PUBLIC VERSION

Before the
LIBRARY OF CONGRESS
Copyright Royalty Board

In the Matter of	)	
	)	
ADJUSTMENT OF RATES AND TERMS FOR PREEXISTING SUBSCRIPTION SERVICES AND SATELLITE DIGITAL AUDIO RADIO SERVICES	)	Docket No. 2006-1 CRB DSTRA

WITNESS EXHIBITS OF XM SATELLITE RADIO INC.

Volume 2

Seth Greenstein (D.C. Bar No. 416733)
Todd Anderson (D.C. Bar No. 462136)
Laura C. Fentonmiller (D.C. Bar No. 450813)
Amy Roth (D.C. Bar No. 501483)
Aymeric Dumas-Eymard (New York Bar No. 4243408)
CONSTANTINE CANNON, L.L.P.
1627 Eye Street, NW, 10th Floor
Washington, DC 20006
tel: (202) 204-3500
fax: (202) 204-3501
sgreenstein@constantinecannon.com
tanderson@constantinecannon.com
lfentonmiller@constantinecannon.com
aroth@constantinecannon.com
rdumas-eymard@constantinecannon.com

Counsel for XM Satellite Radio Inc.

January 17, 2007

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

Table of Contents

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	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 [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	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 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

TABLE OF CONTENTS

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 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)

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

	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.

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

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

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.

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.

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

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.

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.

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 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

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:

- 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-

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

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 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.

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.

	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	$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.

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

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.

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 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 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

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 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.

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 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.

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

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 engineering and manufacturing	1999	--	3,500	--	6,578	--	--
	2000	--	11,858	--	58,731	--	--
	2001	--	88,116	--	59,958	--	--
Terrestrial repeater site leases	1999	--	--	--	--	--	--
	2000	--	--	--	--	5	--
	2001	--	--	--	--	36	--
Customer care and billing operations	1999	--	--	--	--	--	--
	2000	--	--	1,008	--	--	--
	2001	--	--	623	--	--	--
Sales and marketing	1999	--	--	--	--	--	--
	2000	--	--	--	--	3,175	--
	2001	1,264	--	--	--	4,351	--
General and administrative	1999	--	--	--	--	--	224

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

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.

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.

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.

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

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).

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)

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.

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.

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.

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

XM SATELLITE RADIO HOLDINGS INC AND SUBSIDIARIES

XM SATELLITE RADIO INC. AND SUBSIDIARIES

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

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.

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.

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.

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

(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	December 31, 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 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 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

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

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	December 31, 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
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.

(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	December 31, 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	December 31, 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)

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	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

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	December 31, 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

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 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 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

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

	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 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, 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 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

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 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

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		

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)).

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

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

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

XM SATELLITE RADIO 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	$ 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.

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

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

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.

(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	December 31, 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):

	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

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

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

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	December 31, 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	--

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 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 (l)).

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):

	December 31, 2000	December 31, 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	December 31, 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))

(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	December 31, 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	December 31, 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

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

	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.

(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			

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

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

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.

(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, 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

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

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

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

/S/ Jack Shaw ------------------------------- Jack Shaw	Director	March 18, 2002
/S/ Dr. Rajendra Singh ------------------------------- Dr. Rajendra Singh	Director	March 18, 2002

</TEXT>
</DOCUMENT>

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

</TEXT>
</DOCUMENT>

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

Table of Contents

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

Table of Contents

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
TABLE OF CONTENTS

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.

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 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

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!	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!	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
	Vox!	Opera
	XM Pops	Classical Hits
Kids	Radio Disney	Children
	XM Kids	Children

Source XM SATELLITE RADIO H, 10-K, March 31, 2003

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.

Table of Contents

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

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 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. 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 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

Table of Contents

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

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.

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.

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 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

Table of Contents

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.

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 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 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

Table of Contents

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 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

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.

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.

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.

[Table of Contents](#)

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	—	—	—

	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.

Table of Contents

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 "

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."

Table of Contents

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 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

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

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

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

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.

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 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 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.

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 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

- 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

$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.

- *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 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.

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.

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.

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:

Table of Contents

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).

Exhibit No.	Description
4 10	Indenture, dated as of March 15, 2000, between XM Satellıte Radıo Inc and Unıted States Trust Company of New York (ıncorporated by reference to XM's Regıstration Statement on Form S-4, Fıle No. 333-39178)
4 11	Registratıon Rıghts Agreement, dated March 15, 2000, between XM Satellıte Radıo Inc. and Bear, Stearns & Co Inc , Donaldson, Lufkın and Jenrette Securıtıes Corporation, Salomon Smıth Barney Inc and Lehman Brothers Inc (ıncorporated by reference to XM's Regıstratıon Statement on Form S-4, Fıle No. 333-39178)
4 12	Form of 14% Senıor Secured Note of XM Satellıte Radio Inc. (incorporated by reference to XM's Regıstratıon Statement on Form S-4, File No. 333-39178).
4.13	Securıty Agreement, dated March 15, 2000, between XM Satellıte Radıo Inc. and Unıted States Trust Company of New York (ıncorporated by reference to XM's Regıstratıon Statement on Form S-4, Fıle No. 333-39178).
4 14	Pledge Agreement, dated March 15, 2000, between XM Satellıte Radıo Inc. and Unıted States Trust Company of New York (incorporated by reference to XM's Regıstratıon Statement on Form S-4, Fıle No. 333-39178).
4.15	Indenture, dated March 6, 2001, between XM Satellite Radıo Holdings Inc. and Unıted States Trust Company of New York (ıncorporated by reference to Holdıngs' annual report on Form 10-K for the year ended December 31, 2000, filed wıth the SEC on March 15, 2001)
4.16	Supplemental Indenture, dated as of November 15, 2001, by and between XM Satellite Radıo Inc. and The Bank of New York (successor to Unıted States Trust Company of New York) (ıncorporated by reference to Holdıngs' Current Report on Form 8-K, filed wıth the SEC on December 6, 2001).
4 17	Form of 7.75% convertıble subordınated note (ıncorporated by reference to Holdings' annual report on Form 10-K for the year ended December 31, 2000, filed wıth the SEC on March 15, 2001)
4 18	Customer Credıt Agreement dated as of December 5, 2001 between Holdings and Boeing Capital Servıces Corporatıon (incorporated by reference to Holdıngs' Current Report on Form 8-K, filed wıth the SEC on December 6, 2001)
4.19	Securıty Agreement dated as of December 5, 2001, between Holdıngs and Boeıng Capital Servıces Corporatıon (ıncorporated by reference to Holdıngs' Current Report on Form 8-K, filed wıth the SEC on December 6, 2001)
4.20	Indenture, dated as of January 28, 2003, among XM Satellıte Radıo Inc , XM Satellıte Radio Holdıngs Inc., XM Equipment Leasıng LLC and The Bank of New York, as trustee (ıncorporated by reference to Holdings' Current Report on Form 8-K filed wıth the SEC on January 29, 2003)
4.21	Securıty Agreement, dated as of January 28, 2003, among XM Satellıte Radıo Inc , XM Satellite Radio Holdings Inc , XM Equıpment Leasıng LLC, and The Bank of New York (ıncorporated by reference to Holdıngs' Current Report on Form 8-K filed with the SEC on January 29, 2003).
4 22	Amended and Restated Securıty Agreement, dated as of January 28, 2003, between XM Satellite Radıo Inc. and The Bank of New York (ıncorporated by reference to Holdıngs' Current Report on Form 8-K filed wıth the SEC on January 29, 2003).
4 23	Intercredıtor and Collateral Agency Agreement (General Securıty Agreement), dated as of January 28, 2003, by and among the Noteholders named thereın, The Bank of New York, as trustee, General Motors Corporatıon, OnStar Corporatıon and The Bank of New York, as collateral agent (ıncorporated by reference to Holdıngs' Current Report on Form 8-K filed wıth the SEC on January 29, 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)

[Table of Contents](#)

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.

Table of Contents

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).

[Table of Contents](#)

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.

(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.

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

Table of Contents

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)

Table of Contents

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)

Table of Contents

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES
XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

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

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.

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.

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.

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

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

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 *(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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

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.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

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 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)

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

(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"),

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

(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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

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	—

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

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.

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	December 31, 2001
Spacecraft system	$ 55,016	$ 55,016
Broadcast facilities	—	40
	$ 55,016	$ 55,056

(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

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	December 31, 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	December 31, 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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

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.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

(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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

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.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

(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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

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.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

(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	$ —	$ —	$ —

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

(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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

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,

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

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.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2002 AND 2001

(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.

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.

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

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.

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

Table of Contents

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

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

Subsidiaries of XM Satellite Radio Holdings Inc.

