

SIRIUS XM RADIO INC.
Form 10-Q
August 07, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012

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

COMMISSION FILE NUMBER 001-34295

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

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

1221 Avenue of the Americas, 36th Floor
New York, New York 10020
(Address of principal executive offices) (Zip Code)

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

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
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 August 3, 2012) |
| COMMON STOCK, \$0.001 PAR VALUE | 3,833,253,534 SHARES |

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SIRIUS XM RADIO INC. AND SUBSIDIARIES

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UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (in thousands, except per share data) | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|--|--|-----------|--------------------------------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue: | | | | |
| Subscriber revenue | \$730,285 | \$639,642 | \$1,430,526 | \$1,262,080 |
| Advertising revenue, net of agency fees | 20,786 | 18,227 | 39,456 | 34,785 |
| Equipment revenue | 16,417 | 17,022 | 33,370 | 32,889 |
| Other revenue | 70,055 | 69,506 | 138,912 | 138,482 |
| Total revenue | 837,543 | 744,397 | 1,642,264 | 1,468,236 |
| Operating expenses: | | | | |
| Cost of services: | | | | |
| Revenue share and royalties | 135,426 | 116,741 | 267,537 | 223,670 |
| Programming and content | 65,169 | 67,399 | 135,265 | 140,358 |
| Customer service and billing | 68,679 | 62,592 | 134,866 | 128,429 |
| Satellite and transmission | 17,551 | 18,998 | 35,661 | 37,558 |
| Cost of equipment | 7,150 | 7,601 | 12,956 | 14,006 |
| Subscriber acquisition costs | 119,475 | 105,162 | 235,596 | 210,432 |
| Sales and marketing | 57,422 | 51,442 | 115,781 | 99,261 |
| Engineering, design and development | 6,272 | 13,939 | 18,962 | 25,074 |
| General and administrative | 65,664 | 60,479 | 125,550 | 116,831 |
| Depreciation and amortization | 66,793 | 67,062 | 132,910 | 135,462 |
| Total operating expenses | 609,601 | 571,415 | 1,215,084 | 1,131,081 |
| Income from operations | 227,942 | 172,982 | 427,180 | 337,155 |
| Other income (expense): | | | | |
| Interest expense, net of amounts capitalized | (72,770) | (76,196) | (149,742) | (154,414) |
| Loss on extinguishment of debt and credit facilities, net | (15,650) | (1,212) | (25,621) | (7,206) |
| Interest and investment (loss) income | (1,728) | 80,182 | (2,871) | 78,298 |
| Other (loss) income | (173) | 183 | (749) | 1,799 |
| Total other (expense) income | (90,321) | 2,957 | (178,983) | (81,523) |
| Income before income taxes | 137,621 | 175,939 | 248,197 | 255,632 |
| Income tax benefit (expense) | 2,996,549 | (2,620) | 2,993,747 | (4,192) |
| Net income | \$3,134,170 | \$173,319 | \$3,241,944 | \$251,440 |
| Realized loss on XM Canada investment foreign currency adjustment, net of tax | — | 6,072 | — | 6,072 |
| Foreign currency translation adjustment, net of tax | 18 | 10 | (38) | 77 |
| Comprehensive income | \$3,134,188 | \$179,401 | \$3,241,906 | \$257,589 |
| Net income per common share: | | | | |
| Basic | \$0.83 | \$0.05 | \$0.86 | \$0.07 |
| Diluted | \$0.48 | \$0.03 | \$0.50 | \$0.04 |
| Weighted average common shares outstanding: | | | | |
| Basic | 3,765,573 | 3,744,375 | 3,766,508 | 3,739,731 |
| Diluted | 6,506,159 | 6,804,297 | 6,521,614 | 6,790,729 |

