SIRIUS XM RADIO INC.

(Exact name of company as specified in its charter)

ANNUAL REPORT

For the Fiscal Year Ended December 31, 2014

Explanatory Note

Sirius XM Radio Inc. ("Sirius XM") is furnishing this Annual Report for the fiscal year ended December 31, 2014 in order to comply with the reporting obligations in the indentures governing its 4.25% Senior Notes due 2020, 5.875% Senior Notes due 2020, 5.75% Senior Notes due 2021, 5.25% Senior Secured Notes due 2022, 4.625% Senior Notes due 2023 and 6.00% Senior Notes due 2024 (collectively, the "Notes").

Before making any investment decisions in Sirius XM or Sirius XM Holdings Inc. ("Holdings"), investors should read the following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and consolidated financial statements of Sirius XM in conjunction with Holdings' Annual on Form 10-K for the fiscal year ended December 31, 2014 and with Sirius XM's and Holdings' other reports available through the Securities and Exchange Commission website at www.sec.gov and our website at www.siriusxm.com. Holdings' Annual Report on Form 10-K for the fiscal year ended December 31, 2014 is hereby incorporated by reference except for Section 9A and Exhibits 31.1, 31.2, 32.1 and 32.2 contained therein. Sirius XM is a wholly-owned subsidiary of Holdings, and Holdings has no operations independent of Sirius XM. Refer to Note 1 to the consolidated financial statements included within this Annual Report for an explanation of differences between Sirius XM and Holdings' consolidated financial statements.

The terms "Sirius XM," "we," "us," "our," and the "Company," as used herein and unless otherwise stated or indicated by context, refer to Sirius XM Radio Inc. and its subsidiaries.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
ANNUAL REPORT
TABLE OF CONTENTS

SELECTED FINANCIAL DATA

Our selected financial data set forth below with respect to the consolidated statements of comprehensive income for the years ended December 31, 2014, 2013 and 2012, and with respect to the consolidated balance sheets at December 31, 2014 and 2013, are derived from our audited consolidated financial statements included in this Annual Report. Historical operating and balance sheet data included within the following selected financial data from 2010 through 2011 is derived from our audited consolidated financial statements, which are not included in this Annual Report. This selected financial data should be read in conjunction with the audited consolidated financial statements, and related notes thereto, and “Management's Discussion and Analysis of Financial Condition and Results of Operations” included in this Annual Report.

	As of and for the Years Ended December 31,				
	2014	**2013 (1)**	**2012 (2)**	**2011**	**2010**
(in thousands, except per share data)					
Statements of Comprehensive Income Data (3):					
Total revenue	$ 4,181,095	$ 3,799,095	$ 3,402,040	$ 3,014,524	$ 2,816,992
Net income (loss)	$ 544,795	$ (66,494)	$ 3,472,702	$ 426,961	$ 43,055
Cash dividends per share	$ —	$ —	$ 0.05	$ —	$ —
Balance Sheet Data:					
Cash and cash equivalents	$ 147,724	$ 134,805	$ 520,945	$ 773,990	$ 586,691
Restricted investments	$ 5,922	$ 5,718	$ 3,999	$ 3,973	$ 3,396
Total assets	$ 9,911,719	$ 8,851,496	$ 9,054,843	$ 7,495,996	$ 7,383,086
Long-term debt, net of current portion	$ 4,493,863	$ 3,093,821	$ 2,430,986	$ 3,012,351	$ 3,021,763
Stockholders' equity	$ 2,846,047	$ 2,301,346	$ 4,039,565	$ 704,145	$ 207,636

(1) The selected financial data for 2013 includes the balances and approximately two months of activity related to the acquisition of the connected vehicle business of Agero, Inc. in November 2013. For the year ended December 31, 2013, we had a $464,102 loss on change in fair value of debt and equity instruments, primarily related to our then outstanding 7% Exchangeable Senior Subordinated Notes due December 2014.

(2) For the year ended December 31, 2012, we had an income tax benefit of $2,998,234 due to the release of our valuation allowance. A special cash dividend was paid during 2012.

(3) Net income (loss) per share for Sirius XM is not presented since Sirius XM is a wholly-owned subsidiary of Holdings.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(All dollar amounts referenced in this discussion and analysis are in thousands, unless otherwise stated)

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this Annual Report for the year ended December 31, 2014.