XM Satellite Radio Inc.
XM Equipment Leasing LLC

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

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)

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

XM-VENDETTI EX. 9

Table of Contents

EX-31.2 (EXHIBIT 31.2)

EX-32.1 (EXHIBIT 32.1)

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, 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)
<u>XM SATELLITE RADIO HOLDINGS INC</u>	
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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

TABLE OF CONTENTS

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.

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.

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 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 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.

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

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.

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

	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+	
Premium	Playboy Radio	Adult

*Available March 1, 2004 unless otherwise noted
**Available April 1, 2004
+Available later in 2004

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 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

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.

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.

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 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 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, 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 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;

- 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

- 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 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.

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.

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.

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 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 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 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.

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.

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 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, 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.

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

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

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

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	—	—

	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.

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:

	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 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.

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

	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

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 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 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

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.

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

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 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.

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.

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 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):

	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 liabilities, 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 liabilities 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 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

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 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 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 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 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

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 & 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

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 the above contracts, to defer launch of XM–4 and, as a result, approximately $50 mılhon in payments related to launch servıces could be postponed untıl the 2007 tımeframe.

Optıons to Procure Fıfth Satellıte and Associated Launch Services We have also obtained fixed prıce optıons to acquire a fifth satellite from BSS, under the July 2003 amendment, on pricing and performance ıncentive terms sımılar to those applicable to XM–4 and associated launch servıces from Sea Launch under the August 2003 contract

Satellıte Contract—Warrant to BSS. Pursuant to our satellıte 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 faır value of these warrants was determıned to be $5.8 mıllion usıng a Black–Scholes based methodology and ıs included ın the System Under Constructıon balance as of December 31, 2003

Terrestrıal Repeater System. As of December 31, 2003, we incurred aggregate costs of approximately $267.7 mılhon for a terrestrıal repeater system These costs covered the capıtal cost of the desıgn, development and installatıon of a system of terrestrıal repeaters to cover approxımately 60 cıtıes and metropolıtan areas. In August 1999, we sıgned a contract wıth LCCI for engıneerıng and sıte preparatıon. As of December 31, 2003, we had paıd $128 4 mılhon under thıs contract There are no further payments due under the LCCI contract. We also entered ınto a contract effectıve October 22, 1999, with Hughes Electronıcs Corporation for the desıgn, development and manufacture of the terrestrıal repeaters; there are no further payments due under this contract except those related to ongoıng out–of–warranty repaırs As of December 31, 2003, we had paıd $114 1 mıllion under thıs contract and recorded an addıtıonal lıabılıty of $59,000

Ground Segment As of December 31, 2003, we ıncurred aggregate ground segment costs of approximately $138.6 mıllion These costs were related to the satellıte control facılıtıes, programmıng productıon studıos and varıous other equıpment and facılıtıes

Joınt Development Agreement Fundıng Requirements. The costs related to our agreement wıth Sırıus Radio for joınt development of a unıfied standard for satellıte radios are beıng expensed as incurred in research & development. Durıng 2003, we incurred $0.6 mıllıon compared to no expense during 2002. We expect thıs expense to ıncrease steadıly this year; each party is oblıgated to fund one half of the development cost for a unıfied standard for satellıte radıos.

Long–term debt

We have raısed funds from the followıng issuances of long–term debt.

- In March 2001, we ıssued $125.0 mıllıon aggregate princıpal amount of 7 75% Convertıble Subordınated Notes due 2006 In July and August 2001, holders of these 7 75% Convertıble Subordınated Notes exchanged $45.9 mıllıon of notes for 4,194,272 shares of our Class A common stock. In 2003, an addıtıonal $33.4 mılhon of these notes were exchanged for 2,711,649 shares of Class A common stock. As a result of these transactıons, approximately $45 7 mılhon of the notes remaıned at December 31, 2003. Prıncipal on the convertıble subordınated notes ıs payable at maturıty, while ınterest is payable semı–annually In March 2004, the holders of the $45 7 mılhon 7.75% Convertıble Subordinated Notes due 2006 called for redemptıon followıng our January offerıng elected to convert ınto 3.7 mılhon shares of our Class A common stock in accordance wıth the terms of the notes. Thıs represented the retırement of all our remaınıng outstandıng 7 75% Subordınated Convertıble Notes

- In August 2001, we borrowed $29 0 mıllıon to finance the purchase of our headquarters facılıty. Thıs loan is for a term of five years and bears ınterest at a rate based on the sıx–month London Interbank Offer Rate plus an ındıcated spread We make monthly payments of prıncipal and interest on thıs loan.

- In December 2001, we borrowed $35 0 mıllıon from a subsıdiary of The Boeıng Company. This loan ıs for a term of five years and bears ınterest at a rate based on the sıx–month London Interbank Offer Rate plus an ındıcated spread. Prıncipal ıs payable at maturity, whıle interest ıs payable quarterly. Thıs loan must be repaıd when we launch XM–3, presently expected to occur in late 2004

- On January 28, 2003, we completed a three–part financıng

- 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·

Contractual Obligations	2004	2005	2006	2007	2008	2009 and Beyond	Total
	Payments Due by Period						
	(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·

- *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 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 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 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

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

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:

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)

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)

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)

Exhibit No.	Description
4 39	Fırst Supplemental Indenture, dated as of June 12, 2003, by and among XM Satellıte Radıo Inc , XM Satellıte Radıo Holdıngs Inc , XM Equıpment Leasing LLC and The Bank of New York (incorporated by reference to XM's Registration Statement on Form S–4, Fıle No. 333–106823).
4 40	First Amendment to Secunty Agreement, dated as of June 12, 2003, by and among XM Satellite Radıo Inc., XM Satellite Radio Holdıngs Inc., XM Equıpment Leasıng LLC and The Bank of New York (ıncorporated by reference to XM's Regıstration Statement on Form S–4, Fıle No 333–106823).
4 41	Warrant to purchase XM Satellıte Radio Holdıngs Inc Class A Common Stock, dated July 31, 2003, issued to Boeıng Satellite Systems International, Inc. (incorporated by reference to Holdıngs' Quarterly Report on Form 10–Q for the quarter ended June 30, 2003, filed wıth the SEC on August 14, 2003)
10.1**	Thırd Amended and Restated Shareholders and Noteholders Agreement, dated as of June 16, 2003, by and among XM Satellıte Radıo Holdings Inc and certaın shareholders and noteholders named thereın (incorporated by reference to Holdıngs' Quarterly Report on Form 10–Q for the quarter ended June 30, 2003, filed wıth the SEC on August 14, 2003).
10 2	Second Amended and Restated Registratıon Rights Agreement, dated as of January 28, 2003, by and among XM Satellıte Radıo Holdıngs Inc. and certain shareholders and noteholders named thereın (ıncorporated by reference to Holdings' Current Report on Form 8–K filed wıth the SEC on January 29, 2003).
10.3^	Note Purchase Agreement, dated June 7, 1999, by and between XM Satellıte Radıo Holdings Inc , XM Satellıte Radıo Inc , Clear Channel Communıcatıons, Inc , DIRECTV Enterprises, Inc , General Motors Corporation, Telcom–XM Investors, L L.C., Columbia XM Radio Partners, LLC, Madıson Dearborn Capital Partners III, L P , Madıson Dearborn Special Equıty III, L P , and Specıal Advısors Fund I, LLC (ıncludıng form of Series A subordınated convertible note of XM Satellıte Radıo Holdings Inc. attached as Exhıbit A thereto)
10 4^*	Technology Lıcensing Agreement by and among XM Satellite Radıo Inc., XM Satellite Radıo Holdings Inc., WorldSpace Management Corporatıon and American Mobıle Satellıte Corporation, dated as of January 1, 1998, amended by Amendment No. 1 to Technology Lıcensing Agreement, dated June 7, 1999.
10.5	Intentıonally omıtted
10 6	Intentıonally omıtted.
10 7^*	Amended and Restated Agreement by and between XM Satellıte Radıo Inc and ST Microelectronıcs Srl, dated September 27, 1999
10 8*	Second Amended and Restated Distrıbutıon Agreement, dated as of January 28, 2003, by and among XM Satellıte Radıo Holdings Inc., XM Satellıte Radıo Inc. and OnStar Corporatıon, a dıvısıon of General Motors Corporatıon (ıncorporated by reference to Holdıngs' Current Report on Form 8–K filed wıth the SEC on January 29, 2003).
10 9	Intentıonally omıtted.
10 10^*	Operatıonal Assıstance Agreement, dated as of June 7, 1999, between XM Satellite Radio Inc. and Clear Channel Communıcations, Inc.
10 11	Intentıonally omıtted
10.12	Intentıonally omıtted
10 13	Intentıonally omitted.