See accompanying notes to the unaudited consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS

| | June 30, 2012 | December 31, 2011 |
|---|------------------|----------------------|
| (in thousands, except share and per share data) | | |
| | (unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$868,330 | \$773,990 |
| Accounts receivable, net | 113,705 | 101,705 |
| Receivables from distributors | 97,076 | 84,817 |
| Inventory, net | 36,884 | 36,711 |
| Prepaid expenses | 163,009 | 125,967 |
| Related party current assets | 7,326 | 14,702 |
| Deferred tax asset | 899,485 | 132,727 |
| Other current assets | 8,600 | 6,335 |
| Total current assets | 2,194,415 | 1,276,954 |
| Property and equipment, net | 1,631,110 | 1,673,919 |
| Long-term restricted investments | 3,973 | 3,973 |
| Deferred financing fees, net | 35,552 | 42,046 |
| Intangible assets, net | 2,546,061 | 2,573,638 |
| Goodwill | 1,815,673 | 1,834,856 |
| Related party long-term assets | 51,827 | 54,953 |
| Long-term deferred tax asset | 1,237,393 | — |
| Other long-term assets | 19,077 | 35,657 |
| Total assets | \$9,535,081 | \$7,495,996 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$491,704 | \$543,193 |
| Accrued interest | 62,971 | 70,405 |
| Current portion of deferred revenue | 1,440,983 | 1,333,965 |
| Current portion of deferred credit on executory contracts | 278,401 | 284,108 |
| Current maturities of long-term debt | 5,158 | 1,623 |
| Related party current liabilities | 15,803 | 14,302 |
| Total current liabilities | 2,295,020 | 2,247,596 |
| Deferred revenue | 170,525 | 198,135 |
| Deferred credit on executory contracts | 76,458 | 218,199 |
| Long-term debt | 2,543,249 | 2,683,563 |
| Long-term related party debt | 330,393 | 328,788 |
| Deferred tax liability | — | 1,011,084 |
| Related party long-term liabilities | 20,354 | 21,741 |
| Other long-term liabilities | 85,492 | 82,745 |
| Total liabilities | 5,521,491 | 6,791,851 |
| Commitments and contingencies (Note 15) | | |
| Stockholders' equity: | | |
| Preferred stock, par value \$0.001; 50,000,000 authorized at June 30, 2012 and December 31, 2011: | | |
| Series A convertible preferred stock; no shares issued and outstanding at June 30, 2012 and December 31, 2011 | — | — |
| | 13 | 13 |

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| | | |
|---|--------------|--------------|
| Convertible perpetual preferred stock, series B-1 (liquidation preference of \$0.001 per share at June 30, 2012 and December 31, 2011); 12,500,000 shares issued and outstanding at June 30, 2012 and December 31, 2011 | | |
| Common stock, par value \$0.001; 9,000,000,000 shares authorized at June 30, 2012 and December 31, 2011; 3,824,178,762 and 3,753,201,929 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively | 3,824 | 3,753 |
| Accumulated other comprehensive income, net of tax | 33 | 71 |
| Additional paid-in capital | 10,551,868 | 10,484,400 |
| Accumulated deficit | (6,542,148) | (9,784,092) |
| Total stockholders' equity | 4,013,590 | 704,145 |
| Total liabilities and stockholders' equity | \$9,535,081 | \$7,495,996 |

See accompanying notes to the unaudited consolidated financial statements.

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SIRIUS XM RADIO INC. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| | Series A Convertible Preferred Stock | Convertible Perpetual Preferred Stock, Series B-1 | Common Stock | | Amount | Accumulated Other Comprehensive Income | Additional Paid-in Capital | Accumulated Deficit | Total Stockholders' Equity | |
|---|---|---|-----------------|--------|---------------|---|----------------------------------|------------------------|----------------------------------|-----------|
| (in thousands, except share data) | Shares | Amount | Shares | Amount | | | | | | |
| Balance at December 31, 2011 | — | \$— | 12,500,000 | \$13 | 3,753,201,929 | \$3,753 | \$71 | \$10,484,400 | \$(9,784,092) | \$704,145 |