Special Note About Forward-Looking Statements

We have made various statements in this Annual Report that may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may also be made in our other reports filed with or furnished to the SEC, in our press releases and in other documents. In addition, from time to time, we, through our management, may make oral forward-looking statements. Forward-looking statements are subject to risks and uncertainties, including those identified above, which could cause actual results to differ materially from such statements. The words "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "believe," "intend," "plan," "may," "should," "could," "would," "likely," "projection," "outlook" and similar expressions are intended to identify forward-looking statements. We caution you that the risk factors described in Holdings' Annual Report on Form 10-K for the year ended December 31, 2014, as incorporated by reference, are not exclusive. There may also be other risks that we are unable to predict at this time that may cause actual results to differ materially from those in forward-looking statements. 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. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statements, except as required by law.

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. Subscribers to our connected vehicle services are not included in our subscriber count or subscriber-based operating metrics.

We have agreements with every major automaker ("OEMs") to offer satellite radios in their vehicles from which we acquire a majority of our subscribers. We also acquire subscribers through marketing to owners of 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 December 31, 2014, we had 27,311,087 subscribers of which 22,522,638 were self-pay subscribers and 4,788,449 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, data and Backseat TV services who do not also have satellite radio subscriptions.

Our primary source of revenue is subscription fees, with most of our customers subscribing on an annual, semi-annual, quarterly or monthly basis. We offer discounts for prepaid and longer term subscription plans as well as discounts for multiple subscriptions. 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, data and Backseat TV 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 Corporation ("Liberty Media") beneficially owns, directly and indirectly, over 50% of the outstanding shares of Holdings' common stock. As a result, Holdings is 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 a 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.

Results of Operations

Set forth below are our results of operations for the year ended December 31, 2014 compared with the year ended December 31, 2013 and the year ended December 31, 2013 compared with the year ended December 31, 2012.

	For the Years Ended December 31,			2014 vs 2013 Change		2013 vs 2012 Change	
(in thousands)	2014	2013	2012	Amount	%	Amount	%
Revenue:							
Subscriber revenue	$ 3,554,302	$ 3,284,660	$ 2,962,665	$ 269,642	8 %	$ 321,995	11 %
Advertising revenue	100,982	89,288	82,320	11,694	13 %	6,968	8 %
Equipment revenue	104,661	80,573	73,456	24,088	30 %	7,117	10 %
Other revenue	421,150	344,574	283,599	76,576	22 %	60,975	22 %
Total revenue	4,181,095	3,799,095	3,402,040	382,000	10 %	397,055	12 %
Operating expenses:							
Cost of services:							
Revenue share and royalties	810,028	677,642	551,012	132,386	20 %	126,630	23 %
Programming and content	297,313	290,323	278,997	6,990	2 %	11,326	4 %
Customer service and billing	370,585	320,755	294,980	49,830	16 %	25,775	9 %
Satellite and transmission	86,013	79,292	72,615	6,721	8 %	6,677	9 %
Cost of equipment	44,397	26,478	31,766	17,919	68 %	(5,288)	(17)%
Subscriber acquisition costs	493,464	495,610	474,697	(2,146)	— %	20,913	4 %
Sales and marketing	336,480	291,024	248,905	45,456	16 %	42,119	17 %
Engineering, design and development	62,784	57,969	48,843	4,815	8 %	9,126	19 %
General and administrative	293,938	262,135	261,905	31,803	12 %	230	— %
Depreciation and amortization	266,423	253,314	266,295	13,109	5 %	(12,981)	(5)%
Total operating expenses	3,061,425	2,754,542	2,530,015	306,883	11 %	224,527	9 %
Income from operations	1,119,670	1,044,553	872,025	75,117	7 %	172,528	20 %
Other income (expense):							
Interest expense, net of amounts capitalized	(269,010)	(204,671)	(265,321)	(64,339)	(31)%	60,650	23 %
Loss on extinguishment of debt and credit facilities, net	—	(190,577)	(132,726)	190,577	100 %	(57,851)	(44)%
Interest and investment income	15,498	6,976	716	8,522	122 %	6,260	874 %
Gain (loss) on change in fair value of debt and equity instruments	17,069	(464,102)	—	481,171	104 %	(464,102)	nm
Other (loss) income	(887)	1,204	(226)	(2,091)	(174)%	1,430	633 %
Total other expense	(237,330)	(851,170)	(397,557)	613,840	72 %	(453,613)	(114)%
Income before income taxes	882,340	193,383	474,468	688,957	356 %	(281,085)	(59)%
Income tax (expense) benefit	(337,545)	(259,877)	2,998,234	(77,668)	(30)%	(3,258,111)	(109)%
Net income attributable to Sirius XM Radio Inc.'s sole stockholder	$ 544,795	$ (66,494)	$ 3,472,702	$ 611,289	919 %	$ (3,539,196)	(102)%

