1 of the Original Agreement is amended by amending and restating the following definitions in their entirety·

"*Applicable Margin*" means a rate per annum equal to (i) 10%, for periods or portions thereof ending prior to January 1, 2004, and (ii) 8%, for periods or portions thereof commencing on or after January 1, 2004

"*Fair Market Value*" means, with respect to the Class A Common Stock on any Interest Payment Date, the last reported sale price during regular trading hours on the date in question (or, if there is no reported sale on such date, the mean between the last high bid and low asked quotations on such date) of one share of Class A Common Stock on the

principal exchange or the Nasdaq National Market on which the shares of Class A Common Stock are then listed for trading, as the case may be, or if the shares of Class A Common Stock are not listed for trading on any exchange or on the Nasdaq National Market or any similar system then in use, the mean between the closing high bid and low asked quotations of one share on the date in question as reported by Nasdaq or any similar quotation system then in use, or, if no such quotations are available, the fair market value on such date of one share of Class A Common Stock as the board of directors of Holdings shall determine in good faith

"*Interest Payment Date*" means June 30, 2003, December 31, 2003, and the 26th day of January and the 26th day of July of each calendar year, beginning on July 26, 2004, *provided* that (i) if any Interest Payment Date is not a Business Day, the Interest Payment Date will be deferred until the next succeeding Business Day and (ii) if any Interest Payment Date would occur after the Maturity Date, such Interest Payment Date shall be the Maturity Date.

"*Interest Rate*" means for any day during an Interest Period, a rate per annum equal to the LIBOR Rate in effect for such Interest Period plus the Applicable Margin.

"*LIBOR Rate*" means, for each Interest Period, the rate that is reported on the Interest Payment Date on which such Interest Period commences as the 6-month London Interbank Offered Rate in The Wall Street Journal's listing of Money Rates, or if such newspaper shall have ceased publishing, then in any successor publication designated by the Lender

1.3 **Addition of New Definition.** Section 1.1 of the Original Agreement is amended by inserting the following new definition in alphabetical order.

"*Interest Period*" means each period commencing on and including an Interest Payment Date through, but not including, the next following Interest Payment Date

1.4 **Amendment to Section 2.3(a).** Section 2 3(a) of the Original Agreement is amended by amending and restating such Section in its entirety to read as follows

"(a) Interest Accrual Interest shall accrue at the Interest Rate on a daily basis during each Interest Period on the unpaid principal amount of all Advances and shall be payable in arrears on each Interest Payment Date "

1.5 **Amendment to Section 2.6(a).** Section 2.6(a) of the Original Agreement is amended by inserting the following new sentence at the end thereof

"Any Advances prepaid pursuant to this Section 2.6(a) shall not reduce the Loan Commitment and, within the limits of such Loan Commitment, amounts of Advances so prepaid may be reborrowed pursuant to Section 2.1 hereof "

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

1.6 **Amendment to Section 2.6(c).** Section 2.6(c) of the Original Agreement is amended by amending and restating such Section in its entirety to read as follows.

"(c) Loan Commitment Termination Any amounts prepaid pursuant to Section 2 6(b) shall permanently reduce the Loan Commitment by an equal amount and may not be reborrowed "

1.7 **Amendment to Section 3.3.** Section 3 3 of the Original Agreement is amended by amending and restating such Section in its entirety to read as follows.

"Upon the payment and satisfaction in full of all Obligations of the Borrowers under this Agreement and termination of the Loan Commitment, the Lender shall, at the request of either Borrower, promptly deliver a certificate to the Collateral Agent stating that such Obligations have been paid in full and such Loan Commitment has been terminated, and instruct the Collateral Agent to release all rights and interests of the Lender with respect to the Liens under the Security Agreements."

ARTICLE II
MISCELLANEOUS

2.1 **Original Agreement.** Except as specifically amended hereby, the Original Agreement, shall continue to be in full force and effect and is hereby ratified by the Parties

2.2 **Effectiveness.** This Amendment shall become effective only on the date on which XM Satellite Radio, Inc. and XM Satellite Radio Holdings, Inc. (collectively, the "*XM Parties*") have obtained all necessary approvals from stockholders and/or note holders, given all requested notices, etc (collectively, the "*Approvals*") such that the effectiveness of this Amendment would not cause a default under any contract, agreement, document or instrument to which either of the XM Parties is a party or to which it is subject Without limiting the foregoing, the XM Parties shall provide written notice to Lender once all such Approvals are obtained for this Amendment, *provided* that any delay in giving such notice shall not delay the effectiveness of this Amendment unless Lender is materially prejudiced by the delay in such notice The XM Parties agree to use commercially reasonable best efforts to obtain such Approvals

2.3 **Governing Law.** THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK OR THE CORPORATE LAWS OF THE STATE OF DELAWARE, AS APPLICABLE, WITHOUT GIVING EFFECT TO ANY CONFLICT OF LAW PROVISIONS THEREOF OTHER THAN NEW YORK GENERAL OBLIGATIONS LAW SECTIONS 5-1401 AND 5-1402.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

2.4 **Counterparts**. This Amendment may be executed in any number of counterparts and by different Parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

IN WITNESS WHEREOF, the Parties hereto have caused this Amendment to be executed by their respective duly authorized officers as of the date first written above

XM SATELLITE RADIO INC

Name.
Title

XM SATELLITE RADIO HOLDINGS INC

Name:
Title.

GENERAL MOTORS CORPORATION

Name.
Title.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

The undersigned Subsidiary Guarantor acknowledges and consents to the foregoing First Amendment to Credit Agreement, by and among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc and General Motors Corporation as of the date first above written.

XM EQUIPMENT LEASING LLC

Name.
Title:

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Exhibit 10.59

FIRST AMENDMENT TO
SECOND AMENDED AND RESTATED DISTRIBUTION AGREEMENT

This **FIRST AMENDMENT TO SECOND AMENDED AND RESTATED DISTRIBUTION AGREEMENT** is dated as of January 13, 2004 (this "Amendment") and entered into by and among OnStar Corporation, XM Satellite Radio Holdings Inc , and XM Satellite Radio Inc (collectively the "Parties," and each, a "Party").

WITNESSETH:

WHEREAS, the Parties have entered into a Second Amended and Restated Distribution Agreement dated as of January 28, 2003 (the "Original Agreement"); and

WHEREAS, the Parties desire to amend the Original Agreement pursuant to the terms hereof to provide, among other things, for certain payments under the Original Agreement to be made on a semi-annual basis; and

WHEREAS, certain capitalized terms used herein without definition shall have the respective meanings set forth in the Original Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

ARTICLE I
AMENDMENTS

1.1 Addition of New Definitions. Section 1 of the Original Agreement is amended by inserting the following new definitions in alphabetical order

"Payment Date" means June 30, 2003, December 31, 2003, and the 26th day of January and the 26th day of July of each calendar year, beginning on July 26, 2004

"Payment Period" means each period commencing on and including a Payment Date through, but not including, the next following Payment Date

1.2 Amendment to Existing Definition. Section 1.1 of the Original Agreement is amended by amending and restating the following definition in its entirety:

"*Stock Fair Market Value*" means, with respect to the Class A Common Stock, the last reported sale price during regular trading hours on the date in question (or, if there is no reported sale on such date, the mean between the last high bid and low asked quotations on such date (it being understood that if the date in question is not a trading day, then the date in question shall be the immediately following trading day)) of one share of Class A

Common Stock on the principal exchange or the Nasdaq National Market on which the shares of Class A Common Stock are then listed for trading, as the case may be, or if the shares of Class A Common Stock are not listed for trading on any exchange or on the Nasdaq National Market or any similar system then in use, the mean between the closing high bid and low asked quotations of one share on the date in question as reported by Nasdaq or any similar quotation system then in use, or, if no such quotations are available, the fair market value on such date of one share of Class A Common Stock as the board of directors of Holdings shall determine in good faith

1.2 Amendment to Section 4(c). Section 4(c) of the Original Agreement is amended by replacing the last two sentences of such section in their entirety with the following:

"Notwithstanding the foregoing, from and after January 1, 2003, XM may satisfy its obligation to make cumulative Subscriber Bounty payments of up to $35,000,000, at its option, by delivery of shares of Class A Common Stock If XM elects to make a Subscriber Bounty payment in shares of Class A Common Stock, such shares of Class A Common Stock in respect of (i) a Subscriber Bounty payment on January 1 through and including June 30 of any calendar year shall be deliverable on July 26 of such calendar year and (ii) a Subscriber Bounty Payment due on July 1 through and including December 31 of any calendar year shall be deliverable on January 26 of the next succeeding calendar year In all cases, shares of Class A Common Stock in respect of a Subscriber Bounty Payment shall be valued at the Stock Fair Market Value as of the delivery date."

ARTICLE II
MISCELLANEOUS

2.1 Original Agreement. Except as specifically amended hereby, the Original Agreement shall continue to be in full force and effect and is hereby ratified by the Parties.

2.2 Effectiveness. This Amendment shall become effective only on the date on which that certain First Amendment to Note Purchase Agreement, dated as of the date hereof among XM, Holdings, and OnStar shall have become effective pursuant to Section 2 2 thereof

2.3 Governing Law. This Amendment and all manners or issues collateral thereto shall be governed by the laws of the State of New York, without regard to its choice of law rules.

2.4 Counterparts. This Amendment may be executed in any number of counterparts and by different Parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

IN WITNESS WHEREOF, the Parties hereto have caused this Amendment to be executed by their respective duly authorized officers as of the date first written above

XM SATELLITE RADIO INC.

Name:
Title:

XM SATELLITE RADIO HOLDINGS INC

Name
Title:

ONSTAR CORPORATION

Name:
Title:

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Exhibit 10.60

FIRST AMENDMENT TO NOTE PURCHASE AGREEMENT

This **FIRST AMENDMENT TO NOTE PURCHASE AGREEMENT** is dated as of January 13, 2004 (this "*Amendment*") and entered into by and among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc , and OnStar Corporation (collectively, the "*Parties*," and each, a "*Party*")

WITNESSETH:

WHEREAS, the Parties have entered into a Note Purchase Agreement and an Amendment thereto each dated as of December 21, 2002 (collectively, the "*Original Agreement*"), providing for the issuance of certain Series GM Senior Secured Convertible Notes in aggregate principal amount of $89,042,387 as more specifically described therein;

WHEREAS, the Parties desire to amend the Original Agreement and the Note pursuant to the terms hereof to provide, among other things, for a change in certain dates for the payment of interest and the vesting of the conversion right under the Original Agreement; and

WHEREAS, certain capitalized terms used herein without definition shall have the respective meanings set forth in the Original Agreement

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows.

ARTICLE I
AMENDMENTS

1.1 Amendments to Existing Definitions. Section 1 of the Original Agreement is amended by amending and restating the following definitions in their entirety

"*Conversion Price*" means ninety percent (90%) of the Fair Market Value of the Class A Common Stock on the Vesting Date, rounded to the nearest whole cent, provided, however, that the Conversion Price shall in no event be (i) less than $5.00 per share nor greater than $10 00 per share during the year ended December 31, 2003; (ii) less than $5.00 per share nor greater than $15.00 per share for the period beginning January 1, 2004 and ending January 26, 2005, or (iii) less than $5 00 per share nor greater than $20 00 per share at any time on or after January 27, 2005

"*Fair Market Value*" means, with respect to the Class A Common Stock, the last reported sale price during regular trading hours on the date in question (or, if there is no reported sale on such date, the mean between the last high bid and low asked quotations on such date) of one share of Class A Common Stock on the principal exchange or the Nasdaq

National Market on which the shares of Class A Common Stock are then listed for trading, as the case may be, or if the shares of Class A Common Stock are not listed for trading on any exchange or on the Nasdaq National Market or any similar system then in use, the mean between the closing high bid and low asked quotations of one share on the date in question as reported by Nasdaq or any similar quotation system then in use, or, if no such quotations are available, the fair market value on such date of one share of Class A Common Stock as the board of directors of Holdings shall determine in good faith.

"*Interest Payment Date*" means June 30, 2003, December 31, 2003, and the 26th day of January and the 26th day of July of each calendar year, beginning on July 26, 2004, *provided* that if any Interest Payment Date is not a Business Day, the Interest Payment Date will be deferred until the next succeeding Business Day

1.2 **Amendment to Section 9.2(a).** Section 9 2(a) of the Original Agreement is amended by amending and restating such Section in its entirety to read as follows:

"(a) The Holder may exercise its conversion right with respect to all of the aggregate unpaid principal amount of Notes (together with accrued but unpaid interest on such principal amount, if any) on or after the Closing Date but before the Maturity Date, as described in this Section 9.2(a) Following the Closing Date, for so long as the Notes remain outstanding, the optional conversion right will vest in installments on the dates and in the amounts set forth below (each, a "*Vesting Date*") and become exercisable for the exchange of additional principal amounts of Notes (together with accrued but unpaid interest on such principal amount, if any), as follows.

Vesting Date	Installment Vesting on Each Vesting Date
3/31/03, 6/30/03, 9/30/03 and 12/31/03	$ 1,961,926,62
7/26/04 and 1/26/05	$ 7,497,258 70 *
7/26/05 and 1/26/06	$ 12,985,154.48
7/26/06 and 1/26/07	$ 20,114,927 08

* This amount shall be reduced by any amounts that may have vested following 12/31/03 and prior to the effectiveness of the First Amendment to Note Purchase Agreement, dated as of January ____, 2004, among the Obligors and the Investor."

1.4 **Amendment to Exhibit A.** Exhibit A of the Original Agreement is amended by deleting the existing Exhibit A in its entirety and replacing it with the Exhibit A attached hereto

Source· XM SATELLITE RADIO H, 10-K, March 15, 2004

ARTICLE II
MISCELLANEOUS

2.1 **Original Agreement**. Except as specifically amended hereby, the Original Agreement shall continue to be in full force and effect and is hereby ratified by the Parties. The amendments set forth herein shall be effective to amend the corresponding provisions of any Notes issued prior to the date hereof

2.2 **Effectiveness**. This Amendment shall become effective only on the date on which XM Satellite Radio, Inc. and XM Satellite Radio Holdings, Inc. (collectively, the "*XM Parties*") have obtained all necessary approvals from stockholders and/or note holders, given all requested notices, etc (collectively, the "*Approvals*") such that the effectiveness of this Amendment would not cause a default under any contract, agreement, document or instrument to which either of the XM Parties is a party or to which it is subject, provided, however, that this Amendment shall not become effective unless and until the First Amendment to Credit Agreement, dated as of the date hereof, among XM, Holdings and General Motors has become effective pursuant to Section 2.2 thereof. The XM Parties agree to use commercially reasonable best efforts to obtain such Approvals. Without limiting the foregoing, the XM Parties shall provide written notice to Investor once all such Approvals are obtained for this Amendment, *provided* that any delay in giving such notice shall not delay the effectiveness of this Amendment unless Investor is materially prejudiced by the delay in such notice.

2.3 **Governing Law**. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK OR THE CORPORATE LAWS OF THE STATE OF DELAWARE, AS APPLICABLE, WITHOUT GIVING EFFECT TO ANY CONFLICT OF LAW PROVISIONS THEREOF OTHER THAN NEW YORK GENERAL OBLIGATIONS LAW SECTIONS 5-1401 AND 5-1402

2.4 **Counterparts**. This Amendment may be executed in any number of counterparts and by different Parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

IN WITNESS WHEREOF, the Parties hereto have caused this Amendment to be executed by their respective duly authorized officers as of the date first written above

XM SATELLITE RADIO INC

Name.
Title·

XM SATELLITE RADIO HOLDINGS INC.

Name:
Title:

ONSTAR CORPORATION

Name:
Title.

Source· XM SATELLITE RADIO H, 10-K, March 15, 2004

The undersigned Subsidiary Guarantor acknowledges and consents to the foregoing First Amendment to Note Purchase Agreement, by and among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc and OnStar Corporation as of the date first above written.

XM EQUIPMENT LEASING LLC

Name:
Title:

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Exhibit A

[Face of Note]

Series GM Senior Secured Convertible Note due 2009

No 1 $_____

XM SATELLITE RADIO HOLDINGS INC.

XM SATELLITE RADIO INC.

promises to pay to _____

or registered assigns,

the principal sum of _____

Dollars on December 31, 2009.

Interest Payment Dates _____ and _____

Record Dates· _____ and _____

Dated· _____

XM SATELLITE RADIO HOLDINGS INC

By. _____

Name.
Title

By· _____

Name.
Title:

XM SATELLITE RADIO INC

By: _____

Name
Title.

By. _____

Name.
Title

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

[Back of Note]
Series GM Senior Secured Convertible Note due 2009

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THESE SECURITIES NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE RE-OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION UNDER THE SECURITIES ACT

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE THE SUBJECT OF A CERTAIN NOTEHOLDERS AND SHAREHOLDERS AGREEMENT WHICH, AMONG OTHER THINGS, CONTAINS RESTRICTIONS ON THE TRANSFER OF SUCH SECURITIES. A COPY OF THE NOTEHOLDERS AND SHAREHOLDERS AGREEMENT IS AVAILABLE FOR INSPECTION AT THE PRINCIPAL OFFICE OF XM SATELLITE RADIO INC. AND XM SATELLITE RADIO HOLDINGS INC.

Capitalized terms used herein shall have the meanings assigned to them in the Note Purchase Agreement, dated as of December 21, 2002, by and among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc. and OnStar Corporation (as amended from time to time, the "Note Purchase Agreement")

1. *INTEREST.* XM Satellite Radio Inc., a Delaware corporation (the "Company"), and XM Satellite Radio Holdings Inc., a Delaware corporation ("Holdings" and, together with the Company, the "Obligors"), promise to pay interest on the principal amount of this Note at 10% per annum from the date hereof until maturity. The Obligors will pay interest semi-annually in arrears on June 30, 2003, December 31, 2003, and January 26 and July 26 of each year, beginning on July 26, 2004, or if any such day is not a Business Day, on the next succeeding Business Day (each an "Interest Payment Date"). Interest on the Note will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the date hereof. The Obligors shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue principal and premium, if any, from time to time on demand at a rate of 12% per annum; they shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue installments of interest from time to time on demand at the same rate to the extent lawful. Interest will be computed on the basis of a 360-day year of twelve 30-day months

2 *METHOD OF PAYMENT* The Obligors will pay interest on the Note (except defaulted interest) to the Person who is the registered Holder of the Note at the close of business on June 30, 2003, December 31, 2003, or the January 11 or July 11 next preceding the Interest Payment Date, as applicable, even if such Notes are canceled after such record date and on or before such Interest Payment Date. Each payment of principal or interest on the Note will be made to the Holder by certified or bank cashier's check or wire transfer of immediately available funds, at such address or to such account as the Holder specifies in writing to the Obligors at least five Business Days before such payment is to be made, except that the Obligors may, at their option and subject to the provisions hereof, make any interest payment with shares of Class A Common Stock having an aggregate Fair Market Value as calculated on the applicable Interest Payment Date equal to the amount of the interest due If the Obligors elect to pay interest in Class A Common Stock, the number of shares to be issued to the Holder shall be calculated by dividing the amount of interest due by the Fair Market Value of a share of Class A Common Stock on the applicable Interest Payment Date, with any fractional shares that may result treated in the manner set forth in the Note Purchase Agreement. The procedures for the issuance of certificates upon any such payment of interest in Class A Common Stock shall be governed by Section 9.3 of the Note Purchase Agreement The ability of the Obligors to pay interest in Class A Common Stock shall be expressly conditioned on such issuance not requiring a stockholder approval (which has not been obtained) under, or otherwise being in violation of, any applicable law or regulation, or of any requirements of the Nasdaq Stock Market or any domestic securities exchange or other public trading market upon which the Class A Common Stock may be listed or quoted.

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

3. *SECURITY AGREEMENTS* The Note is a secured obligation of the Obligors. The Note is secured by a pledge of the Collateral pursuant to the Security Agreements.

4 *OPTIONAL CONVERSION*. The Holder shall have the right, at its option, at any time, subject to the provisions contained in Section 9.2 of the Note Purchase Agreement regarding the exercise of such right, and the other terms and provisions of the Note Purchase Agreement, as applicable, to convert the unpaid principal amount of its Note or any portion thereof held by such Holder (together with interest accrued and any premium on the principal amount of such Note or portion thereof to be converted) into shares of Conversion Stock at the Conversion Price, promptly after surrender of such Note, accompanied by written notice of conversion specifying the principal amount thereof to be converted duly executed, to Holdings at any time during usual business hours at the office of Holdings at, and, if so required by Holdings, accompanied by a written instrument or instruments of transfer in form satisfactory to Holdings, duly executed by such Holder or its attorney duly authorized in writing The conversion of all or any portion of the principal and interest of a Note for Conversion Stock is hereinafter sometimes referred to as the "conversion" of such Note. Notwithstanding any other provision hereof, if a conversion of a Note is to be made in connection with a sale of Holdings or other event, such conversion may, at the election of any Holder tendering such Note for conversion, be expressly conditioned upon the consummation of such other event, in which case such conversion shall not be deemed to be effective until the consummation or occurrence of such other event.

5. *EXERCISE OF OPTIONAL CONVERSION RIGHT*

Except as otherwise provided herein, the right of the Holder to convert the unpaid principal amount of each of its Notes or any portion thereof held by such Holder (together with interest accrued on the principal amount of such Note or portion thereof to be Converted) for Conversion Stock pursuant to this Agreement shall be subject to the following conditions.

(a) The Holder may exercise its conversion right with respect to all of the aggregate principal amount of Notes (together with accrued but unpaid interest on such principal amount, if any) on or after the Closing Date but before the Maturity Date. Thereafter, for so long as the Notes remain outstanding, the optional conversion right will vest in installments on the dates and in the amounts set forth below (each, a "*Vesting Date*") and become exercisable for the conversion of additional principal amounts of Notes (together with accrued but unpaid interest on such principal amount, if any), as follows:

Vesting Date	Installment Vesting on Each Vesting Date
3/31/03, 6/30/03, 9/30/03 and 12/31/03	$ 1,961,926,62
7/26/04 and 1/26/05	$ 7,497,258 70*
7/26/05 and 1/26/06	$ 12,985,154.48
7/26/06 and 1/26/07	$ 20,114,927.08

* This amount shall be reduced by any amounts that may have vested following 12/31/03 and prior to the effectiveness of the First Amendment to Note Purchase Agreement, dated as of January _____, 2004, among the Obligors and the Investor "

(b) Within five Business Days of each Vesting Date, the Company shall deliver to the Investor an Officers' Certificate that confirms the Conversion Price for the applicable principal amount of Notes that vests on such Vesting Date

(c) The foregoing installments shall accumulate and may be exercised, in whole or in part, at any time and from time to time, before 5:00 p m New York City time on the Maturity Date, at which time the optional right to convert the Notes for Conversion Stock will lapse

Source XM SATELLITE RADIO H, 10-K, March 15, 2004

6 *Denominations, Transfer.* The Note is in registered form without coupons in denominations of $1,000 and integral multiples of $1,000. The transfer of the Note may be registered as provided in the Note Purchase Agreement The Obligors may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law in connection with a transfer or conversion.

7. *Persons Deemed Owners* The registered Holder of a Note may be treated as its owner for all purposes.

8. *Amendment, Supplement and Waiver* Except as expressly provided elsewhere herein or in the Note Purchase Agreement, any term of the Note PurchaseAgreement or of the Notes may be amended, and the observance of any term of the Note Purchase Agreement or of the Notes may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of (i) each Obligor and (ii) the Holders of a majority in aggregate principal amount of the then outstanding Notes Any amendment or waiver effected in accordance herewith shall be binding upon each Holder of the Notes, each future Holder of the Notes and each Obligor. Any consent or waiver obtained under Section 7 3 of the Noteholders Agreement or Section 4.2 of the Director Agreement that approves an action not permitted hereunder shall be considered a waiver of the applicable provision of this Agreement with respect to the matter as to which the consent or waiver was obtained. Notwithstanding the foregoing, the Note Purchase Agreement or the Notes may be amended or supplemented, without the consent of any Holder of a Note, to cure any ambiguity, defect or inconsistency in a manner that does not materially adversely affect any Holder, to make any change that would provide any additional rights or benefits to the Holders of the Notes or that does not adversely affect the legal rights of any such Holder Further, notwithstanding any of the foregoing, without the consent of each Holder affected, an amendment or waiver under this Section 8 or Section 16 of the Note Purchase Agreement may not (with respect to any Note held by a non-consenting Holder):

(a) reduce the principal amount at maturity of Notes whose Holders must consent to an amendment, supplement or waiver;

(b) reduce the principal amount of, or change the fixed maturity of, this Note or alter or waive any of the provisions with respect to the repurchase of the Note pursuant to Sections 7 8 and 7 12 of the Note Purchase Agreement,

(c) reduce the Interest Rate, or change the time for payment of interest, including default interest, on any Note,

(d) waive a Default or Event of Default in the payment of interest or premium, if any, on the Notes (except a rescission of acceleration of the Notes by the Holders of a majority in aggregate principal amount of the then outstanding Notes and a waiver of the payment default that resulted from such acceleration);

(e) make the principal of, or interest or premium on, any Note payable in money or assets other than that stated in the Note Purchase Agreement or the Notes;

(f) except as expressly provided in such Note or the Note Purchase Agreement, increase the Conversion Price applicable to such Note, limit the times at which or amounts for which such Note may be Converted into Conversion Stock, change the terms under which the Obligor can require Conversion of such Note, or change the nature of the consideration to be received upon a Conversion of such Note;

(g) make any change in the provisions of the Note Purchase Agreement relating to waivers of past Defaults or the rights of Holders of Notes to receive payments of principal of or interest or premium, if any, on the Notes;

(h) release any portion of the Collateral from the Lien of the Security Agreements, except in accordance with the terms thereof, including the provisions of Section 19 of the FCC License Subsidiary Pledge Agreement and Section 8 of the General Security Agreement, or

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

(i) make any change in Section 8 6 of the Note Purchase Agreement

9. *DEFAULTS AND REMEDIES* Events of Default include: (i) default for 30 days in the payment when due of interest on the Notes, (ii) default in payment when due of principal of or premium, if any, on the Notes (including in connection with an offer to purchase) or otherwise, (iii) failure by the Obligors to comply with the provisions of Section 7 16 of the Note Purchase Agreement or the failure of the Obligors to make or consummate a Change of Control Offer in accordance with the provisions of Section 7 12 of the Agreement, or the failure of the Obligors to make or consummate an Asset Sale Offer in accordance with the provisions of Section 7 8 of the Note Purchase Agreement; (iv) failure by an Obligor or any of its Subsidiaries, for 60 days after notice to such Obligor by the Holders of at least 25% in principal amount of the Notes then outstanding, to comply with certain covenants and other agreements in the Agreement, the Notes or either of the Security Agreements, (v) default under certain other agreements relating to Indebtedness of an Obligor or any of its Material Subsidiaries, which default results in the acceleration of such Indebtedness prior to its express maturity, (vi) certain final judgments for the payment of money that remain undischarged for a period of 60 days and with respect to certain actions against an Obligor under Section 5 of the Securities Act, (vii) certain events of bankruptcy or insolvency with respect to an Obligor or any of its Significant Subsidiaries, and (viii) the breach or repudiation of certain covenants in either of the Security Agreements or any Agreement Guarantee shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect. If any Event of Default occurs and is continuing, the Holders of at least 25% in principal amount of the then outstanding Notes may declare the Notes, together with any premium and accrued interest thereon, to be due and payable. Notwithstanding the foregoing, in the case of an Event of Default arising from certain events of bankruptcy or insolvency, the principal amount of all outstanding Notes will become due and payable without further action or notice. The Holders of a majority in aggregate principal amount of the Notes then outstanding may on behalf of the Holders of all of the Notes waive any existing Default or Event of Default and its consequences under the Note Purchase Agreement except a continuing Default or Event of Default in the payment of interest on, or the principal of, the Notes.

10. *NO RECOURSE AGAINST OTHERS.* A director, officer, employee, incorporator or stockholder, of an Obligor or any Subsidiary Guarantor, as such, shall not have any liability for any obligations of such Obligor or such Subsidiary Guarantor under the Note, the Note Purchase Agreement, the Agreement Guarantees, the Security Agreements or the Intercreditor Agreements or for any claim based on, in respect of, or by reason of, such obligations or their creation Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes

SUBSIDIARY GUARANTORS Payment of principal, premium, if any, and interest (including interest on overdue principal amount, premium, if any, and interest, if lawful) is unconditionally guaranteed by each Subsidiary Guarantor pursuant to Section 11 of the Note Purchase Agreement

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

OPTION OF HOLDER TO ELECT PURCHASE

If you want to elect to have this Note purchased by the Company pursuant to Section 7 8 or 7.12 of the Note Purchase Agreement, check the appropriate box below.

☐ Section 7.8 ☐ Section 7 12

If you want to elect to have only part of the Note purchased by the Company pursuant to Section 7 8 or Section 7 12 of the Note Purchase Agreement, state the amount you elect to have purchased:

$_____

Date: _____

Your Signature. _____

(Sign exactly as your name appears on the face of this Note)

Tax Identification No.. _____

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

EXHIBIT 10.61

FORM OF AMENDMENT TO THIRD AMENDED AND RESTATED SHAREHOLDERS AND NOTEHOLDERS AGREEMENT

The first paragraph of Section 5 1 of the Noteholders Agreement is amended and restated to read as follows

"Investor Approval Rights For so long as an aggregate of at least 50% of the original aggregate principal amount of the Notes at maturity continues to be held by the Note Investors, the affirmative vote or consent of Note Investors holding greater than 50% of the aggregate principal amount at maturity of the then outstanding Notes held by Note Investors, voting as a separate class, will be required for the following actions:"

Section 5.1(i)(a) of the Noteholders Agreement is amended by changing the reference to "75%" to "50% "

Section 7.3 of the Noteholders Agreement is amended and restated to read as follows:

"Amendment Any term of this Agreement may be amended only with the written consent of (a) the Company, (b) Investors holding, (i) in the case of amendments to provisions of this Agreement generally, 50% of the aggregate of the Common Stock Deemed Outstanding held by Investors, and (ii) in the case of any non-material change or technical correction of this Agreement, a majority of the aggregate of the Common Stock Deemed Outstanding held by Investors, (c) in the case of amendments to Section 6.1 or 6.2(a) of this Agreement, in addition to the consents listed in clauses (a) and (b) of this Section, at least 66-2/3% of the aggregate of the Common Stock Deemed Outstanding held by Series C Investors, (d) in the case of amendments to Section 6 1 or 6 2(b) of this Agreement, in addition to the consents listed in clauses (a) and (b) of this Section, at least 50% of the aggregate principal amount at maturity of the then outstanding Notes, and (e) in the case of amendments to Section 5.1 of this Agreement, in addition to the consents listed in clauses (a) and (b) of this Section, greater than 50% of the aggregate principal amount at maturity of the then outstanding Notes held by the Note Investors; provided, however, that in the event the rights, preferences or obligations hereunder of one or more Investors are being amended in a manner that is materially adverse to such Investors and in a manner that is different from those of other Investors, such rights, preferences or obligations may be so amended only with the consent of the Investors holding at least 50% in the aggregate of the Common Stock Deemed Outstanding held by Investors whose rights, preferences or obligations are being materially adversely amended in such different manner. Any amendment effected in accordance with this Section 7.3 shall be binding upon each Investor and the Company."

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Exhibit 21.1

Subsidiaries of XM Satellite Radio Holdings Inc.

XM Satellite Radio Inc.
XM Equipment Leasing LLC

Source: XM SATELLITE RADIO H, 10-K, March 15, 2004

Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
XM Satellite Radio Holdings Inc..

We consent to the incorporation by reference in the registration statements Nos 333-47570, 333-93529, 333-89132, 333-85804, 333-102966, 333-106824 and 333-102964 on Form S-3 and Nos. 333-92049, 333-65022, 333-65020, 333-97611 and 333-106827 on Form S-8 of XM Satellite Radio Holdings Inc. and subsidiaries of our report dated February 5, 2004 except for Note 9(i), which is as of March 3, 2004 with respect to the consolidated balance sheets of XM Satellite Radio Holdings Inc. and subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2003 and our report dated February 5, 2004 on the related schedule, which appear in the December 31, 2003 annual report on Form 10-K of XM Satellite Radio Holdings Inc. and subsidiaries. Those reports contain an explanatory paragraph that states that the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets,* as of January 1, 2002.

/s/ KPMG LLP

McLean, VA
March 12, 2004

Exhibit 31.1

CERTIFICATIONS

I, Hugh Panero, President and 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)) 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) 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

c) 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; and

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 15, 2004

By /s/ Hugh Panero

Hugh Panero
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Joseph J 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)) 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) 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

c) 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; and

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 15, 2004

By: /s/ Joseph J. Euteneuer

Joseph J Euteneuer
Executive Vice President and Chief Financial Officer

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 President and 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 fiscal year ended December 31, 2003 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
President and Chief Executive Officer
March 15, 2004

/s/ Joseph J Euteneuer

Joseph J Euteneuer
Executive Vice President and Chief Financial Officer
March 15, 2004

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.

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FORM 10-K

XM SATELLITE RADIO HOLDINGS INC - XMSR

Filed: March 04, 2005 (period: December 31, 2004)

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

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended December 31, 2004

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

Commission file number 000-27441

DELAWARE	54-1878819
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1500 ECKINGTON PLACE NE,
WASHINGTON, DC 20002-2194
(Address of principal executive offices)
(Zip code)
202-380-4000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Not Applicable
Securities registered pursuant to Section 12(g) of the Act:
Class A Common Stock, par value $ 01 per share
8.25% Series B Convertible Redeemable Preferred Stock, par value $ 01 per share
(Title of Classes)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes ☒ No ☐

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

The aggregate market value of common stock held by non-affiliates of the registrant, based upon the closing price of the registrant's Class A common stock as of June 30, 2004, is $3,946,103,996

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 February 28, 2005)
CLASS A COMMON STOCK, $0 01 PAR VALUE	210,942,293 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 26, 2005, 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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
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Except for any historical information, the matters we discuss in this Form 10-K contain forward-looking statements. Any statements in this Form 10-K that are not statements of historical fact, are intended to be, and are, "forward-looking statements" under the safe harbor provided by Section 27(a) of the Securities Act of 1933. Without limitation, the words "anticipates," "believes," "estimates," "expects," "intends," "plans" and similar expressions are intended to identify forward-looking statements The important factors we discuss below and under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as other factors identified in our filings with the SEC and those presented elsewhere by our management from time to time, could cause actual results to differ materially from those indicated by the forward-looking statements made in this Form 10-K.

EXPLANATORY NOTE

This annual report is filed by XM Satellite Radio Holdings Inc ("XM"). Unless the context requires otherwise, the terms "we," "our" and "us" refer to XM and its subsidiaries XM's principal subsidiary is XM Satellite Radio Inc. ("Inc."), which is separately filing an annual report with the SEC.

This annual report and all other reports and amendments filed by us with the SEC can be accessed, free of charge, through our website at http //www xmradio.com/investor/investor_financial_and_company.html on the same day that they are electronically filed with the SEC

PART I

ITEM 1. BUSINESS

We are America's leading satellite radio service company, providing music, entertainment and information programming for reception by vehicle, home and portable radios nationwide and over the internet for a monthly subscription fee to over 3.2 million subscribers as of December 31, 2004 We believe XM Radio appeals to consumers because of our innovative and diverse programming, nationwide coverage, commercial-free music channels and digital sound quality

The full 2005 channel lineup now includes more than 150 channels, featuring over 65 commercial-free music channels; 30 news, talk and variety channels, 31 sports channels, 21 instant traffic and weather channels; one emergency alert channel, and premium channels available for an additional fee. We are continuing to add new and innovative programming to our line-up in many different areas. Beginning with the 2005 season, we are the Official Satellite Radio Network of Major League Baseball (MLB) and offer a 24x7 MLB channel as well as play-by-play channels, including Spanish-language broadcasts We also have added Fox baseball anchor Kevin Kennedy and sports journalist Tony Kornheiser to our sports programming line-up for 2005, and we will continue our broadcast of football and men's and women's basketball games from the Atlantic Coast, Pacific-10 and Big Ten Conferences In October 2004, we debuted a new channel, XM Public Radio, which features award-winning radio broadcaster Bob Edwards. We frequently add new music programming, and in fall 2004 launched exclusive music programs that feature Tom Petty, Snoop Dogg, Quincy Jones, Bonnie Raitt and other artists Another of our new channels, launched in October 2004, features talk radio personalities Opie and Anthony Our traffic and weather channels, introduced in early 2004, report continuously updated information from 21 major markets such as New York, Los Angeles, Chicago and Washington, DC

Our targeted market has been over 200 million registered vehicles in the United States along with over 100 million households in the United States Since our nationwide launch on November 12, 2001, we have built our subscriber base through multiple distribution channels, including an exclusive factory-installation distribution arrangement with General Motors, arrangements with Honda, other automotive manufacturers and car audio dealers for factory and dealer installation, and arrangements with national electronics retailers which focus both on car radios and on radios for home and portable use.

Broad distribution of XM Radio through the new automobile market is a central element of our business strategy. XM Radio is currently available in over 120 new vehicle models Through an exclusive arrangement with us, General Motors, a major investor in our company, currently offers XM Radio in various makes and models, including passenger cars, light trucks and SUVs, and for the 2005 model year expanded the XM Radio, factory-installed option to over 50 vehicle lines, including HUMMER, Buick, Cadillac, Chevrolet, GMC, Pontiac, Saab and Saturn brand vehicles. In December 2004, General Motors announced that it had signed up its one millionth XM subscriber Honda, a major investor in our company, currently offers XM Radio in certain Honda and most Acura models as a factory-installed feature and other Honda models as a dealer-installed option. Toyota/Lexus/Scion, Nissan/Infiniti, Isuzu and Volkswagen/Audi offer XM Radio as a dealer-installed option in numerous popular makes and models Volkswagen, Audi and Porsche also offer XM Radio as a factory-installed feature in multiple 2005 models In December 2004, we announced that Toyota has selected XM as its supplier for satellite delivered data services for Toyota, Lexus and Scion vehicles Toyota will also offer XM radios as a factory-installed option in Toyota and Lexus vehicles starting in 2006. Toyota will expand the number of models offering XM as a dealer-installed option in 2005 In addition, in 2005, Nissan chose XM to supply satellite-delivered data and telematics services, such as in-vehicle messaging and XM NavTraffic

XM radios are available in the aftermarket under the Delphi, Pioneer, Alpine, Audiovox, Sony and Polk brand names at national consumer electronics retailers, such as Best Buy, Circuit City, Wal-Mart and other national and regional retailers. These radios and other mass market products support our service in the automobile, home and portable markets.

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

As part of our strategy to make XM Radio available everywhere, we introduced in fall 2004 an on-line service through which more than 70 of our channels can be received over the Internet, including through Microsoft's Windows Media Player 10 and Windows XP Media Center Edition 2005 We also offer XM NavTraffic, the nation's first real-time satellite traffic data service, for 20 major metropolitan cities across the United States for a monthly fee and XM WX satellite weather service, a real-time graphical data weather service provided to the marine and aviation markets.

We have also created brand awareness through the many ways in which potential subscribers can experience the XM service. The XM radios in General Motors' vehicles come pre-activated with service so GM's dealers can offer the XM experience to new car prospects during vehicle test drives and to new car purchasers during the vehicle delivery process The XM service is available as a trial to GM new vehicle buyers, and GM's own internal research indicates that GM vehicle buyers provide demonstrations, on average, seven times during the first 60 days of vehicle ownership. XM Radio is also available in many AVIS, Alamo and National rental cars Also announced in 2004, with service to commence in 2005, XM Radio will be available on JetBlue and AirTran airplanes, which serve over 20 million passengers per year. During 2004 we announced an exclusive multi-year strategic marketing alliance with Starbucks, which included the launch of the Starbucks Hear Music channel on XM

We transmit the XM Radio signal throughout the continental United States from our two satellites XM Rock and XM Roll. In February 2005 we launched our third satellite (XM-3), to be placed into one orbital slot We will then move XM Roll to be collocated with XM Rock in the other orbital slot In 2007, we plan to launch another satellite (XM-4) to replace the collocated XM Rock and XM Roll. We also have a network of approximately 800 terrestrial repeaters, which receive and re-transmit the satellite signals in 60 cities to augment our satellite signal coverage where it might otherwise be affected by buildings, tunnels or terrain. We hold one of only two licenses issued by the Federal Communications Commission to provide satellite digital audio radio service in the United States

Recent Developments

Changes to Our Service. On February 28, 2005, we announced that we are expanding our basic service package and that the monthly subscription price for our basic service will increase to $12.95 beginning April 2, 2005. Existing subscribers may lock in the current $9.99 monthly rate with a one-year period plan and deeper discounts with a two, three, four or five-year prepaid plan until April 2, 2005 The expanded basic service will include the Internet service XM Radio Online (previously $3.99 per month) and the High Voltage Channel (previously $1 99 per month), both of which were premium services prior to this change.

Launch of XM-3 We recently announced the successful launch of our XM-3 satellite. Liftoff occurred on February 28, 2005 at 10 51 pm EST off the Sea Launch Odyssey Launch Platform in open waters of the Pacific Ocean on the equator The XM-3 satellite was inserted into an optimized geosynchronous transfer orbit; at the present time the satellite is being raised into a geostationary orbit, utilizing its own power, where it will undergo in-orbit testing, and then be moved to its operating orbital slot at approximately 85 degrees West Longitude The initial handover should occur in the late March/April timeframe

The Market for Satellite Radio

Based on our experience in the marketplace to date, as well as market research, we believe that there is a significant market for our satellite radio service.

Initial Marketplace Results

Consumer response to our service has been positive As of December 31, 2004, we had over 3 2 million subscribers. In 2003, we surpassed 1 million subscribers making us the second fastest mass market technology

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

product to achieve 1 million subscribers (according to Greystone Communications, Yankee Group). Importantly, we have achieved this subscriber growth while spending significantly less in costs to acquire a new subscriber (CPGA costs) than we had originally projected. A more in-depth discussion of our CPGA costs can be found under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations "

We have also received positive feedback from our subscribers In three recent studies, 90% or more of our subscribers report being "extremely" or "very" satisfied with XM (Q1 Brand Tracking Study, 2005 Price/Product Choice Model and 2005 Segmentation Study). We have also found a broad appeal of our service across age groups, with people in their twenties, thirties, forties and fifties each representing comparable percentages of XM subscribers.

Marketing

Our marketing strategy is designed to build awareness and demand among potential subscribers in our target markets and the advertising community Our strategy also includes providing potential subscribers with the opportunity to experience the XM service, because it is available to new car prospects during vehicle test drives of XM-enabled General Motors and Honda vehicles, on approximately 27,000 AVIS rental cars, and many Alamo and National rental cars. XM is currently available on AirTran airplanes and will be available on Jet Blue planes later this year. Jet Blue and AirTran serve over 20 million passengers per year

We promote XM Radio as the leader in the satellite radio category, offering appealing features compared to traditional radio Our ongoing advertising and promotional activities include television, radio and print advertising and distributing sample programming and marketing materials at retail outlets, concert venues, motor sports events and on the Internet to generate consumer interest General Motors and Honda continue to sponsor national and local print and television advertising that features the XM logo and message In 2005 we will add promotional advertising featuring our new status as the Official Satellite Radio Network of Major League Baseball.

XM Radio promotes subscriber acquisition activities with both automobile original equipment and aftermarket radio manufacturers. This includes:

- promotional campaigns directed towards automobile manufacturers and dealers;
- in-store promotional campaigns, including displays located in electronics, music and other retail stores, rental car agencies and automobile dealerships;
- incentive programs for retailer sales forces, and
- jointly funded local advertising campaigns with retailers

Distribution

We market our satellite radio service through several distribution channels including automotive manufacturers and dealers, national and regional electronics retailers, car audio dealers and mass retailers and rental car companies

Automotive Manufacturers and Dealers XM Radio is currently available as original equipment in over 120 new vehicle models

Exclusive Distribution Agreement with General Motors Under our agreement with OnStar Corporation, a subsidiary of General Motors, for a 12-year period ending in September 2013, General Motors will exclusively distribute and market the XM Radio service and install XM radios in General Motors vehicles. General Motors sold over 4 8 million automobiles in 2004, which represented more than 27% of the United States automobile market General Motors currently offers XM Radio in over 50 vehicle lines of the 2005 model year, including

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

passenger cars, light trucks and SUVs GM factory installs the XM Radio option in HUMMER, Buick, Cadillac, Chevrolet, GMC, Saturn, Saab and Pontiac brand vehicles. In December 2004, General Motors announced that it had signed up its one millionth XM subscriber General Motors has made XM radios available in diverse price categories, ranging from the Chevy Cobalt to the Cadillac Escalade. Under this agreement, we have substantial payment obligations to General Motors, including substantial guaranteed fixed payment obligations (2007 to 2009) General Motors (together with the Sub-Trust of the General Motors Welfare Benefit Trust) is a major investor in XM

Honda Honda currently offers XM Radio in 12 models, including the Honda Accord EX, Hybrid, Odyssey, Ridgeline, and Element and Acura RL, TL, TSX and MDX as a factory-installed feature and in the Pilot, S2000, CR-V and other Accord models as a dealer-installed option During 2004, Acura introduced AcuraLink TM, which utilizes XM's NavTraffic service to provide drivers real time traffic information for freeways in 20 major metropolitan areas AcuraLink TM is factory installed on all 2005 model year Acura RL's. American Honda is a major investor in our company.

Toyota During 2004, Toyota and XM entered into a distribution agreement whereby Toyota, Lexus and Scion will begin offering XM radio and traffic data services as a factory installed option beginning with their 2006 model year vehicles. Toyota currently offers XM radio as a dealer-installed option in 12 models including the Camry, Land Cruiser, Scion xA, and xB and xC and Lexus LS 300, LS 430 and LX 470

Other Automobile and Truck Manufacturers. Nissan/Infiniti, Isuzu and Volkswagen/Audi offer XM Radio as a dealer-installed option in numerous popular makes and models, including the Nissan Pathfinder and Titan, Infiniti G35 and FX45, the Audi A4, S4, A6 and allroad quattro, and the Volkswagen Beetle and Jetta Nissan recently chose XM to supply satellite-delivered data and telematics services, such as in-vehicle messaging and XM NavTraffic We are continuing to seek additional distribution agreements with other car manufacturers as well as large independent dealer groups. 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. Volkswagen, Audi, and Porsche also offer XM Radio as a factory-installed feature in multiple 2005 models

National and Regional Retail Electronics Distributors. XM radios and XM-ready radios are available under the Delphi, Pioneer, Alpine, Panasonic and Sony brand names and are marketed and distributed together with the XM Radio service through major consumer electronics retail channels, including Best Buy, Circuit City, Wal-Mart and other national and regional retailers We develop in-store merchandising materials, including end-aisle displays for several retailers, and train the sales forces of all major retailers.

Brand Awareness and Other Distribution Arrangements.

Rental Cars XM service became available in June 2003 to Avis car rental customers in 30 major cities nationwide During 2004, XM service also became available to National and Alamo car rental customers. Rental car companies currently offer XM service in approximately 27,000 vehicles

Airplanes XM Radio is now available on AirTran airplanes and will become available on Jet Blue planes later in 2005

Expanding Product Configurations Beginning in 2004, a third generation of XM Radios, reflecting enhanced features and lower cost, became available to consumers

In 2004, we introduced the XM Delphi XM2go MyFi, the first personal, portable satellite radio. The hand-held MyFi enables users to enjoy XM Radio in two ways· a "live" listening mode and a "memory" mode The MyFi's live mode enables users to listen live to all of XM's channels MyFi's memory mode—called "My

XM"—allows users to store five hours or more of XM content, even when the unit is not in use. Two additional XM2go products will be available in 2005 under the Pioneer and Tao brand names In fall 2004, Delphi introduced the SKYFi2, the follow-up to the successful SKYFi, a plug and play device that can be adapted for home, automobile or portable use (boom box) that was introduced in 2002. The SKYFi2 features "pause" and "replay" functions, a first in the satellite radio industry. In November 2004, Polk Audio introduced a component tuner for use with existing premium home audio systems. In August 2004, Audiovox introduced the XR9, a plug-and-play device that features a wireless FM modulator to allow for listening on any FM radio and is capable of displaying up to 20 customized stock quotes In May 2004, Delphi introduced the industry's smallest satellite radio, the XM Roady2, a new third generation plug-and-play device with built-in wireless FM adapter for easy connection to any car or home radio as well as the first receiver capable of displaying up to 20 customized stock quotes. Delphi has begun offering the Delphi CD Audio System, the industry's first boom box capable of playing AM/FM radio, XM radio, compact discs and MP3 files

In October 2004, we commenced offering an online music service, offering internet users more than 65 XM commercial-free channels In 2005, we will be offering XM NavTraffic, the nation's first satellite traffic data service, for 20 major metropolitan cities across the United States.

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 agreements for the manufacture and distribution of XM radios for the home and portable markets.

The XM Satellite Radio Service

Our satellite radio channel offering includes channels designed to appeal to different groups of listeners, including urban and rural listeners of different ages, and to specific groups that our research has shown are most likely to subscribe to our service, and thereby aggregate 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

The following is a list of channels included in our satellite radio service offering as of March 1, 2005

	Channel Name	Channel Description
Preview	XM Preview	XM Preview
Decades	The 40s	Big Band/Swing/Forties
	The 50s	Fifties Hits
	The 60s	Sixties Hits
	The 70s	Seventies Hits
	The 80s	Eighties Hits
	The 90s	Nineties Hits
Country	America	Classic Country
	Nashville[1]	90s & Today
	X Country	Progressive Country
	Hank's Place	Traditional Country
	Bluegrass Junction	Bluegrass
	The Village	Folk
	Highway 16	Top Country Hits
Pop & Hits	Top 20 on 20	Top 20 Hits
	KISS	Pop Hits
	MIX	Contemporary Hits
	The Heart	Love Songs
	Sunny	Beautiful Music
	The Blend	Adult Contemporary
	Cinemagic	Movie Soundtracks
	On Broadway	Show Tunes
	U-Pop	Euro & Global Chart Hits
Christian	The Torch	Christian Rock
	The Fish	Christian Pop
	Spirit	Gospel

	Channel Name	Channel Description
Rock	Deep Tracks	Deep Album Rock
	Boneyard	Hard Rock
	XMU	New Music
	Fred	Deep Classic Alternative
	XM Café	Modern/Soft Alternative
	Top Tracks	Classic Rock
	Ethel	90s & Today's Alternative
	Squizz	Hard Alternative
	The Loft	Acoustic/Rock
	Music Lab	Jambands/Progressive
	Unsigned[1]	Unsigned Artists
	Fungus	Punk/Hardcore/Ska
	Lucy	Classic Alternative Hits
Hip Hop/Urban	Soul Street	Classic Soul
	The Flow	Neo Soul
	Suite 62	Urban Adult
	The Groove	Old School R&B
	The Rhyme	Classic Hip-Hop/Rap
	RAW	Uncut Hip-Hop
	The City	Urban Top 40
Jazz & Blues	Real Jazz	Traditional Jazz
	Watercolors	Contemporary Jazz
	Beyond Jazz	Modern Jazz
	Frank's Place	Great Vocals/Standards

Table of Contents

	Channel Name	Channel Description
Lifestyle	Hear Music	Starbucks Music
	Fine Tuning	Eclectic
	Audio Visions	New Age
Dance	The Move	Underground Dance
	BPM	Dance Hits
	The System	Electronica
	Chrome	Disco
Latin	Alegria	Latin Pop Hits
	Aguila	Regional Mexican
	Caliente	Salsa/Caribbean
	Luna	Latin Jazz
World	World Zone	World
	The Joint	Reggae
	Ngoma	African
Premium	Playboy Radio	Adult
	High Voltage	Opie & Anthony
Classical	XM Classics	Traditional Classical
	Vox	Opera/Classical Vocals
	XM Pops	Popular Classical
Kids	Radio Disney	Children
	XM Kids	Children
News	Fox News	News
	CNN	News
	CNN Headline News	News
	ABC News & Talk	News & Talk
	The Weather Channel	24 Hr Weather Radio
	CNBC	Network
	Bloomberg Radio	Business News
	MSNBC	News & Business
	BBC World Service	News
	C-SPAN Radio	World Affairs
	XM Public Radio	US Gov't & Public Affairs Public Radio
	CNN en Español	News in Spanish
Sports	ESPN Radio	Sports Talk/Play-by- Play
	ESPN News	Sports News
	Fox Sports Radio	Sports News Talk
	The Sporting News	Sports Talk
	NASCAR Radio	NASCAR Racing
	NASCAR Radio 2	In-Car Driver/Crew Audio
	College Sports—ACC	ACC Sports
	College Sports—ACC	ACC Sports
	College Sports—ACC	ACC Sports
	College Sports—PAC-10	PAC-10 Sports
	College Sports—PAC-10	PAC-10 Sports
	College Sports—PAC-10	PAC-10 Sports
	College Sports—Big Ten	Big Ten Sports
	College Sports—Big Ten	Big Ten Sports
	College Sports—Big Ten	Big Ten Sports
	MLB Home Plate	24x7 MLB talk & updates
	MLB play-by-play en Espanol	MLB play-by-play in Spanish
	Major League Baseball	MLB play-by-play
	Major League Baseball	MLB play-by-play
	Major League Baseball	MLB play-by-play
	Major League Baseball	MLB play-by-play
	Major League Baseball	MLB play-by-play
	Major League Baseball	MLB play-by-play
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	Major League Baseball	MLB play-by-play
	Major League Baseball	MLB play-by-play
	Major League Baseball	MLB play-by-play
Comedy	XM Comedy	Comedy
	Laugh USA	Family Comedy
Talk & Variety	Extreme XM	Extreme Talk
	MTV	MTV Radio
	VH1	VH1 Radio
	Discovery Radio	Real Life Stories & News
	E!	Entertainment News
	Sonic Theater	Books & Drama
	Radio Classics	Old Time Radio
	Ask	Experts & Advice
	America Right	Talk & Opinion
	America Left	Progressive Talk
	The Power	African American Talk

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

Family Talk
XM Live
Open Road

Christian Talk
Special Events
Truckers' Channel

Instant Traffic and Weather

Boston
New York City
Philadelphia
Baltimore
Washington, DC
Pittsburgh
Detroit
Chicago
St Louis
Minneapolis/St Paul
Seattle
San Francisco
Los Angeles
San Diego
Phoenix
Dallas/Ft Worth
Houston
Atlanta
Tampa/St Petersburg
Orlando
Miami/Ft Lauderdale
Emergency Information XM Emergency Alert 24/7

Emergency Information

Hallmarks of our satellite radio channel lineup include.

Broad range of music genres—commercial free—and live radio entertainment. We offer over 65 channels of music-oriented entertainment Each channel is programmed in its own distinct format, many generally not previously available on radio, and some newly created by us to appeal to emerging listening tastes In early 2004, we shifted our approach to music programming, eliminating commercial advertisements on all of our music channels to enhance the listening experience.

Musical formats unavailable in many terrestrial radio markets. XM Radio offers many music formats that are popular but currently unavailable in many markets More than 64% of all commercial radio stations in markets measured by Arbitron use one of only five programming formats: country, adult contemporary; news/talk/sports, oldies; or religious Furthermore, the number of radio stations available to many consumers in their local market is limited in comparison to the 150 channels (plus premium channels), we offer on a nationwide basis. We offer many types of music with significant popularity, as measured by recorded music sales and concert revenues, that are unavailable in many traditional AM/FM radio markets Such music includes classical recordings and popular blues music that have retail appeal but are not commonly played on traditional AM/FM radio. Recorded music sales of niche music formats such as classical, jazz, movie and Broadway soundtracks, religious programming, new age, children's programming and others comprised up to 22% of total recorded music sales in 2003 We have channels devoted to all of these formats and many other popular musical styles that are not currently heard in many small and medium sized markets, such as heavy metal, modern electronic dance, disco and blues

Superserve popular musical formats We offer more specific programming choices than traditional AM/FM radio generally offers for even the most popular listening formats For example, on traditional AM/FM radio oldies music is often generalized on a single format We segment this category by offering several channels devoted to the music of each decade from the 1940's to the 1990's. We also offer seven channels dedicated to urban formats and seven distinct country music formats.

Sports and Entertainment Programming We offer a broad array of sports and variety programming, including sports talk, ESPN Radio and ESPN News, the nation's only dedicated NASCAR channels, three comedy channels, and an old-time radio channel. Our NASCAR, MTV and VH1 channels are exclusive to XM Radio The ESPN Radio channel includes play-by-play NBA and Major League Baseball games including the all-star games, playoffs, championships and World Series, and the channel also carries the college football Bowl Championship Series games Our ACC, PAC-10 and Big Ten channels offer college football and basketball games

In 2004, we announced 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 The agreement also grants us the rights to use the MLB silhouetted batter logo and the collective marks of all 30 MLB clubs For the 2005 through 2012 baseball seasons, we will carry both the regular season and the post-season MLB schedule of games, including the World Series We have created a major league baseball channel featuring original content, classic MLB games and other archived MLB material and intend to include all MLB programming in our basic service package We will pay MLB up to $50 million for 2005 and $60 million per year thereafter through 2012, with $120 million to be deposited into escrow in 2005 MLB has the option to extend the agreement for the 2013, 2014 and 2015 seasons, at the same $60 million annual compensation rate. We will also make incentive payments to MLB for XM subscribers obtained through MLB and baseball club verifiable promotional programs.

This type of programming is not available in many radio markets and we believe it makes our service appealing to dedicated sports fans and listeners whose tastes are not served by existing AM/FM radio stations

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

Local Traffic and Weather Programming Beginning March 1, 2004, we launched our Instant Traffic and Weather service, a set of audio channels dedicated to keeping drivers and other listeners informed with in-depth up-to-the-moment updates on traffic and weather conditions in local markets. Each market served has a dedicated channel, so listeners can tune to the channel/city of their choice and rely on instant traffic and weather to help aid their driving and planning decisions These channels repeat weather and traffic information in a pattern familiar to listeners. Markets served include Baltimore, Chicago, Dallas/Ft Worth, Detroit, Houston, Los Angeles, New York City, Orlando, Philadelphia, Phoenix, Pittsburgh, San Francisco/Oakland, St. Louis, Tampa, Washington DC, Boston, Minneapolis/St. Paul, Seattle, San Diego, Atlanta and Miami. The data is provided by Mobility Technologies for traffic information and by The Weather Channel for weather information. We create the audio for the channels from our headquarters facility in Washington DC 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 include near instant availability due to the pattern of repeating information frequently, 24/7 availability of the service 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, Bill O'Reilly, Sean Hannity, Michael Reagan, Al Franken, Janeane Garofolo, Phil Hendrie, Art Bell, Bruce Williams, Glenn Beck and many others.

State-of-the-art facilities. We create most of our music channels (as well as most of our comedy and children's channels, NASCAR radio and the Open Road trucker channel) at our studio facilities in Washington DC, midtown Manhattan in New York City, and in Nashville at the Country Music Hall of Fame and Museum These interconnected facilities comprise an all digital radio complex that is one of the world's largest, with over 80 sound-proof studios of different configurations The studios tap a centralized digital database of over 200,000 CDs and more than 1.5 million recordings. We also have two performance studios for visiting artist interviews and performances

Dedicated, highly skilled staff. Our dedicated and experienced radio programming and production talent and on-air staff includes leading radio and music experts in their genres. Collectively, they hold over 300 gold records reflecting their involvement with the music industry, have more than a thousand years of radio programming experience, 62 record industry awards, two Emmy awards, four New York Festival awards and include one Rock and Roll Hall of Fame inductee

Superior digital sound quality. Our digital signal transmitted via satellite and our terrestrial repeater network provides nationwide, virtually uninterrupted coverage Our internal research with small groups of listeners indicates that most listeners cannot distinguish a song played over XM from the CD. Our digital sound quality is a particular benefit for music formats that have strong demand on a nationwide basis but have been relegated to AM stations with weaker signals due to lack of available FM frequencies. By having specific channels dedicated to classic country, the 1940s and gospel, for example, we provide superior sound quality to formats that are traditionally found only on AM stations.

New Services

In October 2004, we introduced XM Radio Online, an internet radio service with access to all of XM's commercial-free music channels plus two music channels available only on the internet XM Radio Online also features two of XM's comedy channels, the Opie & Anthony channel and "The Bob Edwards Show" from XM Public Radio In April 2005, XM will expand its basic service to include the Internet Service XM Radio Online (previously $3 99 per month) and the High Voltage Channel, featuring the talk radio duo Opie & Anthony (previously $1 99 per month).

In fall 2004, we introduced XM NavTraffic, the nation's first satellite traffic data service. XM NavTraffic delivers current traffic information directly to a vehicle navigation system and displays local traffic data for the driver's personal route. The driver is able to see the traffic speed for specific roads, accident locations, road closures and other incidents on the navigation map. XM NavTraffic also suggests alternate routes based on the current traffic conditions. Powered by NAVTEQ Traffic, XM NavTraffic is available for 20 major metropolitan cities across the United States and is currently available as a standard feature of the 2005 Acura RL In 2005, XM NavTraffic will be available in certain models of the Cadillac CTS and with certain aftermarket vehicle navigation systems. Honda recently announced that select models of its Ridgeline truck will come standard with XM NavTraffic.

Subscriber and Advertising Revenue

We primarily derive revenues from subscriber fees for our satellite radio service. We charge subscribers a monthly fee for over 150 channels of our programming We also offer premium channels, which customers can subscribe to for an additional monthly fee We offer family plan discounts to subscribers who have multiple XM radios We also offer pre-paid multi-year subscription discounts.

We also derive some revenues from advertising. Our non-commercial free channels, including our traffic and weather channels, provide what we believe is an attractive advertising medium for national advertisers We have advertising sales offices in several major media markets to sell directly to advertising agencies and media buying groups We have sold advertising packages to a variety of advertisers and agencies, including Honda, ADT, AirTran, UPS, GM, Cingular, Citrix and Sam Goody.

The XM Radio System

Our system provides satellite radio to the continental United States and coastal waters using radio frequencies allocated by the FCC for satellite radio. These radio frequencies are within a range of frequencies called the S-Band. The XM Radio system is capable of providing high quality satellite services to XM radios in automobiles, trucks, recreation vehicles and pleasure craft, as well as to fixed or portable XM radios in the home, office or other fixed locations The XM Radio system uses a network consisting of two high-power satellites, an uplink facility, and ground-based repeaters primarily in dense urban areas to provide coverage where the satellite signal is obstructed.

Consumer Hardware

XM Radios We transmit XM content throughout the continental United States to vehicle, portable, home and plug and play radios. Many of our radios are capable of receiving both XM content and traditional AM/FM stations. Beginning in the fall of 2004 we introduced the third generation of XM radios, offering enhanced features and more attractive pricing than earlier XM radios, as described above under the heading "Distribution—Brand Awareness and Other Distribution Arrangements " We plan to continue to expand our product offerings in 2005 with the XM "Connect-and-Play" technology, new XM2go products and other offerings

Common Receiver Platform for Satellite Radio 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 interoperability 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.

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

Space Segment

Satellite System Boeing Satellite Systems (BSS), has built, launched and delivered in-orbit two Boeing 702 high-power satellites for the XM Radio system. The satellites were launched on March 18, 2001 and May 8, 2001, respectively, and are transmitting the XM signal

In light of a progressive degradation problem with the solar array output power of XM Rock and XM Roll, we launched our third satellite (XM-3) in February 2005, to be placed into one orbital slot We will then move XM Roll to be collocated with XM Rock in the other orbital slot. In 2007, we plan to launch XM-4 to replace the collocated XM Rock and XM Roll In this way, we will have replacement satellites in orbit and operating prior to the times XM Rock and XM Roll can no longer provide half service in collocated mode. We currently expect XM Rock and XM Roll to operate in collocated mode through the first quarter of 2008 Although we presently do not intend to launch XM-4 until 2007, we could launch the satellite shortly after completion. Our commitments regarding XM-3 and XM-4 are described under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Future Operating and Capital Resource Requirements " With this plan, even if there is a problem putting XM-3 into operation, we believe we will be able to launch additional satellites prior to the time the solar array power problem might cause the broadcast signal strength to fall below minimum acceptable levels

Based on the consistency of the degradation trends (with no substantial improvement to date) and continuing analyses by BSS and us, we adjusted the estimated useful lives of XM Rock and XM Roll, with effect from September 2002, to the period running through first quarter 2008 (approximately 6 75 years from launch) We will continue to monitor this situation carefully and may re-adjust the estimated useful lives of our in-orbit satellites based on future information.

In July 2004, we reached agreement with insurers covering 80% of the aggregate sum insured relating to the progressive degradation problem with the solar array output power of XM Rock and XM Roll We received a settlement rate equal to 44.5% of the proportionate amount covered by each of these insurers, representing a total recovery of approximately $142 million. This settlement resolves any issues about the amount of loss sustained, includes a waiver by the settling insurance companies of any reductions based on salvage value, terminates any further risk to the settling insurers under the policies and ends any other rights the settling insurers might have with regard to XM Rock and XM Roll or revenues generated by our continuing use of those satellites. We have collected all amounts due under the settlement The portion of the insurance proceeds related to claim payments was recorded as a reduction to the carrying values of XM Rock and XM Roll. In August 2004, we filed for arbitration to collect the remaining 20% of the sum insured utilizing the third-party dispute resolution procedures under the policy

Satellite Transmission. Our satellites are deployed at 85 West Longitude and 115 West Longitude At their designated orbital locations, the satellites receive audio signals from our programming center and retransmit the signals across the continental United States. The satellites are 30° apart in longitude in order to enhance the probability of clear line-of-sight communication between the satellites and XM mobile radios

The transmission coverage areas, or footprints, of our satellites encompass the 48 contiguous states and nearby coastal waters. We have tailored these footprints to provide nearly uniform availability over the United States and to minimize transmission spillage across the United States borders into Canada and Mexico Through a joint venture, we also have applied for a broadcast license in Canada.

Our satellites transmit audio programming within a 12 5 MHz bandwidth operating in the S-Band radio frequency spectrum that the FCC has allocated for our exclusive use Megahertz is a unit of measurement of frequency This 12.5 MHz bandwidth is subdivided into six carrier transmission signals, four signals transmitted from our satellites and two signals transmitted by the terrestrial repeater network. The audio programming for XM Radio is carried on two satellite signals, and the remaining two satellite signals and the terrestrial repeater

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

signals repeat the audio programming to enhance overall signal reception. The transmission of higher quality sound requires the use of more kilobits per second than the transmission of lesser quality sound. We are currently using our allocated bandwidth in such a way as to provide over 150 channels in 2005

Insurance We bear the risk of loss for our satellites, and we have obtained insurance to cover that risk. We obtain launch and in-orbit insurance policies from global space insurance underwriters. These policies generally provide coverage for a total, constructive total or partial loss of the satellites that occurs during a period after launch Our insurance will not cover the full cost of constructing, launching and insuring new satellites, nor will it protect us from the adverse effect on our business operations due to the loss of a satellite. Our policies contain standard commercial satellite insurance provisions, including standard coverage exclusions Since we have settled our claim on XM Rock and XM Roll with most of our insurers under our in-orbit insurance policy, as described above under the heading "Space Segment—Satellite System"; XM Rock and XM Roll no longer have in-orbit coverage with the settling insurers We acquired and paid for launch and in-orbit insurance in January 2005 in connection with the launch of XM-3.

Ground Segment

Satellite Control. Our satellites are monitored by telemetry, tracking and control stations and are controlled by a spacecraft control station. Each of the stations has a backup station We have a contract with Telesat Canada, Inc , an experienced satellite operator, to perform the telemetry, tracking and control functions

Broadcast Facility Programming from both our studios and external sources is sent to our broadcast facility in Washington, DC, which packages and retransmits signals to our satellites through the uplink station. In addition, financial services and certain administrative support are carried on at our Washington, DC facilities. 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

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

Competition

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

Sirius Satellite Radio

Our direct competitor in satellite radio service is Sirius Radio, the only other FCC licensee for satellite radio service in the United States Sirius has announced that it had 1,143,258 subscribers as of December 31, 2004 Sirius broadcasts over 120 channels and offers certain programming that we do not offer. Sirius radio service is offered as an option on various car model brands, certain of which do not also offer XM radio.

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

Traditional AM/FM Radio

Our competition also includes traditional AM/FM radio Unlike XM Radio, traditional AM/FM radio already has had a well established market for its services for many years and generally offers free broadcast reception paid for by commercial advertising rather than by a subscription fee Also, many radio stations offer information programming of a local nature, such as local news and sports, which XM Radio cannot offer as effectively as local radio The AM/FM radio broadcasting industry is highly competitive. Radio stations compete for listeners and advertising revenues directly with other radio stations within their markets on the basis of a variety of factors, including

- program content,
- on-air talent,
- transmitter power,
- source frequency;
- audience characteristics,
- local program acceptance; and
- the number and characteristics of other radio stations in the market

Currently, traditional AM/FM radio stations broadcast by means of analog signals, not digital transmission. We believe, however, that in the future traditional AM/FM radio broadcasters will be able to transmit digitally into the bandwidth occupied by current AM/FM stations Digital broadcasting offers higher sound quality than traditional analog signals iBiquity Digital recently received FCC approval to begin digital broadcasting in the AM and FM bands. Digital radio broadcast services have been expanding, and an increasing number of radio stations in the U S. have begun digital broadcasting or are in the process of converting to digital broadcasting The technology permits broadcasters to transmit as many as five stations per frequency. 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 Some radio stations also have begun reducing the number of commercials per hour, expanding the range of music played on the air and experimenting with new formats in order to compete more directly with satellite radio Several major radio companies recently banded together to launch an advertising campaign designed to assert the benefits of traditional local AM/FM radio

Internet Radio and Downloading Devices

Internet radio broadcasts have no geographic limitations and can provide listeners with radio programming from around the country and the world According to an Arbitron study, 30 million Americans listened to internet radio each week in January 2004. Although we believe that the current sound quality of Internet radio is below standard and may vary depending on factors that can distort or interrupt the broadcast, such as network traffic, we expect that improvements from higher bandwidths, faster modems and wider programming selection may make Internet radio a more significant competitor in the future, in particular with our new XM Radio Online service.

There are a number of Internet-based audio formats in existence or in development that compete directly with XM Radio. For example, Internet users with the appropriate hardware and software can download sound files for free or for a nominal charge and play them from their personal computers or from specialized portable players or compact disk players The Apple iPod is a portable digital music player that sells for approximately $100-$400 and allows users to download and purchase music through Apple's iTunes Music Store, which features over 1 million songs and 8,000 audio books, as well as convert music on compact disc to digital files Apple sold over 4 4 million iPods during its fiscal 2004 year The iPod enables consumers to buy and store up to

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

10,000 songs. In addition, iPods are compatible with certain car stereos and various home speaker systems 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 disk 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 would make XM Radio a more attractive option to consumers, Internet-based audio formats may become increasingly competitive as quality improves and costs are reduced.

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

Traffic News Services

A number of providers will also compete with the XM NavTraffic service. In December 2004, Sirius announced an agreement with NAVTEQ to provide real-time traffic data to vehicles over its satellite radio network Initially, the service will cover 30 markets, with traffic information being integrated into new in-car navigation systems The service will provide regularly updated traffic information and help select alternative routes. Clear Channel and Tele Atlas announced in 2004 that they are now 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.

Regulatory Matters

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

As the owner 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 under 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 support our business plan

Our FCC licenses, including our satellite licenses, are held by a subsidiary wholly owned by XM Radio We are authorized to operate four satellites The license for the XM Rock satellite expires in March 2009. The license for the XM Roll satellite expires in May 2009 In February 2004, we applied to the FCC for authority to launch and operate XM-3 and XM-4 and to collocate XM Roll with XM Rock at the 115W orbital location The FCC granted this application in January 2005. We need authority from the FCC to operate our satellites at their precise orbital locations. The license term for each of XM-3 and XM-4 is for eight years and will begin on the date we certify to the FCC that each satellite has been successfully launched and put into operation. We can seek authority from the FCC to operate our satellites beyond the expiration of their license terms The U S government is responsible for coordinating our satellites through the International Telecommunication Union (ITU) and must make periodic filings at the ITU

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

In April 2004, in response to our introduction of traffic and weather channels, the National Association of Broadcasters (NAB) filed a Petition for Declaratory Ruling asking the FCC to prohibit us and Sirius Radio from (i) offering "locally oriented" services on nationally distributed channels and (ii) using any technology that would permit delivery of content that would be aired on a receiver in one location that differs from content aired on a receiver in a different location. In November 2004, the NAB withdrew this Petition but also stated that it may file a similar Petition in the future.

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. In response to the NAB Petition for Declaratory Ruling, some entities have requested that the FCC take action to impose public service obligations on satellite radio licensees

In August 2004, the FCC initiated a proceeding to determine whether it should extend Emergency Alert System (EAS) obligations to satellite radio operators We cannot predict what EAS obligations the FCC will impose on us or whether we will be able to comply with these obligations without significant cost.

The FCC's rules require interoperability with all licensed satellite radio systems that are operational or under construction. The FCC conditioned our license on certification by us that our final receiver design is interoperable with the final receiver design of the other licensee, Sirius Radio, which uses a different transmission technology than we use. We have previously certified and reconfirmed that we comply with this obligation Although we believe that we are currently in compliance, the FCC has not expressly acknowledged our compliance. We have signed an agreement with Sirius Radio to develop a common receiver platform combining the companies proprietary chipsets, but we have not completed final design of an operational radio using this platform. If the FCC were to interpret the interoperability requirement in a manner that mandates a particular radio design, complying with this requirement could make the radios more difficult and costly to manufacture. In January 2005, the FCC asked us as well as Sirius to file a report detailing the current status of efforts to develop an interoperable receiver

The FCC is currently conducting a rulemaking proceeding to establish rules for terrestrial repeater transmitters, which we have deployed and plan to continue deploying to fill in gaps in satellite coverage. The FCC has proposed to permit us to deploy these facilities. Specifically, the FCC has proposed a form of blanket licensing for terrestrial repeaters and service rules which would prohibit satellite radio licensees from using terrestrial repeating transmitters to originate local programming or transmit signals other than those received from the satellite radio satellites Various parties, including the National Association of Broadcasters, Wireless Communications Service (WCS) licensees, Multipoint Distribution Service (MDS) licensees, and Instructional Television Fixed Service (ITFS) licensees have asked the FCC to:

- limit the number of repeaters operating at greater than 2 kW EIRP that may be deployed,
- limit the power level of the repeaters operating at greater than 2 kW EIRP that are deployed;
- delay consideration of terrestrial repeater rules until XM Radio and Sirius Radio provide additional information regarding planned terrestrial repeaters,
- require individual licensing of each terrestrial repeater, and
- impose a waiting period on the use of repeaters in order to determine if signal reception problems can be resolved through other means

Our deployment of terrestrial repeaters may be impacted by whatever rules the FCC issues in this regard, although we believe these impacts are not likely to be material to our business. We have made a proposal to the FCC to set a 40 kW EIRP limit or, alternatively, a limit of 18 kW EIRP calculated by averaging power over 360 degrees, on the power of terrestrial repeaters We have also proposed to coordinate with WCS licensees in certain cases prior to operating terrestrial repeaters above 2 kW EIRP The coordination may include our providing filters in certain instances to limit the interference WCS licensees claim will result from our operation of repeaters operating above 2 kW EIRP

Source. XM SATELLITE RADIO H, 10-K, March 04, 2005

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

We are currently operating terrestrial repeaters pursuant to Special Temporary Authority ("STA") granted by the FCC in September 2001 This STA authorizes us to operate our terrestrial repeaters for commercial service on a non-interference basis Because the STA was conditioned on a non-interference basis, we are required to either reduce power or cease operating a repeater upon receipt of a written complaint of interference One party that opposed XM Radio's request for STA has 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 pending This STA expired on March 18, 2002 On March 11, 2002, we applied for an extension of this STA Pursuant to the FCC's rules, we are permitted to and have been continuing to operate our terrestrial repeaters pursuant to the STA pending a final determination on our extension request.

On November 26, 2003, we applied for STA to operate an additional forty-nine repeaters in new markets that are not authorized under our current STA to operate repeaters 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 This STA expires in March 2005, but we can seek an extension.

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.

We are required to coordinate the XM Radio system with systems operating in the same frequency bands in adjacent countries Canada and Mexico are the countries whose radio systems are most likely to be affected by satellite radio The United States government, which conducts the coordination process, has entered into coordination agreements with both the Canadian and Mexican governments

We operate the communication uplinks between our satellites and earth stations in Washington, DC and Atlanta, GA in a band of radio frequencies that are used for several other services, such as fixed services, broadcast auxiliary services, electronic news gathering services, and uplink feeder links for mobile satellite services The FCC has granted us licenses for these earth stations. The license for our Washington, DC earth station expires in March 2011 and the license for our Atlanta earth station expires in August 2019 We can seek authority from the FCC to extend these license terms

We also need to protect our system from out-of-band emissions from licensees operating in adjacent frequency bands:

- WCS licensees operating in frequency bands adjacent to the satellite radio's S-Band allocation must comply with certain out-of-band emissions limits imposed by the FCC to protect satellite radio systems These limits, however, are less stringent than those we proposed.

- In July 2002, the FCC requested comment on a report issued by the National Telecommunications and Information Administration ("NTIA") in which NTIA proposed to relocate current Department of Defense ("DOD") operations from the 1710-1755 MHz band to the 2360-2395 MHz band In the event that these DOD operations are relocated to the 2360-2395 MHz band, we and Sirius Radio jointly

Source. XM SATELLITE RADIO H, 10-K, March 04, 2005

proposed that the FCC apply the same out-of-band emissions limits to these relocated users that are applied to WCS licensees. In November 2002, the FCC released an Order in this proceeding but did not address our concerns. We and Sirius Radio filed a Petition for Reconsideration of this decision asking the FCC to consider our concerns. This Petition was denied in September 2004 because, in July 2003, the FCC initiated a separate rulemaking proceeding to implement NTIA's proposal to allow DOD and other Federal government agencies to operate in the 2360-2395 MHz band in which the FCC proposed to address our concerns. The FCC also proposed to expand the frequency band used for non-governmental aeronautical telemetry from 2360-2385 MHz to 2360-2395 MHz. In this rulemaking, the FCC sought comment on what out-of-band emissions limit is necessary to protect satellite radio reception from interference. We and Sirius Radio jointly filed Comments proposing that the FCC apply the same out-of-band emissions limit to new users in the 2360-2395 MHz band that is applied to WCS licensees. This proposal was opposed by non-governmental aeronautical telemetry operators that claimed that this out-of-band emissions limit is not necessary to protect satellite radio reception from interference. In October 2004, the FCC declined to adopt the out-of-band emission limit we jointly proposed with Sirius Radio and instead adopted a less stringent limit.

