SIRIUS XM HOLDINGS INC.
Form 10-Q
July 28, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015
OR

o 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 HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware	38-3916511
(State or other jurisdiction	(I.R.S. Employer Identification No.)
of 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 þ No o

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 þ No o

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.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

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 July 24, 2015)
COMMON STOCK, $0.001 PAR VALUE	5,323,245,038 SHARES

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SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

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SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(in thousands, except per share data)	For the Three Months Ended June 30, 2015	For the Three Months Ended June 30, 2014	For the Six Months Ended June 30, 2015	For the Six Months Ended June 30, 2014
Revenue:				
Subscriber revenue	$940,077	$878,160	$1,851,547	$1,729,596
Advertising revenue	28,839	25,498	55,712	47,712
Equipment revenue	29,263	27,616	54,104	51,594
Other revenue	125,031	104,071	242,837	204,154
Total revenue	1,123,210	1,035,345	2,204,200	2,033,056
Operating expenses:				
Cost of services:				
Revenue share and royalties	331,517	200,221	544,495	395,632
Programming and content	69,370	69,570	140,516	144,440
Customer service and billing	91,932	90,092	184,029	181,161
Satellite and transmission	21,714	21,272	43,018	42,651
Cost of equipment	10,930	12,030	19,775	19,834
Subscriber acquisition costs	136,504	124,407	258,764	247,429
Sales and marketing	86,493	77,759	165,237	154,086
Engineering, design and development	16,088	15,630	31,048	31,541
General and administrative	72,137	72,582	151,960	148,825
Depreciation and amortization	67,096	67,204	132,123	135,471
Total operating expenses	903,781	750,767	1,670,965	1,501,070
Income from operations	219,429	284,578	533,235	531,986
Other income (expense):				
Interest expense, net of amounts capitalized	(75,380)	(67,521)	(145,288)	(121,613)
Interest and investment income (loss)	4,032	(1,066)	5,013	3,283
Loss on change in value of derivatives	—	(7,463)	—	(34,485)
Other income (loss)	189	(1,745)	(69)	(1,652)
Total other expense	(71,159)	(77,795)	(140,344)	(154,467)
Income before income taxes	148,270	206,783	392,891	377,519
Income tax expense	(45,421)	(86,822)	(184,350)	(163,570)
Net income	$102,849	$119,961	$208,541	$213,949
Foreign currency translation adjustment, net of tax	(9)	(40)	(9)	78
Total comprehensive income	$102,840	$119,921	$208,532	$214,027
Net income per common share:				
Basic	$0.02	$0.02	$0.04	$0.04
Diluted	$0.02	$0.02	$0.04	$0.04
Weighted average common shares outstanding:				
Basic	5,443,590	5,865,032	5,506,818	5,979,273
Diluted	5,507,601	6,210,078	5,570,445	6,054,771

See accompanying notes to the unaudited consolidated financial statements.

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SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)	June 30, 2015	December 31, 2014
ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	$294,053	$147,724
Receivables, net	240,325	220,579
Inventory, net	24,599	19,397
Prepaid expenses	122,996	116,336
Related party current assets	4,097	4,344
Deferred tax asset	903,376	1,038,603
Other current assets	40,920	2,763
Total current assets	1,630,366	1,549,746
Property and equipment, net	1,463,827	1,510,112
Long-term restricted investments	9,888	5,922
Deferred financing fees, net	15,377	12,021
Intangible assets, net	2,618,802	2,645,046
Goodwill	2,205,107	2,205,107
Related party long-term assets	—	3,000
Long-term deferred tax asset	395,224	437,736
Other long-term assets	69,480	6,819
Total assets	$8,408,071	$8,375,509
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$787,040	$587,755
Accrued interest	97,243	80,440
Current portion of deferred revenue	1,694,232	1,632,381
Current portion of deferred credit on executory contracts	—	1,394
Current maturities of long-term debt	8,074	7,482
Related party current liabilities	4,687	4,340
Total current liabilities	2,591,276	2,313,792
Deferred revenue	156,229	151,901
Long-term debt	5,108,336	4,493,863
Related party long-term liabilities	12,215	13,635
Other long-term liabilities	92,751	92,481
Total liabilities	7,960,807	7,065,672
Commitments and contingencies (Note 14)		
Stockholders’ equity:		
Common stock, par value $0.001; 9,000,000 shares authorized; 5,379,798 and 5,653,529 shares issued; 5,370,298 and 5,646,119 outstanding at June 30, 2015 and December 31, 2014, respectively	5,379	5,653

Accumulated other comprehensive loss, net of tax	(411)	(402)
Additional paid-in capital	5,710,484	6,771,554
Treasury stock, at cost; 9,500 and 7,410 shares of common stock at June 30, 2015 and December 31, 2014, respectively	(35,795)	(26,034)
Accumulated deficit	(5,232,393)	(5,440,934)
Total stockholders' equity	447,264	1,309,837
Total liabilities and stockholders' equity	$8,408,071	$8,375,509

See accompanying notes to the unaudited consolidated financial statements.

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SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS’ EQUITY

(UNAUDITED)

	Common Stock		Accumulated Other Comprehensive	Additional Paid-in	Treasury Stock		Accumulated	Total Stockholders’
(in thousands)	Shares	Amount	Loss	Capital	Shares	Amount	Deficit	Equity
Balance at December 31, 2014	5,653,529	$5,653	$ (402)	$6,771,554	7,410	$(26,034)	$(5,440,934)	$1,309,837
Comprehensive income, net of tax	—	—	(9)	—	—	—	208,541	208,532
Share-based payment expense	—	—	—	38,941	—	—	—	38,941
Exercise of options and vesting of restricted stock units	6,326	6	—	(6)	—	—	—	—
Minimum withholding taxes on net share settlement of stock-based compensation	—	—	—	(16,091)	—	—	—	(16,091)
Issuance of common stock upon exercise of warrants	6,010	6	—	(6)	—	—	—	—
Common stock repurchased	—	—	—	—	288,156	(1,093,955)	—	(1,093,955)
	(286,067)	(286)	—	(1,083,908)	(286,066)	1,084,194	—	—

Common stock retired								
Balance at June 30, 2015	5,379,798	$5,379	$ (411)	$5,710,484	9,500	$(35,795)	$(5,232,393)	$447,264

See accompanying notes to the unaudited consolidated financial statements.

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SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)	For the Six Months Ended June 30, 2015	2014
Cash flows from operating activities		
Net income	$208,541	$213,949
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	132,123	135,471
Non-cash interest expense, net of amortization of premium	3,868	10,779
Provision for doubtful accounts	21,919	21,287
Amortization of deferred income related to equity method investment	(1,388)	(1,388)
Gain on unconsolidated entity investments, net	—	(966)
Dividend received from unconsolidated entity investment	7,677	8,554
Loss on change in value of derivatives	—	34,485
Share-based payment expense	38,941	36,027
Deferred income taxes	177,739	157,965
Other non-cash purchase price adjustments	(1,394)	(1,890)
Changes in operating assets and liabilities:		
Receivables	(41,665)	(30,651)
Inventory	(5,202)	(7,692)
Related party, net	(4,117)	2,837
Prepaid expenses and other current assets	(44,821)	(1,057)
Other long-term assets	(62,663)	1,238
Accounts payable and accrued expenses	199,532	(40,098)
Accrued interest	16,803	12,943
Deferred revenue	66,179	44,981
Other long-term liabilities	269	(4,702)
Net cash provided by operating activities	712,341	592,072
Cash flows from investing activities:		
Additions to property and equipment	(61,229)	(58,417)
Purchases of restricted and other investments	(3,966)	—
Acquisition of business, net of cash acquired	—	1,144
Return of capital from investment in unconsolidated entity	—	24,178
Net cash used in investing activities	(65,195)	(33,095)
Cash flows from financing activities:		
Proceeds from exercise of stock options	—	260
Taxes paid in lieu of shares issued for stock-based compensation	(15,420)	(7,313)
Proceeds from long-term borrowings and revolving credit facility, net of costs	1,259,346	1,921,230
Repayment of long-term borrowings and revolving credit facility	(660,549)	(905,815)
Common stock repurchased and retired	(1,084,194)	(1,532,164)
Net cash used in financing activities	(500,817)	(523,802)
Net increase in cash and cash equivalents	146,329	35,175

Cash and cash equivalents at beginning of period	147,724	134,805
Cash and cash equivalents at end of period	$294,053	$169,980

See accompanying notes to the unaudited consolidated financial statements.