nm - not meaningful

Our results of operations discussed below include the impact of purchase price accounting adjustments associated with the July 2008 merger between our wholly owned subsidiary, Vernon Merger Corporation, and XM Satellite Radio Holdings Inc. (the "Merger"). The purchase price accounting adjustments related to the Merger, include the: (i) elimination of deferred revenue associated with the investment in XM Canada, (ii) recognition of deferred subscriber revenues not recognized in purchase price accounting, and (iii) elimination of the benefit of deferred credits on executory contracts, which are primarily attributable to third party arrangements with an OEM and programming providers. The deferred credits on executory contracts attributable to third party arrangements with an OEM included in revenue share and royalties, subscriber acquisition costs, and sales and marketing concluded with the expiration of the acquired contract during 2013. The impact of these purchase price accounting adjustments is detailed in our Adjusted Revenues and Operating Expenses tables on pages 20 through 22 of our glossary.

Total Revenue

Subscriber Revenue includes subscription, activation and other fees.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, subscriber revenue was $3,554,302 and $3,284,660, respectively, an increase of 8%, or $269,642. The increase was primarily attributable to a 6% increase in the daily weighted average number of subscribers, the inclusion of a full year of subscription revenue generated by our connected vehicle business and the increase in certain of our subscription rates beginning in January 2014. These increases were partially offset by subscription discounts and limited channel line-up plans offered through customer acquisition and retention programs, a change in an agreement with an automaker and a rental car company, and an increasing number of lifetime subscription plans that have reached full revenue recognition.

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, subscriber revenue was $3,284,660 and $2,962,665, respectively, an increase of 11%, or $321,995. The increase was primarily attributable to a 9% increase in the daily weighted average number of subscribers, the impact of the increase in certain of our subscription rates beginning in January 2012 as more subscribers migrated to the higher rates, and an increase in subscriptions to premium services, premier channels and Internet streaming, as well as the inclusion of connected vehicle subscription revenue in 2013. These increases were partially offset by subscription discounts offered through customer acquisition and retention programs, and an increasing number of lifetime subscription plans that have reached full revenue recognition.

We expect subscriber revenues to increase based on the growth of our subscriber base, including connected vehicle subscribers, changes in our subscription rates and the sale of additional services to subscribers.

Advertising Revenue includes the sale of advertising on certain non-music channels.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, advertising revenue was $100,982 and $89,288, respectively, an increase of 13%, or $11,694. The increase was primarily due to a greater number of advertising spots sold and broadcast, as well as increases in rates charged per spot.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, advertising revenue was $89,288 and $82,320, respectively, an increase of 8%, or $6,968. The increase was primarily due to a greater number of advertising spots sold and broadcast, as well as increases in rates charged per spot.

We expect our advertising revenue to grow as more advertisers are attracted to our national platform and growing subscriber base and as we launch additional non-music channels.

Equipment Revenue includes revenue and royalties from the sale of satellite radios, components and accessories.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, equipment revenue was $104,661 and $80,573, respectively, an increase of 30%, or $24,088. The increase was driven by higher sales to distributors and royalties from OEM production, partially offset by lower per unit revenue on direct to consumer sales.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, equipment revenue was $80,573 and $73,456, respectively, an increase of 10%, or $7,117. The increase was driven by royalties from higher OEM production, the mix of royalty eligible radios and, to a lesser extent, improved aftermarket subsidies.

We expect equipment revenue to fluctuate based on OEM production for which we receive royalty payments for our technology and, to a lesser extent, on the volume of equipment sales in our aftermarket and direct to consumer business.

Other Revenue includes amounts earned from subscribers for the U.S. Music Royalty Fee, revenue from our Canadian affiliate and ancillary revenues.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, other revenue was $421,150 and $344,574, respectively, an increase of 22%, or $76,576. The increase was driven by revenues from the U.S. Music Royalty Fee as the number of subscribers subject to the 12.5% rate increased along with an overall increase in subscribers, by a change in an agreement with a rental car company and the inclusion of a full year of other revenue generated by our connected vehicle business.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, other revenue was $344,574 and $283,599, respectively, an increase of 22%, or $60,975. The increase was driven by revenues from the U.S. Music Royalty Fee as the number of subscribers increased and subscribers on the 12.5% rate increased, and higher royalty revenue from Sirius XM Canada.

We expect other revenue to increase as our growing subscriber base drives higher U.S. Music Royalty Fees.