- In February 2002, the FCC initiated a rulemaking proceeding regarding rules for future licensees in the 2385-2390 MHz band, which will be able to provide both fixed and mobile services. We proposed that the FCC apply the same out-of-band emission limits on these licensees that are applied to WCS licensees. In May 2002, the FCC issued a decision rejecting this proposal. In July 2002, we filed a Petition for Reconsideration of this decision which is pending. In July 2003, the FCC initiated a rulemaking proposing to reverse its previous decision to allow these new licensees to operate in the 2385-2390 MHz band. In October 2004, the FCC adopted its proposal.

Interference from other devices that operate on an unlicensed basis may also adversely affect our signal:

- In April 1998, the FCC proposed to establish rules for radio frequency ("RF") lighting devices that operate in an adjacent radio frequency band. We opposed the proposal on the grounds that the proliferation of this new kind of lighting and its proposed emissions limits, particularly if used for street lighting, may interfere with XM Radio. Sirius Radio also opposed this proposal. Jointly with Sirius Radio, we proposed to the FCC an emissions limit for these RF lighting devices that we believe will protect DARS receivers from interference. In addition, we proposed that the FCC require existing RF lighting devices that exceed our proposed limit to cease operations. A manufacturer of RF lights conducted tests which it claimed demonstrated that RF lights do not cause interference to our receivers. While our proposal was pending, these RF lights could be produced and used, which could adversely affect our signal quality. In May 2003, the FCC terminated this proceeding because no party expressed a continuing interest in producing these RF lights. In July 2003, we and Sirius Radio asked the FCC to clarify that, by terminating this proceeding without establishing any rules, the FCC is prohibiting RF lighting devices from operating in the adjacent radio frequency band and that, before the FCC considers permitting any such operations, it will either establish another rulemaking or provide us with ample notice to object to any equipment certification application for an RF light designed to operate in this adjacent radio frequency band. In November 2004, the FCC declined to issue our requested clarification.

- In May 2000, the FCC proposed to amend its rules to allow for the operation of devices incorporating ultra-wideband (UWB) technology on an unlicensed basis. We opposed this proposal on the basis that the operation of these devices may interfere with XM Radio. Sirius Radio also opposed this proposal. In February 2002, the FCC decided to allow for the operation of these devices and, in doing so, adopted out-of-band emissions limits for these devices that are less stringent than XM Radio and Sirius Radio proposed. In addition, the FCC stated that it intends to review and potentially relax these emissions limits and may allow for the operation of additional types of UWB devices in the future. Jointly with Sirius Radio, we filed a Petition for Reconsideration of this decision and asked that the FCC impose stricter emissions limits on UWB devices. In February 2003, the FCC denied our Petition for Reconsideration and did not impose the stricter emission limits that we requested. In addition, the FCC

proposed to authorize additional types of UWB devices which may interfere with XM Radio's operations. In August 2003, we and Sirius Radio jointly filed Comments on an FCC proposal to allow UWB vehicular radar systems to operate in the 3.1 to 10 6 GHz band. We have asked the FCC to refrain from adopting its proposal until proponents of this technology demonstrate how they will avoid causing interference to satellite radio To the extent the FCC adopts its proposal without requiring this information, we asked the FCC to provide us with notice and opportunity to object to any equipment certification application for a UWB vehicular radar system in the 3 1 to 10 6 GHz band In December 2004, the FCC issued a decision declining to allow UWB vehicular radar systems to operate in the 3.1 to 10 6 GHz band.

- In May 2001, the FCC issued a notice of proposed rulemaking seeking to facilitate the development of new unlicensed spread spectrum wireless devices operating in a frequency band adjacent to XM Radio XM Radio and Sirius Radio opposed this proposal on the basis that the operation of these devices pursuant to the FCC's current emissions limits may interfere with XM Radio's operations. In May 2002, the FCC issued a decision rejecting our opposition

- In October 2001, the FCC initiated a rulemaking proceeding reviewing its rules for unlicensed devices XM Radio proposed in this proceeding that the FCC adopt out-of-band emissions limits for certain unlicensed devices sufficient to protect our system XM Radio proposed that the FCC apply these emissions limits to products sold 18 months after a final rule is published. Sirius Radio filed a similar proposal. Some manufacturers of unlicensed devices opposed these limits on the grounds that they would be too stringent and costly for them to meet. In July 2003, the FCC rejected the proposals of XM Radio and Sirius Radio on the grounds that they were beyond the scope of this proceeding

- In December 2002, the FCC issued a notice of inquiry seeking input on whether it should authorize an increase in the power of unlicensed devices that operate in rural areas Jointly with Sirius Radio, we opposed this proposal because of the potential for unlicensed devices operating with increased power to interfere with satellite radio. In December 2003, the FCC initiated a rulemaking proceeding proposing to authorize an increase in the power of unlicensed devices that operate in rural areas In May 2004, jointly with Sirius Radio, we opposed this proposal. This proceeding is pending.

The FCC order granting our license determined that because we are a private satellite system providing a subscription service on a non-common carrier basis, we would not be subject to the FCC's foreign ownership restrictions However, such restrictions would apply to us if we were to offer non-subscription services, which may appear more lucrative to potential advertisers than subscription services. The FCC also stated in its order that it may reconsider its decision not to subject satellite radio licensees to its foreign ownership restrictions.

In April 2004, the FCC initiated a proceeding with respect to terrestrial digital radio in which it also inquired as to whether it should take action to prevent recording and Internet redistribution of musical recordings that are part of satellite radio broadcasts In June 2004, we filed comments urging the FCC not to take any action in this proceeding with respect to satellite radio. Sirius Radio filed a similar request This proceeding is pending.

Intellectual Property

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 or 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.

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 to facilitate the ability of consumers to purchase one radio capable of receiving both our and Sirius Radio's services. The technology relating to this common receiver platform will be jointly developed, funded and owned by the two companies. As part of the agreement, each company has licensed to the other its intellectual property relating to the common receiver platform and to its system.

We currently own 33 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. These organizations negotiate with copyright users, collect royalties and distribute them to songwriters and music publishers. We have reached five–year agreements with ASCAP and SESAC which establish the license fee amounts owed to those entities We expect to establish license fees with BMI through negotiation. The royalty arrangements with BMI may be more costly than anticipated

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 We have reached agreement with the Recording Industry Association of America, through its unincorporated division, SoundExchange, establishing royalty payment arrangements for these performance rights.

The XM Trademark

We believe that XM Radio will be seen as the complement to AM and FM radio We have registered the trademark "XM" with the United States Patent and Trademark Office in connection with the transmission services offered by our company. Our brand name and logo is generally prominently displayed on the surface of XM radios together with the radio manufacturer's brand name This identifies the equipment as being XM Radio–compatible and builds awareness of XM Radio We intend to maintain our trademark and registration We are not aware of any material claims of infringement or other challenges to our right to use the "XM" trademark in the United States We have also registered and intend to maintain trademarks of the names of certain of our channels

Personnel

As of December 31, 2004, we had 577 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

Source· XM SATELLITE RADIO H, 10-K, March 04, 2005

RISK FACTORS

Potential investors are urged to read and consider the risk factors relating to an investment in XM Satellite Radio Holdings Inc contained herein Before making an investment decision, you should carefully consider these risks as well as other information we include or incorporate by reference in this Annual Report on Form 10-K. The risks and uncertainties we have described are not the only ones facing our company Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also affect our business operations

You could lose money on your investment because we are in the early stages of generating revenues.

Unless we generate significant 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 generate revenues and ultimately to become profitable will depend upon several factors, including:

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

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

As of December 31, 2004, we had incurred capital expenditures of $1 2 billion and aggregate net losses approximating $2 1 billion from our inception through December 31, 2004 We expect our aggregate net losses and negative cash flow to grow as we make payments under our various distribution 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 have 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 the potential consumer demand for such a service or the degree to which we will meet that demand 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 develop and increase as expected, we may not be able to generate enough revenues to generate positive cash flow or become profitable

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. Currently, we retain approximately 60% of the customers who receive a promotional subscription as part of the purchase or lease of a new vehicle, but that percentage does vary over time and the amount of data on the percentage is limited. We do not know if the percentage will change as the number of customers with promotional subscriptions increases

Source· XM SATELLITE RADIO H, 10-K, March 04, 2005

- We experience subscriber turnover, or churn, with respect to our customers as well Because we have been in commercial operations for a relatively short period of time, we cannot predict the amount of churn we will experience over the longer term.

Our inability to retain customers who purchase or lease new vehicles with our service beyond the promotional period and subscriber turnover could adversely affect our financial performance and results of operations.

Higher than expected subscriber acquisition costs could adversely affect our financial performance.

We are still spending substantial funds on advertising and marketing and in transactions with car and radio manufacturers and other parties to obtain or as part of the expense of attracting new subscribers Although we have recently been able to reduce our subscriber acquisition cost on a per subscriber basis and cost per gross addition, our ability to achieve cash flow breakeven within the expected timeframe depends on our ability to continue to maintain or lower these costs If the costs of attracting new subscribers or incentivizing other parties are greater than expected, our financial performance and results of operations could be adversely affected

Large payment obligations under our distribution agreement with General Motors and other agreements may prevent us from becoming profitable or *from achieving profitability in a timely manner.*

We have significant payment obligations under our long-term distribution agreement with General Motors for the installation of XM radios in General Motors vehicles and the distribution of our service to the exclusion of other satellite radio services. These payment obligations, which could total several hundred million dollars over the life of the contract, may prevent us from becoming profitable. A significant portion of these payments are fixed in amount, and we must pay these amounts even if General Motors does not continue to meet or exceed performance targets in the contract. Although this agreement is subject to renegotiation in certain limited circumstances, we cannot predict the outcome of any such renegotiation We also have significant payment obligations under other agreements, including $50 million or $60 million per year under our recently announced agreement with Major League Baseball (MLB) to become the Official Satellite Radio Network of Major League Baseball These payment obligations could significantly delay our becoming profitable.

Failure to timely replace our existing satellites could damage our business.

We have been disclosing since the third quarter of 2001 a progressive degradation problem with the solar array output power of Boeing 702 class satellites, including both XM Rock and XM Roll Based on the consistency of the degradation trends and continuing analyses by BSS and us, our management adjusted the estimated useful lives of our in-orbit satellites, with effect from September 2002, to the period running through first quarter 2008 (approximately 6 75 years from launch). We launched our XM-3 satellite in February 2005, to be placed in one of our orbital slots We will then move XM Roll to be collocated with XM Rock in the other orbital slot (which would allow partial use of XM Rock and XM Roll through the first quarter of 2008) With this plan, even in the event there is a problem putting XM-3 into operation, we believe we will be able to launch additional satellites prior to the time the solar array power problem might cause the broadcast signal strength to fall below minimum acceptable levels However, we cannot assure you that such actions will allow us to maintain adequate broadcast signal strength, particularly in the event of a launch or operational failure of either XM-3 or XM-4. If either XM Rock or XM Roll were to fail or suffer unanticipated additional performance degradation prematurely, or if there was a launch or operational failure of either XM-3 or XM-4, it likely would affect the quality of our service, and might interrupt the continuation of our service and harm our business This harm would continue until we successfully launched and operated one or more additional satellites

A number of other factors could decrease the useful lives of our satellites, including.

- defects in construction,

- loss of on board station-keeping system,

- failure of satellite components that are not protected by back-up units,
- electrostatic storms; and
- collisions with other objects in space.

In addition, our network of terrestrial repeaters communicates principally with one satellite. If the satellite communicating with the repeater network fails unexpectedly, we would have to repoint all the repeaters to communicate with the other satellite This would result in a degradation of service that could last several days and could harm our business.

Potential losses may not be covered by insurance.

Insurance proceeds may not fully cover our losses For example, our insurance may not cover the full cost of constructing, launching and insuring additional satellites, nor will it cover and we do not have protection against business interruption, loss of business or similar losses. Also, our insurance contains customary exclusions, salvage value provisions, material change and other conditions that could limit our recovery. Further, any insurance proceeds may not be received on a timely basis in order to construct and launch additional satellites or take other remedial measures. In addition, some of our policies are subject to limitations involving large deductibles or co-payments and policy limits that may not be sufficient to cover losses If we experience a loss that is uninsured or that exceeds policy limits, this may impair our ability to make timely payments on our outstanding notes and other financial obligations.

Competition from Sirius Satellite Radio and traditional and emerging audio entertainment providers could adversely affect our revenues.

In seeking market acceptance of our service, we encounter competition for both listeners and advertising revenues from many sources, including Sirius Satellite Radio, the other U.S. satellite radio licensee, traditional and digital AM/FM radio; Internet based audio providers, MP3 players, direct broadcast satellite television audio service; and cable systems that carry audio service. Sirius has announced that it had 1,143,258 subscribers as of December 31, 2004 Sirius broadcasts over 120 channels and offers certain programming that we do not offer Sirius radio service is offered as an option on various car model brands, certain of which do not also offer XM radio

Unlike XM Radio, traditional AM/FM radio already has a well-established and dominant market presence for its services and generally offers free broadcast reception supported by commercial advertising, rather than by a subscription fee Also, many radio stations offer information programming of a local nature, such as news and sports reports, which XM Radio is not expected to offer as effectively as local radio, or at all. To the extent that consumers place a high value on these features of traditional AM/FM radio, we are at a competitive disadvantage to the dominant providers of audio entertainment services Some radio stations have begun reducing the number of commercials per hour, expanding the range of music played on the air and experimenting with new formats in order to compete more directly with satellite radio. Several major radio companies recently launched an advertising campaign designed to assert the benefits of traditional local AM/FM radio

Digital radio broadcast services have been expanding, and an increasing number of radio stations in the U S. have begun digital broadcasting or are in the process of converting to digital broadcasting The technology permits broadcasters to transmit as many as five stations per frequency 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

Internet radio broadcasts have no geographic limitations and can provide listeners with radio programming from around the country and the world According to an Arbitron study, 30 million Americans listened to internet

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

radio each week in January 2004. We expect that improvements from higher bandwidths, faster modems and wider programming selection will make Internet radio increasingly competitive, in particular with our new XM internet service

The Apple iPod, a portable digital music player that stores up to 10,000 songs, allows users to download and purchase music through Apple's iTunes Music Store, which features over 1 million songs and 8,000 audio books Apple sold over 4 4 million iPods during its fiscal 2004 year. The iPod is also compatible with certain car stereos and various home speaker systems

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 the date on which we expect our business to begin generating positive cash flow, 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. If we fail to obtain any necessary financing on a timely basis, a number of adverse effects could occur We could default on our commitments to creditors or others and may have to seek a purchaser for our business or assets.

We need to obtain rights to programming, which 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 In 2004, we announced 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. We will pay MLB up to $50 million for 2005 and $60 million per year thereafter through 2012, with $120 million to be deposited into escrow in 2005 We also must negotiate and enter into music programming royalty arrangements with Broadcast Music, Inc , which we refer to as BMI, and in the future will have to re-negotiate our existing arrangements with the American Society of Composers, Authors and Publishers, SESAC, Inc , and the Recording Industry Association of America. We expect to establish license fees with BMI through negotiation and such royalty arrangements may be more costly than anticipated Our ability to obtain necessary third-party content at a reasonable cost, complete the amendment of certain programming agreements in connection with changes to our channel lineup and negotiate royalty arrangements will impact our financial performance and results of operations

Weaker than expected market and advertiser acceptance of our XM radio service could adversely affect our advertising revenue and results of operations.

Our ability to generate advertising revenues will depend on several factors, including the level and type of market penetration of our service, competition for advertising dollars from other media, and changes in the advertising industry and economy generally. We directly compete for audiences and advertising revenues with Sirius Satellite Radio, the other satellite radio licensee, and traditional AM/FM radio stations, some of which maintain longstanding relationships with advertisers and possess greater resources than we do Because we offer our radio service to subscribers on a pay-for-service basis, certain advertisers may be less likely to advertise on our radio service

The holders of our Series C preferred stock and convertible notes issued in January 2003 have consent rights that may prevent us from engaging in transactions otherwise beneficial to holders of our securities.

Under the terms of our Series C preferred stock, the consent of holders of at least 60% of the Series C preferred stock is required before we can take certain actions, including issuances of additional equity securities and the incurrence of indebtedness under which we must meet financial covenants to avoid default. These requirements could hamper our ability to raise additional funds The consent of holders of at least 60% of the Series C preferred stock is also required for transactions with affiliates, other than on an arm's-length basis, and for any merger or sale of our assets The approval for a merger could make it difficult for a third party to acquire us and thus could depress our stock price As a result of the closing of our January 2003 financing transactions,

Source. XM SATELLITE RADIO H, 10-K, March 04, 2005

holders of our 10% senior secured discount convertible notes have similar consent rights Without the consent of greater than 50% of the notes held by the convertible notes investors, we cannot take certain actions, including the:

- issuance of Class A common stock in an amount that increases the amount outstanding on a fully diluted basis by 20% or more;
- incurrence of indebtedness with financial or operational covenants;
- entrance into certain transactions with affiliates, or
- merger or sale of all or substantially all of our assets.

We cannot assure you that these rights will be exercised in a manner consistent with your best interests.

Our substantial indebtedness could adversely affect our financial health, which could reduce the value of our securities.

As of December 31, 2004, the total accreted value of our indebtedness was $1.1 billion ($955 3 million carrying value) The carrying amount will continue to increase during 2005 as our indebtedness accretes, and we may issue more debt securities if we believe we can raise money on favorable terms. Most of our indebtedness will mature in 2009 and 2010. However, our substantial indebtedness could have important consequences to you For example, it could.

- increase our vulnerability to general adverse economic and industry conditions,
- limit our ability to fund future working capital, capital expenditures, research and development costs and other general corporate requirements,
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate purposes,
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds.

Failing to comply with those covenants could result in an event of default, which, if not cured or waived, could cause us to have to discontinue operations or seek a purchaser for our business or assets In addition, the covenants allow us to incur more debt in the future, which could increase our total indebtedness.

The terms of the notes issued in our January 2003 financing transactions may not be favorable to us, our creditors or our stockholders.

Under the terms of the 10% senior secured discount convertible notes due 2009 issued to private investors in January 2003, we are subject to various restrictive covenants, including covenants that limit our ability to pay dividends and make other types of restricted payments and incur indebtedness in particular These covenants may significantly limit our ability to complete transactions or take other actions that could be in our interests or the interests of our creditors or stockholders.

We do not have the right to prepay or redeem the private investor notes, but have the ability after four years to require the conversion of the notes into our Class A common stock in limited circumstances This mandatory conversion would only be available to us if

- we achieve break-even in our earnings before interest, taxes, depreciation and amortization;
- our Class A common stock trades at 200% of the conversion price then in effect,

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

- the amount of our outstanding indebtedness after conversion would be less than $250 million; and
- we no longer have any Series C preferred stock outstanding

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

Development of the XM Radio system has depended largely upon the intellectual property that we have developed and licensed from third parties. If the intellectual property that we have developed or use is not adequately protected, others will be permitted to and may duplicate the XM Radio system or service without liability. In addition, others may challenge, invalidate or circumvent our intellectual property rights, patents or existing sublicenses. Some of the know-how and technology we have developed and plan to develop will not be covered by United States patents. Trade secret protection and contractual agreements may not provide adequate protection if there is any unauthorized use or disclosure The loss of necessary technologies could require us to obtain substitute technology of lower quality performance standards, at greater cost or on a delayed basis, which could harm our business.

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

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

Rapid technological and industry changes could make our service obsolete.

The satellite industry and the audio entertainment industry are both characterized by rapid technological change, frequent new product innovations, changes in customer requirements and expectations, and evolving industry standards If we are unable to keep pace with these changes, our business may be unsuccessful Because we have depended on third parties to develop technologies used in key elements of the XM Radio system, more advanced technologies that we may wish to use may not be available to us on reasonable terms or in a timely manner Further, our competitors may have access to technologies not available to us, which may enable them to produce entertainment products of greater interest to consumers, or at a more competitive cost.

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, we are subject to FCC rules and regulations, and the terms of our license, which require us to meet certain conditions such as interoperability of our system with 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 conditions could result in fines, additional license conditions, license revocation or other detrimental FCC actions

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.

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

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 a grant of special temporary authority from the FCC, which expired March 18, 2002. We have applied for an extension of this authority and can continue to operate our terrestrial repeaters pending a final determination on this request. This authority is currently being challenged by operators of terrestrial wireless systems who have asserted that our repeaters may cause interference. Our deployment of terrestrial repeaters may be impacted by the FCC's further actions, when taken.

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 do not have replacement or redundant facilities that can be used to assume the functions of our repeater network or of our central production and broadcast facility 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 complete loss of service in affected areas. Damage to our central production and broadcast facility would restrict our production of programming and require us to obtain programming from third parties to continue our service

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 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 certain on-air talent who maintain significant loyal audiences in or across various demographic groups We cannot be certain 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 these employees, 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 emerging companies 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 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 significantly decrease.

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

We have issued and outstanding securities exercisable for or convertible into a significant number of our shares of Class A common stock, including securities issued to General Motors, some of which accrue interest

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

which is convertible into Class A common stock or give us the option to make interest or other payments in our Class A common stock or securities convertible into Class A common stock. These existing instruments therefore could lead to a significant increase in the amount of Class A common stock outstanding. As of December 31, 2004, we had outstanding 208 2 million shares of Class A common stock On a pro forma basis as of December 31, 2004, if we included the shares issuable upon conversion or exercise of outstanding securities, we would have had 329 1 million shares of Class A common stock outstanding on that date. Issuances of a large number of 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 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 could make it difficult for a third party to acquire us, even if doing so would benefit our securityholders 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

ITEM 2. PROPERTIES

We own approximately 150,000 square feet of executive offices, studio and production facilities located at 1500 Eckington Place, N E , Washington, D C. 20002 We lease approximately 19,000 square feet of office and technical space in South Florida, 7,109 square feet in New York for studios and offices, approximately 1,500 square feet of space in Georgia as a backup facility and 6,564 square feet of space in Virginia for warehouse facilities We also lease space for our advertising sales offices in New York, Chicago, Los Angeles, San Francisco and Dallas and for our OEM sales and marketing office in Detroit We use space in Tennessee for studios We have also entered into license or lease agreements with regard to our terrestrial repeater system throughout the United States

ITEM 3. LEGAL PROCEEDINGS

Except for the arbitration described above under the caption "Business—Space Segment" and the FCC proceedings described above under the caption "Business—Regulatory Matters," we are not a party to any material litigation In the ordinary course of business, we become aware from time to time of claims or potential claims, or may become party to legal proceedings arising out of various matters, such as contract matters, employment related matters, issues relating to our repeater network, product liability issues, and copyright, patent, trademark or other intellectual property matters Third parties may bring suit relating to such matters We cannot predict the outcome of any such claim, potential claim or these lawsuits and legal proceedings with certainty Nevertheless, we believe that the outcome of any such claim, potential claim or proceeding, of which we are currently aware, even if determined adversely, would not have a material adverse effect on our business, financial condition and results of operations

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 2004.

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRICE RANGE OF OUR CLASS A COMMON STOCK

Our Class A common stock has been quoted on The Nasdaq National Market under the symbol "XMSR" since its initial public offering on October 5, 1999 at a price to the public of $12 00 per share The following table presents, for the period indicated, the high and low sales prices per share of the Class A common stock as reported on The Nasdaq National Market.

	High	Low
2003:		
First Quarter	$ 6.90	$ 2.40
Second Quarter	13.28	5.56
Third Quarter	16 90	10 02
Fourth Quarter	27.30	15.56
2004:		
First Quarter	29.96	20.55
Second Quarter	30 96	20.35
Third Quarter	31 52	23.55
Fourth Quarter	40 89	27 50
2005:		
First Quarter (through February 28, 2005)	38.28	28 68

On February 28, 2005, the reported last sale price of our Class A common stock on The Nasdaq National Market was $32 96 per share As of February 28, 2005, there were 2,226 holders of record of our Class A common stock.

DIVIDEND POLICY

We have not declared or paid any dividends on our Class A common stock since our date of inception. Currently, our Series B convertible redeemable preferred stock restricts us from paying dividends on our Class A common stock unless full cumulative dividends have been paid or set aside for payment on all shares of our Series B preferred stock The terms of our Series C convertible redeemable preferred stock contain similar restrictions In accordance with its terms, we have paid dividends on the Series B preferred stock in Class A common stock The Series C preferred stock provides for cumulative dividends payable in cash As no dividends have been declared on the Series C preferred stock, the value of the cumulative dividends has increased the liquidation preference. The indentures governing our subsidiary XM Satellite Radio Inc.'s senior secured notes restrict XM Satellite Radio Inc from paying dividends to us, which, in turn, will significantly limit our ability to pay dividends. We do not intend to pay cash dividends on our Class A common stock in the foreseeable future We anticipate that we will retain any earnings for use in our operations and the expansion of our business.

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

XM Satellite Radio Holdings Inc. and Subsidiaries

In considering the following selected consolidated financial data, you should also read our consolidated financial statements and notes and the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations." The consolidated statements of operations data for the five-year period ended December 31, 2004 and the consolidated balance sheets data as of December 31, 2004, 2003, 2002, 2001 and 2000 are derived from our consolidated financial statements. These statements have been audited by KPMG LLP, independent registered accounting firm.

	Years Ended December 31,				
	2004	2003	2002	2001	2000
	(In thousands, except subscriber and share amounts)				
Consolidated Statements of Operations Data:					
Revenue	$ 244,443	$ 91,781	$ 20,181	$ 533	$ —
Operating expenses:					
Cost of revenue	201,935	147,952	122,456	111,956	33,630
Research & development (excludes depreciation & amortization, shown below)	23,513	12,285	10,843	13,689	11,948
General & administrative (excludes depreciation & amortization, shown below)	28,555	27,418	26,448	20,250	17,312
Marketing (excludes depreciation & amortization, shown below)	304,316	200,267	169,165	93,584	13,016
Impairment of goodwill	—	—	11,461	—	—
Depreciation & amortization	147,165	158,317	118,588	42,660	3,573
Total operating expenses	705,484	546,239	458,961	282,139	79,479
Operating Loss	(461,041)	(454,458)	(438,780)	(281,606)	(79,479)
Other income (expense)					
Interest income	6,239	3,066	5,111	15,198	27,606
Interest expense	(85,757)	(110,349)	(63,573)	(18,131)	—
Loss from deleveraging transactions	(76,621)	(24,749)	—	—	—
Other income (expense)	2,129	1,955	2,230	160	—
Net loss before income taxes	(615,051)	(584,535)	(495,012)	(284,379)	(51,873)
Provision for deferred income taxes	(27,317)	—	—	—	—
Net loss	(642,368)	(584,535)	(495,012)	(284,379)	(51,873)
8 25% Series B preferred stock dividend requirement	(2,059)	(2,471)	(3,766)	(3,766)	(5,935)
8 25% Series C preferred stock dividend requirement	(6,743)	(15,098)	(17,093)	(19,387)	(9,277)
Series B preferred stock (deemed dividend)/retirement gain	—	8,761	—	—	(11,211)
Series C preferred stock beneficial conversion feature	—	—	—	—	(123,042)
Series C preferred stock retirement loss	—	(11,537)	—	—	—
Net loss attributable to common stockholders	$ (651,170)	$ (604,880)	$ (515,871)	$ (307,532)	$ (201,338)
Net loss per common share Basic and diluted	$ (3 30)	$ (4 83)	$ (5 95)	$ (5 13)	$ (4 15)
Weighted average shares used in computing net loss per common share—basic and diluted	197,317,607	125,176,320	86,735,257	59,920,196	48,508,042
Other data					
EBITDA(1)	$ (388,368)	$ (318,935)	$ (317,962)	$ (238,786)	$ (75,906)
Cash flow from operating activities	$ (85,552)	$ (245,123)	$ (294,289)	$ (203,048)	$ (37,447)
Cash flow from investing activities	$ (36,329)	$ 14,621	$ (7,036)	$ (221,361)	$ (559,401)
Cash flow from financing activities	$ 421,441	$ 615,991	$ 151,646	$ 382,003	$ 771,053
XM subscriptions (end of period)(2)	3,229,124	1,360,228	347,159	27,733	—

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

	December 31,				
	2004	2003	2002	2001	2000
	(In thousands)				
Consolidated Balance Sheets Data:					
Cash, cash equivalents and short-term investments	$ 717,867	$ 418,307	$ 42,815	$ 210,852	$ 224,903
Restricted investments	4,492	4,151	29,742	72,759	161,166
System under construction	329,355	92,577	55,016	55,056	674,796
Property and equipment, net	461,333	709,501	847,936	922,149	50,052
Goodwill, net	—	—	—	11,461	12,376
DARS license and other intangibles, net	148,391	149,629	153,732	155,207	151,845
Total assets	1,821,635	1,526,782	1,160,280	1,456,203	1,293,218
Total long-term debt, net of current portion	948,741	743,254	412,540	411,520	262,665
Total liabilities	1,485,472	993,894	567,969	529,552	337,266
Stockholders' equity	336,163	532,888	592,311	926,651	955,952

(1) Net loss before interest income, interest expense, income taxes, depreciation and amortization is commonly referred to in our business as "EBITDA " EBITDA is not a measure of financial performance under generally accepted accounting principles Consistent with regulatory requirements, EBITDA includes Loss from Deleveraging Transactions and Other Income. We believe EBITDA is often a useful measure of a company's operating performance and is a significant basis used by our management to measure the operating performance of our business Because we have funded and completed 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 EBITDA, which excludes this information, provides helpful information about the operating performance of our business, apart from the expenses associated with our physical plant or capital structure EBITDA is frequently used as one of the bases for comparing businesses in our industry, although our measure of EBITDA may not be comparable to similarly titled measures of other companies EBITDA does not purport to represent operating loss or cash flow from operating activities, as those terms are defined under generally accepted accounting principles, and should not be considered as an alternative to those measurements as an indicator of our performance

	Years Ended December 31,				
	2004	2003	2002	2001	2000
	(In thousands)				
Reconciliation of Net Loss to EBITDA					
Net loss as reported	$(642,368)	$(584,535)	$(495,012)	$(284,379)	$(51,873)
Add back non-EBITDA items included in net loss:					
Interest income	(6,239)	(3,066)	(5,111)	(15,198)	(27,606)
Interest expense	85,757	110,349	63,573	18,131	—
Provision for deferred income taxes	27,317	—	—	—	—
Depreciation & amortization	147,165	158,317	118,588	42,660	3,573
EBITDA	$(388,368)	$(318,935)	$(317,962)	$(238,786)	$(75,906)

(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

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

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

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our financial condition and consolidated results of operations This discussion should be read together with our consolidated financial statements and related notes beginning on page F-1 of this report

Overview

Our 2004 highlights include the following:

- growing the XM business to over 3.2 million subscribers at year end, including over 1.8 million new subscribers added during the year,
- the continued introduction of innovative retail products at attractive price points and broad OEM factory-installed penetration across numerous vehicle models,
- expanding our programming line-up to include college football and basketball, The Starbucks "Hear Music" Channel, The Opie and Anthony Show, The Bob Edwards Show and Public Radio Starting in 2005 we will have the right to broadcast Major League Baseball (MLB) games for every MLB team nationwide,
- ending 2004 with an annual recurring subscription revenue run rate of $318 million, and
- continuing to grow gross margin (calculated as revenues less variable costs, which include revenue share & royalties, customer care & billing, cost of equipment and ad sales) during 2004 while reducing our costs to acquire each new subscriber

The key metrics we use to monitor our business growth and our operational results are net subscriber additions, ending subscribers, Average Monthly Subscription Revenue Per Subscriber ("ARPU"), Subscriber Acquisition Cost ("SAC"), Cost Per Gross Addition ("CPGA") and EBITDA, presented as follows

	Years Ended December 31,	
	2004	2003
Net Subscriber Additions	1,868,896	1,013,069
Aftermarket, OEM & Other Subscribers	2,800,501	1,018,963
Subscribers in OEM Promotional Periods(1)	401,988	320,473
XM Activated Vehicles with Rental Car Companies(2)	26,635	20,792
Total Ending Subscribers(1)(2)(3)	3,229,124	1,360,228
Average Monthly Subscription Revenue Per Subscriber(4)	$ 8.68	$ 8.97
Average Monthly Subscription Revenue Per Aftermarket, OEM & Other Subscriber(4)	$ 9.26	$ 9.59
Average Monthly Subscription Revenue Per Subscriber in OEM Promotional Periods(4)	$ 5 82	$ 6 48
Average Monthly Subscription Revenue per XM Activated Vehicle with Rental Car Companies(4)	$ 9 26	$ 5.54
Subscriber Acquisition Costs (SAC)(5)	$ 62	$ 75
Cost Per Gross Addition (CPGA)(6)	$ 100	$ 137
EBITDA (in thousands)(7)	$ (388,368)	$ (318,935)

(1) OEM promotional periods typically range from three months to one year in duration. At the time of sale, vehicle owners generally receive a 3-month trial subscription and are included in OEM Promotional

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

Subscribers XM generally receives payment for two months of the 3-month trial subscription from the vehicle manufacturer Promotional periods generally include the period of trial service plus 30 days to handle the receipt and processing payments.

(2) Rental car activity commenced in late June 2003.

(3) Ending subscribers—Please see definition and further discussion under *Subscriber Count* on page 62.

(4) Average Monthly Subscription Revenue per Subscriber—Please see definition and further discussion under *Average Monthly Subscription Revenue Per Subscriber* on page 37.

(5) SAC—Please see definition and further discussion under *Subscriber Acquisition Costs* on page 40.

(6) CPGA—Please see definition and further discussion under *Cost Per Gross Addition* on page 40.

(7) EBITDA—Please see definition and further discussion under EBITDA on page 33

We have raised $3 2 billion of equity and debt net proceeds from inception through January 2005 from investors and strategic partners to fund our operations In 2004, we raised net proceeds of $697 million. This includes $177 million of net funds from the sale of Class A common stock in January 2004, $195 million of net funds from the April 2004 issuance of our Senior Secured Floating Rate Notes due 2009 and $293 million of net funds from the November 2004 issuance of our 1.75% Convertible Senior Notes due 2009, and $32 million in cash proceeds in connection with GM's exercise of a warrant to purchase 10 million shares of our Class A common stock at an exercise price of $3.18 per share In January 2005, we received an additional $98 million in net proceeds from the exercise of the over allotment option on the November 2004 issuance of our 1.75% Convertible Senior Notes due 2009. From January 1, 2004 to December 31, 2004, we eliminated, repaid or redeemed $597 3 million of carrying value, including accrued interest, of debt and preferred securities, or approximately $617.0 million face value at maturity, through the issuance of 23 6 million shares of Class A common stock and the payment of $320 3 million of cash. In total, these de-leveraging transactions eliminated over $900 million in future interest, dividends, accretion and principal payments as well as 27 million shares of incremental potential dilution During 2004, we settled with insurers representing approximately 80% of the insurance coverage on XM Rock and XM Roll for a total recovery of approximately $142 million Provided that we meet the revenue, expense and cash flow projections of our business plan, we expect to be fully funded and will not need to raise additional financing to continue operations

We will continue to incur operating losses until we substantially increase the number of our subscribers and develop a stream of cash flow sufficient to cover operating costs. We are focused on managing growth and containing costs while increasing subscribers and scaling processes. We also have significant outstanding contracts and commercial commitments that need to be paid in cash or through credit facilities over the next several years, including to fund subsidies and distribution costs, particularly under our arrangement with General Motors, programming costs, repayment of long-term debt, lease payments and service payments, as further described below under the heading "Liquidity and Capital Resources—Contractual Obligations and Commercial Commitments." Our ability to become profitable also depends upon other factors identified below under the heading "Liquidity and Capital Resources—Future Operating and Capital Resource Requirements."

Inc was incorporated in Delaware in 1992 and XM became a holding company in early 1997. We emerged from the development stage in the fourth quarter of 2001, following the commencement of our service in two test markets on September 25, 2001 and nationwide launch on November 12, 2001

This annual report on Form 10-K is filed by XM Satellite Radio Holdings Inc ("XM"). XM Satellite Radio Inc ("Inc.") is filing separately. The principal differences between the financial condition of XM and Inc , which are not significant in amount, are:

- the ownership by XM of the corporate headquarters building since August 2001, and the lease of the building from XM by Inc ;
- the presence at XM of additional indebtedness not guaranteed by Inc ; and
- the existence of cash balances at XM.

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

Accordingly, the results of operations for Inc. and its subsidiaries are substantially the same as the results for XM and its subsidiaries discussed above except that Inc incurs.

- additional rent, less depreciation and amortization expense and less other income, in each case principally related to Inc 's rental of its corporate headquarters from XM, which are intercompany transactions that have been eliminated in the XM financial statements,
- less interest expense principally related to the additional indebtedness at XM, and
- less interest income because of the additional cash balances at XM

Results of Operations

To explain our performance, we discuss our results of operations using the following revenue and expense categories that reflect the drivers of the business

Subscription Revenue

Subscription includes revenues from basic and premium services, net of subscription-related promotions

Activation Revenue

Activation includes amortization of subscription activation fees over the estimated average life of a subscriber.

Equipment Revenue

Equipment includes revenue from XM's direct sales of radios, radio accessories, merchandise and any related shipping fees.

Net Ad Sales Revenue

Net Ad Sales includes revenue from sales of advertisements and programming sponsorships to advertisers on the XM radio network, net of agency commissions.

Cost of Revenue

Costs of Revenue are those expenses directly related to the generation of subscriber and advertising revenue and have variable and fixed components Cost of Equipment, Revenue Share & Royalties, along with Customer Care & Billing tend to fluctuate along with increases and decreases in revenues and/or subscribers. Ad Sales, which includes internal and external costs directly associated with selling advertisements on the XM network, tends to fluctuate with increases and decreases in advertising revenue. Satellite & Terrestrial, Broadcast & Operations and Programming & Content are not expected to fluctuate directly with changes in revenue and/or subscribers.

Research & Development

Research & Development is a discretionary expense used primarily to drive new product development and radio component and radio unit cost reductions.

General & Administrative

General & Administrative expenses include legal, human resources, accounting and other overhead costs.

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

Marketing

Marketing includes Retention & Support, which are those indirect costs, primarily labor, that are not associated with gaining a subscriber and are not expected to fluctuate directly with changes in revenue and/or subscribers; Subsidies & Distribution, which includes commissions to radio manufacturers and distribution partners that are based on the number of radios or vehicles manufactured or the number of new subscribers added in the period; Marketing, which are those discretionary costs including advertising, media and events, as well as marketing materials for retail and automotive dealer points of presence. Amortization of the GM Liability includes the straight-line accounting treatment of the fixed obligation to General Motors. We consider subscriber acquisition costs (SAC) to include radio manufacturer subsidies, certain sales, activation and installation commissions, and hardware-related promotions These costs are reported in subsidies & distribution on the consolidated statement of operations. Subscriber acquisition costs also include the negative margins on equipment sales (Subscriber acquisition costs do not include ongoing loyalty payments to retailers and distribution partners, payments under revenue sharing arrangements with radio manufacturers and distributors and the amortization of the GM liability). We consider Cost Per Gross Addition (CPGA) to include the amounts in SAC, as well as advertising, media and marketing expenses except for retention and support and the amortization of the GM liability.

EBITDA

Net loss before interest income, interest expense, income taxes, depreciation and amortization is commonly referred to in our business as "EBITDA " EBITDA is not a measure of financial performance under generally accepted accounting principles. Consistent with regulatory requirements, EBITDA includes Loss from Deleveraging Transactions and Other Income We believe EBITDA is often a useful measure of a company's operating performance and is a significant basis used by our management to measure the operating performance of our business Because we have funded and completed 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 EBITDA, which excludes this information, provides helpful information about the operating performance of our business, apart from the expenses associated with our physical plant or capital structure EBITDA is frequently used as one of the bases for comparing businesses in our industry, although our measure of EBITDA may not be comparable to similarly titled measures of other companies EBITDA does not purport to represent operating activities, as those terms are defined under generally accepted accounting principles, and should not be considered as an alternative to those measurements as an indicator of our performance

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

	2004	2003	2002
	(In thousands, except share and per share amounts)		
Revenue:			
Subscription	$ 221,073	$ 78,275	$ 16,344
Activation	4,814	1,868	484
Equipment	7,261	6,692	757
Net ad sales	8,485	4,065	2,333
Other	2,810	881	263
Total revenue	244,443	91,781	20,181
Operating expenses			
Cost of revenue (excludes depreciation and amortization, shown below):			
Revenue share & royalties	50,676	26,440	12,790
Customer care & billing	40,887	25,945	16,069
Cost of equipment	11,557	9,797	1,679
Ad sales	6,165	3,257	1,870
Satellite & terrestrial	35,922	39,692	44,818
Broadcast & operations			
Broadcast	10,832	7,689	7,745
Operations	13,192	12,023	12,106
Total broadcast & operations	24,024	19,712	19,851
Programming & content	32,704	23,109	25,379
Total cost of revenue	201,935	147,952	122,456
Research & development (excludes depreciation and amortization, shown below)	23,513	12,285	10,843
General & administrative (excludes depreciation and amortization, shown below)	28,555	27,418	26,448
Marketing (excludes depreciation and amortization, shown below):			
Retention & support	13,272	7,873	9,857
Subsidies & distribution	165,704	92,521	54,086
Advertising & marketing	88,090	64,309	91,624
Marketing	267,066	164,703	155,567
Amortization of GM liability	37,250	35,564	13,598
Total marketing	304,316	200,267	169,165
Impairment of goodwill	—	—	11,461
Depreciation & amortization	147,165	158,317	118,588
Total operating expenses	705,484	546,239	458,961
Operating loss	(461,041)	(454,458)	(438,780)
Interest income	6,239	3,066	5,111
Interest expense	(85,757)	(110,349)	(63,573)
Loss from deleveraging transactions	(76,621)	(24,749)	—
Other income	2,129	1,955	2,230
Net loss before income taxes	(615,051)	(584,535)	(495,012)
Provision for deferred income taxes	(27,317)	—	—
Net loss	(642,368)	(584,535)	(495,012)
8 25% Series B and C preferred stock dividend requirement	(8,802)	(17,569)	(20,859)
Series B preferred stock retirement gain	—	8,761	—
Series C preferred stock retirement loss	—	(11,537	—
Net loss attributable to common stockholders	$ (651,170)	$ (604,880)	$ (515,871)
Basic and diluted net loss per share	$ (3.30)	$ (4.83)	$ (5.95)
Weighted average common shares used in computing net loss per share—basic and diluted	197,317,607	125,176,320	86,735,257
EBITDA(1)	$ (388,368)	$ (318,935)	$ (317,962)
XM subscriptions (end of period)(2)	3,229,124	1,360,228	347,159

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

(1) Net loss before interest income, interest expense, income taxes, depreciation and amortization is commonly referred to in our business as "EBITDA." EBITDA is not a measure of financial performance under generally accepted accounting principles. Consistent with regulatory requirements, EBITDA includes Loss from Deleveraging Transactions and Other Income We believe EBITDA is often a useful measure of a company's operating performance and is a significant basis used by our management to measure the operating performance of our business. Because we have funded and completed 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. EBITDA, which excludes this information, provides helpful information about the operating performance of our business, apart from the expenses associated with our physical plant or capital structure EBITDA is frequently used as one of the bases for comparing businesses in our industry, although our measure of EBITDA may not be comparable to similarly titled measures of other companies. EBITDA does not purport to represent operating loss or cash flow from operating activities, as those terms are defined under generally accepted accounting principles, and should not be considered as an alternative to those measurements as an indicator of our performance

	2004	2003	2002
		(In thousands)	
Reconciliation of net loss to EBITDA:			
Net loss as reported	$ (642,368)	$ (584,535)	$ (495,012)
Add back non-EBITDA items included in net loss:			
Interest income	$ (6,239)	$ (3,066)	(5,111)
Interest expense	85,757	110,349	63,573
Provision for deferred income taxes	27,317	—	—
Depreciation and amortization	147,165	158,317	118,588
EBITDA	$ (388,368)	$ (318,935)	$ (317,962)

(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 for 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 payments.

Year Ended December 31, 2004 Compared With Year Ended December 31, 2003
XM Satellite Radio Holdings Inc. and Subsidiaries

Revenue

Revenue. Our revenue consists of subscription fees, activation charges, limited direct sales of radios, advertising sales, and revenue earned from royalties and invoice fees In 2004, we recognized $244.4 million in total revenue, compared to $91 8 million in 2003, an increase of $152 6 million. During 2004, subscription revenue comprised over 90% of our total revenues.

Subscribers As of December 31, 2004, we had 3,229,124 subscribers, compared to 1,360,228 at December 31, 2003, an increase of 1,868,896 subscribers. Subscriber additions for the quarter ended December 31, 2004 include 490,941 retail, 219,955 OEM and 2,205 car rental subscribers Our subscribers include 2,800,501 self-paying subscribers, 401,988 subscribers in OEM promotional periods (typically ranging from three months to one-year in duration) paid in part by the vehicle manufacturers and 26,635 XM activated vehicles with rental car companies Additionally, 376,049 family plan subscriptions at a multi-unit rate of $6.99 per radio per month are included in our total subscriber count 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 who are currently in promotional periods paid for by vehicle manufacturers, as well

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

as XM activated 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

OEM Promotional Subscribers. OEM Promotional Subscribers are subscribers who have either a portion or all of their subscription fee paid for by an OEM for a fixed period following the initial purchase or lease of the vehicle Currently, at the time of sale, vehicle owners generally receive a 3-month prepaid trial subscription XM generally receives two months of the 3-month trial subscription from the vehicle manufacturer. 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. GM and Honda generally indicate the inclusion of 3 months free of XM service on the window sticker of XM-enabled vehicles We measure the success of these programs based on the percentage 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 "

The OEMs started to offer promotional programs in late 2002. At that time, the XM enabled vehicles were delivered to the dealers with inactive radios. Dealers or vehicle purchasers were required to call XM to activate a radio similar to an aftermarket consumer customer; not all XM-enabled vehicles were activated for the promotional subscription period. To streamline the process, in late September 2003, we began implementing an auto activation program whereby the XM radios are being activated automatically upon delivery of the car to the dealer. In the first quarter of 2004, we started activating XM radios at the completion of the car manufacturing process, which further reduces manual intervention in the process. Under our OEM promotional programs that ran from late 2002 through mid September 2003 (the primary program was the GM triple-play promotion), subscribers were included in our OEM promotional subscriber count from the time of sign up on the system until such time as they transferred into our aftermarket, OEM and other subscriber count or were deactivated for non-payment in accordance with our normal collection procedures Under the auto-activation programs, subscribers are included in our OEM promotional subscriber count from the time of vehicle purchase or lease, through the period of trial service plus an additional 30 days 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.

The conversion rate for the GM triple-play program that ran through mid September 2003 averaged approximately 70% The conversion rate for the year ended December 31, 2004 was 59% and reflects the auto activation program, with all XM-enabled vehicles activated for the promotional period The fully automated factory activation program has increased the number of subscribers provided by our OEM distribution channel, and we are focused on increasing the conversion rate by developing more refined marketing programs to convert promotional subscribers to self paying subscribers

XM Activated Vehicles with Rental Car Companies Our subscribers also include 26,635 activated vehicles with rental car companies. For the initial model year 2003 XM-enabled rental vehicles, XM receives payments based on the use of XM service. Customers are charged $2.99 per day per vehicle for use of the XM service, on which XM receives a revenue share For subsequent model year 2004 and later vehicles, XM receives $10 per subscription per month.

Subscription Revenue. Subscription revenue was $221 1 million during 2004 compared to $78.3 million in 2003, an increase of $142 8 million. Subscription revenue consists primarily of our monthly subscription fees charged to consumers, commercial establishments and fleets, which are recognized as the service is provided Revenues received from vehicle manufacturers for promotional service programs are included in subscription revenue At the time of sale, vehicle owners generally receive a three-month trial subscription and are included in OEM promotional subscribers Beginning in 2004, a standard promotion of 3 months free was placed on the window sticker of all XM-enabled GM vehicles. We generally receive payment for two months of the three-month trial subscription period from the vehicle manufacturer. For 2004, subscription revenue included $25 0 million from related parties for subscription fees paid under certain promotional agreements, compared with $8 5 million in 2003 Subscription revenue also includes revenues from premium channels and weather services Our

Source· XM SATELLITE RADIO H, 10-K, March 04, 2005

subscriber arrangements are cancelable without penalty. Promotions and discounts are treated as a reduction to revenue during the period of the promotion Sales incentives, consisting of rebates to subscribers, offset revenue. Discounts on equipment sold with service are allocated to equipment and service based on relative fair value In February 2005, we announced that we are expanding our basic service package and that the monthly subscription price for our basic service will increase to $12 95 from $9 99 beginning April 2, 2005 Existing customers may lock in a discounted rate by signing up for a pre-paid plan of up to five years prior to April 2, 2005. The expanded basic service will include the internet service XM Radio Online (previously $3 99 per month) and the High Voltage Channel (previously $1 99 per month), both of which were premium services prior to this change.

Average Monthly Subscription Revenue Per Subscriber Average monthly subscription revenue per subscriber (ARPU) was approximately $8.68 during 2004 and $8 97 during 2003. ARPU from our aftermarket, OEM and other subscribers was $9 26 during 2004, compared to $9.59 during 2003 The difference from our retail rate of $9 99 is due primarily to multi-year prepayment plan and family plan discounts ARPU from our OEM promotional subscribers was $5 82 during 2004, compared to $6.48 during 2003 ARPU from our rental car fleet subscribers was $9 26 during 2004, compared to $5.54 during 2003 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 generally accepted accounting principles. Average monthly revenue per subscriber will fluctuate based on promotions implemented in 2005, as well as the adoption rate of multiyear prepayment plans, multiradio discount plans (such as the family plan), premium and data services. We expect that average monthly revenue per subscriber will increase in 2005. The increase in the monthly subscription price takes effect for all billing cycles on or after April 2, 2005, and therefore, will be implemented over time

Activation Revenue. Activation revenue is comprised of one-time activation charges billed to customers. Activation fees are non-refundable, and are recognized on a pro-rata basis over the estimated 40-month life of the subscriber relationship. This estimate may be further refined in the future as additional historical data becomes available. During 2004, we recognized $4.8 million in activation revenue compared to $1.9 million in 2003, an increase of $2.9 million due to an increase in subscribers The growth in activation revenue will be impacted by the amount of discounts given as a result of the competitive environment, as well as changes, if any, in the estimated life of the subscriber relationship.

Equipment Revenue Equipment revenue is comprised of revenues from any direct sales of radios. Through December 31, 2004, the direct sales of radios have generally been for promotional purposes During 2004, we recognized $7.3 million in equipment revenue compared to $6.7 million during 2003 For 2004, equipment revenue included $30,000 from direct sales of radios to related parties compared with $3 0 million in 2003 related to a one-time promotion that ended in 2003 We expect revenue from the sale of equipment to increase proportionately with the increase in direct sales promotional activities as well as kiosk sales

Net Ad Sales Revenue Advertising revenue consists of sales of advertisements and program sponsorships on the XM network to advertisers that are recognized in the period in which they are broadcast. Advertising revenue includes advertising aired in exchange for goods and services (barter), which is recorded at fair value Advertising revenue is presented net of agency commissions in the results of operations, which is consistent with industry practice In 2004, we recognized $8.5 million in net advertising revenue compared to $4.1 million during 2003. These amounts are net of agency commissions, which were $1 0 million during 2004, compared to $0.5 million during 2003 The increase in net advertising revenue is due primarily to increased demand for advertising on the XM network that results from our subscriber growth, listenership and audience reach. During 2004, we recognized $1 8 million in advertising barter revenue compared to $1 2 million during 2003. For 2004, advertising revenue included $2 0 million from sales of advertisements to related parties compared with $512,000 in 2003 We expect advertising revenue to increase during 2005 due to increased demand for advertising on the XM network resulting from our subscriber growth, listenership and audience reach

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

Other Revenue. Other revenue earned during 2004 consists of processing fees charged to invoiced subscribers, royalty revenue from certain tuners manufactured, and other revenue We recognized $2 8 million of other revenue during 2004 compared with $0.9 million during 2003, an increase of $1 9 million The increase primarily reflects barter revenue of $1.1 million relating to a non-monetary transaction entered into in February 2004 with a related party involving the exchange of radio subscriptions for the provision of certain marketing services and increased processing fees resulting from our growth in subscribers

Operating Expenses

Total Operating Expenses. Total operating expenses were $705.5 million for 2004 compared to $546 2 million in 2003, an increase of $159.3 million or 29%. The increase was due to an increase in cost of revenue of $53 9 million attributable to increased sales, an increase in marketing expenses of $104.0 million due to increased distribution expenses as a result of the growth in subscribers as well as our efforts to attract and acquire new subscribers, an increase of $11 2 million in research & development expense due to costs associated with the development of future telematics applications and new product engineering builds and an increase of $1 2 million in general & administrative expense, offset in part by a decrease of $11 1 million in depreciation & amortization

Cost of Revenue. Cost of revenue includes revenue share & royalties, customer care & billing costs, costs of radios associated with direct sales of radios, costs directly associated with sales of advertising, satellite & terrestrial operating costs, as well as costs related to broadcast & operations and programming & content. These combined costs were $201 9 million for 2004, up from $148.0 million in 2003, an increase of $53 9 million or 36%

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 were $50.7 million in 2004 compared to $26 4 million in 2003 This increase of $24 3 million was a result of our growth in subscriber base and revenues. We expect these total costs to continue to increase as subscriber growth continues

Customer Care & Billing Customer care & billing operations expense includes expenses from outsourced customer care functions as well as internal IT costs associated with front office applications These expenses were $40.9 million during 2004, compared with $25 9 million during 2003, an increase of $15 0 million This increase resulted from the increase in subscribers We expect customer care & billing operations expense in total to increase as we continue to add subscribers, but we expect the average cost per subscriber to decrease

Cost of Equipment. During 2004, we incurred $11 6 million relating to promotional radios and radio kits that we sold directly to subscribers, compared to $9.8 million in 2003, an increase of $1 8 million. We expect the cost of equipment to increase as we increase direct sales of equipment.

Ad Sales Ad sales expense was $6.2 million in 2004 compared to $3 3 million in 2003, an increase of $2 9 million or 88%. The increase in ad sales expense is due primarily to an increase in staffing and marketing costs to support ad sales growth We expect ad sales costs to increase in support of expected advertising revenue growth

Satellite & Terrestrial. Satellite & terrestrial includes. telemetry, tracking and control of our two 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 lease payments These expenses were $35 9 million in 2004, compared with $39.7 million in 2003, a decrease of $3 8 million or 10%. The decrease is primarily due to a decrease in repeater network optimization charges, a decrease in accrued XM Rock and XM Roll performance incentives payable to Boeing and a decrease in in-orbit satellite insurance expense related to the partial settlement of insurance claims on XM Rock and XM Roll. We expect system operating costs to increase with the operation of a third satellite, XM-3, which we launched in the first quarter of 2005

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

Broadcast & Operations

Broadcast 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 The advertising trafficking (scheduling and insertion) functions are also included. Broadcast costs were $10 8 million for 2004, compared to $7 7 million in 2003, an increase of $3.1 million The increase is primarily due to increased costs associated with enhancements to and maintenance of the broadcast systems infrastructure. Broadcast costs are expected to increase with new content initiatives.

Operations Operations, which includes facilities and information technology expense, was $13 2 million in 2004, compared with $12 0 million in 2003, an increase of $1 2 million. The increase is mainly due to an increase in IT related costs and professional fees and an increase in the general operating costs associated with the corporate facility. These costs are expected to increase in 2005 as we make additional investments in our back office systems to support the growth of the business

Programming & Content Programming & content includes the creative and production costs associated with our over 150 channels of XM–original and third party content. This includes costs of programming staff and fixed payments for third party content. Programming & content expense was $32 7 million during 2004, compared with $23 1 million during 2003, an increase of $9 6 million or 42% The increase is due to staffing and content related expenses in support of new 2004 programming initiatives, including 21 Instant Traffic and Weather channels, Opie & Anthony and XM Public Radio These costs are expected to increase significantly in 2005 from the launch of our MLB Home Plate channel and the live broadcast of Major League Baseball games as well as the full year of expense from other programming initiatives launched in 2004

Research & Development Research & development includes the costs of new product development, chipset design, and engineering. These combined expenses were $23 5 million in 2004, compared with $12 3 million in 2003, an increase of $11.2 million or 91%. The increase in research and development expense primarily resulted from costs associated with the development of future telematics applications and new product engineering builds. In 2004, research and development expense included $9.6 million of costs relating to the development of future telematics applications associated with a related party compared with $0 during 2003 Research and development expenses are expected to increase as we accelerate the development of future telematics applications and new products, including interoperable radios

General & Administrative General & administrative expense was $28 6 million during 2004, compared with $27.4 million during 2003, an increase of $1.2 million or 4% The increase in general & administrative expense primarily resulted from an increase in director and officer insurance premiums, and an increase in non–cash stock–based compensation charges for consultants, offset in part by a decrease in costs incurred for professional services We expect general and administrative expense to increase during 2005.

Marketing. Marketing includes the costs of retention & support, subsidies & distribution, advertising & marketing, and amortization of our liability to GM These combined costs were $304.3 million for 2004, compared to $200 3 million in 2003, an increase of $104 0 million or 52% Marketing expense increased primarily due to increases in subsidies & distribution of $73 2 million and advertising and marketing of $23 8 million.

Retention & Support Personnel–related expenses comprise the majority of retention and support. In 2004, these costs were $13.3 million compared to $7.9 million in 2003, an increase of $5 4 million or 68% The increase is due to an increase in headcount and costs for professional services.

Subsidies & Distribution We currently provide incentives and subsidies for the manufacture, purchase, installation and activation of XM radios to attract and retain our manufacturing and distribution partners Our subsidy and distribution costs are significant and totaled approximately $165.7 million during 2004, compared with $92 5 million during 2003, an increase of 73 2 million or 79% This increase is due

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

primarily to the increase in subscribers, new activations, and GM vehicles equipped with XM radios Subsidy and distribution expense will increase as the number of XM radios that are manufactured, installed and activated increase, however, we expect the cost per new subscriber to decrease slightly.

Subscriber Acquisition Costs. We consider subscriber acquisition costs to include radio manufacturer subsidies, certain sales, activation and installation commissions, and hardware-related promotions These costs are reported in Subsidies & Distribution The negative margins from equipment sales are also included in subscriber acquisition costs. Subscriber acquisition costs do not include ongoing loyalty payments to retailers and distribution partners, payments under revenue sharing arrangements with radio manufacturers and distributors and certain guaranteed payments to General Motors During the years ended December 31, 2004, and 2003, we incurred expenses of $157 5 million, and $88.8 million, respectively, related to subscriber acquisition costs Our average subscriber acquisition cost was $62 and $75 during 2004 and 2003, respectively The decline in SAC for 2004 as compared to 2003 is due primarily to the decline in manufacturer subsidies. We expect SAC to decline slightly in 2005.

Advertising & Marketing. Activities comprising these expenses include media, advertising, events and direct marketing programs. Advertising & marketing costs were $88 1 million during 2004, compared with $64 3 million during 2003, an increase of $23 8 million or 37% The increase is due primarily to our increased retail marketing and media advertising expenses

Cost Per Gross Addition. We consider CPGA to include the amounts in SAC, as well as advertising, media and other discretionary marketing expenses In our financial statements, SAC costs are captured in Subsidies & Distribution and the negative margins from equipment sales, while CPGA costs are primarily captured by the combination of Subsidies & Distribution, Advertising & Marketing, plus the negative margins from equipment sales. CPGA does not include marketing staff (included in Retention & Support) or the amortization of the GM guaranteed payments (included in Amortization of GM Liability). During the years ended December 31, 2004 and 2003 we incurred CPGA expenses of $257.9 million, and $159 9 million, respectively CPGA for 2004 and 2003 was $100 and $137, respectively. The decline in CPGA for 2004 as compared to 2003 is due to the combined impacts of the declines in manufacturer subsidies, discretionary advertising and marketing expenses and an increase in the number of activations We expect CPGA to decline slightly in 2005.

Amortization of GM Liability These costs include the amortization of annual fixed guaranteed payment commitments to General Motors, aggregating to $439 million, under our long-term distribution agreement with the OnStar division of GM providing for the installation of XM radios in GM vehicles Amortization of the GM liability was $37.3 million for 2004, compared with $35.6 million for 2003 The distribution agreement was amended in June 2002 and then again in January 2003, as described under the captions "Liquidity and Capital Resources—Contractual Obligations and Commercial Commitments " As a result of the January 2003 amendment and GM's current roll out plans, commencing in February 2003 we began recognizing the fixed payments, which approximate $397 3 million, on a straight-line basis through September 2013. In January 2003, we expensed the pro rata portion of the fixed payment that was based on the June 2002 amendment to the agreement We expect these expenses to remain at $37 3 million per annum through September 2013

Depreciation & Amortization. Depreciation & amortization expense was $147.2 million during 2004, compared with $158.3 million during 2003, a decrease of $11 1 million or 7 0%. The decrease was due primarily to lower depreciation on XM Rock and XM Roll as a result of the August 2004 insurance proceeds of approximately $134 million reducing the carrying values of our satellites in August 2004. Depreciation and amortization expense is expected to increase in 2005 when XM-3 is placed into service.

Interest Income Interest income was $6 2 million during 2004, compared with $3 1 million during 2003, an increase of $3.1 million or 100% The increase was the result of higher average balances of cash and cash equivalents in 2004 as well as higher yields on our investments due to market conditions

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

Interest Expense Interest expense was $85.8 million during 2004, compared with $110 3 million during 2003, a decrease of $24.5 million. Included in the interest expense for 2004 was a charge of $3 2 million attributable to the beneficial conversion feature on the exchange of $11 1 million carrying value, or $13 4 million principal amount at maturity, of our 10% senior secured discount convertible notes due 2009 as compared to a charge of $7 2 million attributable to the beneficial conversion feature on the exchange of $24 0 million carrying value, or $30 5 million principal amount at maturity, of our 10% senior secured discount convertible notes due 2009 in 2003. Excluding the beneficial conversion feature charge, the decrease in interest expense is primarily driven by an increase in capitalization of interest costs due to increased capital expenditures for the system under construction.

Loss from Deleveraging Transactions We recorded a loss of $76 6 million from the retirement of debt with a carrying value including accrued interest of $206.1 million during 2004 and a loss of $24.7 million from the retirement of debt with a carrying value including accrued interest of $125.2 million during 2003

Other Income Other income consists primarily of income from rental of office space in our corporate headquarters to third parties. Other income was $2 1 million in 2004 and $2 0 million in 2003.

Provision for Deferred Income Taxes. We recorded a provision for deferred income taxes expense of $27 3 million and $0 during 2004 and 2003. The increase was the result of our recording of a deferred tax liability related to indefinite lived assets that are amortized and deducted for tax purposes but are not amortized under generally accepted accounting principles We will continue to incur tax expense as the indefinite lived assets are amortized for tax purposes over the next 13 years.

Net Loss Net loss for 2004 was $642 4 million, compared with $584 5 million for 2003, an increase of $57 9 million or 10%. The increase primarily reflects increases in operating expenses due to our subscriber growth, the provision for deferred income taxes and an increase in losses associated with de-leveraging transactions, offset in part by the growth in our revenue and a decrease in interest expense.

EBITDA. Net loss before interest income, interest expense, income taxes, depreciation and amortization is commonly referred to in our business as "EBITDA." EBITDA is not a measure of financial performance under generally accepted accounting principles. EBITDA during 2004 was $(388.4) million, compared with $(318 9) million during 2003 Included in EBITDA are losses of $76 6 million in 2004 and $24.7 million in 2003 recorded from the deleveraging transactions. The increased loss reflects our increase in operating costs as a result of our subscriber growth and increase in losses associated with de-leveraging transactions, offset in part by revenue growth and margin improvement as well as a decline in the costs to acquire each new subscriber Consistent with regulatory requirements, EBITDA includes Loss from Deleveraging Transactions and Other Income We believe EBITDA is often a useful measure of a company's operating performance and is a significant basis used by our management to measure the operating performance of our business. Because we have funded and completed 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 EBITDA, which excludes this information, provides helpful information about the operating performance of our business, apart from the expenses associated with our physical plant or capital structure. EBITDA is frequently used as one of the bases for comparing businesses in our industry, although our measure of EBITDA may not be comparable to similarly titled measures of other companies. EBITDA does not purport to represent operating activities, as those terms are defined under generally accepted accounting principles, and should not be considered as an alternative to those measurements as an indicator of our performance The reconciliation of net loss to EBITDA is as follows (in thousands)

	Year Ended December 31,	
	2004	2003
Net loss as reported	$(642,368)	$(584,535)
Add back non-EBITDA items included in net loss		
Interest income	(6,239)	(3,066)
Interest expense	85,757	110,349
Provision for deferred income taxes	27,317	—
Depreciation & amortization	147,165	158,317
EBITDA	$(388,368)	$(318,935)

Year Ended December 31, 2003 Compared With Year Ended December 31, 2002

XM Satellite Radio Holdings Inc. and Subsidiaries

Revenue

Revenue. Our revenue consists of subscription fees, activation charges, limited direct sales of radios, advertising sales, and revenue earned from royalties and invoice fees In 2003, we recognized $91 8 million in total revenue, compared to $20.2 million in 2002, an increase of $71 6 million During 2003, subscription revenue comprised over 85% of our total revenues

Subscribers As of December 31, 2003, we had 1,360,228 subscribers, compared to 347,159 at December 31, 2002, an increase of 1,013,069 subscribers Our subscribers at December 31, 2003 included 1,018,963 self-paying subscribers, 320,473 subscribers in OEM promotional periods (typically ranging from three months to one-year in duration) paid for by the vehicle manufacturers and 20,792 XM activated vehicles with rental car companies At the time of sale, vehicle owners generally receive a 3-month trial subscription and are included in OEM promotional subscribers XM generally receives two months of the 3-month trial subscription from the vehicle manufacturer. The number of subscribers electing to continue with the XM service beyond the initial OEM promotional period, the conversion rate, has ranged from 65% – 80% through the end of 2003 and averaged approximately 74% for 2003. Beginning in late September 2003, we began an interim auto activation program whereby XM-enabled radios in new vehicles manufactured by General Motors and Honda are automatically activated to receive the XM service as a subscriber at the time of the sale to the vehicle purchaser. In March 2004, we began a fully automated factory activation program whereby XM-enabled radios in new vehicles manufactured by General Motors are activated to receive the XM service at the time of manufacture These vehicles are not included in our subscriber count until the vehicle is sold to a customer who becomes an OEM promotional subscriber The fully automated factory activation program was initiated to streamline the process for activating the XM service in vehicles that previously required the auto manufacturers' dealers to contact our listener care center The fully automated factory activation program also provides activated radios on the dealer lots for test drives In addition, GM will now provide standard on the window sticker 3 months free of XM service with every XM-enabled vehicle. We expect that the implementation of the fully automated factory activation program will increase the number of subscribers provided by our OEM distribution channel, but will result in a decline in our overall conversion rate due to a larger number of cars activated for trial service. Our subscribers also include 20,792 XM activated vehicles with rental car companies. For the initial model year 2003 XM-enabled rental vehicles, XM receives payments based on the use of XM service. Customers are charged $2.99 per day per vehicle for use of the XM service, on which XM receives a revenue share For subsequent model year 2004 and later vehicles, XM receives $10 per subscription per month Additionally, 100,872 family plan subscriptions at a multi-unit rate of $6 99 per radio per month are included in our total subscriber count 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 who are currently in promotional periods paid for by vehicle manufacturers, as well as XM activated 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

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

Subscription Revenue Subscription revenue was $78 3 million during 2003 compared to $16 3 million in 2002, an increase of $62 0 million. Subscription revenue consists primarily of our monthly subscription fees charged to consumers, commercial establishments and fleets, which are recognized as the service is provided. Revenues received from vehicle manufacturers for promotional service programs are included in subscription revenue. At the time of sale, vehicle owners generally receive a three-month trial subscription and are included in OEM promotional subscribers Beginning in 2004, a standard promotion of 3 months free is placed on the window sticker of all XM-enabled GM vehicles. We generally receive payment for two months of the three-month trial subscription period from the vehicle manufacturer For 2003, subscription revenue included $8.5 million from related parties for subscription fees paid under certain promotional agreements, compared with $184,000 in 2002. Subscription revenue also includes revenues from a premium service. Our subscriber arrangements are cancelable without penalty. Promotions and discounts are treated as a reduction to revenue during the period of the promotion. Sales incentives, consisting of rebates to subscribers, offset revenue Discounts on equipment sold with service are allocated to equipment and service based on relative fair value.

Average Monthly Subscription Revenue Per Subscriber. Average monthly subscription revenue per subscriber (ARPU) was approximately $8 97 during 2003 and $9 43 during 2002. ARPU from our aftermarket, OEM and other subscribers was $9 59 during 2003, compared to $9.54 during 2002 The difference from our retail rate of $9 99 is due primarily to multi-year prepayment plan and family plan discounts ARPU from our OEM promotional subscribers was $6 48 during 2003, compared to $2.81 during 2002. The OEM promotional programs began in November 2002 ARPU from our rental car fleet subscribers was $5.54 during 2003 ARPU from our family plan subscribers was $6 91 during 2003. 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 generally accepted accounting principles

Activation Revenue Activation revenue is comprised of one-time activation charges billed to customers. Activation fees are non-refundable, and are recognized on a pro-rata basis over the estimated 40-month life of the subscriber relationship We expect this estimate to be further refined in the future as additional historical data becomes available During 2003, we recognized $1 9 million in activation revenue compared to $0 5 million in 2002, an increase of $1 4 million due to an increase in subscribers.

Equipment Revenue Equipment revenue is comprised of revenues from any direct sales of radios. Through December 31, 2003, the direct sales of radios have generally been for promotional purposes During 2003, we recognized $6 7 million in equipment revenue compared to $0 8 million during 2002. For 2003, equipment revenue included $3.0 million from direct sales of radios to related parties compared with $72,000 in 2002.

Net Ad Sales Revenue Advertising revenue consists of sales of advertisements and program sponsorships on the XM network to advertisers that are recognized in the period in which they are broadcast Advertising revenue includes advertising aired in exchange for goods and services (barter), which is recorded at fair value Advertising revenue is presented net of agency commissions in the results of operations, which is consistent with industry practice In 2003, we recognized $4 1 million in net advertising revenue compared to $2 3 million during 2002 These amounts are net of agency commissions, which were $486,000 during 2003, compared to $350,000 during 2002 The increase in net advertising revenue is due primarily to increased demand for advertising on the XM network that results from our subscriber growth, listenership and audience reach During 2003, we recognized $1 1 million in advertising barter revenue compared to $0 3 million during 2002 For 2003, advertising revenue included $512,000 from sales of advertisements to related parties compared with $0 in 2002.

Other Revenue Other revenue earned during 2003 consists of processing fees charged to invoiced subscribers, royalty revenue from certain tuners manufactured, and other revenue. We recognized $0.9 million of other revenue during 2003 compared with $0 3 million during 2002

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

Operating Expenses

Total Operating Expenses. Total operating expenses were $546 2 million for 2003 compared to $459 0 million in 2002, an increase of $87.2 million or 19%. The increase was due primarily to an increase in cost of revenue of $25.5 million attributable to increased sales, an increase in marketing expenses of $31 1 million due to increased distribution expenses as a result of the growth in subscribers and an increase in depreciation and amortization of $39.7 million resulting from a reduction in the useful life of our satellites in third quarter of 2002, offset in part by an impairment charge of $11 5 million relating to goodwill recognized in 2002.

Cost of Revenue. Cost of revenue includes revenue share & royalties, customer care & billing costs, costs of radios associated with direct sales of radios, costs directly associated with sales of advertising, satellite & terrestrial operating costs, as well as costs related to broadcast & operations and programming & content. These combined costs were $148 0 million for 2003, up from $122 5 million in 2002, an increase of $25.5 million or 21%

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 payments to manufacturing and distribution partners and content providers These costs were $26 4 million in 2003 compared to $12 8 million in 2002 This increase of $13 6 million was a result of our growth in subscriber base and revenues along with completion of negotiations for performance rights royalties.

Customer Care & Billing. Customer care & billing operations expense includes expenses from outsourced customer care functions as well as internal IT costs associated with front office applications. These expenses were $25 9 million during 2003, compared with $16.1 million during 2002, an increase of $9 8 million This increase resulted from the increase in subscribers.

Cost of Equipment During 2003, we incurred $9 8 million relating to promotional radios and radio kits that we sold directly to subscribers, compared to $1 7 million in 2002.

Ad Sales Ad sales expense was $3 3 million in 2003 compared to $1 9 million in 2002, an increase of $1 4 million or 74%. The increase in ad sales expense is due primarily to an increase in staffing and marketing costs to support ad sales growth.

Satellite & Terrestrial Satellite & terrestrial includes telemetry, tracking and control of our two 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 lease payments These expenses were $39 7 million in 2003, compared with $44 8 million in 2002, a decrease of $5 1 million or 11%. The decrease primarily resulted from previously accrued performance incentives payable to Boeing relating to XM Rock and XM Roll that were reversed in 2003 as a result of the December 2003 amendment of our contract with Boeing, which removed this obligation

Broadcast & Operations

Broadcast 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 The advertising trafficking (scheduling and insertion) functions are also included. Broadcast costs were $7.7 million for 2003, compared to $7 7 million in 2002.

Operations. Operations, which includes facilities and back office information technology expense, was $12.0 million in 2003, compared with $12.1 million in 2002, a decrease of $0.1 million.

Programming & Content Programming & content includes the creative and production costs associated with our XM-original and third party content channels This includes costs of programming staff and fixed payments for third party content. Programming & content expense was $23.1 million during 2003,

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

compared with $25.4 million during 2002, a decrease of $2 3 million or 9% The decrease is due primarily to decreases in payroll and payroll related costs from a reduction in headcount which occurred in November 2002 and lower fixed payments to certain content providers as a result of contract renegotiations

Research & Development Research & development includes the costs of new product development, chipset design, and engineering. These combined expenses were $12 3 million in 2003, compared with $10 8 million in 2002, an increase of $1 5 million or 14%. The increase in research and development expense resulted from the development of four new products, XM PCR, Delphi XM Roady, XM Commander and XM Direct, brought to market in 2003, as well as the commencement of activities under the joint development agreement with Sirius Radio.

General & Administrative. General & administrative expense was $27.4 million during 2003, compared with $26 4 million during 2002, an increase of $1 0 million or 4% The increase in general & administrative expense primarily resulted from an increase in director and officer insurance premiums, and an increase in non-cash stock-based compensation charges, offset in part by a decrease in costs incurred for professional services

Marketing. Marketing includes the costs of retention & support, subsidies & distribution, advertising & marketing, and amortization of our liability to GM These combined costs were $200.3 million for 2003, compared to $169 2 million in 2002, an increase of $31.1 million, or 18%. Marketing expense increased primarily due to increases in subsidies & distribution of $38 4 million and amortization of GM liability of $22.0 million, offset in part by decreases in retention and support of $2.0 million and advertising and marketing of $27 3 million

Retention & Support. Personnel-related expenses comprise the majority of retention and support. In 2003, these costs were $7 9 million compared to $9 9 million in 2002, a decrease of $2 0 million or 20%, primarily due to a reduction in staffing levels, and a decrease in non-cash stock compensation expense resulting from the reversal of an accrual relating to the Sony warrants. In September 2003, it was evident that Sony did not achieve the minimum performance target required for the vesting of its warrants Therefore, the non-cash compensation charges of $0 4 million recorded in prior years in relation to these warrants were reversed in 2003

Subsidies & Distribution. We currently provide incentives and subsidies for the manufacture, purchase, installation and activation of XM radios to attract and retain our manufacturing and distribution partners. Our subsidy and distribution costs are significant and totaled approximately $92 5 million during 2003, compared with $54 1 million during 2002, an increase of $38 4 million or 71% This increase is due primarily to the increase in subscribers, new activations, and GM vehicles equipped with XM radios, offset in part by a decrease in manufacturing subsidies resulting from changes in the subsidy timing and lower subsidy rates

Subscriber Acquisition Costs We consider subscriber acquisition costs to include radio manufacturer subsidies, certain sales, activation and installation commissions, and hardware-related promotions These costs are reported in Subsidies & Distribution The negative margins from equipment sales are also included in subscriber acquisition costs Subscriber acquisition costs do not include ongoing loyalty payments to retailers and distribution partners, payments under revenue sharing arrangements with radio manufacturers and distributors and certain guaranteed payments to General Motors During the years ended December 31, 2003, and 2002, we incurred expenses of $88 8 million, and $54.1 million, respectively, related to subscriber acquisition costs Our average subscriber acquisition cost was $75 and $116 during 2003 and 2002, respectively The decline in SAC for 2003 as compared to 2002 is due primarily to the decline in manufacturer subsidies

Advertising & Marketing Activities comprising these expenses include media, advertising, events and direct marketing programs Advertising & marketing costs were $64.3 million during 2003, compared with $91 6 million during 2002, a decrease of $27 3 million or 30% The decrease is due primarily to our decreased purchase of consumer advertising media

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

Cost Per Gross Addition We consider CPGA to include the amounts in SAC, as well as advertising, media and other discretionary marketing expenses. In our financial statements, SAC costs are captured in Subsidies & Distribution and the negative margins from equipment sales, while CPGA costs are primarily captured by the combination of Subsidies & Distribution, Advertising & Marketing, plus the negative margins from equipment sales. CPGA does not include marketing staff (included in Retention & Support) or the amortization of the GM guaranteed payments (included in Amortization of GM Liability). During the years ended December 31, 2003, and 2002, we incurred CPGA expenses of $159.9 million, and $145.5 million, respectively CPGA for 2003 and 2002 was $137 and $425, respectively The decline in CPGA for 2003 as compared to 2002 is due to the combined impacts of the declines in manufacturer subsidies, discretionary advertising and marketing expenses and an increase in the number of activations.