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).

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)

Exhibit No.	Description
10 48	Votıng Agreement, dated as of December 21, 2002, among the shareholders named therein (ıncorporated by reference to Holdıngs' Current Report on Form 8–K filed wıth the SEC on January 29, 2003)
10 49	Employment Agreement, dated as of June 21, 2002, between XM Satellıte Radıo Holdıngs Inc. and XM Satellıte Radio Inc., and Joseph J Euteneuer (ıncorporated by reference to Holdıngs' Quarterly Report on Form 10–Q, filed wıth the SEC on August 14, 2002)
10 50	Form of Employment Agreement, dated as of March 20, 2003, between XM Satellıte Radio Holdıngs Inc. and XM Satellıte Radıo Inc , and Hugh Panero (ıncorporated by reference to Holdıngs' Quarterly Report on Form 10–Q for the quarter ended March 31, 2003, filed wıth the SEC on May 15, 2003)
10 51	Form of Employment Agreement, dated as of March 20, 2003, between XM Satellıte Radio Holdıngs Inc. and XM Satellite Radio Inc , and Gary Parsons (ıncorporated by reference to Holdıngs' Quarterly Report on Form 10–Q for the quarter ended March 31, 2003, filed wıth the SEC on May 15, 2003)
10 52	Form of 2003 Executıve Stock Optıon Agreement (ıncorporated by reference to Holdings' Quarterly Report on Form 10–Q for the quarter ended March 31, 2003, filed wıth the SEC on May 15, 2003)
10.53**	Amended and Restated Amendment to the Satellite Purchase Contract for In–Orbit Delıvery, dated May 2003, by and between XM Satellıte Radıo Inc. and XM Satellıte Radio Holdıngs Inc and Boeing Satellıte Systems Internatıonal, Inc (incorporated by reference to Holdıngs' Quarterly Report on Form 10–Q for the quarter ended June 30, 2003, filed wıth the SEC on August 14, 2003)
10 54**	July 2003 Amendment to the Satellıte Purchase Contract for In–Orbıt Delıvery, dated July 31, 2003, by and between XM Satellıte Radıo Inc and XM Satellıte Radıo Holdıngs Inc and Boeing Satellıte Systems Internatıonal, Inc (ıncorporated by reference to Holdings' Quarterly Report on Form 10–Q for the quarter ended June 30, 2003, filed wıth the SEC on August 14, 2003).
10 55**	Contract for Launch Servıces, dated August 5, 2003, between Sea Launch Limıted Partnershıp and XM Satellite Radıo Holdıngs Inc (ıncorporated by reference to Holdıngs' Quarterly Report on Form 10–Q for the quarter ended June 30, 2003, filed wıth the SEC on August 14, 2003).
10.56	Amendment No. 1 to Amended and Restated Dırector Desıgnatıon Agreement, dated as of September 9, 2003, by and among XM Satellıte Radıo Holdings Inc and the shareholders and noteholders named thereın (incorporated by reference to Holdıngs' 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 Satellıte Purchase Contract for In–Orbit Delıvery, dated December 19, 2003, by and between XM Satellite Radıo Inc and XM Satellıte Radıo Holdings Inc and Boeing Satellıte Systems Internatıonal, Inc
10 58	First Amendment to Credit Agreement, dated January 13, 2004, by and between XM Satellıte Radio Inc , XM Satellıte Radio Holdıngs Inc and General Motors Corporatıon
10 59	Fırst Amendment to Second Amended and Restated Dıstrıbutıon Agreement, dated as of January 13, 2004, by and among OnStar Corporatıon, XM Satellıte Radio Holdings Inc , and XM Satellıte Radıo Inc.
10 60	Second Amendment to Note Purchase Agreement, dated as of January 13, 2004, by and among XM Satellıte Radio Inc , XM Satellıte Radıo Holdıngs Inc , and OnStar Corporatıon.
10 61	Form of Amendment to Thırd Amended and Restated Shareholders and Noteholders Agreement, dated as of January 13, 2004, by and among XM Satellıte Radıo Holdıngs Inc and the partıes thereto.

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

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.

/s/ THOMAS G ELLIOTT

Thomas G. Elliott

	Director	March 15, 2004

IN DEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES
XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

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

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.

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

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.

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)								
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

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

(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%

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

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.

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 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.

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

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 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

(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.

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 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.

(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)

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

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.

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

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 & 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

(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.

(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	December 31, 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

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	December 31, 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

(9) Long–Term Debt

Long–term debt at December 31, 2003 and 2002 consists of the following (in thousands):

	December 31, 2003	December 31, 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

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

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 *(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

(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

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

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

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 *(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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2003 AND 2002

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

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.

(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	$ —	$ —	$ —

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

(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

(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.

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.

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.

(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.

(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.

(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.

(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.

(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.

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

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

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 [***]

*** Certaın ınformatıon on thıs page has been omıtted and filed separately wıth the Securities and Exchange Commıssion. Confidentıal treatment has been requested wıth respect to the omıtted portıons
[***]

NOW, THEREFORE, ın consıderatıon of the mutual benefits to be derıved, the Parties hereto agree that the Contract is amended as follows·

1. Amendment of Artıcle 1 1 (Definıtıons) Artıcle 1 1 ıs hereby amended as follows

(a) In paragraph (cccc) "Mılestone", the phrase added to the end of such paragraph in the July 2003 Amendment is hereby deleted and replaced wıth the followıng phrase ", Exhıbıt G−2 (FM2 (XM−3) Payment Plan (including Sea Launch Launch Services), [***] Terminatıon Lıabılıty Schedule and Payment Plans for In−Orbıt Performance Incentıve Amounts) and Exhıbıt G−3 (XM−4 Payment Plan, Termınatıon Lıabılıty Schedule and Payment Plans for Incentive Amounts, Hıgh Performance Incentives and Extended Lıfe Incentives)".

(b) In paragraph (dddd) "Mılestone Payment", the phrase added to the end of such paragraph ın the July 2003 Amendment ıs hereby deleted and replaced wıth the following phrase: ", Exhıbıt G−2 (FM2 (XM−3) Payment Plan (ıncludıng Sea launch Launch Services), [***] Termination Liabılıty Schedule and Payment Plans for In−Orbıt Performance Incentıve Amounts) and Exhibit G−3 (XM−4 Payment Plan, Termınatıon Lıabılity Schedule and Payment Plans for Incentive Amounts, Hıgh Performance Incentıves and Extended Lıfe Incentives)". For clanfication, the term "Exhıbit G (Payment Plan and Terminatıon Liabılıty Amounts)" as used ın the Contract means Exhıbıt G (Payment Plan and Termınatıon Lıabılıty Amounts) and Exhıbit G−1 (PFM (XM1) and FM1 (XM2) Payment Plans for In−orbıt Performance Incentıve Amounts) wıth respect to XM−1 and XM−2, Exhıbıt G−2 (FM2 (XM−3) Payment Plan (ıncludıng Sea launch Launch Servıces), [***] Termınatıon Liabılity Schedule and Payment Plans for In−Orbıt Performance Incentıve Amounts) with respect to XM−3, and Exhıbit G−3 (XM−4 Payment Plan, Termınation Lıabılıty Schedule and Payment Plans for Incentıve Amounts, Hıgh Performance Incentıves and Extended Lıfe Incentıves) wıth respect to XM−4.

2 Amendment to Article 1.3 (Integratıon and Construction) Paragraphs (a) through (l) ın Artıcle 1.3 (Integratıon and Construction) are deleted ın theır entırety and replaced wıth the followıng

"(a) Terms and Condıtıons

(b) Exhıbıt G—Payment Plan and Termınation Liabilıty Amounts

(c) Exhıbıt G−1—PFM (XM1) and FM1 (XM2) Payment Plans for In−Orbıt Incentıve Amounts

(d) Exhıbıt G−2—FM2 (XM3) Payment Plan (ıncludıng Sea Launch Launch Servıces), [***] Termınatıon Liabılıty Schedule, Payment Plans for In−

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. <u>Amendment of Article 2 (Scope of Work)</u> 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)

*** 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. <u>Amendment of Article 4.1 (Contract Price).</u>

(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.

*** 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·

*** 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

*** 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

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.	**XM SATELLITE RADIO INC.**
BY. ______________________	BY: ______________________
Name. Lisa Dull	Name: Joe Euteneuer
Title Director, Comm/Intl Business	Title· Executive Vice President and CFO
Date: December 19, 2003	Date· December 19, 2003

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

[***]

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 "

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.

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]

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.

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:

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.