Operating Expenses

Revenue Share and Royalties include distribution and content provider revenue share, royalties for broadcasting performance content and web streaming, and advertising revenue share.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, revenue share and royalties were $810,028 and $677,642, respectively, an increase of 20%, or $132,386, and increased as a percentage of total revenue. The increase was primarily attributable to the elimination of the benefit to earnings from the amortization of deferred credits on executory contracts initially recognized in purchase price accounting associated with the Merger, greater revenues subject to royalty and/or revenue sharing arrangements, and a 5.6% increase in the statutory royalty rate for the performance of sound recordings. For the year ended December 31, 2013, revenue share and royalties was positively impacted by a benefit of $122,534 to earnings from the amortization of deferred credits on executory contracts associated with the Merger.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, revenue share and royalties were $677,642 and $551,012, respectively, an increase of 23%, or $126,630, and increased as a percentage of total revenue. The increase was primarily attributable to greater revenues subject to royalty and/or revenue sharing arrangements and a 12.5% increase in the statutory royalty rate for the performance of sound recordings as well as a decrease in the benefit to earnings from the amortization of deferred credits on executory contracts initially recognized in purchase price accounting associated with the Merger.

We expect our revenue share and royalty costs to increase as our revenues grow and our royalty rates increase. As determined by the Copyright Royalty Board's decision, we paid royalties of 9.5%, 9.0% and 8.0% of gross revenues, subject to certain exclusions, for the years ended December 31, 2014, 2013 and 2012, respectively, and will pay 10.0% in 2015.

Programming and Content includes costs to acquire, create, promote and produce content. We have entered into various agreements with third parties for music and non-music programming that require us to pay license fees and other amounts.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, programming and content expenses were $297,313 and $290,323, respectively, an increase of 2%, or $6,990, but decreased as a percentage of total revenue. The increase was primarily due to higher personnel costs, the reduction in the benefit to earnings from the purchase price accounting adjustments associated with the Merger and the early termination of certain agreements, partially offset by the renewal of certain licensing agreements at more cost effective terms.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, programming and content expenses were $290,323 and $278,997, respectively, an increase of 4%, or $11,326, but decreased as a percentage of total revenue. The increase was primarily due to reductions in the benefit to earnings from purchase price accounting adjustments associated with the Merger attributable to the amortization of the deferred credit on acquired programming executory contracts and increased personnel costs.

We expect our programming and content expenses to fluctuate as we offer additional programming, and renew or replace expiring agreements.

Customer Service and Billing includes costs associated with the operation and management of internal and third party customer service centers, and our subscriber management systems as well as billing and collection costs, transaction fees and bad debt expense.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, customer service and billing expenses were $370,585 and $320,755, respectively, an increase of 16%, or $49,830, and increased as a percentage of total revenue. The increase was primarily due to the inclusion of a full year of costs associated with our connected vehicle services business, higher subscriber volume driving increased subscriber contacts and increased bad debt expense.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, customer service and billing expenses were $320,755 and $294,980, respectively, an increase of 9%, or $25,775, but remained flat as a percentage of total revenue. The increase was primarily due to efforts to improve our customer service experience, resulting in higher spend on customer service agents, staffing and training, higher subscriber volume driving increased subscriber contacts, increased bad debt expense and higher technology costs.

We expect our customer service and billing expenses to increase as our subscriber base grows.

Satellite and Transmission consists of costs associated with the operation and maintenance of our terrestrial repeater networks; satellites; satellite telemetry, tracking and control systems; satellite uplink facilities; broadcast studios; and delivery of our Internet streaming service.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, satellite and transmission expenses were $86,013 and $79,292, respectively, an increase of 8%, or $6,721, but remained flat as a percentage of total revenue. The increase was primarily due to increased personnel costs, costs associated with our Internet streaming operations, satellite insurance expense, and terrestrial repeater network costs.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, satellite and transmission expenses were $79,292 and $72,615, respectively, an increase of 9%, or $6,677, but remained flat as a percentage of total revenue. The increase was primarily due to increased costs associated with our Internet streaming operations.

We expect satellite and transmission expenses to increase slightly as higher Internet streaming and terrestrial repeater network costs are partially offset by decreases in satellite insurance costs.

Cost of Equipment includes costs from the sale of satellite radios, components and accessories and provisions for inventory allowance attributable to products purchased for resale in our direct to consumer distribution channels.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, cost of equipment was $44,397 and $26,478, respectively, an increase of 68%, or $17,919, and increased as a percentage of equipment revenue. The increase was primarily due to higher sales to distributors, partially offset by lower costs per unit on direct to consumer sales.

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, cost of equipment was $26,478 and $31,766, respectively, a decrease of 17%, or $5,288, and decreased as a percentage of equipment revenue. The decrease was primarily due to lower average cost per product sold and lower inventory reserves, partially offset by higher direct to consumer volume compared to prior year periods.

We expect cost of equipment to fluctuate with changes in sales and inventory valuations.