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SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)

(UNAUDITED)

(in thousands)	For the Six Months Ended June 30, 2015	2014
Supplemental Disclosure of Cash and Non-Cash Flow Information		
Cash paid during the period for:		
Interest, net of amounts capitalized	$118,265	$92,068
Non-cash investing and financing activities:		
Capital lease obligations incurred to acquire assets	$7,487	$719
Treasury stock not yet settled	$35,795	$20,739

See accompanying notes to the unaudited consolidated financial statements.

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SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(Dollars and shares in thousands, except per share amounts)

(1) Business & Basis of Presentation
Business

We broadcast music, sports, entertainment, comedy, talk, news, traffic and weather channels, as well as infotainment services, in the United States on a subscription fee basis through our two proprietary satellite radio systems. Subscribers can also receive music and other channels, plus features such as SiriusXM On Demand and MySXM, over our Internet radio service, including through applications for mobile devices. We are also a leader in providing connected vehicle services. Our connected vehicle services are designed to enhance the safety, security and driving experience for vehicle operators while providing marketing and operational benefits to automakers and their dealers.

We have agreements with every major automaker (“OEMs”) to offer satellite radios in their vehicles. We also acquire subscribers through marketing to owners and lessees of vehicles that include factory-installed satellite radios that are not currently subscribing to our services. Additionally, we distribute our satellite radios through retail locations nationwide and through our website. Satellite radio services are also offered to customers of certain daily rental car companies.

Our primary source of revenue is subscription fees, with most of our customers subscribing on an annual, semi-annual, quarterly or monthly plan. We offer discounts for prepaid, longer term subscription plans, as well as a multiple subscription discount. We also derive revenue from activation and other fees, the sale of advertising on select non-music channels, the direct sale of satellite radios and accessories, and other ancillary services, such as our weather, traffic and data services.

In certain cases, automakers and dealers include a subscription to our radio services in the sale or lease price of new or previously owned vehicles. The length of these trial subscriptions varies but is typically three to twelve months. We receive subscription payments for these trials from certain automakers. We also reimburse various automakers for certain costs associated with satellite radios installed in new vehicles.

Liberty Media Corporation ("Liberty Media") beneficially owns, directly and indirectly, over 50% of the outstanding shares of our common stock. As a result, we are a "controlled company" for the purposes of the NASDAQ corporate governance requirements. Liberty Media owns interests in a range of media, communications and entertainment businesses.

Basis of Presentation

This Quarterly Report on Form 10-Q presents information for Sirius XM Holdings Inc. (“Holdings”). Holdings has no operations independent of its wholly-owned subsidiary Sirius XM Radio Inc. ("Sirius XM").

The accompanying unaudited consolidated financial statements of Holdings and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), the instructions to Form 10-Q and Article 10 of Regulation S-X of the United States Securities and Exchange Commission ("SEC") for interim financial reporting. Certain information and footnote disclosures normally included in the financial statements presented in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations.

Certain numbers in our prior period consolidated financial statements have been reclassified to conform to our current period presentation. All significant intercompany transactions have been eliminated in consolidation. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of our unaudited consolidated financial statements as of June 30, 2015 and for the three and six months ended June 30, 2015 and 2014 have been made.

Interim results are not necessarily indicative of the results that may be expected for a full year. This Quarterly Report on Form 10-Q should be read together with our Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the SEC on February 5, 2015.

Public companies are required to disclose certain information about their reportable operating segments. Operating segments are defined as significant components of an enterprise for which separate financial information is available and is evaluated on a regular basis by the chief operating decision makers in deciding how to allocate resources to an individual segment and in assessing performance of the segment. We have determined that we have one reportable segment as our chief operating decision maker, our Chief Executive Officer, assesses performance and allocates resources based on the consolidated results of operations of our business.

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SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

(Dollars and shares in thousands, except per share amounts)

We have evaluated events subsequent to the balance sheet date and prior to the filing of this Quarterly Report on Form 10-Q for the three and six months ended June 30, 2015 and have determined that no events have occurred that would require adjustment to our unaudited consolidated financial statements. For a discussion of subsequent events that do not require adjustment to our unaudited consolidated financial statements refer to Note 16.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes. Estimates, by their nature, are based on judgment and available information. Actual results could differ materially from those estimates. Significant estimates inherent in the preparation of the accompanying unaudited consolidated financial statements include asset impairment, depreciable lives of our satellites, share-based payment expense, and income taxes.

(2) Summary of Significant Accounting Policies
Fair Value Measurements

For assets and liabilities required to be reported at fair value, GAAP provides a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are based on unadjusted quoted prices in active markets for identical instruments. Level 2 inputs are inputs, other than quoted market prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. As of June 30, 2015 and December 31, 2014 the carrying amounts of cash and cash equivalents, receivables, and accounts payable approximated fair value due to the short-term nature of these instruments.

Our assets and liabilities measured at fair value were as follows:

	June 30, 2015				December 31, 2014			
	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	Total Fair Value
Assets:								
Sirius XM Canada Holdings Inc.	$204,000	—	—	$204,000	$246,500	—	—	$246,500

("Sirius XM Canada") - investment [(a)]								
Liabilities:								
Debt [(b)]	—	$5,197,867	—	$5,197,867	—	$4,613,044	—	$4,613,044

(a) This amount approximates fair value. The carrying value of our investment in Sirius XM Canada was $0 and $2,654 as of June 30, 2015 and December 31, 2014, respectively.

(b) The fair value for non-publicly traded instruments is based upon estimates from a market maker and brokerage firm. Refer to Note 11 for information related to the carrying value of our debt as of June 30, 2015 and December 31, 2014.

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, Interest – Imputation of Interest (Subtopic 835-30). This ASU requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this ASU. The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those years. Early adoption is permitted for financial statements that have not been previously issued, and retrospective application is required for each balance sheet presented. We plan to adopt this ASU in the fourth quarter of 2015, and debt issuance costs will be presented as a reduction to our debt liability within our consolidated balance sheets.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In July 2015, the FASB amended the effective date of this ASU to fiscal years beginning after December 15, 2017,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

(Dollars and shares in thousands, except per share amounts)

and early adoption is permitted only for fiscal years beginning after December 15, 2016. Accordingly, we plan to adopt this ASU on January 1, 2018. Companies may use either a full retrospective or a modified retrospective approach to adopt this ASU.

(3) Earnings per Share

Basic net income per common share is calculated by dividing the income available to common stockholders by the weighted average common shares outstanding during each reporting period. Diluted net income per common share adjusts the weighted average number of common shares outstanding for the potential dilution that could occur if common stock equivalents (convertible debt, warrants, stock options and restricted stock units) were exercised or converted into common stock, calculated using the treasury stock method. We had no participating securities during the three and six months ended June 30, 2015 and 2014.

Common stock equivalents of 113,067 and 116,655 for the three months ended June 30, 2015 and 2014, respectively, and 114,443 and 386,276 for the six months ended June 30, 2015 and 2014, respectively, were excluded from the calculation of diluted net income per common share as the effect would have been anti-dilutive.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator:				
Net income available to common stockholders for basic net income per common share	$102,849	$119,961	$208,541	$213,949
Add back:				
Effect of interest on assumed conversions of convertible debt	—	5,363	—	—
Net income available to common stockholders for diluted net income per common share	$102,849	$125,324	$208,541	$213,949
Denominator:				
Weighted average common shares outstanding for basic net	5,443,590	5,865,032	5,506,818	5,979,273

income per common share				
Weighted average impact of assumed convertible debt [(a)]	—	272,856	—	—
Weighted average impact of dilutive equity instruments	64,011	72,190	63,627	75,498
Weighted average shares for diluted net income per common share	5,507,601	6,210,078	5,570,445	6,054,771
Net income per common share:				
Basic	$0.02	$0.02	$0.04	$0.04
Diluted	$0.02	$0.02	$0.04	$0.04

(a) During the six months ended June 30, 2014, 272,856 shares of common stock were reserved for conversion in connection with the 7% Exchangeable Senior Subordinated Notes due 2014 (the "Exchangeable Notes") and were considered to be anti-dilutive in our calculation of diluted net income per share. The Exchangeable Notes were fully converted into shares of our common stock as of December 1, 2014.

(4) Receivables, net

Receivables, net, includes customer accounts receivable, receivables from distributors and other receivables.