Amortization of GM Liability. These costs include the amortization of annual fixed guaranteed payment commitments to General Motors, aggregating to $439 million, under our long-term distribution agreement with the OnStar division of GM providing for the installation of XM radios in GM vehicles Amortization of the GM liability was $35 6 million for 2003, compared with $13 6 million for 2002 The distribution agreement was amended in June 2002 and then again in January 2003, as described under the captions "Liquidity and Capital Resources—Capital Resources and Financing." As a result of the January 2003 amendment and GM's current roll out plans, commencing in February 2003 we began recognizing the fixed payments, which approximate $397.3 million, on a straight-line basis through September 2013 In January 2003, we expensed the pro rata portion of the fixed payment that was based on the June 2002 amendment to the agreement.

Impairment of Goodwill. We recognized an impairment charge of $11 5 million during the fourth quarter of 2002

Depreciation & Amortization Depreciation & amortization expense was $158 3 million during 2003, compared with $118 6 million during 2002, an increase of $39.7 million or 33%. The increase in depreciation and amortization expense primarily resulted from the reduction in the useful lives of our in-orbit satellites from 17 5 years to 6 75 years during the third quarter of 2002 due to a solar array output power anomaly

Interest Income. Interest income was $3.1 million during 2003, compared with $5 1 million during 2002, a decrease of $2.0 million or 39% The decrease was the result of lower yields on our investments due to market conditions as well as lower average balances of cash and cash equivalents in 2003.

Interest Expense We recorded interest expense of $110 3 million and $63.6 million during 2003 and 2002, respectively. The increase in interest expense is due to an increase in debt outstanding from the January 2003 and June 2003 financing transactions, as well as a charge of $7.2 million to interest expense attributable to the beneficial conversion feature on the exchange of $24.0 million carrying value of our 10% senior secured discount convertible notes due 2009 into 8 1 million shares of Class A common stock

Loss from Deleveraging Transactions. We recorded a loss of $24 7 million from the retirement of debt with a carrying value including accrued interest of $125.2 million during 2003. No deleveraging transactions occurred during 2002.

Other Income Other income consists primarily of income from rental of office space in our corporate headquarters to third parties. Other income was $2 0 million in 2003, compared with $2 2 million in 2002, a decrease of $0.2 million. The decrease is due primarily to losses resulting from the disposition of fixed assets in 2003

Net Loss Net loss for 2003 was $584.5 million, compared with $495 0 million for 2002, an increase of $89 5 million or 18%. The increase primarily reflects the losses recorded in other expense from our deleveraging transactions, increases in interest expense and increases in operating expenses, primarily depreciation and amortization expense, offset in part by the growth in our revenue

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

EBITDA Net loss before interest income, interest expense, income taxes, depreciation and amortization is commonly referred to in our business as "EBITDA " EBITDA is not a measure of financial performance under generally accepted accounting principles. EBITDA during 2003 was $(318.9) million, compared with $(318 0) million during 2002. Included in the 2003 EBITDA are losses of $24.7 million recorded from the deleveraging transactions. Consistent with regulatory requirements, EBITDA includes Loss from Deleveraging Transactions and Other Income We believe EBITDA is often a useful measure of a company's operating performance and is a significant basis used by our management to measure the operating performance of our business. Because we have funded and completed 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 EBITDA, which excludes this information, provides helpful information about the operating performance of our business, apart from the expenses associated with our physical plant or capital structure EBITDA is frequently used as one of the bases for comparing businesses in our industry, although our measure of EBITDA may not be comparable to similarly titled measures of other companies. EBITDA does not purport to represent operating activities, as those terms are defined under generally accepted accounting principles, and should not be considered as an alternative to those measurements as an indicator of our performance. The reconciliation of net loss to EBITDA is as follows (in thousands)

	Year Ended December 31,	
	2003	2002
Net loss as reported	$(584,535)	$(495,012)
Add back non-EBITDA items included in net loss.		
Interest income	(3,066)	(5,111)
Interest expense	110,349	63,573
Depreciation & amortization	158,317	118,588
EBITDA	$(318,935)	$(317,962)

Liquidity and Capital Resources

Overview

At December 31, 2004, we had total cash and cash equivalents of $717.9 million, and working capital of $392.7 million compared to total cash and cash equivalents of $418 3 million at December 31, 2003 The increase resulted from $421 4 million provided by financing activities, offset by $85 6 million used in operating activities and $36.3 million used in investing activities. The proceeds from financing activities resulted primarily from the issuance of 7 million shares of Class A common stock in January 2004 that yielded gross proceeds of $185 5 million, issuance of 10 million shares of Class A common stock to GM in connection with the April 2004 exercise of a warrant that yielded proceeds of $31 8 million, the issuance of Floating Rate Notes in April 2004 that yielded gross proceeds of $200 million, the net proceeds of $5 6 million related to the refinancing of our mortgage on the corporate facility and the issuance of 1.75% Convertible Senior Notes in November 2004 that yielded gross proceeds of $300 million, offset in part by the repayment of $184.2 million of related party debt, repayments of secured debt of $83 million, repayment of amounts due to Boeing of $35 million and payments of $5 7 million related to capital leases, mortgage obligations and other notes payable. The financing activities completed during the year ended December 31, 2004, most of which were undertaken to retire or replace debt, are more fully discussed below Investing activities consisted primarily of capital expenditures for the construction and launch of XM-3 and construction of XM-4, computer systems infrastructure and broadcast facilities, and the construction of the backup uplink facility, offset in part by the proceeds from the third quarter settlement with insurers representing 80% of the insurance coverage on XM Rock and XM Roll Cash flows used in operating activities includes the net loss of $642 4 million, offset in part by the net cash provided by our operating assets and liabilities and the non-cash expenses included in the net loss.

The weighted average payment plans that our subscribers have elected result in 6 9 months of advance billing Multi-year and other prepayment plans provide significant cash flows for us During the year ended

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

December 31, 2004, the increase in deferred revenue provided $98.5 million of cash We expect the amount of deferred revenue will continue to increase as the number of subscribers who pay in advance increases The rate for our basic service will increase from $9.99 to $12.95 beginning April 2, 2005. Existing customers may lock in the $9 99 monthly rate with a prepaid plan of up to five years until April 2, 2005. If the number of subscribers who choose a multiyear prepaid plan increases, the cash provided by the prepayments will also increase

By comparison, at December 31, 2003, we had total cash and cash equivalents of $418 3 million, which excludes $0.1 million of restricted investments, and working capital of $295.3 million. Cash and cash equivalents increased $385.5 million during 2003. The increase resulted from $616 0 million provided by financing activities and $14 6 million provided by investing activities, offset by $245 1 million used in operating activities The proceeds from financing activities resulted primarily from a private placement in January 2003 that resulted in the issuance of our 10% Senior Secured Discount Convertible Notes that yielded gross proceeds of $210 million, the issuance of 5 6 million shares of Class A common stock that yielded gross proceeds of $15 million, the issuance of our 12% Senior Secured Notes that yielded gross proceeds of $185 million, and the issuance of 11.3 million shares of Class A common Stock that yielded gross proceeds of $150 million The financing activities completed during the year are more fully discussed below Investing activities consisted primarily of proceeds provided from the maturity of restricted investments Cash flows used in operating activities includes the net loss of $584.5 million and the net cash used by our operating assets and liabilities, offset in part by non-cash expenses included in the net loss.

We expect that our future working capital, capital expenditures, and debt service requirements will be satisfied from existing cash and cash equivalents, augmented by the results of our future financing activities and, in the future, by cash generated from operations.

Sources of Cash

We raised $3 4 billion of equity and debt gross proceeds from inception through December 2004 from investors and strategic partners to fund our operations. In 2004, we raised gross proceeds of $717 million. This includes $185 5 million of gross funds from the sale of Class A common stock in January 2004, $200 million of gross funds from the April 2004 issuance of our Senior Secured Floating Rate Notes due 2009 and $300 million of gross funds from the November 2004 issuance of our 1.75% Convertible Senior Notes due 2009. In addition, in April 2004, we received $31 8 million in cash proceeds in connection with GM's exercise of a warrant to purchase 10 million shares of our Class A common stock at an exercise price $3.18 per share Provided that we meet the revenue, expense and cash flow projections of our business plan, we expect to be fully funded and will not need to raise additional financing to continue operations We intend to continue to refine our capital structure, reduce our level of indebtedness and improve our liquidity position on an opportunistic basis

November 2004 Financing Transaction

On November 23, 2004, we completed an offering of $300 million aggregate principal amount of our 1.75% Convertible Senior Notes due December 1, 2009 The notes mature on December 1, 2009 and bear interest at an annual rate of 1 75%. The initial purchasers of the notes were given an option to purchase an additional $100 million aggregate principal amount of notes within 60 days from the date of the issuance of the notes. In January 2005, we received an additional $100 million in gross proceeds from the exercise of this option on the notes. The notes may be converted by the holder, at its option, into shares of our Class A common stock initially at a conversion rate of 20.0 shares of Class A common stock per $1,000 principal amount, which is equivalent to an initial conversion price of $50 00 per share of Class A common stock (subject to adjustment in certain events), at any time until December 1, 2009. The notes are not redeemable at our option prior to the stated maturity We expect to use the proceeds for working capital and general corporate purposes.

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

April 2004 Exercise of GM Warrant

In April 2004, we received $31 8 million in cash proceeds in connection with GM's exercise of a warrant to purchase 10 million shares of our Class A common stock at an exercise price $3.18 per share.

April 2004 Financing Transaction

On April 20, 2004, we completed an offering of $200 million of Inc.'s Senior Secured Floating Rate Notes due May 1, 2009 Interest on the notes is 7 68% per annum through January 31, 2005 and thereafter is reset quarterly at a rate equal to 550 basis points over LIBOR. The interest on the notes is payable quarterly in cash in arrears on February 1, May 1, August 1 and November 1, commencing on August 1, 2004. No scheduled principal payments are required to be made prior to maturity The notes, which are Inc.'s senior secured obligations, are secured by substantially all of Inc.'s assets, including the stock of Inc 's FCC license subsidiary, are guaranteed by us and rank equally in right of payment with all of Inc 's other existing and future senior indebtedness and senior in right of payment to all of Inc.'s existing and future subordinated indebtedness. At any time, Inc may, at its option, redeem the notes, in whole or in part, at declining redemption prices. The proceeds from this offering were used in part to repay outstanding balances under our revolving credit facility with GM

January 2004 Financing Transaction

On January 28, 2004, we completed a public offering of 20 million shares of our Class A Common Stock at $26.50 per share, 13 million shares of which were offered for sale by certain selling stockholders. The remaining 7 million shares offered by us resulted in gross proceeds to us of $185 5 million. The proceeds from this offering were used in part to repay the unvested portion of the 10% Senior Secured Convertible Note held by OnStar, a subsidiary of GM

September 2003 Financing Transaction

On September 11, 2003, we completed a public offering of 11 3 million shares of our Class A Common Stock at $13.25 per share to Legg Mason Funds Management, Inc , Legg Mason Capital Management, Inc. and another large institutional investor, each on behalf of its investment advisory clients This offering resulted in gross proceeds of $150 million

June 2003 Financing Transaction

On June 17, 2003, we completed an offering of $185 million, including $10 million related to the over-allotment option in July 2003, of Inc 's 12% Senior Secured Notes due June 15, 2010 Interest on the notes is payable every six months in cash, in arrears on December 15 and June 15, commencing on December 15, 2003. The notes, which are Inc 's senior secured obligations, are secured by substantially all of Inc.'s assets, are guaranteed by the Company and will rank equally in right of payment with all of Inc.'s other existing and future senior indebtedness and senior in right of payment to all of Inc.'s existing and future subordinated indebtedness Inc may, at its option, redeem the notes at declining redemption prices at any time on or after June 15, 2007. At any time on or prior to June 15, 2006, Inc. may redeem a portion of the outstanding notes with the proceeds of certain equity offerings as long as the redemption occurs within 90 days of the date of the closing of such equity offering and at least $100 million aggregate principal amount of notes remains outstanding after the redemption.

January 2003 Financing Transactions

In January 2003, we completed a private placement of $279 3 million aggregate principal amount at maturity of our 10% Senior Secured Discount Convertible Notes due December 31, 2009, which yielded gross proceeds of $210 0 million, and a private placement of 5 6 million shares of our Class A common stock, which yielded gross proceeds of $15 0 million Concurrently with these transactions, we completed an exchange offer in which we exchanged $300 2 million aggregate principal amount of Inc.'s previously outstanding 14% Senior

Source. XM SATELLITE RADIO H, 10-K, March 04, 2005

Secured Notes due 2010 for $438.0 million aggregate principal amount at maturity ($300.2 million accreted value as of March 15, 2003) of 14% Senior Secured Discount Notes due 2009, cash and warrants to purchase Class A common stock

In January 2003, General Motors provided us with a $100 0 million Senior Secured Credit Facility, maturing as late as December 2009, that enables us to make monthly draws to finance payments that become due under our distribution agreement with OnStar Corporation and other GM payments In January 2004, this facility was amended and became a revolver. XM and Inc. are co-borrowers under this credit facility The outstanding principal amount of all draws will be due December 31, 2009 and bore interest at the applicable 90-day LIBOR rate plus 10% through December 31, 2003, and presently bear interest at a per annum rate of LIBOR plus 8%. We will be able to make interest payments semi-annually in shares of Class A common stock having an aggregate fair market value at the time of payment equal to the amount of interest due. The fair market value will be based on the average daily trading prices of the Class A common stock over the ten business days prior to the day the interest payment is due We have the option to prepay all draws in whole or in part at any time, and, with effect from the January 2004 amendment, may re-borrow prepaid amounts Beginning in 2005, we will be required to prepay the amount of any outstanding advances in an amount equal to the lesser of (i) 50% of our excess cash and (ii) the amount necessary to prepay the draws in full In order to make draws under the credit facility, we are required to have a certain minimum number of subscribers that are not originated by GM and a minimum pre-marketing cash flow.

In January 2003, we issued a 10% Senior Secured Convertible Note due December 31, 2009 in the amount of $89.0 million to General Motors' subsidiary, OnStar Corporation. The note was provided in lieu of our obligation to make $115 million in guaranteed payments to OnStar under the distribution agreement from 2003 to 2006 The note becomes convertible at the holder's option on a quarterly basis through 2006, at 90% of the then fair market value of our Class A common stock but subject to a $5.00 per share minimum and escalation maximum (up to $20 per share) for each fiscal year Interest is payable semi-annually in cash or shares of our Class A common stock, at our option, at fair market value at the time of payment. In February 2004, we completed the redemption of the note As part of the redemption, General Motors converted $7 8 million in principal amount of the note, representing the entire principal amount of the note that had vested conversion rights at the time of the redemption, into 980,670 shares of our Class A Common Stock in accordance with the terms of the note. The remaining $81 2 million in principal amount plus accrued interest was repaid with cash

In January 2003, General Motors provided us with the ability to satisfy up to $35 0 million in future subscriber acquisition payments that we may owe to OnStar under the distribution agreement in shares of our Class A common stock, valued at fair market value at the time of each semi-annual payment

Other 2003 Equity Issuances

During the year ended December 31, 2003, we issued 10.8 million shares of Class A common stock for proceeds of $66 million under our Direct Stock Purchase Program (DSPP).

Uses of Cash

2004 De-leveraging and Debt Repayment Transactions

During the year ended December 31, 2004, we entered into agreements with certain holders of our notes to exchange $262 9 million carrying value including accrued interest, or $286 2 million fully accreted face value at maturity, for $97.5 million in cash consideration and 11.4 million shares of Class A common stock This includes the following de-leveraging transactions

- the redemption of $73 3 million carrying amount including accrued interest of our 12% Senior Secured Notes due 2010 for an aggregate redemption price of $81.7 million, which amount included a redemption premium of $8 4 million;

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

- the conversion of all our remaining outstanding $45 7 million of 7 75% Convertible Subordinated Notes into 3 7 million shares of Class A common stock;

- the exchange of $132 8 million carrying value including accrued interest, or $157.1 million fully accreted face value at maturity, of our 14% Senior Secured Notes due 2009 for $15 8 million in cash consideration and 4 2 million shares of Class A common stock, and

- the conversion of $11.1 million carrying value including accrued interest, or $13.4 million fully accreted face value at maturity, of our 10% Senior Secure Discount Convertible Notes due 2009 into 3 5 million shares of Class A common stock.

We recorded a loss of $76.6 million from these extinguishments on the consolidated statement of operations for the year ended December 31, 2004.

We completed the redemption of the $89.0 million 10% Senior Secured Convertible Note due 2009 held by Onstar. As part of the redemption, Onstar converted $7 8 million in principal amount of the Note, representing the entire principal amount of the Note that had vested conversion rights at the time of the redemption, into 980,670 shares of the our Class A common stock in accordance with the terms of the Note. The remaining $81 2 million in principal amount plus accrued interest was repaid with cash Also, we entered into agreements with certain holders of our 8.25% Series C convertible redeemable preferred stock to convert $52 4 million including accrued dividends in shares of Series C preferred stock into 5 9 million shares of Class A common stock. We also entered into agreements with certain holders of our Series A convertible preferred stock to convert $51 4 million carrying value, in shares of Series A preferred stock, into 5.4 million shares of Class A common stock Additionally, we entered into agreements with certain holders of Class A common stock warrants to exchange approximately 56,000 warrants convertible into 2 6 million shares of Class A common stock for 2 3 million shares of Class A common stock and received $9 4 million in cash proceeds from the exercise of approximately 35,000 warrants converted into 3 0 million shares of Class A common stock.

As a result of these de-leveraging and debt repayment transactions, from January 1, 2004 to December 31, 2004, we eliminated approximately $597.3 million of carrying value including accrued interest of debt and preferred securities, or approximately $617 0 million of face amount at maturity. We eliminated $90.4 million carrying value including accrued interest ($89 0 million face amount at maturity) of the 10% Senior Secured Convertible Note due 2009 held by Onstar, $73 3 million carrying value including accrued interest ($70 0 million face amount at maturity) of our 12% Senior Secured Notes due 2010, $45.7 million carrying value including accrued interest ($45 7 million face amount at maturity) of our 7.75% Convertible Subordinated Notes due 2006, $132 8 million carrying value including accrued interest ($157 1 million face amount at maturity) of our 14% Senior Secured Notes due 2009, $35 3 million carrying value including accrued interest ($35 0 million face amount at maturity) of our loan with Boeing Satellite Systems, $103.0 million of the balance outstanding under our revolving credit and equity facility, plus accrued interest of $2.0 million, with GM, $11 1 million carrying value including accrued interest ($13 4 million face amount at maturity) of our 10% Senior Secured Discount Convertible Notes due 2009, $52 4 million carrying value of our Series C preferred stock and $51 4 million of our Series A preferred stock In total, these de-leveraging transactions have eliminated over $900 million in future interest, dividends, accretion and principal payments as well as 27 million shares of incremental dilution. We may eliminate additional debt, preferred stock, warrants or other convertible securities in the future through the issuance of common stock, prepayments and redemptions, depending upon the attractiveness of particular opportunities

As a result of our financings and other issuances of securities, the conversion price of the Series C preferred stock issued in August 2000 has been adjusted from $8 90 at December 31, 2003 to $8 78 at December 31, 2004, the exercise price of the warrants sold in March 2000 has been adjusted to $45.23 and the number of warrant shares remained at 8 78 The exercise price of the warrants sold in January 2003 remained at $3 18 and the number of warrant shares remained at 85 There was no impact on the consolidated statement of operations as a result of the adjustments to these prices

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

2003 De-leveraging and Debt Repayment Transactions

During the year ended December 31, 2003, we entered into agreements with certain holders of our notes to exchange $125 2 million carrying value, or $160 1 million fully accreted face value at maturity, of their notes, for $6 8 million in cash consideration and 19 2 million shares of Class A common stock. Also, concurrent with the funds raised through the DSPP, we entered into agreements with certain holders of our 8.25% Series B convertible redeemable preferred stock to exchange $19.7 million in shares of Series B preferred stock for $10 2 million in cash consideration. We also entered into agreements with certain holders of our 8 25% Series C convertible redeemable preferred stock to exchange $101 0 million carrying value, in shares of Series C preferred stock, for 12 0 million shares of Class A common stock. Additionally, we entered into agreements with certain holders of Class A common stock warrants to exchange 55,846 warrants convertible into 4 7 million shares of Class A common stock for 3 6 million shares of common stock and received $13 0 million in cash proceeds from the exercise of 47,962 warrants converted into 4 1 million shares of Class A common stock

As a result of these de-leveraging transactions, we have eliminated approximately $245.9 million of carrying value including accrued interest of debt and preferred securities or approximately $280.7 million of face amount at maturity. We have eliminated $2 1 million carrying value including accrued interest ($2 0 million face amount at maturity) of our 14% Senior Secured Notes due 2010, $65 5 million carrying value including accrued interest ($94 2 million face amount at maturity) of our 14% Senior Secured Discount Notes due 2009 issued in January 2003, $33 6 million carrying value including accrued interest ($33 4 million of face amount at maturity) of our 7.75% Convertible Subordinated Notes due 2006, $24 0 million carrying value including accrued interest ($30.5 million face amount at maturity) of our 10% Senior Secured Discount Convertible Notes due 2009, $19.7 million of our Series B preferred stock and $101.0 million carrying value of our Series C preferred stock In total, these de-leveraging transactions have eliminated approximately $429 million in future interest, dividends, accretion and principal payments as well as 32 million shares of incremental dilution

As a result of our financings and other issuances of securities, the conversion price of the Series C preferred stock issued in August 2000 was adjusted from $9 39 at December 31, 2002 to $8.90 at December 31, 2003, the exercise price of the warrants sold in March 2000 was adjusted to $45 24 and the number of warrant shares was adjusted to 8 78. The exercise price of the warrants sold in January 2003 remained at $3 18 and the number of warrant shares remained at 85 There was no impact on the consolidated results of operations as a result of the adjustments to these prices

Future Operating and Capital Resource Requirements

Our funding requirements are based on our current business plan, which in turn is based on our operating experience to date and our available resources We are pursuing a business plan designed to increase subscribers and revenues while reducing or maintaining subscriber acquisition costs. Our plan contemplates our focusing on the new automobile market where we have relationships with automobile manufacturers, the continuing introduction of lower-priced and more user-friendly radio technology in the retail aftermarket and the use of our most productive distribution channels

We expect that our future working capital, capital expenditures, and debt service requirements will be satisfied from existing cash and cash equivalents and by cash generated from operations Provided that we meet the revenue, expense and cash flow projections of our business plan, we expect to be fully funded and will not need to raise additional financing to continue operations Our business plan is based on estimates regarding expected future costs and expected revenue. Our costs may exceed or our revenues may fall short of our estimates, our estimates may change, and future developments may affect our estimates Any of these factors may increase our need for funds, which would require us to seek additional financing to continue implementing our current business plan

In addition, we may seek additional financing to undertake initiatives not contemplated by our current business plan or obtain additional cushion against possible shortfalls We may pursue a range of different sizes or

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

types of financing as opportunities arise, particularly the sale of additional equity securities. We have and may continue to take advantage of opportunities to reduce our level of indebtedness and preferred stock in exchange for issuing common or other equity securities, if these transactions can be completed on favorable terms

In the event of unfavorable future developments, such as adverse developments in the debt and equity market of the type experienced during much of 2001 and 2002, we may not be able to raise additional funds on favorable terms or at all. Our ability to obtain additional financing depends on several factors, including future market conditions; our success or lack of success in developing, implementing and marketing our satellite radio service; our future creditworthiness, and restrictions contained in agreements with our investors or lenders Additional financings could increase our level of indebtedness or result in further dilution to our equity holders. If we fail to obtain necessary financing on a timely basis, a number of adverse effects could occur, or we may have to revise our business plan

Satellites

In September 2001, we notified our insurers of a progressive solar array power degradation problem with both satellites (this solar array output power degradation issue is common to the first six Boeing 702 class satellites in orbit—XM Rock and XM Roll were the fifth and sixth Boeing 702s launched) In February 2003, we filed Proofs of Loss with our insurers claiming that the pattern of degradation on both satellites met the standard for constructive total loss under the terms of the insurance policies even though we would be able to operate the satellites and provide quality service to our subscribers for some continuing period of time. In July 2004, we reached agreement with insurers covering 80% of the aggregate sum insured at a settlement 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. This settlement resolves any issues about the amount of loss sustained, includes a waiver by the settling insurance companies of any reductions based on salvage value, terminates any further risk to the settling insurers under the policies and ends any other rights the settling insurers might have with regard to XM Rock and XM Roll or revenues generated by our continuing use of those satellites. We have collected all amounts due under the settlement. The portion of the insurance proceeds related to claim payments was recorded as a reduction to the carrying values of XM Rock and XM Roll. In August 2004, we filed for arbitration to collect the remaining 20% of the sum insured utilizing the third-party dispute resolution procedures under the policy. Any amounts received from this arbitration proceeding will be recorded as a reduction to the carrying values of XM Rock and Roll

In February 2005 we launched our third satellite (XM-3), to be placed in one orbital slot We will then move XM Roll to be collocated with XM Rock in the other orbital slot In 2007, we plan to launch an additional satellite (XM-4) to replace the collocated XM Rock and XM Roll. With this plan, even if there is a problem putting XM-3 into operation, we believe we will be able to launch additional satellites prior to the time the solar array output power degradation issue might cause our broadcast signal strength to fall below minimum acceptable levels

Satellite Contract—XM Rock and XM Roll. As of December 31, 2004, we had paid approximately $613.5 million, including financing charges and interest under the satellite contract related to XM Rock, or XM-2, XM Roll, or XM-1, XM-3 and XM-4. We originally entered into its satellite contract in March 1998 with Boeing Satellite Systems International, Inc., or BSS, and have subsequently amended the contract, including in July 2003 and December 2003. Under the satellite contract, BSS has delivered two satellites in-orbit, XM Rock and XM Roll, supplied ground equipment and software used in the XM Radio system and provided certain launch and operations support services

Satellite Contract and Other Costs—XM-3. Construction of our XM-3 satellite has been completed, including certain modifications to correct the solar array degradation issues experienced by XM Rock and XM Roll discussed below, as well as other changes agreed with BSS discussed below. As of December 31, 2004, with respect to XM-3, we have deferred $15 million at an interest rate of 8% through January 4, 2007. In May 2004,

we repaid in full a $35 million loan (plus accrued interest) outstanding from Boeing Capital. In February 2005 we launched our XM-3 satellite

In addition to the modifications to address the solar array degradation issues, BSS made certain alterations to optimize XM-3, launched in February 2005, for the specific orbital slot into which it will be placed The aggregate remaining cost, excluding the above $15 million deferral, of the launch, optimization for the specific orbital slot, appropriate software and certain pre and post-launch services of approximately $135 million was paid during the first half of 2004 Further, BSS has the right to earn 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.

Satellite Insurance—XM-3 In addition to the XM-3 related costs noted above, we acquired and paid for launch and in-orbit insurance in January 2005 in connection with the launch of XM-3.

Satellite Contract and Other Costs—XM-4 We have committed in our satellite contract, as amended in July 2003, and by a separate August 2003 contract with Sea Launch Company, LLC, or Sea Launch, to acquire from BSS a fourth satellite, XM-4, which should be available for shipment to the launch services provider by the end of 2005, and from Sea Launch the associated launch services for the satellite. The fixed prices for XM-4 and the associated launch services total $186.5 million, excluding in-orbit performance incentives and financing charges on certain amounts deferred prior to launch. As of December 31, 2004, satellite construction costs aggregating approximately $106 1 million were incurred, of which $6 million was paid, and $100 1 million are deferred. Interest accrues monthly at a rate of 10.75% per annum through December 2004 and is payable thereafter on a current basis, pursuant to the December 2003 amendment, which extended the deferral into early 2006 (unless the satellite is launched earlier) Most of the remaining portion of the fixed costs for XM-4 and the associated launch services are payable during construction with the last payment due one month following launch

After launch of XM-4, 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 performance above specification 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 If XM-3 operates satisfactorily, we may elect, under the above contracts, to defer launch of XM-4 and, as a result, approximately $50 million in payments related to launch services could be postponed until the 2007 timeframe.

Options to Procure Fifth Satellite and Associated Launch Services. We also have obtained fixed price options to acquire a fifth satellite from BSS, under the July 2003 amendment, on pricing and performance incentive terms similar to those applicable to XM-4 and associated launch services from Sea Launch under the August 2003 contract

Contractual Obligations and Commercial Commitments

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

Service Providers We have entered into an agreement with a service provider for customer care functions to subscribers of our service Employees of this service provider 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, 2004, 2003, and 2002, we incurred $21.5 million, $14 2 million, and $8 7 million, respectively, in relation to services provided for customer care functions We changed service providers during 2003 and received reduced hourly rates.

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

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

payments, advertising commitments and revenue sharing arrangements. During the years ended December 31, 2004, 2003, and 2002, we incurred expenses of $26 5 million, $19.6 million and $20 3 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 number of subscribers and advertising revenue increase The amount of the costs related to these agreements cannot be estimated, but are expected to be substantial future costs. Of these amounts, $1 5 million, $391,000 and $339,000, respectively, are included in Revenue Share & Royalties, and $10 2 million, $10.1 million, and $9.0 million, respectively, are included in Advertising & Marketing.

In October 2004, we announced a multi-year agreement with Major League Baseball to broadcast MLB games live nationwide and to become the Official Satellite Radio provider of Major League Baseball We will pay up to $50 million for 2005 and $60 million per year thereafter through 2012, with $120 million to be deposited into escrow in 2005 MLB has the option to extend the agreement for the 2013, 2014 and 2015 seasons at the same $60 million annual compensation rate We paid $10 million to MLB in October 2004 We 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

Royalty Agreements We have entered into fixed and variable revenue share payment agreements with performance rights organizations that expire as late as 2006 During the years ended December 31, 2004, 2003 and 2002, we incurred expenses of $13 7 million, $9.5 million and $9.5 million, respectively, in relation to these agreements

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, 2004, 2003, and 2002, we incurred expenses of $94.5 million, $56.3 million and $55.7 million, respectively, in relation to these agreements, excluding expenses related to GM

General Motors Distribution Agreement. We have significant payment obligations under our distribution agreement with General Motors During the term of the agreement, which expires 12 years from the commencement date of our commercial operations, GM has agreed to distribute the service to the exclusion of other S-band satellite digital radio services. We will also have a non-exclusive right to arrange for the installation of XM radios in vehicles equipped with OnStar systems in non-GM vehicles that are sold for use in the United States 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 are due to GM and confirming the date of our commencement of commercial operations, and to provide that we may make certain payments to GM in the form of indebtedness or shares of our Class A common stock, as described above under the caption "Liquidity and Capital Resources—Capital Resources and Financing" XM's total cash payment obligations were not increased We have significant annual, fixed payment obligations to GM. As a result of the June 2002 amendment, we commenced recognizing these fixed payment obligations for the period ending through November 2005, which approximate $63.6 million, on a straight-line basis However, due to the January 2003 amendment to the Distribution Agreement and GM's current roll out plans which demonstrates a likelihood that GM will exceed minimum installation targets, in 2003 we are now prospectively recognizing these fixed payments, which approximate $397 3 million, on a straight-line basis over the remaining term of the contract (September 2013) We have issued a 10% Senior Secured Convertible Note due 2009 with an aggregate principal amount of $89.0 million to OnStar in lieu of making these fixed payments to OnStar for amounts otherwise due in 2003 through 2006 In February 2004, we completed the redemption of the note As part of the redemption, GM converted $7 8 million in principal amount of the note, representing the entire principal amount of the note that had vested

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

conversion rights at the time of the redemption, into 980,670 shares of our Class A common stock in accordance with the terms of the note. The remaining $81 2 million in principal amount plus accrued interest was repaid with cash Additional payments totaling $320.3 million are due as follows. $80.7 million in 2007, $106.7 million in 2008 and $132.9 million in 2009 We recorded $22.3 million of current prepaid expense to related party and $22 3 million of non-current prepaid expense to related party in connection with the guaranteed fixed payments in the consolidated balance sheet at December 31, 2004.

In order to encourage the broad installation of XM radios in GM vehicles, we have agreed to subsidize a portion of the cost of XM radios, and to make incentive payments to GM when the owners of GM vehicles with installed XM radios become subscribers to the Company's service. We must also share with GM a percentage of the subscription revenue attributable to GM vehicles with installed XM radios, which percentage increases until there are more than 8 million GM vehicles with installed XM radios (at which point the percentage remains constant) During the second quarter of 2004, a clarification was agreed to by us and Onstar relating to the implementation of certain aspects of revenue sharing contained within the distribution agreement Accordingly, the revenue share expense is recognized as the related subscription revenue is earned. We recorded $3 6 million of current prepaid expense to related party and $8 9 million of non-current prepaid expense to related party in connection with this revenue sharing arrangement in the consolidated balance sheet at December 31, 2004 We will also make available to GM bandwidth on its system As part of the agreement, OnStar provides certain call-center related services directly to XM subscribers who are also OnStar customers and we must reimburse OnStar for these XM-related call center services The agreement is subject to renegotiation at any time based upon the installation of radios that are compatible with a common receiver platform or capable of receiving Sirius Satellite Radio's service. The agreement is subject to renegotiation if as of November 2005, and at two-year intervals thereafter, GM does not achieve and maintain specified installation levels of GM vehicles capable of receiving the Company's service. The specified installation level of 1,240,000 units by November 2005 was achieved in 2004. The specified installation levels in future years will increase by the lesser of 600,000 units per year or amounts proportionate to target market shares in the satellite digital radio service market There can be no assurances as to the outcome of any such renegotiations. General Motors' exclusivity obligations will discontinue if, by November 2005 and at two-year intervals thereafter, we fail to achieve and maintain specified minimum market share levels in the satellite digital radio service market. Prior to 2001, we had not incurred any costs under the distribution agreement. During the years ended December 31, 2004, 2003 and 2002, we incurred total costs of $159 4 million, $108 3 million and $30.1 million, respectively, under the distribution agreement.

Satellite Contracts. We have entered into contractual agreements for our satellites that are more fully described under the heading "Satellites "

Long-term debt

We have raised funds from the following issuances of long-term debt

- In March 2001, we issued $125 0 million aggregate principal amount of 7 75% Convertible Subordinated Notes due 2006. In July and August 2001, holders of these 7 75% Convertible Subordinated Notes exchanged $45 9 million of notes for 4.2 million shares of our Class A common stock In 2003, an additional $33 4 million of these notes were exchanged for 2.7 million shares of Class A common stock. As a result of these transactions, approximately $45 7 million of the notes remained at December 31, 2003. Principal on the convertible subordinated notes is payable at maturity, while interest is payable semi-annually. In March 2004, the holders of the $45.7 million 7 75% Convertible Subordinated Notes due 2006 called for redemption following our January 2004 offering elected to convert into 3.7 million shares of our Class A common stock in accordance with the terms of the notes. This represented the retirement of all our remaining outstanding 7 75% Subordinated Convertible Notes

- In August 2001, we borrowed $29 0 million to finance the purchase of our headquarters facility This loan was for a term of five years and bore interest at a rate based on the six-month London Interbank Offer Rate plus an indicated spread. We refinanced our floating rate mortgage on August 9, 2004, with a

Source· XM SATELLITE RADIO H, 10-K, March 04, 2005

remaining outstanding principal balance of $27 7 million for a new balance of $33 3 million at a fixed rate of 6 01% due in 2014 We make monthly payments of principal and interest on this loan.

- In December 2001, we borrowed $35 0 million from a subsidiary of the Boeing Company. This loan was for a term of five years and bore interest at a rate based on the six-month London Interbank Offer Rate plus an indicated spread. Principal was payable at maturity, while interest was payable quarterly. This loan was to be repaid upon the launch of XM-3. In May 2004, we prepaid in full the $35 million loan outstanding.

- On January 28, 2003, we completed a three-part financing

  - We issued $279 3 million aggregate principal amount at maturity of 10% Senior Secured Discount Convertible Notes in a private placement Principal on the 10% Senior Secured Discount Convertible Notes is payable at maturity, while interest accretes until January 1, 2006 and is thereafter payable semi-annually in cash or, at our option, in additional notes If all of the interest was paid in additional notes, these notes would have aggregated $412 6 million when they came due in 2009. Through December 31, 2004, we have extinguished $35 0 million carrying value, or $43 9 million face amount at maturity, of these notes.

  - We issued to OnStar, a subsidiary of General Motors, $89 0 million in aggregate principal amount of a 10% Senior Secured Convertible Note due December 31, 2009 in lieu of our obligation to make $115 million in guaranteed payments from 2003 to 2006 under the General Motors distribution agreement. Principal on the OnStar note is payable at maturity, while interest, which is due semi-annually, is payable at our option in shares of our Class A common stock In February 2004, we completed the redemption of the note As part of the redemption, General Motors converted $7 8 million in principal amount of the note, representing the entire principal amount of the note that had vested conversion rights at the time of the redemption, into 980,670 shares of our Class A Common Stock in accordance with the terms of the note. The remaining $81 2 million in principal amount plus accrued interest was repaid with cash

  - We completed an exchange of $300 2 million aggregate principal amount of the 14% Senior Secured Notes due 2010 for $438 0 million aggregate principal amount at maturity ($300 2 million accreted value as of March 15, 2003) of 14% Senior Secured Discount Notes due 2009, cash and warrants to purchase Class A common stock Principal on the 14% Senior Secured Discount Notes due 2009 is payable at maturity, while interest accretes until December 31, 2005 and is thereafter payable semi-annually Through December 31, 2004, we have extinguished $198 3 million carrying value, or $251.3 million face amount at maturity, of these notes

- In June 2003, Inc. issued $185 0 million aggregate principal amount of 12% Senior Secured Notes due 2010, $10 million of which were issued in July 2003, pursuant to the overallotment option Principal on the 12% Senior Secured Notes due 2010 is payable at maturity, while interest is payable semi-annually. In 2004, we extinguished $70 million carrying value of our 12% Senior Secured Notes due 2010 for an aggregate redemption cash price of $81 7 million, which amount included a redemption premium of $8.4 million

- In April 2004, we completed an offering of $200 million of Inc 's Senior Secured Floating Rate Notes due May 1, 2009 Interest on the notes is 7 68% per annum through January 31, 2005 and thereafter is reset quarterly at a rate equal to 550 basis points over LIBOR The interest on the notes is payable quarterly in cash in arrears on February 1, May 1, August 1 and November 1, commencing on August 1, 2004. No scheduled principal payments are required to be made prior to maturity At any time, we may, at its option, redeem the notes, in whole or in part, at declining redemption prices

- In November 2004, we completed an offering of $300 million aggregate principal amount of our 1 75% Convertible Senior Secured Notes due December 1, 2009 The notes mature on December 1, 2009 and bear interest at an annual rate of 1.75% The initial purchasers of the notes were given an option to purchase an additional $100 million aggregate principal amount of notes within 60 days from the date of

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

the issuance of the notes. In January 2005, we received an additional $100 million in gross proceeds from the exercise of this option on the notes. The notes may be converted by the holder, at its option, into shares of our Class A common stock initially at a conversion rate of 20.0 shares of Class A common stock per $1,000 principal amount, which is equivalent to an initial conversion price of $50 00 per share of Class A common stock (subject to adjustment in certain events), at any time until December 1, 2009.

Based on the various terms of our long-term debt, our ability to redeem any long-term debt is limited. We have and may continue to take advantage of opportunities to reduce our level of indebtedness in exchange for issuing equity securities, if these transactions can be completed on favorable terms

Lease obligations. We have noncancelable operating leases for office space and terrestrial repeater sites and noncancelable capital leases for equipment that expire over the next ten years In December 2001, we determined that the planned number of terrestrial repeater sites could be reduced due to the relative signal strength provided by our satellites. We recognized a charge of $26 3 million with respect to terrestrial repeater sites no longer required. This charge includes a lease termination liability of $8 6 million for 646 terrestrial repeater site leases, which would reduce the future minimum lease payments. We recognized charges of $47,000, $4 8 million and $4 0 million in 2004, 2003 and 2002 respectively, in relation to additional costs associated with the termination of the remaining leases As of December 31, 2004 and 2003, we maintained a liability of $2 1 million and $4.1 million, respectively, for the estimated lease termination costs and costs to deconstruct the sites.

The following table represents our cash contractual obligations as of December 31, 2004.

	Payments Due by Period						
Contractual Obligations	2005	2006	2007	2008	2009	2010 and Beyond	Total
				(In thousands)			
GM Distribution Agreement(1)	$ —	$ —	$ 80,753	$ 106,688	$ 132,889	$ —	$ 320,330
Long-term debt(1)	3,178	442	466	496	779,200	165,328	949,110
Capital Lease Obligations	3,378	2,585	224	—	—	—	6,187
Major League Baseball Agreement(2)	75,000	25,000	60,000	60,000	60,000	180,000	460,000
Other Operating Agreements(3)	62,531	66,718	36,460	28,890	22,442	20,250	237,291
Operating Lease Obligations	16,831	7,109	4,723	2,773	2,555	3,081	37,072
XM-3(4)	496	—	15,000	—	—	—	15,496
XM-4(4)	26,700	104,300	49,500	—	—	—	180,500
Total	$ 188,114	$ 206,154	$ 247,126	$ 198,847	$ 997,086	$ 368,659	$ 2,205,986

(1) The above amounts do not include interest, which in some cases is variable in amount
(2) Excludes up to $180 million payable in the event Major League Baseball exercises its option to extend the Agreement by up to three additional years The last two years of our contractual obligation will be deposited in escrow in 2005.
(3) Other operating agreements include programming, marketing and royalty agreements
(4) Exclude financing charges, in-orbit incentives, and launch insurance, and assumes launch of XM-4 in 2007.

The long-term debt payments due in 2009 include the maturity of XM's $186 5 million aggregate principal amount at maturity of 14% Senior Secured Discount Notes, which come due in 2009, the maturity of our $235.6 million aggregate principal amount at maturity of 10% Senior Secured Discount Convertible Notes, which come

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

due in 2009, the maturity of our $200 0 million aggregate principal amount at maturity of Senior Secured Floating Rate Notes due 2009, and the maturity of our $300.0 million aggregate principal amount at maturity of 1 75% Convertible Senior Notes due 2009 The long-term debt payments due in 2010 and beyond include the maturity of our remaining outstanding $30.9 million of mortgage loan to finance the purchase of our headquarters facility, the maturity of our remaining outstanding $22 8 million of 14% Senior Secured Notes, which come due in 2010, and the maturity of our $115 0 million aggregate principal amount at maturity of 12% Senior Secured Notes due 2010.

Related Party Transactions

We developed strategic relationships with certain companies that were instrumental in the construction and development of our system. In connection with our granting to them of large supply contracts, some of these strategic companies have become large investors in us and have been granted rights to designate directors or observers to our board of directors. The negotiation of these supply contracts and investments primarily occurred at or prior to the time these companies became related parties

We are a party to a long-term distribution agreement with OnStar Corporation, a subsidiary of General Motors that provides for the installation of XM radios in General Motors vehicles, as further described in Note 16 In connection with the development of our terrestrial repeater network, we were a party to a contract with Hughes Electronics Corporation. DIRECTV has provided consulting services in connection with the development of our customer care center and billing operations. Hughes and DIRECTV ceased to be related parties during the three-month period ended March 31, 2004. We have arrangements with American Honda relating to the promotion of the XM Service to new car buyers, the use of bandwidth on the XM System and the development of telematics services and technologies We have an agreement with OnStar to make available use of our bandwidth Clear Channel Communications provides certain programming services to us We had a sponsorship agreement with Clear Channel Entertainment to advertise our service at Clear Channel Entertainment concerts and venues Premiere Radio Networks, a subsidiary of Clear Channel Communications, had served as one of our advertising sales representatives. We also run advertisements on a spot and network basis on radio stations owned by Clear Channel In addition, we lease 3 sites for our terrestrial repeaters from Clear Channel Communications. Clear Channel Communications ceased to be a related party during the second quarter of 2004.

As of December 31, 2004, we are engaged in activities with GM and Honda to jointly promote new car buyers to subscribe to XM service At December 31, 2004, there were approximately 402,000 subscribers in promotional periods (typically ranging from three months to one year in duration) paid for by the vehicle manufacturers. These subscriptions are included in our year-end subscriber total Subscriber revenues received from GM and Honda for these programs are recorded as related party revenue.

GM is one of our largest shareholders and Chester A. Huber, Jr., the president of OnStar, is a member of our board of directors Hughes Electronics was one of our largest shareholders until January 2004 and was a subsidiary of GM until December 2003. Jack Shaw, a member of our board of directors, was Chief Executive Officer of Hughes Electronics Corporation until December 2003. Thomas G. Elliott, a member of our board of directors, is Executive Vice President, Automobile Operations of American Honda Motor Company. DIRECTV, a subsidiary of Hughes Electronics, was a holder of our Series C preferred stock until January 2003

We earned the following revenue from transactions with related parties described above (in thousands).

	Years ended December 31,		
	2004	2003	2002
GM	$21,374	$11,630	$256
Honda	6,869	368	—
	$28,243	$11,998	$256

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

We have incurred the following costs in transactions with the related parties described above (in thousands):

	Year ended December 31, 2004			
	GM	Hughes	Clear Channel	Honda
Terrestrial repeater network	$ —	$ 7	$ —	$ —
Terrestrial repeater site leases	—	—	31	—
Customer care & billing operations	363	—	—	—
Marketing	158,997	—	—	—
Research & development	—	—	—	9,579

	Year ended December 31, 2003		
	GM	Hughes	Clear Channel
Terrestrial repeater network	$ —	$ 278	$ —
Terrestrial repeater site leases	—	—	60
Customer care & billing operations	960	—	—
Marketing	107,346	—	8,646

	Year ended December 31, 2002				
	GM	Hughes	DIRECTV	Clear Channel	LCCI
Terrestrial repeater network	$ —	$10,386	$ —	$ —	$3,089
Terrestrial repeater site leases	—	—	—	57	—
Customer care & billing operations	178	—	—	—	—
Marketing	29,915	—	125	10,182	—
General & administrative	—	—	3	—	—

Critical Accounting and Subscriber Policies

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. The significant accounting policies that we believe are most critical to understanding and evaluating our reported financial results include those pertaining to the following policies Senior management has discussed with the audit committee of the board of directors the development and selection of estimates and assumptions required for the following accounting policies:

- *Revenue Recognition*—Revenue from subscribers consists of our monthly subscription fee, which is recognized as the service is provided, and a non-refundable activation fee, which is recognized on a pro-rata basis over an estimated term of the subscriber relationship (currently 40 months), which was based upon market studies and management's judgment We expect to refine this estimate as more data becomes available Promotions and discounts are treated as an offset to revenue during the period of promotion Sales incentives, consisting of discounts and rebates to subscribers, offset earned revenue Discounts to equipment which is sold with service are allocated to equipment and service based on relative fair value. If the actual term of our subscriber relationships is significantly greater or less than our current estimate of 40 months, the period over which we recognize the non-refundable activation fee will be extended or shortened to reflect the actual term of our subscriber relationships Subscription and activation revenue accounted for more than 90% of our total revenue

- *Estimates of payments due to manufacturers and distributors*—Payments owed to manufacturing and distribution partners are expensed during the month in which the manufacture, sale, and/or activation of

Source. XM SATELLITE RADIO H, 10-K, March 04, 2005

the radio unit occurs The amounts of these expenses are dependent upon units provided by our internal systems and processes, (such as subscriber management system and supply chain management system) and partner systems and processes. However, due to lags in receiving manufacturing and sales data from partners, estimates of amounts due are necessary in order to record monthly expenses In subsequent months when lagged data is received from partners, expenses are reconciled, and adjusted where necessary. Since launching commercial operations, we continue to refine the estimation process based on an increased understanding of the timing lags, and close working relationships with our partners Generally, estimates recorded on our books are adjusted to actuals within one month

- *Useful Life of Satellites and Spacecraft Control Facilities*—Following receipt of our satellites, we extended their expected lives from 15 years, the initial design life, to 17.5 years based upon updated technical estimates we received from our satellite provider following our satellite launches. However, based on the consistency of the degradation trends (with no substantial improvement to date) and continuing analyses by Boeing Satellite Systems and us, as described above under the heading "Liquidity and Capital Resources—Future Operating and Capital Resource Requirements," we adjusted the estimated useful life of our in-orbit satellites with effect from September 2002, to the period running through first quarter of 2008 (approximately 6 75 years from launch) We continue to monitor the situation and may need to re-adjust the estimated useful lives of our in-orbit satellites based on future information 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 An impairment, if recorded, would be calculated as the amount by which the carrying value of the assets exceeds the undiscounted future cash flows. At December 31, 2004, the combined carrying value of XM-1 and XM-2 is $160 6 million. 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.

- *Programming Agreements*—We have entered into various programming agreements Under the terms of these agreements, we are obligated to provide payments and commissions to other entities that may include fixed payments, advertising commitments and revenue sharing arrangements Fixed amounts due under programming agreements are recognized on a straight-line basis though the termination and/or renegotiation date defined in the agreements Revenue share agreements that contain minimum guarantees are recorded as an expense based upon the greater of the revenue share amount or a pro-rata portion of the guarantee over the guarantee period

- *Distribution Agreement with General Motors*—We have significant payment obligations under our distribution agreement with General Motors, which was amended on January 28, 2003 to provide that we could make certain payments by issuance of indebtedness or shares of Class A common stock The agreement is subject to renegotiation if as of November 2005, and at two-year intervals thereafter, GM does not achieve and maintain specified installation levels of GM vehicles capable of receiving the Company's service The specified installation level of 1,240,000 units by November 2005 was achieved in 2004. The specified installation levels in future years will increase by the lesser of 600,000 units per year or amounts proportionate to target market shares in the satellite digital radio service market. In light of GM's initial roll-out plans, the June 2002 amendment of the distribution agreement and management's assessment of the likelihood of renegotiating during the period ending 2005, we recognized the fixed payment obligations due to GM for the period through November 2005, which approximate $63 6 million, on a straight-line basis. In light of the January 2003 amendment of the distribution agreement and GM's current roll out plans which demonstrate a likelihood of GM exceeding minimum installation targets, in 2003 we are prospectively recognizing fixed payment obligations to GM, which approximate $397.3 million, on a straight-line basis through the remaining term of the agreement in September 2013 Additional fixed payment obligations beyond 2006 range

Source· XM SATELLITE RADIO H, 10-K, March 04, 2005

from $80.7 million to approximately $132 9 million through 2009, aggregating approximately $320.3 million.

- *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

- *Subscriber Count* 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, 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 Approximately 12% of our subscribers at year end were in promotional periods with sponsored accounts A change in our methodology of counting subscribers that excluded subscribers in promotional periods with sponsored accounts would delay the timing of the recognition of the subscriber until the end of the promotional period, which is generally 3 months. Subscribers with delinquent account balances are included in the subscriber count until such time as the radio is deactivated for non-payment in accordance with our normal procedures.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, *Share Based Payment* SFAS 123R requires recognition of compensation expense for stock options granted to employees The expense is equal to the grant-date fair value of the options granted, and the expense is recorded over the vesting period XM's Employee Stock Purchase Plan (ESPP) is also considered compensatory under the new standard, because we offer a discount greater than 5% and a look-back option. We are in the process of evaluating whether we should make modifications to our ESPP XM is required to adopt SFAS 123R in the 3rd quarter of 2005 Compensation expense will need to be recorded for new option awards and for the remaining vesting period of existing option grants We expect that compensation expense of approximately $16 million will be recorded in the second half of 2005 from the vesting of existing option grants The amount of compensation expense that we record after adoption of SFAS 123R in 2005 and beyond will depend on the amount and timing of option activity.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2004, we do not have any derivative financial instruments. We do not hold or issue any free-standing derivatives. We invest our cash in short-term commercial paper, investment-grade corporate and government obligations and money market funds. We have existing obligations related to our long-term debt agreements As of December 31, 2004, we did not have significant cash flow exposure to changing interest rates on our long-term debt because the interest rates of the majority of those securities are fixed However, the estimated fair value of the fixed-rate debt is subject to market risk As of December 31, 2004, we had approximately $755 million in fixed-rate debt. We run the risk that market rates will decline and the required payments will exceed those based on current market rates Under our current policies, we do not use interest rate derivative instruments to manage our exposure to interest rate fluctuations

Source· XM SATELLITE RADIO H, 10-K, March 04, 2005

Presented below is an analysis of our financial instruments as of December 31, 2004 that are sensitive to changes in interest rates. The tables demonstrate the change in market value of the instruments calculated for an instantaneous parallel shift in interest rates, plus or minus 50 basis points, or BPS, 100 BPS and 150 BPS. With respect to our fixed–rate debt, the sensitivity table below illustrates "market values," or the price at which the debt would trade should interest rates fall or rise in the range indicated, assuming similar terms and similar assessment of risk by our lenders. Market values are determined using quoted market prices or market rates on comparable instruments as of December 31, 2004.

	Interest Rate Risk (In millions) as of December 31, 2004						
	Valuation of Securities Given an Interest Rate Decrease of X Basis Points			No Change in Interest Rates	Valuation of Securities Given an Interest Rate Increase of X Basis Points		
	(150 BPS)	(100 BPS)	(50 BPS)	Fair Value	(50 BPS)	(100 BPS)	(150 BPS)
14% senior secured notes due 2010	$ 26 9	$ 26 3	$ 25.8	$ 25.3	$ 24.9	$ 24.4	$ 23.9
14% senior secured discount notes due 2009	201.0	196.9	192.9	189.1	185.3	181.6	178.0
12% senior secured notes due 2010	144.6	141 6	138.7	135 9	133.1	130.4	127 8
1 75% convertible senior notes due 2009	326.3	321 9	314 2	306 8	299.6	292.5	285 7
Mortgage	37.6	36.4	35.2	34.1	33.0	31.9	30.9

This sensitivity analysis provides only a limited, point–in–time view of the market risk sensitivity of certain of our financial instruments The actual impact of market interest rate changes on our financial instruments may differ significantly from the impact shown in the sensitivity analysis The 10% senior secured discount convertible notes due 2009, with an estimated combined fair value of approximately $2.5 billion at December 31, 2004 are not included in the above analysis as the fair value of the notes is not significantly exposed to interest rate changes. The holders of the notes may convert their notes into Class A common stock at a conversion price of $3 18 per share at any time prior to maturity Due to the conversion feature of the instrument, coupled with the current price of our Class A common stock, the fair value of the notes is linked largely to the price of Class A common stock. Included in our fixed–rate debt are $9 0 million of capital leases and notes payable that are not included in the analysis as the carrying amounts approximate fair value because of their short maturity

As of December 31, 2004, we had $200.0 million of variable–rate debt, an increase of $86 8 million from December 31, 2003. Accordingly, any changes in interest rates would be more significant as of December 31, 2004 in comparison to December 31, 2003. A change of one percentage point in the interest rate applicable to the $200 0 million of variable–rate debt at December 31, 2004 would result in a fluctuation of approximately $2.0 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, 2004 and 2003, and consolidated statements of operations, consolidated statements of stockholders' equity and consolidated statements of cash flows for the three–year period ended December 31, 2004 and notes to the consolidated financial statements, together with a report thereon of KPMG LLP, dated March 4, 2005, are attached hereto as pages F–1 through F–52

Source XM SATELLITE RADIO H, 10–K, March 04, 2005

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

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures are effective During the three-month period ended December 31, 2004, no changes were made in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting.

Our management is responsible for the preparation and fair presentation of the financial statements and other financial information contained in this Form 10-K. Management is also responsible for establishing and maintaining adequate internal control over financial reporting. Management maintains a system of internal controls intended to provide reasonable assurances regarding the reliability of financial reporting and the preparation of our financial statements in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Our accounting policies and internal controls over financial reporting, established and maintained by management, are under the general oversight of the Audit Committee of our Board of Directors

Management has made a comprehensive review, evaluation and assessment of our internal control over financial reporting as of December 31, 2004. The standard measures adopted by management in making its evaluation are the measures in the Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework).

Based upon review and evaluation, our management has concluded that our internal control over financial reporting is effective at December 31, 2004 and that there were no material weaknesses in our internal control over financial reporting as of that date

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

Attestation Report of the Registered Public Accounting Firm

Please see page F-3 of our Financial Statements included herein.

Source. XM SATELLITE RADIO H, 10-K, March 04, 2005

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information is incorporated herein by reference to our definitive 2005 Proxy Statement

ITEM 11. EXECUTIVE COMPENSATION

The information is incorporated herein by reference to our definitive 2005 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 2005 Proxy Statement

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information is incorporated herein by reference to our definitive 2005 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information is incorporated herein by reference to our definitive 2005 Proxy Statement

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

PART IV

ITEM 15. EXHIBITS AND CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

(a)(1) The following Consolidated Financial Statements and reports of independent registered public accounting firm for XM Satellite Radio Holdings Inc are included in Item 8 of this Form 10-K·

Reports of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as of December 31, 2004 and 2003.

Consolidated Statements of Operations for the years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002.

(a)(2) The following consolidated financial statement schedule is filed as part of this report and attached hereto as page F-52:

Schedule I—Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulations of the Commission have been included in the Consolidated Financial Statements of XM Satellite Radio Holdings Inc or the notes thereto, are not required under the related instructions or are inapplicable, and therefore have been omitted.

(a)(3) The following exhibits are either provided with this Form 10-K or are incorporated herein by reference:

Exhibit No.	Description
3.1^	Restated Certificate of Incorporation of XM Satellite Radio Holdings Inc.
3 2	Amended and Restated Bylaws of XM Satellite Radio Holdings Inc. (incorporated by reference to Holdings' Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, filed with the SEC on November 12, 2003).
3 3	Restated Certificate of Incorporation of XM Satellite Radio Inc (incorporated by reference to XM's Registration Statement on Form S-4, File No 333-39178)
3 4	Amended and Restated Bylaws of XM Satellite Radio Inc. (incorporated by reference to XM's Registration Statement on Form S-4, File No 333-39178).
3 5	Certificate of Amendment of Restated Certificate of Incorporation of XM Satellite Radio Holdings Inc. (incorporated by reference to Amendment No 1 to Holdings' Registration Statement on Form S-3, File No 333-89132)
3.6	Certificate of Amendment of Restated Certificate of Incorporation of XM Satellite Radio Holdings Inc. (incorporated by reference to Holdings' Annual Report on Form 10-K, filed with the SEC on March 31, 2003).
4 1	Form of Certificate for Holdings' Class A common stock (incorporated by reference to Exhibit 3 to Holdings' Registration Statement on Form 8-A, filed with the SEC on September 23, 1999)
4 2	Form of Certificate for Holdings' 8 25% Series B Convertible Redeemable Preferred Stock (incorporated by reference to Holdings' Registration Statement on Form S-1, File No. 333-93529)

Source· XM SATELLITE RADIO H, 10-K, March 04, 2005

Exhibit No.	Description
4 3	Certificate of Designation Establishing the Voting Powers, Designations, Preferences, Limitations, Restrictions and Relative Rights of Holdings' 8.25% Series B Convertible Redeemable Preferred Stock due 2012 (incorporated by reference to Holdings' Annual Report on Form 10-K for the fiscal year ended December 31, 1999, filed with the SEC on March 16, 2000)
4 4	Warrant Agreement, dated March 15, 2000, between XM Satellite Radio Holdings Inc as Issuer and United States Trust Company of New York as Warrant Agent (incorporated by reference to Holdings' Registration Statement on Form S-1, File No. 333-39176).
4.5	Warrant Registration Rights Agreement, dated March 15, 2000, between XM Satellite Radio Holdings Inc and Bear, Stearns & Co , Inc., Donaldson, Lufkin and Jenrette Securities Corporation, Salomon Smith Barney Inc and Lehman Brothers Inc. (incorporated by reference to Holdings' Registration Statement on Form S-1, File No 333-39176).
4 6	Form of Warrant (incorporated by reference to Holdings' Registration Statement on Form S-1, File No 333-39176).
4 7	Certificate of Designation Establishing the Powers, Preferences, Rights, Qualifications, Limitations and Restrictions of the 8 25% Series C Convertible Redeemable Preferred Stock due 2012 (incorporated by reference to Holdings' Registration Statement on Form S-1, File No. 333-39176)
4 8	Form of Certificate for Holdings' 8 25% Series C Convertible Redeemable Preferred Stock (incorporated by reference to the Registrant's Registration Statement on Form S-1, File No. 333-39176)
4.9	Indenture, dated as of March 15, 2000, between XM Satellite Radio Inc and United States Trust Company of New York (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178)
4 10	Registration Rights Agreement, dated March 15, 2000, between XM Satellite Radio Inc. and Bear, Stearns & Co. Inc., Donaldson, Lufkin and Jenrette Securities Corporation, Salomon Smith Barney Inc. and Lehman Brothers Inc. (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178).
4.11	Form of 14% Senior Secured Note due 2010 of XM Satellite Radio Inc (incorporated by reference to XM's Registration Statement on Form S-4, File No 333-39178)
4 12	Rights Agreement, dated as of August 2, 2002, between XM Satellite Radio Holdings Inc and Equiserve Trust Company as Rights Agent (incorporated by reference to XM's Current Report on Form 8-K, filed with the SEC on August 2, 2002).
4 13	Supplemental Indenture, dated as of November 15, 2001, by and between XM Satellite Radio Inc. and The Bank of New York (successor to United States Trust Company of New York) (incorporated by reference to Holdings' Current Report on Form 8-K, filed with the SEC on December 6, 2001).
4.14	Indenture, dated as of January 28, 2003, among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc., XM Equipment Leasing LLC and The Bank of New York (incorporated by reference to XM's Current Report on Form 8-K, filed with the SEC on January 29, 2003).
4.15	Security Agreement, dated as of January 28, 2003, among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc , XM Equipment Leasing LLC, and The Bank of New York (incorporated by reference to XM's Current Report on Form 8-K, filed with the SEC on January 29, 2003)
4 16	Amended and Restated Security Agreement, dated as of January 28, 2003, between XM Satellite Radio Inc and The Bank of New York (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003)

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

Exhibit No.	Description
4.17	Intercreditor and Collateral Agency Agreement (General Security Agreement), dated as of January 28, 2003, by and among the Noteholders named therein, The Bank of New York, as trustee, General Motors Corporation, OnStar Corporation and The Bank of New York, as collateral agent (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003).
4 18	Intercreditor and Collateral Agency Agreement (FCC License Subsidiary Pledge Agreement), dated as of January 28, 2003, by and among the Noteholders named therein, The Bank of New York, as trustee, General Motors Corporation, OnStar Corporation and The Bank of New York, as collateral agent (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003).
4 19	Warrant Agreement, dated as of January 28, 2003, between XM Satellite Radio Holdings Inc and The Bank of New York (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003)
4 20	Amended and Restated Amendment No. 1 to Rights Agreement, dated as of January 22, 2003, by and among XM Satellite Radio Holdings Inc and Equiserve Trust Company, N A. (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003).
4 21	Form of 10% Senior Secured Discount Convertible Note due 2009 (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003).
4 22	Global 14% Senior Secured Discount Note due 2009 (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003)
4 23	Global Common Stock Purchase Warrant (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003)
4 24	Second Supplemental Indenture, dated as of December 23, 2002, by and among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc., XM Equipment Leasing LLC and The Bank of New York, as trustee (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 15, 2003)
4 25	Third Supplemental Indenture, dated January 27, 2003, among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc., XM Equipment Leasing LLC and The Bank of New York, as trustee (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003)
4 26	Indenture, dated as of June 17, 2003, among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc. and The Bank of New York, as trustee (incorporated by reference to XM's Registration Statement on Form S-4, File No 333-106823)
4.27	Form of 12% Senior Secured Note due 2010 (incorporated by reference to Exhibit A to Exhibit 4 27 hereof)
4 28	First Supplemental Indenture, dated as of June 12, 2003, by and among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc., XM Equipment Leasing LLC and The Bank of New York (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-106823)
4 29	First Amendment to Security Agreement, dated as of June 12, 2003, by and among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc., XM Equipment Leasing LLC and The Bank of New York (incorporated by reference to XM's Registration Statement on Form S-4, File No 333-106823)
4 30	Warrant to purchase XM Satellite Radio Holdings Inc Class A Common Stock, dated July 31, 2003, issued to Boeing Satellite Systems International, Inc (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the SEC on August 14, 2003)

Source· XM SATELLITE RADIO H, 10-K, March 04, 2005

Exhibit No.	Description
4 31	Amendment No 2 to Rights Agreement between XM Satellite Radio Holdings Inc and Equiserve Trust Company, N A (incorporated by reference to XM's Current Report on Form 8-K, filed with the SEC on April 21, 2004).
4 32	Indenture, dated as of April 20, 2004, among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc. and The Bank of New York, as trustee (incorporated by reference to XM's Current Report on Form 8-K, filed with the SEC on April 23, 2004)
4 33	Form of Senior Secured Floating Rate Note due 2009 (incorporated by reference to Exhibit A to Exhibit 4.30 hereof).
4 34	Indenture, dated as of November 23, 2004, between XM Satellite Radio Holdings Inc. and the Bank of New York, as trustee (incorporated by reference to XM's Current Report on Form 8-K, filed with the SEC on November 23, 2004).
4 35	Registration Rights Agreement, dated as of November 23, 2004, between XM Satellite Radio Holdings Inc and Bear, Stearns & Co. Inc. (incorporated by reference to XM's Current Report on Form 8-K, filed with the SEC on November 23, 2004)
4.36	Form of 1.75% Senior Convertible Note Due 2009 (incorporated by reference to XM's Current Report on Form 8-K, filed with the SEC on November 23, 2004)
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, filed with the SEC on August 14, 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 note holders 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 with the SEC 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.

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

Exhibit No.	Description
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, filed with the SEC on May 12, 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 with the SEC 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 with the SEC 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, filed with the SEC on August 14, 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 with the SEC on January 29, 2003)
10.19	Amended and Restated Director Designation Agreement, dated as of February 1, 2003, by and among XM Satellite Radio Holdings Inc and the shareholders and note holders named therein (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, filed with the SEC on May 15, 2003).
10 20	GM/DIRECTV Director Designation Agreement, dated as of January 28, 2003, among XM Satellite Radio Holdings Inc., General Motors Corporation and DIRECTV Enterprises LLC (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003)
10 21	Amended and Restated Assignment and Use Agreement, dated as of January 28, 2003, between XM Satellite Radio Inc. and XM Radio Inc (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003).
10 22	Credit Agreement, dated as of January 28, 2003, among XM Satellite Radio Inc , as a borrower, and XM Satellite Radio Holdings Inc., as a borrower, and General Motors Corporation, as lender (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003)
10 23	Employment Agreement, dated as of June 21, 2002, between XM Satellite Radio Holdings Inc. and XM Satellite Radio Inc , and Joseph J Euteneuer (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, filed with the SEC on August 14, 2002)

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

Exhibit No.	Description
10 24	Form of 2003 Executive Stock Option Agreement (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, filed with the SEC on May 15, 2003).
10 25*	Amended and Restated Amendment to the Satellite Purchase Contract for In-Orbit Delivery, dated May 2003, by and between XM Satellite Radio Inc. and XM Satellite Radio Holdings Inc and Boeing Satellite Systems International, Inc (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the SEC on August 14, 2003).
10.26*	July 2003 Amendment to the Satellite Purchase Contract for In-Orbit Delivery, dated July 31, 2003, by and between XM Satellite Radio Inc and XM Satellite Radio Holdings Inc and Boeing Satellite Systems International, Inc. (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the SEC on August 14, 2003)
10 27*	Contract for Launch Services, dated August 5, 2003, between Sea Launch Limited Partnership and XM Satellite Radio Holdings Inc. (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the SEC on August 14, 2003).
10 28	Amendment No 1 to Amended and Restated Director Designation Agreement, dated as of September 9, 2003, by and among XM Satellite Radio Holdings Inc and the shareholders and noteholders named therein (incorporated by reference to XM's Quarterly Report in Form 10-Q for the quarter ended September 30, 2003 filed with the SEC on November 12, 2003)
10.29	December 2003 Amendment to the Satellite Purchase Contract for In-Orbit Delivery, dated December 19, 2003, by and between XM Satellite Radio Inc. and XM Satellite Radio Holdings Inc and Boeing Satellite Systems International, Inc (incorporated by reference to XM's Annual Report on Form 10-K for the year ended December 31, 2003, filed with the SEC on March 15, 2004)
10 30	First Amendment to Credit Agreement, dated January 13, 2004, by and between XM Satellite Radio Inc , XM Satellite Radio Holdings Inc. and General Motors Corporation (incorporated by reference to XM's Annual Report on Form 10-K for the year ended December 31, 2003, filed with the SEC on March 15, 2004).
10 31	First Amendment to Second Amended and Restated Distribution Agreement, dated as of January 13, 2004, by and among OnStar Corporation, XM Satellite Radio Holdings Inc , and XM Satellite Radio Inc. (incorporated by reference to XM's Annual Report on Form 10-K for the year ended December 31, 2003, filed with the SEC on March 15, 2004)
10 32	Form of Amendment to Third Amended and Restated Shareholders and Noteholders Agreement, dated as of January 13, 2004, by and among XM Satellite Radio Holdings Inc. and the parties thereto (incorporated by reference to XM's Annual Report on Form 10-K for the year ended December 31, 2003, filed with the SEC on March 15, 2004)
10 33	Form of Amended and Restated Deed of Trust, Security Agreement, Assignment of Rents and Fixture Filing, from XM 1500 Eckington LLC to Elisabeth Zajic for the benefit of Merrill Lynch Mortgage Lending, Inc , dated as of August 9, 2004 (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, filed with the SEC on August 9, 2004)
10 34	Form of Amended and Restated Secured Promissory Note, made as of August 9, 2004, by XM 1500 Eckington LLC in favor of Merrill Lynch Mortgage Lending, Inc. (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, filed with the SEC on August 9, 2004).
10 35	Form of Indemnity and Guaranty Agreement, made as of August 9, 2004, by XM Satellite Radio Holdings Inc in favor of Merrill Lynch Mortgage Lending, Inc (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, filed with the SEC on August 9, 2004)

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

Exhibit No.	Description
10 36	Form of Employment Agreement, dated as of August 6, 2004, between XM Satellite Radio Holdings Inc. and XM Satellite Radio Inc., and Gary Parsons (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, filed with the SEC on August 9, 2004)
10.37	Form of Employment Agreement, dated as of August 6, 2004, between XM Satellite Radio Holdings Inc. and XM Satellite Radio Inc., and Hugh Panero (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, filed with the SEC on August 9, 2004)
10 38	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, filed with the SEC on August 9, 2004)
21 1	Subsidiaries of XM Satellite Radio Holdings Inc (incorporated by reference to the XM's Annual Report on Form 10-K for the year ended December 31, 2003, filed with the SEC on March 15, 2004)
23 1	Consent of Independent Registered Accounting Firm
31 1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U S C Section 1350).
31 2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U S C Section 1350).
32.1	Written Statement of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U S C Section 1350).

^ Incorporated by reference to XM's Registration Statement on Form S-1, File No 333-83619.

* Pursuant to the Commission's Orders Granting Confidential Treatment under Rule 406 of the Securities Act of 1933 or Rule 24(b)-2 under the Securities Exchange Act of 1934, certain confidential portions of this Exhibit were omitted by means of redacting a portion of the text

(b) Exhibits

XM Satellite Radio Holdings Inc hereby files as part of this Form 10-K the Exhibits listed in the Index to Exhibits

(c) Consolidated Financial Statement Schedules

The following consolidated financial statement schedule is filed herewith.

Schedule I—Valuation and Qualifying Accounts.

Schedules not listed above have been omitted because they are inapplicable or the information required to be set forth therein is provided in the Consolidated Financial Statements of XM Satellite Radio Holdings Inc. or notes thereto.

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

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
President and Chief Executive Officer

Date. March 4, 2005

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**	President, Chief Executive Officer and Director (Principal Executive Officer)	March 4, 2005
/s/ JOSEPH J EUTENEUER **Joseph J. Euteneuer**	Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	March 4, 2005
/s/ GARY M. PARSONS **Gary M. Parsons**	Chairman of the Board of Directors	March 4, 2005
/s/ NATHANIEL A DAVIS **Nathaniel A. Davis**	Director	March 4, 2005
/s/ THOMAS J DONOHUE **Thomas J. Donohue**	Director	March 4, 2005
/s/ THOMAS G. ELLIOTT **Thomas G. Elliott**	Director	March 4, 2005
/s/ GEORGE HAYWOOD **George Haywood**	Director	March 4, 2005
/s/ CHESTER A HUBER, JR **Chester A. Huber, Jr.**	Director	March 4, 2005
/s/ JARL MOHN **Jarl Mohn**	Director	March 4, 2005
/s/ PIERCE J. ROBERTS, JR **Pierce J. Roberts, Jr.**	Director	March 4, 2005
/s/ JACK SHAW **Jack Shaw**	Director	March 4, 2005

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES
XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

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Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

Report of Independent Registered Public Accounting Firm

The Board of Directors
XM Satellite Radio Holdings Inc

We have audited the accompanying consolidated balance sheets of XM Satellite Radio Holdings Inc. and subsidiaries ("the Company") as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2004 Our audits also included the related consolidated financial statement schedule presented as Schedule 1. These consolidated financial statements and the consolidated financial statement schedule are the responsibility of the Company's management Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of XM Satellite Radio Holdings Inc and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U S generally accepted accounting principles. Also, in our opinion, the consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of XM Satellite Radio Holdings Inc. and subsidiaries' internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 4, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting

/s/ KPMG LLP

McLean, VA
March 4, 2005

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

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 Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2004, 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, 2004, 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, 2004, 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, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2004, and our report dated March 4, 2005 expressed an unqualified opinion on those consolidated financial statements

/s/ KPMG LLP

McLean, VA
March 4, 2005

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

	2004	2003
	(in thousands, except share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 717,867	$ 418,307
Restricted investments	—	116
Accounts receivable, net of allowance for doubtful accounts of $1,551 and $796	20,182	13,160
Due from related parties	5,367	5,176
Related party prepaid expenses	31,160	22,261
Prepaid and other current assets	29,587	19,542
Total current assets	804,163	478,562
Restricted investments, net of current portion	4,492	4,035
System under construction	329,355	92,577
Property and equipment, net of accumulated depreciation and amortization of $460,708 and $315,063	461,333	709,501
DARS license	141,227	141,200
Intangibles, net of accumulated amortization of $5,698 and $4,433	7,164	8,429
Deferred financing fees, net of accumulated amortization of $14,350 and $10,561	44,466	43,999
Related party prepaid expenses, net of current portion	25,901	44,521
Prepaid and other assets, net of current portion	3,534	3,958
Total assets	$ 1,821,635	$ 1,526,782
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities.		
Current portion of long-term debt	$ 6,556	38,686
Accounts payable	59,986	35,773
Accrued expenses	85,959	57,293
Accrued XM-4 liability	100,100	—
Accrued network optimization expenses	2,148	4,136
Due to related parties	27,610	2,103
Accrued interest	14,146	5,427
Deferred revenue	114,951	39,722
Total current liabilities	411,456	183,140
Related party long-term debt, net of current portion	—	141,891
Long-term debt, net of current portion	948,741	601,363
Accrued XM-4 liability, net of current portion	—	22,300
Due to related parties, net of current portion	38,911	23,921
Deferred revenue, net of current portion	37,396	14,162
Other non-current liabilities	48,968	7,117
Total liabilities	1,485,472	993,894
Stockholders' equity		
Series A convertible preferred stock, par value $0 01 (liquidation preference of $51,370 and $102,739 at December 31, 2004 and December 31, 2003, respectively), 15,000,000 shares authorized, 5,393,252 and 10,786,504 shares issued and outstanding at December 31, 2004 and December 31, 2003, respectively	54	108
Series B convertible redeemable preferred stock, par value $0 01 (liquidation preference of $23,714 at December 31, 2004 and December 31, 2003), 3,000,000 shares authorized, 474,289 shares issued and outstanding at December 31, 2004 and December 31, 2003	5	5
Series C convertible redeemable preferred stock, par value $0 01 (liquidation preference of $107,976 and $153,605 at December 31, 2004 and December 31, 2003, respectively), 250,000 shares authorized, 79,246 and 120,000 shares issued and outstanding at December 31, 2004 and December 31, 2003, respectively	1	1
Series D convertible redeemable preferred stock, par value $0 01 (liquidation preference of $0 at December 31, 2004 and December 31, 2003); 250,000 authorized, no shares issued and outstanding at December 31, 2004 and December 31, 2003, respectively	—	—
Class A common stock, par value $0 01, 600,000,000 at December 31, 2004 and December 31, 2003, shares authorized, 208,249,188 and 160,655,194 shares issued and outstanding at December 31, 2004 and December 31, 2003, respectively	2,082	1,607
Class C common stock, par value $0 01, 15,000,000 shares authorized, no shares issued and outstanding at December 31, 2004 and December 31, 2003, respectively	—	—
Additional paid-in capital	2,446,910	2,001,688
Accumulated deficit	(2,112,889)	(1,470,521)
Total stockholders' equity	336,163	532,888
Commitments and contingencies		
Total liabilities and stockholders' equity	$ 1,821,635	$ 1,526,782

See accompanying notes to consolidated financial statements.