Subscriber Acquisition Costs include hardware subsidies paid to radio manufacturers, distributors and automakers; subsidies paid for chipsets and certain other components used in manufacturing radios; device royalties for certain radios and chipsets; commissions paid to automakers and retailers; product warranty obligations; freight; and provisions for inventory allowances attributable to inventory consumed in our OEM and retail distribution channels. The majority of subscriber acquisition costs are incurred and expensed in advance of, or concurrent with, acquiring a subscriber. Subscriber acquisition costs do not include advertising costs, marketing, loyalty payments to distributors and dealers of satellite radios or revenue share payments to automakers and retailers of satellite radios.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, subscriber acquisition costs were $493,464 and $495,610, respectively, a decrease of $2,146, and decreased as a percentage of total revenue. Improved OEM subsidy rates per vehicle and a change in a contract with an automaker decreased subscriber acquisition costs. The decrease was partially offset by the elimination of the benefit to earnings in 2014 from the amortization of deferred credits on executory contracts initially recognized in purchase price accounting associated with the Merger and increased subsidy costs related to a larger number of satellite radio installations in new vehicles. For the year ended December 31, 2013, the benefit to earnings from amortization of deferred credits was $64,365.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, subscriber acquisition costs were $495,610 and $474,697, respectively, an increase of 4%, or $20,913, but decreased as a percentage of total revenue. The increase was primarily a result of higher subsidies related to increased OEM installations and lower benefit to earnings from the amortization of the deferred credit for acquired executory contracts recognized in purchase price accounting associated with the Merger, partially offset by improved OEM subsidy rates per vehicle.

We expect subscriber acquisition costs to fluctuate with OEM installations and aftermarket volume; however, the cost of subsidized radio components is expected to decline. We intend to continue to offer subsidies, commissions and other incentives to acquire subscribers.

Sales and Marketing includes costs for marketing, advertising, media and production, including promotional events and sponsorships; cooperative marketing; and personnel. Marketing costs include expenses related to direct mail, outbound telemarketing and email communications.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, sales and marketing expenses were $336,480 and $291,024, respectively, an increase of 16%, or $45,456, and increased as a percentage of total revenue. The increase was primarily due to additional subscriber communications and retention programs associated with a greater number of subscribers and promotional trials, the inclusion of a full year of costs associated with our connected vehicle services business, increased personnel costs, and the elimination of the benefit to earnings in 2014 from the amortization of the deferred credit for acquired executory contracts recognized in purchase price accounting associated with the Merger; partially offset by lower loyalty costs due a change in a contract with an automaker. The benefit to earnings from the amortization of the deferred credit for acquired executory contracts for the year ended December 31, 2013 was $12,922.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, sales and marketing expenses were $291,024 and $248,905, respectively, an increase of 17%, or $42,119, and increased as a percentage of total revenue. The increase was primarily due to additional subscriber communications and retention programs associated with a greater number of subscribers and promotional trials.

We anticipate that sales and marketing expenses will increase as we expand programs to retain our existing subscribers, win back former subscribers, and attract new subscribers.

Engineering, Design and Development consists primarily of compensation and related costs to develop chipsets and new products and services, research and development for broadcast information systems and costs associated with the incorporation of our radios into new vehicles manufactured by automakers.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, engineering, design and development expenses were $62,784 and $57,969, respectively, an increase of 8%, or $4,815, but remained flat as a percentage of total revenue. The increase was driven primarily by the inclusion of a full year of costs associated with our connected vehicle services business and higher personnel costs.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, engineering, design and development expenses were $57,969 and $48,843, respectively, an increase of 19%, or $9,126, but remained flat as a percentage of total revenue. The increase was driven primarily by higher product development costs, costs related to enhanced subscriber features and functionality for our service, and by the reversal of certain non-recurring engineering charges that were recorded in the second quarter of 2012.

We expect engineering, design and development expenses to increase in future periods as we continue to develop our products and services.

General and Administrative primarily consists of compensation and related costs for personnel and facilities, and include costs related to our finance, legal, human resources and information technologies departments.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, general and administrative expenses were $293,938 and $262,135, respectively, an increase of 12%, or $31,803, and remained flat as a percentage of total revenue. The increase was primarily driven by the inclusion of a full year of costs associated with our connected vehicle services business, as well as higher legal, personnel and facilities costs.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, general and administrative expenses were $262,135 and $261,905, respectively, an increase of less than 1%, or $230, but decreased as a percentage of total revenue. The increase was primarily due to higher information technology costs, offset by lower legal costs.

We expect our general and administrative expenses to increase in future periods as a result of, among other things, enhanced information technology, on-going legal costs and personnel costs to support the growth of our business.