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:

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

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]

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.

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:

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

[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.

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

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

(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

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.. ____________________

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."

Exhibit 21.1

Subsidiaries of XM Satellite Radio Holdings Inc.

XM Satellite Radio Inc.
XM Equipment Leasing LLC

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

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.

10kWIZARD
SEC POWER SEARCH

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

XM-VENDETTI EX. 10

Table of Contents

EX-32.1 (906-SABANES-OXLEY)

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

Table of Contents

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
TABLE OF CONTENTS

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.

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 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 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!	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!	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

	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
	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
	Channel Name	Channel Description
	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
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

	Family Talk	Christian Talk
	XM Live	Special Events
	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	Emergency Information
	Miami/Ft Lauderdale	
	Emergency Information XM Emergency Alert 24/7	

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

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.

Table of Contents

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 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.

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

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

Table of Contents

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

Table of Contents

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 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

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

- 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 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, 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,

- 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.

Table of Contents

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 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.

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.

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	—

	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

Table of Contents

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

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.

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.

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

	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

Table of Contents

(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 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 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

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

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 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

Table of Contents

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)

Table of Contents

	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

Table of Contents

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

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, 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

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

Table of Contents

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

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.

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

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;

- 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

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 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 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 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 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 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 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

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 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 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

Table of Contents

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

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.

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

Table of Contents

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)

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)

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)

Table of Contents

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.

Table of Contents

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)

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)

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.

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 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

Table of Contents

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES
XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES

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

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

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.

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

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

Table of Contents

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											

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)								
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

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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

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

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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.

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

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

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

(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.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

(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.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

(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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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 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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

(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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

(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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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 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.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

(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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

(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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

(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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

(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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

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.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

(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

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
DECEMBER 31, 2004 AND 2003

(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.

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

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

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

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

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.

10kWIZARD
SEC POWER SEARCH

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

XM-VENDETTI EX. 11

Table of Contents

EX-31.1 (EXHIBIT 31 1)

EX-31 2 (EXHIBIT 31 2)

EX-32 1 (EXHIBIT 32.1)

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, 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.

Table of Contents

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
TABLE OF CONTENTS

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.

Table of Contents

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.

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

Table of Contents

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.

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

Table of Contents

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

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

Table of Contents

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

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

Table of Contents

	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
	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
	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

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.

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 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

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

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 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

Table of Contents

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 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 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 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

Table of Contents

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

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 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 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.

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.

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

Table of Contents

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

(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

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

Table of Contents

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

Table of Contents

(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,		
(in thousands)	2005	2004	2003
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

Results of Operations

(in thousands)	2005	2004	2003
	Years Ended December 31,		
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)

Table of Contents

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) — Years Ended December 31, 2005	2004	2003		Amounts as a Percentage of Total Revenue — Years Ended December 31, 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

- 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

- 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 &

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

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 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

$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.

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

- 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 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 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 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.

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

Table of Contents

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

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

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.

Table of Contents

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)

Table of Contents

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)

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)

Exhibit No.	Description
10 13	XM Satellhte 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.

(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

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

Table of Contents

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

Table of Contents

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

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

Table of Contents

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
(in thousands, except share and per share data)	2005	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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS — (Continued)

(in thousands, except share and per share data)	December 31, 2005	December 31, 2004
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.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CON SOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)	Years Ended December 31, 2005	2004	2003
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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2005	2004	2003
(in thousands)			
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

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

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

Table of Contents

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 Capital	Accumulated Deficit	Unearned Restricted Stock Compensation	Accumulated Other Comprehensive Income	Total Stockholders' Equity
(in thousands, except share data)	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount					
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

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

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 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

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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,	
(in thousands)	2005	2004
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.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

(unaudited, in thousands)	November 30, 2005
Current assets	$ 547
Non-current assets	$ 219,502
Current liabilities	$ 39,903
Non-current liabilities	$ 378
Total shareholders' equity	$ 179,768

(unaudited, in thousands)	Three months ended November 30, 2005
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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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,		
(in thousands)	2005	2004	2003
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	
(in thousands)	GM	Honda
Research & development	$ —	$ 5,000
Customer care & billing operations	242	—
Marketing	205,837	1,782
Total	$ 206,079	$ 6,782

	Year ended December 31, 2004			
(in thousands)	GM	Honda	Hughes(1)	Clear Channel(2)
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		
(in thousands)	GM	Hughes(1)	Clear Channel(2)
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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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	$ —

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
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,		
(in thousands)	2005	2004	2003
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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

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,		
(in thousands)	2005	2004	2003
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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

XM SATELLITE RADIO HOLDINGS INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 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		

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)

Table of Contents

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

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

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

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

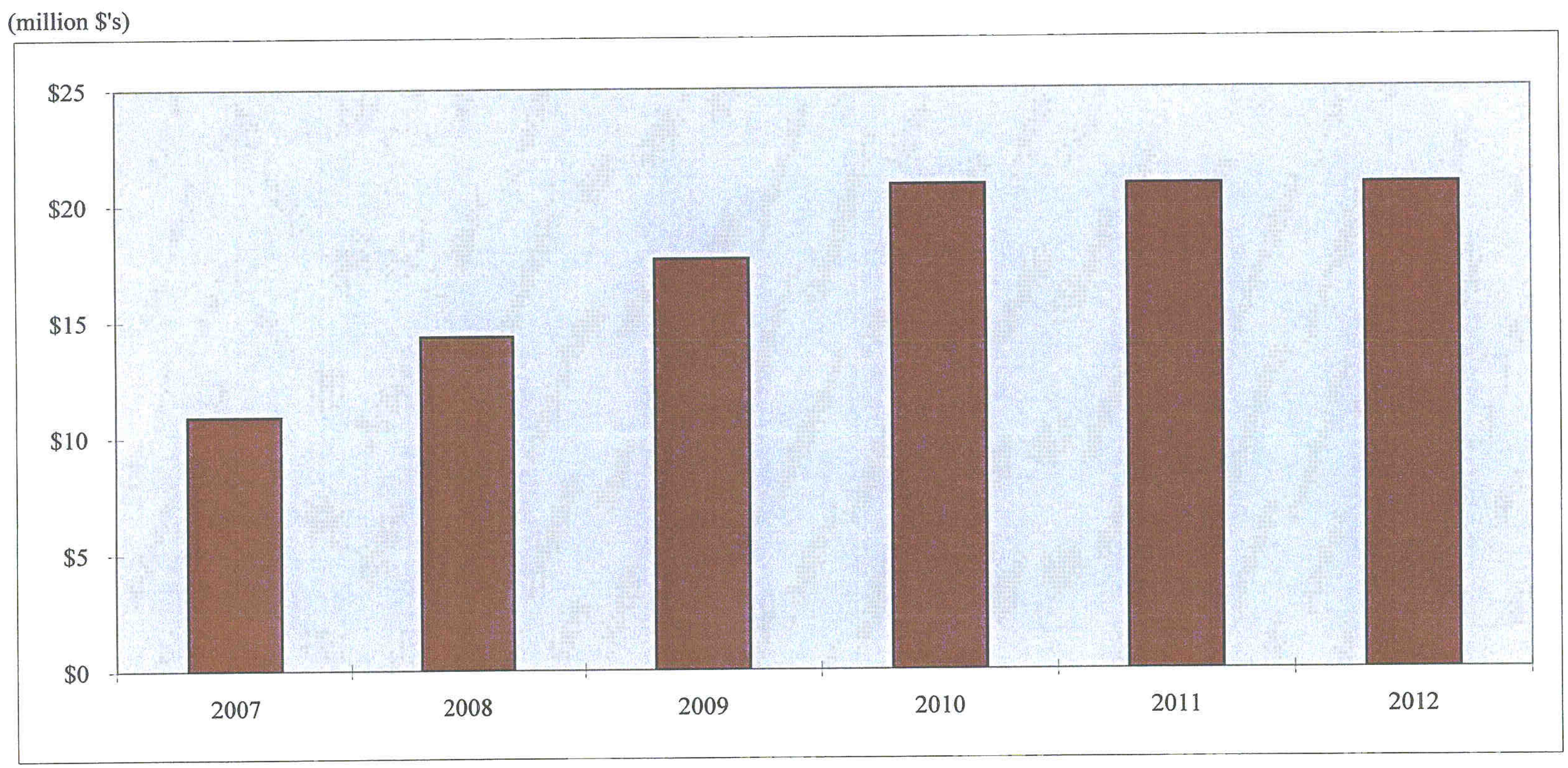
Hugh Panero
President and Chief Executive Officer
March 2, 2006

/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.