Customer accounts receivable, net, includes receivables from our subscribers and advertising customers and is stated at amounts due, net of an allowance for doubtful accounts. Our allowance for doubtful accounts is based upon our assessment of various factors. We consider historical experience, the age of the receivable balances, current economic conditions and other factors that may affect the counterparty's ability to pay. Bad debt expense is included in Customer service and billing expense in our unaudited consolidated statements of comprehensive income.

Receivables from distributors primarily include billed and unbilled amounts due from OEMs for services included in the sale or lease price of vehicles, as well as billed amounts due from wholesale distributors of our satellite radios. Other receivables primarily include amounts due from manufacturers of our radios, modules and chipsets where we are entitled to subsidies and royalties based on

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

(Dollars and shares in thousands, except per share amounts)

the number of units produced. We have not established an allowance for doubtful accounts for our receivables from distributors or other receivables as we have historically not experienced any significant collection issues with OEMs or other third parties.

Receivables, net, consists of the following:

	June 30, 2015	December 31, 2014
Gross customer accounts receivable	$ 102,334	$ 101,634
Allowance for doubtful accounts	(7,118)	(7,815)
Customer accounts receivable, net	$ 95,216	$ 93,819
Receivables from distributors	121,825	105,731
Other receivables	23,284	21,029
Total receivables, net	$ 240,325	$ 220,579

(5) Inventory, net

Inventory consists of finished goods, refurbished goods, chipsets and other raw material components used in manufacturing radios. Inventory is stated at the lower of cost or market. We record an estimated allowance for inventory that is considered slow moving or obsolete or whose carrying value is in excess of net realizable value. The provision related to products purchased for resale in our direct to consumer distribution channel and components held for resale by us is reported as a component of Cost of equipment in our unaudited consolidated statements of comprehensive income. The provision related to inventory consumed in our OEM and retail distribution channel is reported as a component of Subscriber acquisition costs in our unaudited consolidated statements of comprehensive income.

Inventory, net, consists of the following:

	June 30, 2015	December 31, 2014
Raw materials	$ 11,449	$ 12,150
Finished goods	23,811	17,971
Allowance for obsolescence	(10,661)	(10,724)

Total inventory, net	$24,599	$19,397

(6) Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired in business combinations. Our annual impairment assessment of our single reporting unit is performed as of the fourth quarter of each year, and an assessment is performed at other times if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset below its carrying value. If the carrying value of goodwill exceeds its fair value, an impairment loss is recognized.

As of June 30, 2015, there were no indicators of impairment and no impairment loss was recorded for goodwill during the three and six months ended June 30, 2015 and 2014. As of June 30, 2015, the cumulative balance of goodwill impairments recorded since the July 2008 merger (the "Merger") between our wholly owned subsidiary, Vernon Merger Corporation, and XM Satellite Radio Holdings Inc. ("XM"), was $4,766,190, which was recognized during the year ended December 31, 2008.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

(Dollars and shares in thousands, except per share amounts)

(7) Intangible Assets

Our intangible assets include the following:

		June 30, 2015			December 31, 2014		
	Weighted Average Useful Lives	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Indefinite life intangible assets:							
FCC licenses	Indefinite	$2,083,654	$—	$2,083,654	$2,083,654	$—	$2,083,654
Trademark	Indefinite	250,000	—	250,000	250,000	—	250,000
Definite life intangible assets:							
Subscriber relationships	9 years	380,000	(321,683)	58,317	380,000	(305,755)	74,245
OEM relationships	15 years	220,000	(24,444)	195,556	220,000	(17,111)	202,889
Licensing agreements	12 years	45,289	(25,134)	20,155	45,289	(23,290)	21,999
Proprietary software	8 years	27,215	(16,721)	10,494	27,215	(15,691)	11,524
Developed technology	10 years	2,000	(1,383)	617	2,000	(1,283)	717
Leasehold interests	7.4 years	132	(123)	9	132	(114)	18
Total intangible assets		$3,008,290	$(389,488)	$2,618,802	$3,008,290	$(363,244)	$2,645,046

Indefinite Life Intangible Assets

We have identified our FCC licenses and the XM trademark as indefinite life intangible assets after considering the expected use of the assets, the regulatory and economic environment within which they are used and the effects of obsolescence on their use.

We hold FCC licenses to operate our satellite digital audio radio service and provide ancillary services. The following table outlines the years in which each of our satellite licenses expires:

FCC satellite licenses	Expiration year
SIRIUS FM-1	2017
SIRIUS FM-2	2017
SIRIUS FM-3	2017
SIRIUS FM-5	2017
SIRIUS FM-6	2022
XM-1 (1)	
XM-3	2021
XM-4	2022
XM-5	2018

(1) The FCC license for this satellite has expired. The FCC has granted us special temporary authority to operate this satellite and prepare it for deorbiting maneuvers.

Prior to expiration, we are required to apply for a renewal of our FCC licenses. The renewal and extension of our licenses, including temporary licenses, is reasonably certain at minimal cost, which is expensed as incurred. Each of the FCC licenses authorizes us to use the broadcast spectrum, which is a renewable, reusable resource that does not deplete or exhaust over time.

Our annual impairment assessment of our indefinite intangible assets is performed as of the fourth quarter of each year. An assessment is performed at other times if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset below its carrying value. If the carrying value of the intangible assets exceeds its fair value, an impairment loss is recognized. As of June 30, 2015, there were no indicators of impairment, and no impairment loss was recorded for intangible assets with indefinite lives during the three and six months ended June 30, 2015 and 2014.

Definite Life Intangible Assets

Amortization expense for all definite life intangible assets was $13,021 and $13,860 for the three months ended June 30, 2015 and 2014, respectively, and $26,244 and $27,944 for the six months ended June 30, 2015 and 2014, respectively. Expected

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amortization expense for the remaining period in 2015, each of the fiscal years 2016 through 2019 and for periods thereafter is as follows:

Years ending December 31,	Amount
2015 (remaining)	$25,456
2016	48,545
2017	34,882
2018	19,463
2019	19,026
Thereafter	137,776
Total definite life intangible assets, net	$285,148

(8) Property and Equipment

Property and equipment, net, consists of the following:

	June 30, 2015	December 31, 2014
Satellite system	$2,397,611	$2,397,611
Terrestrial repeater network	109,412	108,341
Leasehold improvements	48,800	48,677
Broadcast studio equipment	67,988	61,306
Capitalized software and hardware	419,468	340,738
Satellite telemetry, tracking and control facilities	74,941	71,268
Furniture, fixtures, equipment and other	79,387	78,237
Land	38,411	38,411
Building	59,513	59,373
Construction in progress	115,502	155,716
Total property and equipment	3,411,033	3,359,678
Accumulated depreciation and amortization	(1,947,206)	(1,849,566)
Property and equipment, net	$1,463,827	$1,510,112

Construction in progress consists of the following:

	June 30, 2015	December 31, 2014
Satellite system	$ 12,912	$ 12,912
Terrestrial repeater network	47,468	48,406
Capitalized software	34,311	77,755
Other	20,811	16,643
Construction in progress	$ 115,502	$ 155,716

Depreciation expense on property and equipment was $54,075 and $53,344 for the three months ended June 30, 2015 and 2014, respectively, and $105,879 and $107,527 for the six months ended June 30, 2015 and 2014, respectively. We retired property and equipment of $8,239 and $13,518 during the six months ended June 30, 2015 and 2014, respectively.

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Satellites

We currently own a fleet of nine operating satellites. The chart below provides certain information on these satellites:

Satellite Description	Year Delivered	Estimated End of Depreciable Life
FM-1*	2000	2013
FM-2*	2000	2013
FM-3	2000	2015
FM-5	2009	2024
FM-6	2013	2028
XM-1*	2001	2013
XM-3	2005	2020
XM-4	2006	2021
XM-5	2010	2025

* Satellite is fully depreciated and is still in operation.

(9) Related Party Transactions

In the normal course of business, we enter into transactions with related parties. Our related parties include:

Liberty Media

Liberty Media has beneficially owned over 50% of our outstanding common stock since January 2013 and has two executives and one of its directors on our board of directors. Gregory B. Maffei, the President and Chief Executive Officer of Liberty Media, is the Chairman of our board of directors.