Depreciation and Amortization represents the recognition in earnings of the acquisition cost of assets used in operations, including our satellite constellations, property, equipment and intangible assets, over their estimated service lives.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, depreciation and amortization expense was $266,423 and $253,314, respectively, an increase of 5%, or $13,109, but decreased as a percentage of total revenue. Depreciation and amortization expense increased as a result of the inclusion of costs associated with our connected vehicle services business and additional assets placed in-service, including our FM-6 satellite which was placed in-service in late 2013. The increase was offset by a reduction of amortization associated with the stepped-up basis in assets acquired in the Merger (including intangible assets, satellites, property and equipment) through the end of their estimated useful lives and certain satellites reaching the end of their estimated useful lives.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, depreciation and amortization expense was $253,314 and $266,295, respectively, a decrease of 5%, or $12,981, and decreased as a percentage of total revenue. The decrease was driven by certain satellites reaching the end of their estimated useful lives, partially offset by additional assets placed in-service.

Other Income (Expense)

Interest Expense, Net of Amounts Capitalized, includes interest on outstanding debt, reduced by interest capitalized in connection with the construction of satellites and related launch vehicles.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, interest expense was $269,010 and $204,671, respectively, an increase of 31%, or $64,339. The increase was primarily due to higher average debt and a reduction in interest capitalized following the launch of our FM-6 satellite. The increase was partially offset by lower average interest rates resulting from the redemption or repayment of higher interest rate debt throughout 2013.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, interest expense was $204,671 and $265,321, respectively, a decrease of 23%, or $60,650. The decrease was primarily due to lower average interest rates resulting from the redemption or repayment of $2,535,500 of higher interest rate debt throughout 2012 and 2013, which was replaced with $2,650,000 of lower interest rate debt.

We expect interest expense to increase in future periods to the extent our total debt outstanding increases.

Loss on Extinguishment of Debt and Credit Facilities, Net, includes losses incurred as a result of the conversion and retirement of certain debt.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, loss on extinguishment of debt and credit facilities, net, was $0 and $190,577, respectively. During the year ended December 31, 2013, a loss was recorded on the extinguishment of our then outstanding 7.625% Senior Notes due 2018 and 8.75% Senior Notes due 2015.

- *2013 vs. 2012*: For the year ended December 31, 2013, loss on extinguishment of debt and credit facilities, net, was $190,577. The loss in 2013 was recorded on the extinguishment of our 7.625% Senior Notes due 2018 and our 8.75% Senior Notes due 2015. During the year ended December 31, 2012, a $132,726 loss was recorded on the extinguishment of our 13% Senior Notes due 2013 and our 9.75% Senior Secured Notes due 2015.

Interest and Investment Income includes realized gains and losses, interest income, and our share of the income or loss of Sirius XM Canada.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, interest and investment income was $15,498 and $6,976, respectively. The income for the year ended December 31, 2014 was driven by the dividends received from Sirius XM Canada, our share of Sirius XM Canada's net income and income from the conversion of certain debentures into shares of Sirius XM Canada, partially offset by the amortization expense related to our equity method intangible assets. The interest and investment income for 2013 was primarily due to the inclusion of our share of Sirius XM Canada's net income, partially offset by the amortization expense related to our equity method intangible assets.

- *2013 vs. 2012*: For the year ended December 31, 2013, interest and investment income was $6,976 compared to $716 in 2012. The interest and investment income for 2013 and 2012 was primarily due to our share of Sirius XM Canada's net income, partially offset by the amortization expense related to our equity method intangible assets.

Gain (loss) on Change in Fair Value of Debt and Equity Instruments primarily represents the change in fair value associated with the 7% Exchangeable Senior Subordinated Notes due 2014.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, there was a $17,069 gain and $(464,102) loss on change in fair value of debt and equity instruments, respectively, which resulted from a change in the fair value price of the 7% Exchangeable Senior Subordinated Notes due 2014.

- *2013 vs. 2012*: For the year ended December 31, 2013, there was a loss on change in fair value of debt and equity instruments $464,102 which resulted from a $466,815 loss recorded for the fair value price of the 7% Exchangeable Senior Subordinated Notes due 2014 offset by a $2,713 gain on change in fair value associated with the share repurchase agreement with Liberty Media.

Income Taxes

Income Tax (Expense) Benefit includes the change in our deferred tax assets, foreign withholding taxes and current federal and state tax expenses.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, income tax expense was $337,545 and $259,877, respectively. Our annual effective tax rate for the year ended December 31, 2014 was 38% due to the impact of the change in fair value associated with the 7% Exchangeable Senior Subordinated Notes due 2014.