XM's Proposed SoundExchange Payments



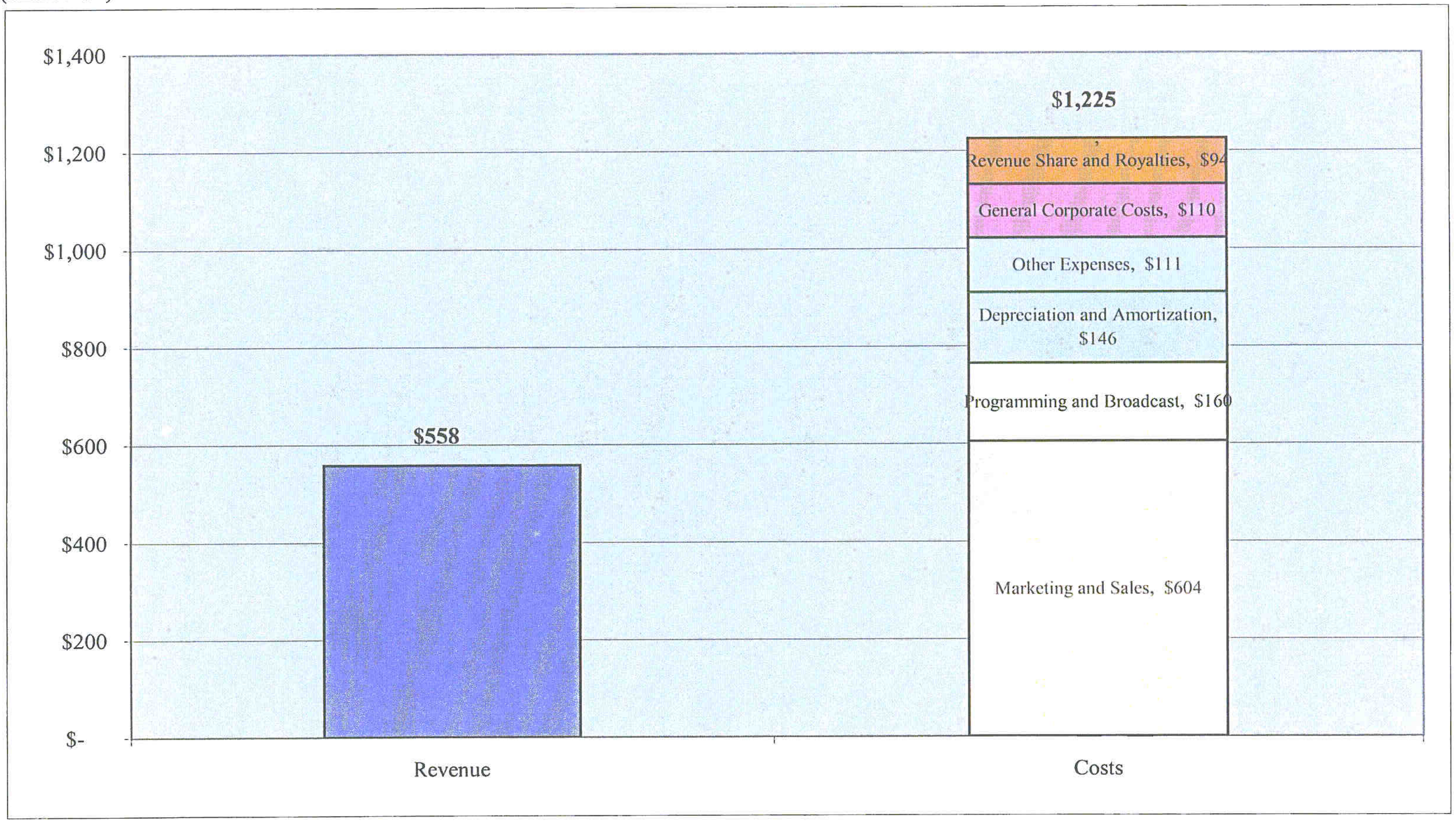
	2007	2008	2009	2010	2011	2012 [1]	6 Year Total
Payment (millions)	$11	$14	$18	$21	$21	$21	$106
% Of Rev.	0.88%	0.88%	0.88%	0.88%			

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)

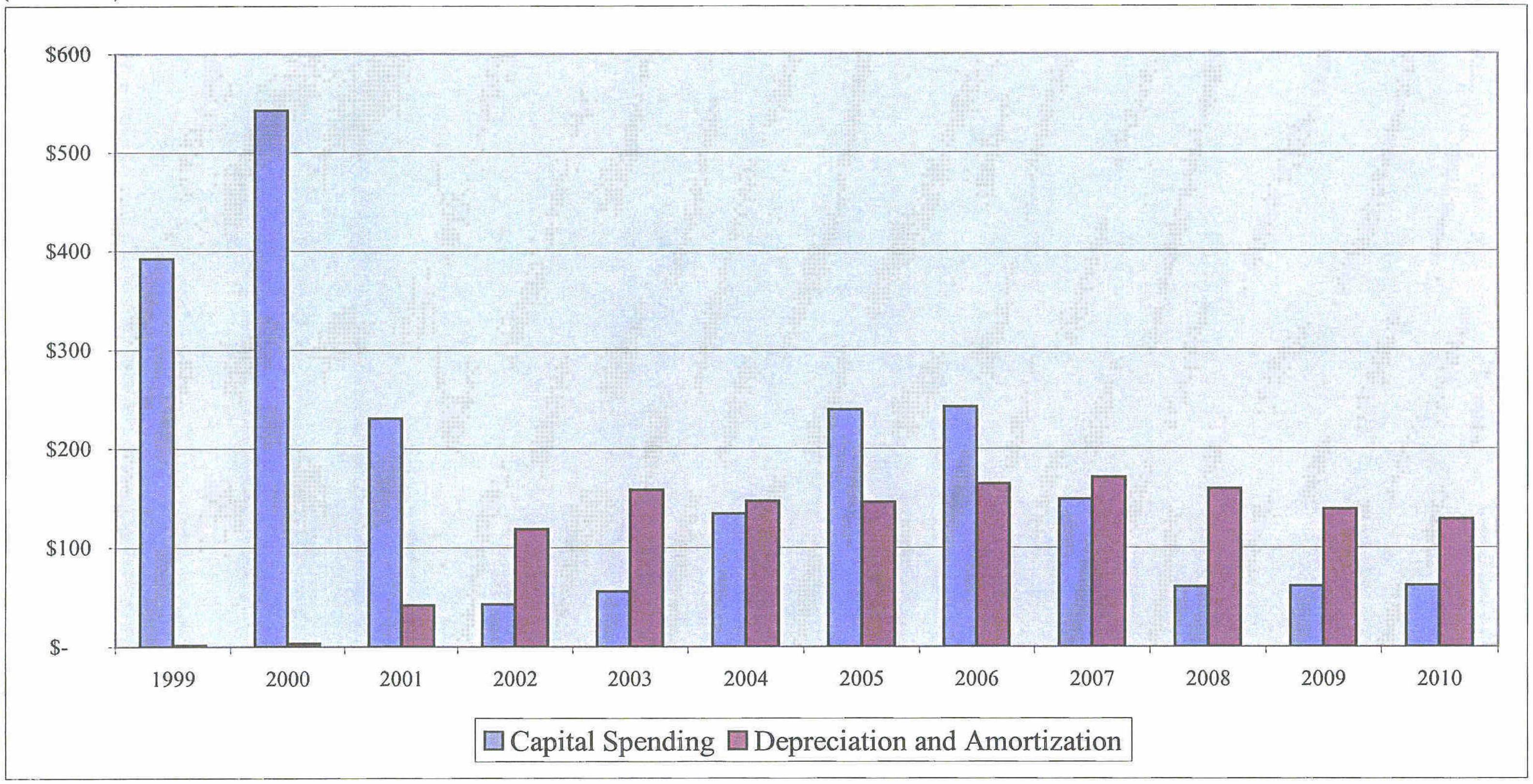
(million $'s)



XM-VENDETTI EX. 13

XM's Capital Spending vs. Depreciation and Amortization

(million $'s)