On October 9, 2013, we entered into an agreement with Liberty Media to repurchase $500,000 of our common stock from Liberty Media. On April 25, 2014, we completed the final purchase installment under this share repurchase agreement and repurchased $340,000 of our shares of common stock from Liberty Media at a price of $3.66 per share. As there were certain terms in the forward purchase contract that could have caused the obligation to not be fulfilled, the instrument was recorded as a liability and was marked to fair value with $7,463 and $34,485 recorded to Loss on change in value of derivatives within our unaudited consolidated statements of comprehensive income during the three and six months ended June 30, 2014, respectively.

Sirius XM Canada

We hold an equity method investment in Sirius XM Canada. We own approximately 47,300 of Sirius XM Canada's Class A shares on a converted basis, representing an approximate 37% equity interest and an approximate 25% voting interest. We primarily provide programming and content services to Sirius XM Canada.

We had the following related party balances associated with Sirius XM Canada:

	June 30, 2015	December 31, 2014
Related party current assets	$4,097	$ 4,344
Related party long-term assets	$—	$ 3,000
Related party current liabilities	$4,687	$ 4,340
Related party long-term liabilities	$12,215	$ 13,635

Our related party current asset balances primarily consist of programming and chipset costs for which we are reimbursed. Our related party long-term asset balances primarily include our investment balance in Sirius XM Canada. Our related party liabilities as of June 30, 2015 and December 31, 2014 included $2,776 for the current portion of deferred revenue and $12,027 and $13,415, respectively, for the long-term portion of deferred revenue recorded as of the Merger date related to agreements with XM Canada, now Sirius XM Canada. These costs are being amortized on a straight line basis through 2020.

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We recorded the following revenue and investment income associated with Sirius XM Canada in our unaudited consolidated statements of comprehensive income:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue [(a)]	$12,979	$12,559	$26,496	$24,340
Investment income				
Share of net (losses) earnings [(b)]	$—	$(1,018)	$—	$3,308
Dividends [(c)]	$4,013	$—	$4,989	$—

(a) Under our agreements with Sirius XM Canada, we receive a percentage-based royalty for certain types of subscription revenue earned by Sirius XM Canada for the distribution of Sirius and XM channels, royalties for activation fees and reimbursements for other charges. We record revenue from Sirius XM Canada as Other revenue in our unaudited consolidated statements of comprehensive income.

(b) We recognize our proportionate share of earnings or losses of Sirius XM Canada as they occur as a component of Interest and investment income in our unaudited consolidated statements of comprehensive income on a one month lag. This amount includes amortization related to the equity method intangible assets of $0 for the three months ended June 30, 2015 and 2014, and $0 and $363 for the six months ended June 30, 2015 and 2014, respectively. As of June 30, 2015 we had $4,209 in losses related to our investment in Sirius XM Canada that we had not recorded in our unaudited consolidated financial statements since our investment balance is zero. Future equity income will be offset by these losses prior to recording equity income in our results.

(c) Sirius XM Canada declared dividends to us of $4,013 and $30,010 during the three months ended June 30, 2015 and 2014, respectively, and $7,990 and $34,455 during the six months ended June 30, 2015 and 2014, respectively. These dividends were first recorded as a reduction to our investment balance in Sirius XM Canada to the extent a balance existed and then as Interest and investment income for the remaining portion.

(10) Investments

Long Term Restricted Investments

Restricted investments relate to reimbursement obligations under letters of credit issued for the benefit of lessors of certain of our office space. As of June 30, 2015 and December 31, 2014, our Long-term restricted investments were $9,888 and $5,922, respectively. During the six months ended June 30, 2015, we increased our letters of credit by $3,966 associated with leased office space.

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(11) Debt

Our debt as of June 30, 2015 and December 31, 2014 consisted of the following:

Issuer / Borrower	Issued	Debt	Maturity Date	Interest Payable	Principal Amount	Carrying value[a] at June 30, 2015	Carrying value[a] at December 31, 2014
Sirius XM (b)	May 2013	4.25% Senior Notes (the "4.25% Notes")	May 15, 2020	semi-annually on May 15 and November 15	$500,000	$495,901	$495,529
Sirius XM (b)	September 2013	5.875% Senior Notes (the "5.875% Notes")	October 1, 2020	semi-annually on April 1 and October 1	650,000	644,248	643,790
Sirius XM (b)	August 2013	5.75% Senior Notes (the "5.75% Notes")	August 1, 2021	semi-annually on February 1 and August 1	600,000	595,401	595,091
Sirius XM (b)	May 2013	4.625% Senior Notes (the "4.625% Notes")	May 15, 2023	semi-annually on May 15 and November 15	500,000	495,356	495,116
Sirius XM (b)	May 2014	6.00% Senior Notes (the "6.00% Notes")	July 15, 2024	semi-annually on January 15 and July 15	1,500,000	1,484,547	1,483,918
Sirius XM (b)(c)	March 2015	5.375% Senior Notes (the "5.375% Notes")	April 15, 2025	semi-annually on April 15 and October 15	1,000,000	989,018	—
Sirius XM					400,000	395,407	395,147

(b)(d)	August 2012	5.25% Senior Secured Notes (the "5.25% Notes")	August 15, 2022	semi-annually on February 15 and August 15			
Sirius XM (e)	December 2012	Senior Secured Revolving Credit Facility (the "Credit Facility")	June 16, 2020	variable fee paid quarterly	1,750,000	—	380,000
Sirius XM	Various	Capital leases	Various	n/a	n/a	16,532	12,754
Total Debt						5,116,410	4,501,345
Less: total current maturities						8,074	7,482
Total long-term debt						$5,108,336	$4,493,863

(a) The carrying value of the obligations is net of any remaining unamortized original issue discount.

(b) Substantially all of our domestic wholly-owned subsidiaries have guaranteed these notes.

(c) In March 2015, Sirius XM issued $1,000,000 aggregate principal amount of 5.375% Senior Notes due 2025, with an original issuance discount of $11,250.

(d) The liens securing the 5.25% Notes are equal and ratable to the liens granted to secure the Credit Facility.

(e) In December 2012, Sirius XM entered into a five-year Credit Facility with a syndicate of financial institutions for $1,250,000. In June 2015, Sirius XM entered into an amendment to increase the total borrowing capacity under the Credit Facility to $1,750,000 and to extend the maturity to June 2020. Sirius XM's obligations under the Credit Facility are guaranteed by certain of its material domestic subsidiaries and are secured by a lien on substantially all of Sirius XM's assets and the assets of its material domestic subsidiaries. Interest on borrowings is payable on a monthly basis and accrues at a rate based on LIBOR plus an applicable rate. Sirius XM is also required to pay a variable fee on the average daily unused portion of the Credit Facility which is payable on a quarterly basis. The variable rate for the unused portion of the Credit Facility was 0.30% per annum as of June 30, 2015. As of June 30, 2015, $1,750,000 was available for future borrowing under the Credit Facility. Sirius XM's outstanding borrowings under the Credit Facility are classified as Long-term debt within our unaudited consolidated balance sheets due to the long-term maturity of this debt.

Covenants and Restrictions

Under the Credit Facility, Sirius XM, our wholly-owned subsidiary, must comply with a debt maintenance covenant that it not exceed a total leverage ratio, calculated as consolidated total debt to consolidated operating cash flow, of 5.0 to 1.0. The Credit Facility generally requires compliance with certain covenants that restrict Sirius XM's ability to, among other things, (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) merge or consolidate with another person, (vi) sell, assign, lease or otherwise dispose of all or substantially all of Sirius XM's assets, and (vii) make voluntary prepayments of certain debt, in each case subject to exceptions.

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The indentures governing Sirius XM's notes restrict Sirius XM's non-guarantor subsidiaries' ability to create, assume, incur or guarantee additional indebtedness without such non-guarantor subsidiary guaranteeing each such series of notes on a pari passu basis. The indentures governing the notes also contain covenants that, among other things, limit Sirius XM's ability and the ability of its subsidiaries to create certain liens; enter into sale/leaseback transactions; and merge or consolidate.

Under Sirius XM's debt agreements, the following generally constitute an event of default: (i) a default in the payment of interest; (ii) a default in the payment of principal; (iii) failure to comply with covenants; (iv) failure to pay other indebtedness after final maturity or acceleration of other indebtedness exceeding a specified amount; (v) certain events of bankruptcy; (vi) a judgment for payment of money exceeding a specified aggregate amount; and (vii) voidance of subsidiary guarantees, subject to grace periods where applicable. If an event of default occurs and is continuing, our debt could become immediately due and payable.