- *2013 vs. 2012*: For the year ended December 31, 2013, income tax expense was $259,877 compared to income tax benefit of $2,998,234 for 2012. For the year ended December 31, 2013, income tax expense included non-deductible expenses primarily due to the impact of the change in fair value associated with the 7% Exchangeable Senior Subordinated Notes due 2014. For the year ended December 31, 2012, we released $3,195,651 of valuation allowance due to the cumulative positive evidence that it is more likely than not that our deferred tax assets will be realized.

We account for the effect of tax law changes in the quarter in which they are enacted. Certain proposed tax legislation would reduce significantly our deferred tax asset related to net operating loss carryforwards for the District of Columbia. The final tax legislation may result in the establishment of a valuation allowance and may adversely impact the tax rate in the quarter the change occurs.

Key Operating Metrics

In this section, we present certain financial and operating performance measures that are not calculated and presented in accordance with generally accepted accounting principles in the United States (“Non-GAAP”). These metrics include: average monthly revenue per subscriber, or ARPU; customer service and billing expenses, per average subscriber; subscriber acquisition cost, or SAC, per installation; free cash flow; and adjusted EBITDA. These measures exclude the impact of share-based payment expense and certain purchase price accounting adjustments related to the Merger, which include the: (i) elimination of deferred revenue associated with the investment in XM Canada, (ii) recognition of deferred subscriber revenues not recognized in purchase price accounting, and (iii) elimination of the benefit of deferred credits on executory contracts, which are primarily attributable to third party arrangements with an OEM and programming providers. We use these Non-GAAP financial measures to manage our business, to set operational goals and as a basis for determining performance-based compensation for our employees.

Free cash flow is a metric that our management and board of directors use to evaluate the cash generated by our operations, net of certain of Holdings' equity-related transactions, capital expenditures and other investment activity. In a capital intensive business, with significant investments in satellites, we look at our operating cash flow, net of these investing cash outflows, to determine cash available for future subscriber acquisition and capital expenditures, to repurchase or retire debt, to acquire other companies and to evaluate our ability to return capital to stockholders. We believe free cash flow is an indicator of the long-term financial stability of our business. Free cash flow, which is reconciled to “Net cash provided by operating activities,” is a Non-GAAP financial measure. This measure can be calculated by deducting amounts used in certain of Holdings' equity-related transactions, and by deducting amounts under the captions "Additions to property and equipment" and deducting or adding Restricted and other investment activity from "Net cash provided by operating activities" from the audited consolidated statements of cash flows. Free cash flow should be used in conjunction with other GAAP financial performance measures and may not be comparable to free cash flow measures presented by other companies. Free cash flow should be viewed as a supplemental measure rather than an alternative measure of cash flows from operating activities, as determined in accordance with GAAP. Free cash flow is limited and does not represent remaining cash flows available for discretionary expenditures due to the fact that the measure does not deduct the payments required for debt maturities. We believe free cash flow provides useful supplemental information to investors regarding our current and projected cash flow, along with other GAAP measures (such as cash flows from operating and investing activities), to determine our financial condition, and to compare our operating performance to other communications, entertainment and media companies.

We believe these Non-GAAP financial measures provide useful information to investors regarding our financial condition and results of operations. We believe investors find these Non-GAAP financial performance measures useful in evaluating our core trends because it provides a direct view of our underlying contractual costs. We believe investors use our current and projected adjusted EBITDA to estimate our current or prospective enterprise value and to make investment decisions. By providing these Non-GAAP financial measures, together with the reconciliations to the most directly comparable GAAP measure, we believe we are enhancing investors' understanding of our business and our results of operations.

These Non-GAAP financial measures should be viewed in addition to, and not as an alternative for or superior to, our reported results prepared in accordance with GAAP. In addition, these Non-GAAP financial measures may not be comparable to similarly-titled measures by other companies. Please refer to the glossary (pages 19 through 24) for a further discussion of such Non-GAAP financial measures and reconciliations to the most directly comparable GAAP measure. The following table contains our key operating metrics based on our adjusted results of operations for the years ended December 31, 2014, 2013 and 2012. Subscribers to our connected vehicle services are not included in our subscriber count or subscriber-based operating metrics:

	Unaudited		
	For the Years Ended December 31,		
(in thousands, except for subscriber, per subscriber and per installation amounts)	2014	2013	2012
Self-pay subscribers	22,522,638	21,081,817	19,570,274
Paid promotional subscribers	4,788,449	4,477,493	4,330,062
Ending subscribers	27,311,087	25,559,310	23,900,336
Self-pay subscribers	1,440,821	1,511,543	1,661,532
Paid promotional subscribers	310,956	147,431	345,980
Net additions	1,751,777	1,658,974	2,007,512
Daily weighted average number of subscribers	26,283,785	24,886,300	22,794,170
Average self-pay monthly churn	1.9%	1.8%	1.9%
New vehicle consumer conversion rate	41%	44%	45%
ARPU (1)	$ 12.38	$ 12.23	$ 12.00
SAC, per installation (1)	$ 34	$ 43	$ 47
Customer service and billing expenses, per average subscriber (1)	$ 1.07	$ 1.06	$ 1.07
Free cash flow (1)	$ 1,155,776	$ 927,496	$ 709,446
Adjusted EBITDA (1)	$ 1,467,775	$ 1,166,140	$ 920,343

(1) See pages 19 through 24 for glossary and a reconciliation to the most directly comparable GAAP measure.

