

predominantly driven by personnel costs, professional fees, infrastructure expenses to support our growing subscriber base, as well as merger related costs. We expect these costs to decrease due to the resolution of various legal proceedings and regulatory inquiries (see "Legal Proceedings" in Item 3. to Part I of this Form 10-K) during 2007 and anticipated reductions in costs associated with merger related activities.

- *Twelve Months Ended: December 31, 2007 vs. December 31, 2006.* These costs increased \$61.5 million or 69%, and have increased as a percentage of total revenue and on an annual amount per average subscriber basis. This dollar increase was driven primarily by \$29.5 million in costs related to the pending merger with Sirius, \$16.5 million in legal fees associated with various legal proceedings and regulatory inquiries and \$8.1 million in compensation expense as a result of the departure of our former Chief Executive Officer.
- *Twelve Months Ended: December 31, 2006 vs. December 31, 2005.* These costs increased \$44.8 million or 102%, and have increased as a percentage of revenue and on an annual amount per average subscriber basis. This dollar increase was driven primarily by an increase in General & administrative expense for share-based payment expense pursuant to the adoption of SFAS No. 123R effective January 1, 2006; as well as headcount, consulting fees and legal fees associated with various legal proceedings and regulatory inquiries.

Retention & Support — Retention & support expense primarily includes payroll and payroll related costs of our sales and marketing employees.

- *Twelve Months Ended: December 31, 2007 vs. December 31, 2006.* These costs increased \$12.7 million or 40%, and have remained relatively flat as a percentage of total revenue and on an annual amount per average subscriber basis. This dollar increase was driven primarily by an increase in personnel costs.
- *Twelve Months Ended: December 31, 2006 vs. December 31, 2005.* These costs increased \$9.6 million or 43%, but have remained relatively flat as a percentage of revenue and on an annual amount per average subscriber basis. This dollar increase was driven primarily by an increase in Retention & support expense for share-based payment expense pursuant to the adoption of SFAS No. 123R effective January 1, 2006.

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

- *Twelve Months Ended: December 31, 2007 vs. December 31, 2006.* These costs increased \$34.3 million or 15%, but have decreased as a percentage of total revenue and on an annual amount per average subscriber basis. This dollar increase was driven primarily by an increase in the number of OEM radios installed and activated under our automotive contracts, partially offset by decreases in hardware subsidies and promotions.
- *Twelve Months Ended: December 31, 2006 vs. December 31, 2005.* These costs decreased \$20.7 million or 8%, and have decreased as a percentage of total revenue and on an annual amount per average subscriber basis. This dollar decrease was driven primarily by a reduction in the number of retail radios sold and activated.

Subscriber Acquisition Costs — Subscriber acquisition costs include Subsidies & distribution and the negative gross profit on merchandise revenue. Subscriber acquisition costs are divided by gross additions to calculate what we refer to as "SAC."

- *Twelve Months Ended: December 31, 2007 vs. December 31, 2006.* During 2007 and 2006, we incurred subscriber acquisition costs of \$292.8 million and \$252.1 million, respectively. SAC for 2007 and 2006 was \$75 and \$65, respectively. The increase in SAC is primarily due to increased factory installations by our OEM partners, partially offset by a reduction in certain retail subsidies and distribution costs.
- *Twelve Months Ended: December 31, 2006 vs. December 31, 2005.* During 2006 and 2005, we incurred subscriber acquisition costs of \$252.1 million and \$268.1 million, respectively. SAC for 2006 and 2005 remained unchanged at \$65.

Advertising & Marketing — Advertising & marketing includes advertising, media and other discretionary marketing expenses. These activities drive our sales, establish our brand recognition, and facilitate our growth. We achieve success in these areas through coordinated marketing campaigns that include retail advertising through various media, cooperative