At June 30, 2015 and December 31, 2014, we were in compliance with our debt covenants.

(12) Stockholders' Equity

Common Stock, par value $0.001 per share

We are authorized to issue up to 9,000,000 shares of common stock. There were 5,379,798 and 5,653,529 shares of common stock issued and 5,370,298 and 5,646,119 shares outstanding on June 30, 2015 and December 31, 2014, respectively.

As of June 30, 2015, 261,694 shares of common stock were reserved for issuance in connection with incentive stock based awards and common stock to be granted to members of our board of directors, employees and third parties.

Stock Repurchase Program

As of June 30, 2015, our board of directors has approved for repurchase an aggregate of $6,000,000 our common stock. Our board of directors did not establish an end date for this stock repurchase program. Shares of common stock may be purchased from time to time on the open market, pursuant to pre-set trading plans meeting the requirements of Rule 10b5-1 under the Exchange Act, in privately negotiated transactions, including transactions with Liberty Media and its affiliates, or otherwise. As of June 30, 2015, our cumulative repurchases since December 2012 under our stock repurchase program totaled 1,547,431 shares for $5,379,148, and $620,852 remained available under our stock repurchase program.

The following table summarizes our share repurchase activity for the six months ended:

	June 30, 2015		June 30, 2014	
Share Repurchase Type	Shares	Amount	Shares	Amount
Open Market and Privately Negotiated Repurchases [(a)]	288,156	$1,093,955	188,420	$612,903
Liberty Media [(b)]	—	—	92,889	340,000
May 2014 ASR Agreement [(c)]	—	—	112,500	600,000
Total Repurchases	288,156	$1,093,955	393,809	$1,552,903

(a) As of June 30, 2015, $35,795 of common stock repurchases had not settled, nor been retired, and were recorded as Treasury stock within our unaudited consolidated balance sheets and unaudited consolidated statements of stockholders' equity.

(b) On April 25, 2014, we completed the final purchase installment under an agreement with Liberty Media.

(c) In May 2014, we entered into an accelerated share repurchase agreement (the "May 2014 ASR Agreement") under which we prepaid $600,000 to a third-party financial institution to repurchase our common stock. Under the May 2014 ASR Agreement, we received an initial delivery of 112,500 shares of our common stock during the six months ended June 30, 2014 which were retired upon settlement. Subsequent to June 30, 2014, we received 39,346 shares of our common stock and $93,596 for the unused portion of the original prepayment under the May 2014 ASR Agreement.

Preferred Stock, par value $0.001 per share

We are authorized to issue up to 50,000 shares of undesignated preferred stock with a liquidation preference of $0.001 per share. There were no shares of preferred stock issued or outstanding as of June 30, 2015 and December 31, 2014.

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Warrants

We have issued warrants to purchase shares of our common stock in connection with distribution and programming agreements. As of December 31, 2014, 16,667 warrants to acquire an equal number of shares of common stock with an exercise price of $2.50 per share were outstanding and fully vested. During the three months ended June 30, 2015, the remaining 16,667 warrants were exercised on a net settlement basis, resulting in the issuance of 6,010 shares of our common stock. Except for an insignificant amount of warrant expense associated with the extension of the warrants during the three months ended March 31, 2015, we did not incur warrant related expenses during the three and six months ended June 30, 2015 and 2014. Warrants were included in our calculation of diluted net income per common share as the effect was dilutive for the three and six months ended June 30, 2014. As of June 30, 2015, there were no warrants outstanding.

(13) Benefit Plans

We recognized share-based payment expense of $19,524 and $17,787 for the three months ended June 30, 2015 and 2014, respectively, and $38,941 and $36,027 for the six months ended June 30, 2015 and 2014, respectively.

2015 Long-Term Stock Incentive Plan

In May 2015, our stockholders approved the Sirius XM Holdings Inc. 2015 Long-Term Stock Incentive Plan (the "2015 Plan"). Employees, consultants and members of our board of directors are eligible to receive awards under the 2015 Plan. The 2015 Plan provides for the grant of stock options, restricted stock awards, restricted stock units and other stock-based awards that the compensation committee of our board of directors may deem appropriate. Vesting and other terms of stock-based awards are set forth in the agreements with the individuals receiving the awards. Stock-based awards granted under the 2015 Plan are generally subject to a vesting requirement. Stock options generally expire ten years from the date of grant. Each restricted stock unit entitles the holder to receive one share of common stock upon vesting. As of June 30, 2015, 393,554 shares of common stock were available for future grants under the 2015 Plan.

Other Plans

We maintain four other share-based benefit plans — the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan, the XM 2007 Stock Incentive Plan, the Amended and Restated Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan and the XM 1998 Shares Award Plan. No further awards may be made under these plans.

The following table summarizes the weighted-average assumptions used to compute the fair value of options granted to employees and members of our board of directors:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Risk-free interest rate	1.3%	1.6%	1.3%	1.3%
Expected life of options — years	3.83	4.78	3.83	4.11
Expected stock price volatility	26%	40%	26%	36%
Expected dividend yield	0%	0%	0%	0%

There were no options granted to third parties during the three and six months ended June 30, 2015 and 2014. We do not intend to pay regular dividends on our common stock. Accordingly, the dividend yield percentage used in the Black-Scholes-Merton option value was zero for all periods.

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The following table summarizes stock option activity under our share-based plans for the six months ended June 30, 2015:

	Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2014	267,854	$ 2.72		
Granted	6,242	$ 3.88		
Exercised	(18,672)	$ 1.66		
Forfeited, cancelled or expired	(5,474)	$ 5.09		
Outstanding as of June 30, 2015	249,950	$ 2.77	6.83	$ 256,819
Exercisable as of June 30, 2015	101,690	$ 2.27	4.88	$ 164,658

The weighted average grant date fair value per share of options granted during the six months ended June 30, 2015 and 2014 was $0.84 and $1.09, respectively. The total intrinsic value of stock options exercised during the six months ended June 30, 2015 and 2014 was $39,795 and $20,435, respectively. During the six months ended June 30, 2015, the number of shares which were issued as a result of stock option exercises was 6,249.

We recognized share-based payment expense associated with stock options of $16,553 and $16,193 for the three months ended June 30, 2015 and 2014, respectively, and $33,244 and $32,808 for the six months ended June 30, 2015 and 2014, respectively.

The following table summarizes the nonvested restricted stock unit activity and stock awards granted under our share-based plans for the six months ended June 30, 2015:

	Shares	Grant Date

		Fair Value Per Share
Nonvested as of December 31, 2014	11,575	$ 3.47
Granted	451	$ 3.88
Vested	(77)	$ 3.90
Forfeited	(205)	$ 3.46
Nonvested as of June 30, 2015	11,744	$ 3.48

The weighted average grant date fair value per share of restricted stock units and stock awards granted during the six months ended June 30, 2015 and 2014 was $3.88 and $3.70, respectively. The total intrinsic value of the 77 stock awards vesting during the six months ended June 30, 2015 was $300.

We recognized share-based payment expense associated with restricted stock units and stock awards of $2,971 and $1,594 during the three months ended June 30, 2015 and 2014, respectively, and $5,697 and $3,219 during the six months ended June 30, 2015 and 2014, respectively.

Total unrecognized compensation costs related to unvested share-based payment awards for stock options and restricted stock units granted to employees and members of our board of directors at June 30, 2015 and December 31, 2014, net of estimated forfeitures, were $129,822 and $162,985, respectively. The total unrecognized compensation costs at June 30, 2015 are expected to be recognized over a weighted-average period of 2.5 years.

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401(k) Savings Plan

Sirius XM sponsors the Sirius XM Radio Inc. 401(k) Savings Plan (the "Sirius XM Plan") for eligible employees. The Sirius XM Plan allows eligible employees to voluntarily contribute from 1% to 50% of their pre-tax eligible earnings, subject to certain defined limits. We match 50% of an employee's voluntary contributions per pay period on the first 6% of an employee's pre-tax salary up to a maximum of 3% of eligible compensation. Employer matching contributions under the Sirius XM Plan vest at a rate of 33.33% for each year of employment and are fully vested after three years of employment for all current and future contributions. Beginning in January 2014, our cash employer matching contributions were no longer used to purchase shares of our common stock on the open market, unless the employee elects our common stock as their investment option for this contribution. We contributed $1,513 and $1,254 during three months ended June 30, 2015 and 2014, respectively, and $4,540 and $3,133 during the six months ended June 30, 2015 and 2014, respectively, to the Sirius XM Plan in fulfillment of our matching obligation.