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003	2002
	(in thousands except share and per share amounts)		
Revenue	$ 244,443	$ $91,781	$ 20,181
Operating expenses.			
Cost of revenue	201,935	147,952	122,456
Research & development (excludes depreciation and amortization, shown below)	23,513	12,285	10,843
General & administrative (excludes depreciation and amortization, shown below)	28,555	27,418	26,448
Marketing (excludes depreciation and amortization, shown below)	304,316	200,267	169,165
Impairment of goodwill	—	—	11,461
Depreciation & amortization	147,165	158,317	118,588
Total operating expenses.	705,484	546,239	458,961
Operating loss	(461,041)	(454,458)	(438,780)
Other income (expense)			
Interest income	6,239	3,066	5,111
Interest expense	(85,757)	(110,349)	(63,573)
Loss from deleveraging transactions	(76,621)	(24,749)	—
Other income	2,129	1,955	2,230
Loss before income taxes	(615,051)	(584,535)	(495,012)
Provision for deferred income taxes	(27,317)	—	—
Net loss.	(642,368)	(584,535)	(495,012)
8.25% Series B preferred stock dividend requirement	(2,059)	(2,471)	(3,766)
8.25% Series B preferred stock retirement gain	—	8,761	—
8.25% Series C preferred stock dividend requirement	(6,743)	(15,098)	(17,093)
8.25% Series C preferred stock retirement loss	—	(11,537)	—
Net loss attributable to common stockholders	$ (651,170)	$ (604,880)	$ (515,871)
Net loss per common share:			
Basic and diluted	$ (3 30)	$ (4 83)	$ (5 95)
Weighted average shares used in computing net loss per common share–basic and diluted	197,317,607	125,176,320	86,735,257

See accompanying notes to consolidated financial statements

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003	2002
		(in thousands)	
Cash flows from operating activities			
Net loss	$ (642,368)	$ (584,535)	$ (495,012)
Adjustments to reconcile net loss to net cash used in operating activities:			
Provision for doubtful accounts	3,218	2,077	493
Depreciation and amortization	147,165	158,317	118,588
Interest accretion expense	53,422	45,227	—
Net non-cash loss on conversion or redemption of notes	66,274	24,777	—
Amortization of deferred financing fees and debt discount	18,524	17,409	5,323
Non-cash stock-based compensation	2,020	3,003	1,507
Provision for deferred income taxes	27,317	—	—
Impairment of goodwill	—	—	11,461
Other	(15)	(663)	(330)
Changes in operating assets and liabilities:			
Increase in accounts receivable	(8,407)	(11,480)	(3,771)
Increase in due from related parties	(191)	(3,698)	(1,478)
(Increase) decrease in prepaid and other current assets	101	(9,611)	5,688
Increase in accounts payable and accrued expenses	57,371	59,435	20,349
Increase in amounts due to related parties	82,835	24,256	30,664
Increase in deferred revenue	98,463	41,587	11,242
Increase (decrease) in accrued interest	8,719	(11,224)	987
Net cash used in operating activities	(85,552)	(245,123)	(294,289)
Cash flows from investing activities:			
Purchase of property and equipment	(25,934)	(15,685)	(35,598)
Additions to system under construction	(143,978)	(4,108)	(32,813)
Net maturity of short-term investments	—	—	18,358
Net maturity (purchase) of restricted investments	(341)	22,750	45,500
Insurance proceeds from satellite recoveries	133,924	—	—
Other investing activities	—	11,664	(2,483)
Net cash provided by (used in) investing activities	(36,329)	14,621	(7,036)
Cash flows from financing activities			
Proceeds from sale of common stock and capital contribution	236,835	253,102	159,074
Proceeds from issuance of 10% senior secured discount convertible notes	—	210,000	—
Proceeds from issuance of 12% senior secured notes	—	185,000	—
Proceeds from issuance of floating rate discount notes	200,000	—	—
Proceeds from issuance of 1 75% convertible notes	300,000	—	—
Proceeds from refinancing of mortgage on corporate facility	33,300	—	—
Repayment of 12% senior secured notes	(70,000)	—	—
Repayment of 7.75% convertible subordinated notes	—	(6,723)	—
Repayment of 14% senior secured notes	(13,028)	—	—
Repayment of related party long-term debt	(81,194)	—	—
Repayment of loan	(35,000)	—	—
Payments on related party facility	(103,034)	—	—
Payments on other borrowings	(5,174)	(2,722)	(2,440)
Repurchase of Series B preferred stock	—	(10,162)	—
Payments on mortgage on corporate facility	(28,247)	(420)	(335)
Deferred financing costs	(13,017)	(12,084)	(4,653)
Net cash provided by financing activities	421,441	615,991	151,646
Net increase (decrease) in cash and cash equivalents	299,560	385,489	(149,679)
Cash and cash equivalents at beginning of period	418,307	32,818	182,497
Cash and cash equivalents at end of period	$ 717,867	$ 418,307	$ 32,818

See accompanying notes to consolidated financial statements

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

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XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	Series A Convertible Preferred Stock		Series B Convertible Redeemable Preferred Stock		Series C Convertible Redeemable Preferred Stock		Class A Common Stock		Class B Common Stock		Class C Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
	(in thousands, except share data)														
Balance at January 1, 2002	10,786,504	$ 108	867,289	$ 9	235,000	$ 2	74,482,168	$ 745	—	$ —	—	$ —	$ 1,316,761	$ (390,974)	$ 926,651
Conversion of Series C convertible preferred stock	—	—	—	—	(35,000)	—	1,964,354	19	—	—	—	—	(19)	—	—
Secondary public offering	—	—	—	—	—	—	14,477,443	145	—	—	—	—	157,985	—	158,130
Issuance of shares to employees through stock option and purchase plans	—	—	—	—	—	—	200,751	2	—	—	—	—	1,032	—	1,034
Series B convertible redeemable preferred stock dividends	—	—	—	—	—	—	581,340	6	—	—	—	—	(5)	—	1
Non-cash stock compensation	—	—	—	—	—	—	—	—	—	—	—	—	1,507	—	1,507
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(495,012)	(495,012)
Balance at December 31, 2002	10,786,504	$ 108	867,289	$ 9	200,000	$ 2	91,706,056	$ 917	—	$ —	—	$ —	$ 1,477,261	$ (885,986)	$ 592,311
Conversion of Series C convertible preferred stock	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Sale of shares of Class A common stock	—	—	—	—	—	—	27,690,811	277	—	—	—	—	229,183	—	229,460
Issuance of 10% senior secured discount notes—beneficial conversion feature	—	—	—	—	—	—	—	—	—	—	—	—	68,879	—	68,879
Conversion of Series B convertible redeemable preferred stock	—	—	(393,000)	(4)	—	—	—	—	—	—	—	—	(10,160)	—	(10,164)
Conversion of Series C convertible redeemable preferred stock	—	—	—	—	(80,000)	(1)	11,951,381	120	—	—	—	—	(118)	—	1
Issuance of shares of Class A common stock to convert or redeem notes outstanding	—	—	—	—	—	—	19,232,230	193	—	—	—	—	115,739	—	115,932
Issuance of shares of Class A common stock from redemption of warrants	—	—	—	—	—	—	8,393,804	83	—	—	—	—	107,259	—	107,342
Issuance of shares through stock-based compensation plans	—	—	—	—	—	—	1,206,149	12	—	—	—	—	10,643	—	10,655
Series B convertible redeemable preferred stock dividends	—	—	—	—	—	—	484,763	5	—	—	—	—	(1)	—	4
Non-cash stock compensation	—	—	—	—	—	—	—	—	—	—	—	—	3,003	—	3,003
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(584,535)	(584,535)
	10,786,504	$ 108	474,289	$ 5	120,000	$ 1	160,665,194	$ 1,607	—	$ —	$ —	$ —	$ 2,001,688	$ (1,470,521)	$ 532,888

Balance at December 31, 2003	

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	Series A Convertible Preferred Stock		Series B Convertible Redeemable Preferred Stock		Series C Convertible Redeemable Preferred Stock		Class A Common Stock		Class B Common Stock		Class C Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
	(in thousands, except share data)														
Conversion of Series A convertible preferred stock	(5,393,252)	(54)	—	—	—	—	5,393,252	54	—	—	—	—	—	—	—
Sale of shares of Class A common stock	—	—	—	—	—	—	7,057,193	70	—	—	—	—	178,398	—	178,468
Conversion of Series C convertible redeemable preferred stock	—	—	—	—	(40,754)	—	5,891,147	59	—	—	—	—	(59)	—	—
Issuance of shares of Class A common stock to convert or redeem notes outstanding	—	—	—	—	—	—	12,353,205	123	—	—	—	—	207,064	—	207,187
Issuance of shares of Class A common stock from redemption of warrants	—	—	—	—	—	—	15,284,214	152	—	—	—	—	40,561	—	40,713
Issuance of shares through stock-based compensation plans	—	—	—	—	—	—	1,531,458	15	—	—	—	—	17,239	—	17,254
Series B convertible redeemable preferred stock dividends	—	—	—	—	—	—	73,525	1	—	—	—	—	—	—	1
Non-cash stock compensation	—	—	—	—	—	—	—	1	—	—	—	—	2,019	—	2,020
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(642,368)	(642,368)
Balance at December 31, 2004	5,393,252	$ 54	474,289	$ 5	79,246	1	208,249,188	$ 2,082	—	$ —	$ —	$ —	$ 2,446,910	$ (2,112,889)	$ 336,163

See accompanying notes to consolidated financial statements

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

(1) Summary of Significant Accounting Policies and Practices

(a) Nature of Business

XM Satellite Radio Inc. ("Inc."), was incorporated on December 15, 1992 in the State of Delaware for the purpose of operating a digital audio radio service ("DARS") under a license from the Federal Communications Commission ("FCC") XM Satellite Radio Holdings Inc. (the "Company") was formed as a holding company for XMSR on May 16, 1997. The Company's satellites, "Rock" and "Roll", were successfully launched on March 18, 2001 and May 8, 2001, respectively The Company commenced commercial operations in two markets on September 25, 2001 and completed its national rollout on November 12, 2001.

(b) Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of XM Satellite Radio Holdings Inc. and its subsidiaries. All significant intercompany transactions and accounts have been eliminated.

In the Company's opinion, the accompanying consolidated financial statements reflect all adjustments, consisting of only normal recurring entries, necessary for a fair presentation of the consolidated financial position of XM Satellite Radio Holdings Inc. and its subsidiaries as of December 31, 2004 and 2003, and the results of operations and cash flows for the years ended December 31, 2004, 2003 and 2002 Certain reclassifications have been made to prior-period amounts to conform with the 2004 presentation In addition, in July 2003, the Emerging Issues Task Force provided additional guidance on Topic D-42, *The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock* The additional guidance states that the carrying amount of preferred stock should be reduced by the issuance costs of the preferred stock in the calculation of earnings per share This guidance was effective in fiscal periods ending after September 15, 2003. The net loss available to common stockholders for the years ended December 31, 2004 and 2003 reflects these adjustments (see Note 17)

(c) Cash and Cash Equivalents

The Company considers short-term, highly liquid investments with an original maturity of three months or less to be cash equivalents The Company had the following cash and cash equivalents balances (in thousands):

	December 31,	
	2004	2003
Cash on deposit	$ 7,604	$ 8,075
Money market funds	710,263	410,232
Total cash and cash equivalents	$ 717,867	$ 418,307

(d) Restricted Investments

Restricted investments consist of fixed income securities and are stated at amortized cost plus accrued interest income. At December 31, 2004 and 2003, restricted investments represented securities held in escrow to secure the Company's future performance with regard to certain contracts and obligations, which include certain facility leases and other secured credits The investments are principally money market funds and certificates of

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

deposit. There were no gross unrealized holding gains at December 31, 2004 and 2003. The amortized cost and fair value of the restricted investments at December 31, 2004 and 2003, were as follows (in thousands):

	Amortized Cost	Fair Value
At December 31, 2004:		
Collateral for letters of credit and other secured credit	4,492	4,492
At December 31, 2003:		
Contract escrow	$ 116	$ 116
Collateral for letters of credit and other secured credit	4,035	4,035
Total restricted investments	$ 4,151	$ 4,151

(e) Accounts Receivable

Accounts receivable are recorded at the invoiced amount. The allowance for doubtful accounts is the Company's best estimate of the amount of probable losses in the Company's existing accounts receivable The Company estimates the allowance based on the Company's actual write-off experience

(f) Inventory

Inventory is valued at weighted average cost and consists of finished goods. The Company had $2.9 million and $2 6 million of inventory at December 31, 2004 and 2003, respectively, which are included in Prepaid and other current assets on the Consolidated Balance Sheets.

(g) Property and Equipment

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

Spacecraft system	6.75 years
Terrestrial repeater network	5 – 10 years
Spacecraft control and uplink facilities	17.5 years
Broadcast facilities	3 – 7 years
Computer systems	3 – 7 years
Building and improvements	20 years
Furniture and fixtures	3 – 7 years
Equipment under capital leases and leasehold improvements	Lesser of useful life or remaining lease term

Depreciation of the Company's in-orbit satellites commenced in May and June 2001 upon acceptance from Boeing Satellite Systems (BSS) Amortization and depreciation of the ground systems/spacecraft control facilities and related computer systems commenced on September 25, 2001, which was the date the service was launched in the Company's lead markets Depreciation of the broadcast facilities and the terrestrial repeaters commenced when they were placed in service

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

In September 2001, the Company notified its insurers of a progressive solar array power degradation problem with both satellites (this solar array output power degradation issue is common to the first six Boeing 702 class satellites in orbit—XM Rock and XM Roll were the fifth and sixth Boeing 702s launched) In February 2003, the Company filed Proofs of Loss with its insurers claiming that the pattern of degradation on both satellites met the standard for constructive total loss under the terms of the insurance policies even though the Company would be able to operate the satellites and provide quality service to its subscribers for some continuing period of time.

In July 2004, the Company reached agreement with insurers covering 80% of the aggregate sum insured at a settlement 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. This settlement resolves any issues about the amount of loss sustained, includes a waiver by the settling insurance companies of any reductions based on salvage value, terminates any further risk to the settling insurers under the policies and ends any other rights the settling insurers might have with regard to XM Rock and XM Roll or revenues generated by the Company's continuing use of those satellites The Company has collected all amounts due under the settlement The portion of the insurance proceeds related to claim payments, totaling $133.9 million, was recorded as a reduction to the carrying values of XM Rock and XM Roll In August 2004, the Company filed for arbitration to collect the remaining 20% of the sum insured utilizing the third-party dispute resolution procedures under the policy Any amounts received from this arbitration proceeding will be recorded as a reduction to the carrying values of XM Rock and XM Roll.

In February 2005, the Company launched its third satellite (XM-3), to be placed into one orbital slot The Company will then move XM Roll to be collocated with XM Rock in the other orbital slot In 2007, the Company plans to launch an additional satellite (XM-4) to replace the collocated XM Rock and XM Roll With this plan, even in the event there is a problem putting XM-3 into operation, the Company believes it will be able to launch additional satellites prior to the time the solar array output power degradation issue might cause the Company's broadcast signal strength to fall below minimum acceptable levels.

Based on the consistency of the degradation trends (with no substantial improvement to date) and continuing analyses by BSS and the Company, the Company's management adjusted the estimated useful lives of its in-orbit satellites, with effect from September 2002, to the period running through first quarter 2008 (approximately 6 75 years from launch) The Company's management will continue to monitor this situation carefully and may re-adjust the estimated useful lives of its in-orbit satellites based on future information The Company has not recorded any impairment due to its forecasted cash flows (which are sufficient to recover the system assets); however, should the Company reduce or not meet its forecasted cash flows or reduce further the estimated useful lives of the satellites, it may be required to record an impairment (which may be substantial) at that time The Company has not adjusted the estimated useful lives of its spacecraft control facilities, as it believes these facilities will continue to be of use in its system as XM-3 and XM-4 are launched

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

Had the Company used 6.75 years for the life of the satellites from the in-service date, the net loss attributable to common stockholders would have been impacted as follows.

	Year ended December 31,		
	2004	2003	2002
	(amounts in thousands, except per share data)		
Net loss as reported attributable to common stockholders	$(651,170)	$(604,880)	$(515,871)
Add effect of change on depreciation of satellites	—	—	(31,622)
Adjusted net loss attributable to common stockholders	$(651,170)	$(604,880)	$(547,493)
Per share amounts			
Adjusted net loss per common share—basic and diluted	$ (3 30)	$ (4.83)	$ (6 31)

In accordance with SFAS No 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet

Goodwill and intangible assets not subject to amortization are tested annually for impairment, and are tested for impairment more frequently, if events and circumstances indicate that the asset might be impaired An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value

(h) DARS License, Goodwill and Other Intangible Assets

The Company adopted the provisions of SFAS No. 141, *Business Combinations* ("SFAS No. 141") and SFAS No 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142") as of January 1, 2002 SFAS No 141 requires that the purchase method of accounting be used for all business combinations SFAS No. 141 establishes criteria which intangible assets acquired in a business combination must meet in order to be recognized and reported separately from goodwill. SFAS No 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No 142 SFAS No 142 also requires that intangible assets with estimated useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with SFAS No 144.

In applying the standards established by SFAS No. 142, the Company determined that its DARS license was an intangible asset having an indefinite useful life While the DARS license has a renewable eight-year term, the Company believes that the administrative fees necessary to renew the license will be *de minimis* compared to the initial fee to obtain the license, and the Company has met all of the established milestones specified in the FCC license agreement. The Company also anticipates no difficulties in renewing the license as long as the Company continues to adhere to the various regulatory requirements established in the license grant Although the Company faces competition from a variety of sources, the Company does not believe that the risks of the

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

technology becoming obsolete or of a decrease in demand for the DARS service are significant Further, the Company believes that its license is comparable with the licenses granted to other broadcasters, which are also classified as indefinite-lived intangible assets Upon adoption, the Company was required to evaluate its existing acquired intangible assets and goodwill, and to make any necessary reclassifications in order to conform to the new classification criteria in SFAS No 141 for recognition separate from goodwill The Company was also required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments. Since the Company's DARS license, with a carrying amount of $144 0 million at January 1, 2002, is an intangible asset having an indefinite useful life, it was tested for impairment in accordance with the provisions of SFAS No. 142 Impairment is measured as the excess of carrying value over the fair value of an intangible asset with an indefinite life Based on the Company's analysis, no impairment existed. In connection with SFAS No 142's transitional goodwill impairment evaluation, the Company was required to perform an assessment of whether there was an indication that goodwill was impaired as of the date of adoption. The goodwill balance was $11 5 million as of January 1, 2002 (the date the Company implemented SFAS No. 142) The Company identified one reporting unit and determined the carrying value; the fair value of the reporting unit was computed by determining its enterprise value, which consisted of the Company's market capitalization and the fair value of its long-term debt. The Company determined that the fair value exceeded the carrying value and that there were no indications that goodwill had been impaired as of January 1, 2002, the date of implementation

Amortization of the DARS license did not begin until September 25, 2001, when the Company commenced commercial operations, and no amortization has been taken since January 1, 2002, when the Company adopted SFAS No 142 Amortization expense for the other intangibles was $1 3 million, $1 3 million and $1 5 million during the years ended December 31, 2004, 2003 and 2002, respectively. The Company did not begin amortizing acquired programming agreements until September 25, 2001, when the Company commenced commercial operations. The Company is continuing to amortize intangible assets consisting of programming and receiver agreements that had a carrying value of $7 2 million and $8.4 million, respectively, as of December 31, 2004 and 2003, respectively, over their estimated useful lives of 10 years The estimated amortization for the programming and receiver agreements for the years ended 2005 to 2008 is $1 3 million for each year

In connection with the January 2003 financing transactions (see Note 3), the carrying value of the DARS license was reduced by $2 8 million, which was allocated as a discount associated with the fair value of the consideration provided to certain of these investors at the time of the issuance of the 10% Senior Secured Discount Convertible Notes

As part of the annual impairment testing in 2002, the Company performed an assessment of the fair value of its sole reporting unit as defined by SFAS No 142 and compared it to the carrying value of its reporting unit. The Company's market capitalization had fallen below the Company's book value, indicating that the reporting unit's indefinite lived intangible assets, goodwill and the DARS license, may be impaired. During 2002, the Company recorded an impairment charge of $11.5 million to write-off the entire net book value of its goodwill upon completing the annual impairment review required by SFAS No. 142, as fully described in Note 5.

(i) Deferred Financing Fees and Other Assets

Deferred financing fees consist primarily of legal, accounting, printing and investment banking fees as well as fees paid for lines of credit associated with the Company's debt financing Deferred financing fees are amortized over the life of the corresponding debt facility.

Source· XM SATELLITE RADIO H, 10-K, March 04, 2005

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

(j) Revenue Recognition

The Company derives revenue primarily from basic and premium subscriber subscription and activation fees as well as advertising, direct sales of equipment and royalties

Revenue from subscribers, which is generally billed in advance, consists of (i) fixed charges for service, which are recognized as the service is provided and (ii) non-refundable activation fees that are recognized ratably over the expected 40-month life of the customer relationship. Direct activation costs are expensed as incurred Promotions for free or discounted service are treated as a reduction to revenue during the period of the promotion. Sales incentives, consisting of rebates to subscribers, are recorded as reductions to revenue when claimed Discounts to equipment which are sold with service are allocated to equipment and service based on relative fair value Subscription and activation revenue accounted for over 90% of total revenues

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 statement of operations Advertising revenue for the years ended December 31, 2004, 2003 and 2002, respectively, included advertisements sold in exchange for goods and services (barter) recorded at fair value Revenue from barter transactions is recognized when advertisements are broadcast Merchandise or services received are charged to expense when received or used. Barter transactions are not significant to the Company's consolidated financial statements.

Equipment revenue is recognized at the time of shipment or delivery of the equipment Royalty and other revenue is recognized when earned.

(k) Stock-Based Compensation

The Company accounts for stock-based compensation arrangements in accordance with the provisions of Accounting Principle Board ("APB") Opinion No 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related interpretations including FASB Interpretation ("FIN") No. 44, *Accounting for Certain Transactions Involving Stock Compensation*, an interpretation of APB opinion No 25 issued in March 2000, and complies with the disclosure provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*, issued in December of 2002 Under APB 25, compensation expense is based upon the difference, if any, on the date of grant, between the fair value of the Company's stock and the exercise price All stock-based awards to non-employees are accounted for at their fair value in accordance with SFAS No 123

At December 31, 2004, the Company had two stock-based employee compensation plans, which are described more fully in Note 11(f). The following table illustrates the effect on net loss if the Company had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

	2004	2003	2002
	(amounts in thousands, except per share data)		
Net loss attributable to common stockholders, as reported	$ (651,170)	$ (604,880)	$ (515,871)
Add. stock-based employee compensation expense included in net loss, net of tax	—	—	941
Less: Total stock-based employee compensation expense determined under fair value-based method for all awards	(30,456)	(25,769)	(23,067)
Pro forma net loss	$ (681,626)	$ (630,649)	$ (537,997)
As reported net loss per common share—basic and diluted	$ (3.30)	$ (4 83)	$ (5.95)
Pro forma net loss per common share—basic and diluted	$ (3.45)	$ (5 04)	$ (6 20)

For SFAS No. 123 disclosures purposes, the weighted average-fair value of each employee option grant has been estimated as of the date of grant using the Black-Scholes option-pricing model. The assumptions used are described more fully in Note 11(f).

(l) Research & Development

Research & development costs are expensed as incurred

(m) Advertising & Marketing

Advertising & marketing costs, including media, events, training and marketing materials for retail and automotive dealer points of presence, are discretionary costs that are expensed as incurred. These costs are included in marketing During the years ended December 31, 2004, 2003, and 2002, the Company expensed approximately $88 1 million, $64 3 million and $91 6 million, respectively.

(n) Net Loss Per Common Share

The Company computes net loss per common share in accordance with SFAS No 128, *Earnings Per Share* and SEC Staff Accounting Bulletin No 98 ("SAB 98"). Under the provisions of SFAS No 128 and SAB 98, basic net loss per common share is computed by dividing the net loss available to common stockholders (after deducting preferred dividend requirements) for the period by the weighted average number of common shares outstanding during the period Diluted net loss available per common share is computed by dividing the net loss available to common stockholders for the period by the weighted average number of common and dilutive equivalent shares outstanding during the period The Company has presented historical basic and diluted net loss per common share in accordance with SFAS No 128 Options and warrants outstanding as of December 31, 2004 to purchase 120 9 million shares of common stock (112.4 million of which were vested) were not included in the computation of diluted loss per common share for year ended December 31, 2004 as their inclusion would have been anti-dilutive. Options and warrants outstanding as of December 31, 2003 to purchase 140.1 million shares of common stock (132 7 million of which were vested) were not included in the computation of diluted loss per common share for the year ended December 31, 2003 as their inclusion would have been anti-dilutive As the Company had a net loss in each of the periods presented, basic and diluted net loss per common share are the same

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

(o) Income Taxes

Income taxes are accounted for under the asset and liability method Deferred tax assets and liabilities are recognized for the tax benefits and consequences in future years of differences between the tax bases of assets and liabilities and the financial reporting amounts at each year-end and operating loss and tax credit carryforwards, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized Income tax expense is the sum of taxes payable for the period and the change during the period in deferred tax assets and liabilities.

(p) Accounting Estimates

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, various future factors which are difficult to predict and are beyond the control of the Company. Significant estimates include valuation of the Company's investment in the DARS license and its identification as an asset with an indefinite life, the allowance for doubtful accounts, the valuation of intangible assets, the recoverability of the long-lived assets, the costs to terminate certain terrestrial repeater site leases, the estimated life of a subscriber's subscription, the payments to be made to distributors and manufacturers for radios sold or activated, the amount of royalties to be paid on radios and/or components manufactured or revenue generated, the amount of license fees payable to Broadcast Music, Inc , the amount of stock-based compensation arrangements and the valuation allowances against deferred tax assets Accordingly, actual amounts could differ from these estimates

Payments owed to manufacturing and distribution partners are expensed during the month in which the manufacture, sale, and/or activation of the radio unit occurs The amounts of these expenses are dependent upon units provided by internal Company systems and processes (i e. subscriber management system and supply chain management system) and partner systems and processes However, due to lags in receiving manufacturing and sales data from partners, estimates of amounts due are necessary in order to record monthly expenses. In subsequent months when lagged data is received from partners, expenses are reconciled, and adjusted where necessary. Since launching commercial operations, the Company continues to refine the estimation process based on an increased understanding of the timing lags, and close working relationships with business partners. Estimates recorded on the Company's books are generally adjusted to actuals within one month.

(q) Reclassifications

Certain 2003 and 2002 amounts have been reclassified to conform to the current year presentation

(r) Derivative Instruments and Hedging Activities

The Company has reviewed its contracts and has determined that it has no free-standing or embedded derivative instruments The Company does not engage in hedging activities

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
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(2) Liquidity

The Company is devoting its efforts to market its digital audio radio service and to increase its subscriber base. This effort involves substantial risk and future operating results will be subject to significant business, economic, regulatory, technical, and competitive uncertainties and contingencies. The Company commenced commercial operations in the fourth quarter of 2001 and has an accumulated deficit of $2.1 billion as of December 31, 2004. The Company has raised $3.1 billion of equity and debt net proceeds from inception through December 31, 2004 from investors and strategic partners to fund its operations. In 2004, the Company raised $697 million of net funds. This includes $177 million of net funds raised from the sale of Class A common stock in January 2004, $195 million of net funds raised from the issuance of the Senior Secured Floating Rate Notes due 2009 and $293 million from the issuance of the 1 75% convertible Senior Notes due 2009 in November 2004 In April 2004, the Company also received $32 million in cash proceeds in connection with GM's exercise of a warrant to purchase 10 million shares of the Company's Class A common stock at an exercise price of $3 18 per share During the third quarter of 2004, the Company settled with insurers representing approximately 80% of the insurance coverage on XM Rock and XM Roll for a total recovery of approximately $142 million, further augmenting the Company's liquidity. In 2003, the Company raised $601 million of net funds This also includes $206 million of net funds raised in the January 2003 financing transactions, $179 million of net funds raised in the June 2003 transaction (including $10 million raised in July 2003 from the exercise of an over-allotment option), $150 million of net funds raised in the September 2003 transactions and $66 million of net funds raised through the Direct Stock Purchase Program in 2003 The January 2003 financing transactions also included $250 million of payment deferrals and a line of credit The proceeds received have been used to acquire the Company's DARS license, make required payments for the Company's system, including the satellites, terrestrial repeater system, and ground networks, and for working capital and operating expenses Provided that the Company meets the revenue, expense and cash flow projections of its business plan, the Company expects to be fully funded and will not need to raise additional financing to continue operations. The Company's business plan is based on estimates regarding expected future costs and expected revenue. The costs may exceed or the revenues may fall short of Company's estimates, the estimates may change, and future developments may affect the Company's estimates Any of these factors may increase the Company's need for funds, which would require the Company to seek additional financing to continue implementing the current business plan.

(3) Recent Financing and De-leveraging Transactions

(a) November 2004 Financing

Offering of 1 75% Convertible Senior Notes due 2009

On November 23, 2004, the Company completed the sale of $300 million aggregate principal amount of its 1.75% Convertible Senior Notes due 2009. The notes mature on December 1, 2009 and bear interest at an annual rate of 1 75%. In January 2005, the over-allotment option was exercised and an additional $100 million aggregate principal amount of notes were issued The notes may be converted by the holder, at its option, into shares of the Company's Class A common stock initially at a conversion rate of 20.0 shares of Class A common stock per $1,000 principal amount, which is equivalent to an initial conversion price of $50 00 per share of Class A common stock (subject to adjustment in certain events), at any time until December 1, 2009. The notes are not redeemable at the Company's option prior to the stated maturity.

Source. XM SATELLITE RADIO H, 10-K, March 04, 2005

(b) August 2004 Mortgage Refinancing

The Company refinanced its floating rate mortgage on August 9, 2004, with a remaining outstanding principal balance of $27 7 million, relating to its facility in Washington, D C. for a new balance of $33 3 million at a fixed rate of 6.01% due in 2014. The Company incurred $0 5 million in financing costs associated with the transaction The new mortgage loan is secured by the building for XM's corporate headquarters in Washington, D C. and an escrow of $4 1 million at December 31, 2004

(c) April 2004 Financing

Offering of Senior Secured Floating Rate Notes due 2009

On April 20, 2004, the Company completed an offering of $200 million of Inc.'s Senior Secured Floating Rate Notes due May 1, 2009 Interest on the notes is 7.68% per annum through January 31, 2005 and thereafter is reset quarterly at a rate equal to 550 basis points over LIBOR The interest on the notes is payable quarterly in cash in arrears on February 1, May 1, August 1 and November 1, commencing on August 1, 2004. No scheduled principal payments are required to be made prior to maturity The notes, which are Inc.'s senior secured obligations, are secured by substantially all of Inc 's assets, including the stock of Inc's FCC license subsidiary, are guaranteed by the Company and rank equally in right of payment with all of Inc.'s other existing and future senior indebtedness and senior in right of payment to all of Inc.'s existing and future subordinated indebtedness. At any time, Inc may, at its option, redeem the notes, in whole or in part, at declining redemption prices The proceeds from this offering were used in part to repay outstanding balances under the Company's revolving credit facility with General Motors ("GM").

(d) April 2004 Exercise of GM Warrant

In April 2004, the Company received $31 8 million in cash proceeds in connection with GM's exercise of a warrant to purchase 10 million shares of the Company's Class A common stock at an exercise price $3.18 per share

(e) January 2004 Financing

Offering of shares of Class A common stock

On January 28, 2004, the Company completed a public offering of 20 million shares of its Class A Common Stock at $26.50 per share, 13 million shares of which were offered for sale by certain selling stockholders. The 7 million shares offered by the Company resulted in gross proceeds of $185.5 million The proceeds from this offering were used in part to repay the unvested portion of the 10% Senior Secured Convertible Note due December 31, 2009 to Onstar Corporation ("Onstar"), a subsidiary of GM In connection with the sale of the Class A common stock in the January 2004 Class A common stock offering, the Company entered into agreements with the selling stockholders to convert $11 0 million carrying value, or $13 3 million fully accreted face value at maturity, of 10% Senior Secured Discount Convertible Notes into 3 5 million shares of Class A common stock, $52 4 million including accrued dividends in shares of Series C preferred stock into 5 9 million shares of Class A common stock and 3 6 million shares of Series A convertible preferred stock into 3.6 million shares of Class A common stock.

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

(f) September 2003 Financing

Offering of shares of Class A common stock

On September 11, 2003, the Company completed a public offering of 11.3 million shares of its Class A Common Stock at $13.25 per share to Legg Mason Funds Management, Inc., Legg Mason Capital Management, Inc , and another large institutional investor, each on behalf of its investment advisory clients. This offering resulted in gross proceeds of $150 million.

(g) June 2003 Financing

Offering of 12% Senior Secured Notes due 2010

On June 17, 2003, the Company completed an offering of $175 million of Inc 's 12% Senior Secured Notes due June 15, 2010 In July 2003, an additional $10 million of these 12% senior secured notes due 2010 were issued upon exercise of the over-allotment option Interest on the notes is payable every six months in cash in arrears on December 15 and June 15, commencing on December 15, 2003. The notes, which are Inc 's senior secured obligations, are secured by substantially all of Inc.'s assets, are guaranteed by the Company and will rank equally in right of payment with all of Inc.'s other existing and future senior indebtedness and senior in right of payment to all of Inc 's existing and future subordinated indebtedness Inc may, at its option, redeem the notes at declining redemption prices at any time on or after June 15, 2007 At any time on or prior to June 15, 2006, Inc. may redeem a portion of the outstanding notes with the proceeds of certain equity offerings as long as the redemption occurs within 90 days of the date of the closing of such equity offering and at least $100 million aggregate principal amount of notes remains outstanding after the redemption

(h) January 2003 Financing

On January 28, 2003, the Company completed (1) an exchange of over $300 million of the $325 million aggregate principal amount of outstanding debt issued by Inc , (2) a restructuring of $250 million in payment obligations to General Motors Corporation ("GM") due through 2006, and (3) a private placement resulting in gross proceeds to the Company of $225 million

14% Senior Secured Discount Notes Issued in Exchange

The Company accepted for exchange $300 2 million aggregate principal amount of the previously outstanding $325 0 million of Inc 's 14% Senior Secured Notes due 2010 ("Old Notes") For each $1,000 principal amount of notes tendered for exchange, the tendering holder received

- $1,459 principal amount at maturity of 14% Senior Secured Discount Notes due 2009 ("New Notes") issued by Inc. and guaranteed by XM,
- a warrant to purchase 85 shares of the Company's Class A common stock at an exercise price of $3 18 per share, and
- $70 in cash.

The exercise price of each warrant may be paid either in cash or without the payment of cash by reducing the number of shares of Class A common stock that would be obtainable upon the exercise of a warrant The warrants are fully vested and expire December 31, 2009 The face value of the New Notes is reduced by a discount of $61 0 million associated with the fair value of the related warrants The fair value of the warrants was

Source· XM SATELLITE RADIO H, 10-K, March 04, 2005

calculated using a Black–Scholes based methodology. The face value of these notes is also reduced by an allocation of the unamortized discount on the Old Notes of $52 4 million This exchange was accounted for as a troubled debt restructuring, and therefore, the modification of terms has been accounted for prospectively from the time of the restructuring The New Notes were reported on the Company's consolidated balance sheet as of December 31, 2003 as follows (in thousands)

Face amount of notes at January 28, 2003	$ 300,176
Discount at January 28, 2003	(113,402)
Carrying amount of notes at January 28, 2003	$ 186,774
Discount amortization/interest accretion	31,270
Extinguishments	(40,964)
Carrying amount of notes at December 31, 2003	$ 177,080

Restructuring of GM Obligations

Under certain agreements with General Motors ("GM") and its subsidiary, OnStar Corporation ("OnStar"), the Company and Inc. issued to OnStar a 10% Senior Secured Convertible Note due December 31, 2009 with an aggregate principal amount of $89 million in lieu of Inc 's obligation to make $115 million in guaranteed payments from 2003 to 2006 under the distribution agreement with OnStar Corporation. The Company also entered into a $100 million credit facility with GM and issued a warrant to GM to purchase 10 million shares of Class A common stock at an exercise price of $3 18 per share The warrant is fully vested and expires after five years The Company determined that the fair value of the warrant was $25 2 million, and the unamortized amount is included in deferred financing fees on the Company's consolidated balance sheet as of December 31, 2003 and 2004. The fair value of the warrant was calculated using a Black–Scholes based methodology The note issued to OnStar is convertible and the warrant exercisable only to the extent GM would not beneficially own more than 19 9% of the Company's Class A common stock, unless the Company and GM otherwise agree and certain stockholder approvals are obtained

OnStar will be able to convert the note into shares of Class A common stock pursuant to a vesting schedule so that on each date prior to and including December 31, 2006 that the Company would have been obligated to make scheduled guaranteed payments under the distribution agreement, a pro rata portion of the OnStar note corresponding to the scheduled guaranteed payment will become convertible at the option of OnStar at a conversion price equal to 90% of the fair market value of a share of Class A common stock (calculated as described above) on the date of conversion, provided that, the conversion price will be not less than $5 per share nor greater than $10 per share during 2003, not less than $5 per share nor greater than $15 per share during 2004, and not less than $5 per share nor greater than $20 per share thereafter As described in Note 9, in February 2004, the Company completed the redemption of the OnStar note

GM provided the Company and Inc with a $100 0 million Senior Secured Credit Facility, maturing as late as December 2009, that enables the Company to make monthly draws to finance payments that become due under the Company's distribution agreement with OnStar Corporation and other GM payments. This facility was amended in January 2004 and became a revolver. The Company and Inc are co–borrowers under this credit facility. The outstanding principal amount of all draws will be due December 31, 2009 and bear interest at the applicable 90–day LIBOR rate plus 10% through December 31, 2003, and effective January of 2004 bears interest at a per annum rate of LIBOR plus 8%. The Company will be able to make interest payments semiannually in shares of Class A common stock having an aggregate fair market value at the time of payment

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

equal to the amount of interest due The fair market value will be based on the average daily trading prices of the Class A common stock over the ten business days prior to the day the interest payment is due. The Company has the option to prepay all draws in whole or in part at any time, and, with effect from the January 2004 amendment, may re-borrow prepaid amounts. Beginning in 2005, the Company will be required to prepay the amount of any outstanding advances in an amount equal to the lesser of (i) 50% of the Company's excess cash and (ii) the amount necessary to prepay the draws in full In order to make draws under the credit facility, the Company is required to have a certain minimum number of subscribers that are not originated by GM and a minimum pre-marketing cash flow.

GM provided the Company with the ability to make up to $35.0 million in future subscriber bounty payments ("subscriber acquisition payments") that the Company may owe to OnStar under the distribution agreement in shares of Class A common stock, valued at fair market value at the time of payment

Private Placement of 10% Senior Secured Discount Convertible Notes and Class A Common Stock

The Company sold $210 0 million of 10% Senior Secured Discount Convertible Notes due December 31, 2009 to certain institutional and accredited investors, including some of its current investors. The Company and Inc. are co-obligors on these new investor notes. At any time, a holder of new investor notes may convert all or part of the accreted value of its notes at a conversion price of $3.18 per share The face value of the 10% senior secured discount convertible notes is reduced by a discount of $2 8 million associated with the fair value of the consideration provided to certain of these investors at the time of issuance. The face value of these notes is further reduced by a beneficial conversion feature of $68.9 million These notes are reported on the Company's consolidated balance sheet as of December 31, 2003 as follows (in thousands)

Face amount of notes at January 28, 2003	$210,000
Warrant discount at January 28, 2003	(2,842)
Beneficial conversion feature	(68,879)
Carrying amount at January 28, 2003	$138,279
Discount amortization/interest accretion	21,402
Extinguishments	(16,165)
Carrying amount at December 31, 2003	$143,516

The Company is not able to prepay or redeem the new investor notes. Beginning four years after the issuance of the new investor notes, the Company will be able to convert all, but not less than all of the notes at the conversion price 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 Holdings' and its subsidiaries' indebtedness is less than $250 million, and (iv) no shares of the Company's Series C preferred stock remain outstanding

The Company has committed to refer (or may provide directly as described below) one of the investors in its January 2003 convertible notes offering to potential sources of freely tradable shares of its Class A common stock for borrowing and hedging activities through January 2005. Should these referrals not result in this investor obtaining a stock loan, the Company may issue up to 7.5 million shares to this investor for a purchase price

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

payable by an interest-bearing promissory note and concurrently enter into a repurchase/resale agreement with this investor at the same purchase price, with a repurchase or resale to occur after two years. Through January 2005, the Company has not been required to issue additional shares under the repurchase/resale agreement

The Company also sold $15 0 million of its Class A common stock at a per share purchase price of $2.70 to a private investor and issued a warrant to purchase 900,000 shares of its Class A common stock at an exercise price of $3.18 per share to R. Steven Hicks, who joined the Company's board of directors in connection with these transactions. This warrant was valued at $2.3 million using a Black-Scholes based methodology, and the unamortized amount is included in deferred financing fees on the consolidated balance sheet as of December 31, 2003 and 2004.

De-leveraging Transactions

2004 De-leveraging Transactions

During 2004, the Company entered into agreements with certain holders of its notes to exchange $262 9 million carrying value including accrued interest, or $286 2 million fully accreted face value at maturity, for $97.5 million in cash consideration and 11 4 million shares of Class A common stock. This includes the following de-leveraging transactions·

- the redemption of $73.3 million carrying amount including accrued interest of its 12% Senior Secured Notes due 2010 for an aggregate redemption price of $81.7 million, which amount included a redemption premium of $8 4 million,

- the conversion of all its remaining outstanding $45 7 million of 7 75% Convertible Subordinated Notes into 3.7 million shares of Class A common stock;

- the exchange of $132.8 million carrying value including accrued interest, or $157.1 million fully accreted face value at maturity, of its 14% Senior Secured Notes due 2009 for $15 8 million in cash consideration and 4 2 million shares of Class A common stock,

- the conversion of $11 1 million carrying value including accrued interest, or $13.4 million fully accreted face value at maturity, of its 10% Senior Secured Discount Convertible Notes due 2009 into 3 5 million shares of Class A common stock; and

- the Company recorded a loss of $76 6 million from these extinguishments in other expense on the consolidated statement of operations for the year ended December 31, 2004.

The Company completed the redemption of the $89 0 million 10% Senior Secured Convertible Note due 2009 held by Onstar. As part of the redemption, Onstar converted $7 8 million in principal amount of the Note, representing the entire principal amount of the Note that had vested conversion rights at the time of the redemption, into 980,670 shares of Class A common stock in accordance with the terms of the Note. The remaining $81.2 million in principal amount plus accrued interest was repaid with cash. Also, the Company entered into agreements with certain holders of its 8.25% Series C convertible redeemable preferred stock to convert $52.4 million including accrued dividends in shares of Series C preferred stock into 5.9 million shares of Class A common stock The Company also entered into agreements with certain holders of its Series A convertible preferred stock to convert $51 4 million carrying value, in shares of Series A preferred stock, into 5 4 million shares of Class A common stock Additionally, the Company entered into agreements with certain holders of Class A common stock warrants to exchange approximately 56,000 warrants convertible into 2.6 million shares of Class A common stock for 2 3 million shares of Class A common stock and received $9 4

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

million in cash proceeds from the exercise of approximately 35,000 warrants converted into 3.0 million shares of Class A common stock

As a result of these de-leveraging and debt repayment transactions, during 2004 the Company eliminated approximately $597.3 million of carrying value including accrued interest of debt and preferred securities, or approximately $617.0 million of face amount at maturity. The Company eliminated $90 4 million carrying value including accrued interest ($89.0 million face amount at maturity) of the 10% Senior Secured Convertible Note due 2009 held by Onstar, $73.3 million carrying value including accrued interest ($70 0 million face amount at maturity) of its 12% Senior Secured Notes due 2010, $45 7 million carrying value including accrued interest ($45 7 million face amount at maturity) of its 7 75% Convertible Subordinated Notes due 2006, $132 8 million carrying value including accrued interest ($157.1 million face amount at maturity) of its 14% Senior Secured Notes due 2009, $35.3 million carrying value including accrued interest ($35 0 million face amount at maturity) of its loan with Boeing Satellite Systems, $103 0 million of the balance outstanding under its revolving credit and equity facility, plus accrued interest of $2 0 million, with GM, $11.1 million carrying value including accrued interest ($13 4 million face amount at maturity) of its 10% Senior Secured Discount Convertible Notes due 2009, $52 4 million carrying value of its Series C preferred stock and $51 4 million of its Series A preferred stock.

2003 De-leveraging Transactions

During 2003, the Company entered into agreements with certain holders of its notes to exchange $125.2 million carrying value, or $160 1 million fully accreted face value at maturity, of their notes, for $6 8 million in cash consideration and 19 2 million shares of Class A common stock. The Company recorded a net loss of $24 7 million from these debt extinguishments in other expense on the consolidated statement of operations for the year ended December 31, 2003.

Also, the Company entered into agreements with certain holders of its 8 25% Series B convertible redeemable preferred stock to exchange $19 7 million in shares of Series B preferred stock for $10 2 million in cash consideration. The Company recorded an increase of $9 5 million in additional paid-in capital on the consolidated balance sheet as of December 31 2003 and reduced the net loss attributable to common stockholders for the year ended December 31, 2003 by $8 8 million from the retirement of this preferred stock. The Company also entered into agreements with certain holders of its 8 25% Series C convertible redeemable preferred stock to exchange $101 0 million carrying value, in shares of Series C preferred stock, for 12 0 million shares of Class A common stock. The Company recorded a decrease of $11 5 million in additional paid-in-capital on the consolidated balance sheet as of December 31, 2003 and increased the net loss attributable to common stockholders for the year ended December 31, 2003 by a corresponding amount from the exchange of this preferred stock Additionally, the Company entered into agreements with certain holders of Class A common stock warrants to exchange 55,846 warrants convertible into 4 7 million shares of Class A common stock for 3 6 million shares of common stock and received $13 0 million in cash proceeds from the exercise of 47,962 warrants converted into 4 1 million shares of Class A common stock

As a result of these de-leveraging transactions, during 2003 the Company eliminated approximately $245 9 million of carrying value including accrued interest of debt and preferred securities or approximately $280.7 million of face amount at maturity The Company eliminated $2.1 million carrying value including accrued interest ($2 0 million face amount at maturity) of its 14% Senior Secured Notes due 2010, $65 5 million carrying value including accrued interest ($94 2 million face amount at maturity) of its 14% Senior Secured Discount Notes due 2009 issued in January 2003, $33 6 million carrying value including accrued interest ($33.4 million of face amount at maturity) of its 7 75% Convertible Subordinated Notes due 2006, $24 0 million carrying value

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

including accrued interest ($30 5 million face amount at maturity) of its 10% Senior Secured Discount Convertible Notes due 2009, $19.7 million of its Series B preferred stock and $101 0 million carrying value of its Series C preferred stock

(4) Related Party Transactions

The Company had the following amounts due from related parties at December 31, 2004 and 2003 (in thousands):

	December 31,	
	2004	2003
General Motors Corporation ("GM")	$3,708	$4,124
Honda	1,659	1,052
Total	$5,367	$5,176

The Company had the following amount as related party prepaid expense at December 31, 2004 and December 31, 2003 (in thousands)

	December 31,	
	2004	2003
GM	$57,061	$66,782

The Company had the following amounts outstanding to related parties at December 31, 2004 and 2003 (in thousands)

	December 31,	
	2004	2003
GM	$66,106	$25,204
Honda	415	—
Hughes	—	59
Clear Channel	—	761
Total	$66,521	$26,024

The Company had the following long-term related party debt at December 31, 2004 and December 31, 2003 (in thousands)·

	December 31,	
	2004	2003
GM	$—	$141,891

Beginning in the fourth quarter of 2002, the Company engaged in activities with GM and Honda to jointly promote XM service subscriptions to new car buyers At December 31, 2004, there were approximately 402,000 subscribers in promotional periods (typically ranging from three months to one year in duration) paid for by the

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

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vehicle manufacturers These subscriptions are included in the Company's subscriber total Revenues earned from related parties, primarily from these subscriptions, are as follows (in thousands):

	Years ended December 31,		
	2004	2003	2002
GM	$21,374	$11,630	$256
Honda	6,869	368	—
Total	$28,243	$11,998	$256

The Company has relied upon certain related parties for legal, technical, marketing and other services during the years ended December 31, 2004, 2003 and 2002. Total costs incurred in transactions with related parties are as follows (in thousands):

	Year ended December 31, 2004			
	GM	Hughes	Clear Channel	Honda
Terrestrial repeater network	$ —	$ 7	$ —	$ —
Terrestrial repeater site leases	—	—	31	—
Customer care & billing operations	363	—	—	—
Marketing	158,997	—	—	—
Research and development	—	—	—	9,579

	Year ended December 31, 2003		
	GM	Hughes	Clear Channel
Terrestrial repeater network	$ —	$ 278	$ —
Terrestrial repeater site leases	—	—	60
Customer care & billing operations	960	—	—
Marketing	107,346	—	8,646

	Year ended December 31, 2002				
	GM	Hughes	DIRECTV	Clear Channel	LCCI
Terrestrial repeater network	$ —	$10,386	$ —	—	$3,089
Terrestrial repeater site leases	—	—	—	57	—
Customer care & billing operations	178	—	—	—	—
Marketing	29,915	—	125	10,182	—
General & administrative	—	—	3	—	—

(a) GM

In 1999, the Company established a distribution agreement with GM (see Note 16 (f)). Under the terms of the agreement, GM distributes the XM Radio Service in various models of its vehicles This agreement was amended in June 2002 and January 2003 and continues to be clarified as XM's business operations and working relationship with GM continues to evolve

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

(b) Honda

The Company has arrangements with Honda relating to the promotion of the XM service to new buyers, the use of bandwidth on the XM system and the development of telematics services and technologies. There were no Honda related party expenses in 2002 or 2003.

(c) Hughes

In 1999, the Company entered into a terrestrial repeater manufacturing agreement with Hughes (see Note 16(e)). Hughes ceased to be a related party in January 2004.

(d) DIRECTV

In 1999, the Company entered into a consulting services agreement with DIRECTV. The agreement provides for DIRECTV professionals to aid the Company's efforts in establishing its customer care center and billing operations on a time and materials basis DIRECTV ceased to be a related party in January 2004. There were no DIRECTV related party expenses in 2003 or 2004.

(f) Clear Channel

Clear Channel Communications provides certain programming services to the Company. In 2000, the Company entered into a sponsorship agreement with SFX Marketing, now Clear Channel Entertainment, to advertise and promote the Company's service at Clear Channel Entertainment events and venues Since 2000, Premiere Radio Networks, a subsidiary of Clear Channel Communications, had served as one of the Company's ad sales representatives. Under separate agreements, the Company also runs advertisements on a spot and network basis on radio stations owned by Clear Channel Communications. In addition, the Company leases 3 sites for its terrestrial repeaters from Clear Channel Communications. Clear Channel ceased to be a related party in the second quarter of 2004

(g) LCCI

In 1999, the Company entered into the LCCI Services Contract (see Note 16(d)), and LCCI also provides certain ongoing consulting engineering work for the Company relating to the terrestrial repeater network on a time and materials basis. LCCI ceased to be a related party in 2002.

(5) Impairment Charge for Goodwill

In 2002, as part of the annual impairment testing, the Company performed an assessment of the fair value of its sole reporting unit as defined by SFAS No. 142 and compared it to the carrying value of its reporting unit. The Company's market capitalization had fallen below the Company's book value, indicating that the reporting unit's indefinite lived intangible assets, goodwill and the DARS license may be impaired under the test established by SFAS No 142

The Company determined the fair value of its assets on a class-by-class basis The fair values of the Company's assets were based upon the expected cash flow from the Company's business, as adjusted for the investment and time that would be required to develop the Company's business, and assuming a discount rate that reflects the degree of risk involved with this type of business The fair value of the DARS license was in

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

excess of its net book value, and therefore, no impairment was recorded. After valuing all of the Company's remaining assets, the total value of the identifiable, individual tangible and intangible assets was in excess of the value of entire Company based upon market capitalization under SFAS No 142. As such, no value was ascribed to the Company's goodwill Therefore, the Company recorded an impairment charge of $11 5 million to write-off the net book value of its goodwill as of November 30, 2002.

(6) System Under Construction

The Company has capitalized costs including capitalized interest related to the development of its XM Radio System to the extent that they have future benefits The amounts recorded as system under construction consist of the following (in thousands).

	December 31,	
	2004	2003
Spacecraft system	$321,462	$ 92,450
Spacecraft control facilities	7,893	127
Total system under construction	$329,355	$ 92,577

(7) Property and Equipment

Property and equipment consists of the following (in thousands):

	December 31,	
	2004	2003
Spacecraft system	$ 387,302	$ 521,226
Terrestrial system	268,026	267,730
Spacecraft control and uplink facilities	28,360	27,016
Broadcast facilities	60,829	59,143
Land	7,156	7,156
Building and improvements	42,003	41,906
Computer systems, furniture and fixtures, and equipment	128,365	100,387
	922,041	1,024,564
Accumulated depreciation	(460,708)	(315,063)
Property and equipment, net	$ 461,333	$ 709,501

In December 2001, the Company conducted a network optimization study and determined that the planned number of terrestrial repeater sites could be reduced due to the relative signal strength provided by XM's satellites The Company established a formal plan and recognized a charge of $26 3 million for the year ended December 31, 2001 with respect to the terrestrial repeater sites no longer required. The costs are principally related to the site acquisition and build-out of the identified sites. The charges of $47,000, $4 8 million and $4 0 million in 2004, 2003 and 2002, respectively, represent additional costs associated with terminating leases on terrestrial repeater sites no longer required These charges have been recorded in satellite & terrestrial on the consolidated statements of operations for each of the years in the three-year period ended December 31, 2004. In 2004, 2003 and 2002, the Company paid $2.0 million, $2.9 million and $10 4 million, respectively, in relation to costs associated with the termination of the remaining leases At December 31, 2004 and 2003, the Company had

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

recorded a lease termination accrual of $2.1 million and $4.1 million, respectively which represents an estimate of the costs to terminate the remaining leases based on management's judgment, advice of lease consultants, and early negotiations with landlords. The liability also includes the estimated costs to deconstruct the existing sites, which are based upon quotes from contractors At December 31, 2004, 57 leases remain to be terminated.

(8) Deferred Financing Fees

Deferred financing fees consist of the following at December 31, 2004 and 2003 (in thousands):

	December 31,	
	2004	2003
14% Senior Secured Discount Notes due 2009	$ 3,486	$ 6,424
14% Senior Secured Notes due 2010	622	622
12% Senior Secured Notes due 2010	4,118	6,510
10% Senior Secured Discount Convertible Notes due 2009	10,150	10,666
7.75% Convertible Subordinated Notes due 2006	—	1,541
Senior Secured Floating Rate Notes due 2009	4,819	—
1 75% Convertible Senior Notes due 2009	7,500	—
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	2,288	2,288
Valuation of warrants issued to vendors	178	178
Mortgage	504	533
Loan payable	—	647
	$ 58,816	$ 54,560
Less accumulated amortization	(14,350)	(10,561)
Deferred financing fees, net	$ 44,466	$ 43,999

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

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(9) Long–Term Debt

Long–term debt at December 31, 2004 and 2003 consists of the following (in thousands):

	December 31,	
	2004	2003
14% Senior Secured Notes due 2010 (Old Notes)	$ 22,824	$ 22,824
Less: unamortized discount	(3,367)	(3,726)
14% Senior Secured Notes due 2009 (New Notes)	162,897	262,211
Less: unamortized discount	(44,284)	(85,131)
12% Senior Secured Notes due 2010	115,000	185,000
10% Senior Secured Discount Convertible Notes due 2009	213,958	205,068
Less: unamortized discount	(53,897)	(61,552)
7.75% Convertible Subordinated Notes due 2006	—	45,703
Senior Secured Floating Rate Notes due 2009	200,000	—
1.75% Convertible Senior Notes due 2009	300,000	—
Mortgage	33,206	28,153
Loan	—	35,000
Notes payable	2,773	2,644
Related party long–term debt	—	141,891
Capital leases	6,187	3,855
Total debt	$955,297	$781,940
Less current installments	(6,556)	(38,686)
Long–term debt	$948,741	$743,254

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

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The following table presents a summary of the debt activity in 2004 (in thousands).

	December 31, 2003	Issuances/ Additions	Discount Amortization	Interest Expense	Interest Accretion	Retirements/ Extinguishments	December 31, 2004
14% Senior Secured Notes due 2010 (Old Notes)	$ 22,824	$ —	$ —	$ —	$ —	$ —	$ 22,824
Less discount	(3,726)	—	359	—	—	—	(3,367)
14% Senior Secured Notes due 2009 (New Notes)	262,211	—	—	—	25,857	(125,171)	162,897
Add. accretion of interest	—	—	—	33,458	(25,857)	(7,601)	—
Less discount	(85,131)	—	3,050	—	—	37,797	(44,284)
12% Senior Secured Notes due 2010	185,000	—	—	—	—	(70,000)	115,000
10% Senior Secured Discount Convertible Notes	205,068	—	—	—	19,895	(11,005)	213,958
Add accretion of interest	—	—	—	19,964	(19,895)	(69)	—
Less. discount	(61,552)	—	4,502	—	—	3,153	(53,897)
7 75% Convertible Subordinated Notes due 2006	45,703	—	—	—	—	(45,703)	—
Senior Secured Floating Rate Notes due 2009	—	200,000	—	—	—	—	200,000
1 75% Convertible Senior Notes due 2009	—	300,000	—	—	—	—	300,000
Mortgage	28,153	33,300	—	—	—	(28,247)	33,206
Loan	35,000	—	—	—	—	(35,000)	—
Notes payable	2,644	1,223	—	—	—	(1,094)	2,773
Related party long-term debt	141,891	50,185	—	—	—	(192,076)	—
Capital leases	3,855	6,412	—	—	—	(4,080)	6,187
Total	$ 781,940	$ 591,120	$ 7,911	$ 53,422	$ —	$ (479,096)	$ 955,297

Future maturities of long-term debt are as follows as of December 31, 2004 (in thousands):

Year ending December 31:	
2005	$ 6,556
2006	3,027
2007	690
2008	496
2009	779,200
Thereafter	165,328
Total debt	$ 955,297

(a) 14% Senior Secured Notes

On March 15, 2000, the Company closed a private placement of 325,000 units, each unit consisting of $1,000 principal amount of Old Notes and one warrant to purchase 8 024815 shares of the Company's Class A

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

common stock at a price of $49.50 per share. The Company realized net proceeds of $191 5 million, excluding $123 0 million, used to acquire securities that were used to pay interest payments due under the notes for the first three years The $325.0 million face value of the notes was offset by a discount of $65.7 million associated with the fair value of the related warrants. In January 2003, the Company completed an exchange of 300,176 Old Notes for $438.0 million principal amount at maturity of New Notes, warrants to purchase 25 5 million shares of the Company's Class A common stock at a price of $3.18 per share and $21 0 million in cash. The face value of the New Notes was offset by a discount of $61.0 million associated with the fair value of the related warrants. The face value of these notes is also reduced by a discount of $52 4 million associated with the allocation of the discount on the Old Notes As of December 31, 2004 and December 31, 2003, the Company had amortized $17.0 million and $13 8 million of the discount, respectively During the year ended December 31, 2003, the Company extinguished $2.0 million principal amount at maturity, of Old Notes plus accrued interest and $65 5 million carrying value including accrued interest, or $94 2 million fully accreted face value at maturity, of New Notes by issuing 8 5 million shares of its Class A common stock During the year ended December 31, 2004, the Company also extinguished $132 8 million carrying value including accrued interest, or $157 1 million fully accreted face value at maturity, of New Notes by issuing 4.2 million shares of its Class A common stock and paying $15.7 million in cash

(b) 12% Senior Secured Notes

On June 17, 2003, the Company sold $175 million of 12% senior secured notes due June 15, 2010 to certain institutional and accredited investors, including some of its current investors In July 2003, an additional $10 million of these 12% senior secured notes due 2010 were issued pursuant to the over-allotment option During the year ended December 31, 2004, the Company extinguished $70 million carrying value of 12% Senior Secured Notes due 2010 for an aggregate redemption cash price of $81 7 million, which amount included a redemption premium of $8 4 million.

(c) 10% Senior Secured Discount Convertible Notes

On January 28, 2003, the Company sold $210 0 million of 10% senior secured discount convertible notes due December 31, 2009 to certain institutional and accredited investors, including some of its current investors The $210 million face value of the notes was offset by a discount of $2 8 million associated with the fair value of the consideration provided to certain of these investors at the time of issuance. In connection with this transaction, the Company also recognized a beneficial conversion feature of $68 9 million. During the year ended December 31, 2003, the Company also exchanged $24 0 million carrying value including accrued interest, or $30 5 million principal amount at maturity, of 10% senior secured discount convertible notes due 2009 by issuing 8.1 million shares of its Class A common stock The Company recorded the discount of $7 2 million attributable to the beneficial conversion of these exchanged notes to interest expense during the year ended December 31, 2003. During the year ended December 31, 2004, the Company exchanged $11.1 million carrying value including accrued interest, or $13.4 million fully accreted face value at maturity, of 10% Senior Secured Discount Convertible Notes for 3.5 million shares of Class A common stock The Company recorded the discount of $3 1 million attributable to the beneficial conversion of these exchanged notes to interest expense during the year ended December 31, 2004 The Company may require conversion on or after January 28, 2007 of all of the notes into shares of Class A common stock at a conversion price of $3 18 per share. The holders of the notes may convert their notes into Class A common stock at any time prior to maturity.

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

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(d) 7.75% Convertible Subordinated Notes

On March 6, 2001, the Company closed a public offering of $125 0 million of its 7.75% convertible subordinated notes due 2006. The subordinated notes are convertible into shares of the Company's Class A common stock at a conversion price of $12.23 per share. In July and August 2001, the holders of the 7.75% convertible subordinated notes exchanged $45.9 million of notes for 4 2 million shares of the Company's Class A common stock. During the year ended December 31, 2003, the holders of the 7.75% convertible subordinated notes exchanged $33 4 million of notes for 2 7 million shares of the Company's Class A common stock and $6 8 million in cash. In the first quarter of 2004, the holders of the remaining outstanding principal balance of $45.7 million of 7.75% Convertible Subordinated Notes due 2006 called for redemption following the Company's January 2004 offering elected to convert into 3 7 million shares of Class A common stock in accordance with the terms of the notes. This represented the retirement of all remaining outstanding 7 75% Subordinated Convertible Notes.

(e) Senior Secured Floating Rate Notes

On April 20, 2004, the Company completed an offering of $200 million of Inc.'s Senior Secured Floating Rate Notes due May 1, 2009 Interest on the notes is 7.68% per annum through January 31, 2005 and thereafter is reset quarterly at a rate equal to 550 basis points over LIBOR. The interest on the notes is payable quarterly in cash in arrears on February 1, May 1, August 1 and November 1, commencing on August 1, 2004 No scheduled principal payments are required to be made prior to maturity At any time, the Company may, at its option, redeem the notes, in whole or in part, at declining redemption prices

(f) 1.75% Convertible Subordinated Notes

In November 2004, the Company completed the sale of $300 million aggregate principal amount of its 1 75% Convertible Senior Notes due 2009 In January 2005, an over-allotment option was exercised and an additional $100 million aggregate principal amount of notes were issued. The notes may be converted by the holder, at its option, into shares of the Company's Class A common stock initially at a conversion rate of 20.0 shares of Class A common stock per $1,000 principal amount, which is equivalent to an initial conversion price of $50 00 per share of Class A common stock (subject to adjustment in certain events), at any time until December 1, 2009 The notes are not redeemable at the Company's option prior to the stated maturity.

(g) Mortgage

On August 24, 2001, the Company entered into a loan and security agreement with a lender that provided it with $29.0 million to purchase its corporate headquarters and incurred $500,000 in financing costs associated with the transaction. The loan bore interest at 8% until it adjusted on March 1, 2002 to the six-month LIBOR rate plus 3 5%. The interest rate was adjusted every six months and did not exceed the ceiling rate of 14% or the floor rate of 8%. The loan was scheduled to mature on September 1, 2006 The Company used the proceeds along with $5.0 million to purchase its corporate headquarters for $34 0 million and incurred $800,000 in closing costs on the transaction. The mortgage was secured by the building and an escrow of $3 5 million at December 31, 2003. The Company refinanced its floating rate mortgage on August 9, 2004, with a remaining outstanding principal balance of $27 7 million for a new balance of $33 3 million at a fixed rate of 6 01% due in 2014 The Company incurred $504,000 in financing costs associated with the transaction. The new mortgage loan is secured by the building and an escrow of $4 1 million at December 31, 2004

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

(h) Loan Payable

On December 5, 2001, the Company entered into a Customer Credit Agreement with Boeing Capital Corporation ("BCC") pursuant to which the Company borrowed $35 0 million from BCC at an interest rate equal to LIBOR plus 3 5%, increasing to LIBOR plus 4 5% after December 5, 2003, which is compounded annually and payable quarterly in arrears The loan was secured by the Company's interest in the ground spare satellite, excluding its payload In May 2004, the Company prepaid in full the $35 million loan (plus accrued interest) outstanding from BCC.

(i) Related Party Notes

On January 28, 2003, the Company and Inc. issued to Onstar, a subsidiary of GM, a 10% senior secured convertible note due December 31, 2009 with an aggregate principal amount of $89 0 million in lieu of Inc 's obligation to make $115 0 million in guaranteed payments from 2003 to 2006 under the distribution agreement with Onstar In February 2004, the Company completed the redemption of the 10% senior secured convertible note. As part of the redemption, GM converted $7 8 million in principal amount of the note, representing the entire principal amount of the note that had vested conversion rights at the time of the redemption, into 980,670 shares of the Company's Class A Common Stock in accordance with the terms of the note The remaining $81.2 million in principal amount plus accrued interest was repaid with cash. GM also provided the Company with the ability to make up to $35 0 million in future subscriber acquisition payments that the Company may owe to Onstar under the distribution agreement in shares of Class A common stock and provided the Company with a $100.0 million credit facility agreement The credit facility was amended in January 2004 and became a revolver providing for borrowings up to a maximum of $100 million through maturity of the facility in December 2009 The Company incurred $52.8 million in expenses due to Onstar which is reported in marketing expenses on the Company's consolidated statement of operations for the year ended December 31, 2003. Of this amount, $50.0 million was drawn from the credit facility and $2 8 million relates to subscriber acquisition payments due to Onstar that may be paid in Class A common stock. During the year ended December 31, 2004, the Company incurred $50 2 million in expenses due to Onstar which is reported in marketing expenses on the Company's consolidated statement of operations and repaid in total $103 0 million which represented all of the balances outstanding under the facilities

(j) Notes Payable

The Company has established notes payable for two credit facilities to vendors for the deferral of up to $6 0 million in amounts owed These notes accrue interest at 6%. The outstanding balance of one of these notes was repaid during the year ended December 31, 2004 As of December 31, 2004, the balance due on the remaining credit facility was $2 8 million and payable in 2005. The Company also issued warrants in connection with these notes The fair value of these warrants is $169,000 and is included in deferred financing fees

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

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(10) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2004 and 2003 (in thousands). The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

	December 31,			
	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 717,867	$ 717,867	$ 418,307	$ 418,307
Restricted investments	4,492	4,492	4,151	4,151
Accounts receivable	20,182	20,182	13,160	13,160
Due from related parties	5,367	5,367	5,176	5,176
Letters of Credit	—	4	—	4
Financial liabilities.				
Accounts payable	59,986	59,986	35,773	35,773
Accrued expenses	85,959	85,959	57,293	57,293
Accrued XM-4 liability	100,100	100,100	—	—
Accrued network optimization expenses	2,148	2,148	4,136	4,136
Due to related parties	66,521	66,521	26,024	26,024
Total debt	955,297	3,436,776	781,940	2,500,994
Accrued XM-4 liability, net of current portion	—	—	22,300	22,300
Other non-current liabilities	48,968	48,968	7,117	7,117

The carrying amounts shown in the table are included in the consolidated balance sheets under the indicated captions. The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and cash equivalents, accounts receivable, due from related parties, accounts payable, accrued expenses, accrued XM-4 liability, accrued network optimization expenses, due to related parties and other non-current liabilities The carrying amounts approximate fair value because of the short maturity of these instruments

Restricted investments The fair values of debt securities (held-to-maturity investments) are based on quoted market prices at the reporting date for those or similar investments.

Letters of credit: The value of the letters of credit is based on the fees paid to obtain the letters of credit.

Long-term debt: 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 by quoted market prices at the reporting date for the traded debt securities

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

(11) Equity

(a) Capitalization

During 2004 and 2003, the Company had authorized 60,000,000 shares of preferred stock, of which 15,000,000 shares were designated Series A convertible preferred stock, 3,000,000 shares were designated 8.25% Series B convertible redeemable preferred stock, and 250,000 shares were designated 8 25% Series C convertible redeemable preferred stock, which are all par value $0.01 per share. The Series A convertible preferred stock is convertible into Class A common stock at the option of the holder The Series A preferred stock is non-voting and receives dividends, if declared, ratably with the common stock The Series B and C convertible redeemable preferred stock are convertible to Class A common stock at the option of the holder. The Series B convertible redeemable preferred stock is non-voting The Company must redeem all outstanding shares of Series B Preferred Stock on February 1, 2012 at a redemption price per share equal to the Liquidation Preference. The Series B Preferred Stock is redeemable at the Company's option at any time (after February 3, 2003) at a redemption price per share equal to the Liquidation Preference plus a premium, which premium declines annually through February 2, 2010, after which the redemption price per share shall equal the Liquidation Preference The Series C redeemable preferred stock contains voting and certain veto rights The Company must redeem all outstanding shares of Series C Preferred Stock on February 1, 2012 at a redemption price per share equal to the Liquidation Preference. The Series C Preferred Stock is redeemable at the Company's option at any time (after February 8, 2005) at a redemption price per share equal to the Liquidation Preference plus a premium, which premium declines annually through February 1, 2012 On August 15, 2002, the Company filed an amendment to its Certificate of Incorporation to designate 250,000 shares of $0 01 par value preferred stock as Series D Junior Participating Preferred Stock The Series D Junior Participating Preferred Stock is non-voting, ranks junior to all other classes of preferred stock and was designated in connection with the adoption of the Shareholders' Rights Plan There are no outstanding shares of Series D Participating Preferred Stock as of December 31, 2004.

(b) Stock Dividends on Preferred Stock

The Company paid 2004 quarterly dividends on the 8 25% Series B convertible redeemable preferred stock on February 1, 2004, May 1, 2004, August 1, 2004 and November 1, 2004 by issuing 18,806, 17,643, 19,335, and 17,741 shares of Class A common stock, respectively, to the respective holders of record.

The Company paid 2003 quarterly dividends on the 8 25% Series B convertible redeemable preferred stock on February 1, 2003, May 1, 2003, August 1, 2003 and November 1, 2003 by issuing 306,167, 109,812, 39,390, and 29,394 shares of Class A common stock, respectively, to the respective holders of record

The terms of the Company's 8 25% Series C convertible redeemable preferred stock provide for cumulative dividends payable in cash Because no dividends have been declared on the Series C preferred stock, the value of the cumulative dividends has increased the liquidation preference of the Series C preferred stock The net loss attributable to common stockholders reflects the accrual of the dividends to preferred stockholders for the years ended December 31, 2004, 2003 and 2002

(c) Conversions of Convertible Preferred Stock

During the year ended December 31, 2004, the Company entered into agreements with certain holders of its Series A convertible preferred stock to exchange 5 4 million shares of Series A preferred stock (carrying value of $51.4 million) for 5.4 million shares of Class A common stock. These exchanges resulted in a decrease of the liquidation preference for the Series A preferred stock of $51 4 million. In addition, the Company entered into agreements with certain holders of its 8 25% Series C convertible redeemable preferred stock to exchange 40 8 million of Series C preferred stock plus accrued dividends through the date of the exchange (carrying value of $52 4 million) for 5 9 million shares of Class A common stock. These exchanges resulted in a decrease of the liquidation preference for the Series C preferred stock of $52.4 million and a decrease in the quarterly dividend

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

requirement of $0.8 million As a result of our financings and other issuances of securities, the conversion price of the Series C preferred stock issued in August 2000 has been adjusted from $8.90 at December 31, 2003 to $8 78 at December 31, 2004

The following table provides a summary of the changes in the liquidation preferences for Series B preferred stock and Series C preferred stock in 2004 (in thousands)

	December 31, 2003	Conversions	Accrued Dividends	December 31, 2004
Series A Convertible Preferred Stock.				
Face amount	$ 102,739	$ (51,369)	$ —	$ 51,370
Carrying amount of liquidation preference	$ 102,739	$ (51,369)	$ —	$ 51,370
Series C Convertible Redeemable Preferred Stock:				
Face amount	$ 120,000	$ (40,754)	$ —	$ 79,246
Cumulative dividends payable	33,605	(11,618)	6,743	28,730
Carrying amount of liquidation preference	$ 153,605	$ (52,372)	$ 6,743	$ 107,976

During the first half of 2003, the Company entered into agreements with certain holders of its 8 25% Series B convertible redeemable preferred stock to exchange $19 7 million in shares of Series B preferred stock for $10 2 million in cash consideration. These exchanges resulted in a decrease of the liquidation preference for the Series B preferred stock of $19.7 million and a decrease in the quarterly dividend requirement of $427,000

During the second half of 2003, the Company entered into agreements with certain holders of its 8 25% Series C convertible redeemable preferred stock to exchange 80,000 shares of Series C preferred stock plus accrued dividends through the date of the exchange (carrying value of $101.0 million) for 12.0 million shares of Class A common stock These exchanges resulted in a decrease of the liquidation preference for the Series C preferred stock of $101 0 million and a decrease in the quarterly dividend requirement of $1.7 million. As a result of our financings and other issuances of securities, the conversion price of the Series C preferred stock was adjusted from $9 39 at December 31, 2002 to $8 90 at December 31, 2003

(d) Class A Common Stock Issuances

During the year ended December 31, 2004, the Company entered into agreements with certain holders of its notes to exchange $262.9 million carrying value including accrued interest, or $286 2 million fully accreted face value at maturity, for $97.5 million in cash consideration and 11.4 million shares of Class A common stock As part of the redemption of the $89 0 million 10% Senior Secured Convertible Note due 2009 held by Onstar, Onstar converted $7.8 million in principal amount of the note, representing the entire principal amount of the note that had vested conversion rights at the time of the redemption, into 980,670 shares of Class A common stock in accordance with the terms of the note. The remaining $81.2 million in principal amount plus accrued interest was repaid with cash Additionally, the Company entered into agreements with certain holders of Class A common stock warrants to exchange approximately 56,000 warrants convertible into 2.6 million shares of Class A common stock for 2.3 million shares of Class A common stock and received $9.4 million in cash proceeds from the exercise of approximately 35,000 warrants converted into 3 0 million shares of Class A common stock

On January 28, 2004, the Company completed a public offering of 20 million shares of its Class A Common Stock at $26.50 per share, 13 million shares of which were offered for sale by certain selling stockholders. The 7 million shares offered by the Company resulted in net proceeds of $177 million.

During the year ended December 31, 2003, the Company entered into agreements with certain holders of its notes to exchange $125 2 million carrying value, or $160 1 million fully accreted face value at maturity, of their

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

notes, for $6.8 million in cash consideration and 19.2 million shares of Class A common stock. The Company also entered into agreements with certain holders of Class A common stock warrants to exchange 55,846 warrants convertible into 4 7 million shares of Class A common stock for 3.6 million shares of Class A Common stock and received $13 0 million in cash proceeds from the exercise of 47,962 warrants converted into 4.1 million shares of Class A common stock.

On September 11, 2003, the Company completed a public offering of 11.3 million shares of its Class A Common Stock to Legg Mason Funds Management, Inc , Legg Mason Capital Management, Inc , and another large institutional investor, each on behalf of its investment advisory clients. This offering resulted in net proceeds of $150 million

During the first half of 2003, the Company issued 10.8 million shares of Class A common stock for net proceeds of $66 million under its Direct Stock Purchase Program, or DSPP.

In January 2003, the Company completed a private placement of 5 6 million shares of its Class A Common Stock at a per share purchase price of $2 70, which yielded net proceeds of $15 0 million.

In connection with the January 2003 financings (see note 3), the Company issued a warrant to purchase 900,000 shares of its Class A common stock at an exercise price of $3 18 per share to R. Steven Hicks, who joined the Company's board of directors in connection with these transactions. This warrant was valued at $2.3 million using a Black–Scholes based methodology, and the unamortized amount is included in deferred financing fees on the consolidated balance sheet as of December 31, 2003 and 2004 During the second half of 2003, R Steven Hicks exercised a warrant to purchase 900,000 shares of its Class A common stock at a purchase price of $3 18 per share and received 737,216 net shares of Class A common stock. The warrant was originally issued pursuant to the January 2003 transactions.

As a result of our financings and other issuances of securities, the exercise price of the warrants sold in March 2000 has been adjusted to $45 23 and the number of warrant shares has been adjusted to 8 78 for the 325,000 warrants outstanding at December 31, 2004. The exercise price of the warrants sold in January 2003 remained at $3 18 and the number of warrant shares remained at 85 for the approximately 131,000 warrants outstanding at December 31, 2004

(e) Shareholders' Rights Plan

In August 2002, the Company adopted a Shareholders' Rights Plan (commonly known as a "poison pill") in which preferred stock purchase rights were granted as a dividend at the rate of one right for each share of common stock held of record as of the close of business on August 15, 2002 The rights would be exercisable only upon the occurrence of certain events relating to an unsolicited take–over or change of control of the Company

(f) Stock–Based Compensation

The Company operates stock plans, the details of which are described below

Source XM SATELLITE RADIO H, 10–K, March 04, 2005

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1998 Shares Award Plan and Talent Option Plan

On June 1, 1998, the Company adopted the 1998 Shares Award Plan (the "1998 Plan") under which employees, consultants, and non-employee directors may be granted options to purchase shares of Class A common stock of the Company. The Company has authorized 25,000,000 shares of Class A common stock under the 1998 Plan. The options are exercisable in installments determined by the compensation committee of the Company's board of directors The options expire as determined by the committee, but no later than ten years from the date of grant

In May 2000, the Company adopted the XM Talent Option Plan ("Talent Plan") under which non-employee programming consultants to the Company may be granted options to purchase shares of Class A common stock of the Company. The Company authorized 500,000 shares of Class A common stock under the Talent Plan The options are exercisable in installments determined by the talent committee of the Company's board of directors. The options expire as determined by the talent committee, but no later than ten years from the date of the grant.