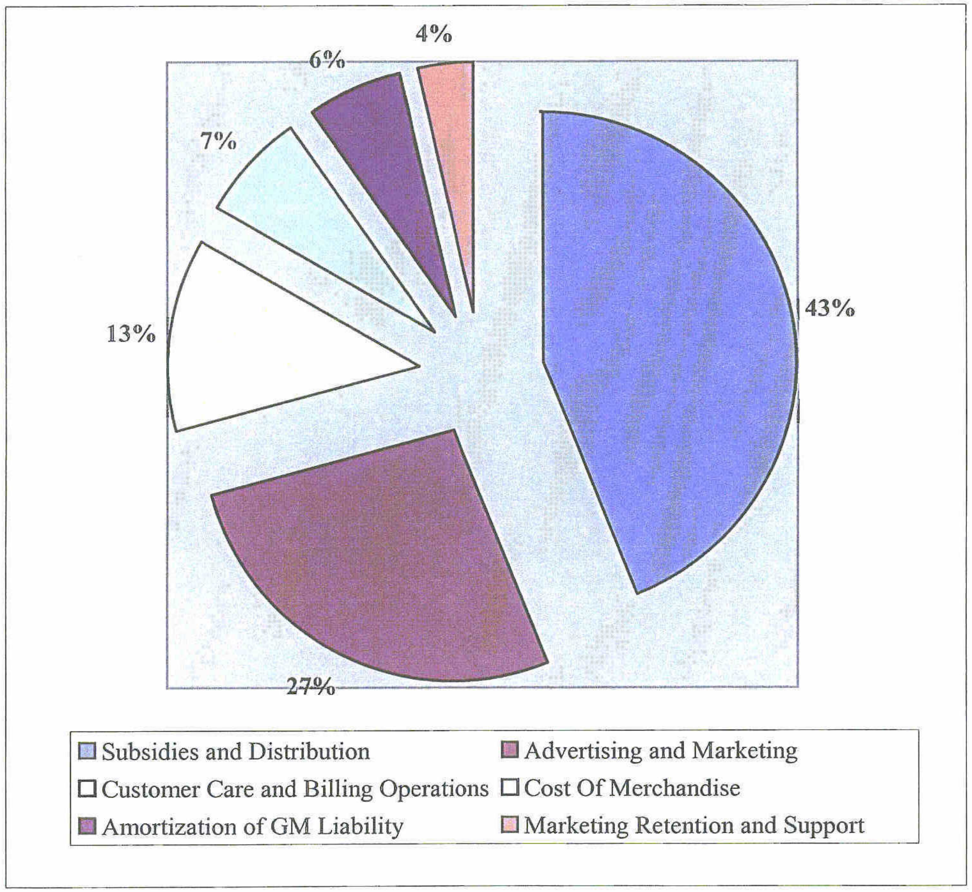


XM's Capital Spending in any year is the amount of cash spent on equipment (e.g, satellites, computers, terrestrial repeaters) that provides that company value over several years (i.e., a useful life). Depreciation and Amortization spread the value of the equipment over the useful life and represent 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-VENDETTI EX. 14

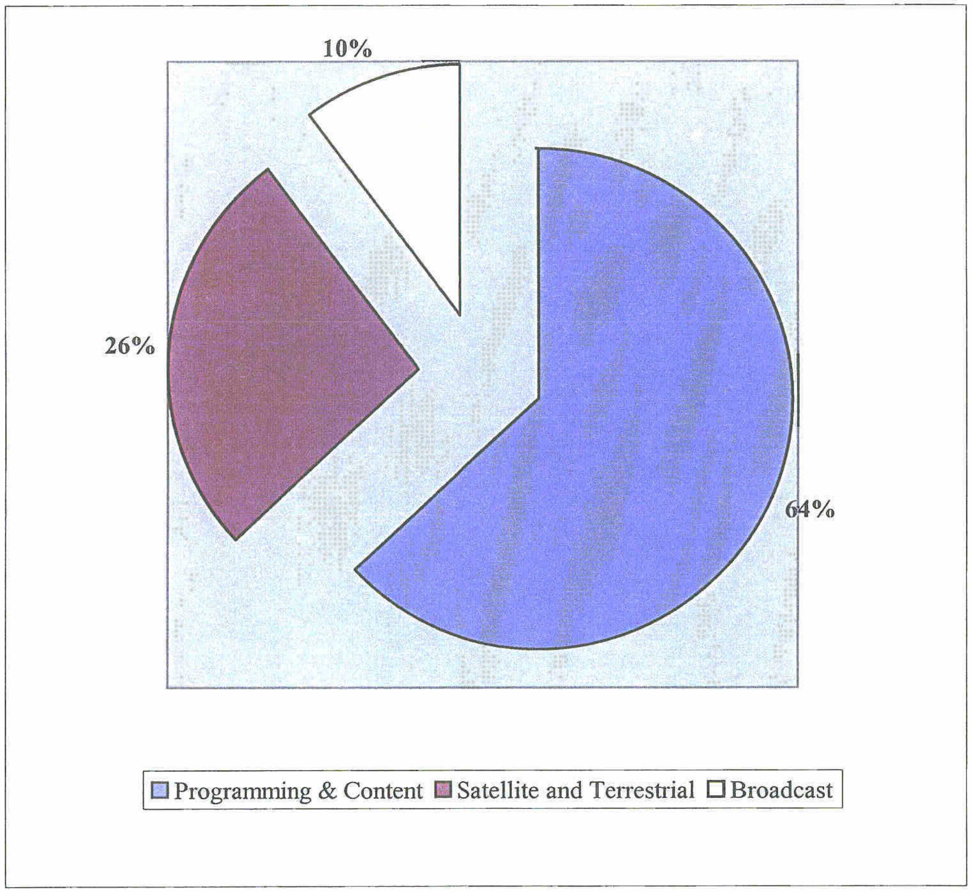
XM's Marketing and Sales Costs (2005)



Component	%	$M
Subsidies and Distribution	44%	$265
Advertising and Marketing	27%	$163
Customer Care and Billing Operatic	13%	$76
Cost Of Merchandise	7%	$41
Amortization of GM Liability	6%	$37
Marketing Retention and Support	4%	$22
Total	100%	$604

XM-VENDETTI EX. 15

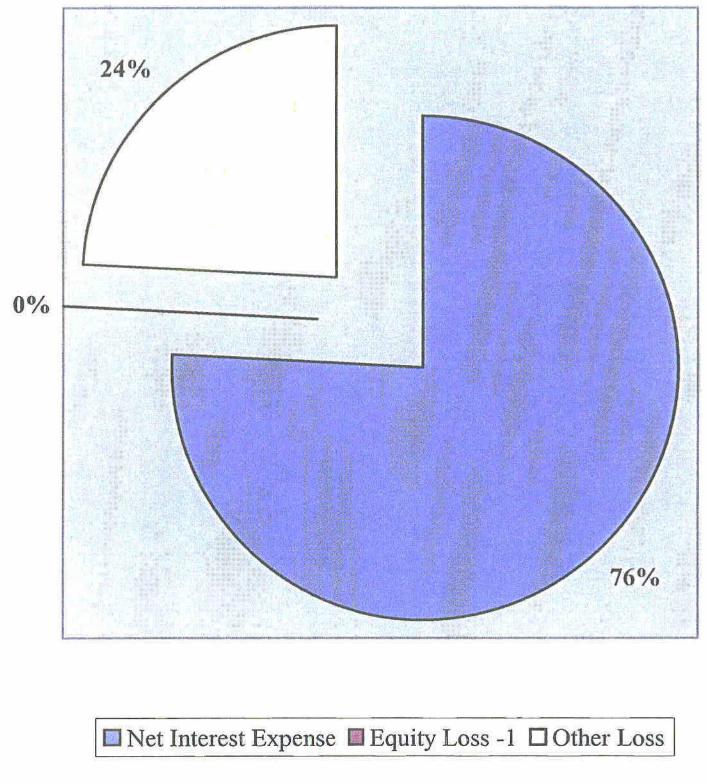
XM's Programming and Broadcast Costs (2005)



Component	%	$M
Programming & Content	63%	$101
Satellite and Terrestrial	26%	$42
Broadcast	10%	$17
Total	100%	$160