Sirius XM Holdings Inc. Deferred Compensation Plan

In June 2015, we adopted the Sirius XM Holdings Inc. Deferred Compensation Plan (the "DCP"), effective July 1, 2015. The DCP allows members of our Board of Directors and certain eligible employees to defer all or a portion of their base salary, cash incentive compensation and/or Board of Directors compensation, as applicable, each plan year. Pursuant to the terms of the DCP, we may elect to make additional contributions beyond amounts deferred by participants, but we are under no obligation to do so. The Company intends to establish a grantor (or "rabbi") trust to facilitate the payment of obligations under the DCP. As of June 30, 2015, there were no balances or amounts associated with the DCP that were recorded in our unaudited consolidated financial statements (as the DCP was not yet effective).

(14) Commitments and Contingencies

The following table summarizes our expected contractual cash commitments as of June 30, 2015:

	2015	2016	2017	2018	2019	Thereafter	Total
Debt obligations	$4,213	$6,062	$2,783	$1,994	$1,480	$5,150,000	$5,166,532
Cash interest payments	149,262	287,434	287,295	287,222	287,159	1,011,167	2,309,539
Satellite and transmission	11,323	7,927	3,655	4,106	4,120	12,588	43,719
Programming and content	117,321	121,620	90,915	71,275	54,683	60,000	515,814
Marketing and distribution	17,913	14,160	9,222	8,431	6,253	1,530	57,509

Satellite incentive payments	5,858	12,367	13,296	14,302	10,652	43,527	100,002
Operating lease obligations	21,727	46,712	40,358	38,858	34,326	210,340	392,321
Other	269,846	18,454	6,084	1,823	456	356	297,019
Total (1)	$597,463	$514,736	$453,608	$428,011	$399,129	$6,489,508	$8,882,455

(1) The table does not include our reserve for uncertain tax positions, which at June 30, 2015 totaled $1,432, as the specific timing of any cash payments cannot be projected with reasonable certainty.

Debt obligations. Debt obligations include principal payments on outstanding debt and capital lease obligations.

Cash interest payments. Cash interest payments include interest due on outstanding debt and capital lease payments through maturity.

Satellite and transmission. We have entered into agreements with third parties to operate and maintain the off-site satellite telemetry, tracking and control facilities and certain components of our terrestrial repeater networks.

Programming and content. We have entered into various programming agreements. Under the terms of these agreements, our obligations include fixed payments, advertising commitments and revenue sharing arrangements. Our future revenue sharing costs are dependent upon many factors and are difficult to estimate; therefore, they are not included in our minimum contractual cash commitments.

Marketing and distribution. We have entered into various marketing, sponsorship and distribution agreements to promote our brand and are obligated to make payments to sponsors, retailers, automakers and radio manufacturers under these agreements. Certain programming and content agreements also require us to purchase advertising on properties owned or controlled by the licensors. We

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also reimburse automakers for certain engineering and development costs associated with the incorporation of satellite radios into new vehicles they manufacture. In addition, in the event certain new products are not shipped by a distributor to its customers within 90 days of the distributor's receipt of goods, we have agreed to purchase and take title to the product.

Satellite incentive payments. Boeing Satellite Systems International, Inc., the manufacturer of certain of our in-orbit satellites, may be entitled to future in-orbit performance payments with respect to XM-3 and XM-4 meeting their fifteen-year design life. Boeing may also be entitled to additional incentive payments up to $10,000 if our XM-4 satellite continues to operate above baseline specifications during the five years beyond the satellite's fifteen-year design life.

Space Systems/Loral, the manufacturer of certain of our in-orbit satellites, may be entitled to future in-orbit performance payments with respect to XM-5, FM-5 and FM-6 meeting their fifteen-year design life.

Operating lease obligations. We have entered into both cancelable and non-cancelable operating leases for office space, equipment and terrestrial repeaters. These leases provide for minimum lease payments, additional operating expense charges, leasehold improvements and rent escalations that have initial terms ranging from one to fifteen years, and certain leases have options to renew. The effect of the rent holidays and rent concessions are recognized on a straight-line basis over the lease term, including reasonably assured renewal periods.

Other. We have entered into various agreements with third parties for general operating purposes. In addition to the minimum contractual cash commitments described above, we have entered into agreements with other variable cost arrangements. These future costs are dependent upon many factors and are difficult to anticipate; however, these costs may be substantial. We may enter into additional programming, distribution, marketing and other agreements that contain similar variable cost provisions. The cost of our stock acquired from a third-party financial institution but not paid for as of June 30, 2015 is also included in this category. The amount in this category for 2015 includes $210,000 that will be paid on or before July 31, 2015 related to the settlement of Capitol Records LLC et al. v. Sirius XM Radio Inc. for the use of pre-1972 sound recordings.

We do not have any other significant off-balance sheet financing arrangements that are reasonably likely to have a material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Legal Proceedings

In the ordinary course of business, we are a defendant or party to various claims and lawsuits, including those discussed below. These claims are at various stages of arbitration or adjudication.

We record a liability when we believe that it is both probable that a liability will be incurred, and the amount of loss can be reasonably estimated. We evaluate developments in legal matters that could affect the amount of liability that has been previously accrued and make adjustments as appropriate. Significant judgment is required to determine both probability and the estimated amount of a loss or potential loss. We may be unable to reasonably estimate the reasonably possible loss or range of loss for a particular legal contingency for various reasons, including, among others, because: (i) the damages sought are indeterminate; (ii) the proceedings are in the relative early stages; (iii) there is uncertainty as to the outcome of pending proceedings (including motions and appeals); (iv) there is uncertainty as to the likelihood of settlement and the outcome of any negotiations with respect thereto; (v) there remain significant factual issues to be determined or resolved; (vi) the relevant law is unsettled; or (vii) the proceedings involve novel or untested legal theories. In such instances, there may be considerable uncertainty regarding the ultimate resolution of such matters, including a possible eventual loss, if any.

Pre-1972 Sound Recording Matters. In August and September 2013, we were named as a defendant in three putative class action suits and one additional suit challenging our use and public performance via satellite radio and the Internet of sound recordings fixed prior to February 15, 1972 (“pre-1972 recordings”) under California, New York and/or Florida law. The plaintiffs in the putative class action suits purport to seek in excess of $100,000 in compensatory damages along with unspecified punitive damages and injunctive relief. The plaintiffs in the individual lawsuit seek unspecified compensatory damages, punitive damages, and injunctive relief.

These cases are titled Flo & Eddie Inc. v. Sirius XM Radio Inc., No. 2:13-cv-5693-PSG-RZ (C.D. Cal.), Flo & Eddie, Inc. v. Sirius XM Radio Inc., No. 1:13-cv-23182-DPG (S.D. Fla.), and Flo & Eddie, Inc. v. Sirius XM Radio Inc., No. 1:13-cv-5784-CM (S.D.N.Y.) (collectively, the “Flo & Eddie cases”), and Capitol Records LLC et al. v. Sirius XM Radio Inc., No. BC-520981 (Super.

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SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

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Ct. L.A. County) (the “Capitol Records case”). Additional information concerning each of these actions is publicly available in court filings under their docket numbers.