Transactions and other information relating to the 1998 Plan for the years ended December 31, 2004, 2003 and 2002 are summarized below.

	Outstanding Options	
	Number of Shares	Weighted-Average Exercise Price
Balance, January 1, 2002	5,498,940	$ 16.62
Options granted	2,765,352	12.93
Options canceled or expired	(633,457)	17.13
Options exercised	(15,772)	9 47
Balance, December 31, 2002	7,615,063	$ 15.24
Options granted	5,548,305	5 99
Options canceled or expired	(517,762)	15.37
Options exercised	(680,568)	11 36
Balance, December 31, 2003	11,965,038	$ 11.21
Options granted	4,945,285	23 86
Options canceled or expired	(690,454)	12.75
Options exercised	(1,533,708)	11 27
Balance, December 31, 2004	14,686,161	$ 15.37

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
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DECEMBER 31, 2004 AND 2003

December 31,	Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
2002	$ 2.13–$9.52	2,214,875	7.37 years	$ 8.46	1,523,261	$ 9.17
	$ 9 55–$14.99	2,698,371	8 41 years	$ 13.76	908,247	$ 12 10
	$ 15.00–$18.69	1,959,457	8.26 years	$ 17.58	745,019	$ 17.65
	$ 18.82–$45 44	742,360	7 53 years	$ 35.12	524,301	$ 35 23
2003	$ 2.67	2,100	9.01 years	$ 2.67	0	$ 0.00
	$ 2.77–$5.34	4,995,218	9.17 years	$ 5 31	41,452	$ 3.72
	$ 5.67–$14 99	4,404,292	7.12 years	$ 11.54	2,723,468	$ 10 86
	$ 15 00–$45.44	2,563,428	7.21 years	$ 22 16	1,848,581	$ 23.67
2004	$ 2.67	1,400	8 01 years	$ 2.67	0	$ 0
	$ 2.77–$5 34	4,070,954	8 16 years	$ 5 31	1,110,887	$ 5 27
	$ 5.67–$9.52	1,722,330	5 43 years	$ 8.54	1,544,812	$ 8.71
	$ 9 57–$14.99	1,901,784	6.56 years	$ 13.72	1,366,955	$ 13 35
	$ 15.00–$18.69	1,571,089	6.32 years	$ 17.46	1,559,757	$ 17.47
	$ 18 83–$22.00	2,514,255	9 13 years	$ 21.98	9,268	$ 19 34
	$ 22.31–$24.43	1,606,666	9.52 years	$ 24.35	33,569	$ 22.96
	$ 24 47–$43 50	1,278,583	7 92 years	$ 31.78	572,400	$ 34 97
	$ 43.69–$45.44	19,100	5.68 years	$ 44.52	19,100	$ 44.52

Under the 1998 Plan, there were 6,216,748, 4,613,501 and 3,700,828 stock options exercisable at December 31, 2004, 2003 and 2002, respectively. At December 31, 2004, there were 7,941,670 shares available under the plan for future grants. During 2004, the Company granted 10,000 restricted shares. As of December 31, 2004 and 2003, 357,000 and 291,500 options had been granted under the Talent Plan, respectively At December 31, 2004, there were 143,000 options available under the plan for future grant In 2004, 2003 and 2002, the Company recognized $2 0 million, $2.1 million and $1.4 million of non-cash stock-based compensation expense

The per share weighted-average fair value of employee options granted during the year ended December 31, 2004, 2003 and 2002 was $16 08, $4.72 and $10 88, respectively, on the date of grant using the Black-Scholes Option Pricing Model with the following weighted-average assumptions.

	Year ended December 31,		
	2004	2003	2002
Expected dividend yield	0%	0%	0%
Volatility	82 75%	107.38%	122.25%
Risk-free interest rate range	2.79% to 3.93%	2.30% to 3.37%	2.63% to 4.91%
Expected life	5 years	5 years	5 years

Employee Stock Purchase Plan

In 1999, the Company established an employee stock purchase plan that provides for the issuance of 300,000 shares of Class A common stock, which was increased to 600,000 shares in 2001 and 1,000,000 shares in 2003 All employees whose customary employment is more than 20 hours per week and for more than five months in any calendar year are eligible to participate in the stock purchase plan, provided that any employee

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

who would own 5% or more of the Company's total combined voting power immediately after an offering date under the plan is not eligible to participate Eligible employees must authorize the Company to deduct an amount from their pay during offering periods established by the compensation committee The purchase price for shares under the plan will be determined by the compensation committee but may not be less than 85% of the lesser of the market price of the common stock on the first or last business day of each offering period. As of December 31, 2004, 2003 and 2002, the Company had issued a cumulative total of 570,311, 528,044 and 402,380 shares, respectively, under this plan At December 31, 2004, there were 429,689 shares available under the plan for future sale

The per share weighted-average fair value of purchase rights granted was $23 79, $5 22 and $4 80 for the years ended December 31, 2004, 2003 and 2002, respectively. The estimates were calculated at the grant date using the Black-Scholes Option Pricing Model with the following assumptions at December 31, 2004, 2003 and 2002.

	Year ended December 31,		
	2004	2003	2002
Expected dividend yield	0%	0%	0%
Volatility	82 75%	107 38%	122 25%
Risk-free interest rate range	0.90% to 2.11%	0.90% to 1.22%	1.57% 1.79%
Expected life	0.24 years	0 24 years	0.24 years

The Company applies APB 25 in accounting for stock-based compensation for both plans and, accordingly, no compensation cost has been recognized for its stock options and stock purchase plan in the financial statements other than for performance based stock options, for options granted with exercise prices below fair value on the date of grant and for repriced options under FIN No 44 During 2004, 2003 and 2002, the Company incurred $0, $0 and $1.1 million, respectively, in compensation cost for these options

(12) Profit Sharing and Employee Savings Plan

On July 1, 1998, the Company adopted a profit sharing and employee savings plan under Section 401(k) of the Internal Revenue Code This plan allows eligible employees to defer the maximum percentage of their compensation allowable under law on a pre-tax basis through contributions to the savings plan The Company contributed $0 50 in 2004, 2003 and 2002 for every dollar the employees contributed up to 6% of compensation, which amounted to $0.8 million, $0 7 million and $0 7 million, respectively

(13) Interest Cost

The Company capitalizes a portion of interest cost as a component of the cost of the XM Radio System. The following is a summary of interest cost incurred during December 31, 2004, 2003 and 2002 (in thousands)

	2004	2003	2002
Interest cost capitalized	$ 31,778	$ 4,799	$
Interest cost charged to expense	85,757	110,349	63,573
Total interest cost incurred	$ 117,535	$ 115,148	$ 63,573

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

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The Company exceeded its capitalization threshold and incurred charges to interest of $85.8 million and $110 3 million during 2004 and 2003, respectively. In 2002, the Company had no items that were considered qualified expenditures.

(14) Income Taxes

The provision for the income taxes for the three years ended December 31, 2004 consists of the following:

Taxes on income included in the Statements of Operations consists of the following (in thousands):

	December 31,		
	2004	2003	2002
Current taxes:			
Federal	$ —	$—	$—
State	—	—	—
Total current taxes	—	—	—
Deferred taxes.			
Federal	$23,486	$—	$—
State	3,831	—	—
Total deferred taxes	27,317	—	—
Total tax expense	$27,317	$—	$—

A reconciliation of the statutory tax expense, assuming all income is taxed at the statutory rate applicable to the income and the actual tax expense is as follows (in thousands)

	December 31,		
	2004	2003	2002
Income (loss) before taxes on income, as reported in the statements of income	$(615,051)	$(584,535)	$(495,012)
Theoretical tax benefit on the above amount at 35%	(215,268)	(204,587)	(173,254)
State tax, net of federal benefit	(21,527)	(20,459)	(24,163)
Increase in taxes resulting from change to effective tax rate	—	12,507	—
Increase in taxes resulting from permanent differences, net	53,659	7,817	4,110
Change in valuation allowance	210,453	204,722	193,307
Taxes on income for the reported year	$ 27,317	$—	$—

The $210 5 million increase in the valuation allowance includes a $27.3 million increase that was required because the Company determined that it was not appropriate under generally accepted accounting principles to offset deferred tax assets against deferred tax liabilities related to indefinite lived assets that cannot be scheduled to reverse in the same period. The Company does not expect to settle this liability in the foreseeable future.

In addition to the $210 5 million increase in the valuation, a further increase in the Company's valuation allowance of $53.4 million was incurred in 2004 from net equity transactions This increase in the valuation

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

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allowance was due to the tax benefits of the exercise of nonqualified stock options and the recording of assets with a greater tax basis than book value, net of the loss of deferred tax assets in debt-for-equity exchanges. The $53.4 million increase in equity was subject to a $53 4 million equity account valuation allowance, resulting in no change to the Company's net equity.

At December 31, 2004, 2003 and 2002, deferred income tax consists of future tax assets/(liabilities) attributable to the following (in thousands).

	December 31,		
	2004	2003	2002
Deferred tax assets—Current			
Deferred revenue	$ 44,256	$ 15,293	$ 3,970
Other deferred tax assets—current	2,963	2,465	—
Gross total deferred tax assets—Current	47,219	17,758	3,970
Valuation allowance for deferred tax assets—current	(45,933)	(16,865)	(3,640)
Net deferred assets—current	1,286	893	330
Deferred tax assets—Noncurrent:			
Net operating loss/other tax attribute carryovers	$ 504,150	$ 431,660	$ 251,518
Book expenses capitalized and amortized for tax purposes	86,908	89,039	101,650
Deferred revenue	14,397	5,452	948
Property, equipment and property under construction	59,229	14,111	—
Deferred interest expense	17,362	—	—
Loan financing costs	67,978	—	—
Other deferred tax assets	20,169	3,298	—
Gross total deferred tax assets—noncurrent	770,193	543,560	354,116
Valuation allowance for deferred tax assets—noncurrent	(751,014)	(516,213)	(324,716)
Net deferred assets—noncurrent	19,179	27,347	29,400
Net deferred assets	20,465	28,240	29,730
Deferred tax liabilities:			
Property, equipment and property under construction	—	—	(568)
DARS license	(27,317)	(24,996)	(24,705)
Intangible assets	(2,757)	(3,244)	(3,876)
Debt instruments	(17,708)	—	—
Other deferred tax liabilities		—	(581)
Net deferred tax liabilities	(47,782)	(28,240)	(29,730)
Deferred income tax, net	$($27,317)	$ —	$ —

At December 31, 2004, the Company had accumulated net operating losses of $1,309.5 million for Federal income tax purposes that are available to offset future regular taxable income These operating loss carryforwards expire between the years 2012 and 2024 Utilization of these net operating losses are subject to Internal Revenue Code Section 382 for loss limitations because there have been significant changes in the stock ownership of the Company. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized The ultimate realization of

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

(15) Supplemental Cash Flows Disclosures

The Company paid $36 9 million, $76.3 million and $62 6 million for interest, of which $31.8 million, $4 8 million, and $0 was capitalized during 2004, 2003 and 2002, respectively Additionally, the Company incurred the following non-cash financing and investing activities (in thousands)

	December 31,		
	2004	2003	2002
Accrued system construction costs	$ 92,800	$ 29,193	$5,123
Issuance of note for prepaid expenses	—	89,042	—
Issuance of warrants for deferred financing fees	—	27,439	—
Issuance of warrants for satellite contract	—	5,790	—
Issuance of notes for accrued expenses	129	55,493	—
Discount on debt securities	33,622	101,707	—
Conversion of debt to equity	176,698	118,401	—
Systems under construction placed in service	—	—	2,147
Use of deposit/escrow for capital lease agreement	—	1,174	—
Write off of deferred financing costs to equity	1,066	—	—
Property acquired through capital leases	6,412	1,894	2,139

(16) Commitments and Contingencies

(a) DARS Licenses

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 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 The Company believes that the exercise of such authority to rescind the license is unlikely. If necessary, the Company could seek FCC authority to launch additional satellites for use in its system, which management believes would likely be approved In February 2004, the Company applied to the FCC for authority to launch and operate XM-3 and XM-4 and to collocate XM Roll with XM Rock at the 115 West Longitude orbital location The FCC granted this application in January 2005 Additionally, the FCC has not yet issued final rules permitting the Company to deploy its terrestrial repeaters to fill gaps in satellite coverage The Company is operating its repeaters on a non-interference basis pursuant to a grant of special temporary authority from the FCC This grant originally expired March 18, 2002 However, on March 11, 2002, the Company applied for an extension of this special temporary authority and the Company can continue to operate its terrestrial repeaters pursuant to the special temporary authority pending a final determination on this extension request. This authority is currently being challenged by operators of terrestrial wireless systems who have asserted that the Company's repeaters may cause interference The Company believes it is not likely that an FCC order would materially impact the terrestrial repeater system design currently in operation.

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

One of the losing bidders for the DARS licenses filed an Application for Review by the full FCC of the Licensing Order that granted the Company its DARS license. The Application for Review alleged that a former investor had effectively taken control of the Company without FCC approval. The FCC denied the Application for Review and the losing bidder appealed to the United States Court of Appeals for the District of Columbia Circuit. On February 21, 2003, the Court of Appeals rejected the losing bidder's claims and upheld the FCC's decision to grant the Company its license

The Company has entered into a Memorandum of Agreement contemplating the establishment of a joint venture entity that would be authorized to provide the XM service in Canada This entity has begun the process of seeking authority from the Canadian government to provide satellite radio service in Canada. XM anticipates that the joint venture, once established, would be independently financed.

(b) Technology Licenses

Effective January 1, 1998, the Company entered into a technology licensing agreement with Motient and WorldSpace Management Corporation ("WorldSpace MC") by which as compensation for certain licensed technology then under development to be used in the XM Radio System, the Company pays certain amounts to WorldSpace MC The actual amounts to be incurred under this agreement are dependent upon further development of the technology, which is at the Company's option The agreement includes provisions for sharing certain costs related to the further development of technology and for royalty payments from the Company to WorldSpace MC At December 31, 2004 and 2003, respectively, the Company had recorded an accrual of $4 0 million and $5 2 million payable to Worldspace for royalty payments

(c) Satellite Contract

Satellite Insurance Settlements—The Company had secured launch and in-orbit insurance policies with a large group of insurers (both U S. and foreign) providing coverage for losses relating to each of its satellites (XM Rock and XM Roll) where such losses arise from an occurrence within the first 5 years after launch (both satellites were launched during the 1st half of 2001)

Under these policies, the aggregate sum insured in the event of constructive total loss of both satellites equaled up to $400 million ($200 million per satellite), and lesser amounts would be payable in the event of a partial loss In the event of constructive total loss, the amount of recovery would be reduced by any salvage value, which could include a percentage of the revenues from the Company's continuing use of the satellites

In September 2001, the Company notified its insurers of a progressive solar array power degradation problem with both satellites (this solar array output power degradation issue is common to the first six Boeing 702 class satellites in orbit—XM Rock and XM Roll were the fifth and sixth Boeing 702s launched). In February 2003, the Company filed Proofs of Loss with its insurers claiming that the pattern of degradation on both satellites met the standard for constructive total loss under the terms of the insurance policies even though the Company would be able to operate the satellites and provide quality service to its subscribers for some continuing period of time

In July 2004, the Company reached agreement with insurers covering 80% of the aggregate sum insured at a settlement 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 This settlement resolves any issues about the amount of loss sustained, includes a waiver by the settling insurance companies of any reductions based on

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

salvage value, terminates any further risk to the settling insurers under the policies and ends any other rights the settling insurers might have with regard to XM Rock and XM Roll or revenues generated by the Company's continuing use of those satellites The Company has collected all amounts due under the settlement The portion of the insurance proceeds related to claim payments was recorded as a reduction to the carrying values of XM Rock and XM Roll.

In August 2004, the Company filed for arbitration to collect the remaining 20% of the sum insured utilizing the third-party dispute resolution procedures under the policy Any amounts received from this arbitration proceeding will be recorded as a reduction to the carrying values of XM Rock and Roll

Satellite Contract—XM Rock and XM Roll. As of December 31, 2004, the Company had paid approximately $613 5 million, including financing charges and interest under the satellite contract related to XM Rock, or XM-2, XM Roll, or XM-1, XM-3 and XM-4. The Company originally entered into its satellite contract in March 1998 with Boeing Satellite Systems International, Inc., or BSS, and has subsequently amended the contract, including in July 2003 and December 2003 Under the satellite contract, BSS has delivered two satellites in-orbit, XM Rock and XM Roll, supplied ground equipment and software used in the XM Radio system and provided certain launch and operations support services.

Satellite Contract and Other Costs—XM-3 Construction of the Company's ground spare satellite, XM-3, is completed, including certain modifications to correct the solar array degradation issues experienced by Rock and Roll, as well as other changes agreed with BSS discussed below. As of December 31, 2004, with respect to XM-3, the Company has deferred $15 million at an interest rate of 8% through January 4, 2007 In May 2004, the Company repaid in full a $35 million loan (plus accrued interest) outstanding from Boeing Capital. In February 2005 the Company launched its XM-3 satellite

In addition to the modifications to address the solar array degradation issues, BSS made certain alterations to optimize XM-3 for the specific orbital slot into which it will be placed. The aggregate remaining cost, excluding the above $15 million deferral, of the launch, optimization for the specific orbital slot, appropriate software and certain pre and post-launch services of approximately $135 million was paid during the first half of 2004. Further, BSS has the right to earn 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.

Satellite Insurance—XM-3 The Company acquired launch and in-orbit insurance in January 2005 in connection with the launch of XM-3

Satellite Contract and Other Costs—XM-4 The Company has committed in its satellite contract, as amended in July 2003, and by a separate August 2003 contract with Sea Launch Company, LLC, or Sea Launch, to acquire from BSS a fourth satellite, XM-4, which should be available for shipment to the launch services provider by the end of 2005, and from Sea Launch the associated launch services for the satellite The fixed prices for XM-4 and the associated launch services total $186.5 million, excluding in-orbit performance incentives and financing charges on certain amounts deferred prior to launch. As of December 31, 2004, satellite construction costs aggregating approximately $106 1 million were incurred, of which $6 million was paid, and $100.1 million are deferred Interest accrued monthly at a rate of 10.75% per annum through December 2004 and is payable thereafter on a current basis, pursuant to the December 2003 amendment, which extended the deferral into early 2006 (unless the satellite is launched earlier) Most of the remaining portion of the fixed costs for XM-4 and the associated launch services are payable during construction with the last payment due one month following launch.

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

After launch of XM-4, 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 performance above specification 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 If XM-3 operates satisfactorily, the Company may elect, under the above contracts, to defer launch of XM-4 and, as a result, approximately $50 million in payments related to launch services could be postponed until the 2007 timeframe

Options to Procure Fifth Satellite and Associated Launch Services The Company has also obtained fixed price options to acquire a fifth satellite from BSS, under the July 2003 amendment, on pricing and performance incentive terms similar to those applicable to XM-4 and associated launch services from Sea Launch under the August 2003 contract

Satellite Contract—Warrant to BSS Pursuant to the Company's satellite contract, it issued a warrant to BSS in July 2003 to purchase 500,000 shares of its Class A common stock at $13 524 per share The fair value of these warrants was determined to be $5.8 million using a Black-Scholes based methodology and is included in the System Under Construction balance as of December 31, 2004.

Replacement Satellite Deployment Plan In February 2005 the Company launched its XM-3 satellite, to be placed into one orbital slot. The Company will then move XM Roll to be collocated with XM Rock in the other orbital slot. In 2007, the Company plans to launch its new satellite (XM-4) to replace the collocated XM Rock and XM Roll With this plan and advanced visibility, even in the event there is a problem putting XM-3 into operation, the Company believes it will be able to launch additional satellites prior to the time the solar array output power degradation issue might cause the Company's broadcast signal strength to fall below minimum acceptable levels

(d) Terrestrial Repeater System Contracts

As of December 31, 2004, the Company had incurred aggregate costs of approximately $268 0 million for its terrestrial repeater system. These costs covered the capital costs of the design, development and installation of a system of terrestrial repeaters to cover approximately 60 cities and metropolitan areas. In August 1999, the Company signed a contract with LCCI calling for engineering and site preparation As of December 31, 2004, the Company had paid $128 4 million under this contract There are no further payments due under the LCCI contract. The Company also entered into a contract effective October 22, 1999 with Hughes for the design, development and manufacture of the terrestrial repeaters, there are no further payments due under this contract except those related to ongoing out-of-warranty repairs The Company has paid $114 4 million under this contract as of December 31, 2004 and has an additional liability recorded of $53,000 at December 31, 2004.

(e) Accrued Network Optimization Expenses

As a result of the planned reduction of the number of terrestrial repeater sites (see note 7), the Company recognized a charge of $47,000 in 2004, $4 8 million in 2003 and $4 0 million in 2002 The charges represent costs associated with terminating leases on terrestrial repeater sites no longer required At December 31, 2004 and 2003, the Company had recorded a lease termination accrual of $2 1 million and $4.1 million, respectively, that represent an estimate of the costs to terminate the remaining leases based on management's judgment, advice of lease consultants, and early negotiations with landlords At December 31, 2004, 57 leases remained to be terminated The liability also includes the estimated costs to deconstruct the existing sites, which are based upon quotes from contractors This amount could vary significantly from the actual amount incurred.

Source: XM SATELLITE RADIO H, 10-K, March 04, 2005

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(f) GM Distribution Agreement

The Company has a long-term distribution agreement with OnStar, a subsidiary of General Motors. During the term of the agreement, which expires 12 years from the commencement date of the Company's commercial operations, GM has agreed to distribute the service to the exclusion of other S-band satellite digital radio services. The Company will also have a non-exclusive right to arrange for the installation of XM radios included in OnStar systems in non-GM vehicles that are sold for use in the United States 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 are due to GM and confirming the date of the Company's commencement of commercial operations, and to provide that the Company may make certain payments to GM in the form of indebtedness or shares of the Company's Class A common stock The Company's total cash payment obligations were not increased The Company has significant annual, fixed payment obligations to GM. As a result of the June 2002 amendment, the Company commenced recognizing these fixed payment obligations for the period ending through November 2005, which approximate $63 6 million, on a straight-line basis However, due to the January 2003 amendment to the Distribution Agreement and GM's roll out plans which demonstrated a likelihood of GM exceeding minimum installation targets, in 2003 the Company began prospectively recognizing these fixed payments due under the Distribution Agreement, which approximate $397.3 million, on a straight-line basis through September 2013, the remaining term of the agreement The Company issued a 10% Senior Secured Convertible Note due 2009 with an aggregate principal amount of $89 0 million, to OnStar in lieu of making these fixed payments to OnStar for amounts otherwise due in 2003 through 2006 The fixed payments due to be paid in years 2007, 2008 and 2009 are $80 7 million, $106.7 million and $132 9 million, respectively As described in Note 3, in February 2004, the Company completed the redemption of the note through repayment of a portion with cash and GM's conversion of a portion of the principal amount into the Company's Class A common stock The Company has recorded $22.3 million of current prepaid expense to related party and $22 3 million of non-current prepaid expense to related party in connection with the guaranteed fixed payments in the consolidated balance sheet at December 31, 2004

In order to encourage the broad installation of XM radios in GM vehicles, the Company has agreed to subsidize a portion of the cost of XM radios, and to make incentive payments to GM when the owners of GM vehicles with installed XM radios become subscribers to the Company's service. The Company must also share with GM a percentage of the subscription revenue attributable to GM vehicles with installed XM radios, which percentage increases until there are more than 8 million GM vehicles with installed XM radios (at which point the percentage remains constant) During the second quarter of 2004, a clarification was agreed to by XM and Onstar relating to the implementation of certain aspects of revenue sharing contained within the distribution agreement Accordingly, the revenue share expense is recognized as the related subscription revenue is earned. The Company recorded $3 6 million of current prepaid expense to related party and $8.9 million of non-current prepaid expense to related party in connection with this revenue sharing arrangement in the consolidated balance sheet at December 31, 2004 As part of the agreement, OnStar provides certain call-center related services directly to XM subscribers who are also OnStar customers and the Company must reimburse OnStar for these XM-related call center services The agreement is subject to renegotiation at any time based upon the installation of radios that are compatible with a common receiver platform or capable of receiving Sirius Satellite Radio's service. The agreement is subject to renegotiation if as of November 2005, and at two-year intervals thereafter, GM does not achieve and maintain specified installation levels of GM vehicles capable of receiving the Company's service The specified installation level of 1,240,000 units by November 2005 was achieved in 2004 The specified installation levels in future years will increase by the lesser of 600,000 units per year or amounts proportionate to target market shares in the satellite digital radio service market. There can be no assurances as to the outcome of any such renegotiations General Motors' exclusivity obligations will discontinue if, by

Source. XM SATELLITE RADIO H, 10-K, March 04, 2005

November 2005 and at two-year intervals thereafter, the Company fails to achieve and maintain specified minimum market share levels in the satellite digital radio service market. As of December 31, 2004, 2003 and 2002 the Company incurred total costs of $159.4 million, $108 3 million and $30 1 million, respectively, under the distribution agreement

(g) 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. During the years ended December 31, 2004, 2003 and 2002, the Company incurred costs of $0.9 million, $0.6 million and $0, respectively, in relation to this agreement The costs related to the joint development agreement are being expensed as incurred in research and development. The Company is currently unable to determine the expenditures necessary to complete this process, but they may be significant.

Pursuant to the joint development agreement, in November of 2003, XM and Sirius formed a limited liability company for the purpose of developing a common receiver platform for satellite radios

(h) 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, 2004, 2003, and 2002, the Company incurred expenses of $94 5 million, $56 3 million, and $55 7 million respectively, in relation to these agreements, excluding the GM distribution agreement 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 revenue increase.

(i) 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, 2004, 2003, and 2002, the Company incurred expenses of $26 5 million, $19 6 million and $20 3 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 amount of the costs related to these agreements cannot be estimated, but future costs are expected to be substantial

In October 2004, the Company announced a multi-year agreement with Major League Baseball to broadcast MLB games live nationwide and to become the Official Satellite Radio provider of Major League Baseball The Company will pay up to $50 million for 2005 and $60 million per year thereafter through 2012, with $120 million to be deposited into escrow in 2005 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 paid $10 million to MLB in October 2004 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

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

(j) Royalty Agreements

The Company has entered into fixed and variable revenue share payment agreements with performance rights organizations that expire as late as 2006. During the years ended December 31, 2004, 2003 and 2002, the Company incurred expenses of $13.7 million, $9.5 million and $9 5 million, respectively, in relation to these agreements.

(k) Warrants

Sony Warrant

In February 2000, the Company issued a warrant to Sony exercisable for shares of the Company's Class A common stock The warrant would have vested, if at all, at the time that the Company reached its one-millionth customer and the number of shares underlying the warrant would have been determined by the percentage of XM Radios that had a Sony brand name as of the vesting date. If Sony had achieved its maximum performance target, the warrant would have been exercisable for 2% of the total number of shares of the Company's Class A common stock on a fully-diluted basis. The exercise price of the Sony warrant would have equaled 105% of fair market value of the Class A common stock on the vesting date, determined based upon the 20-day trailing average. When the measurement date was reached, Sony had not achieved the minimum performance target, and therefore, none of the warrants were vested. The Company reversed the non-cash compensation expense that had been recorded related to these warrants in the third quarter of 2003. For the years ended December 31, 2004, 2003 and 2002, the Company recognized $0, $(339,000) and $208,000, respectively, in non-cash compensation expense

CNBC Warrant

In May 2001, the Company granted a warrant to purchase 90,000 shares of Class A common stock consisting of three 30,000 share tranches to purchase shares at $26 50 per share, which expire in 11, 12, and 13 years, respectively. The warrants began to vest on September 25, 2001 when the Company reached its commercial launch and became vested on September 1, 2002, 2003, and 2004, respectively. For the years ended December 31, 2004, 2003 and 2002, the Company recognized $191,000, $942,000 and $(156,000), respectively, in non-cash compensation expense related to these warrants.

Source· XM SATELLITE RADIO H, 10-K, March 04, 2005

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

(l) Leases

The Company has noncancelable operating leases for office space and terrestrial repeater sites and noncancelable capital leases for equipment that expire over the next ten years Additionally, the Company owns a building and leases a portion of the space to other entities The future minimum lease payments and rentals under noncancelable leases as of December 31, 2004 are (in thousands)·

	Capital Lease Payments	Operating Lease Payments	Rental Income
Year ending December 31:			
2005	$ 3,717	$ 16,831	$ 1,858
2006	2,708	7,109	1,862
2007	225	4,723	1,831
2008	—	2,773	1,809
2009	—	2,555	1,961
Thereafter	—	3,081	20,561
Total	6,650	37,072	$ 29,882
Less amount representing interest	(463)		
Present value of net minimum lease payments	6,187		
Less current maturities	(3,378)		
Long-term obligations	$ 2,809		

Rent expense for 2004, 2003 and 2002 was $17.8 million, $22 6 million, and $19.9 million, respectively.

As discussed in Note 16(e), in December 2001, the Company determined that the planned number of terrestrial repeater sites could be reduced due to the relative signal strength provided by the Company's satellites In 2001, the Company recognized a charge of $26 3 million with respect to the terrestrial repeater sites no longer required This charge included a lease termination accrual of $8 6 million for 646 terrestrial site leases, which reduced the future minimum lease payments In 2004, 2003 and 2002, the Company recognized charges of $47,000, $4 8 million and $4 0 million, respectively, for additional costs associated with terminating leases on sites no longer required

(m) Service Providers

The Company has entered into an agreement with a service provider for customer care functions to subscribers of its service. Employees of the service provider have access to the Company's customer care systems to establish customer accounts, activate radios, update program and account information and respond to general inquires from subscribers. The Company pays its service provider an hourly rate for each customer care representative supporting its subscribers. During the years ended December 31, 2004, 2003, and 2002, the Company incurred $21.5 million, $14 2 million and $8.7 million, respectively, in relation to services provided for customer care functions The Company changed service providers during 2003

Source· XM SATELLITE RADIO H, 10-K, March 04, 2005

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

(17) Quarterly Data (Unaudited, in thousands except per share amounts)

	2004			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 42,965	$ 52,982	$ 65,358	$ 83,140
Operating loss	(117,850)	(112,918)	(100,580)	(129,692)
Net Loss	(170,079)	(166,094)	(117,994)	(188,201)
Net loss attributable to common stockholders	(172,434)	(168,243)	(120,143)	(190,350)
Net loss per common share—basic and diluted	$ (0 96)	$ (0 84)	$ (0.59)	$ (0.93)

The sum of quarterly per share net losses does not agree to the net loss per share for the year due to the timing of stock issuances

	2003			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 13,052	$ 18,321	$ 26,913	$ 33,495
Operating loss	(106,770)	(116,830)	(100,075)	(130,783)
Net Loss	(126,282)	(161,856)	(133,448)	(162,949)
Net loss attributable to common stockholders	(124,011)	(164,330)	(145,617)	(170,195)
Net loss per common share—basic and diluted	$ (1.26)	$ (1.38)	$ (1.12)	$ (1.12)

The sum of quarterly per share net losses does not agree to the net loss per share for the year due to the timing of stock issuances The sum of quarterly net losses attributable to common stockholders does not equal the annual amount due to the impact of the implementation of the additional guidance on Topic D–42, *The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock.* This guidance was effective in fiscal periods ending after September 15, 2003 and was retroactively reflected in the financial statements of prior quarters. This guidance resulted in a reduction of the gains recorded on the retirement of the Company's Series B preferred stock during the three months ended March 31, 2003 and June 30, 2003, of $453,000 and $274,000, respectively, to reflect the amount of the issuance costs of the preferred stock retired.

	2002			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 1,785	$ 3,839	$ 5,552	$ 9,005
Operating loss	(98,361)	(103,869)	(95,673)	(140,877)
Net Loss	(112,250)	(117,205)	(109,646)	(155,911)
Net loss attributable to common stockholders	(117,746)	(122,415)	(114,712)	(160,998)
Net loss per common share—basic and diluted	$ (1.56)	$ (1.38)	$ (1.26)	$ (1.76)

The operating loss during the 4th quarter of 2002 of $140 9 million includes an impairment charge of $11 5 million as described in note 5. In addition, the operating loss includes a charge of $8.0 million as a result of completion of negotiation for performance rights royalties, which includes the period from commencement of commercial operations

Source: XM SATELLITE RADIO H, 10–K, March 04, 2005

Schedule I—Valuation and Qualifying Accounts
(in thousands)

Description	Balance January 1	Charged to Costs and Expenses	Charged to Other Accounts Equity Adjustment	Write-Offs/ Payments/ Other	Balance December 31
Year Ended December 31, 2002					
Allowance for doubtful accounts	$ 10	493	—	(262)	$ 241
Deferred tax assets—valuation allowance	$ 135,049	193,307	—	—	$ 328,356
Accrued network optimization expenses	$ 8,595	4,013	—	(10,407)	$ 2,201
Year Ended December 31, 2003					
Allowance for doubtful accounts	$ 241	2,077	—	(1,522)	$ 796
Deferred tax assets—valuation allowance	$ 328,356	204,722	—	—	$ 533,078
Accrued network optimization expenses	$ 2,201	4,842	—	(2,907)	$ 4,136
Year Ended 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
Accrued network optimization expenses	$ 4,136	47	—	(2,035)	$ 2,148

Source XM SATELLITE RADIO H, 10-K, March 04, 2005

Exhibit 23.1

Consent of Independent Registered Accounting Firm

The Board of Directors
XM Satellite Radio Holdings Inc :

We consent to the incorporation by reference in the registration statements Nos 333-47570, 333-93529, 333-89132, 333-85804, 333-102966, 333-106824, 333-102964, 333-121417, 333-121415 and 333-114178 on Forms S-3; No. 333-115323-01 on Form S-4; and Nos. 333-92049, 333-65022, 333-65020, 333-97611 and 333-106827 on Form S-8 of XM Satellite Radio Holdings Inc and subsidiaries of our reports dated March 4, 2005 with respect to the consolidated balance sheets of XM Satellite Radio Holdings Inc and subsidiaries as of December 31, 2004 and 2003 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2004, the related consolidated financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004, and the effectiveness of internal control over financial reporting as of December 31, 2004, which reports appear in the December 31, 2004 annual report on Form 10-K of XM Satellite Radio Holdings Inc.

/s/ KPMG LLP

McLean, VA
March 4, 2005

Exhibit 31.1

CERTIFICATIONS

I, Hugh Panero, President and 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 4, 2005

/s/ HUGH PANERO
Hugh Panero
President and Chief Executive Officer

Exhibit 31.2

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 4, 2005

/s/ JOSEPH EUTENEUER

Joseph Euteneuer
Executive Vice President and Chief Financial Officer

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 President and 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, 2004 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
President and Chief Executive Officer
March 4, 2005

/s/ JOSEPH EUTENEUER

Joseph Euteneuer
Executive Vice President and Chief Financial Officer
March 4, 2005

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.

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FORM 10-K

XM SATELLITE RADIO HOLDINGS INC - XMSR

Filed: March 03, 2006 (period: December 31, 2005)

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

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For The Fiscal Year Ended December 31, 2005

Commission file number 000-27441

XM SATELLITE RADIO HOLDINGS INC.

(Exact name of registrant as specified in its charter)

DELAWARE	54-1878819
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1500 ECKINGTON PLACE NE,
WASHINGTON, DC 20002-2194
(Address of principal executive offices) (Zip code)

202-380-4000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Not Applicable

Securities registered pursuant to Section 12(g) of the Act:
Class A Common Stock, $.01 par value
8 25% Series B Convertible Redeemable Preferred Stock, $.01 par value
(Title of Classes)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes ☒ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Exchange Act Rule 12b-2)

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐

Indicate by check mark whether the 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 the registrant, based upon the closing price of the registrant's Class A common stock as of June 30, 2005, is $7,469,194,055

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, 2006)
CLASS A COMMON STOCK, $0 01 PAR VALUE	257,939,646 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 26, 2006, 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.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
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FORWARD-LOOKING STATEMENTS

Except for any historical information, the matters we discuss in this Form 10-K contain forward-looking statements. Any statements in this Form 10-K that are not statements of historical fact, are intended to be, and are, "forward-looking statements" under the safe harbor provided by Section 27(a) of the Securities Act of 1933. Without limitation, the words "anticipates," "believes," "estimates," "expects," "intends," "plans" and similar expressions are intended to identify forward-looking statements The important factors we discuss below and under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as other factors identified in our filings with the SEC and those presented elsewhere by our management from time to time, could cause actual results to differ materially from those indicated by the forward-looking statements made in this Form 10-K.

EXPLANATORY NOTE

This annual report is filed by XM Satellite Radio Holdings Inc (the "Company", "Holdings", or "XM") Unless the context requires otherwise, the terms "we," "our" and "us" refer to Holdings and its subsidiaries Holdings' principal subsidiary is XM Satellite Radio Inc. ("Inc "), which is filing a separate annual report with the SEC.

This annual report and all other reports and amendments filed by us with the SEC can be accessed, free of charge, through our website at **http://www.xmradio.com/investor/investor_financial_and_company.html** on the same day that they are electronically filed with the SEC.

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 6 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, our many commercial-free music channels and digital sound quality.

The full channel lineup as of January 31, 2006 includes over 160 channels, featuring 67 commercial-free music channels; 34 news, talk and entertainment channels, 39 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. 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 the latest receivers such as SkyFi 2, XM2go and Roady XT.

XM offers commercial-free music channels covering genres including Decades, Country, Pop & Hits, Christian, Rock, Hip-Hop/Urban, Jazz & Blues, Lifestyle, Dance, Latin, World and Classical Our programming includes the most popular hits, as well as deep and eclectic playlists XM's original exclusive music programming features our Artist Confidential series showcasing performances and interviews from artists such as Paul McCartney, Coldplay, Santana, Phil Collins and Bonnie Raitt in our studios in front of a live audience In total we have hosted more than 1,000 live performances at XM. We also offer music programming featuring celebrity talent. Bob Dylan will host a new music show beginning in Spring 2006. We recently named Snoop Dogg executive producer of our classic hip-hop channel The Rhyme Other shows include Tom Petty's Buried Treasure and Quincy Jones' From Bebop to Hip-Hop XM also broadcasts live from major music events. In July 2005, we dedicated seven XM channels to broadcast more than 55 hours of concert performances from the global concert event, LIVE 8 (held in London, Paris, Rome, Berlin, Philadelphia and Toronto)

XM currently provides over 5,000 live sports programming events annually and the most sports talk and live sports coverage in radio We are the Official Satellite Radio Network of Major League Baseball® ("MLB") and offer our 24x7 MLB Homeplate channel, as well as play-by-play channels, and Spanish-language broadcasts We recently announced a multi-year agreement to become the exclusive satellite radio network of the National Hockey League® beginning with the 2007-2008 season. We broadcast college football and men's and women's basketball from the Atlantic Coast, Pacific-10, Big East and Big Ten Conferences. During 2005, we launched our PGA Tour® Channel and XM Deportivo, which features Hispanic sports and the 2006 FIFA World Cup™. Motor sports coverage includes our NASCAR channel and the Indy Racing League races. New shows in 2006 will feature NASCAR drivers Jimmie Johnson and Dale Earnhardt, Jr. We also offer US Open Tennis coverage Our sports talk lineup is complemented by ESPN and Fox Sports

In February 2006, we announced an exclusive, three-year, $55 million agreement to launch the new Oprah & Friends channel, which will feature a weekly radio show with Oprah Winfrey and Gayle King. This channel will debut in September 2006 and include regular segments hosted by personalities from The Oprah Winfrey Show and O, The Oprah Magazine. Oprah & Friends will complement our current women's interest channel Take Five, which features the Ellen DeGeneres Show, the Tyra Banks Show, the Food Network, HGTV and, in 2006, the Good Morning America Radio Show.

We offer premium news/talk programming including Fox News, Fox Talk, CNN, CNN Headline News, ABC News & Talk and MSNBC. We feature business news from CNBC and Bloomberg as well as public affairs programming on our XM Public Radio channel, BBC Worldservice and C-SPAN. We are the exclusive satellite radio provider of Air America, featuring Al Franken We serve the African American audience with The Power and the Hispanic audience with CNN en Español We offer three comedy channels as well as the High Voltage channel, which features The Opie & Anthony Show

Our 21 Instant Traffic & Weather channels are powered by Traffic com and The Weather Channel and report continuously updated information from major markets such as New York, Los Angeles, Chicago and Washington, DC

Our target market is the over 230 million registered vehicles and 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 markets Our service has achieved broad listener appeal across subscribers of different ages.

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

Broad distribution of XM Radio through the new automobile market is a central element of our business strategy. We are the leader in satellite-delivered entertainment and data services for the automobile market through partnerships with General Motors, Honda/Acura, Toyota/Lexus/Scion, Hyundai, Nissan/Infiniti, Porsche, Suzuki, and Isuzu. XM Radio is available in more than 130 different vehicle models for model year 2006 Through an exclusive arrangement with us, General Motors, an investor in our company, currently offers XM Radio in various makes and models, including passenger cars, light trucks and SUVs, and for the 2006 model year expanded the XM Radio factory-installed option to over 55 models, including Buick, Cadillac, Chevrolet, GMC, HUMMER, Pontiac, Saab and Saturn brand vehicles. In September 2005, General Motors announced that it had produced its three millionth vehicle with factory-installed XM Radio Honda, also an investor in our company, currently offers XM Radio in certain Honda and most Acura models as a factory-installed feature and in other Honda models as a dealer-installed option In March 2005, we and Hyundai Motor America announced that it will be the first automaker to launch XM as standard, factory-installed equipment in every vehicle across its entire model line-up. Nissan/Infiniti, Audi and Porsche offer XM Radio as a factory-installed or dealer-installed option in certain vehicle models while Toyota/Lexus/Scion and Suzuki currently offer XM Radio as a dealer-installed option Lexus will introduce their first vehicle with factory-installed XM Radio later in 2006, and the Scion xB Release Series 3 0, launched in February 2006, is the first Toyota Motor Sales vehicle to come standard with XM Radio. In addition, in 2005, Nissan/Infiniti chose XM as its exclusive supplier of satellite radio and satellite-delivered data and telematics services, such as in-vehicle messaging and XM NavTraffic beginning in the 2008 model year, with the factory-installed data services beginning in 2006 on select models Also, beginning in the 2006 model year, Harley-Davidson became the first manufacturer of motorcycles to offer XM Radio as an option on all six bikes in its touring lineup, including as standard equipment on their Screamin' Eagle Ultra Classic Electra Glide.

XM radios are available in the aftermarket under the Delphi, Pioneer, Alpine, Audiovox, Tao, 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

XM radios incorporate a proprietary chipset, designed by our own technology and innovation team in conjunction with others, to decode the signal from our satellites and repeaters Our advancing chipset design has spawned a broad array of XM Radio products, including units significantly smaller and much less expensive than the first generation models Many XM radios now feature customizable sports and stock tickers as well as TuneSelect, which notifies the listener when a favorite artist or song is playing on XM The latest line of XM radios includes handheld units with memory features.

We have created brand awareness through the many ways in which potential subscribers can experience the XM service. The XM radios in General Motors, Honda/Acura, and Porsche vehicles come pre-activated with service so dealers can offer the XM experience to new car prospects during vehicle test drives and to new car purchasers during the vehicle delivery process. We market our service online through arrangements with Napster and America Online ("AOL") XM Radio also is available in many AVIS, Alamo, National and Zipcar rental cars and on AirTran and JetBlue airplanes. We have an exclusive multi-year strategic marketing alliance with Starbucks, which include the Starbucks Hear Music channel on XM and a multi-artist music compilation CD series.

In addition to our over 160 channel subscription service, our subscribers have online access to more than 85 of our channels over the Internet. We also offer a new online service through our arrangement with AOL, and provide online music purchase and playlist management capability with Napster On November 15, 2005, 72 channels of XM's music, children's, and talk programming was made available to DIRECTV®'s over 14.6 million customers. In addition to music channels, we also offer DIRECTV®'s customers XM's MLB Home Plate talk radio channel and XM's High Voltage channel, featuring talk radio stars Opie and Anthony.

XM has also been the leader in satellite-based data services with a range of products and services, using specialized hardware that expands the potential XM market opportunity. XM NavTraffic, the nation's first satellite traffic data service, provides continuously updated real-time traffic information 24/7 on traffic incidents and flow (average speed) information for 22 major metropolitan cities, expanding to 31 in early 2006, across the United States for a monthly fee and is available today as a feature on the Acura RL, the Cadillac CTS, and various after market products made by companies such as Garmin, Alpine and Pioneer. For marine and aviation, the XM WX satellite weather service provides real-time graphical weather data for advanced situational awareness of prevailing weather conditions Certified avionics from Garmin, Rockwell Collins, and Avidyne enable the XM WX service as a factory available option on over 80 percent of all new light aircraft built today

We transmit the XM Radio signal throughout the continental United States from our two satellites ("XM-1") and ("XM-2"), collocated at 115° West Longitude, and our third satellite ("XM-3"), launched in February 2005 and placed into orbit at 85° West Longitude. In the second half of 2006, we plan to launch another satellite ("XM-4") to replace the collocated XM-1 and XM-2 satellites, which will then become in-orbit spares for a limited period of time We also have a network of approximately 800 terrestrial repeaters, which receive and re-transmit the satellite signals in 60 markets to augment our satellite signal coverage where it might otherwise be affected by buildings, tunnels or terrain. We hold one of only two licenses issued by the Federal Communications Commission to provide satellite digital audio radio service in the United States.

In November 2005, Canadian Satellite Radio, operating under the name XM Canada, our exclusive Canadian licensee, launched its satellite radio service in Canada for a monthly subscription fee of CDN$12 99. XM Canada's 85 channel line-up includes XM's digital-quality commercial-free music, exclusive Canadian channels highlighting Canadian artists, National Hockey League® play-by-play coverage of more than 40 games per week, and news/talk. For a further discussion of XM Canada, see the caption entitled "*Strategic Transactions in 2005* "

The Demand for Satellite Radio

Based on our experience in the marketplace to date, as well as market research, we believe that there is a significant demand for our satellite radio service.

Consumer response to our service has been positive. As of December 31, 2005, we had over 5.9 million subscribers. 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.

Marketing

Our marketing strategy is designed to build awareness and demand among potential subscribers in our target markets and the advertising community Our strategy also includes providing potential subscribers with the opportunity to experience the XM service, because it is available to new car prospects during vehicle test drives of XM-enabled General Motors, Honda/Acura, and Porsche vehicles, on AVIS, Alamo, National and Zipcar rental cars and on AirTran and JetBlue airplanes In addition, we have partnered with Starbucks, AOL, Napster and DIRECTV® to build awareness of XM amongst their customer bases.

We promote XM Radio as the leader in the satellite radio category, offering appealing features compared to traditional radio. Our ongoing advertising and promotional activities include television, radio, print and Internet advertising and distributing sample programming and marketing materials at retail outlets, concert venues, motor sports events, and on the Internet to generate consumer interest. General Motors and Honda sponsor national and local print and television advertising that features the XM logo and message. Our 2005 holiday season "Listen Large" marketing campaign featured TV spots with Ellen DeGeneres, Snoop Dogg, Derek Jeter, David Bowie and Martina McBride.

In 2005, we began leveraging our extensive sports broadcasting offerings and exclusive relationships with Major League Baseball®, the PGA Tour® and the Indy Racing League to attract new subscribers. We promoted our "every team, all season long" coverage of Major League Baseball® to highlight the more than 2,500 spring training, regular season and playoff games we broadcast during the 2005 season and offered a free Delphi XM Roady XT satellite radio to every fan at Game One of the 2005 World Series in Chicago We promoted our exclusive relationship with the PGA Tour® by offering handheld radios for rental and purchase at PGA events. We also sponsor the No 7 XM Satellite Radio Dallara/Honda/Firestone race car driven by Bryan Herta of Andretti Green Racing, who won the Firestone Indy 400 in 2005 In 2005, we also launched XM Deportivo featuring Hispanic sports and the 2006 FIFA World Cup™

XM Radio promotes subscriber acquisition activities with both automobile original equipment and aftermarket radio manufacturers These include.

- promotional campaigns directed towards automobile manufacturers and dealers;
- in-store promotional campaigns, including displays located in electronics, music and other retail stores, rental car agencies and automobile dealerships,
- incentive programs for retailers, and
- jointly funded local advertising campaigns with retailers.

Source. XM SATELLITE RADIO H, 10-K, March 03, 2006

Distribution

We market our satellite radio service through several distribution channels including automotive manufacturers and dealers, national and regional electronics retailers, car audio dealers and mass retailers and rental car companies.

Automotive Manufacturers and Dealers

XM Radio is available as original equipment in over 130 vehicle models for 2006.

Exclusive Distribution Agreement with General Motors Under our agreement with OnStar Corporation, a subsidiary of General Motors, for a 12-year period ending in September 2013, General Motors will exclusively distribute and market the XM Radio service and install XM radios in General Motors vehicles General Motors sold over 4 5 million automobiles in 2005, which represented more than 26 percent of the United States automobile market. General Motors currently offers XM Radio in over 55 models of the 2006 model year, including passenger cars, light trucks and SUVs GM factory-installs the XM Radio option in Buick, Cadillac, Chevrolet, GMC, HUMMER, Saturn, Saab and Pontiac brand vehicles In September 2005, General Motors announced that it had produced its three millionth vehicle with factory-installed XM Radio. General Motors has made XM radios available in diverse price categories, ranging from the Chevy Cobalt to the Cadillac Escalade. Under this agreement, we have substantial payment obligations to General Motors, including substantial guaranteed fixed payment obligations (2007 to 2009) General Motors is an investor in our company.

Honda. We have a distribution agreement with Honda, which currently offers XM Radio in 14 models, including the Honda Accord, Civic, Pilot, Accord Hybrid, Odyssey, Ridgeline, and Element and Acura RL, TL, TSX and MDX as a factory-installed feature and in the Civic Hybrid, S2000, CR-V and other models as a dealer-installed option In October 2005, we announced that American Honda plans to factory-install over 550,000 of its 2006 models with XM Radio AcuraLink TM, which utilizes XM's NavTraffic service to provide drivers real time traffic information for freeways in 22 major metropolitan areas, is factory-installed on all Acura RLs and will be available on the all new 2007 Acura RDX. American Honda is an investor in our Company

Toyota. During 2004, Toyota and XM entered into a distribution agreement whereby Toyota, Lexus and Scion will offer XM Radio and traffic data services exclusively as a factory-installed option beginning with Lexus in the 2007 model year Toyota offers XM Radio as a dealer-installed option in 16 of its 2006 models including the Camry, Land Cruiser, Solara, Avalon, Scion xA, xB and tC and Lexus GS450h, GS 430, ES 330, LS 430 and LX 470 In 2006, Scion produced the first Toyota Motor Series vehicles with XM as a standard feature beginning with the February launch of Scion xB Release Series 3 0.

Hyundai. In 2005, we and Hyundai Motor America announced that Hyundai will be the first automaker to launch XM as standard, factory-installed equipment in every vehicle across its entire model line-up Starting in 2006, XM radios will be factory-installed in Hyundai models, beginning with the Sonata, Santa Fe, Elantra and the Azera

Nissan In 2005, Nissan chose XM to supply satellite-delivered data and telematics services, such as in-vehicle messaging and XM NavTraffic, and later in the year, agreed to use XM as its exclusive satellite radio provider beginning in the 2008 model year. Currently, XM is available on 19 Nissan and Infiniti model cars as a factory or dealer installed option, including such popular models as the Nissan Altima and Infiniti G35. Infiniti will also begin to offer XM NavTraffic in mid 2006

Other Automobile and Truck Manufacturers Isuzu, Suzuki and Porsche offer XM Radio as either a dealer and/or factory-installed option in numerous popular make and models including the all new Porsche Cayenne, Isuzu Ascender and Suzuki Grand Vitara. We are continuing to seek additional distribution agreements with other car manufacturers as well as large independent dealer groups 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

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. Our service can also be added as an accessory feature to the Advanced Audio System found standard on Harley-Davidson's other five bikes in its 2006 touring lineup

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

Brand Awareness and Other Distribution Arrangements

National and Regional Retail Electronics Distributors XM radios and XM-ready radios are available under the Delphi, Pioneer, Alpine, Audiovox, Tao, Panasonic, Sony, Polk and etón/Grundig brand names and are marketed and distributed together with the XM Radio service through major consumer electronics retail channels, including Best Buy, Circuit City, Wal-Mart and other national and regional retailers We develop in-store merchandising materials, including end-aisle displays for several retailers, and train the sales forces of all major retailers

Canadian Satellite Radio ("XM Canada"). In November 2005, Canadian Satellite Radio, our exclusive Canadian licensee, launched its satellite radio service in Canada for a monthly subscription fee of CDN$12 99 XM Canada's 85 channel line-up includes XM's digital-quality commercial-free music, National Hockey League® play-by-play coverage of more than 40 games per week plus 24x7 sports talk channel "Home Ice," and eight exclusive Canadian channels highlighting Canadian music artists and composers and Canadian news programming, as mandated by the terms of the license granted to XM Canada by the Canadian regulatory authority

XM + Napster. In 2005, we announced a long-term, strategic partnership with Napster "XM + Napster" provides a single interface for accessing, purchasing and managing music from XM and Napster Listeners can purchase music heard on XM Radio from Napster to listen to on their XM Satellite/MP3 players for a portable listening experience

America Online ("AOL"). In 2005, we and America Online created a new online radio service. The co-branded service includes a free, web radio offering and an enhanced premier radio offering that is available to AOL members at no additional charge and as a premium service to consumers on the web We also integrate select AOL original programs such as AOL Sessions into our programming.

Starbucks We have an exclusive multi-year strategic marketing alliance with Starbucks, which includes the Starbucks Hear Music channel on XM. XM programming from the Hear Music channel can be heard in more than 4,600 Starbucks retail locations in the U S In addition, we are co-producing a multi-artist music compilation CD series available at Starbucks locations The Hear Music XM Radio Sessions is the latest project in our CD series

Online offerings. With our 2005 partnership with Audible, we launched the This is Audible Show on Sonic Theatre as well as The XM Audible Store, which offers audio books and other programs for individual purchase or download subscription, including XM programming from The Bob Edwards Show and Opie & Anthony

Rental Cars XM Radio is available nationwide at participating Avis, National, Alamo and Zipcar car rental locations. Rental car companies currently offer XM service in approximately 44,000 vehicles.

Airplanes XM Radio is now available on AirTran and JetBlue airplanes.

Hotels In 2005, we signed a multi-year agreement with Hyatt Hotels Corporation to provide XM Radio in approximately 50,000 Hyatt guest rooms nationwide

Expanding Product Configurations We further expanded our product line in 2005

XM2go Portable, Handheld Products 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

Source· XM SATELLITE RADIO H, 10-K, March 03, 2006

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 22 major metropolitan cities, expanding to 31 in early 2006, 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 2006 International Consumer Electronics Show ("CES"), XM demonstrated the next steps in advanced applications featuring live and cached video, conversational speech interaction, XM ParkingLink for dynamic parking space availability information for navigation systems, and the XM WeatherLink for real–time weather threat interpretation for a navigation system

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.

The XM Satellite Radio Service

Our satellite radio channel offering includes channels designed to appeal to different groups of listeners, including urban and rural listeners of different ages, 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

Source· XM SATELLITE RADIO H, 10–K, March 03, 2006

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The following is a list of channels included in our satellite radio service offering as of January 31, 2006

	Channel Name	Channel Description
Preview	XM Preview	XM Preview
Decades	The '40s	Big Band/Swing/Forties
	The '50s	Fifties Hits
	The '60s	Sixties Hits
	The '70s	Seventies Hits
	The '80s	Eighties Hits
	The '90s	Nineties Hits
Pop & Hits	Top 20 on 20	Top 20 Hits
	KISS	Contemporary Hits
	MIX	Modern Adult Hits
	The Heart	Love Songs/Lite Pop
	Sunny	Beautiful Music
	The Blend	Adult Contemporary Hits
	Cinemagic	Movie Soundtracks
	On Broadway	Show Tunes
	U-Pop	International Hits
Christian	The Torch	Christian Rock
	The Fish	Christian Pop
	Spirit	Gospel
Country	America	Classic Country
	Nashville!	'90s & Today's Country
	X Country	Americana
	Hank's Place	Traditional Country
	Bluegrass Junction	Bluegrass
	The Village	Folk
	Highway 16	New Country Hits
Rock	Deep Tracks	Deep Classic Rock
	Boneyard	Hard Rock
	XMU	Indie/College Rock
	Fred	Classic Alternative
	XM Café	Adult Album Rock
	Top Tracks	Classic Rock Alternative Rock
	Ethel	Alternative Rock
	Squizz	New Hard Rock
	The Loft	Acoustic Rock
	XM Music Lab	Jam Bands/Progressive
	(un)Signed	New/Emerging/Now
	Fungus	Punk/Hardcore/Ska
	Lucy	Alternative Hits
Hip-Hop/ Urban	Soul Street	Classic Soul
	The Flow	Neo Soul
	Suite 62	Adult R&B Hits
	The Groove	Old Skool R&B
	The Rhyme	Snoop Dogg's Classic Hip-Hop/Rap
	RAW	New Uncut Hip-Hop
	The City	Urban Contemporary
Jazz & Blues	Real Jazz	Traditional Jazz
	Watercolors	Smooth Jazz
	Beyond Jazz	Modern Jazz
	Frank's Place	American Standards
	Bluesville	Blues
Lifestyle	Hear Music™	The Voice of Music at Starbucks
	Fine Tuning	Eclectic/Freeform
	Audio Visions	New Age

	Channel Name	Channel Description
Dance	The Move	House/Progressive
	BPM	Dance Hits
	The System	Electronica
	Chrome	Disco/Classic Dance
Latin	Alegria	Raggaeton/Latin Hits
	Aguila	Regional Mexican
	Caliente	Tropical
	Luna	Latin Jazz
World	Air Musique	New & Emerging Music
	The Joint	Reggae
	Sur La Route	Pop Hits

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

Classical	XM Classics	Traditional Classical
	Vox	Opera/Classical Vocals
	XM Pops	Classical Pops

Kids	Radio Disney	Children
	XM Kids	Children

News	Fox News	News
	CNN	News
	CNN Headline News	Headline News
	ABC News & Talk	News & Talk
	The Weather Channel	24 Hr Weather Radio
	CNBC	Politics & Business News
	Bloomberg Radio	Business News
	MSNBC	News & Business
	BBC World Service	World News
	C-SPAN Radio	World Affairs
	XM Public Radio	US Gov't & Public Affairs Public Radio
	Canada 360	News and Information
	Quoi De Neuf	News and Information in French
	CNN en Español	News in Spanish

Comedy	XM Comedy	Uncensored Comedy
	Laugh USA	Family Comedy
	Laugh Attack	Uncensored Comedy

Talk & Variety	Extreme XM	Extreme Talk/IndyCar® Series Racing
	Take 5	Women's Talk & Lifestyle
	E!	Entertainment News
	Sonic Theater	Books & Drama
	Radio Classics	Old Time Radio
	Ask	Experts & Advice
	America Right	Conservative Talk
	Air America	Progressive Talk
	FOX News Talk	News Talk
	The Power	African American Talk
	Family Talk	Christian Talk
	Open Road	Truckers' Channel
	Franc Parler	Men's Lifestyle & Sports Talk in French
	XM Live	Concerts/Festivals/Special Events
	High Voltage	The Opie & Anthony Show/ The Ron & Fez Show

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

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	Channel Name	Channel Description
Sports	ESPN Radio	Sports Talk/Play-by-Play Sports
	ESPN News	News
	Fox Sports Radio	Sports Talk
	The Sporting News	Sports News
	NASCAR Radio	NASCAR® Racing/Talk
	PGA Tour Network	The PGA Tour® Network/Live Coverage & Golf Talk
	XM Deportivo	Sports in Spanish/World Cup™ Soccer
	MLB Home Plate	24/7 MLB News & Talk
	MLB play-by-play en Español	MLB play-by-play in Spanish
	Major League Baseball®	MLB play-by-play
	Major League Baseball®	MLB play-by-play
	Major League Baseball®	MLB play-by-play
	Major League Baseball®	MLB play-by-play
	Major League Baseball®	MLB play-by-play
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	Major League Baseball®	MLB play-by-play
	Major League Baseball®	MLB play-by-play
	Major League Baseball®	MLB play-by-play
	Major League Baseball®	MLB play-by-play
	College Sports — ACC	ACC Sports
	College Sports — ACC	ACC Sports
	College Sports — ACC	ACC Sports
	College Sports — PAC-10	PAC-10 Sports
	College Sports — PAC-10	PAC-10 Sports
	College Sports — PAC-10	PAC-10 Sports
	College Sports — Big Ten	Big Ten Sports

	Channel Name	Channel Description
Sports *(cont)*	College Sports — Big Ten	Big Ten Sports
	College Sports — Big Ten	Big Ten Sports
	Home Ice	24/7 Hockey Talk & play-by-play
	National Hockey League®	NHL Hockey play-by-play
	National Hockey League®	NHL Hockey play-by-play
	National Hockey League®	NHL Hockey play-by-play
	National Hockey League®	NHL Hockey play-by-play
	National Hockey League®	NHL Hockey play-by-play
Instant Traffic & Weather	Boston	Local Traffic & Weather
	New York City	Local Traffic & Weather
	Philadelphia	Local Traffic & Weather
	Baltimore	Local Traffic & Weather
	Washington, DC	Local Traffic & Weather
	Pittsburgh	Local Traffic & Weather
	Detroit	Local Traffic & Weather
	Chicago	Local Traffic & Weather
	St Louis	Local Traffic & Weather
	Minneapolis/St Paul	Local Traffic & Weather
	Seattle	Local Traffic & Weather
	San Francisco	Local Traffic & Weather
	Los Angeles	Local Traffic & Weather
	San Diego	Local Traffic & Weather
	Phoenix	Local Traffic & Weather
	Dallas/Ft Worth	Local Traffic & Weather
	Houston	Local Traffic & Weather
	Atlanta	Local Traffic & Weather
	Tampa/St Petersburg	Local Traffic & Weather
	Orlando	Local Traffic & Weather
	Miami/Ft Lauderdale	Local Traffic & Weather
	XM Emergency Alert 24/7	Emergency Information

Hallmarks of our satellite radio channel lineup include:

Broad range of music genres (commercial free) and live radio entertainment We offer numerous channels of music-oriented entertainment Each channel is programmed in its own distinct format, many generally not previously available on radio, and some newly created by us to appeal to emerging listening tastes

Musical formats unavailable in many terrestrial radio markets. XM Radio offers many music formats that are popular but currently unavailable in many markets on radio More than 70 percent of all Americans listening to radio are only listening to six programming formats. news/talk/sports, adult contemporary, contemporary hits, urban, Hispanic and country Furthermore, the number of radio stations available to many consumers in their local market is limited in comparison to the over 160 channels we offer on a nationwide basis. We offer many types of music with significant popularity, as measured by recorded music sales and concert revenues, which are unavailable in many traditional AM/FM radio markets Such music includes classical recordings and popular blues music that have retail appeal but are not commonly played on traditional AM/FM radio We have channels devoted to all of these formats and many other popular musical styles that are not currently heard in many small and medium sized markets, such as heavy metal, modern electronic dance, disco and jazz.

Superserve popular music formats We offer more specific programming choices than traditional AM/FM radio generally offers for even the most popular listening formats For example, on traditional AM/FM radio oldies music is often aggregated on a single format We segment this category by offering several channels devoted to the music of each decade from the 1940s to the 1990s. We also offer seven hip-hop/urban formats and seven country formats and thirteen rock formats

Live Music Programming. We offer diverse original content and live programming for our listeners Our Artist Confidential series has featured performances from artists such as Paul McCartney, Coldplay, Santana, Phil Collins and Bonnie Raitt live in front of a studio audience in our XM Performance Theater In

2005, we offered our listeners the most comprehensive coverage of the LIVE 8 performances from around the world with more than 55 hours of coverage The LIVE 8 broadcast kicked off XM's month-long celebration of live music, JULIVE. We also offered live broadcasts of the 20th Anniversary Farm Aid Concert as well as several hurricane Katrina benefit concerts Our Network LIVE joint venture with AOL and AEG provided live concerts for broadcast on XM with artists such as Madonna, Bon Jovi and Keith Urban

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

Sports Programming XM's sports category provides the most sports talk and live sports coverage in radio. Our lineup features Major League Baseball®, National Hockey League®, NASCAR and motor sports, college sports from the Atlantic Coast Conference, Pacific-10 Conference, Big East Conference and Big Ten Conference, PGA Tour®, XM Deportivo including the 2006 FIFA World Cup™, and is complemented by ESPN Radio, ESPN News, Fox Sports, and Sporting News ESPN Radio offers coverage of certain NBA play-by-play as well as the college football Bowl Championship Series play-by-play

We are the Official Satellite Radio Network of Major League Baseball® ("MLB") and offer our 24x7 MLB Home Plate channel, as well as play-by-play channels, and Spanish-language broadcasts. Through the 2012 baseball season, we will carry both the regular season and the post-season MLB schedule of games, including the World Series Our MLB Home Plate channel features live call-in programs hosted by former players and personalities such as Cal Ripken, Kevin Kennedy, and Rob Dibble, classic MLB games and other archived MLB material.

In 2005, we announced a multi-year agreement with the National Hockey League® ("NHL") to broadcast NHL games live and to become the Official Satellite Radio provider of the NHL The 10-year, $100 million agreement makes XM the exclusive satellite radio network of the NHL beginning with the 2007-2008 season. In addition to providing live play-by-play coverage of more than 1,000 games per season, we have introduced Home Ice, an all hockey talk channel dedicated to providing an inside look at teams, players and the league NHL games and the Home Ice channel also are available in Canada through XM Canada, our exclusive Canadian licensee, which is funding $69 million of this agreement. For a further discussion of XM Canada, see the caption entitled "*Strategic Transactions in 2005*"

Our ACC, PAC-10 and Big Ten channels offer college football and basketball games In February 2006, we announced an agreement with the Big East to provide coverage of men's and women's Basketball Championships as well as select regular season basketball and football games

In the motorsports category, we carry NASCAR and the Indy Racing League races. New shows in 2006 will feature NASCAR drivers Jimmie Johnson and Dale Earnhardt, Jr. XM Deportivo, our Hispanic sports channel, will provide exclusive coverage of the 2006 FIFA World Cup™ We also offer coverage of professional golf on our PGA Tour® Network channel In addition, we provide coverage of US Open Tennis.

News/Talk/Information/Entertainment Programming. In February 2006, we announced an exclusive, three-year $55 million agreement to launch the new Oprah & Friends channel, which will feature a weekly radio show with Oprah Winfrey and Gayle King. This channel will debut in September 2006 and include regular segments hosted by personalities from The Oprah Winfrey Show and O, The Oprah Magazine Oprah & Friends will complement our current women's interest channel Take Five, which features the Ellen DeGeneres Show, the Tyra Banks Show, the Food Network, HGTV and, in 2006, the Good Morning America Radio Show

We offer premium news/talk programming including Fox News, Fox Talk, CNN, CNN Headline News, ABC News & Talk and MSNBC. We feature business news from CNBC and Bloomberg as well as public affairs programming on our XM Public Radio channel, BBC Worldservice and C-SPAN We are the exclusive satellite radio provider of Air America, featuring Al Franken. We serve the African American audience with The Power and Hispanic audience with CNN en Español. We offer three comedy channels as well as the High Voltage channel, 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 in a pattern familiar to listeners Markets served include Baltimore, Chicago, Dallas/Ft Worth, Detroit, Houston, Los Angeles, New York City, Orlando, Philadelphia, Phoenix, Pittsburgh, San Francisco/Oakland, St Louis, Tampa/St. Petersburg, Washington, DC, Boston, Minneapolis/St Paul, Seattle, San Diego, Atlanta and Miami/Ft. Lauderdale 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 include greater in-depth updates, near instant availability due to the pattern of repeating information frequently, 24/7 availability of the service 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, Bill

O'Reilly, Sean Hannity, Alan Colmes, Geraldo Rivera, Brit Hume, Dr. Laura Schlessinger, Greta Van Susteren, Michael Reagan, Al Franken, Janeane Garofolo, Phil Hendrie, Laura Ingraham, Chris Matthews, Jerry Springer 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, and in Nashville at the Country Music Hall of Fame. These interconnected facilities comprise an all digital radio complex that is one of the world's largest, with over 80 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 Our music studios tap a centralized digital database of over 200,000 CDs and more than 1 5 million recordings We also have two performance studios for visiting artist interviews and performances

Dedicated, highly skilled staff. Collectively, our staff hold over 300 gold records reflecting their involvement with the music industry, have more than a thousand years of radio programming experience, 62 record industry awards, 2 Emmy awards, four New York Festival awards and include one Rock and Roll Hall of Fame inductee.

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 will begin to broadcast select channels in 5.1 Surround Sound twenty-four hours a day XM HD Surround, beginning in early 2006, will provide 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 will also be broadcast in XM HD Surround

Channel updates We regularly review and update our channel line up to revise our overall offerings. We will add the Oprah & Friends channel in September 2006. In the first half of 2006, we expect to add certain new channels, including additional commercial-free music channels, to slightly increase our total number of commercial-free music channels In addition, commercial advertisements will resume on music programming currently provided to us by Clear Channel Certain of these changes implement a settlement agreement and are in accordance with the preliminary decision of the arbitration panel for a dispute we had with Clear Channel relating to our respective rights and obligations under agreements entered into in connection with Clear Channel's 1998 investment in us From time to time, we make certain of the content we produce available for broadcast by others, including traditional AM/FM radio stations.

Subscriber and Advertising Revenue

We primarily derive revenues from subscriber fees for our satellite radio service We charge subscribers a monthly fee for over 160 channels of our programming We offer family plan discounts to subscribers who have multiple XM radios. We also offer pre-paid annual and multi-year subscription discounts The family, annual and multi-year subscriptions are popular with our subscribers.

We derive some revenues from advertising Our non-commercial free channels, including our traffic and weather channels, provide what we believe is an attractive advertising medium for national advertisers. We have advertising sales offices in several major media markets to sell directly to advertising agencies and media buying groups We have sold advertising packages to a variety of advertisers and agencies, including Citrix, General Motors, Honda, Lexus, Cingular, Bank of America, Fox Broadcasting, ADT Security Systems, UPS, ExxonMobil and Pfizer

Intellectual Property

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.

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

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 35 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 the Society of European Stage Authors and Composers, Inc ("SESAC"). These organizations negotiate with copyright users, collect royalties and distribute them to songwriters and music publishers. We have agreements that establish the license fee amounts payable to those entities The agreements expire in 2006, and the royalty arrangements will need to be re-negotiated at that time. 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 have an agreement with the Recording Industry Association of America ("RIAA"), through its division SoundExchange, establishing royalty payment arrangements for these performance rights through 2006

Some organizations representing copyright holders have publicly stated their concerns regarding new features in certain portable devices, including devices that combine XM Radio and MP3 functionality and allow subscribers to listen to XM Radio programming after the initial broadcast (time-shifting), similar to the functionality of digital video recorders ("DVR") such as TiVO® products. We believe these new XM radios, which have various functionalities currently available to consumers, comply with applicable copyright law However, we cannot assure you that royalty fees will remain at current levels or that arbitration or litigation will not arise in connection with royalty arrangements or new devices, and we cannot predict what the costs to our company of a proceeding or a settlement of such a dispute or disputes might be.

The XM Trademark

We have registered the trademark "XM" with the United States Patent and Trademark Office in connection with the transmission services offered by our company Our brand name and logo is generally prominently displayed on the surface of XM radios together with the radio manufacturer's brand name. This identifies the equipment as being XM Radio-compatible and builds awareness of XM Radio We intend to maintain our trademark and registration We are not aware of any material claims of infringement or other challenges to our right to use the "XM" trademark in the United States We also have registered and intend to maintain trademarks of the names of certain of our channels We recently filed to register the trademark "XM" in Canada, and need to resolve objections from a third party before that registration can be completed. We have granted a license to use the trademark in Canada to XM Canada, the exclusive licensee of our service in Canada.

The XM Radio System

Our system provides satellite radio to the continental United States and coastal waters using radio frequencies allocated by the FCC for satellite radio These radio frequencies are within a range of frequencies called the S-Band The XM Radio system is capable of providing high quality satellite services to XM radios in automobiles, trucks, recreation vehicles, airplanes, and pleasure craft, as well as to fixed or portable XM radios in the home, office or other fixed locations The XM Radio system extends to other platforms that include the Internet for our streaming service as well as other platforms such as DIRECTV ® and Napster. The XM Radio system uses a network consisting of high-power satellites, an uplink facility, and ground-based repeaters primarily in dense urban areas to provide coverage where the satellite signal is obstructed

Consumer Hardware

XM Radios We transmit XM content throughout the continental United States to vehicle, portable, home and plug-and-play radios. Many of our radios are capable of receiving both XM content and traditional AM/FM stations. Our advancing

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

chipset design has spawned a broad array of XM Radio products. The latest XM product offerings are described above under the heading "Distribution — Brand Awareness and Other Distribution Arrangements." Many XM radios now feature customizable sports and stock tickers as well as TuneSelect, which notifies the listener when a favorite artist or song is playing on any XM channel We plan to continue to expand our product offerings in 2006 with the XM Connect-and-Play technology, new XM2go portable products, XM radios capable of downloading and playing MP3 files and other offerings. Popular Science magazine chose the MyFi XM2go radio for its "Best of What's New 2005" award. The Tao and Pioneer XM2go radios were similarly recognized by WIRED magazine and USA Today, respectively Five XM products were recently recognized as honorees for the Innovations 2006 Awards, which are sponsored by the Consumer Electronics Association and honor excellence in consumer technology design and engineering. At the recent 2006 International Consumer Electronics Show in Las Vegas, the Pioneer Inno XM2go radio was selected as Best of CES 2006 People's Voice Award hosted by CNET

Space Segment

Satellite System Boeing Satellite Systems ("BSS"), has built, launched and delivered in-orbit three Boeing 702 high-power satellites for the XM Radio system The satellites were launched on March 18, 2001, May 8, 2001, and February 28, 2005 respectively, and are transmitting the XM signal.

In light of a progressive degradation problem with the solar array output power of XM-1 and XM-2, we launched our third satellite, XM-3 in February 2005, at 85° West Longitude orbital location. XM-1 was collocated with XM-2 at 115° West Longitude orbital location We have a fourth satellite, XM-4 under construction; this satellite will be available for launch in 2006 We intend to launch XM-4 during the second half of 2006 to replace the collocated XM-1 and XM-2, which will then become in-orbit spares for a limited period of time The exact launch date will be subject to launch vehicle availability and other business priorities During 2005, XM entered into a contract to construct another satellite, XM-5, expected to be completed by the end of 2007, for use as a ground spare or to be available for launch in the event there is a launch or early operations failure of XM-4. In this way, we will have replacement satellites in orbit and operating prior to the times XM-1 and XM-2 can no longer provide half service in collocated mode. Our commitments regarding XM-3, XM-4 and XM-5 are described under "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Future Operating Liquidity and Capital Resource Requirements*" With this plan and continued monitoring of the power degradation situation in XM-1 and XM-2, we believe we will be able to launch additional satellites prior to the time the solar array power problem might cause the broadcast signal strength to fall below minimum acceptable levels

In July 2004, we reached agreement with insurers covering 80 percent of the aggregate sum insured of $400 million relating to the progressive solar array power degradation problem with XM-1 and XM-2 We received a settlement rate equal to 44.5 percent of the proportionate amount covered by each of these insurers, representing a total recovery of approximately $142 million This settlement resolves any issues about the amount of loss sustained, includes a waiver by the settling insurance companies of any reductions based on salvage value, terminates any further risk to the settling insurers under the policies and ends any other rights the settling insurers might have with regard to XM-1 and XM-2 or revenues generated by our continuing use of those satellites We have collected all amounts due under the settlement The portion of the insurance proceeds related to claim payments, totaling $133.9 million, was recorded as a reduction to the carrying values of XM-1 and XM-2 In August 2004, we filed for arbitration to collect the remaining 20 percent of the sum insured utilizing the third-party dispute resolution procedures under the policy Hearings were held in the fourth quarter of 2005 with post hearing briefs being filed in the first quarter of 2006 We currently expect the preliminary findings of the arbitration panel in the second quarter of 2006

Satellite Transmission. Our satellites are deployed at 85° West Longitude and 115° West Longitude At their designated orbital locations, the satellites receive audio signals from our programming center and retransmit the signals across the continental United States. The satellites are 30° apart in longitude in order to enhance the probability of clear line-of-sight communication between the satellites and XM mobile radios

The transmission coverage areas, or footprints, of our satellites encompass the 48 contiguous states, nearby coastal waters and the densely populated regions of Canada We have tailored these footprints to provide nearly uniform availability over the United States and to minimize transmission spillage across the United States borders into Mexico XM Canada, our exclusive Canadian licensee, holds a broadcast license in Canada.