XM-VENDETTI EX. 16

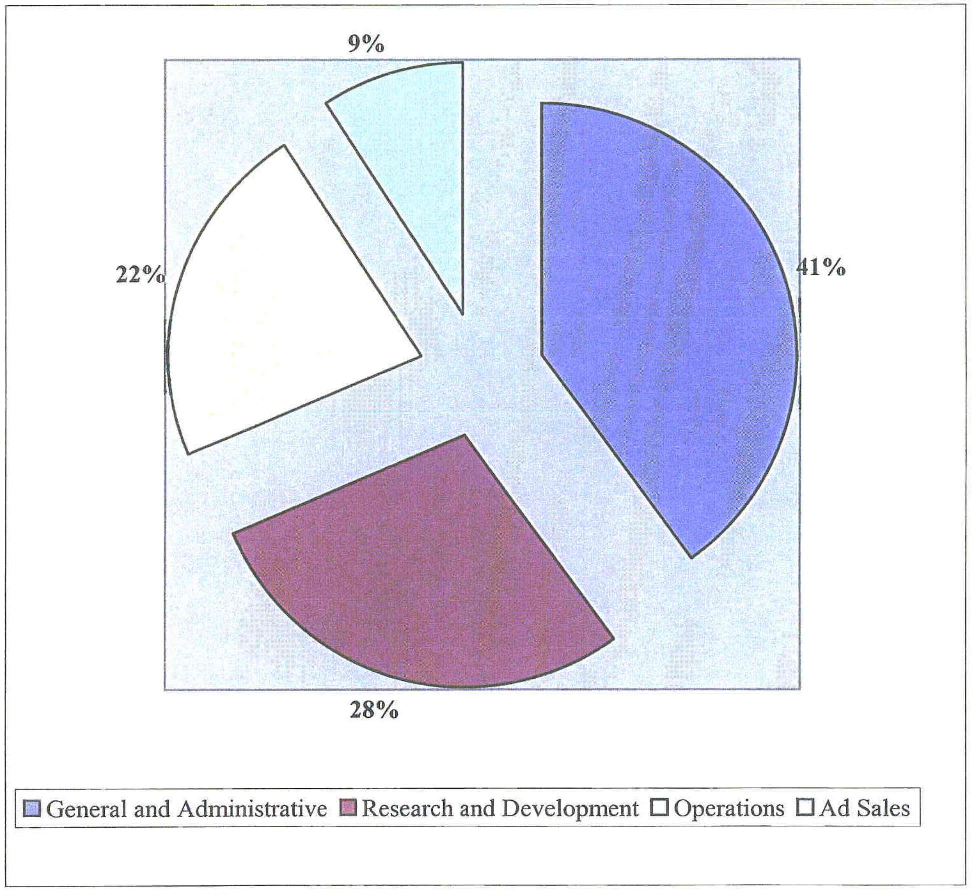
XM's Other Costs (2005)



Component	%	$M
Net Interest Expense	76%	$84
Other Loss	24%	$27
Equity Loss -1	0%	$0
Total	100%	$111

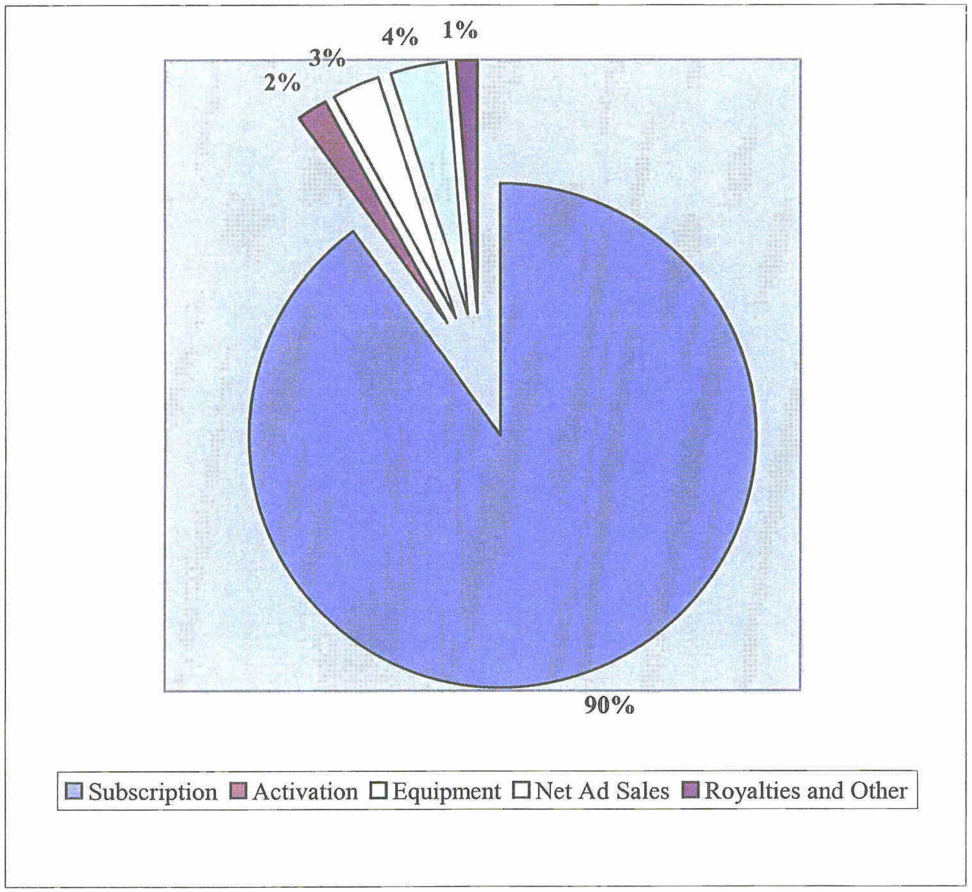
(1) XM began reporting equity losses for its equity stake in XM Canada during 2006.

XM's General Corporate Costs (2005)



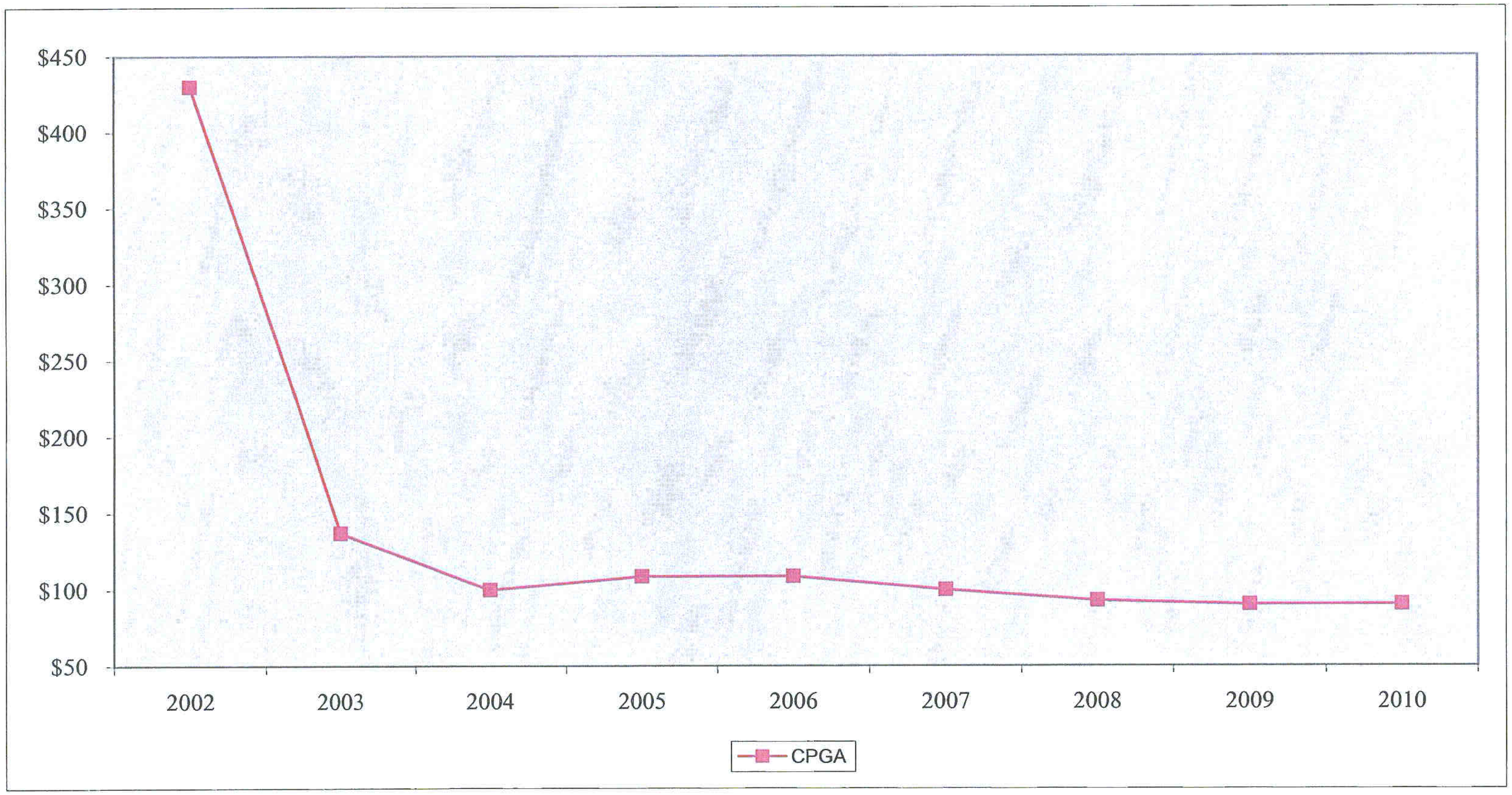
Component	%	$M
General and Administrative	40%	$44
Research and Development	28%	$31
Operations	22%	$24
Ad Sales	9%	$10
Total	100%	$110