Each of these cases is at varying stages:

- Flo & Eddie California Case. In September 2014, the United States District Court for the Central District of California ruled that California Civil Code Section 980(a), which provides that the owner of a pre-1972 recording has “exclusive ownership” therein, includes the exclusive right to control public performances of that recording. The Court granted Flo & Eddie’s motion for summary judgment on liability, holding that we were liable for unfair competition, misappropriation, and conversion under California law for publicly performing Flo & Eddie’s pre-1972 recordings without authorization. We intend to appeal that decision. In May 2015, the Court granted Flo & Eddie’s motion for class certification and certified a class of owners of pre-1972 recordings that have been performed and used by us in California without authorization. In June 2015, we filed a motion with the United States Court of Appeals for the Ninth Circuit seeking interlocutory review of that class certification decision.
- Flo & Eddie New York Case. In November 2014, the United States District Court for the Southern District of New York ruled that New York common law grants a public performance right to owners of pre-1972 recordings. The Court denied our motion for summary judgment on liability. In April 2015, the United States Court of Appeals for the Second Circuit granted our petition for interlocutory review of that decision.
- Flo & Eddie Florida Case. In June 2015, the United States District Court for the Southern District of Florida ruled that Florida common law does not grant a public performance right to owners of pre-1972 recordings. In July 2015, Flo & Eddie filed a notice of appeal of that decision.
- Capitol Records Case. In October 2014, the Superior Court of the State of California for the County of Los Angeles adopted the Flo & Eddie California court’s interpretation of California law and granted plaintiffs’ motion for a jury instruction providing, in relevant part: “The owner of a sound recording ‘fixed’ (i.e., recorded) prior to February 15, 1972, possesses a property interest and exclusive ownership rights in that sound recording … [that] include[s] the exclusive right to publicly perform, or authorize others to publicly perform, the sound recording by means of digital transmission.” The Court did not make any finding of liability. In June 2015, we entered into a settlement agreement with the plaintiffs, Capitol Records LLC, Sony Music Entertainment, UMG Recordings, Inc., Warner Music Group Corp. and ABKCO Music & Records, Inc., to settle the case in its entirety. Pursuant to the settlement agreement, we agreed to pay the plaintiffs, in the aggregate, $210,000 on or before July 31, 2015 and the plaintiffs will dismiss the case with prejudice. The settlement resolves all past claims as to our use of pre-1972 recordings owned or controlled by the plaintiffs and enables us, without any additional payment, to reproduce, perform and broadcast such recordings in the United States through December 31, 2017. As part of the settlement, we have the right, to be exercised before December 31, 2017, to enter into a license with each plaintiff to reproduce, perform and broadcast pre-1972 recordings owned or controlled by the plaintiffs from January 1, 2018 through December 31, 2022. The royalty rate for each such license will be determined by negotiation or, if the parties are unable to agree, binding arbitration. The plaintiffs have represented and warranted to us that in the United States they own, control or otherwise have the right to settle with respect to approximately 80% of the pre-1972 recordings we have historically played.

Pursuant to this settlement, we recorded $210,000 to Accounts payable and accrued expenses within our unaudited consolidated balance sheets as of June 30, 2015 and recognized $107,658 to Revenue share and royalties within our unaudited statements of comprehensive income during the three and six months ended June 30, 2015 related to the period prior to June 30, 2015. Of the remaining $102,342 of the settlement, $38,665 was recorded to Other current assets and $63,677 was recorded to Other long-term assets within our unaudited consolidated balance sheets as of June 30, 2015, which will be amortized to Revenue share and royalties within our unaudited statements of comprehensive income over the future service period of July 2015 through December 2017.

At this point we cannot estimate the reasonably possible loss, or range of loss, which could be incurred if the plaintiff in the Flo & Eddie cases were to prevail in its allegations, but we believe we have substantial defenses to the claims asserted. We are defending these actions vigorously.

In addition, in August 2013, SoundExchange, Inc. filed a complaint in the United States District Court for the District of Columbia alleging that we underpaid royalties for statutory licenses during the 2007-2012 rate period in violation of the regulations established by the Copyright Royalty Board for that period. SoundExchange principally alleges that we improperly reduced our calculation of gross revenues, on which the royalty payments are based, by deducting non-recognized revenue attributable to pre-1972 recordings and Premier package revenue that is not “separately charged” as required by the regulations. SoundExchange is seeking

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compensatory damages of not less than $50,000 and up to $100,000 or more, payment of late fees and interest, and attorneys' fees and costs.

In August 2014, the United States District Court for the District of Columbia granted our motion to dismiss the complaint without prejudice on the grounds that the case properly should be pursued before the Copyright Royalty Board rather than the district court. In December 2014, SoundExchange filed a petition with the Copyright Royalty Board requesting an order interpreting the applicable regulations. At this point we cannot estimate the reasonably possible loss, or range of loss, which could be incurred if the plaintiffs were to prevail in the allegations, but we believe we have substantial defenses to the claims asserted. We intend to defend this action vigorously.

This matter is titled SoundExchange, Inc. v. Sirius XM Radio, Inc.. No.13-cv-1290-RJL (D.D.C.), and Determination of Rates and Terms for Preexisting Subscription Services and Satellite Digital Audio Radio Services, United States Copyright Royalty Board, No. 2006-1 CRB DSTRA. Additional information concerning each of these actions is publicly available in filings under their docket numbers.

Telephone Consumer Protection Act Suits. We are a defendant in several purported class action suits, which were commenced in February 2012, January 2013, January 2015, April 2015 and July 2015, in the United States District Court for the Eastern District of Virginia, Newport News Division, the United States District Court for the Southern District of California, the United States District Court for the Northern District of Illinois and the United States District Court for the Middle District of Florida that allege that we, or certain call center vendors acting on our behalf, made numerous calls which violate provisions of the Telephone Consumer Protection Act of 1991 (the "TCPA"). The plaintiffs in these actions allege, among other things, that we called mobile phones using an automatic telephone dialing system without the consumer's prior consent or, alternatively, after the consumer revoked their prior consent and, in one of the actions, that we violated the TCPA's call time restrictions. The plaintiffs in these suits are seeking various forms of relief, including statutory damages of five-hundred dollars for each violation of the TCPA or, in the alternative, treble damages of up to fifteen-hundred dollars for each knowing and willful violation of the TCPA, as well as payment of interest, attorneys' fees and costs, and certain injunctive relief prohibiting violations of the TCPA in the future. Plaintiffs in certain of these suits have filed a motion with the Judicial Panel on Multidistrict Litigation to transfer these purported class actions, and other allegedly related cases, to the United States District Court for the Northern District of Illinois for consolidated or coordinated pretrial proceedings. We believe we have substantial defenses to the claims asserted in these actions, and we intend to defend them vigorously.

We have notified certain of our call center vendors of these actions and requested that they defend and indemnify us against these claims pursuant to the provisions of their existing or former agreements with us. We believe we have valid contractual claims against certain call center vendors in connection with these claims and intend to preserve and pursue our rights to recover from these entities.

These purported class action cases are titled Erik Knutson v. Sirius XM Radio Inc., No. 12-cv-0418-AJB-NLS (S.D. Cal.), Francis W. Hooker v. Sirius XM Radio, Inc., No. 4:13-cv-3 (E.D. Va.), Brian Trenz v. Sirius XM Holdings, Inc.

and Toyota Motor Sales, U.S.A., Inc., No. 15-cv-0044L-BLM (S.D. Cal), Yefim Elikman v. Sirius XM Radio, Inc. and Career Horizons, Inc., No. 1:15-cv-02093 (N.D. Ill.) and Anthony Parker v. Sirius XM Radio, Inc., No. 8:15-cv-01710-JSM-EAJ (M.D. Fla). Additional information concerning each of these actions is publicly available in court filings under their docket numbers.

With respect to certain matters described above under the captions “Pre-1972 Sound Recording Matters” and “Telephone Consumer Protection Act Suits”, we have determined, based on our current knowledge, that the amount of loss or range of loss, that is reasonably possible is not reasonably estimable. However, these matters are inherently unpredictable and subject to significant uncertainties, many of which are beyond our control. As such, there can be no assurance that the final outcome of these matters will not materially and adversely affect our business, financial condition, results of operations, or cash flows.

Other Matters. In the ordinary course of business, we are a defendant in various other lawsuits and arbitration proceedings, including derivative actions; actions filed by subscribers, both on behalf of themselves and on a class action basis; former employees; parties to contracts or leases; and owners of patents, trademarks, copyrights or other intellectual property. None of these matters, in our opinion, is likely to have a material adverse effect on our business, financial condition or results of operations.

(15) Income Taxes

We file a consolidated federal income tax return for all of our wholly-owned subsidiaries, including Sirius XM. Income tax expense for the three months ended June 30, 2015 and 2014 was $45,421 and $86,822, respectively, and $184,350 and $163,570,

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

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respectively, for the six months ended June 30, 2015 and 2014. We estimate our annual effective tax rate for the year ending December 31, 2015 will be 38.3%. Our effective tax rate for the three and six months ended 2015 was 30.6% and 46.9%, respectively, primarily due to the effect of a tax law change in the District of Columbia during the three months ended March 31, 2015 and in New York City during the three months ended June 30, 2015. The tax law change in the District of Columbia will reduce our future taxes and thus we will use less of certain net operating losses in the future which resulted in a $44,392 increase in our valuation allowance during the three months ended March 31, 2015. The tax law change in New York City will increase certain net operating losses to be utilized in the future resulting in a $16,945 increase in our deferred tax asset during the three months ended June 30, 2015. Our effective tax rate for the six months ended June 30, 2014 was 43.3% due to the impact of the loss on change in fair value of the derivative related to the share repurchase agreement with Liberty Media.