Our satellites transmit audio programming within a 12.5 Megahertz ("MHz") bandwidth operating in the S-Band radio frequency spectrum that the FCC has allocated for our exclusive use Megahertz is a unit of measurement of frequency This

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12 5 MHz bandwidth is subdivided into six carrier transmission signals, four signals transmitted from our satellites and two signals transmitted by the terrestrial repeater network The audio programming for XM Radio is carried on two satellite signals, and the remaining two satellite signals and the terrestrial repeater signals repeat the audio programming to enhance overall signal reception The transmission of higher quality sound requires the use of more kilobits per second than the transmission of lesser quality sound We are currently using our allocated bandwidth in such a way as to provide over 160 channels

Insurance. We bear the risk of loss for our satellites, and we seek to obtain insurance to cover that risk We obtain launch and in-orbit insurance policies from global space insurance underwriters These policies generally provide coverage for a total, constructive total or partial loss of the satellites that occurs during a limited period after launch Our insurance will not cover the full cost of constructing, launching and insuring new satellites, nor will it protect us from the adverse effect on our business operations due to the loss of a satellite. Our policies contain standard commercial satellite insurance provisions, including standard coverage exclusions Since we have settled our claim on XM-1 and XM-2 with most of our insurers under our launch and in-orbit insurance policies, XM-1 and XM-2 no longer have in-orbit coverage with the settling insurers. We acquired and paid for launch and one-year in-orbit insurance in early 2005 in connection with the launch of XM-3, and have obtained in-orbit insurance effective at the expiration of the initial policy

Ground Segment

Satellite Control. Our satellites are monitored by telemetry, tracking and control stations and are controlled by a spacecraft control station Each of the stations has a backup station We have a contract with Telesat Canada, Inc , an experienced satellite operator, to perform the telemetry, tracking and control functions

Broadcast Facility. Programming from both our studios and external sources is sent to our broadcast facility in Washington, DC, which packages and retransmits signals to our satellites through the uplink station In addition, sales and marketing, finance functions, engineering and certain administrative support are carried on at our Washington, DC facilities 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

Competition

We face competition for both listeners and advertising dollars In addition to pre-recorded entertainment purchased or playing in cars, homes and using portable players, we compete most directly with the following providers of radio or other audio services·

Sirius Satellite Radio

Our direct competitor in satellite radio service is Sirius Radio, the only other FCC licensee for satellite radio service in the United States Sirius has announced that it had over 3 3 million subscribers as of December 31, 2005, including over 2 2 million net new subscribers during the year then ended Sirius broadcasts over 125 channels of programming and offers certain programming that we do not offer. Sirius Radio service is offered as a dealer- and/or factory-installed option on a number of vehicle model brands, including certain ones that do not offer XM. Sirius has announced a number of new competitive product offerings. Sirius also is a partner in a Canadian joint venture partnership that competes with our Canadian licensee in providing satellite radio service in Canada

Source· XM SATELLITE RADIO H, 10-K, March 03, 2006

Traditional AM/FM Radio

Our competition also includes traditional AM/FM radio Unlike XM Radio, traditional AM/FM radio has had a well established market for its services for many years and generally offers free broadcast reception paid for by commercial advertising rather than by a subscription fee. Also, many radio stations offer information programming of a local nature, such as local news and sports, which XM Radio cannot offer as effectively as local radio. To the extent that consumers place a high value on these features of traditional AM/FM radio, we are at a competitive disadvantage to the dominant providers of audio entertainment services. Some radio stations have begun reducing the number of commercials per hour, expanding the range of music played on the air and experimenting with new formats in order to compete more directly with satellite radio

The AM/FM radio broadcasting industry is highly competitive Radio stations compete for listeners and advertising revenues directly with other radio stations within their markets on the basis of a variety of factors, including

- program content,
- on-air talent,
- transmitter power,
- 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, approximately 600 radio stations are broadcasting their primary programming signal digitally and more than 15 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

Internet Radio and Downloading Devices

Internet radio broadcasts have no geographic limitations and can provide listeners with radio programming from around the country and the world. Although we believe that the current sound quality of Internet radio is below standard and may vary depending on factors that can distort or interrupt the broadcast, such as network traffic, we expect that improvements from higher bandwidths, faster modems and wider programming selection may make Internet radio a more significant competitor in the future, in particular with our new XM Radio Online service.

The Apple iPod® is a portable digital music player that sells for approximately $100–$400 and allows users to download and purchase music through Apple's iTunes® Music Store, which features over 2 million songs and 11,000 audio books, as well as convert music on compact disc to digital files. Apple sold over 22.5 million iPods® and has sold more than one million videos during its fiscal 2005 year. The iPod® enables consumers to buy and store up to 15,000 songs. In addition, iPods® are compatible with certain car stereos and various home speaker systems 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 would make XM Radio a more attractive option to consumers, Internet-based audio formats may become increasingly competitive as quality improves and costs are reduced.

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

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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 may face competition from businesses that have announced plans 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 recently announced they are forming 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 MediaFLO USA Inc. expects to begin commercial operation of the new network in 2006 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 International Corp has announced that it plans to deliver live mobile video in partnership with wireless operators through its Modeo LLC 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, in 2006

Traffic News Services

A number of providers also compete with the XM NavTraffic service Sirius announced it would partner 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 22 metropolitan markets beginning in November 2005. 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

Strategic Transactions in 2005

Canadian Satellite Radio In November 2005, Canadian Satellite Radio ("XM Canada"), our exclusive Canadian licensee, launched its satellite radio service in Canada In December 2005, XM Canada completed an initial public offering, raising CDN$50 million in net proceeds. In February 2006, XM Canada issued $100 million in aggregate principal amount of 12 75% senior notes due 2014. XM Canada's 85 channel line-up includes XM's digital-quality commercial-free music, National Hockey League® play-by-play coverage of more than 40 games per week, and eight exclusive Canadian channels highlighting Canadian artists and Canadian news programming, programmed by XM Canada, as mandated by the terms of the license granted by the Canadian regulatory authority. We will receive 15 percent of all subscriber fees earned by XM Canada each month for its basic service and 50 percent of XM Canada's net revenues for any premium service We have agreed to provide technical assistance to XM Canada and also sold to XM Canada some of our unused terrestrial repeaters. We own a 23 percent interest in XM Canada, which constitutes an approximate 11 percent voting interest, and have two representatives on XM Canada's board of directors.

XM has agreed to other terms on a number of agreements that include providing XM Canada access to certain programming on XM channels, granting XM Canada rights to the use of XM related trademarks, and providing XM Canada information and expertise related to matters such as the acquisition of content distribution rights, promotion, marketing, and distribution, construction, maintenance and operation of a terrestrial repeater network and broadcast facilities; computer software and system support, and sharing of technology licenses

WCS Wireless. In July 2005, we agreed to acquire WCS Wireless, a private entity, for 5 5 million shares of our Class A common stock. The principal assets of WCS Wireless are wireless spectrum licenses in geographic areas covering

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approximately 163 million people throughout the United States The transaction is subject to necessary government approvals including FCC approval For a further discussion of ongoing matters related to WCS Wireless, see the caption entitled "*Regulatory Matters — WCS Frequencies.*"

WorldSpace Investment. In July 2005, we made a strategic investment of $25 million in the common stock of WorldSpace, Inc , a leading satellite radio provider for Asia, Europe, the Middle East and Africa In connection with the investment, we will cooperate with WorldSpace to develop satellite radio products, technology and distribution and supplier networks In addition, we acquired warrants to purchase $37 5 million in additional WorldSpace stock and an option to invest along with WorldSpace and other partners in various countries around the world. WorldSpace offers a subscription-based service that broadcasts news, music, brand name content and educational programming to a global service area and targets its programming to consumers, governments and other organizations

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 evenly between the two licensees

As the owner 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 under 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 support our business plan Any assignment or transfer of control of our FCC license must be approved 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 for the XM-2 satellite expires in March 2009 The license for the XM-1 satellite expires in May 2009 In February 2004, we applied to the FCC for authority to launch and operate XM-3 and XM-4 and to collocate XM-1 with XM-2 at the 115° West Longitude orbital location. The FCC granted this application in January 2005. The license term for the XM-3 satellite expires in April 2013 The license term for the XM-4 satellite is for eight years and will begin on the date we certify to the FCC that the satellite has been successfully launched and put into operation. We will be required to apply for a renewal 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 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 We may need additional authority from the FCC to operate XM-4 at its precise orbital location, once determined, as well as to operate our other satellites at orbital locations not 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 at the ITU.

In April 2004, in response to our introduction of traffic and weather channels, the National Association of Broadcasters ("NAB") filed a Petition for Declaratory Ruling asking the FCC to prohibit us and Sirius Radio from (i) offering "locally oriented" services on nationally distributed channels and (ii) using any technology that would permit delivery of content that would be aired on a receiver in one location that differs from content aired on a receiver in a different location In November 2004, the NAB withdrew this Petition but also stated that it may file a similar Petition in the future.

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 In response to the NAB Petition for Declaratory Ruling, some entities requested that the FCC take action 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 In December 2005, we asked the FCC to reconsider its decision by relaxing its requirements for testing of EAS alerts and for the transmission of EAS codes and attention signals on certain channels Our reconsideration request is pending

The FCC's rules require interoperability with all licensed satellite radio systems that are operational or under construction. The FCC conditioned our license on certification by us that our final receiver design is interoperable with the final receiver design of the other licensee, Sirius Radio, which uses a different transmission technology than we use. We have previously

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

certified and reconfirmed that we comply with this obligation Although we believe that we are currently in compliance, the FCC has not expressly acknowledged our compliance We have signed an agreement with Sirius Radio to develop a common receiver platform combining the companies' proprietary chipsets, but we have not completed final design of an operational radio using this platform If the FCC were to interpret the interoperability requirement in a manner that mandates a particular radio design, complying with this requirement could make the radios more difficult and costly to manufacture In January 2005, the FCC asked us as well as Sirius to file a report detailing the current status of efforts to develop an interoperable receiver XM and Sirius submitted a joint report in March 2005

The FCC order granting our license determined that because we are a private satellite system under the Communications Act and FCC rules providing a subscription service on a non-common carrier basis, we would not be subject to the FCC's foreign ownership restrictions. However, such restrictions would apply to us if we were to offer non-subscription services, which may appear more lucrative to potential advertisers than subscription services. The FCC also stated in its order that it may reconsider its decision not to subject satellite radio licensees to its foreign ownership restrictions.

In April 2004, the FCC initiated a proceeding with respect to terrestrial digital radio in which it also inquired as to whether it should take action to prevent recording and Internet redistribution of musical recordings that are part of satellite radio broadcasts. In June 2004, we filed comments urging the FCC not to take any action in this proceeding with respect to satellite radio Sirius Radio filed a similar request. This proceeding is pending

Repeater Authorization

The FCC is currently conducting a rulemaking proceeding to establish rules for terrestrial repeater transmitters, which we have deployed and plan to continue deploying to fill in gaps in satellite coverage The FCC has proposed to permit us to deploy these facilities Specifically, the FCC has proposed a form of blanket licensing for terrestrial repeaters and service rules, which would prohibit satellite radio licensees from using terrestrial repeating transmitters to originate local programming or transmit signals other than those received from the satellite radio satellites Various parties, including the National Association of Broadcasters, Wireless Communications Service ("WCS") licensees, Multipoint Distribution Service ("MDS") licensees, and Instructional Television Fixed Service ("ITFS") licensees have asked the FCC to

- limit the number of repeaters operating at greater than 2 kW Effective Isotropic Radiated Power ("EIRP") that may be deployed,
- limit the power level of the repeaters operating at greater than 2 kW EIRP that are deployed;
- delay consideration of terrestrial repeater rules until XM Radio and Sirius Radio provide additional information regarding planned terrestrial repeaters,
- require individual licensing of each terrestrial repeater, and
- impose a waiting period on the use of repeaters in order to determine if signal reception problems can be resolved through other means

Our continued operation and deployment of terrestrial repeaters may be impacted by whatever rules the FCC ultimately issues in this regard, although we believe these impacts are not likely to be material to our business We have made a proposal to the FCC to set a 40 kW EIRP limit or, alternatively, a limit of 18 kW EIRP calculated by averaging power over 360 degrees, on the power of terrestrial repeaters. We have also proposed to coordinate with WCS licensees in certain cases prior to operating terrestrial repeaters above 2 kW EIRP The coordination may include our providing filters in certain instances to limit the interference WCS licensees claim will result from our operation of repeaters operating above 2 kW EIRP

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.

We are currently operating terrestrial repeaters pursuant to Special Temporary Authority ("STA") granted by the FCC in September 2001 This STA authorizes us to operate our terrestrial repeaters for commercial service on a non-interference basis. Because the STA was conditioned on a non-interference basis, we are required to either 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

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

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, and 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 are not authorized under our September 2001 STA to operate repeaters. 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 terrestrial repeaters have expired by their terms, but pursuant to the FCC's rules, we are permitted to and have been continuing to operate these terrestrial repeaters under the STA pending a final determination on our extension request.

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, recently received a license to operate a satellite radio service in Canada using our existing satellites, which have coverage of the densely populated regions of Canada

We operate the communication uplinks to our satellites from earth stations in Washington, DC and Atlanta, GA in a band of radio frequencies that are used for several other services, such as fixed services, broadcast auxiliary services, electronic news gathering services, and uplink feeder links for mobile satellite services The FCC has granted us licenses for these earth stations The license for our Washington, DC earth station expires in March 2011 and the license for our Atlanta earth station expires in August 2019 We can seek authority from the FCC to extend these license terms.

Our service may be subject to interference caused by other users of radio frequencies From time to time, the FCC has permitted or has proposed to permit new uses of radio frequencies that could result in interference to our service, particularly unlicensed operations in adjacent frequency bands. Moreover, the FCC has permitted or has proposed to permit existing users of radio frequencies to operate in ways that could result in interference to our operations We have expressed and continue to express concerns to the FCC regarding the potential for other uses of radio frequencies to cause interference to our service. If the FCC does not adopt sufficient technical limits on these other uses of radio frequencies, our service may be adversely affected.

WCS Frequencies

In July 2005, we applied to the FCC for consent to the transfer of control of sixteen WCS licenses held by WCS Wireless License Subsidiary, LLC ("WCS License Sub") to us In the application, we also asked the FCC to approve our acquisition of WCS License Sub's pending application for a waiver of the Commission's rules to permit it to operate its WCS base stations based on an average rather than a peak EIRP limit NAB, Sirius, and the Wireless Communications Association International, Inc ("WCA"), a trade association representing some WCS licensees, have opposed our application for license transfer NAB has claimed that our use of WCS frequencies to offer a subscription-based multimedia service could cause competitive harm to terrestrial radio broadcasters and has asked the FCC to impose conditions on grant of the transfer to protect these broadcasters Sirius has claimed that our operation of facilities using WCS frequencies will cause interference to its satellite radio receivers and will unfairly prejudice the final technical rules to govern SDARS terrestrial repeaters WCA has opposed our request to acquire WCS License Sub's pending waiver request, claiming that we will need to file our own application for a waiver after the FCC approves the transfer of the WCS licenses to us We and WCS License Sub have each filed responses to these claims Our application is pending

WCA, along with some of its member companies that hold WCS licenses, have also opposed the pending waiver application filed by WCS License Sub, claiming that operation of WCS base stations at average rather than peak EIRP will cause

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

interference to potential WCS operations We and WCS License Sub have each filed responses to these claims. The waiver request is pending. Our ability to deploy a network of WCS base stations in the most efficient manner may be impeded if this waiver request is not granted. In July 2005, the FCC initiated a rulemaking proceeding proposing to measure EIRP for base stations in various terrestrial wireless services in terms of average rather than peak power WCA has opposed this proposal with respect to WCS base stations This proceeding is pending.

Each of the WCS licenses held by WCS License Sub expires in July 2007 In order to renew a WCS license, a WCS licensee must make a showing of "substantial service" in the licensed service area by the end of the license term Assuming the FCC approves the transfer of the WCS licenses held by WCS License Sub to us, there is no guarantee that we will be able to meet the substantial service requirement for each of these licenses.

Board of Directors

Our Board of Directors is currently made up of 10 persons with meaningful financial and operating experience, including our Chairman, our President and CEO, senior executives from the automotive industry, executives with operating experience in the entertainment industry and the technology and telecom sectors, and seasoned financial investors In accordance with applicable rules, a majority of the members of the Board of Directors are independent of management, and three independent board members serve on each of our Audit Committee, our Compensation Committee and our Nominating and Corporate Governance Committee.

On February 13, 2006, Pierce "Jack" Roberts, Jr., a member of XM's Board of Directors, resigned based on disagreements with the Company and other Board members regarding certain aspects of the Company's operational direction. The Company and other Directors concur with Mr. Roberts' assessment that lower programming and marketing expenditures, and a potentially lower growth rate, would likely result in earlier positive cash generation and earlier positive earnings. The other Directors, however, believe that the Company's high growth rate, market leadership and large base of subscribers are strategically important assets to ensure the Company's long-term value and can be sustained while also reaching positive operating cash flow later in 2006 For a further discussion, see the Company's Current Report on Form 8-K filed with the SEC on February 16, 2006

Personnel

As of December 31, 2005, we had 710 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

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

ITEM 1A. RISK FACTORS

Potential investors are urged to read and consider the risk factors relating to an investment in XM Satellite Radio Holdings Inc contained herein Before making an investment decision, you should carefully consider these risks as well as other information we include or incorporate by reference in this Annual Report on Form 10-K The risks and uncertainties we have described are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also affect our business operations.

You could lose money on your investment because we are in the early stages of generating revenues.

Unless we generate significant 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 generate 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, 2005, we had incurred capital expenditures of $1.5 billion and cumulative net losses approximating $2 8 billion from our inception through December 31, 2005 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 have 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 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 and increase as expected, we may not be able to generate enough revenues to generate positive cash flow or become profitable

Large payment obligations under our distribution agreement with General Motors and other agreements may prevent us from becoming profitable or from achieving profitability in a timely manner.

We have significant payment obligations under our long-term distribution agreement with General Motors for the installation of XM radios in General Motors vehicles and the distribution of our service to the exclusion of other satellite radio services. These payment obligations, which could total several hundred million dollars over the life of the contract, may prevent us from becoming profitable. A significant portion of these payments are fixed in amount, and we must pay these amounts even if General Motors does not continue to meet or exceed performance targets in the contract We also have significant payment obligations under other agreements, including $60 million per year under our agreement with Major League Baseball® ("MLB") to become the Official Satellite Radio Network of Major League Baseball®. Other agreements that we enter into with third-party suppliers of programming or relating to program royalties could or likely would involve substantial costs to us These payment obligations could significantly delay our becoming profitable

Source. XM SATELLITE RADIO H, 10-K, March 03, 2006

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 $50 million for 2005 and $60 million per year thereafter through 2012, with $120 million to be deposited into escrow 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 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 agreements which establish the license fee amounts payable to those entities through 2006, and will need to be renegotiated at that time 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 have an agreement with the Recording Industry Association of America ("RIAA"), through its division, SoundExchange, establishing royalty payment arrangements for these performance rights through 2006.

Some organizations representing copyright holders have publicly stated their concerns regarding new features in certain portable devices, including devices that combine XM Radio and MP3 functionality and allow subscribers to listen to XM Radio programming after the initial broadcast (time-shifting), similar to the functionality of DVR's such as TiVO® products We believe these new XM radios, which have various functionalities currently available to consumers, comply with applicable copyright law However, we cannot assure you that royalty fees will remain at current levels or that arbitration or litigation will not arise in connection with royalty arrangements or new devices, and we cannot predict what the costs to our company of a proceeding or a settlement of such a dispute or disputes might be

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 the date on which we expect our business to begin generating positive cash flow, 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

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 approximately 54 to 61 percent of the customers who receive a promotional subscription as part of the purchase or lease of a new vehicle, but that percentage does vary over time and the amount of data on the percentage is limited We do not know if the percentage will change as the number of customers with promotional subscriptions increases.

We experience subscriber turnover, or churn, with respect to our customers as well Because we have been in commercial operations for a relatively short period of time, we cannot predict the amount of churn we will experience over the longer term Our inability to retain customers who purchase or lease new vehicles with our service beyond the promotional period and subscriber turnover could adversely affect our financial performance and results of operations.

Failure to timely replace our existing satellites could damage our business.

We have been disclosing since the third quarter of 2001 a progressive degradation problem with the solar array output power of early Boeing 702 class satellites, including both XM-1 and XM-2 Based on the consistency of the degradation trends and continuing analyses by BSS and us, our management adjusted the estimated useful lives of our in-orbit satellites, with effect from September 2002, to the period running through first quarter 2008 (approximately 6 75 years from launch) We and the manufacturer are continuing to watch the progression of the situation, including data from a satellite that has been in orbit longer than either of our two satellites by approximately 17 and 15 months, respectively. With this advance visibility of performance levels, we launched our XM-3 satellite in February 2005. XM-3 was placed into one of our orbital slots and beginning in April 2005 is being used to transmit the XM service XM-1 was collocated with XM-2 in the other orbital slot (which allows partial use of XM-1 and XM-2 through the first quarter of 2008) With this plan, the ongoing construction of an additional satellite, XM-4, and contractual arrangements in place to provide XM-4 launch services, we believe we will be able to launch XM-4 prior to the time the solar array power problem on XM-1 and XM-2 might cause the broadcast signal strength (even in collocated mode) to fall below minimum acceptable levels We have also entered into a contract to construct an additional satellite, XM-5, expected to be completed by the end of 2007 for use as a ground spare or to be available for launch in the event there is a launch or early operations failure of XM-4. However, we cannot assure you that such actions will allow us to maintain adequate broadcast signal strength, particularly in the event of a launch or operational failure of either XM-4 or XM-5 If either XM-1, XM-2, or XM-3 were to fail or suffer unanticipated additional performance degradation prematurely, or if there were a launch or operational failure of either XM-4 or XM-5, it likely would affect the quality of our service, and might interrupt the continuation of our service and harm our business This harm would continue until we successfully launched and operated one or more additional satellites.

A number of other factors could decrease the useful lives of our satellites, including:

- defects in design or construction,
- loss of on board station-keeping system,
- failure of satellite components that are not protected by back-up units;
- electrostatic storms, and
- collisions with other objects in space.

In addition, our network of terrestrial repeaters communicates principally with one satellite. If the satellite communicating with the repeater network fails unexpectedly, we would have to realign all the repeaters to communicate with the other satellite. This would result in a degradation of service that could last several days and could harm our business

Potential losses may not be covered by insurance.

Insurance proceeds may not fully cover our losses For example, our insurance does not cover the full cost of constructing, launching and insuring our three satellites, nor will it cover and we do not have protection against business interruption, loss of business or similar losses. Also, our insurance contains customary exclusions, salvage value provisions, material change and other conditions that could limit our recovery. Further, any insurance proceeds may not be received on a timely basis in order to launch a spare satellite or construct and launch a replacement satellite or take other remedial measures In addition, some of our policies are subject to limitations involving large deductibles or co-payments and policy limits that may not be sufficient to cover losses If we experience a loss that is uninsured or that exceeds policy limits, this may impair our ability to make timely payments on our outstanding notes and other financial obligations.

Competition from Sirius Satellite Radio and traditional and emerging audio entertainment providers could adversely affect our revenues.

In seeking market acceptance of our service, we encounter competition for both listeners and advertising revenues from many sources, including Sirius Satellite Radio, the other U S satellite radio licensee, traditional and digital AM/FM radio, Internet based audio providers, MP3 players; direct broadcast satellite television audio service, and cable systems that carry audio service.

Sirius has announced that it had over 3 3 million subscribers as of December 31, 2005, including over 2 2 million net new subscribers during the year then ended Sirius broadcasts over 125 channels of programming and offers certain programming that we do not offer In January 2006 the Howard Stern radio show began airing exclusively on Sirius Sirius Radio service is

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

offered as a dealer- and/or factory-installed option on a number of vehicle model brands, including certain ones that do not offer XM Sirius has announced a number of new competitive product offerings Sirius also is a partner in a Canadian joint venture partnership that competes with our Canadian licensee in providing satellite radio service in Canada

Unlike XM Radio, traditional AM/FM radio already has a well-established and dominant market presence for its services and generally offers free broadcast reception supported by commercial advertising, rather than by a subscription fee. Also, many radio stations offer information programming of a local nature, such as news and sports reports, which XM Radio is not expected to offer as effectively as local radio, or at all. To the extent that consumers place a high value on these features of traditional AM/FM radio, we are at a competitive disadvantage to the dominant providers of audio entertainment services Some radio stations have begun reducing the number of commercials per hour, expanding the range of music played on the air and experimenting with new formats in order to compete more directly with satellite radio Several major radio companies, including Clear Channel Communications, Infinity Broadcasting and Entercom Communications, recently banded together to launch an advertising campaign designed to assert that traditional AM/FM radio, like satellite radio, is innovative and features new artists, and formed a joint venture to encourage the development of digital terrestrial radio

Digital radio broadcast services have been expanding, and an increasing number of radio stations in the U.S. have begun digital broadcasting or are in the process of converting to digital broadcasting. The technology permits broadcasters to transmit as many as five stations per frequency. 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.

Internet radio broadcasts have no geographic limitations and can provide listeners with radio programming from around the country and the world. We expect that improvements from higher bandwidths, faster modems and wider programming selection will make Internet radio increasingly competitive, in particular with our XM Internet service

The Apple iPod®, a portable digital music player that stores up to 15,000 songs, allows users to download and purchase music through Apple's iTunes ® Music Store, which offers over 2 million songs and 11,000 audio books. Apple has disclosed that it shipped over 22.5 million iPods ® and sold more than one million videos during its fiscal 2005 year The iPod® is also compatible with certain car stereos and various home speaker systems Our recently announced digital audio players with the XM + Napster online service will compete with the iPod® and other downloading technology and devices.

Our business could be adversely affected by the performance of our business partners.

Our business depends in part on actions of third parties, including.

- the sale of new vehicles with factory installed XM radios,
- 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.

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 October 28, 2005, Delphi Corporation secured debtor-in-possession financing up to an aggregate principal amount of $2 billion The financing is guaranteed by all of the other Delphi

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

entities, which are debtors in the Delphi bankruptcy cases 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

Higher than expected subscriber acquisition costs could adversely affect our financial performance.
We are still spending substantial funds on advertising and marketing and in transactions with car and radio manufacturers and other parties to obtain or as part of the expense of attracting new subscribers Our ability to achieve cash flow breakeven within the expected timeframe depends on our ability to continue to maintain or lower these costs If the costs of attracting new subscribers or incentivizing other parties are greater than expected through higher per-unit costs or higher than anticipated subscriber growth volume, our financial performance and results of operations could be adversely affected.

Our substantial indebtedness could adversely affect our financial health, which could reduce the value of our securities.
As of December 31, 2005, the total accreted value of our indebtedness was $1.1 billion ($1.0 billion carrying value) The carrying amount has continued to increase during 2005 as our indebtedness accretes, and we may issue more debt securities if we believe we can raise money on favorable terms Most of our indebtedness will mature in 2009 and 2010 However, our substantial indebtedness could have important consequences to you For example, it could·

- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to fund future working capital, capital expenditures, research and development costs and other general corporate purposes,
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt, and
- limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds

Failing to comply with those covenants could result in an event of default, which, if not cured or waived, could cause us to have to discontinue operations or seek a purchaser for our business or assets In addition, the covenants allow us to incur more debt in the future, which could increase our total indebtedness

Weaker than expected market and advertiser acceptance of our XM Radio service could adversely affect our advertising revenue and results of operations.
Our ability to generate advertising revenues will depend on several factors, including the level and type of market penetration of our service, competition for advertising dollars from other media, and changes in the advertising industry and economy generally We directly compete for audiences and advertising revenues with Sirius Satellite Radio, the other satellite radio licensee, and traditional AM/FM radio stations, some of which maintain longstanding relationships with advertisers and possess greater resources than we do Because we offer our radio service to subscribers on a pay-for-service basis, certain advertisers may be less likely to advertise on our radio service

Our business may be impaired by third party intellectual property rights.
Development of the XM Radio system has depended largely upon the intellectual property that we have developed and licensed from third parties. If the intellectual property that we have developed or use is not adequately protected, others will be permitted to and may duplicate the XM Radio system or service without liability In addition, others may challenge,

invalidate or circumvent our intellectual property rights, patents or existing sublicenses Some of the know-how and technology we have developed and plan to develop will not be covered by United States patents Trade secret protection and contractual agreements may not provide adequate protection if there is any unauthorized use or disclosure The loss of necessary technologies could require us to obtain substitute technology of lower quality performance standards, at greater cost or on a delayed basis, which could harm our business.

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

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

Rapid technological and industry changes could make our service obsolete.

The satellite industry and the audio entertainment industry are both characterized by rapid technological change, frequent new product innovations, changes in customer requirements and expectations, and evolving industry standards If we are unable to keep pace with these changes, our business may be unsuccessful Because we have depended on third parties to develop technologies used in key elements of the XM Radio system, more advanced technologies that we may wish to use may not be available to us on reasonable terms or in a timely manner Further, our competitors may have access to technologies not available to us, which may enable them to produce entertainment products of greater interest to consumers, or at a more competitive cost

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, we are subject to FCC rules and regulations, and the terms of our license, which require us to meet certain conditions such as interoperability of our system with 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 conditions could result in fines, additional license conditions, license revocation or other detrimental FCC actions.

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.

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 One grant of STA is currently being challenged by operators of terrestrial wireless systems who have asserted that our repeaters may cause interference. Our deployment of terrestrial repeaters may be impacted by the FCC's further actions, when taken

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 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 certain on-air talent who maintain significant loyal audiences in or across various demographic groups We cannot be certain 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 these employees, 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 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 significantly decrease.

The holders of our Series C convertible redeemable preferred stock issued in January 2003 have consent rights that may prevent us from engaging in transactions otherwise beneficial to holders of our securities.

Under the terms of our Series C convertible redeemable preferred stock, the consent of holders of at least 60 percent of the Series C convertible redeemable preferred stock is required before we can take certain actions, including issuances of additional equity securities and the incurrence of indebtedness under which we must meet financial covenants to avoid default These requirements could hamper our ability to raise additional funds. The consent of holders of at least 60 percent of the Series C convertible redeemable preferred stock is also required for transactions with affiliates, other than on an arm's-length basis, and for any merger or sale of our assets The approval for a merger could make it difficult for a third party to acquire us and thus could depress our stock price. We cannot assure you that these rights will be exercised in a manner consistent with your best interests.

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

We have issued and outstanding securities exercisable for or convertible into a significant number of shares of our Class A common stock, some of which accrue interest, which is convertible into Class A common stock, or give us the option to make interest or other payments in our Class A common stock or securities convertible into Class A common stock The conversion or exercise of these existing securities could lead to a significant increase in the amount of Class A common stock outstanding As of December 31, 2005, we had outstanding approximately 241 million shares of Class A common stock On a pro forma basis as of December 31, 2005, if we issued all shares issuable upon conversion or exercise of outstanding securities, we would have had approximately 351 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.

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

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 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.

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Location	Purpose	Own/Lease
Washington, DC	Corporate headquarters, studio/production facilities	Own
Washington, DC	Data center	Own
Deerfield Beach, Florida	Office and technical/engineering facilities	Lease
New York, New York	Office and studio/production facilities	Lease
New York, New York	Studio/production facilities @ Jazz at Lincoln Center	Lease
Nashville, Tennessee	Studio/production facilities @ the Country Music Hall of Fame	Lease

The corporate headquarters and data center located in Washington, DC are secured by separate mortgages. The mortgage on the corporate headquarters facilities was refinanced in August 2004. The Company purchased the data center in August 2005 by assumption of a mortgage and a cash payment.

The Company owns three satellites in geostationary orbits with XM-1 and XM-2 collocated at the 115° West Longitude and XM-3 located at the 85° West Longitude The Company also has approximately 800 terrestrial repeaters in operation to ensure XM signal coverage

ITEM 3. LEGAL PROCEEDINGS

Except for the arbitration described above under the caption "*Business — Space Segment*" and the FCC proceedings described above under the caption "*Business — Regulatory Matters*," we were not a party to any material litigation at December 31, 2005. We may have disputes with copyright holders as described above under the caption "*Business — Intellectual Property — Copyrights to Programming*," and are in the disputes as described below. In the ordinary course of business, we become aware from time to time of claims or potential claims, or may become party to legal proceedings arising out of various matters, such as contract matters, employment related matters, issues relating to our repeater network, product liability issues, and copyright, patent, trademark or other intellectual property matters. Third parties may bring suit relating to such matters. We cannot predict the outcome of any such claim, potential claim or these lawsuits and legal proceedings with certainty. Nevertheless, we believe that the outcome of any such claim, potential claim or proceeding, of which we are currently aware, even if determined adversely, would not have a material adverse effect on our 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 we engaged in a deceptive trade practice under Arkansas and other state laws by representing that our music channels are commercial-free XM has filed a reply to the complaint, XM believes the suit is without merit and intends to vigorously defend the matter

Broadcast Data Retrieval Corporation vs Sirius Satellite Radio, Inc and XM Satellite Radio Inc — Plaintiff filed this action in the United States District Court for the Central District of California on February 27, 2006. The complaint alleges that we and Sirius are directly and indirectly infringing U S Patent No 5,063,610 and that such infringement has been willful. We believe the allegations against XM are without merit and intend to vigorously defend the matter

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 2005.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our Class A common stock has been quoted on The NASDAQ National Market under the symbol "XMSR" since its initial public offering on October 5, 1999 at a price to the public of $12 00 per share The following table presents, for the period indicated, the high and low sales prices per share of the Class A common stock as reported on The NASDAQ National Market:

	High	Low
2004:		
First Quarter	$ 29 96	$ 20 55
Second Quarter	30.96	20.35
Third Quarter	31 52	23.55
Fourth Quarter	40.89	27 50
2005:		
First Quarter	38 28	27.99
Second Quarter	34.83	26 16
Third Quarter	37.31	32.57
Fourth Quarter	36 91	26 99
2006:		
First Quarter (through January 31, 2006)	29 94	26.18

On January 31, 2006, the reported last sale price of our Class A common stock on The NASDAQ National Market was $26.18 per share. As of January 31, 2006, there were 2,572 holders of record of our Class A common stock.

Dividend Policy

We have not declared or paid any dividends on our Class A common stock since our date of inception. Currently, our Series B convertible redeemable preferred stock restricts us from paying dividends on our Class A common stock unless full cumulative dividends have been paid or set aside for payment on all shares of our Series B convertible redeemable preferred stock. The terms of our Series C convertible redeemable preferred stock contain similar restrictions In accordance with its terms, we have paid dividends on the Series B convertible redeemable preferred stock in Class A common stock. The Series C convertible redeemable preferred stock provides for cumulative dividends payable in cash As no dividends have been declared on the Series C convertible redeemable preferred stock, the value of the cumulative dividends has increased the liquidation preference. The indentures governing our subsidiary XM Satellite Radio Inc.'s senior secured notes restrict XM Satellite Radio Inc from paying dividends to us, which, in turn, will significantly limit our ability to pay dividends We do not intend to pay cash dividends on our Class A common stock in the foreseeable future. We anticipate that we will retain any earnings for use in our operations and the expansion of our business

Source. XM SATELLITE RADIO H, 10-K, March 03, 2006

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ITEM 6. SELECTED FINANCIAL DATA

XM Satellite Radio Holdings Inc. and Subsidiaries

In considering the following selected consolidated financial data, you should also read our Consolidated Financial Statements and accompanying Notes, and the section captioned "*Management's Discussion and Analysis of Financial Condition and Results of Operations*." The Consolidated Statements of Operations data for the five-year period ended December 31, 2005 and the Consolidated Balance Sheets data as of December 31, 2005, 2004, 2003, 2002 and 2001 are derived from our Consolidated Financial Statements These statements have been audited by KPMG LLP, independent registered accounting firm We have not declared or paid any dividends on our Class A common stock since our date of inception

	Years ended December 31,				
	2005	2004	2003	2002	2001
(in thousands, except share, per share and subscriber data)					
Revenue	$ 558,266	$ 244,443	$ 91,781	$ 20,181	$ 533
Operating expenses.					
Cost of revenue	405,293	201,935	147,952	122,456	111,956
Research & development (excludes depreciation & amortization, shown below)	31,218	23,513	12,285	10,843	13,689
General & administrative (excludes depreciation & amortization, shown below)	43,864	28,555	27,418	26,448	20,250
Marketing (excludes depreciation & amortization, shown below)	487,556	304,316	200,267	169,165	93,584
Impairment of goodwill	—	—	—	11,461	—
Depreciation & amortization	145,870	147,165	158,317	118,588	42,660
Total operating expenses	1,113,801	705,484	546,239	458,961	282,139
Operating loss	(555,535)	(461,041)	(454,458)	(438,780)	(281,606)
Other income (expense)					
Interest income	23,586	6,239	3,066	5,111	15,198
Interest expense	(107,791)	(85,757)	(110,349)	(63,573)	(18,131)
Loss from de-leveraging transactions	(27,552)	(76,621)	(24,749)	—	—
Other income	2,907	2,129	1,955	2,230	160
Net loss before income taxes	(664,385)	(615,051)	(584,535)	(495,012)	(284,379)
Provision for deferred income taxes	(2,330)	(27,317)	—	—	—
Net loss	(666,715)	(642,368)	(584,535)	(495,012)	(284,379)
8.25% Series B preferred stock dividend requirement	(2,059)	(2,059)	(2,471)	(3,766)	(3,766)
8 25% Series B preferred stock retirement gain	—	—	8,761	—	—
8 25% Series C preferred stock dividend requirement	(6,538)	(6,743)	(15,098)	(17,093)	(19,387)
8 25% Series C preferred stock retirement loss	—	—	(11,537)	—	—
Net loss attributable to common stockholders	$ (675,312)	$ (651,170)	$ (604,880)	$ (515,871)	$ (307,532)
Net loss per common share basic and diluted	$ (3 07)	$ (3 30)	$ (4 83)	$ (5.95)	$ (5.13)
Weighted average shares used in computing net loss per common share—basic and diluted	219,620,468	197,317,607	125,176,320	86,735,257	59,920,196
Other Data.					
EBITDA(1)	$ (434,310)	$ (388,368)	$ (318,935)	$ (317,962)	$ (238,786)
Total ending subscribers(2)	5,932,957	3,229,124	1,360,228	347,159	27,733
Cash flow from operating activities	$ (168,449)	$ (85,552)	$ (245,123)	$ (294,289)	$ (203,048)
Cash flow from investing activities	$ (207,789)	$ (36,329)	$ 14,621	$ (7,036)	$ (221,361)
Cash flow from financing activities	$ 369,362	$ 421,441	$ 615,991	$ 151,646	$ 382,003

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

(in thousands)	December 31, 2005	2004	2003	2002	2001
Selected Balance Sheet Data:					
Cash and cash equivalents (3)	$ 710,991	$ 717,867	$ 418,307	$ 32,818	$ 182,497
Restricted investments	5,438	4,492	4,151	29,742	72,759
System under construction	216,527	329,355	92,577	55,016	55,056
Property and equipment, net	673,672	461,333	709,501	847,936	922,149
DARS license	141,276	141,227	141,200	144,042	144,042
Equity investments	187,403	—	—	—	—
Total assets	2,223,661	1,821,635	1,526,782	1,160,280	1,456,203
Total subscriber deferred revenue	360,638	152,347	53,884	12,297	1,055
Total deferred income (4)	151,210	—	—	—	—
Long-term debt, net of current portion	1,035,584	948,741	743,254	412,540	411,520
Total liabilities	2,142,713	1,485,472	993,894	567,969	529,552
Stockholders' equity (5)	80,948	336,163	532,888	592,311	926,651

(1) Net loss before interest income, interest expense, income taxes, depreciation and amortization is commonly referred to in our business as "EBITDA." EBITDA is not a measure of financial performance under generally accepted accounting principles. Consistent with regulatory requirements, EBITDA includes Loss from de-leveraging transactions and Other income. We believe EBITDA is often a useful measure of a company's operating performance and is a significant basis used by our management to measure the operating performance of our business. Because we have funded and completed 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. EBITDA, which excludes this information, provides helpful information about the operating performance of our business, apart from the expenses associated with our physical plant or capital structure. EBITDA is frequently used as one of the bases for comparing businesses in our industry, although our measure of EBITDA may not be comparable to similarly titled measures of other companies. EBITDA does not purport to represent operating loss or cash flow from operating activities, as those terms are defined under generally accepted accounting principles, and should not be considered as an alternative to those measurements as an indicator of our performance.

(in thousands)	Years ended December 31, 2005	2004	2003	2002	2001
Reconciliation of Net loss to EBITDA:					
Net loss as reported	$(666,715)	$(642,368)	$(584,535)	$(495,012)	$(284,379)
Add back non-EBITDA items included in net loss:					
Interest income	(23,586)	(6,239)	(3,066)	(5,111)	(15,198)
Interest expense	107,791	85,757	110,349	63,573	18,131
Depreciation & amortization	145,870	147,165	158,317	118,588	42,660
Provision for deferred income taxes	2,330	27,317	—	—	—
EBITDA	$(434,310)	$(388,368)	$(318,935)	$(317,962)	$(238,786)

(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, during 2003, GM provided the Company with a $100.0 million Senior Secured Credit Facility, maturing as late as December 2009 that enables the Company to make monthly draws to finance payments that become due under the Company's distribution agreement with OnStar Corporation and other GM payments. This facility was amended in January 2004 and became a revolver. GM also provided the Company with an equity facility to make future subscriber acquisition payments up to $35.0 million.

(4) Total deferred income at December 31, 2005 includes $151.2 million related to the our investment in XM Canada, which is more fully discussed in Note 7 of the Notes to the Consolidated Financial Statements in Item 8 of this Form 10-K.

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

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

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

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our financial condition and consolidated results of operations Expectations of our future financial condition and results of operations are based on our current business plan This discussion should be read together with our Consolidated Financial Statements and accompanying Notes beginning on page F-1 in Item 8 of this Form 10-K.

Executive Summary

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 6 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, our many commercial-free music channels and digital sound quality

The full channel lineup as of January 31, 2006 includes over 160 channels 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 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 the latest receivers such as SkyFi 2, XM2go and Roady XT

Broad distribution of XM Radio through the new automobile market and through the consumer electronics aftermarket is central to our business strategy. We are the leader in satellite-delivered entertainment and data services for the automobile market through partnerships with General Motors, Honda/Acura, Toyota/Lexus/Scion, Hyundai, Nissan/Infiniti, Porsche, Suzuki, and Isuzu and available in more than 130 different vehicle models for model year 2006. XM radios are available in the aftermarket under the Delphi, Pioneer, Alpine, Audiovox, Tao, Sony and Polk 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

Our accomplishments in operating and growing our business in 2005 are described in Item 1 *Business*

We summarize our business growth and operational results through the metrics of subscriber growth, revenue growth, ARPU, SAC, CPGA and EBITDA.

- During 2005, our ending subscribers increased 84 percent compared to December 31, 2004, to 5,932,957 subscribers
- Our total revenues in 2005 were $558 3 million, more than doubling from $244 4 million in 2004
- Our average monthly subscription revenue per subscriber (ARPU) increased from $8 68 in 2004 to $9.51 in 2005.
- Subscriber Acquisition Costs (SAC) increased from $62 in 2004 to $64 in 2005,
- Cost Per Gross Acquisition (CPGA) increased from $100 in 2004 to $109 in 2005.
- Our EBITDA loss increased from $(388.4) million in 2004 to $(434 3) million in 2005

Source. XM SATELLITE RADIO H, 10-K, March 03, 2006

Greater detail regarding these key metrics we use to monitor our business growth and our operational results are as follows:

	Years ended December 31,		
	2005	2004	2003
EBITDA *(in thousands)* (1)	$ (434,310)	$ (388,368)	$ (318,935)
Subscriber Data.			
Net Subscriber Additions (2)	2,703,833	1,868,896	1,013,069
Aftermarket, OEM & Other Subscribers (3)	5,409,066	2,800,501	1,018,963
Subscribers in OEM Promotional Periods (4)	460,615	401,988	320,473
XM Activated Vehicles with Rental Car Companies (5)	43,928	26,635	20,792
Data Services Subscribers (6)	19,348	—	—
Total Ending Subscribers (3)(4)(5)(6)(7)	5,932,957	3,229,124	1,360,228
Revenue Data *(monthly average)*			
Subscription Revenue per Aftermarket, OEM & Other Subscriber	$ 9 97	$ 9.26	$ 9 59
Subscription Revenue per Subscriber in OEM Promotional Periods	$ 5.79	$ 5.82	$ 6 48
Subscription Revenue per XM Activated Vehicle with Rental Car Companies	$ 9 88	$ 9.26	$ 5 54
Subscription Revenue per Subscriber of Data Services	$ 34 23	—	—
Average Monthly Subscription Revenue per Subscriber (ARPU) (8)	$ 9.51	$ 8 68	$ 8 97
Net Ad Sales Revenue per Subscriber (9)	$ 0 38	$ 0 33	$ 0.47
Activation, Equipment and Other Revenue per Subscriber	$ 0 68	$ 0 58	$ 1 08
Total Revenue per Subscriber	$ 10.57	$ 9 59	$ 10.52
Expense Data			
Subscriber Acquisition Costs ("SAC") (10)	$ 64	$ 62	$ 75
Cost Per Gross Addition ("CPGA") (11)	$ 109	$ 100	$ 137

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

(1) Net loss before interest income, interest expense, income taxes, depreciation and amortization is commonly referred to in our business as "EBITDA." EBITDA is not a measure of financial performance under generally accepted accounting principles Consistent with regulatory requirements, EBITDA includes Loss from de-leveraging transactions and Other income We believe EBITDA is often a useful measure of a company's operating performance and is a significant basis used by our management to measure the operating performance of our business Because we have funded and completed 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 EBITDA, which excludes this information, provides helpful information about the operating performance of our business, apart from the expenses associated with our physical plant or capital structure EBITDA is frequently used as one of the bases for comparing businesses in our industry, although our measure of EBITDA may not be comparable to similarly titled measures of other companies EBITDA does not purport to represent operating loss or cash flow from operating activities, as those terms are defined under generally accepted accounting principles, and should not be considered as an alternative to those measurements as an indicator of our performance

(2) Total net subscriber additions for the year ended December 31, 2005, include 1,723,006 retail (includes data services), 963,534 OEM, and 17,293 rental cars.

(3) Ending subscribers at December 31, 2005 include 1,127,350 family plan subscriptions at a multi-unit rate of $6 99 per radio per month

(4) OEM Promotional Subscribers — See definition and further discussion under *OEM Promotional Subscribers* on page 36

	Years ended December 31,		
	2005	2004	2003
(in thousands)			
Reconciliation of Net loss to EBITDA:			
Net loss as reported	$(666,715)	$(642,368)	$(584,535)
Add back non-EBITDA items included in net loss:			
Interest income	(23,586)	(6,239)	(3,066)
Interest expense	107,791	85,757	110,349
Depreciation & amortization	145,870	147,165	158,317
Provision for deferred income taxes	2,330	27,317	—
EBITDA	$(434,310)	$(388,368)	$(318,935)

(5) Rental car activity commenced in late June 2003 For the initial model year 2003 XM-enabled rental vehicles, XM received payments based on the use of the service Customers were charged $2 99 per day per vehicle for use of the XM service, on which XM received a revenue share. For subsequent model year 2004 and later vehicles, XM receives $10 per subscription per month

(6) Data Services Subscribers are those subscribers that are receiving services that include stand-alone XM WX Satellite Weather service and stand-alone XM Radio Online 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

(7) Subscribers — See definition and further discussion under *Subscribers* on page 36

(8) ARPU — See definition and further discussion under *Average Monthly Subscription Revenue Per Subscriber* on page 38

(9) Net Ad Sales Revenue includes sales of advertisements and program sponsorships on the XM network net of agency commissions

(10) SAC — See definition and further discussion under *Subscriber Acquisition Costs* on page 40.

(11) CPGA — See definition and further discussion under *Cost Per Gross Addition* on page 41

Source. XM SATELLITE RADIO H, 10-K, March 03, 2006

Results of Operations

(in thousands)	Years Ended December 31, 2005	2004	2003
Revenue:			
Subscription	$ 502,612	$ 220,468	$ 78,239
Activation	10,066	4,814	1,868
Merchandise	18,182	7,261	6,692
Net ad sales	20,103	8,485	4,065
Other revenue	7,303	3,415	917
Total revenue	558,266	244,443	91,781
Operating expenses:			
Cost of revenue (excludes depreciation & amortization, shown below):			
Revenue share & royalties	93,874	50,676	26,440
Customer care & billing operations	76,222	40,887	25,945
Cost of merchandise	40,707	11,557	9,797
Ad sales	10,058	6,165	3,257
Satellite & terrestrial	42,355	35,922	39,692
Broadcast & operations			
Broadcast	16,609	10,832	7,689
Operations	24,460	13,192	12,023
Total broadcast & operations	41,069	24,024	19,712
Programming & content	101,008	32,704	23,109
Total cost of revenue	405,293	201,935	147,952
Research & development (excludes depreciation & amortization, shown below)	31,218	23,513	12,285
General & administrative (excludes depreciation & amortization, shown below)	43,864	28,555	27,418
Marketing (excludes depreciation & amortization, shown below):			
Retention & support	22,275	13,286	7,873
Subsidies & distribution	264,719	165,704	92,521
Advertising & marketing	163,312	88,076	64,309
Marketing	450,306	267,066	164,703
Amortization of GM liability	37,250	37,250	35,564
Total marketing	487,556	304,316	200,267
Depreciation & amortization	145,870	147,165	158,317
Total operating expenses	1,113,801	705,484	546,239
Operating loss	(555,535)	(461,041)	(454,458)
Other income (expense)			
Interest income	23,586	6,239	3,066
Interest expense	(107,791)	(85,757)	(110,349)
Loss from de-leveraging transactions	(27,552)	(76,621)	(24,749)
Other income	2,907	2,129	1,955
Net loss before income taxes	(664,385)	(615,051)	(584,535)
Provision for deferred income taxes	(2,330)	(27,317)	—
Net loss	$ (666,715)	$(642,368)	$(584,535)

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

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The following table sets forth select performance measures on an average subscriber basis and as a percentage of total revenue:

Annual amounts per Average Subscriber (1)				Amounts as a Percentage of Total Revenue		
Years Ended December 31,				Years Ended December 31,		
2005	2004	2003		2005	2004	2003
$122	$ 107	$ 108	Total revenue	100%	100%	100%
110	96	92	Subscription revenue	90	90	85
4	4	5	Net ad sales	4	3	4
(88)	(88)	(173)	Total cost of revenue	73	83	161
(20)	(22)	(31)	Revenue share & royalties	17	21	29
(17)	(18)	(30)	Customer care & billing operations	14	17	28
(9)	(5)	(11)	Cost of merchandise	7	5	11
(9)	(16)	(46)	Satellite & terrestrial	8	15	43
(9)	(10)	(23)	Broadcast & operations	7	10	21
(22)	(14)	(27)	Programming & content	18	13	25
(10)	(12)	(32)	General & administrative	8	12	30
(106)	(133)	(235)	Total Marketing	87	124	218
(58)	(72)	(108)	Subsidies & distribution	47	68	101
(36)	(38)	(75)	Advertising & marketing	29	36	70
(95)	(169)	(374)	EBITDA loss (2)	78	159	347

(1) Average subscribers are calculated as the averages of the beginning and ending subscriber balances for each year.
(2) EBITDA loss — See definition and further discussion under *EBITDA* on page 42

Subscribers

Subscribers — Subscribers are those who are receiving and have agreed to pay for our satellite audio service and/or data services, either by credit card or by invoice, including those who are currently in promotional periods paid for 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 satellite audio service and/or data services Radios that are revenue generating are counted individually as subscribers Subscribers are the primary source of our revenues Our target market is the over 230 million registered vehicles and over 110 million households in the United States We lead the broad market adoption of satellite radio with over 5 9 million subscribers at the end of 2005. The rate of growth of our aftermarket subscriber base increases during the retail holiday seasons and with our promotional activities. OEM subscriber growth is driven primarily by the number of XM-enabled vehicles manufactured and fluctuates with OEM promotional activity.

OEM Promotional Subscribers — OEM Promotional Subscribers are subscribers who have either a portion or their entire subscription fee paid for by an OEM for a fixed period following the initial purchase or lease of the vehicle Currently, at the time of sale, vehicle owners generally receive a three month prepaid trial subscription XM generally receives two months of the three month trial subscription from the vehicle manufacturer. 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 GM and Honda generally indicate the inclusion of three months free of XM service on the window sticker of XM-enabled vehicles Under the auto-activation programs, subscribers are included in our OEM promotional subscriber count from the time of vehicle purchase or lease, through the period of trial service plus an additional 30 days. We measure the success of these promotional programs based on the percentage 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 We expect subscribers in OEM promotional periods to continue to grow as a result of planned production increases of XM enabled vehicle models under existing OEM partner agreements to include more models offering our service

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

- 2005 – 2004. Ending subscribers at December 31, 2005 increased 84 percent compared to December 31, 2004. Net subscriber additions include 1,723,006 retail (includes data services), 963,534 OEM, and 17,293 rental cars.

  Retail Subscribers — Retail ending subscribers grew 92 percent during 2005 compared to 2004 We attribute this growth primarily to consumer appeal for the quality and diversity of our programming, our innovative radios delivered to market at attractive price points, as well as strategically increasing our points of presence in the retail channels. We leveraged these factors with increased strategic marketing to drive our 2005 growth.

  OEM Subscribers — OEM ending subscribers grew 73 percent during 2005 compared to 2004. During 2005, XM was available on over 130 vehicle models, with approximately 120 of those offered as OEM factory–installed options These figures represented an increase of over 40 models with XM as a factory–installed option from 2004 During 2005, General Motors produced its 3 millionth vehicle with a factory–installed XM radio and announced plans to manufacture 1 55 million vehicles factory–installed with XM in the 2006 calendar year. In October 2005, Honda announced its plans to factory–install over 550,000 of its 2006 models with XM Radio, compared to the 2005 target of 400,000 XM's OEM partners at the end of 2005 represented approximately 60 percent of the U.S. auto market The conversion rate for 2005 decreased slightly to 57 percent compared to 59 percent for 2004 primarily as a result of the April 2005 30 percent rate increase

- 2004 – 2003 Ending subscribers at December 31, 2004 increased 137 percent compared to December 31, 2003. Net subscriber additions include 1,057,347 retail, 805,706 OEM, and 5,843 rental cars

  Retail Subscribers — Retail ending subscribers grew 129 percent during 2004 compared to 2003. Retail subscriber growth increased due to broad market appeal for satellite radio services, our expanded retail points of presence with large retailers such as Wal–Mart and Target, and our advanced radio technologies.

  OEM Subscribers — OEM ending subscribers grew 155 percent during 2004 compared to 2003. During 2004, XM was available on over 100 vehicle models, with approximately 80 of those offered as OEM factory–installed options These figures represented an increase of over 30 new vehicle models with the XM Radio option During 2004, General Motors achieved a major milestone in signing up its 1 millionth XM subscriber. XM's OEM partners at the end of 2004 represented approximately 55 percent of the U.S auto market. The conversion rate for 2004 was 59 percent compared to 74 percent for 2003 The decrease in the conversion rate is due to the implementation of an automated factory activation process during the first quarter of 2004 that streamlined the radio activation process for the dealers The implementation of the fully automated factory activation program increased the number of subscribers originating from our OEM distribution channel, but resulted in a decline in our overall conversion rate

Revenue

Subscription Revenue — Subscription revenue consists primarily of our monthly subscription fees for our satellite audio service and data services charged to consumers, commercial establishments and fleets, which are recognized as the service is provided. Revenues received from vehicle manufacturers for promotional service programs are included in Subscription revenue At the time of sale, vehicle owners generally receive a three month trial subscription and are included in OEM promotional subscribers We generally receive payment for two months of the three month trial subscription period from the vehicle manufacturer Our subscriber arrangements are generally cancelable without penalty Promotions and discounts are treated as a reduction to revenue during the period of the promotion Sales incentives, consisting of rebates to subscribers, offset Subscription revenue. Discounts on equipment sold with service are allocated to equipment and service based on the relative fair values of delivered items. Subscription revenue growth is predominantly driven by the growth in our subscriber base but is affected by fluctuations in the percentage of subscribers in our various discount plans and rate changes. Additionally, the timing of subscriber additions affects comparability between years.

- 2005 – 2004 Subscription revenue growth during 2005 was 128 percent, due primarily to our April 2, 2005 30 percent rate increase and 84 percent increase in subscribers, partially offset by an increase in subscribers on discount plans In February 2005, we announced that effective April 2, 2005 we were expanding our basic service package and increasing our monthly subscription price to $12.95 from $9.99 Existing customers were able to lock in a discounted rate by signing up for a pre–paid plan of up to five years prior to mid–April 2005 The expanded basic service now includes the Internet service XM Radio Online (previously $3 99 per month) and the High Voltage Channel (previously $1.99 per month), both of which were premium services prior to this change. During 2005, Subscription revenue included $35.0 million from related parties for subscription fees paid under OEM promotional agreements, compared with $25 0 million in 2004

Source XM SATELLITE RADIO H, 10–K, March 03, 2006

- 2004 – 2003 Subscription revenue growth during 2004 was primarily driven by the growth in our subscriber base For 2004, Subscription revenue included $25 0 million from related parties for subscription fees paid under OEM promotional agreements, compared with $8 5 million in 2003.

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 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. We expect that ARPU will continue to slowly increase into 2006 as more subscribers are added and existing subscribers are converted to the new rate.

- 2005 – 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 Ending subscribers include 1,127,350 family plan subscriptions at a multi–unit rate of $6.99 per radio per month

- 2004 – 2003. ARPU decreased primarily as a result of the popularity of our multi–year prepayment plan and multi–radio ("family plan") discounted programs Ending subscribers include 376,049 family plan subscriptions at a multi–unit rate of $6 99 per radio per month

Net Ad Sales — Net ad sales revenue consists of sales of advertisements and program sponsorships on the XM network that are recognized in the period in which they are broadcast Net ad sales revenue includes advertising aired in exchange for goods and services (barter), which is recorded at fair value Net ad sales revenue is presented net of agency commissions in the Consolidated Statements of Operations.

- 2005 – 2004 Net Ad sales revenue increased $11 6 million or 137 percent during 2005 as compared to 2004 This growth was driven by increased spending by current advertisers as well as the addition of new advertisers We expect this trend to continue through 2006.

- 2004 – 2003. Net Ad sales revenue increased of $4 4 million or 109 percent during 2004 as compared to 2003

Operating Expenses

Cost of Revenue — The cost of revenue continued to decrease as a percentage of revenue, which is reflected in the favorable growth in gross margins of $153 million, $43 million, and $(56) million for the years ended December 31, 2005, 2004, and 2003, respectively.

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 by our subscriber base and broadcast content. These expenses as a percentage of total revenue have continued to decrease from 2003 through 2005, despite increasing in dollars. We expect these costs to continue to increase with the growth in revenues and subscribers, and will fluctuate based on future agreements that include entering into new contracts and the renegotiation of existing contracts 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*".

- 2005 – 2004 These costs increased $43.2 million or 85 percent, which was primarily driven by an increase in shared revenue with distribution partners due to increased subscribers and revenue Additionally, royalties increased due to increased subscribers and ad sales revenue.

- 2004 – 2003 These costs increased $24 2 million or 92 percent as a result of our growth in subscriber base and revenues.

Customer Care & Billing Operations — Customer care & billing operations expense includes expenses from customer care functions as well as internal information technology costs associated with front office applications These costs are primarily driven by the volume and rate of growth of our subscriber base These expenses as a percentage of total revenue have continued to decrease from 2003 through 2005, despite increasing in dollars We expect Customer care &

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

billing operations expense to continue to increase as we add subscribers but decrease on an average cost per subscriber basis

- 2005 – 2004 These expenses increased $35 3 million or 86 percent which was driven by our subscriber growth and resulted in increased costs associated with customer care functions, credit card processing, bad debt and internal information technology

- 2004 – 2003. These expenses increased $14.9 million or 58 percent, which was primarily the result of an increase in subscribers.

Cost of merchandise — We sell merchandise direct to consumers through XM's online store and XM–owned kiosks. Cost of merchandise consists primarily of the cost of radios and accessories, including hardware manufacturer subsidies, and related fulfillment costs associated with the direct sale of this merchandise These costs are primarily driven by the volume of radios sales, which is affected by promotional programs.

- 2005 – 2004 These cost increased $29 2 million or 252 percent, which was primarily the result of our 2005 fourth quarter promotional programs to compete with the launch of Howard Stern by our competitor.

- 2004 – 2003 These costs increased only slightly during 2004 as compared to 2003.

Satellite & Terrestrial — Satellite & terrestrial includes costs related to telemetry, tracking and control of our three 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 expenses to continue to decrease as a percentage of total revenue and on an average cost per subscriber basis despite an expected increase in total costs due to the planned launch and operation of our fourth satellite as well as the expansion of our terrestrial repeater network during 2006

- 2005 – 2004 These costs increased $6 4 million or 18 percent, which 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

- 2004 – 2003 These costs decreased only slightly during 2004 as compared to 2003.

Broadcast & Operations — Broadcast and operations includes 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 and other new distribution platforms. The advertising trafficking (scheduling and insertion) functions are also included. Operations expense includes facilities and information technology expense These expenses as a percentage of total revenue have continued to decrease from 2003 through 2005, despite increasing in dollars

- 2005 – 2004 These costs increased $17 0 million or 71 percent and were driven by $5.8 million in increased costs associated with enhancements to and maintenance of the broadcast systems infrastructure. Broadcast expenses are expected to increase with new content initiatives 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

- 2004 – 2003 These costs increased only slightly during 2004 as compared to 2003

Programming & Content — Programming & content include the creative, production and licensing costs associated with our over 160 channels of XM–original and third party content We view Programming and content expenses as a cost of attracting and retaining subscribers. This includes costs of programming staff and fixed payments for third party content These costs are primarily driven by programming initiatives. These expenses have increased from 2003 to 2005, and although our expenses for Programming and content are not tied to subscriber counts, these expenses have varied as a percentage of revenue due to the fact that our revenue growth has surpassed our growth in expenses for Programming and content We expect these expenses to increase in future periods as a result of programming initiatives, such as launch of Oprah & Friends in 2006, as well as incurring the full year of expense from other programming initiatives launched in 2005, but to remain relatively flat on a per subscriber basis.

- 2005 – 2004 These costs increased $68 3 million or 209 percent and were driven primarily by costs in support of new or full year impact of programming initiatives, including Major League Baseball®, PGA TOUR® Network, XM Deportivo, Fox News, Fox News Talk, the Take Five women's programming channel, and the

Source XM SATELLITE RADIO H, 10–K, March 03, 2006

National Hockey League® We launched our MLB programming in mid-February 2005. We paid $50 million for the 2005 season and will pay $60 million per season thereafter. Our MLB seasons run for the twelve month period beginning in February of each year

- 2004 – 2003. These costs increased $9 6 million or 42 percent and were driven primarily by staffing and content related expenses in support of new 2004 programming initiatives, including Instant Traffic and Weather channels, Opie & Anthony and XM Public Radio.

General & Administrative — General & administrative expense primarily include management's salaries and benefits, professional fees, general business insurance, as well as other corporate expenses These costs have been predominantly driven by personnel costs and infrastructure expenses to support our growing subscriber base These expenses as a percentage of total revenue have continued to decrease from 2003 through 2005, despite increasing in dollars.

- 2005 – 2004 These costs increased $15 3 million or 54 percent and were driven primarily by an increase in headcount and legal fees associated with the satellite arbitration and strategic relationships entered into during 2005

- 2004 – 2003 These costs increased slightly and primarily resulted from an increase in director and officer insurance premiums and in non-cash stock-based compensation charges for consultants, offset in part by a decrease in costs incurred for professional services.

Marketing — Total marketing expenses consist of the direct cost to acquire a subscriber, which include subsidization to drive retail price points, distribution commissions and discretionary costs consisting of advertising and brand development Included in total Marketing expenses is the Amortization of GM liability, which is relatively fixed and is not expected to change in the near future We expect total marketing expense to continue to increase, however, we expect the average cost to acquire a new subscriber will decrease

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, sales and activations of radios through our retail channel, and promotional activity We expect these costs to increase with planned production increases of XM-enabled vehicles and as we increase sales of radios through our retail channels, however, we expect these costs to decrease on an average cost per new subscriber in 2006

- 2005 – 2004 These costs increased $99 0 million or 60 percent and were driven primarily by the 84 percent increase in subscribers

- 2004 – 2003 These costs increased $73.2 million or 79 percent and were driven primarily by the increase in subscribers, new activations, and GM vehicles equipped with XM radios

Subscriber Acquisition Costs — Subscriber acquisition costs include Subsidies and distribution costs, excluding on-going loyalty payments to distribution partners, and negative margins from direct sales of merchandise Subscriber acquisition costs are divided by the appropriate per unit gross additions or units manufactured to calculate what we refer to as "SAC " We expect SAC to decrease in 2006 primarily as a result of a return to normal levels of subsidization and promotional activities as compared to the fourth quarter of 2005

- 2005 – 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 for 2005 as compared to 2004 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.

- 2004 – 2003 During 2004 and 2003, we incurred subscriber acquisition costs of $157.5 million and $88.8 million, respectively SAC for 2004 and 2003 was $62 and $75, respectively The decline in SAC for 2004 as compared to 2003 is due primarily to the decline in manufacturer subsidies as a result of research and development efforts to reduce chipset costs

Advertising & Marketing — These activities drive our sales, establish our brand recognition, facilitate our growth, and drive product innovation. 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 These costs fluctuate based on the timing of these activities Historically, we have significant

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

advertising and marketing campaigns geared towards the holiday season We do not expect these costs to increase substantially in the future in total dollars and expect that they will decrease as an incremental component of CPGA

- 2005 – 2004 These costs increased $75 2 million or 85 percent and were primarily driven by increases in retail media expenses and cooperative marketing which has resulted in the broadening of our presence in radio, television, print, Internet, stores, and malls.

- 2004 – 2003 These costs increased $23 8 million or 37 percent and were primarily driven by increases in retail marketing and media advertising expenses

Cost Per Gross Addition ("CPGA") — CPGA costs include the amounts in SAC, as well as Advertising and marketing, which includes advertising, media and other discretionary marketing expenses. CPGA costs do not include marketing staff (included in Retention & support) or the amortization of the GM guaranteed payments (included in Amortization of GM liability) In our financial statements, SAC costs are captured in Subsidies & distribution and the negative margins from equipment sales, while CPGA costs are primarily captured by the combination of Subsidies & distribution, Advertising & marketing, plus the negative margins from equipment sales. These costs are divided by the gross additions for the period to calculate Average CPGA. We expect CPGA to decrease in 2006 primarily as a result of a return to normal levels of subsidization and promotional activities as compared to the fourth quarter of 2005.

- 2005 – 2004 During 2005 and 2004, we incurred CPGA expenses of $449 4 million, and $257 9 million, respectively Average CPGA for 2005 and 2004 was $109 and $100, respectively The increase in CPGA is due primarily to the fourth quarter of 2005 increase in SAC, and the substantial one-time increase in discretionary advertising and marketing expenses, primarily media, in response to our competitor's launch of Howard Stern

- 2004 – 2003. During 2004 and 2003, we incurred CPGA expenses of $257 9 million, and $159 9 million, respectively. Average CPGA for 2004 and 2003 was $100 and $137, respectively The decline in CPGA for 2004 as compared to 2003 is due to the combined impacts of the declines in manufacturer subsidies, discretionary advertising and marketing expenses and an increase in the number of activations.

Depreciation & Amortization — Depreciation and amortization expense as a percentage of total revenue is continuing to decrease and has decreased in dollars as well We expect these expenses to increase in 2006 due to the inclusion of a full year of depreciation related to XM-3 and the addition of a partial year of depreciation based on the expected launch of XM-4 in the second half of 2006.

- 2005 – 2004 These costs decreased slightly primarily due to lower depreciation on XM-1 and XM-2 as a result of recording approximately $134 million of insurance proceeds as a reduction to the carrying values of our satellites in August 2004 offset partially by increased depreciation related to XM-3 which was placed into service in April 2005 as well as other additional 2005 capital expenditures

- 2004 – 2003. These costs decreased $11 2 million or 7 percent and were primarily driven by decreases due to lower depreciation on XM-1 and XM-2 as a result of the August 2004 insurance proceeds of approximately $134 million reducing the carrying values of our satellites in August 2004.

Net Non-operating Expenses

Other Income (Expense) — Other income (expense) consists primarily of net costs associated with financing activities We expect Interest income to decrease in the near future as average cash balances decrease and yields stabilize

Net costs associated with financing activity — Costs associated with financing activities include Interest income, Interest expense, and de-leveraging costs

- 2005 – 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. For the years ended December 31, 2005 and 2004, we recorded de-leveraging charges of $27.6 million and $76.6 million to retire debt with carrying values including accrued interest of

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

$80 0 million and $206 1 million, respectively. We estimate that we were able to eliminate $45 0 million in interest payments over the next four years

- 2004 – 2003 Interest expense decreased $24 6 million, which was offset by a $51.9 million increase in de–leveraging charges. The decrease in Interest expense was primarily attributable to an increase in capitalization of interest costs due to increased capital expenditures for the system under construction For the years ended December 31, 2004 and 2003, we recorded de–leveraging charges of $76 6 million and $24 7 million to retire debt with carrying values including accrued interest of $206.1 million and $125.2 million, respectively.

Provision for Deferred Income Taxes — In 2004, we recorded a deferred tax liability related to indefinite lived assets that are amortized and deducted for tax purposes but are not amortized under generally accepted accounting principles. We will continue to incur approximately $2 3 million in annual tax expense as the indefinite lived assets are amortized for tax purposes over the next 12 years

- 2005 – 2004 Beginning in the second quarter of 2004, we have recorded tax expense of approximately $0.6 million per quarter related to the amortization of the indefinite lived assets for tax purposes. In 2004, we recorded a total provision for deferred income tax expense of $27 3 million as the result of recording a deferred tax liability related to indefinite lived assets

- 2004 – 2003. We recorded a provision for deferred income taxes expense of $27 3 million during 2004. This was the result of our recording of a deferred tax liability related to indefinite lived assets that are amortized and deducted for tax purposes but are not amortized under generally accepted accounting principles

EBITDA

EBITDA — Net loss before interest income, interest expense, income taxes, depreciation and amortization is commonly referred to in our business as "EBITDA " EBITDA is not a measure of financial performance under generally accepted accounting principles Consistent with regulatory requirements, EBITDA includes Loss from de–leveraging transactions and Other income We believe EBITDA is often a useful measure of a company's operating performance and is a significant basis used by our management to measure the operating performance of our business. Because we have funded and completed 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 EBITDA, which excludes this information, provides helpful information about the operating performance of our business, apart from the expenses associated with our physical plant or capital structure EBITDA is frequently used as one of the bases for comparing businesses in our industry, although our measure of EBITDA may not be comparable to similarly titled measures of other companies EBITDA does not purport to represent operating activities, as those terms are defined under generally accepted accounting principles, and should not be considered as an alternative to those measurements as an indicator of our performance. EBITDA loss is continuing to decrease as a percentage of revenue, despite increasing in dollars

- 2005 – 2004 EBITDA loss increased $45 9 million or 12 percent but decreased as a percentage of revenue and on a per average subscriber basis Included in EBITDA are de–leveraging charges of $27 6 million and $76.6 million in 2005 and 2004, respectively The decreased loss as a percentage of revenue reflects our revenue growth and margin improvement, offset in part by an increase in discretionary marketing costs as well as operating costs as a result of our subscriber growth.

- 2004 – 2003 EBITDA loss increased $69 4 million or 22 percent but decreased as a percentage of revenue Included in EBITDA are de–leveraging charges of $76 6 million and $24 7 million in 2004 and 2003, respectively. The increased loss reflects our increase in operating costs as a result of our subscriber growth and increase in losses associated with de–leveraging transactions, offset in part by revenue growth and margin improvement as well as a decline in the costs to acquire each new subscriber.

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

Liquidity and Capital Resources

Overview

We have experienced and expect to continue to experience significant growth in demand for our products and services This growing demand has required and will continue to require us to invest significant amounts in our business. Since inception through December 31, 2005, we have raised proceeds of $3.5 billion, net of offering costs, through equity and debt offerings We have historically had negative cash flows from operations and expect that trend to continue for 2006 Our ability to become profitable depends upon many factors, some of which are identified below under the caption entitled *"Future Operating Liquidity and Capital Resource Requirements."* Our principal sources of liquidity are our cash and cash equivalents, cash received for pre-paid subscriptions, our GM facilities, as well as cash provided by financing activities We also have significant outstanding contracts and commercial commitments that need to be paid in cash or through credit or equity facilities over the next several years These contract commitments are comprised of subsidies and distribution costs, rights and royalty fees, revenue share arrangements, programming costs, repayment of long-term debt, lease payments and service payments. Our ability to become profitable also depends upon other factors identified below under the caption entitled *"Future Operating Liquidity and Capital Resource Requirements "*

The following table presents a summary of our cash flows, beginning and ending cash balances for years ended December 31, 2005, 2004 and 2003.

	Years Ended December 31,		
	2005	2004	2003
(in thousands)			
Cash flows used in operating activities	$(168,449)	$ (85,552)	$(245,123)
Cash flows provided by (used in) investing activities	(207,789)	(36,329)	14,621
Cash flows provided by financing activities	369,362	421,441	615,991
Net increase (decrease) in cash and cash equivalents	(6,876)	299,560	385,489
Cash and cash equivalents at beginning of period	717,867	418,307	32,818
Cash and cash equivalents at end of period	$ 710,991	$ 717,867	$ 418,307

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

- During 2005, cash used in operating activities was $168 5 million, consisting of a net loss of $666.7 million adjusted for net non-cash expenses of $262.9 million and $235 3 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 $99.6 million increase in Prepaids and other assets primarily for programming during 2005

- During 2004, cash used in operating activities was $85 6 million, consisting of a net loss of $642.4 million adjusted for net non-cash expenses of $317 9 million and $238.9 million provided by working capital as well as other operating activities. Included in cash provided by working capital is a $98 5 million increase in Subscriber deferred revenue and a $82.8 million increase in amounts Due to related parties

- During 2003, cash used in operating activities was $245 1 million, consisting of a net loss of $584.5 million adjusted for net non-cash expenses of $250 1 million and $89 3 million provided by working capital as well as other operating activities. Included in cash provided by working capital is a $41 6 million increase in Subscriber deferred revenue and a $59 4 million increase in current trade liabilities during 2003.

Investing Activities — Investing activities primarily consist of capital expenditures and purchases and sales of marketable debt and equity securities

- During 2005, cash used in investing activities was $207 8 million, primarily consisting of $179 8 million in capital expenditures, $27 0 million used for equity investments Capital expenditures consisted primarily of expenditures for the construction and launch of XM-3 and the construction of XM-4, computer systems infrastructure and broadcast facilities, and the construction of the backup uplink facility during 2005

- During 2004, 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

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

- During 2003, cash provided by investing activities was $14 6 million, primarily consisting of proceeds from investments partially offset by capital expenditures

July 2004 Satellite Insurance Settlement — In July 2004, the Company reached agreement with insurers covering 80 percent of the aggregate sum insured at a settlement equal to 44.5 percent 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 2005, cash provided by financing activities was $369.4 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 million from the issuance of 1.75% Convertible Senior Notes from an over-allotment option that was exercised in January 2005 offset by the repayment of the remaining $22 8 million principal balance of 14% Senior Secured Notes due 2010, and the repayment of $15 0 million principal balance of 12% Senior Secured Notes due 2010

- During 2004, cash provided by financing activities was $421 4 million; primarily consisting of $300 0 million provided by the issuance of 1 75% Convertible Senior Notes due 2009, $200 0 million provided by the issuance of Senior Secured Floating Rate Notes due 2009 and $185.5 million provided by the issuance of 7 million shares of Class A common in January 2004, offset in part by the repayment of $184.2 million of related party debt, and the repayment of $83.0 million of secured debt

- During 2003, cash provided by financing activities was $616 0 million, primarily consisting of $253.1 million provided from the issuance of common stock and $395.0 million provided from issuance of debt and refinancings partially offset by repayments and repurchases The proceeds from the issuance of common stock resulted primarily from the issuance of 11 3 million shares of Class A common stock in September 2003 that yielded gross proceeds of $150 million and the issuance of 10 8 million shares of Class A common stock under our Direct Stock Purchase Program that yielded proceeds of $66 million In January 2003, we placed $279 3 million aggregate principal amount at maturity of our 10% Senior Secured Discount Convertible Notes due December 31, 2009, which yielded gross proceeds of $210 0 million.

Future Operating Liquidity and Capital Resource Requirements

Our projected funding requirements are based on our current business plan, which in turn is based on our operating experience to date and our available resources We are pursuing a business plan designed to increase subscribers and revenues while reducing or maintaining subscriber acquisition unit costs Our plan contemplates our focusing on the new automobile market where we have relationships with automobile manufacturers, the continuing introduction of innovative yet affordable technology in the retail aftermarket and the use of our most productive distribution channels

Provided that we meet the revenue, expense and cash flow projections of our business plan, we expect to be fully funded and will not need to raise additional financing to continue operations. Our business plan is based on estimates regarding expected future costs and expected future revenue Our costs may exceed or our revenues may fall short of our estimates, our estimates may change, and future developments may affect our estimates. Any of these factors may increase our need for funds, which would require us to seek additional financing to continue implementing our current business plan.

In addition, we may seek additional financing to undertake initiatives not contemplated by our current business plan We may pursue a range of different sizes or types of financing as opportunities arise, such as the sale of additional equity and debt securities. We have and may continue to take advantage of opportunities to reduce our level of indebtedness and preferred stock in exchange for issuing common or other equity securities, if these transactions can be completed on favorable terms We may also take advantage of market conditions and our improving credit profile to refinance higher rate bonds and may continue de-leveraging activities if we can do so on favorable terms In particular, we are actively considering replacing our existing, more expensive debt instruments with new lower coupon instruments to lower our overall cost of capital, and/or establishing a bank revolver to provide standby liquidity, without bearing the full costs of carrying cash on our Balance Sheet There can be no assurance that we will be able to complete the refinancing, in whole or in part

In the event of unfavorable future developments we may not be able to raise additional funds on favorable terms or at all Our ability to obtain additional financing depends on several factors, including future market conditions, our success or lack of success in developing, implementing and marketing our satellite audio service and data services; our future creditworthiness; and restrictions contained in agreements with our investors or lenders. Additional financing activities could increase our level

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

of indebtedness or result in further dilution to our equity holders. If we fail to obtain necessary financing on a timely basis, a number of adverse effects could occur, or we may have to revise our business plan.

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 Note 17 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, 2005, 2004, and 2003, we incurred $29 7 million, $21.5 million, and $14 2 million, respectively, in relation to services provided for customer care functions Our primary customer service provider agreement will expire in June 2006

- *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, 2005, 2004, and 2003, we incurred expenses of $90 8 million, $26 5 million and $19 6 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 2005 contracts are recognized and as new contracts are added in 2006 The amount of future costs related to these agreements cannot be estimated, but are expected to be substantial Of these amounts, $5 6 million, $1 5 million and $0 4 million, are included in Revenue Share & Royalties, and $10 2 million, $10 2 million, and $10.1 million, are included in Advertising & Marketing during the years ended December 31, 2005, 2004, and 2003, respectively

- *Major League Baseball® Agreement* — In October 2004, we announced a multi-year agreement with Major League Baseball® to broadcast MLB games live nationwide and to become the Official Satellite Radio provider of Major League Baseball® We paid $50 million for 2005 and will pay $60 million per year thereafter through 2012, with $120 million to be deposited into escrow in 2006 MLB has the option to extend the agreement for the 2013, 2014 and 2015 seasons at the same $60 million annual compensation rate We paid $10 million to MLB in October 2004 as a prepayment for the 2006 season We 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.