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)



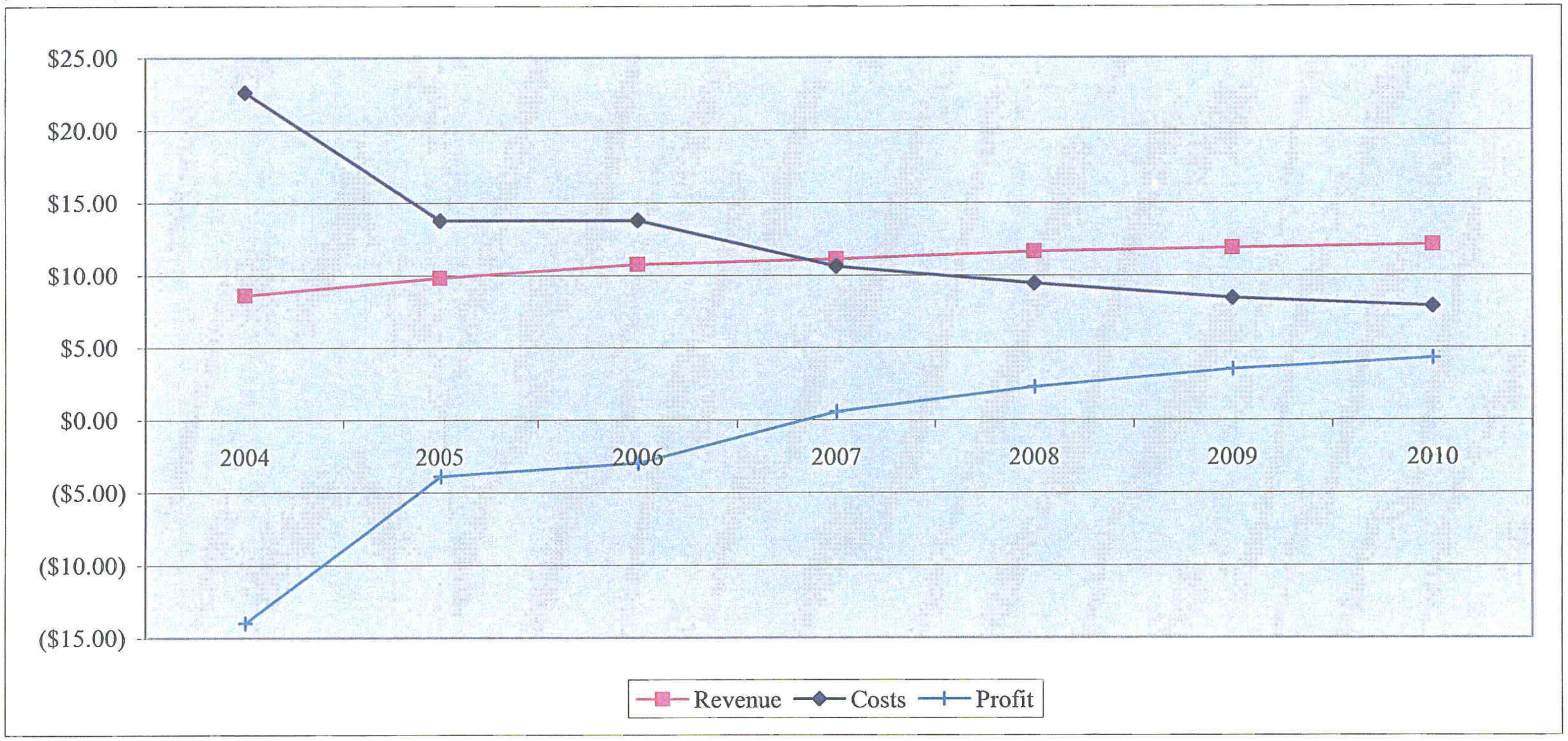
	2002	2003	2004	2005	2006	2007	2008	2009	2010
CPGA	$430	$137	$100	$109	$109	$100	$93	$90	$90

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-VENDETTI EX. 20

XM's Profit Performance per Subscriber per Month

(million $'s)

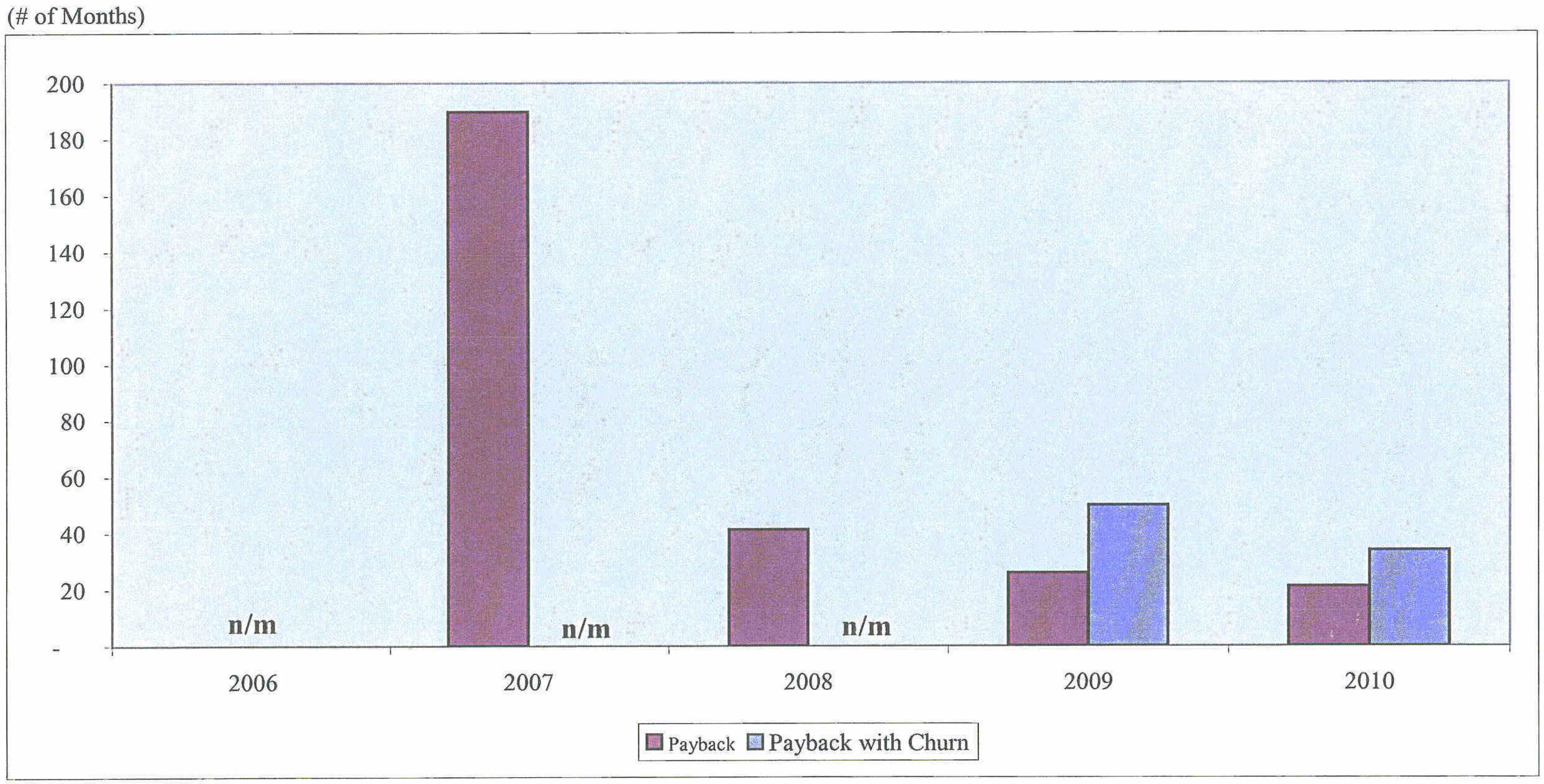


	2004	2005	2006	2007	2008	2009	2010
Revenue	$8.63	$9.82	$10.78	$11.14	$11.67	$11.90	$12.13
Costs	$22.62	$13.76	$13.79	$10.61	$9.43	$8.43	$7.87
Profit	($13.98)	($3.93)	($3.01)	$0.53	$2.24	$3.47	$4.26

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-VENDETTI EX. 21

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.

XM-VENDETTI EX. 22