As of June 30, 2015 and December 31, 2014, we had a valuation allowance related to deferred tax assets of $49,387 and $4,995, respectively, that were not likely to be realized due to certain state net operating loss limitations and acquired net operating losses that we were not likely to utilize.

(16) Subsequent Events

Stock Repurchase Program

For the period from July 1, 2015 to July 24, 2015, we repurchased 47,317 shares of our common stock for an aggregate purchase price of $179,199, including fees and commissions, on the open market.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

All amounts referenced in this Item 2 are in thousands, except per subscriber and per installation amounts, unless otherwise stated.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2014.

Special Note Regarding Forward-Looking Statements

The following cautionary statements identify important factors that could cause our actual results to differ materially from those projected in forward-looking statements made in this Quarterly Report on Form 10-Q and in other reports and documents published by us from time to time. Any statements about our beliefs, plans, objectives, expectations, assumptions, future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "intend," "plan," "projection" and "outlook." Any forward-looking statements are qua in their entirety by reference to the factors discussed throughout this Quarterly Report on Form 10-Q and in other reports and documents published by us from time to time, particularly the risk factors described under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 and "Management's Discussion and Analysis of Financial Condition and Results or Operations" herein and in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2014.

Among the significant factors that could cause our actual results to differ materially from those expressed in the forward-looking statements are:

- we face substantial competition and that competition is likely to increase over time;
- our ability to attract and retain subscribers in the future is uncertain;
- our business depends in large part upon the auto industry;
- general economic conditions can affect our business;
- consumer protection laws and their enforcement could damage our business;
- if we fail to protect the security of personal information about our customers, we could be subject to costly government enforcement actions and private litigation and our reputation could suffer;
- other existing or future government laws and regulations could harm our business;
- failure of our satellites would significantly damage our business;
- interruption or failure of our information technology and communications systems could negatively impact our results and our brand;
- royalties for music rights have increased, there can be no assurance they will not continue to increase, and the market for music rights is changing and is subject to significant uncertainties;
- the unfavorable outcome of pending or future litigation could have a material adverse effect;
- we may not realize the benefits of acquisitions or other strategic initiatives;

- rapid technological and industry changes could adversely impact our services;
- failure of third parties to perform could adversely affect our business;
- failure to comply with FCC requirements could damage our business;
- we may from time to time modify our business plan, and these changes could adversely affect us and our financial condition;
- we have a significant amount of indebtedness, and our revolving credit facility contains certain covenants that restrict our current and future operations;
- our broadcast studios, terrestrial repeater networks, satellite uplink facilities or other ground facilities could be damaged by natural catastrophes or terrorist activities;
- our principal stockholder has significant influence over our management and over actions requiring general stockholder approval and its interests may differ from the interests of other holders of our common stock;
- we are a “controlled company” within the meaning of the NASDAQ listing rules and, as a result, qualify for, and rely on, exemptions from certain corporate governance requirements; and
- our business may be impaired by third-party intellectual property rights.

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Because the risk factors referred to above could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us or on our behalf, you should not place undue reliance on any of these forward-looking statements. In addition, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which the statement is made, to reflect the occurrence of unanticipated events or otherwise, except as required by law. New factors emerge from time to time, and it is not possible for us to predict which will arise or to assess with any precision the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Executive Summary

We broadcast music, sports, entertainment, comedy, talk, news, traffic and weather channels, as well as infotainment services, in the United States on a subscription fee basis through our two proprietary satellite radio systems. Subscribers can also receive music and other channels, plus features such as SiriusXM On Demand and MySXM, over our Internet radio service, including through applications for mobile devices. We are also a leader in providing connected vehicle services. Our connected vehicle services are designed to enhance the safety, security and driving experience for vehicle operators while providing marketing and operational benefits to automakers and their dealers.

We have agreements with every major automaker ("OEMs") to offer satellite radios in their vehicles. We also acquire subscribers through marketing to owners and lessees of vehicles that include factory-installed satellite radios that are not currently subscribing to our services. Additionally, we distribute our satellite radios through retail locations nationwide and through our website. Satellite radio services are also offered to customers of certain daily rental car companies.

As of June 30, 2015, we had 28.4 million subscribers of which 23.4 million were self-pay subscribers and 5.0 million were paid promotional subscribers. Our subscriber totals include subscribers under our regular pricing plans; discounted pricing plans; subscribers that have prepaid, including payments either made or due from automakers for subscriptions included in the sale or lease price of a vehicle; subscribers to our Internet services who do not also have satellite radio subscriptions; and certain subscribers to our weather, traffic, and data services who do not also have satellite radio subscriptions. Subscribers and subscription related revenues and expenses associated with our connected vehicle services are not included in our subscriber count or subscriber-based operating metrics.

Our primary source of revenue is subscription fees, with most of our customers subscribing on an annual, semi-annual, quarterly or monthly plan. We offer discounts for prepaid, longer term subscription plans, as well as a multiple subscription discount. We also derive revenue from activation and other fees, the sale of advertising on select non-music channels, the direct sale of satellite radios and accessories, and other ancillary services, such as our weather, traffic and data services.

In certain cases, automakers and dealers include a subscription to our radio services in the sale or lease price of new vehicles or previously owned vehicles. The length of these trial subscriptions varies but is typically three to twelve months. We receive subscription payments for these trials from certain automakers. We also reimburse various automakers for certain costs associated with satellite radios installed in new vehicles.

Liberty Media beneficially owns, directly and indirectly, over 50% of the outstanding shares of our common stock. As a result, we are a "controlled company" for the purposes of the NASDAQ corporate governance requirements. Liberty Media owns interests in a range of media, communications and entertainment businesses.

We also have an approximate 37% equity interest in Sirius XM Canada which offers satellite radio services in Canada. Subscribers to the Sirius XM Canada service are not included in our subscriber count.

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Results of Operations

Set forth below are our results of operations for the three and six months ended June 30, 2015 compared with the three and six months ended June 30, 2014.

	Unaudited For the Three Months Ended June 30,		For the Six Months Ended June 30,		2015 vs 2014 Change			
					Three Months		Six Months	
	2015	2014	2015	2014	Amount	%	Amount	%
Revenue:								
Subscriber revenue	$940,077	$878,160	$1,851,547	$1,729,596	$61,917	7 %	$121,951	7 %
Advertising revenue	28,839	25,498	55,712	47,712	3,341	13 %	8,000	17 %
Equipment revenue	29,263	27,616	54,104	51,594	1,647	6 %	2,510	5 %
Other revenue	125,031	104,071	242,837	204,154	20,960	20 %	38,683	19 %
Total revenue	1,123,210	1,035,345	2,204,200	2,033,056	87,865	8 %	171,144	8 %
Operating expenses:								
Cost of services:								
Revenue share and royalties	331,517	200,221	544,495	395,632	131,296	66 %	148,863	38 %
Programming and content	69,370	69,570	140,516	144,440	(200)	0 %	(3,924)	(3 %)
Customer service and billing	91,932	90,092	184,029	181,161	1,840	2 %	2,868	2 %
Satellite and transmission	21,714	21,272	43,018	42,651	442	2 %	367	1 %
Cost of equipment	10,930	12,030	19,775	19,834	(1,100)	(9 %)	(59)	0 %
Subscriber acquisition costs	136,504	124,407	258,764	247,429	12,097	10 %	11,335	5 %
Sales and marketing	86,493	77,759	165,237	154,086	8,734	11 %	11,151	7 %
Engineering, design and development	16,088	15,630	31,048	31,541	458	3 %	(493)	(2 %)
General and administrative	72,137	72,582	151,960	148,825	(445)	(1 %)	3,135	2 %
Depreciation and amortization	67,096	67,204	132,123	135,471	(108)	0 %	(3,348)	(2 %)
Total operating expenses	903,781	750,767	1,670,965	1,501,070	153,014	20 %	169,895	11 %
Income from operations	219,429	284,578	533,235	531,986	(65,149)	(23%)	1,249	0 %
Other income (expense):								
Interest expense, net of amounts capitalized	(75,380)	(67,521)	(145,288)	(121,613)	(7,859)	(12%)	(23,675)	(19%)
Interest and investment income (loss)	4,032							