- *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, 2005, 2004 and 2003, we incurred expenses of $22.0 million, $13 7 million and $9 5 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, 2005, 2004 and 2003, we incurred expenses of $199 2 million, $94 5 million and $56 3 million, respectively, in relation to these agreements, excluding expenses related to GM

- *General Motors Distribution Agreement* — We have significant payment obligations under our distribution agreement with General Motors During the term of the agreement, which expires 12 years from the commencement date of our commercial operations, 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 are due to GM and confirming the date of our commencement of commercial operations, and to provide that we may make certain payments to GM in the form of indebtedness or shares of our Class A common stock XM's total cash payment obligations were not

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

increased We have significant annual, fixed payment obligations to GM As a result of the June 2002 amendment, we commenced recognizing these fixed payment obligations for the period ending through November 2005, which approximate $63 6 million, on a straight-line basis However, due to the January 2003 amendment to the Distribution Agreement and GM's current roll out plans which demonstrates a likelihood that GM will exceed minimum installation targets, beginning in 2003 we began recognizing these fixed payments, which approximate $397 3 million, on a straight-line basis over the remaining term of the contract (September 2013). We have issued a 10% Senior Secured Convertible Note due 2009 with an aggregate principal amount of $89 0 million to OnStar in lieu of making these fixed payments to OnStar for amounts otherwise due in 2003 through 2006 In February 2004, we completed the redemption of the note. As part of the redemption, GM converted $7 8 million in principal amount of the note, representing the entire principal amount of the note that had vested conversion rights at the time of the redemption, into 980,670 shares of our Class A common stock in accordance with the terms of the note. The remaining $81.2 million in principal amount plus accrued interest was repaid with cash. Additional payments totaling $320 3 million are due as follows. $80 7 million in 2007, $106 7 million in 2008 and $132 9 million in 2009. We recorded $22 3 million of current prepaid expense to related party in connection with the guaranteed fixed payments in the Consolidated Balance Sheets at December 31, 2005.

In order to encourage the broad installation of XM radios in GM vehicles, we have agreed to subsidize a portion of the cost of XM radios, and to make incentive payments to GM when the owners of GM vehicles with installed XM radios become subscribers to the Company's service We must also share with GM a percentage of the subscription revenue attributable to GM vehicles with installed XM radios, which percentage increases until there are more than 8 million GM vehicles with installed XM radios (at which point the percentage remains constant) During the second quarter of 2004, a clarification was agreed to by us and OnStar relating to the implementation of certain aspects of revenue sharing contained within the distribution agreement Accordingly, the revenue share expense is recognized as the related subscription revenue is earned We recorded $27 5 million of current prepaid expense to related party and $9 8 million of non-current prepaid expense to related party in connection with this revenue sharing arrangement in the Consolidated Balance Sheets at December 31, 2005. We will also make available to GM bandwidth on our system As part of the agreement, OnStar provides certain call-center related services directly to XM subscribers who are also OnStar customers and we must reimburse OnStar for these XM-related call center services The agreement is subject to renegotiation at any time based upon the installation of radios that are compatible with a common receiver platform or capable of receiving Sirius Satellite Radio's service. The agreement is subject to renegotiation if as of November 2005, and at two-year intervals thereafter, GM does not achieve and maintain specified installation levels of GM vehicles capable of receiving the Company's service The specified installation level of 1,240,000 units by November 2005 was achieved in 2004. The specified installation levels in future years are the lesser of 600,000 units per year or amounts proportionate to target market shares in the satellite digital radio service market There can be no assurances as to the outcome of any such renegotiations. General Motors' exclusivity obligations will discontinue if, by November 2007 and at two-year intervals thereafter, the Company fails to achieve and maintain specified minimum market share levels in the satellite digital radio service market Prior to 2001, we had not incurred any costs under the distribution agreement During the years ended December 31, 2005, 2004 and 2003, we incurred total costs of $206 1 million, $159 4 million and $108 3 million, respectively, under the distribution agreement.

- *Purchase Obligations* — In the ordinary course of business, we enter into unconditional purchase commitments for certain component parts and long-lead items used in the manufacture of XM radios to ensure their availability. As of December 31, 2005, these unconditional purchase commitments totaled $38 6 million These unconditional purchase commitments consist primarily of standing purchase commitments to component manufacturers and providers that are subsequently canceled upon their receipt of a corresponding purchase order from the equipment manufacturer. Management believes that all purchase commitments outstanding at December 31, 2005 will be canceled early in 2006 Generally, unconditional purchase commitments entered into by XM have been canceled by the receipt of corresponding purchase orders from equipment manufacturers During the years ended December 31, 2005 and 2004, the Company purchased $14 6 million and $0 0 million, respectively, under unconditional purchase commitments

- *Satellite Contracts* — Under our launch schedule for XM-4, we will incur capital expenditures relating to its launch approximately 12 months earlier than originally planned, but the amount of capital expenditures on XM-4 itself is not expected to change materially. Under our existing satellite construction and launch contracts, remaining costs for the construction and launch of XM-4 and the construction of XM-5 are expected to be approximately $179 million in 2006, $80 million in 2007, and $2 million in 2008. Additionally, we will pay $15 million in 2007

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

representing a deferral of XM-3 construction costs. These costs exclude financing charges on certain amounts deferred prior to launch, in-orbit performance incentives, launch insurance and the XM-5 launch Our contractual agreements for our satellites are more fully described in Note 17 of the Notes to the Consolidated Financial Statements in Item 8 of this Form 10-K under the heading "*Satellite System.*"

- *Long-term debt* — For a further discussion of long-term debt, see Note 10 of the Notes to the Consolidated Financial Statements in Item 8. of this Form 10-K Based on the various terms of our long-term debt, our ability to redeem any long-term debt is limited. We have and may continue to take advantage of opportunities to reduce our level of indebtedness in exchange for issuing equity securities, if these transactions can be completed on favorable terms

The following table represents our cash contractual obligations as of December 31, 2005 (as adjusted for the January 2006 de-leveraging transaction that is more fully discussed in Note 11 of the Notes to the Consolidated Financial Statements in Item 8 of this Form 10-K).

	Payments Due by Period						
	2006	2007	2008	2009	2010	2011 and Beyond	Total
(in thousands)							
Long-term debt (1)	$ 7,608	$ 5,550	$ 2,212	$ 914,865	$106,584	$ 30,524	$1,067,343
GM distribution agreement (1)	—	80,753	106,688	132,889	—	—	320,330
Major League Baseball® agreement (2)	145,000	60,000	60,000	60,000	60,000	—	385,000
Satellites (3)	178,500	95,462	2,288	—	—	—	276,250
Other operating agreements (4)	109,842	91,604	81,342	58,801	30,850	74,271	446,710
Operating lease obligations	21,267	15,564	13,447	13,524	10,623	6,275	80,700
Total	$462,217	$348,933	$265,977	$1,180,079	$208,057	$111,070	$2,576,333

(1) The above amounts do not include interest, which in some cases is variable in amount
(2) Excludes up to $180 million payable in the event Major League Baseball® exercises its option to extend the Agreement by up to three additional years. Includes $120 million covering the last two years (2011 and 2012), to be deposited into escrow on a current basis
(3) Excludes financing charges, in-orbit incentives, and launch insurance, and assumes launch of XM-4 in 2006
(4) Other operating agreements include programming, marketing and royalty agreements Includes the three-year, $55 million agreement to launch the new Oprah & Friends channel entered into in February 2006

The long-term debt payments due in 2009 include the maturity of XM's $186 5 million aggregate principal amount at maturity of 14% Senior Secured Discount Notes due 2009, the maturity of our $127 6 million aggregate principal amount at maturity of 10% Senior Secured Discount Convertible Notes due 2009 (as adjusted for the January 2006 de-leveraging transaction), the maturity of our $200 0 million aggregate principal amount at maturity of Senior Secured Floating Rate Notes due 2009, and 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 2010 and beyond include the maturity of our remaining outstanding $30.9 million of mortgage loan to finance the purchase of our headquarters facility, the maturity of our remaining outstanding $6 0 million of mortgage loan to finance the purchase of our headquarters data center, and the maturity of our $100 0 million aggregate principal amount at maturity of 12% Senior Secured Notes due 2010

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.

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

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 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 undiscounted future cash flows 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. At December 31, 2005, the combined carrying value of XM−1, XM−2, and XM−3 is $356 8 million. 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

Source XM SATELLITE RADIO H, 10−K, March 03, 2006

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2005, we do not have any derivative financial instruments We do not hold or issue any free-standing derivatives. We invest our cash in commercial paper, short-term investment-grade corporate and government obligations and money market funds. We have existing obligations related to our long-term debt agreements As of December 31, 2005, we did not have significant cash flow exposure to changing interest rates on our long-term debt because the interest rates of the majority of those securities are fixed. However, the estimated fair value of the fixed-rate debt is subject to market risk. As of December 31, 2005, we had approximately $843 0 million in fixed-rate debt, which is approximately 81 percent of total debt. We run the risk that market rates will decline and the required payments will exceed those based on current market rates. Under our current policies, we do not use interest rate derivative instruments to manage our exposure to interest rate fluctuations

Presented below is an analysis of our financial instruments as of December 31, 2005 that are sensitive to changes in interest rates. The tables demonstrate the change in market value of the instruments calculated for an instantaneous parallel shift in interest rates, plus or minus 50 basis points ("bp"), 100 bp and 150 bp. With respect to our fixed-rate debt, the sensitivity table below illustrates estimated market values, or the estimated price at which the debt would trade should interest rates fall or rise in the range indicated, assuming similar terms and similar assessment of risk by our lenders Estimated market values are determined using quoted market prices or market rates on comparable instruments as of December 31, 2005.

	Interest-rate sensitivity at December 31, 2005						
	Estimated market value				Estimated market value		
(in millions)	-150 bp	-100 bp	-50 bp	Fair value	+50 bp	+100 bp	+150 bp
14% senior secured discount notes due 2009	$207.0	$203 9	$200.8	$197.8	$194.8	$191 9	$189 0
12% senior secured notes due 2010	118 9	116.8	114.8	112.8	110.8	108 9	107 1
1.75% convertible senior notes due 2009	373.2	366 3	359.6	353.0	346.5	340.2	334 0
Mortgages	38 8	37 7	36 5	35.5	34 4	33.4	32 5

This sensitivity analysis provides only a limited, point-in-time view of the market risk sensitivity of certain of our financial instruments. The actual impact of market interest rate changes on our financial instruments may differ significantly from the impact shown in the sensitivity analysis. The 10% Senior Secured Convertible Discount Notes due 2009, with an estimated fair value of approximately $1 5 billion at December 31, 2005 are not included in the above analysis as the fair value of the notes is not significantly exposed to interest rate changes. The holders of the notes may convert their notes into Class A common stock at a conversion price of $3 18 per share at any time prior to maturity Due to the conversion feature of the instrument, coupled with the current price of our Class A common stock, the fair value of the notes is linked largely to the price of Class A common stock. Included in our fixed-rate debt are $13 7 million of capital leases and notes payable that are not included in the analysis as the carrying amounts approximate fair value because of their short maturity

As of December 31, 2005 and 2004, we had $200 million and $200 million, respectively, of variable-rate debt A change of 100 basis points in the interest rate applicable to the $200 million of variable-rate debt at December 31, 2005 would result in a fluctuation 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, 2005 and 2004, and Consolidated Statements of Operations, Consolidated Statements of Stockholders' Equity and Consolidated Statements of Cash Flows for the three-year period ended December 31, 2005 and Notes to the Consolidated Financial Statements, together with a report thereon of KPMG LLP, dated March 2, 2006, are attached hereto as pages F-1 through F-42

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

None

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures are effective During the three-month period ended December 31, 2005, no changes were made in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for the preparation and fair presentation of the financial statements and other financial information contained in this Form 10-K Management is also responsible for establishing and maintaining adequate internal control over financial reporting Management maintains a system of internal controls intended to provide reasonable assurances regarding the reliability of financial reporting and the preparation of our financial statements in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements

Our accounting policies and internal controls over financial reporting, established and maintained by management, are under the general oversight of the Audit Committee of our Board of Directors.

Management has made a comprehensive review, evaluation and assessment of our internal control over financial reporting as of December 31, 2005. The standard measures adopted by management in making its evaluation are the measures in the Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework)

Based upon review and evaluation, our management has concluded that our internal control over financial reporting is effective at December 31, 2005 and that there were no material weaknesses in our internal control over financial reporting as of that date.

KPMG LLP, an independent registered public accounting firm, which has audited and reported on the Consolidated Financial Statements contained in this Form 10-K, has issued its written attestation report on management's assessment of our internal control over financial reporting, which follows this report.

Attestation Report of the Registered Public Accounting Firm

Please see page F-3 of our Financial Statements included herein

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information is incorporated herein by reference to our definitive 2006 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information is incorporated herein by reference to our definitive 2006 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 2006 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information is incorporated herein by reference to our definitive 2006 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information is incorporated herein by reference to our definitive 2006 Proxy Statement.

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

PART IV

ITEM 15. EXHIBITS AND CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

(a)(1) The following Consolidated Financial Statements and reports of independent registered public accounting firm for XM Satellite Radio Holdings Inc. are included in Item 8 of this Form 10-K

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2005 and 2004

Consolidated Statements of Operations for the years ended December 31, 2005, 2004 and 2003.

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2005, 2004 and 2003.

Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003

(a)(2) The following Consolidated Financial Statement Schedule is filed as part of this report and attached hereto as page F-42

Schedule II — Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulations of the Commission have been included in the Consolidated Financial Statements of XM Satellite Radio Holdings Inc or the notes thereto, are not required under the related instructions or are inapplicable, and therefore have been omitted.

(a)(3) The following exhibits are either provided with this Form 10-K or are incorporated herein by reference·

Exhibit No.	Description
3 1^	Restated Certificate of Incorporation of XM Satellite Radio Holdings Inc.
3 2	Amended and Restated Bylaws of XM Satellite Radio Holdings Inc (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, filed with the SEC on November 12, 2003)
3 3	Restated Certificate of Incorporation of XM Satellite Radio Inc. (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-39178).
3 4	Amended and Restated Bylaws of XM Satellite Radio Inc (incorporated by reference to XM's Registration Statement on Form S-4, File No 333-39178)
3 5	Certificate of Amendment of Restated Certificate of Incorporation of XM Satellite Radio Holdings Inc (incorporated by reference to Amendment No 1 to XM's Registration Statement on Form S-3, File No 333-89132)
3 6	Certificate of Amendment of Restated Certificate of Incorporation of XM Satellite Radio Holdings Inc. (incorporated by reference to XM's Annual Report on Form 10-K, filed with the SEC on March 31, 2003).
4 1	Form of Certificate for XM's Class A common stock (incorporated by reference to Exhibit 3 to XM's Registration Statement on Form 8-A, filed with the SEC on September 23, 1999)
4 2	Form of Certificate for XM's 8 25% Series B Convertible Redeemable Preferred Stock (incorporated by reference to XM's Registration Statement on Form S-1, File No 333-93529)
4.3	Certificate of Designation Establishing the Voting Powers, Designations, Preferences, Limitations, Restrictions and Relative Rights of XM's 8.25% Series B Convertible Redeemable Preferred Stock due 2012 (incorporated by reference to XM's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, filed with the SEC on March 16, 2000)
4 4	Warrant Agreement, dated March 15, 2000, between XM Satellite Radio Holdings Inc as Issuer and United States Trust Company of New York as Warrant Agent (incorporated by reference to XM's Registration Statement on Form S-1, File No 333-39176).
4.5	Warrant Registration Rights Agreement, dated March 15, 2000, between XM Satellite Radio Holdings Inc and Bear, Stearns & Co , Inc , Donaldson, Lufkin and Jenrette Securities Corporation, Salomon Smith Barney Inc and Lehman Brothers Inc (incorporated by reference to XM's Registration Statement on Form S-1, File No. 333-39176)

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

Exhibit No.	Description
4 6	Form of Warrant (incorporated by reference to XM's Registration Statement on Form S-1, File No. 333-39176).
4 7	Certificate of Designation Establishing the Powers, Preferences, Rights, Qualifications, Limitations and Restrictions of the 8.25% Series C Convertible Redeemable Preferred Stock due 2012 (incorporated by reference to XM's Registration Statement on Form S-1, File No 333-39176)
4 8	Form of Certificate for XM's 8 25% Series C Convertible Redeemable Preferred Stock (incorporated by reference to XM's Registration Statement on Form S-1, File No 333-39176)
4 9	Rights Agreement, dated as of August 2, 2002, between XM and Equiserve Trust Company as Rights Agent (incorporated by reference to XM's Current Report on Form 8-K, filed with the SEC on August 2, 2002)
4 10	Indenture, dated as of January 28, 2003, among XM Satellite Radio Inc., XM Satellite Radio Holdings Inc , XM Equipment Leasing LLC and The Bank of New York, as trustee (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003).
4 11	Security Agreement, dated as of January 28, 2003, among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc , XM Equipment Leasing LLC, and The Bank of New York, as trustee (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003).
4 12	Amended and Restated Security Agreement, dated as of January 28, 2003, between XM Satellite Radio Inc. and The Bank of New York (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003)
4 13	Intercreditor and Collateral Agency Agreement (General Security Agreement), dated as of January 28, 2003, by and among the noteholders named therein, The Bank of New York, as trustee, General Motors Corporation, OnStar Corporation and The Bank of New York, as collateral agent (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003).
4 14	Intercreditor and Collateral Agency Agreement (FCC License Subsidiary Pledge Agreement), dated as of January 28, 2003, by and among the noteholders named therein, The Bank of New York, as trustee, General Motors Corporation, OnStar Corporation and The Bank of New York, as collateral agent (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003)
4 15	Warrant Agreement, dated as of January 28, 2003, between XM Satellite Radio Holdings Inc. and The Bank of New York (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003).
4 16	Amended and Restated Amendment No 1 to Rights Agreement, dated as of January 22, 2003, by and among XM Satellite Radio Holdings Inc. and Equiserve Trust Company, N A (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003)
4 17	Form of 10% Senior Secured Discount Convertible Note due 2009 (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003)
4 18	Global 14% Senior Secured Discount Note due 2009 (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003)
4.19	Global Common Stock Purchase Warrant (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003)
4.20	Indenture, dated as of June 17, 2003, among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc. and The Bank of New York, as trustee (incorporated by reference to XM's Registration Statement on Form S-4, File No 333-106823)
4 21	Form of 12% Senior Secured Note due 2010 (incorporated by reference to Exhibit A to Exhibit 4 27 hereof).
4 22	First Supplemental Indenture, dated as of June 12, 2003, by and among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc , XM Equipment Leasing LLC and The Bank of New York (incorporated by reference to XM's Registration Statement on Form S-4, File No. 333-106823)
4 23	First Amendment to Security Agreement, dated as of June 12, 2003, by and among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc , XM Equipment Leasing LLC and The Bank of New York (incorporated by reference to XM's Registration Statement on Form S-4, File No 333-106823)

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

Exhibit No.	Description
4.24	Warrant to purchase XM Satellite Radio Holdings Inc Class A Common Stock, dated July 31, 2003, issued to Boeing Satellite Systems International, Inc (incorporated by reference to XM's Quarterly Report on Form 10–Q for the quarter ended June 30, 2003, filed with the SEC on August 14, 2003)
4 25	Amendment No 2 to Rights Agreement between XM Satellite Radio Holdings Inc. and Equiserve Trust Company, N A (incorporated by reference to XM's Current Report on Form 8–K, filed with the SEC on April 21, 2004)
4 26	Indenture, dated as of April 20, 2004, among XM Satellite Radio Inc , XM Satellite Radio Holdings Inc. and The Bank of New York, as trustee (incorporated by reference to XM's Current Report on Form 8–K, filed with the SEC on April 23, 2004).
4 27	Form of Senior Secured Floating Rate Note due 2009 (incorporated by reference to Exhibit A to Exhibit 4 31 hereof)
4 28	Indenture, dated as of November 23, 2004, between XM Satellite Radio Holdings Inc. and the Bank of New York, as trustee (incorporated by reference to XM's Current Report on Form 8–K, filed with the SEC on November 23, 2004).
4 29	Registration Rights Agreement, dated as of November 23, 2004, between XM Satellite Radio Holdings Inc and Bear, Stearns & Co Inc (incorporated by reference to XM's Current Report on Form 8–K, filed with the SEC on November 23, 2004)
4 30	Form of 1.75% Senior Convertible Note Due 2009 (incorporated by reference to XM's Current Report on Form 8–K, filed with the SEC on November 23, 2004)
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, filed with the SEC on August 14, 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 with the SEC 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, filed with the SEC on May 12, 2000)

Source XM SATELLITE RADIO H, 10–K, March 03, 2006

Exhibit No.	Description
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 with the SEC 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 with the SEC 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, filed with the SEC on August 14, 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 with the SEC on January 29, 2003)
10 19	Amended and Restated Director Designation Agreement, dated as of February 1, 2003, by and among XM Satellite Radio Holdings Inc. and the shareholders and noteholders named therein (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, filed with the SEC on May 15, 2003)
10 20	GM/DIRECTV Director Designation Agreement, dated as of January 28, 2003, among XM Satellite Radio Holdings Inc , General Motors Corporation and DIRECTV Enterprises LLC (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003)
10 21	Amended and Restated Assignment and Use Agreement, dated as of January 28, 2003, between XM Satellite Radio Inc and XM Radio Inc (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003)
10 22	Credit Agreement, dated as of January 28, 2003, among XM Satellite Radio Inc., as a borrower, and XM Satellite Radio Holdings Inc , as a borrower, and General Motors Corporation, as lender (incorporated by reference to XM's Current Report on Form 8-K filed with the SEC on January 29, 2003)
10 23	Employment Agreement, dated as of June 21, 2002, between XM Satellite Radio Holdings Inc and XM Satellite Radio Inc , and Joseph J Euteneuer (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, filed with the SEC on August 14, 2002)
10 24	Form of 2003 Executive Stock Option Agreement (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, filed with the SEC on May 15, 2003)
10 25*	Amended and Restated Amendment to the Satellite Purchase Contract for In-Orbit Delivery, dated May 2003, by and between XM Satellite Radio Inc and XM Satellite Radio Holdings Inc and Boeing Satellite Systems International, Inc. (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the SEC on August 14, 2003)
10 26*	July 2003 Amendment to the Satellite Purchase Contract for In-Orbit Delivery, dated July 31, 2003, by and between XM Satellite Radio Inc and XM Satellite Radio Holdings Inc. and Boeing Satellite Systems International, Inc (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the SEC on August 14, 2003)
10 27*	Contract for Launch Services, dated August 5, 2003, between Sea Launch Limited Partnership and XM Satellite Radio Holdings Inc (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed with the SEC on August 14, 2003).
10 28	Amendment No 1 to Amended and Restated Director Designation Agreement, dated as of September 9, 2003, by and among XM Satellite Radio Holdings Inc and the shareholders and noteholders named therein (incorporated by reference to XM's Quarterly Report in Form 10-Q for the quarter ended September 30, 2003 filed with the SEC on November 12, 2003)

Exhibit No.	Description
10 29	December 2003 Amendment to the Satellite Purchase Contract for In-Orbit Delivery, dated December 19, 2003, by and between XM Satellite Radio Inc and XM Satellite Radio Holdings Inc and Boeing Satellite Systems International, Inc. (incorporated by reference to XM's Annual Report on Form 10-K for the year ended December 31, 2003, filed with the SEC on March 15, 2004)
10 30	First Amendment to Credit Agreement, dated January 13, 2004, by and between XM Satellite Radio Inc., XM Satellite Radio Holdings Inc. and General Motors Corporation (incorporated by reference to XM's Annual Report on Form 10-K for the year ended December 31, 2003, filed with the SEC on March 15, 2004)
10 31	First Amendment to Second Amended and Restated Distribution Agreement, dated as of January 13, 2004, by and among OnStar Corporation, XM Satellite Radio Holdings Inc , and XM Satellite Radio Inc (incorporated by reference to XM's Annual Report on Form 10-K for the year ended December 31, 2003, filed with the SEC on March 15, 2004)
10 32	Form of Amendment to Third Amended and Restated Shareholders and Noteholders Agreement, dated as of January 13, 2004, by and among XM Satellite Radio Holdings Inc and the parties thereto (incorporated by reference to XM's Annual Report on Form 10-K for the year ended December 31, 2003, filed with the SEC on March 15, 2004).
10.33	Form of Amended and Restated Deed of Trust, Security Agreement, Assignment of Rents and Fixture Filing, from XM 1500 Eckington LLC to Elisabeth Zajic for the benefit of Merrill Lynch Mortgage Lending, Inc , dated as of August 9, 2004 (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, filed with the SEC on August 9, 2004)
10 34	Form of Amended and Restated Secured Promissory Note, made as of August 9, 2004, by XM 1500 Eckington LLC in favor of Merrill Lynch Mortgage Lending, Inc (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, filed with the SEC on August 9, 2004)
10 35	Form of Indemnity and Guaranty Agreement, made as of August 9, 2004, by XM Satellite Radio Holdings Inc in favor of Merrill Lynch Mortgage Lending, Inc (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, filed with the SEC on August 9, 2004)
10 36	Form of Employment Agreement, dated as of August 6, 2004, between XM Satellite Radio Holdings Inc. and XM Satellite Radio Inc , and Gary Parsons (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, filed with the SEC on August 9, 2004)
10 37	Form of Employment Agreement, dated as of August 6, 2004, between XM Satellite Radio Holdings Inc and XM Satellite Radio Inc , and Hugh Panero (incorporated by reference to XM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, filed with the SEC on August 9, 2004).
10 38	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, filed with the SEC on August 9, 2004)
10 39	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, filed with the SEC on May 5, 2005)
21.1	Subsidiaries of XM Satellite Radio Holdings Inc
23 1	Consent of Independent Registered Accounting Firm
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U S C Section 1350).
31 2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S C. Section 1350).
32 1	Written Statement of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U S C. Section 1350)

^ Incorporated by reference to XM's Registration Statement on Form S-1, File No 333-83619

* Pursuant to the Commission's Orders Granting Confidential Treatment under Rule 406 of the Securities Act of 1933 or Rule 24(b)-2 under the Securities Exchange Act of 1934, certain confidential portions of this Exhibit were omitted by means of redacting a portion of the text.

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

(b) Exhibits.

XM Satellite Radio Holdings Inc hereby files as part of this Form 10-K the Exhibits listed in the Index to Exhibits

(c) Consolidated Financial Statement Schedules

The following Consolidated Financial Statement Schedule is filed herewith:

Schedule II — Valuation and Qualifying Accounts

Schedules not listed above have been omitted because they are inapplicable or the information required to be set forth therein is provided in the Consolidated Financial Statements of XM Satellite Radio Holdings Inc or accompanying Notes thereto

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

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
President and Chief Executive Officer

Date March 2, 2006

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**	President, Chief Executive Officer and Director (Principal Executive Officer)	March 2, 2006
/s/ JOSEPH J EUTENEUER **Joseph J. Euteneuer**	Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	March 2, 2006
/s/ GARY M PARSONS **Gary M. Parsons**	Chairman of the Board of Directors	March 2, 2006
/s/ NATHANIEL A DAVIS **Nathaniel A. Davis**	Director	March 2, 2006
/s/ THOMAS J DONOHUE **Thomas J. Donohue**	Director	March 2, 2006
/s/ EDDY HARTENSTEIN **Eddy Hartenstein**	Director	March 2, 2006
/s/ GEORGE HAYWOOD **George Haywood**	Director	March 2, 2006
/s/ CHESTER A HUBER, JR. **Chester A. Huber, Jr.**	Director	March 2, 2006
/s/ JOHN MENDEL **John Mendel**	Director	March 2, 2006
/s/ JARL MOHN **Jarl Mohn**	Director	March 2, 2006
/s/ JACK SHAW **Jack Shaw**	Director	March 2, 2006

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

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Source. XM SATELLITE RADIO H, 10-K, March 03, 2006

Report of Independent Registered Public Accounting Firm

The Board of Directors
XM Satellite Radio Holdings Inc

We have audited the accompanying consolidated balance sheets of XM Satellite Radio Holdings Inc. and subsidiaries ("the Company") as of December 31, 2005 and 2004, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the years in the three-year period ended December 31, 2005 In connection with our audits of the consolidated financial statements, we also have audited the consolidated financial statement schedule presented as Schedule II These consolidated financial statements and the consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of XM Satellite Radio Holdings Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U S. generally accepted accounting principles. Also, in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein

We also have audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of XM Satellite Radio Holdings Inc and subsidiaries' internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 2, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

McLean, VA
March 2, 2006

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

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 the Company maintained effective internal control over financial reporting as of December 31, 2005, 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, 2005, 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, 2005, 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, 2005 and 2004, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the years in the three-year period ended December 31, 2005, and our report dated March 2, 2006 expressed an unqualified opinion on those consolidated financial statements

/s/ KPMG LLP

McLean, VA
March 2, 2006

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)	December 31, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 710,991	$ 717,867
Accounts receivable, net of allowance for doubtful accounts of $3,722 and $1,551	47,247	20,182
Due from related parties	8,629	5,367
Related party prepaid expenses	54,752	31,160
Prepaid programming content	65,738	11,390
Prepaid and other current assets	55,811	18,197
Total current assets	943,168	804,163
Restricted investments	5,438	4,492
System under construction	216,527	329,355
Property and equipment, net of accumulated depreciation and amortization of $600,482 and $460,708	673,672	461,333
DARS license	141,276	141,227
Intangibles, net of accumulated amortization of $6,960 and $5,698	5,902	7,164
Deferred financing fees, net of accumulated amortization of $20,922 and $14,350	36,735	44,466
Related party prepaid expenses, net of current portion	9,809	25,901
Equity investments	187,403	—
Prepaid and other assets, net of current portion	3,731	3,534
Total assets	$2,223,661	$1,821,635
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 145,691	$ 59,986
Accrued expenses	154,125	88,107
Accrued satellite liability	104,300	100,100
Accrued interest	5,603	14,146
Current portion of long-term debt	7,608	6,556
Due to related parties	60,750	27,610
Subscriber deferred revenue	275,944	114,951
Deferred income	10,137	—
Total current liabilities	764,158	411,456
Satellite liability, net of current portion	23,285	15,000
Long-term debt, net of current portion	1,035,584	948,741
Due to related parties, net of current portion	53,901	38,911
Subscriber deferred revenue, net of current portion	84,694	37,396
Deferred income, net of current portion	141,073	—
Other non-current liabilities	40,018	33,968
Total liabilities	2,142,713	1,485,472

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS — (Continued)

	December 31,	
	2005	2004
(in thousands, except share and per share data)		
Commitments and contingencies		
Stockholders' equity:		
Series A convertible preferred stock, par value $0 01 (liquidation preference of $51,370 at December 31, 2005 and 2004), 15,000,000 shares authorized, 5,393,252 shares issued and outstanding at December 31, 2005 and 2004	54	54
Series B convertible redeemable preferred stock, par value $0.01 (liquidation preference of $23,714 at December 31, 2005 and 2004), 3,000,000 shares authorized, 474,289 shares issued and outstanding at December 31, 2005 and 2004	5	5
Series C convertible redeemable preferred stock, par value $0.01 (liquidation preference of $114,514 and $107,976 at December 31, 2005 and 2004, respectively), 250,000 shares authorized, 79,246 shares issued and outstanding at December 31, 2005 and 2004	1	1
Series D preferred stock, par value $0.01 (liquidation preference of $0 at December 31, 2005 and 2004), 250,000 shares authorized, no shares issued and outstanding at December 31, 2005 and 2004	—	—
Class A common stock, par value $0 01; 600,000,000 shares authorized, 240,701,988 shares and 208,249,188 shares issued and outstanding at December 31, 2005 and 2004, respectively	2,407	2,082
Class C common stock, par value $0.01; 15,000,000 shares authorized, no shares issued and outstanding at December 31, 2005 and 2004	—	—
Accumulated other comprehensive income	5,985	—
Unearned restricted stock compensation	(18,101)	—
Additional paid-in capital	2,870,201	2,446,910
Accumulated deficit	(2,779,604)	(2,112,889)
Total stockholders' equity	80,948	336,163
Total liabilities and stockholders' equity	$ 2,223,661	$ 1,821,635

See accompanying Notes to the Consolidated Financial Statements.

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CON SOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2005	2004	2003
(in thousands, except share and per share data)			
Revenue	$ 558,266	$ 244,443	$ 91,781
Operating expenses.			
Cost of revenue	405,293	201,935	147,952
Research & development (excludes depreciation & amortization, shown below)	31,218	23,513	12,285
General & administrative (excludes depreciation & amortization, shown below)	43,864	28,555	27,418
Marketing (excludes depreciation & amortization, shown below)	487,556	304,316	200,267
Depreciation & amortization	145,870	147,165	158,317
Total operating expenses	1,113,801	705,484	546,239
Operating loss	(555,535)	(461,041)	(454,458)
Other income (expense)			
Interest income	23,586	6,239	3,066
Interest expense	(107,791)	(85,757)	(110,349)
Loss from de-leveraging transactions	(27,552)	(76,621)	(24,749)
Other income	2,907	2,129	1,955
Net loss before income taxes	(664,385)	(615,051)	(584,535)
Provision for deferred income taxes	(2,330)	(27,317)	—
Net loss	(666,715)	(642,368)	(584,535)
8.25% Series B preferred stock dividend requirement	(2,059)	(2,059)	(2,471)
8.25% Series B preferred stock retirement gain	—	—	8,761
8.25% Series C preferred stock dividend requirement	(6,538)	(6,743)	(15,098)
8 25% Series C preferred stock retirement loss	—	—	(11,537)
Net loss attributable to common stockholders	$ (675,312)	$ (651,170)	$ (604,880)
Net loss per common share basic and diluted	$ (3.07)	$ (3.30)	$ (4.83)
Weighted average shares used in computing net loss per common share — basic and diluted	219,620,468	197,317,607	125,176,320

See accompanying Notes to the Consolidated Financial Statements

Source. XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Years Ended December 31, 2005	2004	2003
Cash flows from operating activities:			
Net loss	$(666,715)	$(642,368)	$(584,535)
Adjustments to reconcile net loss to net cash used in operating activities.			
Provision for doubtful accounts	8,328	3,218	2,077
Depreciation and amortization	145,870	147,165	158,317
Interest accretion expense	45,579	53,422	45,227
Net non-cash loss on redemption of notes	24,154	66,274	24,777
Non-cash loss on equity investments	1,411	—	—
Amortization of deferred financing fees and debt discount	30,178	18,524	17,409
Non-cash stock-based compensation	5,966	2,020	3,003
Provision for deferred income taxes	2,330	27,317	—
Other	(878)	(15)	(663)
Changes in operating assets and liabilities:			
Increase in accounts receivable	(35,441)	(8,407)	(11,480)
Increase in due from related parties	(3,262)	(191)	(3,698)
Increase in prepaid programming content	(54,348)	(11,390)	—
(Increase) decrease in prepaid and other assets	(45,290)	11,491	(9,611)
Increase in accounts payable and accrued expenses	125,791	57,371	59,435
Increase (decrease) in accrued interest	(8,543)	8,719	(11,224)
Increase in amounts due to related parties	48,130	82,835	24,256
Increase in subscriber deferred revenue	208,291	98,463	41,587
Net cash used in operating activities	(168,449)	(85,552)	(245,123)
Cash flows from investing activities			
Purchase of property and equipment	(61,210)	(25,934)	(15,685)
Additions to system under construction	(118,583)	(143,978)	(4,108)
Purchase of equity investments	(27,000)	—	—
Net maturity (purchase) of restricted investments	(996)	(341)	22,750
Insurance proceeds from satellite recoveries	—	133,924	—
Other investing activities	—	—	11,664
Net cash (used in) provided by investing activities	(207,789)	(36,329)	14,621

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	Years Ended December 31,		
(in thousands)	2005	2004	2003
Cash flows from financing activities			
Proceeds from sale of common stock, net and exercise of stock options	319,637	236,835	253,102
Proceeds from issuance of 10% senior secured convertible notes	—	—	210,000
Proceeds from issuance of 12% senior secured notes	—	—	185,000
Proceeds from issuance of 1.75% convertible senior notes	100,000	300,000	—
Proceeds from issuance of floating rate notes	—	200,000	—
Proceeds from refinancing of mortgage on corporate facility	—	33,300	—
Repayment of 12% senior secured notes	(15,000)	(70,000)	—
Repayment of 7 75% convertible subordinated notes	—	—	(6,723)
Repayment of 14% senior secured notes	(22,824)	(13,028)	—
Repayment of related party long-term debt	—	(81,194)	—
Payments on mortgages on corporate facilities	(381)	(28,247)	(420)
Payments on related party credit facility	—	(103,034)	—
Repurchase of Series B preferred stock	—	—	(10,162)
Payments on other borrowings	(9,651)	(40,174)	(2,722)
Deferred financing costs	(2,419)	(13,017)	(12,084)
Net cash provided by financing activities	369,362	421,441	615,991
Net increase (decrease) in Cash and cash equivalents	(6,876)	299,560	385,489
Cash and cash equivalents at beginning of period	717,867	418,307	32,818
Cash and cash equivalents at end of period	$710,991	$ 717,867	$418,307

See accompanying Notes to the Consolidated Financial Statements

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Series A Convertible Preferred Stock		Series B Convertible Redeemable Preferred Stock		Series C Convertible Redeemable Preferred Stock		Class A Common Stock						
(in thousands, except share data)	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Unearned Restricted Stock Compensation	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at January 1, 2003	10,786,504	$ 108	867,289	$ 9	200,000	$ 2	91,706,056	$ 917	$ 1,477,261	$ (885,986)	$ —	$ —	$ 592,311
Comprehensive loss													
Net loss	—	—	—	—	—	—	—	—	—	(584,535)	—	—	(584,535)
Total comprehensive loss													(584,535)
Sale of shares of Class A common stock	—	—	—	—	—	—	27,690,811	277	229,183	—	—	—	229,460
Issuance of 10% senior secured discount notes — beneficial conversion feature	—	—	—	—	—	—	—	—	68,879	—	—	—	68,879
Conversion of Series B convertible redeemable preferred stock	—	—	(393,000)	(4)	—	—	—	—	(10,160)	—	—	—	(10,164)
Conversion of Series C convertible redeemable preferred stock	—	—	—	—	(80,000)	(1)	11,951,381	120	(118)	—	—	—	1
Issuance of shares of Class A common stock to convert or redeem notes outstanding	—	—	—	—	—	—	19,232,230	193	115,739	—	—	—	115,932
Issuance of shares of Class A common stock from redemption of warrants	—	—	—	—	—	—	8,393,804	83	107,259	—	—	—	107,342
Issuance of shares through stock-based compensation plans	—	—	—	—	—	—	1,206,149	12	10,643	—	—	—	10,655
Series B convertible redeemable preferred stock dividends	—	—	—	—	—	—	484,763	5	(1)	—	—	—	4
Non-cash stock compensation	—	—	—	—	—	—	—	—	3,003	—	—	—	3,003
Balance at December 31, 2003	10,786,504	$ 108	474,289	$ 5	120,000	$ 1	160,665,194	$ 1,607	$ 2,001,688	$ (1,470,521)	$ —	$ —	$ 532,888
Comprehensive loss													
Net loss	—	—	—	—	—	—	—	—	—	(642,368)	—	—	(642,368)
Total comprehensive loss													(642,368)
Conversion of Series A convertible preferred stock	(5,393,252)	(54)	—	—	—	—	5,393,252	54	—	—	—	—	—
Sale of shares of Class A common stock	—	—	—	—	—	—	7,057,193	70	178,398	—	—	—	178,468

Conversion of Series C convertible redeemable preferred stock	—	—	—	—	(40,754)	—	5,891,147	59	(59)	—	—	—	—	—
Issuance of shares of Class A common stock to convert or redeem notes outstanding	—	—	—	—	—	—	12,353,205	123	207,064	—	—	—	—	207,187
Issuance of shares of Class A common stock from redemption of warrants	—	—	—	—	—	—	15,284,214	152	40,561	—	—	—	—	40,713
Issuance of shares through stock-based compensation plans	—	—	—	—	—	—	1,531,458	15	17,239	—	—	—	—	17,254
Series B convertible redeemable preferred stock dividends	—	—	—	—	—	—	73,525	1	—	—	—	—	—	1
Non-cash stock compensation	—	—	—	—	—	—	—	1	2,019	—	—	—	—	2,020
Balance at December 31, 2004	5,393,252	$ 54	474,289	$ 5	79,246	$ 1	208,249,188	$ 2,082	$ 2,446,910	$ (2,112,889)	$ —	$ —	$ —	336,163

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY—(Continued)

	Series A Convertible Preferred Stock		Series B Convertible Redeemable Preferred Stock		Series C Convertible Redeemable Preferred Stock		Class A Common Stock		Additional Paid-in	Accumulated	Unearned Restricted Stock	Accumulated Other Comprehensive	Total Stockholders'
(in thousands, except share data)	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Compensation	Income	Equity
Comprehensive income (loss)													
Net loss	—	—	—	—	—	—	—	—	—	(666,715)	—	—	(666,715)
Other comprehensive income													
Unrealized gains on available-for-sale securities, net of $3,747 tax	—	—	—	—	—	—	—	—	—	—	—	5,985	5,985
Total comprehensive loss	—	—	—	—	—	—	—	—	—	—	—	—	(660,730)
Sale of shares of Class A common stock	—	—	—	—	—	—	9,714,497	98	301,122	—	—	—	301,220
Issuance of shares of Class A common stock to convert notes outstanding	—	—	—	—	—	—	18,334,103	183	74,710	—	—	—	74,893
Issuance of shares of Class A common stock from redemption of warrants	—	—	—	—	—	—	2,547,312	25	(10)	—	—	—	15
Issuance of shares of Class A common stock through stock-based compensation plans	—	—	—	—	—	—	1,793,278	19	18,572	—	—	—	18,591
Issuance of shares of restricted Class A common stock, net of cancellations	—	—	—	—	—	—	3,333	—	23,646	—	(23,646)	—	—
Shares surrendered by employees to pay taxes	—	—	—	—	—	—	(1,134)	—	(38)	—	—	—	(38)
Non-cash stock compensation and amortization of restricted stock	—	—	—	—	—	—	—	—	421	—	5,545	—	5,966
Series B convertible redeemable preferred stock dividends	—	—	—	—	—	—	61,411	—	—	—	—	—	—
Issuance of warrants	—	—	—	—	—	—	—	—	4,868	—	—	—	4,868
Balance at December 31, 2005	5,393,252	$ 54	474,289	$ 5	79,246	$ 1	240,701,988	$ 2,407	$ 2,870,201	$ (2,779,604)	$ (18,101)	$ 5,985	$ 80,948

See accompanying Notes to the Consolidated Financial Statements

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Nature of Business

XM Satellite Radio Inc. ("Inc "), was incorporated on December 15, 1992 in the State of Delaware for the purpose of operating a digital audio radio service ("DARS") under a license from the Federal Communications Commission ("FCC") XM Satellite Radio Holdings Inc (the "Company") was formed as a holding company for Inc on May 16, 1997 The Company commenced commercial operations in two markets on September 25, 2001 and completed its national rollout on November 12, 2001

(2) Summary of Significant Accounting Policies and Practices

Principles of Consolidation and Basis of Presentation

The Consolidated Financial Statements include the accounts of XM Satellite Radio Holdings Inc and its subsidiaries. All significant intercompany transactions and accounts have been eliminated. In addition, the Company evaluates its relationships with other entities to identify whether they are variable interest entities as defined by FASB Interpretation ("FIN") No. 46(R), *Consolidation of Variable Interest Entities,* and to assess whether it is the primary beneficiary of such entities. If the determination is made that the Company is the primary beneficiary, then that entity is included in the Consolidated Financial Statements in accordance with FIN No 46(R). As of December 31, 2005 and 2004, there were no variable interest entities subject to consolidation by the Company pursuant to FIN No 46(R).

Accounting Estimates

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, various future factors, which are difficult to predict and are beyond the control of the Company Significant estimates include the estimated useful life of satellites and spacecraft control facilities, valuation of the Company's investment in the DARS license and its identification as an asset with an indefinite life, estimated cost for rebate promotions, the allowance for doubtful accounts, the valuation of intangible assets, the recoverability of the long-lived assets, the estimated life of a subscriber's subscription, the payments to be made to distributors and manufacturers for radios sold or activated, the amount of royalties to be paid on radios and/or components manufactured or revenue generated, the estimated amount of music programming license fees, the amount of stock-based compensation arrangements and the valuation allowances against deferred tax assets Accordingly, actual amounts could differ from these estimates.

Payments owed to manufacturing and distribution partners are expensed during the month in which the manufacture, sale, and/or activation of the radio unit occurs. The amounts of these expenses are dependent upon units provided by internal Company systems and processes (i e subscriber management system and supply chain management system) and partner systems and processes. However, due to lags in receiving manufacturing and sales data from partners, estimates of amounts due are necessary in order to record monthly expenses. In subsequent months when lagged data is received from partners, expenses are reconciled, and adjusted where necessary Since launching commercial operations, the Company continues to refine the estimation process based on an increased understanding of the timing lags, and close working relationships with business partners Estimates recorded on the Company's books are generally adjusted to actuals within one month.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Cash and Cash Equivalents

The Company considers short-term, highly liquid investments with an original maturity of three months or less to be cash equivalents. The carrying amounts reflected in the Consolidated Balance Sheets for Cash and cash equivalents approximate fair value due to the short maturities

Source· XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Restricted Investments

Restricted investments consist principally of certificates of deposits At December 31, 2005 and 2004, restricted investments represented securities held in escrow to secure the Company's future performance with regard to certain contracts and obligations, which include certain facility leases and other secured credits There were no gross unrealized holding gains or losses on these restricted investments at December 31, 2005 and 2004

Accounts Receivable

Accounts receivable are recorded at the invoiced amount. The allowance for doubtful accounts is the Company's best estimate of the amount of probable losses in the Company's existing accounts receivable The Company estimates the allowance based on the Company's historical write-off experience

Inventory

Inventories are stated at the lower of average cost or market. The Company provides estimated inventory allowances for excess, slow moving and obsolete inventory as well as inventory whose carrying value is in excess of net realizable value. Inventories consist of both finished goods and raw materials The Company had $26 1 million and $2 9 million of inventory at December 31, 2005 and 2004, respectively, which are included in Prepaid and other current assets on the Consolidated Balance Sheets

Investments

All marketable equity securities held by the Company are classified as available-for-sale ("AFS Securities") and are carried at fair value. Unrealized holding gains and losses on AFS Securities are carried net of taxes as a component of Accumulated other comprehensive income in the Consolidated Statements of Stockholders' Equity

For those investments in affiliates in which the Company has the ability to exercise significant influence, the equity method of accounting is used Under this method, the investment, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the affiliates as they occur rather than as dividends or other distributions are received, limited to the extent of the Company's investment in, advances to and commitments for the investee The Company's share of net earnings or loss of affiliates is recorded in Other income Investments are periodically reviewed for impairment and a write down is recorded whenever declines in fair value below carrying value are determined to be other than temporary. In making this determination, the Company considers, among other factors, sustained decreases in quoted market prices and a series of historic and projected operating losses by the affiliate.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. Equipment under capital leases and leasehold improvements are stated at the present value of minimum lease payments Depreciation and amortization is calculated using the straight-line method over the following estimated useful lives

Spacecraft system	6.75 – 15 years
Terrestrial repeater network	5 – 10 years
Spacecraft control and uplink facilities	17.5 years
Broadcast facilities	3 – 7 years
Computer systems	3 – 7 years
Building and improvements	20 years
Furniture and fixtures	3 – 7 years
Equipment under capital leases and leasehold improvements	Lesser of useful life or remaining lease term

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

Maintenance and repairs costs are expensed as incurred, whereas expenditures for renewal and betterments are capitalized The cost of internally developed software is capitalized in accordance with Statement of Position ("SOP") 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, and amortized over its estimated useful life Interest costs incurred in connection with the construction of major equipment and facilities are capitalized as part of the asset cost to which it relates and depreciated over the asset's useful life. Upon the normal sale or retirement of depreciable property, the net carrying value less any salvage value is recognized as an operating gain or loss in the Consolidated Statements of Operations

In accordance with Statement of Financial Accounting Standard ("SFAS") No 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset

DARS License and Other Intangible Assets

Intangible assets not subject to amortization are tested annually for impairment, and are tested for impairment more frequently, if events and circumstances indicate that the asset might be impaired An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

The Company recorded amortization expense of $1.3 million for each year ended December 31, 2005, 2004, 2003 related to acquired programming and receiver agreements with estimated useful lives of 10 years. These agreements had a remaining carrying value of $5.9 million and $7.2 million and accumulated amortization of $7 0 million and $5 7 million at December 31, 2005 and 2004, respectively.

Deferred Financing Fees and Other Assets

Deferred financing fees consist primarily of legal, accounting, printing and investment banking fees as well as fees paid for lines of credit associated with the Company's debt financing Deferred financing fees are amortized over the life of the corresponding instrument and facility.

Asset Retirement Obligation

In accordance with SFAS No 143, *Accounting for Asset Retirement Obligations*, the Company capitalized as part of the carrying amount, the fair value of the future obligation associated with the retirement of the Company's terrestrial repeater network These costs, which are included in Accrued expenses, include an amount that the Company estimates will be sufficient to satisfy the Company's obligations under leases to remove the terrestrial repeater equipment and restore the sites to their original condition The asset retirement obligation was $0 8 million and $2 1 million at December 31, 2005 and 2004, respectively

Revenue Recognition

The Company derives revenue primarily from basic and premium subscriber subscription and activation fees as well as advertising, direct sales of equipment and royalties

Revenue from subscribers, which is generally billed in advance, consists of (i) fixed charges for service, which are recognized as the service is provided and (ii) non-refundable activation fees that are recognized ratably over the expected 40-month life of the customer relationship Direct activation costs are expensed as incurred Promotions for free or discounted service are treated as a reduction to revenue during the period of the promotion. Discounts to equipment that are sold with service are allocated to equipment and service based on relative fair value. Subscription revenue accounted for 90 percent of total revenues

Source· XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 revenue for the years ended December 31, 2005, 2004 and 2003, included advertisements sold in exchange for goods and services (barter) recorded at fair value Revenue from barter transactions is recognized when advertisements are broadcast. Merchandise or services received are charged to expense when received or used.

Equipment revenue is recognized at the time of shipment or delivery of the equipment Royalty and other revenue is recognized when earned.

Barter Transactions

XM enters into transactions that either exchange advertising for advertising ("Advertising Barter") or advertising for other products and services ("Non-advertising Barter") Advertising Barter transactions are recorded at the lesser of estimated fair value of the advertising received or given in accordance with the provisions of Emerging Issues Task Force ("EITF") Issue No. 99-17, *Accounting for Advertising Barter Transactions.* Revenue from barter transactions is recognized when advertising is provided, and services received are charged to expense when used Revenue from barter transactions is not material to the Company's Consolidated Statement of Operations for any of the periods presented herein

Stock-Based Compensation

The Company accounts for stock-based compensation arrangements in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related interpretations including FIN No. 44, *Accounting for Certain Transactions Involving Stock Compensation — An interpretation of APB Opinion No 25*, issued in March 2000, and complies with the disclosure provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*, issued in December of 2002 Under APB 25, compensation expense is based upon the difference, if any, on the date of grant, between the fair value of the Company's stock and the exercise price. All stock-based awards to non-employees are accounted for at their fair value in accordance with SFAS No. 123.

At December 31, 2005, the Company had two stock-based employee compensation plans, which are described more fully in Note 12. The following table illustrates the effect on net loss if the Company had applied the fair value recognition provisions of SFAS No 123, *Accounting for Stock-Based Compensation,* to stock-based employee compensation.

	Years ended December 31,		
	2005	2004	2003
(in thousands, except per share data)			
Net loss attributable to common stockholders, as reported	$(675,312)	$(651,170)	$(604,880)
Add. Stock-based employee compensation expense included in net loss	5,508	—	—
Less: Total stock-based employee compensation expense determined under fair value-based method for all awards	(43,109)	(30,456)	(25,769)
Pro forma net loss	$(712,913)	$(681,626)	$(630,649)
As reported — net loss per share — basic and diluted	$ (3.07)	$ (3 30)	$ (4.83)
Pro forma — net loss per share — basic and diluted	$ (3 25)	$ (3 45)	$ (5 04)

For SFAS No 123 disclosures purposes, the weighted average fair value of each employee option grant has been estimated as of the date of grant using the Black-Scholes option-pricing model The assumptions used are more fully described in Note 12.

Research & Development

Research & development costs are expensed as incurred.

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

Advertising & Marketing

Advertising & marketing costs, including media, events, training and marketing materials for retail and automotive dealer points of presence, are discretionary costs that are expensed as incurred These costs are included in marketing During the years ended December 31, 2005, 2004, and 2003, the Company expensed approximately $163 3 million, $88.1 million and $64 3 million, respectively. Co-operative marketing costs are recognized as advertising expense to the extent an identifiable benefit is received and fair value of the benefit can be reasonably measured Otherwise, such costs are recorded as a reduction of revenue

Net Loss Per Common Share

The Company computes net loss per common share in accordance with SFAS No. 128, *Earnings Per Share* and SEC Staff Accounting Bulletin ("SAB") No. 98, *Computations of Earnings Per Share* Under the provisions of SFAS No 128 and SAB No. 98, basic net loss per common share is computed by dividing the net loss attributable to common stockholders (after deducting preferred dividend requirements) for the period by the weighted average number of common shares outstanding during the period Diluted net loss per common share is computed by dividing the net loss attributable to common stockholders for the period by the weighted average number of common and dilutive equivalent shares outstanding during the period Options, warrants and convertible instruments outstanding as of December 31, 2005 to purchase 111 million shares of common stock (104 million of which were vested) were not included in the computation of diluted net loss per common share for the year ended December 31, 2005 as their inclusion would have been anti-dilutive Options, warrants and convertible instruments outstanding as of December 31, 2004 to purchase 120 9 million shares of common stock (112.4 million of which were vested) were not included in the computation of diluted net loss per common share for the year ended December 31, 2004 as their inclusion would have been anti-dilutive. Unvested restricted shares in the amount of 833,544 and 10,000 as of December 31, 2005 and 2004, respectively, are not included in the computation of basic net loss per common share or in diluted net loss per common share The Company had a net loss in each of the periods presented, therefore basic and diluted net loss per common share are the same

Income Taxes

Income taxes are accounted for under the asset and liability method Deferred tax assets and liabilities are recognized for the tax benefits and consequences in future years of differences between the tax bases of assets and liabilities and the financial reporting amounts at each year-end and operating loss and tax credit carryforwards, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized Income tax expense is the sum of taxes payable for the period and the change during the period in deferred tax assets and liabilities

Derivative Instruments and Hedging Activities

The Company has reviewed its contracts and has determined that it has no freestanding or embedded derivative instruments. The Company does not engage in hedging activities

Comprehensive Income or Loss

Comprehensive income or loss is reported on the Consolidated Statements of Stockholders' Equity and Accumulated other comprehensive income or loss is reported on the Consolidated Balance Sheets Unrealized gains and losses on available-for-sale securities are included in other comprehensive income or loss

Recent Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board ("FASB") directed the FASB staff to issue FASB Staff Position ("FSP") No EITF No. 00-19-1, *Application of EITF Issue No 00-19 to Freestanding Financial Instruments Originally Issued as Employee Compensation* to clarify the application of EITF Issue No 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock.* This FSP clarifies that a requirement to deliver

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

registered shares, in and of itself, will not result in liability classification for freestanding financial instruments originally issued as employee compensation This clarification is consistent with the FASB's intent in issuing SFAS No. 123(R), *Share-Based Payment* The adoption of this Position will not have a significant impact on the Company's consolidated results of operations or financial position

In May 2005, FASB issued SFAS No 154, *Accounting Changes and Error Corrections, a replacement of APB Opinion No 20 and FASB Statement No 3,* which changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change This Statement defines retrospective application as the application of a different accounting principle to prior accounting periods as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity. This Statement also redefines restatement as the revising of previously issued financial statements to reflect the correction of an error. This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company will adopt this Statement effective January 1, 2006 Based on the Company's current evaluation of this Statement, the Company does not expect the adoption of SFAS No 154 to have a significant impact on its consolidated results of operations or financial position.

In March 2005, the FASB issued FIN No 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143,* which clarifies that the term "conditional asset retirement obligation" as used in SFAS No. 143, *Accounting for Asset Retirement Obligations,* refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists FIN No 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation FIN No. 47 is effective no later than the end of fiscal years ending after December 15, 2005. The Company adopted this Interpretation effective December 31, 2005 The adoption of this Interpretation did not have a significant impact on the consolidated results of operations or financial position.

In December 2004, the FASB issued SFAS No 153, *Exchanges of Nonmonetary Assets — an amendment of APB Opinion No 29* This Statement amends APB No 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange SFAS No 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Therefore, the Company is required to adopt this Statement effective January 1, 2006. Based on the Company's current evaluation of this Statement, the Company does not expect the adoption of SFAS No 153 to have a significant impact on its consolidated results of operations or financial position.

In December 2004, the FASB issued SFAS No 123R, *Share Based Payment* SFAS No 123R requires recognition of compensation expense for stock options granted to employees The expense is equal to the grant-date fair value of the options granted, and the expense is recorded over the vesting period XM's Employee Stock Purchase Plan ("ESPP") is also considered compensatory under the new standard, because the Company offers a discount greater than 5 percent and a look-back option XM is required to adopt SFAS No 123R in the first quarter of 2006. Compensation expense will need to be recorded for new option awards and for the remaining vesting period of existing option grants The Company expects that compensation expense of approximately $38 million will be recorded in 2006 from the vesting of option grants. The amount of compensation expense that is recorded after adoption of SFAS No 123R in 2006 and beyond will depend on the amount and timing of option activity

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

On November 24, 2004, the FASB issued SFAS No 151, *Inventory Costs — an amendment of APB No 43*, Chapter 4, which is the result of its efforts to converge U S. accounting standards for inventories with International Accounting Standards SFAS No 151 requires abnormal amounts of idle facility expense, freight, handling costs and wasted material (spillage) to be recognized as current-period charges It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities SFAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005 Therefore, the Company is required to adopt this Statement effective January 1, 2006 Based on the Company's current evaluation of this Statement, the Company does not expect the adoption of SFAS No 151 to have a 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 a current transaction between willing parties. As of December 31, 2005 and 2004, 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

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 carrying amounts approximate fair value because of the short maturity of these instruments.

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, 2005 and 2004, the carrying value of its long-term debt was $1,043 2 million and $955 3 million, respectively; while the fair value for the same period was $2,458.0 million and $3,436 8 million, respectively.

(4) System Under Construction

The Company has capitalized costs including capitalized interest related to the development of its XM Radio System to the extent that they have future benefits The amounts recorded as system under construction consist of the following

	December 31,	
	2005	2004
(in thousands)		
Spacecraft system	$216,527	$321,462
Spacecraft control facilities	—	7,893
Total system under construction	$216,527	$329,355

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
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(5) Property and Equipment

Property and equipment consists of the following.

	December 31,	
	2005	2004
(in thousands)		
Spacecraft system	$ 645,036	$ 387,302
Terrestrial repeater network	262,255	268,026
Spacecraft control and uplink facilities	40,548	28,360
Broadcast facilities	64,126	60,829
Land	8,788	7,156
Building and improvements	66,741	42,003
Computer systems, furniture and fixtures, and equipment	186,660	128,365
Total property and equipment	1,274,154	922,041
Accumulated depreciation and amortization	(600,482)	(460,708)
Property and equipment, net	$ 673,672	$ 461,333

Spacecraft System

The Company successfully launched satellites XM-2 and XM-1 on March 18, 2001 and May 8, 2001, respectively Depreciation commenced in May and June 2001 upon acceptance of the satellites from Boeing Satellite Systems ("BSS") Amortization and depreciation of the ground systems/spacecraft control facilities and related computer systems commenced on September 25, 2001, which was the date the service was launched in the Company's lead markets Depreciation of the broadcast facilities and the terrestrial repeaters commenced when they were placed in service

The XM-1 and XM-2 satellites suffer from a 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. In July 2004, the Company reached agreement with insurers covering 80 percent of the aggregate sum insured at a settlement rate equal to 44 5 percent of the proportionate amount covered by each of these insurers, representing a total recovery of approximately $142 million from these insurers This settlement resolves any issues about the amount of loss sustained, includes a waiver by the settling insurance companies of any reductions based on salvage value, terminates any further risk to the settling insurers under the policies and ends any other rights the settling insurers might have with regard to XM-1 and XM-2 or revenues generated by the Company's continuing use of those satellites. The Company has collected all amounts due under the settlement The portion of the insurance proceeds related to claim payments, totaling $133.9 million, was recorded as a reduction to the carrying values of XM-1 and XM-2 In August 2004, the Company filed for arbitration to collect the remaining 20 percent of the sum insured utilizing the third-party dispute resolution procedures under the policy. An arbitration ruling is expected in 2006. Any amounts received from this arbitration proceeding will be recorded as a reduction to the carrying values of XM-1 and XM-2

(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 determined that its DARS license was an intangible asset having an indefinite useful life pursuant to SFAS No. 142. The Company believes that the administrative fees necessary to renew the license will be *de minimis* compared to the initial fee to obtain the license, and the Company has met all of the established milestones specified in the FCC license agreement. The Company also anticipates no difficulties in renewing the license as long as the Company continues to adhere

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

to the various regulatory requirements established in the license grant Although the Company faces competition from a variety of sources, the Company does not believe that the risks of the technology becoming obsolete or of a decrease in demand for the DARS service are significant. Furthermore, broadcasters with comparable licenses classify their licenses as indefinite-lived intangible assets

(7) Investments

The Company's investments consist of equity-method investments and available-for-sale equity securities. XM's investments, by category, consist of.

	December 31,	
	2005	2004
(in thousands)		
Equity method investments	$152,337	$ —
Available-for-sale equity securities	35,066	—
Total investments	$187,403	$ —

Equity Method Investments

Canadian Satellite Radio ("XM Canada")

In November 2005, XM and XM Canada entered into a Share Issuance Agreement ("SIA") that provided XM with a 23.33% ownership interest in XM Canada, as contemplated in a 2003 Memorandum of Agreement ("MOA") with XM Canada and as reflected in documents filed with the Canadian Radio-television and Telecommunications Commission ("CRTC") Pursuant to the SIA, immediately prior to XM Canada's initial public offering ("IPO") in December 2005, XM Canada issued to XM 11,077,500 Class A Subordinate Voting Shares representing the 23 33% ownership interest in XM Canada These shares were determined to have a fair value of $152 1 million, based on the XM Canada IPO price of CDN$16 00 per share In addition to XM's 23 33% ownership interest, XM also has two representatives on XM Canada's nine member board of directors XM's 23 33% ownership interest in XM Canada's Class A Subordinate Voting Shares is diluted to an approximate 11% voting interest as a result of the three-for-one voting and conversion rights of XM Canada's Class B Shares.

Also in November 2005, and as contemplated by the 2003 MOA with XM Canada, XM entered into a number of agreements with XM Canada, which provide XM Canada with exclusive rights to offer XM satellite digital radio service in Canada These agreements include a License Agreement, a Programming Agreement and a Trademark Agreement, which collectively include the following rights granted to XM Canada.

- exclusive non-transferable rights and license to sell the XM basic channels package to Canadian subscribers,
- access to the programming on XM's channels, and
- information and expertise regarding the following
  - acquisition of content and distribution rights;
  - promotion, marketing and distribution,
  - construction, maintenance and operations of a terrestrial repeater network and broadcast facilities;
  - computer software and system support,
  - sharing of technology licenses, and
- rights to the use of XM related trademarks

The agreements have an initial term of ten years XM Canada has an option to extend the term of the agreements for an additional five years at no additional cost

The $152.1 million fair value of the shares received is recorded as deferred income on XM's Consolidated Balance Sheet and amortized into income over the 15-year expected term of the agreements.

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
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Pursuant to the License Agreement, XM receives 15 percent of all subscriber fees earned by XM Canada each month for its basic service and 50 percent of XM Canada's net revenues for any premium service In addition XM receives a nominal fee for each gross activation of a XM Canada subscriber on XM's system

XM has also provided XM Canada with a CDN$45 million standby credit facility, which can only be utilized to finance purchases of terrestrial repeaters or for the payment of license fees The facility matures on December 31, 2012 and bears interest at a rate of 9% per annum XM has the right to convert unpaid principal amounts into Class A Subordinate Voting Shares of XM Canada at the price of CDN$16 00 per share As of December 31, 2005, XM Canada had not drawn on this facility

During 2005, XM Canada purchased 80 repeaters from XM for a price of $7 6 million A gain of $4 7 million has been deferred on this sale pending receipt of payment from XM Canada.

XM Canada will fund $69 million of XM's recently announced multi-year agreement with the National Hockey League ® ("NHL") to broadcast NHL games live and to become the Official Satellite Radio provider of the NHL The 10-year, $100 million agreement makes XM the exclusive satellite radio network of the NHL beginning with the 2007-2008 season NHL games and the Home Ice channel are available in Canada through XM Canada

XM accounts for its ownership in XM Canada using the equity method of accounting. XM Canada has a fiscal year end of August 31, therefore XM will pick up its share of XM Canada's net income or loss based on XM Canada's August 31, November 30, February 28 and May 31 quarterly period ends. Summarized financial information for XM Canada is as follows

	November 30, 2005
(unaudited, in thousands)	
Current assets	$ 547
Non-current assets	$ 219,502
Current liabilities	$ 39,903
Non-current liabilities	$ 378
Total shareholders' equity	$ 179,768

	Three months ended November 30, 2005
(unaudited, in thousands)	
Revenues	$ 39
Net loss	$ 12,400
XM's share of net loss (1)	$ 482

(1) The Company began recording its share of XM Canada's loss on November 17, 2005, the date of the Share Issuance Agreement

XM Canada's share trade publicly on the Toronto Stock Exchange under the symbol "XSR SV" As of December 31, 2005, the Company's investment in XM Canada had a carrying value of $151 6 million As of December 31, 2005, the amount due from XM Canada was $10 6 million, which are included in Prepaid and other current assets on the Consolidated Balance Sheets.

Available-for-Sale Equity Securities

Investments in marketable equity securities of companies in which XM does not have a controlling interest or is unable to exert significant influence are accounted for at market value if the investments are publicly traded and resale restrictions of less than one year exist ("available-for-sale equity securities").

WorldSpace

On July 18, 2005, XM acquired 1,562,500 shares of Class A common shares of WorldSpace, Inc. ("WSI") and a warrant to purchase at WSI's initial public offering price an additional aggregate number of shares equal to $37.5 million, subject to

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

certain operational vesting conditions, in exchange for $25 million. On August 3, 2005, WSI's initial public offering of 11.8 million shares of its Class A common stock became effective at an IPO price of $21 00. 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 As XM does not have a controlling interest and is not able to exert significant influence, XM accounts for its investment in WSI Class A common stock as available–for–sale securities to be reported at fair market value with any unrealized gains or losses reported in Accumulated other comprehensive income, a component of Stockholders' equity, net of tax As of December 31, 2005, XM had a carrying value of $35.1 million for the WSI investment which included $6 0 million of unrealized gains, net of tax

XM accounts for its investment in the warrant under the cost–method as it contains a resale restriction greater than one year

(8) Acquisition

On July 13, 2005, XM announced an agreement to acquire WCS Wireless for 5.5 million shares of the Company's Class A common stock The principal assets of WCS Wireless are wireless spectrum licenses. The closing of the acquisition is subject to receiving the necessary governmental approvals

In July 2005, the Company submitted an application to the FCC for consent to the transfer of control of sixteen WCS licenses held by WCS Wireless License Subsidiary, LLC to the Company The National Association of Broadcasters, Sirius Satellite Radio and the Wireless Communications Association International, Inc ("WCA") have opposed our request for license transfer In the application, the Company requested a waiver that will permit the Company to operate its WCS base stations based on an average rather than a peak Effective Isotropic Radiated Power ("EIRP") limit In July 2005, the FCC initiated a rulemaking proceeding proposing to measure EIRP for base stations in various terrestrial wireless services in terms of average rather than peak power The WCA has opposed this proposal and our waiver application The Company's application is still pending.

(9) Deferred Financing Fees

Deferred financing fees consist of the following

	December 31,	
	2005	2004
(in thousands)		
14% senior secured notes due 2010	$ —	$ 622
14% senior secured discount notes due 2009	3,486	3,486
12% senior secured notes due 2010	3,590	4,118
10% senior secured discount convertible notes due 2009	7,740	10,150
Senior secured floating rate notes due 2009	4,819	4,819
1 75% convertible senior notes due 2009	10,066	7,500
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	2,288	2,288
Valuation of warrants issued to vendors	13	178
Mortgage	504	504
Total deferred financing fees	57,657	58,816
Less accumulated amortization	(20,922)	(14,350)
Deferred financing fees, net	$ 36,735	$ 44,466

Source· XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(10) Long-Term Debt

Certain of the Company's debt instruments and credit facility contain covenants that include restrictions on indebtedness, mergers, limitations on liens, liquidations and sale and leaseback transactions, and also require the maintenance of certain financial ratios. The Company was in compliance with all of its covenants as of December 31, 2005 The Company's debt instruments and credit facility 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 facility subject to materiality thresholds.

The following table presents a summary of the debt activity in 2005:

(in thousands)	December 31, 2004	Issuances/ Additions	Discount Amortization	Accreted Interest	Principal Payments	Retirements/ Extinguishments	December 31, 2005
14% senior secured notes due 2010	$ 22,824	$ —	$ —	$ —	$ —	$ (22,824)	$ —
Less discount	(3,367)	—	344	—	—	3,023	—
14% senior secured discount notes due 2009	162,897	—	—	23,648	—	—	186,545
Less discount	(44,284)	—	4,291	—	—	—	(39,993)
12% senior secured notes due 2010	115,000	—	—	—	—	(15,000)	100,000
10% senior secured discount convertible notes due 2009	213,958	—	—	21,931	—	(55,991)	179,898
Less discount	(53,897)	—	6,724	—	—	10,747	(36,426)
Senior secured floating rate notes due 2009	200,000	—	—	—	—	—	200,000
1 75% convertible senior notes due 2009	300,000	100,000	—	—	—	—	400,000
Mortgages	33,206	6,630	—	—	(381)	—	39,455
Notes payable	2,773	5	—	—	(2,775)	—	3
Capital leases	6,187	14,399	—	—	(6,876)	—	13,710
Total debt	955,297	$ 121,034	$ 11,359	$ 45,579	$ (10,032)	$ (80,045)	1,043,192
Less current portion	6,556						7,608
Long-term debt, net of current portion	$ 948,741						$ 1,035,584

Future maturities of long-term debt, stated at fully accreted values, as of December 31, 2005 (as adjusted for the January 2006 de-leveraging transaction that is more fully discussed in Note 11) are as follows

(in thousands) Year ending December 31,	Amount
2006	$ 7,608
2007	5,550
2008	2,212
2009	914,865
2010	106,584
Thereafter	30,524
Total debt	$ 1,067,343

14% Senior Secured Discount Notes due 2009

Interest accreted until December 31, 2005 and is thereafter payable semi-annually at a rate of 14 percent per annum The remaining principal balance is payable in December 2009 The Company, at its option, may redeem the notes at declining redemption prices at any time on or after January 1, 2006.

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

The notes are secured by substantially all of Inc 's assets, including the stock of Inc.'s FCC license subsidiary In addition, the Notes are guaranteed by the Company, rank equally in right of payment with all of Inc.'s other existing and future senior indebtedness, and are senior in right of payment to all of Inc 's existing and future subordinated indebtedness

12% Senior Secured Notes due 2010

Interest is payable semi-annually at a rate of 12 percent per annum The remaining principal balance is payable in June 2010 The Company, at its option, may redeem the notes at declining redemption prices at any time on or after June 15, 2007

The notes are secured by substantially all of Inc.'s assets, including the stock of Inc 's FCC license subsidiary In addition, the Notes are guaranteed by the Company, rank equally in right of payment with all of Inc.'s other existing and future senior indebtedness, and are senior in right of payment to all of Inc 's existing and future subordinated indebtedness

10% Senior Secured Discount Convertible Notes due 2009

Interest accreted through December 31, 2005 and is thereafter payable semi-annually at a rate of 10 percent 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 percent 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.

The notes are secured by substantially all of Inc 's assets, including the stock of Inc 's FCC license subsidiary. In addition, the Notes are guaranteed by the Company, rank equally in right of payment with all of Inc 's other existing and future senior indebtedness, and are senior in right of payment to all of Inc 's existing and future subordinated indebtedness

Senior Secured Floating Rate Notes due 2009

Interest is payable quarterly in cash in arrears at a rate of 9.75 percent per annum on February 1, 2006 and resets quarterly at a rate equal to 550 basis points over three-month LIBOR The remaining principal balance is payable in May 2009 The Company, at its option, may redeem the notes at declining redemption prices at any time during the life of the notes

The notes are secured by substantially all of Inc 's assets, including the stock of Inc 's FCC license subsidiary In addition, the Notes are guaranteed by the Company, rank equally in right of payment with all of Inc 's other existing and future senior indebtedness, and are senior in right of payment to all of Inc.'s existing and future subordinated indebtedness.

1.75% Convertible Senior Notes due 2009

In January 2005, an additional $100 million aggregate principal amount of 1 75% Convertible Senior Notes due 2009 were issued pursuant to the exercise of an over-allotment option that was granted as part of the original issuance of the notes. Interest is payable semi-annually at a rate of 1 75 percent per annum The remaining principal balance is payable in December 2009

The notes may be converted by the holder, at its option, into shares of the Company's Class A common stock initially at a conversion rate of 20 0 shares of Class A common stock per $1,000 principal amount, which is equivalent to an initial conversion price of $50.00 per share of Class A common stock (subject to adjustment in certain events), at any time until December 1, 2009

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

Mortgages

1500 Eckington Place

As of December 31, 2005 and 2004, the remaining principal balance of the 1500 Eckington Place Mortgage Loan was $32 8 million and $33 2 million, respectively Principal and interest at a fixed rate of 6 015 percent is payable monthly until the mortgage matures in September 2014. The mortgage loan is secured by the building and an escrow with a balance of $4.1 million at December 31, 2005

60 Florida Avenue

In August 2005, the Company entered into an agreement to purchase its data center at 60 Florida Avenue, Washington, D C The $14 0 million purchase price was satisfied by the assumption of the existing mortgage loan on the property at a principal balance of $6.6 million and a cash payment of $7.4 million In addition, the Company deposited $0 9 million into escrow and paid $0.2 million in closing costs.

As of December 31, 2005, the remaining principal balance of the 60 Florida Avenue Mortgage Loan was $6 6 million Principal and interest at a fixed rate of 8 26 percent is payable monthly until the mortgage matures in September 2010 The mortgage is secured by the building, the land, and an escrow with a balance of $1 0 million at December 31, 2005

Senior Secured Credit Facility

The Company and Inc established a revolving $100 0 million Senior Secured Credit Facility with GM that matures on December 31, 2009 It enables the Company to make monthly draws to finance payments that become due under the Company's distribution agreement with OnStar Corporation and other GM payments All draws under the facility bear interest at a per annum rate of LIBOR plus 8 percent Interest payments are due semiannually. The Company has the option of making interest payments in shares of Class A common stock having an aggregate fair market value at the time of payment equal to the amount of interest due The fair market value will be based on the average daily trading prices of the Class A common stock over the ten business days prior to the day the interest payment is due The Company is required to prepay the amount of any outstanding advances in an amount equal to the lesser of (i) 50 percent of the Company's excess cash and (ii) the amount necessary to prepay the draws in full In order to make draws under the credit facility, the Company is required to have a certain minimum number of subscribers that are not originated by GM and a minimum pre-marketing cash flow as defined GM waived the minimum pre-marketing cash flow condition for the year ended December 31, 2005 As of December 31, 2005, there were no amounts outstanding under this credit facility

(11) Recent De-leveraging Transactions

2006 De-leveraging Transaction

In January 2006, the Company exchanged $42.4 million aggregate carrying value, or $52.3 million aggregate fully accreted face value at maturity, of its 10% Senior Secured Discount Convertible Notes due 2009 by issuing approximately 17 1 million shares of Class A common stock. As a result of the exchange, the Company will record a de-leveraging charge consisting of a redemption premium of $18.4 million In addition, the Company will write-off a beneficial conversion feature of $9 9 million to interest expense and unamortized debt issuance costs of $1 4 million to equity

2005 De-leveraging Transactions

During 2005, the Company entered into agreements with certain holders of its notes to de-leverage $80 0 million carrying value, or $93.8 million fully accreted face value at maturity, for $42 0 million in cash consideration, which included $0 7 million of accrued interest, and 18.3 million shares of Class A common stock. The Company recorded a loss of $27 6 million from these extinguishments in Other income (expense) on the Consolidated Statements of Operations for the year ended December 31, 2005 This includes the following de-leveraging transactions

12% Senior Secured Notes due 2010

The Company redeemed $15 0 million of its 12% Senior Secured Notes due 2010 for a redemption price of $17.2 million, which included $0 4 million of accrued interest As a result of the redemption, the Company incurred a $2.2

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

million de-leveraging charge comprised of a redemption premium of $1 8 million and a write-off of unamortized debt issuance costs of $0.4 million

14% Senior Secured Notes due 2010
The Company redeemed the remaining $19.8 million aggregate carrying value, or $22.8 million aggregate fully accreted face value at maturity, of its 14% Senior Secured Notes due 2010 for a redemption price of $24 8 million, which included $0.3 million of accrued interest As a result of the redemption, the Company incurred a $4 9 million de-leveraging charge comprised of a redemption premium of $1 6 million, a write-off of the unamortized discount of $3 0 million and a write-off of unamortized debt issuance costs of $0 3 million

10% Senior Secured Discount Convertible Notes due 2009
The Company exchanged $45 2 million aggregate carrying value, or $56.0 million aggregate fully accreted face value at maturity, of its 10% Senior Secured Discount Convertible Notes due 2009 by issuing 18.3 million shares of Class A common stock. As a result of the exchange, the Company incurred a redemption premium of $20 5 million, which was classified as a de-leveraging charge In addition, the Company wrote-off a beneficial conversion feature of $10.7 million to interest expense and unamortized debt issuance costs of $1.5 million to equity.

2004 De-leveraging Transactions
During 2004, the Company entered into agreements with certain holders of its notes to de-leverage $493 6 million carrying value including accrued interest, or $513 2 million fully accreted face value at maturity, for $319.0 million in cash consideration and 12.4 million shares of Class A common stock The Company recorded a loss of $76 6 million from these extinguishments in Other income (expense) on the Consolidated Statements of Operations for the year ended December 31, 2004 This includes the following de-leveraging transactions:

14% Senior Secured Discount Notes due 2009
The Company exchanged $132 8 million aggregate carrying value including accrued interest, or $157.1 million aggregate fully accreted face value at maturity, of its 14% Senior Secured Discount Notes due 2009 by issuing 4 2 million shares of Class A common stock and paying $15.8 million in cash

12% Senior Secured Notes due 2010
The Company redeemed $73 3 million aggregate carrying value including accrued interest, or $70 0 million aggregate fully accreted face value at maturity, of its 12% Senior Secured Notes due 2010 for a redemption price of $81 7 million As a result of the redemption, the Company incurred a redemption premium of $8 4 million, which was classified as a de-leveraging charge

10% Senior Secured Discount Convertible Notes due 2009
The Company exchanged $11 1 million aggregate carrying value including accrued interest, or $13.4 million aggregate fully accreted face value at maturity, of its 10% Senior Secured Discount Convertible Notes due 2009 by issuing 3 5 million shares of Class A common stock

10% Senior Secured Convertible Note due 2009 (held by OnStar)
The Company redeemed the remaining $90 4 million carrying value including accrued interest, or $89 0 million fully accreted face value at maturity, of its 10% Senior Secured Convertible Note due December 31, 2009 held by OnStar In accordance with the terms of the note, OnStar converted $7.8 million in principal amount of the note, representing the entire principal amount of the Note that had vested conversion rights at the time of the redemption, into 980,670 shares of Class A common stock and paid the remaining $81.2 million in principal amount plus accrued interest in cash.

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

7.75% Convertible Subordinated Notes due 2006
The Company redeemed the remaining $45 7 million carrying value including accrued interest, or $45 7 fully accreted face value at maturity, of its 7 75% Convertible Subordinated Notes due 2006 by issuing 3 7 million shares of Class A common stock

Loan — Boeing Capital Corporation
The Company retired the remaining $35 3 million carrying value including accrued interest or $35.0 million fully accreted face value at maturity, of its loan with Boeing Capital Corporation

Related Party Note
The Company retired the remaining $103 0 million carrying value, plus accrued interest of $2.0 million of its revolving credit and equity facility with GM

2003 De-leveraging Transactions
During 2003, the Company entered into agreements with certain holders of its notes to de-leverage $125 2 million carrying value including accrued interest, or $160 1 million fully accreted face value at maturity, for $6 8 million in cash consideration and 19.3 million shares of Class A common stock The Company recorded a loss of $24 7 million from these extinguishments in Other income (expense) on the Consolidated Statements of Operations for the year ended December 31, 2003 This includes the following de-leveraging transactions·

14% Senior Secured Notes due 2010 and 14% Senior Secured Discount Notes due 2009
The Company exchanged $2 1 million aggregate carrying value including accrued interest, or $2.0 million aggregate fully accreted face value at maturity, of its 14% Senior Secured Notes due 2010 and $65.5 million aggregate carrying value including accrued interest, or $94 2 million aggregate fully accreted face value at maturity, of its 14% Senior Secured Discount Notes due 2009 by issuing 8 5 million shares of Class A common stock.

7.75% Convertible Subordinated Notes due 2006
The Company exchanged $33 6 million aggregate carrying value including accrued interest, or $33 4 million aggregate fully accreted face value at maturity, of its 7 75% Convertible Subordinated Notes due 2006 by issuing 2 7 million shares of Class A common stock and paying $6 8 million in cash.

10% Senior Secured Discount Convertible Notes due 2009
The Company exchanged $24 0 million aggregate carrying value including accrued interest, or $30 5 million aggregate fully accreted face value at maturity, of its 10% Senior Secured Discount Convertible Notes due 2009 by issuing 8 1 million shares of Class A common stock.

(12) Equity

Convertible Preferred Stock
At December 31, 2005 and 2004, the Company had authorized 60,000,000 shares of preferred stock, par value $0 01, of which 15,000,000 shares were designated non-voting Series A convertible preferred stock, 3,000,000 shares were designated non-voting 8.25% Series B convertible redeemable preferred stock, and 250,000 shares were designated 8 25% Series C convertible redeemable preferred stock, all of which are convertible into Class A common stock at the option of the holder Additionally, 250,000 shares were designated as non-voting Series D participating preferred stock in connection with the adoption of the Shareholders' Rights Plan and are junior to all other classes of preferred stock. The Series C convertible redeemable preferred stock contains voting and certain veto rights The Series A preferred stock receives dividends, if declared, ratably with the common stock.

Source· XM SATELLITE RADIO H, 10-K, March 03, 2006

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The Series A convertible preferred stock is redeemable at the option of the holder at any time for an equal number of shares of Class A common stock The Company may redeem the Series B convertible preferred stock or the Series C convertible redeemable preferred stock at its option and at any time at a redemption price per share equal to the Liquidation Preference plus a premium for each series, which premiums decline annually through February 2, 2010, however, all remaining outstanding shares must be redeemed on February 1, 2012

Stock Dividends on Preferred Stock

The Company paid 2005 quarterly dividends on the 8 25% Series B convertible redeemable preferred stock on February 1, 2005, May 1, 2005, August 1, 2005 and November 1, 2005 by issuing 14,714, 16,784, 14,614, and 15,299 shares of Class A common stock, respectively, to the respective holders of record.

The Company paid 2004 quarterly dividends on the 8 25% Series B convertible redeemable preferred stock on February 1, 2004, May 1, 2004, August 1, 2004 and November 1, 2004 by issuing 18,806, 17,643, 19,335, and 17,741 shares of Class A common stock, respectively, to the respective holders of record.

The terms of the Company's 8 25% Series C convertible redeemable preferred stock provide for cumulative dividends payable in cash. The liquidation preference of the Series C convertible redeemable preferred stock includes cumulative dividends The net loss attributable to common stockholders reflects the accrual of the dividends to preferred stockholders for the years ended December 31, 2005, 2004 and 2003

The following table provides a summary of the changes in the liquidation preference for Series C convertible redeemable preferred stock in 2005

(in thousands)	December 31, 2004	Conversions	Accrued Dividends	December 31, 2005
Face amount	$ 79,246	$ —	$ —	$ 79,246
Cumulative dividends payable	28,730	—	6,538	35,268
Carrying amount of liquidation preference	$ 107,976	$ —	$ 6,538	$ 114,514

Conversions of Convertible Preferred Stock

During the year ended December 31, 2004, the Company entered into agreements with certain holders of its Series A convertible preferred stock to exchange 5 4 million shares of Series A convertible preferred stock (carrying value of $51.4 million) for 5.4 million shares of Class A common stock. In addition, the Company entered into agreements with certain holders of its 8 25% Series C convertible redeemable preferred stock to exchange 40 8 million shares of Series C convertible redeemable preferred stock plus accrued dividends through the date of the exchange (carrying value of $52.4 million) for 5 9 million shares of Class A common stock

Class A Common Stock Issuances

During 2005, the Company issued 18 3 million shares of Class A common stock to convert or redeem certain notes and 2 5 million shares of Class A common stock related to the exercise of certain warrants

On June 14, 2005, the Company completed a public offering of 9,668,063 shares of its Class A common stock at $31.20 per share. The 9,668,063 shares offered by the Company resulted in net proceeds of $300 million.

During 2004, the Company issued an aggregate 11 3 million shares of Class A common stock to redeem certain preferred stock, 12 4 million shares of Class A common stock to convert or redeem certain notes and 15 3 million shares of Class A common stock related to the exercise of certain warrants

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

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On January 28, 2004, the Company completed a public offering of 20 million shares of its Class A common stock at $26 50 per share The Company issued 7 million shares that resulted in net proceeds of $177 million and certain selling stockholders offered the remaining 13 million shares.

Shareholders' Rights Plan

In August 2002, the Company adopted a Shareholders' Rights Plan (commonly known as a "poison pill") in which preferred stock purchase rights were granted as a dividend at the rate of one right for each share of common stock held of record as of the close of business on August 15, 2002 The rights would be exercisable only upon the occurrence of certain events relating to an unsolicited take-over or change of control of the Company.

Stock-Based Compensation

The Company operates stock plans, the details of which are described below.

1998 Shares Award Plan and Talent Option Plan

On June 1, 1998, the Company adopted the 1998 Shares Award Plan ("1998 Plan") under which employees, consultants, and non-employee directors may be granted options to purchase shares of Class A common stock of the Company The Company has authorized 25,000,000 shares of Class A common stock under the 1998 Plan The options are exercisable in installments determined by the compensation committee of the Company's board of directors. The options expire as determined by the committee, but no later than ten years from the date of grant.

In May 2000, the Company adopted the XM Talent Option Plan ("Talent Plan") under which non-employee programming consultants to the Company may be granted options to purchase shares of Class A common stock of the Company. The Company authorized 500,000 shares of Class A common stock under the Talent Plan The options are exercisable in installments determined by the talent committee of the Company's board of directors The options expire as determined by the talent committee, but no later than ten years from the date of the grant.

Transactions and other information relating to the 1998 Plan for the years ended December 31, 2005, 2004 and 2003 are summarized below

	Outstanding Options	
	Shares	Weighted-Average Exercise Price
Balance, January 1, 2003	7,615,063	$ 15.24
Options granted	5,548,305	5 99
Options canceled or expired	(517,762)	15.37
Options exercised	(680,568)	11 36
Balance, December 31, 2003	11,965,038	$ 11.21
Options granted	4,945,285	23.86
Options canceled or expired	(692,704)	12.75
Options exercised	(1,531,458)	11.27
Balance, December 31, 2004	14,686,161	$ 15.37
Options granted	2,019,505	29.21
Options canceled or expired	(283,376)	21.32
Options exercised	(1,793,278)	10 37
Balance, December 31, 2005	14,629,012	$ 17.77

Source. XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
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December 31, 2005	Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Outstanding Weighted-Average Exercise Price	Number Exercisable	Exercisable Weighted-Average Exercise Price
	$ 2 67	1,070	7 01 years	$ 2 67	370	$ 2.67
	$ 2.77–$5.34	3,286,816	7.21 years	$ 5.33	1,876,122	$ 5 32
	$ 5 67–$12.00	1,815,519	4 77 years	$ 9 20	1,802,104	$ 9.22
	$ 12 06–$16.79	1,682,124	5 93 years	$ 15.33	1,636,067	$ 15 36
	$ 16.80–$18 69	766,915	5.04 years	$ 18 60	766,915	$ 18 60
	$ 18 83–$22 00	2,304,400	8 13 years	$ 21.99	716,910	$ 21.96
	$ 22 31–$26.82	1,898,133	8.46 years	$ 24.60	738,422	$ 24.68
	$ 26 83–$28 04	1,661,518	9 04 years	$ 27 86	155,661	$ 27.21
	$ 28.17–$45 44	1,212,517	7.35 years	$ 34 72	560,122	$ 36 73
Total		14,629,012	7.17 years	$ 17.77	8,252,693	$ 15 12

Under the 1998 Plan, there were 8,252,693, 6,216,748 and 4,613,501 stock options exercisable at December 31, 2005, 2004 and 2003, respectively. At December 31, 2005, there were 5,142,914 shares available under the 1998 Plan for future grants. During 2005 and 2004, the Company granted 826,877 restricted shares and 10,000 restricted shares, respectively As of December 31, 2005 and 2004, 160,000 and 156,000 options had been granted under the Talent Plan, respectively. At December 31, 2005, there were 340,000 options available under the plan for future grant In 2005, 2004 and 2003, the Company recognized $6 0 million, $2.0 million and $2 1 million, respectively, of non-cash stock-based compensation expense.

The per share weighted-average fair value of employee options granted during the years ended December 31, 2005, 2004 and 2003 was $12 83, $16 08 and $4.72, respectively, on the date of grant using the Black-Scholes Option Pricing Model with the following weighted-average assumptions.

	Years ended December 31,		
	2005	2004	2003
Expected dividend yield	0%	0%	0%
Volatility (1)	39% to 47%	82 75%	107 38%
Risk-free interest rate range	3 32% to 4.33%	2.79% to 3 93%	2.30% to 3.37%
Expected life	5 Years	5 Years	5 Years

(1) As of January 1, 2005, the Company changed its method to measure volatility from historical volatility to implied volatility.

During the twelve months ended December 31, 2005, XM granted 826,877 shares of restricted common stock to key employees The Company recorded deferred compensation during the twelve months ended December 31, 2005 of $23.6 million in connection with these shares of restricted common stock Such deferred compensation is being amortized to expense over the three year vesting period and is recorded as a component of equity The restrictions on these shares lapse as vesting occurs

Employee Stock Purchase Plan

In 1999, the Company established an employee stock purchase plan that provides for the issuance of 300,000 shares of Class A common stock, which was increased to 600,000 shares in 2001 and 1,000,000 shares in 2003. All employees whose customary employment is more than 20 hours per week and for more than five months in any calendar year are eligible to participate in the stock purchase plan, provided that any employee who would own 5 percent or more of the Company's total combined voting power immediately after an offering date under the plan is not eligible to participate Eligible employees must authorize the Company to deduct an amount from their pay during offering periods established by the compensation committee The purchase price for shares under the plan will be determined by the compensation

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

committee but may not be less than 85 percent of the lesser of the market price of the common stock on the first or last business day of each offering period As of December 31, 2005, 2004 and 2003, the Company had issued a cumulative total of 616,745, 570,311 and 528,044 shares, respectively, under this plan At December 31, 2005, there were 383,255 shares available under the plan for future sale.

The Company applies APB 25 in accounting for stock-based compensation for these plans and, accordingly, no compensation cost has been recognized for its stock options and stock purchase plan in the financial statements other than for performance based stock options, for options granted with exercise prices below fair value on the date of grant and for repriced options under FIN No 44 During 2005, 2004 and 2003, the Company incurred no compensation cost for these options

Warrants

14% Senior Secured Notes due 2010 Warrants — As part of the issuance of 14% Senior Secured Notes due 2010, the Company granted warrants to purchase shares of the Company's Class A common stock As of December 31, 2005, 2 9 million shares were available for purchase at a price of $45 20 per share The exercise price of each warrant may be paid either in cash or without the payment of cash by reducing the number of shares of Class A common stock that would be obtainable upon the exercise of a warrant The warrants are fully vested and expire March 15, 2010

14% Senior Secured Discount Notes due 2009 Warrants — As part of the exchange of 14% Senior Secured Notes due 2010 for 14% Senior Secured Discount Notes due 2009, the Company granted warrants to purchase shares of the Company's Class A common stock As of December 31, 2005, approximately 8 3 million shares were available for purchase at a price of $3 18 per share The exercise price of each warrant may be paid either in cash or without the payment of cash by reducing the number of shares of Class A common stock that would be obtainable upon the exercise of a warrant. The warrants are fully vested and expire December 31, 2009

Boeing Satellite Systems — Pursuant to the Company's satellite contract for XM-4, it issued a fully vested warrant to Boeing Satellite Systems in July 2003 to purchase 500,000 shares of its Class A common stock at $13 524 per share The fair value of this warrant was determined to be approximately $5 8 million using a Black-Scholes based methodology and is included in the cost of XM-4 These warrants expire July 31, 2008

Space Systems/Loral — Pursuant to the Company's satellite contract for XM-5, it issued a fully vested warrant to Space Systems/Loral to purchase 400,000 shares of its Class A common stock at $32 42 per share during 2005 The fair value of this warrant was determined to be approximately $4 9 million using a Black-Scholes based methodology and is included in the cost of XM-5 These warrants expire December 31, 2011.

(13) Profit Sharing and Employee Savings Plan

On July 1, 1998, the Company adopted a profit sharing and employee savings plan under Section 401(k) of the Internal Revenue Code. This plan allows eligible employees to defer the maximum percentage of their compensation allowable under law on a pre-tax basis through contributions to the savings plan The Company contributed $0 50 in 2005, 2004 and 2003 for every $1 00 the employees contributed up to 6 percent of compensation, which amounted to $1 2 million, $0.8 million and $0 7 million, respectively

(14) Related Party Transactions

The Company developed strategic relationships with certain companies that were instrumental in the construction and development of its system In connection with the Company granting to them large supply contracts, some of these strategic companies have become large investors in XM and have been granted rights to designate directors or observers to XM's board of directors The negotiation of these supply contracts and investments primarily occurred at or prior to the time these companies became related parties

The Company is a party to a long-term distribution agreement with OnStar Corporation, a subsidiary of General Motors that provides for the installation of XM radios in General Motors vehicles, as further described in Note 17 to the audited

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
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Consolidated Financial Statements The Company has an agreement with OnStar to make available use of the Company's bandwidth. The Company has arrangements with American Honda relating to the promotion of the XM Service to new car buyers, the use of bandwidth on the XM System and the development of telematics services and technologies As of December 31, 2005, the Company is engaged in activities with GM and Honda to jointly promote new car buyers to subscribe to the XM service. At December 31, 2005, there were 460,615 subscribers in promotional periods (typically ranging from three months to one year in duration) paid for by the vehicle manufacturers. These subscriptions are included in the Company's quarter-end subscriber total. Subscriber revenues received from GM and Honda for these programs are recorded as related party revenue. GM is one of the Company's shareholders and Chester A. Huber, Jr , the President of OnStar, is a member of the Company's board of directors John W Mendel, a member of the Company's board of directors, is Senior Vice President, automobile operations of American Honda Motor Co , Inc.

In connection with the development of the Company's terrestrial repeater network, the Company was a party to a contract with Hughes Electronics Corporation. DIRECTV® has provided consulting services in connection with the development of the Company's customer care center and billing operations. Hughes Electronics was one of the Company's largest shareholders until January 2004 and was a subsidiary of GM until December 2003 Jack Shaw, a member of the Company's board of directors, was Chief Executive Officer of Hughes Electronics Corporation until December 2003 DIRECTV ®, then a subsidiary of Hughes Electronics, was a holder of the Company's Series C convertible redeemable preferred stock until January 2004. Hughes Electronics Corporation and DIRECTV® ceased to be a related party during the three month period ended March 31, 2004

As part of Clear Channel Communications' investment in XM in 1998, the companies entered into agreements which provided for certain programming and director designation arrangements as long as Clear Channel retained the full amount of its original investment in XM In June of 2003, Clear Channel entered into a forward sale derivative hedging contract relating to its shares of XM Class A common stock. During the third quarter of 2005, Clear Channel and XM arbitrated the impact, if any, of the hedging activity on the Operational Assistance Agreement and the Director Designation Agreement, and certain related matters The Arbitration Panel preliminarily decided that the Operational Assistance Agreement remains in effect, including Clear Channel's right to receive a revenue share of commercial advertising on programming it provides to XM, but declined to enforce the Director Designation Agreement. The parties have agreed to abide by the panel's preliminary decision, to include commercial advertising and share advertising revenue on all Clear Channel-provided talk and music programming starting in March 2006, and on the amount of compensation to Clear Channel ($2 million, of which approximately $0.7 million was accrued for in a prior period and the remaining $1 3 million was recorded as an expense in the Company's Statement of Operations in the current period) for the period commercials were not included on some of the channels it programs

In the past, the Company had a sponsorship agreement with Clear Channel Entertainment to advertise the Company's service at Clear Channel Entertainment concerts and venues. Premiere Radio Networks, a subsidiary of Clear Channel Communications, has in the past served as one of the Company's advertising sales representatives. The Company also runs advertisements on a spot and network basis on radio stations owned by Clear Channel In addition, the Company leases four sites for the Company's terrestrial repeaters from Clear Channel Communications Clear Channel Communications ceased to be a related party during the second quarter of 2004

The Company had the following related party balances at December 31, 2005 and 2004.

	Due from		Prepaid expense		Due to	
	2005	2004	2005	2004	2005	2004
(in thousands)						
GM	$ 6,957	$ 3,708	$ 59,561	$ 57,061	$ 114,282	$66,106
Honda	1,672	1,659	5,000	—	369	415
Total	$ 8,629	$ 5,367	$ 64,561	$ 57,061	$ 114,651	$66,521

Beginning in the fourth quarter of 2002, the Company engaged in activities with GM and Honda to jointly promote XM service subscriptions to new car buyers. At December 31, 2005, there were approximately 461,000 subscribers in

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
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promotional periods (typically ranging from three months to one year in duration) paid for by the vehicle manufacturers These subscriptions are included in the Company's subscriber total The Company earned the following total revenue in connection with sales to related parties described above

	Years ended December 31,		
	2005	2004	2003
(in thousands)			
GM	$27,580	$21,374	$11,630
Honda	10,957	6,869	368
Total	$38,537	$28,243	$11,998

The Company has relied upon certain related parties for technical, marketing and other services during the years ended December 31, 2005, 2004 and 2003 The Company has incurred the following costs in transactions with the related parties described above

	Year ended December 31, 2005	
	GM	Honda
(in thousands)		
Research & development	$ —	$ 5,000
Customer care & billing operations	242	—
Marketing	205,837	1,782
Total	$ 206,079	$ 6,782

	Year ended December 31, 2004			
	GM	Honda	Hughes[1]	Clear Channel[2]
(in thousands)				
Terrestrial repeater network	$ —	$ —	$ 7	$ —
Terrestrial repeater site leases	—	—	—	31
Research & development	—	9,579	—	—
Customer care & billing operations	363	—	—	—
Marketing	158,997	—	—	—
Total	$159,360	$9,579	$ 7	$ 31

	Year ended December 31, 2003		
	GM	Hughes[1]	Clear Channel[2]
(in thousands)			
Terrestrial repeater network	$ —	$ 278	$ —
Terrestrial repeater site leases	—	—	60
Customer care & billing operations	960	—	—
Marketing	107,346	—	8,646
Total	$108,306	$ 278	$ 8,706

(1) Amounts reflect the activity for the period which Hughes was considered to be a related party Hughes ceased to be a related party during the first quarter of 2004
(2) Amounts reflect the activity for the period which Clear Channel was considered to be a related party Clear Channel ceased to be a related party during the second quarter of 2004

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

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GM — In 1999, the Company established a distribution agreement with GM (see Note 17). Under the terms of the agreement, GM distributes the XM Radio Service in various models of its vehicles This agreement was amended in June 2002 and January 2003 and continues to be clarified as XM's business operations and working relationship with GM continues to evolve.

Honda — The Company has arrangements with Honda relating to the promotion of the XM service to new buyers, the use of bandwidth on the XM system and the development of telematics services and technologies There were no Honda related party expenses in 2003

Hughes — In 1999, the Company entered into a terrestrial repeater manufacturing agreement with Hughes Hughes ceased to be a related party in January 2004

DIRECTV® — In 1999, the Company entered into a consulting services agreement with DIRECTV®. The agreement provides for DIRECTV® professionals to aid the Company's efforts in establishing its customer care center and billing operations on a time and materials basis DIRECTV® ceased to be a related party in January 2004 There were no DIRECTV® related party expenses in 2004 or 2005

Clear Channel — Clear Channel Communications provides certain programming services to the Company In 2000, the Company entered into a sponsorship agreement with SFX Marketing, now Clear Channel Entertainment, to advertise and promote the Company's service at Clear Channel Entertainment events and venues Since 2000, Premiere Radio Networks, a subsidiary of Clear Channel Communications, had served as one of the Company's ad sales representatives. Under separate agreements, the Company also runs advertisements on a spot and network basis on radio stations owned by Clear Channel Communications. In addition, the Company leases 3 sites for its terrestrial repeaters from Clear Channel Communications Clear Channel ceased to be a related party in the second quarter of 2004

(15) Income Taxes

The provision for the income taxes included in the Consolidated Statements of Operations is as follows·

	Years ended December 31,		
	2005	2004	2003
(in thousands)			
Current taxes·			
Federal	$ —	$ —	$ —
State	—	—	—
Total current taxes	—	—	—
Deferred taxes:			
Federal	2,003	23,486	—
State	327	3,831	—
Total deferred taxes	2,330	27,317	—
Total tax expense	$2,330	$27,317	$ —

Source XM SATELLITE RADIO H, 10–K, March 03, 2006

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A reconciliation of the statutory tax expense, assuming all income is taxed at the statutory rate applicable to the income and the actual tax expense is as follows·

	Years ended December 31,		
	2005	2004	2003
(in thousands)			
Net loss before income taxes, as reported in the Consolidated Statements of Operations	$(664,385)	$(615,051)	$(584,535)
Theoretical tax benefit on the above amount at 35%	(232,535)	(215,268)	(204,587)
State tax, net of federal benefit	(23,253)	(21,527)	(20,459)
Increase in taxes resulting from change to effective tax rate	—	—	12,507
Increase in taxes resulting from permanent differences, net	21,351	53,659	7,817
Change in valuation allowance	236,767	210,453	204,722
Taxes on income for the reported year	$ 2,330	$ 27,317	$ —

The $236 8 million and $210 5 million increase in the valuation allowance for 2005 and 2004, respectively, includes a $2.3 million and $27 3 million increase, respectively, that was required because the Company determined that it was not appropriate under generally accepted accounting principles to offset deferred tax assets against deferred tax liabilities related to indefinite lived assets that cannot be scheduled to reverse in the same period The Company does not expect to settle this liability in the foreseeable future

In addition to the $236.8 million increase in the valuation allowance for 2005, a further increase in the Company's valuation allowance of $10 2 million was incurred from net equity transactions This increase in the valuation allowance was due to the tax benefits of the exercise of nonqualified stock options net of the loss of deferred tax assets in debt–for–equity exchanges and the recording of assets with a greater book value than tax basis The $10 2 million increase in equity was subject to a $10 2 million equity account valuation allowance, resulting in no change to the Company's net equity

Source· XM SATELLITE RADIO H, 10–K, March 03, 2006

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Deferred income tax consists of future tax assets/(liabilities) attributable to the following:

	December 31,		
	2005	2004	2003
(in thousands)			
Deferred tax assets — current.			
Deferred revenue — XM Service	$ 106,238	$ 44,256	$ 15,293
Deferred revenue — XM Canada	3,903	—	—
Other deferred tax assets — current	4,513	2,963	2,465
Gross total deferred tax assets — current	114,654	47,219	17,758
Valuation allowance for deferred tax assets — current	(113,529)	(45,933)	(16,865)
Net deferred tax assets — current	1,125	1,286	893
Deferred tax assets — noncurrent.			
Net operating loss/other tax attribute carryovers	612,340	504,150	431,660
Book expenses capitalized and amortized for tax purposes	90,873	86,908	89,039
Deferred revenue — XM Service	32,606	14,397	5,452
Deferred revenue — XM Canada	54,313	—	—
Property and equipment and system under construction	43,569	59,229	14,111
Deferred interest expense	24,142	17,362	—
Loan financing costs	53,386	67,978	—
Other deferred tax assets	28,416	20,169	3,298
Gross total deferred tax assets — noncurrent	939,645	770,193	543,560
Valuation allowance for deferred tax assets — noncurrent	(930,425)	(751,014)	(516,213)
Net deferred tax assets — noncurrent	9,220	19,179	27,347
Net deferred tax assets	10,345	20,465	28,240
Deferred tax liabilities			
DARS license	(29,646)	(27,317)	(24,996)
Intangible assets	(2,271)	(2,757)	(3,244)
Debt instruments	(8,074)	(17,708)	—
WorldSpace investment	(3,747)	—	—
Net deferred tax liabilities	(43,738)	(47,782)	(28,240)
Deferred income tax, net	$ (33,393)	$ (27,317)	$ —

The Company offsets the non-current net deferred tax asset against the non-current deferred tax liability in Other non-current liabilities on the Consolidated Balance Sheets The net deferred tax asset – current is included in Prepaid and other current assets on the Consolidated Balance Sheets.

At December 31, 2005, the Company had accumulated net operating losses of $1,590.5 million for Federal income tax purposes that are available to offset future regular taxable income These operating loss carryforwards expire between the years 2012 and 2025. Utilization of these net operating losses are subject to Internal Revenue Code Section 382 for loss limitations because there have been significant changes in the stock ownership of the Company. In assessing whether the Company will realize a benefit from the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(16) Supplemental Cash Flows Disclosures

The Company paid $64 6 million, $36.9 million and $76 3 million for interest, of which $24 1 million, $31.8 million, and $4 8 was capitalized during 2005, 2004 and 2003, respectively Additionally, the Company incurred the following non-cash financing and investing activities

	Years ended December 31,		
	2005	2004	2003
(in thousands)			
Accrued system construction costs	$ 30,360	$ 92,800	$ 29,193
Issuance of note for prepaid expenses	—	—	89,042
Issuance of warrants for deferred financing fees	150	—	27,439
Issuance of warrants for satellite contract	4,868	—	5,790
Issuance of notes for accrued expenses	5	129	55,493
Loss on redemption of debt	24,154	—	—
Loss on equity investments	1,411	—	—
Discount on debt securities	—	33,622	101,707
Conversion of debt to equity	55,991	176,698	118,401
Use of deposit/escrow for capital lease agreement	—	—	1,174
Write-off of deferred financing costs to equity	1,548	1,066	—
Property acquired through capital leases	14,399	6,412	1,894
Assumption of debt on purchase of building	6,630	—	—
Unrealized gain on equity investment, net of tax	5,985	—	—
Receipt of Canadian Satellite Radio stock	152,054	—	—

(17) Commitments and Contingencies

DARS Licenses

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 The Company believes that the exercise of such authority to rescind the license is unlikely The Company has requested and received FCC authority to launch additional satellites for use in its system and believes that future requests would likely be approved. In January 2005, the FCC granted the Company's request to launch and operate XM-3 and XM-4 and to collocate XM-1 with XM-2 at the 115° West Longitude orbital location. In February 2005, XM-3 was successfully launched and moved into the 85° West Longitude orbital location During April 2005, XM-1 was successfully collocated with XM-2 in its orbital slot

The FCC has not yet issued final rules permitting the Company to deploy its terrestrial repeaters to fill gaps in satellite coverage The Company is operating its repeaters on a non-interference basis pursuant to a grant of special temporary authority from the FCC This grant originally expired March 18, 2002, however, on March 11, 2002, the Company applied for an extension of this special temporary authority and the Company can continue to operate its terrestrial repeaters pursuant to the special temporary authority pending a final determination on this extension request This authority is currently being challenged by operators of terrestrial wireless systems who have asserted that the Company's repeaters may cause interference The Company believes it is not likely that an FCC order would materially impact the terrestrial repeater system design currently in operation

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

Technology Licenses

Effective January 1, 1998, the Company entered into a technology licensing agreement with Motient and WorldSpace Management Corporation ("WorldSpace MC") by which as compensation for certain licensed technology then under development to be used in the XM Radio System, the Company pays certain amounts to WorldSpace MC The actual amounts to be incurred under this agreement are dependent upon further development of the technology, which is at the Company's option The agreement includes provisions for sharing certain costs related to the further development of technology and for royalty payments from the Company to WorldSpace MC At December 31, 2005 and 2004 the Company had recorded an accrual, including interest of $3.1 million and $4.0 million, respectively, payable to WorldSpace MC for royalty payments

Satellite System

Satellite Deployment Plan — The Company launched its first two satellites, XM-1 and XM-2 in the first half of 2001 prior to the commencement of commercial operations These satellites suffer from a progressive solar array power degradation issue that is common to the first six Boeing 702 class satellites in orbit — XM-2 and XM-1 were the fifth and sixth Boeing 702s launched In February 2005, the Company launched XM-3 XM-3 was placed into one of the Company's orbital slots and beginning in April 2005 is being used to transmit the XM service During the second quarter of 2005, the Company collocated XM-1 with XM-2 in the other orbital slot The Company has a fourth satellite ("XM-4") under construction, this satellite is scheduled to be launched in the second half of 2006 During the second quarter of 2005, XM entered into a contract to construct a spare satellite ("XM-5"), expected to be completed by the end of 2007, for use as a ground spare or to be available for launch in the event there is a launch or early operations failure of XM-4

Satellite Insurance Settlements XM-1 and XM-2 — The Company had secured launch and in-orbit insurance policies with a large group of insurers (both U S and foreign) providing coverage for losses relating to XM-1 and XM-2 where such losses arise from an occurrence within the first five years after launch Under these policies, the aggregate sum insured in the event of constructive total loss of both satellites equaled $400 million ($200 million per satellite), and lesser amounts would be payable in the event of a partial loss In the event of constructive total loss, the amount of recovery would be reduced by any salvage value, which could include a percentage of the revenues from the Company's continuing use of the satellites. In September 2001, the Company notified its insurers of a progressive solar array power degradation problem noted above and, in February 2003, the Company filed Proofs of Loss with its insurers.

In July 2004, the Company reached agreement with insurers covering 80 percent of the aggregate sum insured at a settlement rate equal to 44 5 percent of the proportionate amount covered by each of these insurers, representing a total recovery of approximately $142 million from these insurers This settlement resolves any issues about the amount of loss sustained, includes a waiver by the settling insurance companies of any reductions based on salvage value, terminates any further risk to the settling insurers under the policies and ends any other rights the settling insurers might have with regard to XM-1 and XM-2 or revenues generated by the Company's continuing use of those satellites. The Company has collected all amounts due under the settlement. The portion of the insurance proceeds related to claim payments, totaling $133 9 million, was recorded as a reduction to the carrying values of XM-1 and XM-2

In August 2004, the Company filed for arbitration to collect the remaining 20 percent of the sum insured utilizing the third-party dispute resolution procedures under the policy An arbitration ruling is expected in 2006 Any amounts received from this arbitration proceeding will be recorded as a reduction to the carrying values of XM-1 and XM-2

Satellite Contracts and Other Costs XM-1, XM-2, XM-3, XM-4 and XM-5 — As of December 31, 2005, the Company had paid approximately $676 3 million, including manufacturing and launch costs, financing charges, in-orbit performance incentives and additional costs for collocation, under the satellite contracts related to XM-1, XM-2, XM-3, XM-4 and XM-5 The Company originally entered into its satellite contract with Boeing Satellite Systems International, Inc ("BSS") in March 1998, and has subsequently amended the contract, including in July 2003, December 2003, December 2004, January 2005 and July 2005 Under the satellite contract, BSS has delivered three satellites in-orbit, XM-1, XM-2 and XM-3, supplied ground equipment and software used in the XM Radio system, provided certain launch and operations support services, and is constructing the XM-4 satellite. In August 2003, XM contracted with Sea Launch Company, LLC ("Sea Launch") for the

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

associated launch services for the XM-4 satellite, which is currently scheduled for launch during the second half of 2006 In June 2005, the Company awarded a contract to Space Systems/Loral ("SS/L") for the design and construction of its fifth satellite, XM-5. Construction of XM-5 is expected to be completed by the end of 2007

XM-1 and XM-2 — The XM-1 and XM-2 satellites were successfully collocated in one orbital slot during the second quarter of 2005.

XM-3 — In February 2005, the Company launched its XM-3 satellite XM-3 was modified to correct the solar array degradation issues experienced by XM-1 and XM-2, as well as to optimize XM-3 for the specific orbital slot into which it has been placed As of December 31, 2005, with respect to XM-3, the Company has deferred payment of construction costs of $15 million at an interest rate of 8 percent through January 2007, which is included in Other non-current liabilities BSS has the right to earn 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

In connection with the launch of XM-3, the Company acquired launch and in-orbit insurance in January 2005 The in-orbit insurance is for a one year period from February 2005 through February 2006. The Company has obtained in-orbit insurance for XM-3 effective at the expiration of the initial policy.

XM-4 — Under its contracts with BSS and Sea Launch, the Company has committed to pay a total of $186.5 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, 2005, satellite construction costs aggregating approximately $132.8 million had been incurred, of which $28 5 million has been paid and $104 3 million has been deferred into 2006 Interest on the deferred amount accrues monthly at a rate of 10 75 percent per annum and is being paid on a current basis, pursuant to the December 2003 amendment, which extended the deferral into 2006 The remaining portion of the fixed costs for XM-4 and the associated launch services are payable during construction with the last payment due one month following launch

After launch of XM-4, 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 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.

XM-5 — Upon the award of the XM-5 contract, SS/L began construction of the 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, 2005, with respect to XM-5, the Company has deferred payment of construction costs of $8 3 million at an interest rate of 8 percent through January 2007, which is included in Other non-current liabilities

GM Distribution Agreement

The Company has a long-term distribution agreement with OnStar, a subsidiary of General Motors During the term of the agreement, which expires twelve years from the commencement date of the Company's commercial operations, GM has agreed to distribute the service to the exclusion of other S-band satellite digital radio services. The Company will also have a non-exclusive right to arrange for the installation of XM radios included in OnStar systems in non-GM vehicles that are sold for use in the United States 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 are due to GM and confirming the date of the Company's

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

commencement of commercial operations, and to provide that the Company may make certain payments to GM in the form of indebtedness or shares of the Company's Class A common stock GM provided the Company with the ability to make up to $35.0 million in future subscriber bounty payments ("subscriber acquisition payments") that the Company may owe to OnStar under the distribution agreement in shares of Class A common stock, valued at fair market value. The Company's total cash payment obligations were not increased The Company has significant annual fixed payment obligations to GM As a result of the June 2002 amendment, the Company commenced recognizing these fixed payment obligations for the period ending through November 2005, which approximate $63 6 million, on a straight-line basis However, due to the January 2003 amendment to the Distribution Agreement and GM's roll out plans which demonstrated a likelihood of GM exceeding minimum installation targets, in 2003 the Company began prospectively recognizing these fixed payments due under the Distribution Agreement, which approximate $397 3 million, on a straight-line basis through September 2013, the remaining term of the agreement. The Company issued a 10% Senior Secured Convertible Note due 2009 with an aggregate principal amount of $89.0 million, to OnStar in lieu of making these fixed payments to OnStar for amounts otherwise due in 2003 through 2006 The fixed payments due to be paid in years 2007, 2008 and 2009 are $80 7 million, $106.7 million and $132 9 million, respectively. In February 2004, the Company completed the redemption of the note through repayment of a portion with cash and GM's conversion of a portion of the principal amount into the Company's Class A common stock. As of December 31, 2005, the Company has $22.3 million of current prepaid expense to related party in connection with the guaranteed fixed payments.

In order to encourage the broad installation of XM radios in GM vehicles, the Company has agreed to subsidize a portion of the cost of XM radios, and to make incentive payments to GM when the owners of GM vehicles with installed XM radios become subscribers to the Company's service The Company must also share with GM a percentage of the subscription revenue attributable to GM vehicles with installed XM radios, which percentage increases until there are more than eight million GM vehicles with installed XM radios (at which point the percentage remains constant). During the second quarter of 2004, a clarification was agreed to by XM and OnStar relating to the implementation of certain aspects of revenue sharing contained within the distribution agreement Accordingly, the revenue share expense is recognized as the related subscription revenue is earned. As of December 31, 2005, the Company has $27 5 million of current prepaid expense to related party and $9 8 million of non-current prepaid expense to related party in connection with this revenue sharing arrangement. As part of the agreement, OnStar provides certain call-center related services directly to XM subscribers who are also OnStar customers and the Company must reimburse OnStar for these XM-related call center services The agreement is subject to renegotiation at any time based upon the installation of radios that are compatible with a common receiver platform or capable of receiving Sirius Satellite Radio's service The agreement is subject to renegotiation if as of November 2005, and at two-year intervals thereafter, GM does not achieve and maintain specified installation levels of GM vehicles capable of receiving the Company's service The specified installation level of 1,240,000 units by November 2005 was achieved in 2004. The specified installation levels in future years are the lesser of 600,000 units per year or amounts proportionate to target market shares in the satellite digital radio service market There can be no assurances as to the outcome of any such renegotiations. GM's exclusivity obligations will discontinue if, by November 2007 and at two-year intervals thereafter, the Company fails to achieve and maintain specified minimum market share levels in the satellite digital radio service market During 2005, 2004 and 2003, the Company incurred total costs of $206.1 million, $159 4 million and $108 3 million, respectively, under the distribution agreement.

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, 2005, 2004, and 2003, the Company incurred expenses of $199 2 million, $94 5 million, and $56 3 million respectively, in relation to these agreements, excluding the GM distribution agreement 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 revenue increase.

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

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

sharing arrangements During the years ended December 31, 2005, 2004, and 2003, the Company incurred expenses of $90 8 million, $26 5 million and $19 6 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 amount of the costs related to these agreements cannot be estimated, but future costs are expected to be substantial

In October 2004, the Company announced a multi-year agreement with Major League Baseball® to broadcast MLB games live nationwide and to become the Official Satellite Radio provider of Major League Baseball®. The Company paid $50 million for 2005 and $60 million per year thereafter through 2012, with $120 million to be deposited into escrow 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 paid $10 million to MLB in October 2004 as a prepayment for the 2006 season. 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

Royalty Agreements

The Company has 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, 2005, 2004 and 2003, the Company incurred expenses of $22.0 million, $13.7 million and $9.5 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, 2005, 2004 and 2003, the Company incurred costs of $1 3 million, $0 9 million and $0 6 million, respectively, in relation to this agreement These costs are being expensed as incurred in research and development The Company is currently unable to determine the expenditures necessary to complete this process, but they may be significant

Leases

The Company has noncancelable operating leases for terrestrial repeater sites, office space, and software, and noncancelable capital leases for equipment that expire over the next fifteen years Additionally, the Company owns several buildings and leases a portion of the space to other entities The future minimum lease payments and rentals under noncancelable leases as of December 31, 2005 are·

(in thousands) Years ending December 31,	Capital Lease Payments	Operating Lease Payments	Rental Income
2006	$ 7,618	$ 21,267	$ 1,593
2007	5,135	15,564	1,559
2008	1,616	13,447	1,520
2009	—	13,524	1,469
2010	—	10,623	1,467
Thereafter	—	6,275	12,101
Total	14,369	$ 80,700	$ 19,709
Less amount representing interest	(659)		
Present value of net minimum lease payments	13,710		
Less current maturities	(7,197)		
Long-term obligations	$ 6,513		

Source· XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Rent expense for the years ended December 31, 2005, 2004 and 2003 was $19 9 million, $17 8 million, and $22 6 million, respectively

Customer Service Providers

The Company has entered into agreements with service providers for customer care functions to subscribers of its service Employees of these service providers have access to the Company's customer care systems to establish customer accounts, activate radios, update program and account information and respond to general inquires from subscribers The Company pays its service provider an hourly rate for each customer care representative supporting its subscribers. During the years ended December 31, 2005, 2004, and 2003, the Company incurred $29 7 million, $21 5 million and $14 2 million, respectively, in relation to services provided for customer care functions Our primary customer service provider agreement will expire in June 2006.

(18) Quarterly Data

	2005			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
(Unaudited, in thousands except per share amounts)				
Revenues	$ 102,565	$ 125,454	$ 153,112	$ 177,135
Operating loss	(105,280)	(127,095)	(109,533)	(213,627)
Net loss	(119,902)	(146,619)	(131,869)	(268,325)
Net loss attributable to common stockholders	(122,051)	(148,769)	(134,018)	(270,474)
Net loss per common share — basic and diluted	(0.58)	(0 70)	(0.60)	(1.22)

	2004			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
(Unaudited, in thousands except per share amounts)				
Revenues	$ 42,965	$ 52,982	$ 65,358	$ 83,138
Operating loss	(117,850)	(112,918)	(100,580)	(129,693)
Net loss	(170,079)	(166,094)	(117,994)	(188,201)
Net loss attributable to common stockholders	(172,434)	(168,243)	(120,143)	(190,350)
Net loss per common share — basic and diluted	(0.96)	(0 84)	(0 59)	(0.93)

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

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,
2003					
Allowance for doubtful accounts	$ 241	$ 2,077	$ —	$ (1,522)	$ 796
Deferred tax assets — valuation allowance	328,356	204,722	—	—	533,078
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	8,396	—	(6,225)	3,722
Deferred tax assets — valuation allowance	796,947	236,767	10,240	—	1,043,954

Source XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

Exhibit 21.1

Subsidiaries of XM Satellite Radio Holdings Inc.

XM Satellite Radio Inc
XM 1500 Eckington LLC
XM Orbit LLC
XM Investments LLC

Subsidiaries of XM Satellite Radio Inc.

XM Radio Inc
XM Innovations Inc
XM Equipment Leasing LLC
XM EMall Inc
XM Capital Resources Inc
Interoperable Technologies LLC (50% owned)

All of these subsidiaries are organized in the State of Delaware and are wholly owned subsidiaries unless otherwise noted

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

Exhibit 23.1

Consent of Independent Registered Accounting Firm

The Board of Directors
XM Satellite Radio Holdings Inc

We consent to the incorporation by reference in the registration statements Nos. 333-39176, 333-115326, 333-127267, 333-127270, 333-130812, 333-47570, 333-93529, 333-89132, 333-85804, 333-102966, 333-106824, 333-102964, 333-121417, 333-121415 and 333-114178 on Forms S-3, No 333-115323-01 on Form S-4, and Nos 333-42590, 333-92049, 333-65022, 333-65020, 333-97611 and 333-106827 on Forms S-8 of XM Satellite Radio Holdings Inc and subsidiaries of our reports dated March 2, 2006 with respect to the consolidated balance sheets of XM Satellite Radio Holdings Inc. and subsidiaries as of December 31, 2005 and 2004 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2005, the related consolidated financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005, and the effectiveness of internal control over financial reporting as of December 31, 2005, which reports appear in the December 31, 2005 annual report on Form 10-K of XM Satellite Radio Holdings Inc.

/s/ KPMG LLP

McLean, VA
March 2, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

Exhibit 31.1

CERTIFICATIONS

I, Hugh Panero, President and 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 2, 2006

/s/ HUGH PANERO

Hugh Panero
President and Chief Executive Officer

Source: XM SATELLITE RADIO H, 10-K, March 03, 2006

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

Exhibit 31.2

CERTIFICATIONS

I, Joseph J 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 2, 2006

/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 President and 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, 2005 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
President and Chief Executive Officer
March 2, 2006

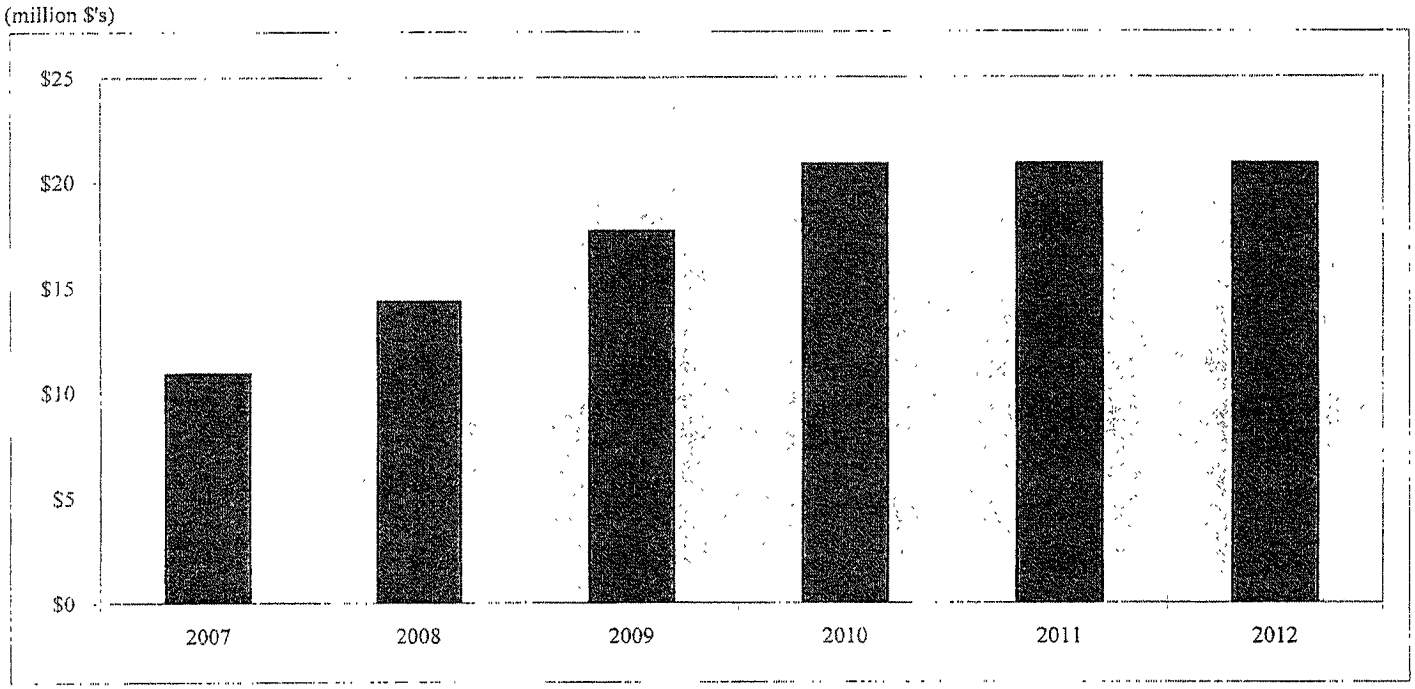
/s/ JOSEPH J EUTENEUER

Joseph J. Euteneuer
Executive Vice President and Chief Financial Officer
March 2, 2006

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.

Created by 10KWizard www.10KWizard.com

XM's Proposed SoundExchange Payments

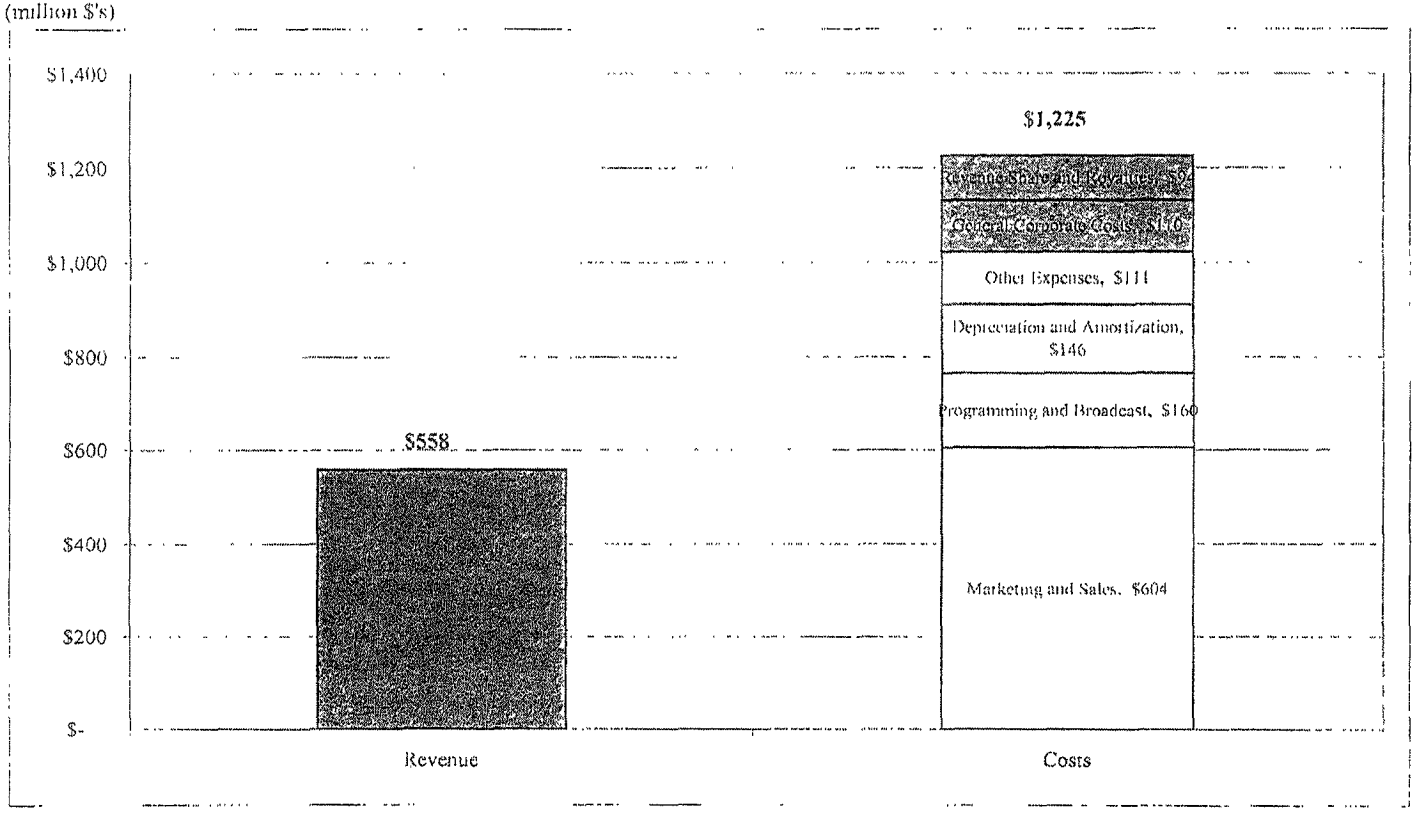


	2007	2008	2009	2010	2011	2012 [1]	6 Year Total
Payment (millions)	$11	$14	$18	$21	$21	$21	$106
% Of Rev.	0.88%	0.88%	0.88%	0.88%			

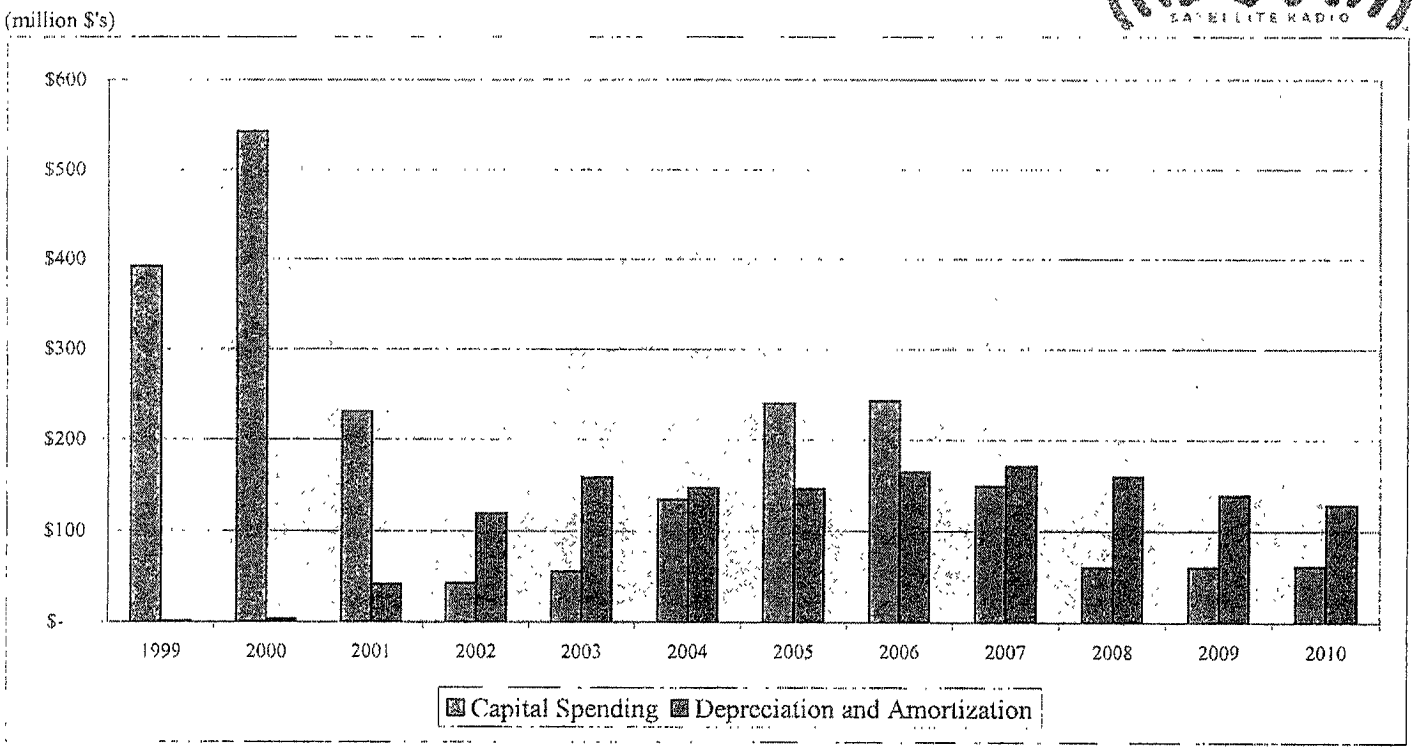
1. For purposes of this chart, the 2011 and 2012 payment is estimated to equal 2010 payment.

Data through 2005 is based on published XM results. Data for 2006 and forward is based on an average of 19 analysts that cover XM.

XM's Annual Costs and Revenue (2005)



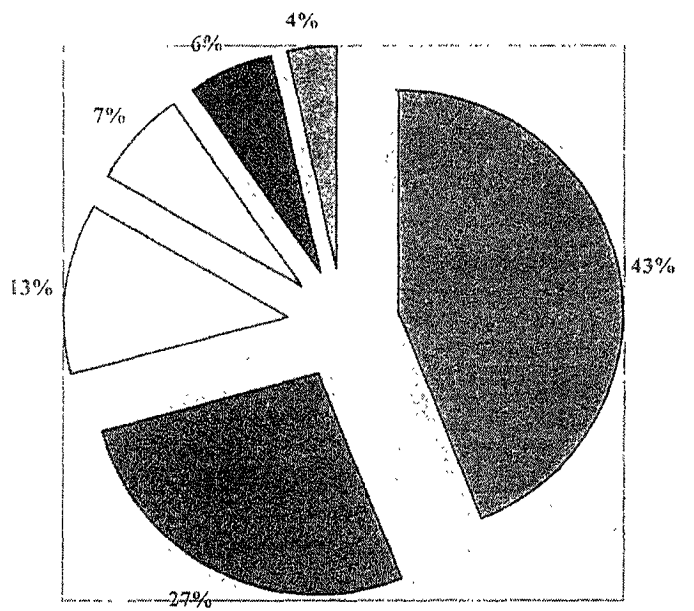
XM's Capital Spending vs. Depreciation and Amortization



XM's Capital Spending in any year is the amount of cash spent on equipment (e.g, satellites, computers, terrestrial repeaters) that provides that company value over several years (i.e., a useful life). Depreciation and Amortization spread the value of the equipment over the useful life and represent the amount of expense in a year.

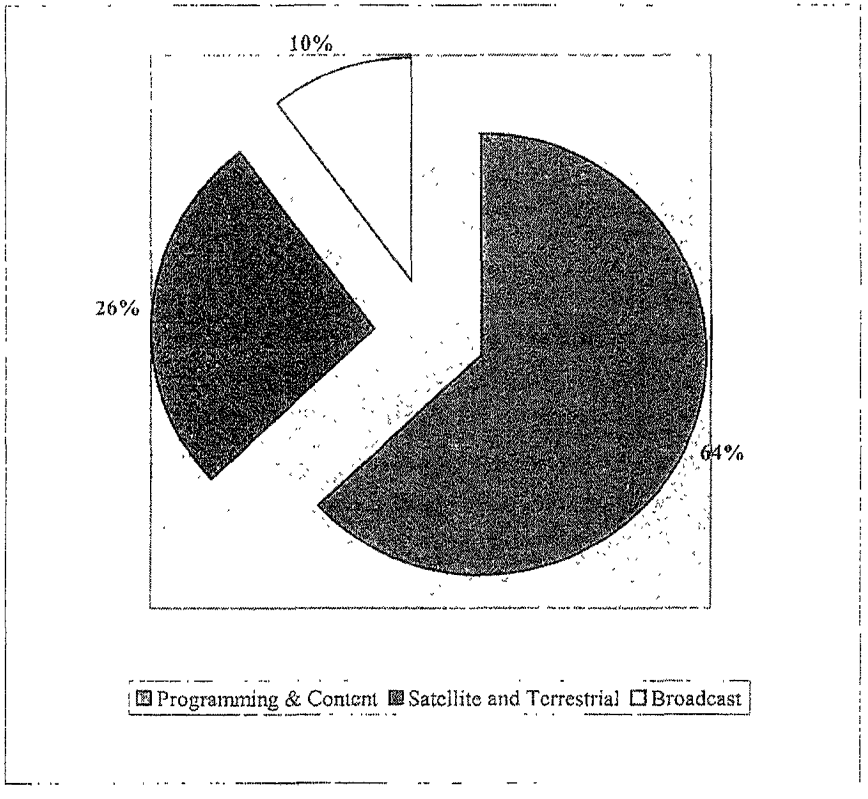
Data through 2005 is based on published XM results. Data for 2006 and forward is based on an average of 19 analysts that cover XM.

XM's Marketing and Sales Costs (2005)



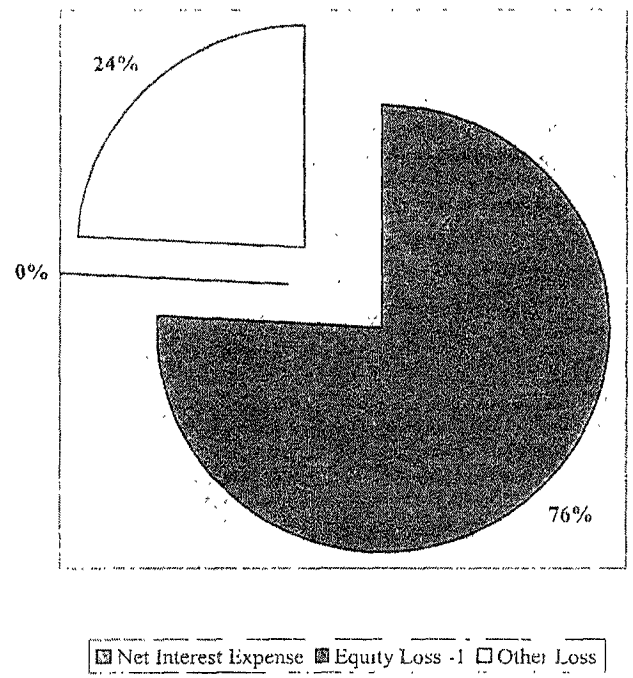
Component	%	$M
Subsidies and Distribution	44%	$265
Advertising and Marketing	27%	$163
Customer Care and Billing Operati	13%	$76
Cost Of Merchandise	7%	$41
Amortization of GM Liability	6%	$37
Marketing Retention and Support	4%	$22
Total	100%	$604

XM's Programming and Broadcast Costs (2005)



Component	%	$M
Programming & Content	63%	$101
Satellite and Terrestrial	26%	$42
Broadcast	10%	$17
Total	100%	$160

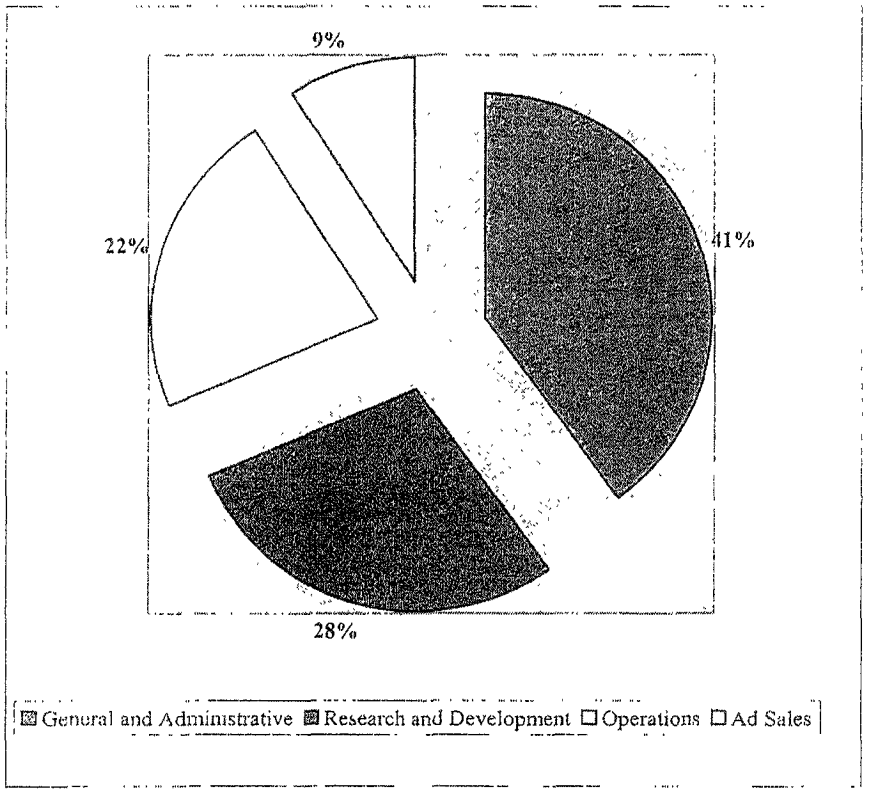
XM's Other Costs (2005)



Component	%	$M
Net Interest Expense	76%	$84
Other Loss	24%	$27
Equity Loss -1	0%	$0
Total	100%	$111

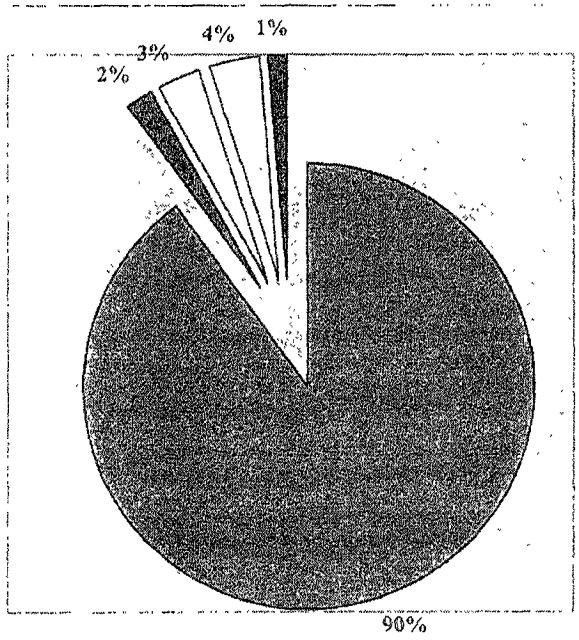
(1) XM began reporting equity losses for its equity stake in XM Canada during 2006.

XM's General Corporate Costs (2005)



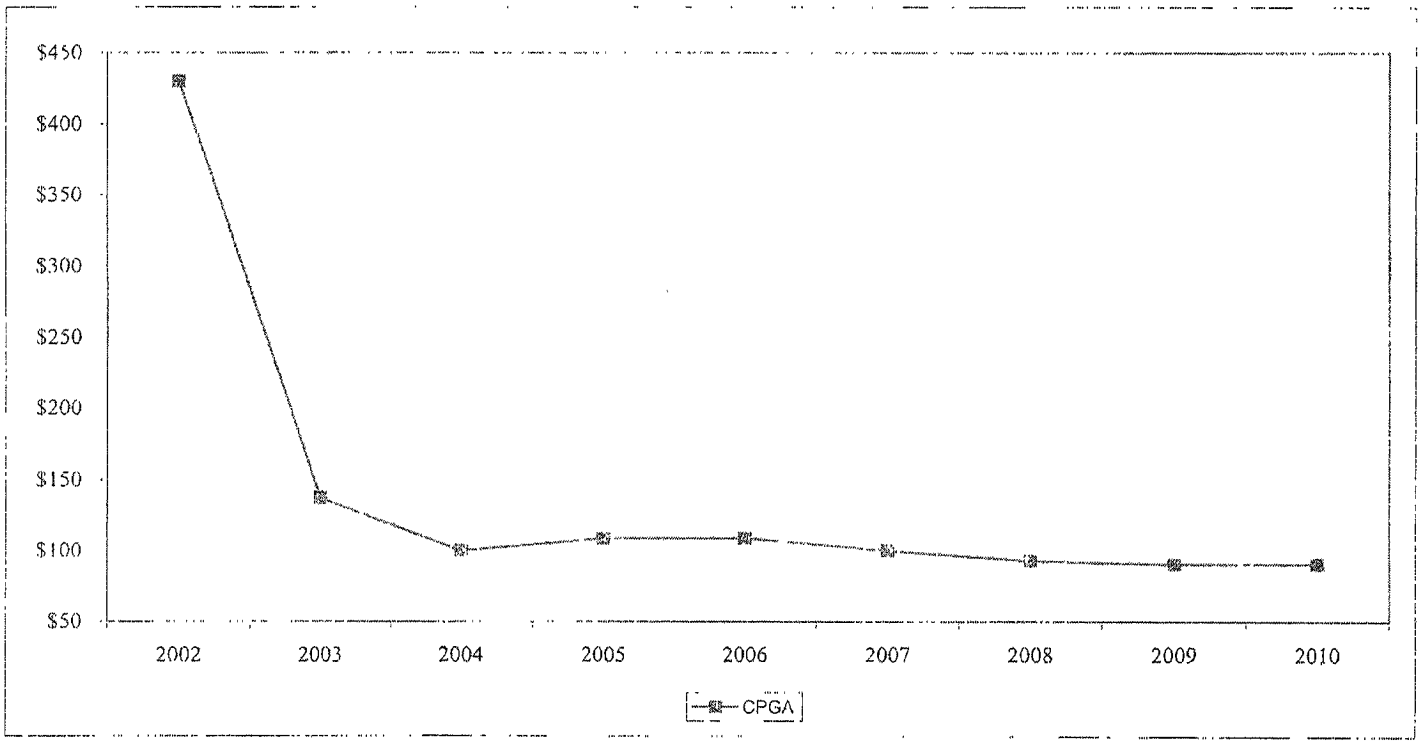
Component	%	$M
General and Administrative	40%	$44
Research and Development	28%	$31
Operations	22%	$24
Ad Sales	9%	$10
Total	100%	$110

XM's Revenue (2005)



Component	%	$M
Subscription	90%	$503
Net Ad Sales	4%	$20
Equipment	3%	$18
Activation	2%	$10
Royalties and Other	1%	$7
Total	100%	$558

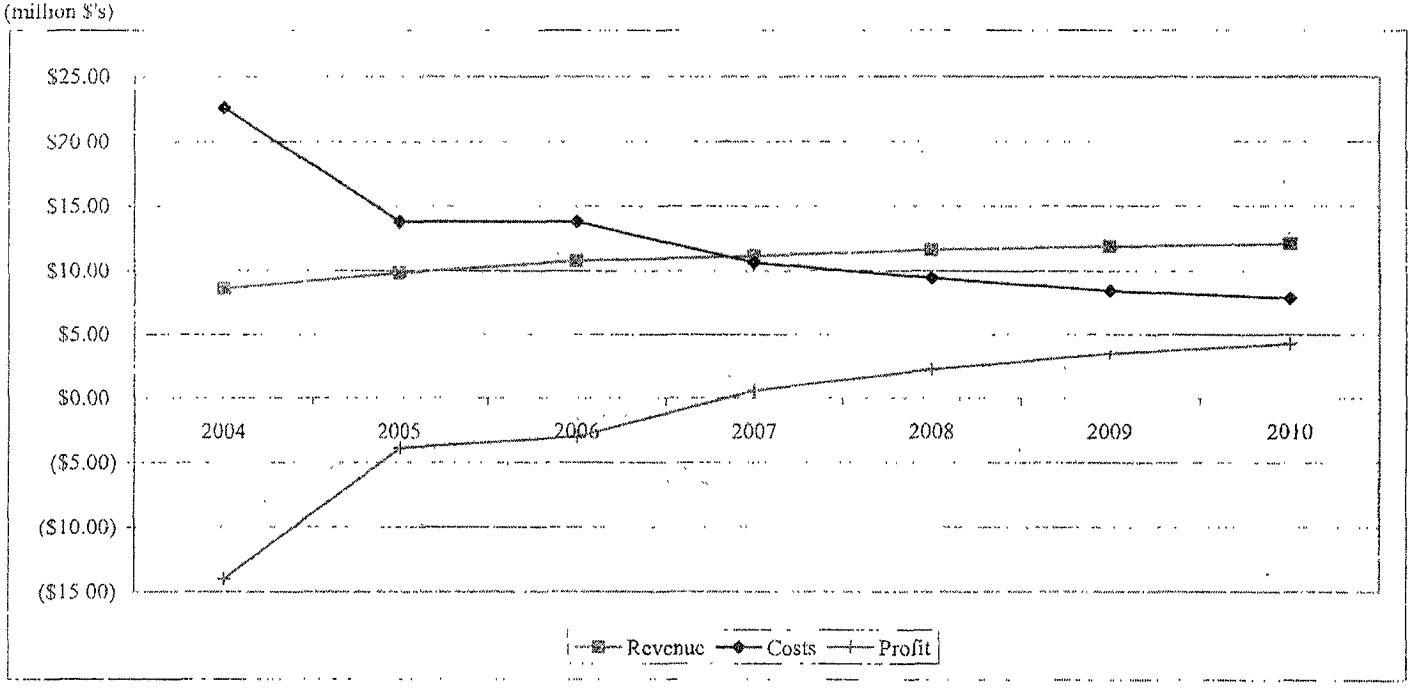
XM's Cost Per Gross Addition (CPGA)



	2002	2003	2004	2005	2006	2007	2008	2009	2010
CPGA	$430	$137	$100	$109	$109	$100	$93	$90	$90

Data through 2005 is based on published XM results. Data for 2006 and forward is based on an average of 19 analysts that cover XM.

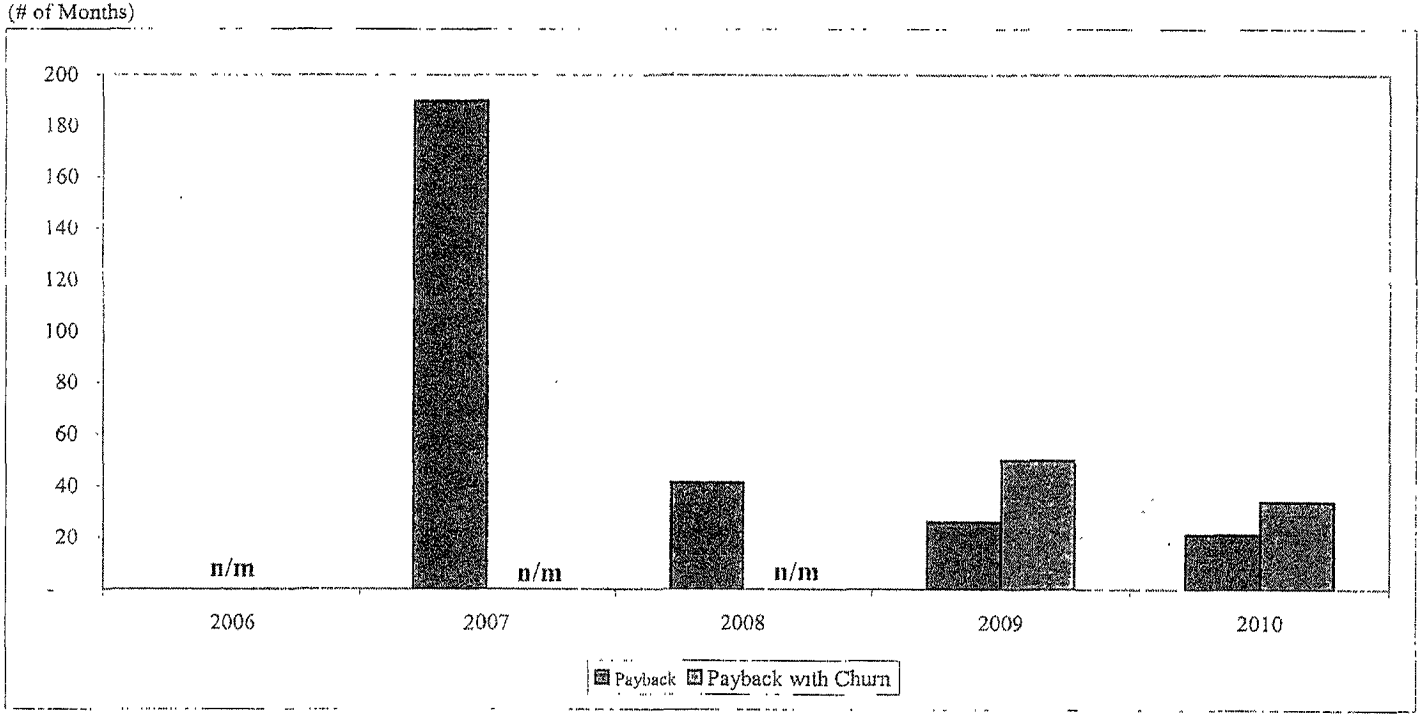
XM's Profit Performance per Subscriber per Month



	2004	2005	2006	2007	2008	2009	2010
Revenue	$8.63	$9.82	$10.78	$11.14	$11.67	$11.90	$12.13
Costs	$22.62	$13.76	$13.79	$10.61	$9.43	$8.43	$7.87
Profit	($13.98)	($3.93)	($3.01)	$0.53	$2.24	$3.47	$4.26

Data through 2005 is based on published XM results. Data for 2006 and forward is based on an average of 19 analysts that cover XM.

XM's Payback Period per Subscriber (# of months)



	2006	2007	2008	2009	2010
Payback	n/m	190	41	26	21
Payback with Churn	n/m	n/m	n/m	50	34

Data through 2005 is based on published XM results. Data for 2006 and forward is based on an average of 19 analysts that cover XM.