Subscribers. At December 31, 2014, we had 27,311,087 subscribers, an increase of 1,751,777 subscribers, or 7%, from the 25,559,310 subscribers as of December 31, 2013.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, net additions were 1,751,777 and 1,658,974, respectively, an increase of 6%, or 92,803. An increase in paid promotional subscribers in 2014 compared to 2013 was partially offset by a slight decline in self-pay net additions for the same period. The increase in paid promotional net additions was due to a growth in sales by automakers offering paid trial subscriptions. Self-pay net additions declined slightly in 2014 compared to 2013 as record new and used car conversions were offset by an increase in churn associated with our larger subscriber base. The increase in churn was primarily attributed to an increase in existing self-pay subscribers migrating to unpaid trials.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, net additions were 1,658,974 and 2,007,512, respectively, a decrease of 17%, or 348,538. Self-pay net additions declined in 2013 compared to 2012 primarily due to higher vehicle turnover rates. Paid promotional net additions declined, in part, as a result of a change from a paid trial to an unpaid trial in the fourth quarter of 2013 pursuant to an agreement with an OEM, resulting in a substantial volume of paid promotional trial deactivations without the corresponding paid trial starts in the same period.

Average Self-pay Monthly Churn is derived by dividing the monthly average of self-pay deactivations for the period by the average number of self-pay subscribers for the period. (See accompanying glossary on pages 19 through 24 for more details.)

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, our average self-pay monthly churn rate was 1.9% and 1.8%, respectively. The increase was due to increased vehicle related churn associated with existing self-pay subscribers migrating to unpaid trials, offset by improvements in voluntary churn.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, our average self-pay monthly churn rate was 1.8% and 1.9%, respectively. The decrease was due to a higher mix of existing subscribers migrating to paid trials in new vehicles which are not included in average self-pay churn.

New Vehicle Consumer Conversion Rate is the percentage of owners and lessees of new vehicles that receive our service and convert to become self-paying subscribers after an initial promotional period. The metric excludes rental and fleet vehicles. (See accompanying glossary on pages 19 through 24 for more details).

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, the new vehicle consumer conversion rate was 41% and 44%, respectively. The decrease in the new vehicle consumer conversion rate was primarily due to an increased penetration rate and lower conversion of first-time satellite enabled car buyers and lessees.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, the new vehicle consumer conversion rate was 44% and 45%, respectively. The decrease in the new vehicle consumer conversion rate was primarily due to the mix of sales by OEMs.

ARPU is derived from total earned subscriber revenue (excluding revenue derived from our connected vehicle services business), net advertising revenue and other subscription-related revenue, net of purchase price accounting adjustments, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. (For a reconciliation to GAAP see the accompanying glossary on pages 19 through 24 for more details.)

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, ARPU was $12.38 and $12.23, respectively. The increase was driven primarily by the contribution of the U.S. Music Royalty Fee, and the impact of the increase in certain of our subscription rates beginning in January 2014. The positive result was partially offset by growth in subscription discounts and limited channel line-up plans offered through our customer acquisition and retention programs, lifetime subscription plans that have reached full revenue recognition and changes in contracts with an automaker and a rental car company.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, ARPU was $12.23 and $12.00, respectively. The increase was driven primarily by the contribution of the U.S. Music Royalty Fee, the impact of the increase in certain of our subscription rates beginning in January 2012, and an increase in subscriptions to premium services, partially offset by subscription discounts offered through customer acquisition and retention programs, and lifetime subscription plans that have reached full revenue recognition.

SAC, Per Installation, is derived from subscriber acquisition costs and margins from the sale of radios, components and accessories, excluding purchase price accounting adjustments, divided by the number of satellite radio installations in new vehicles and shipments of aftermarket radios for the period. (For a reconciliation to GAAP see the accompanying glossary on pages 19 through 24 for more details.)

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, SAC, per installation, was $34 and $43, respectively. The decrease was primarily due to improvements in contractual OEM rates.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, SAC, per installation, was $43 and $47, respectively. The decrease was primarily due to lower subsidies per vehicle.

Customer Service and Billing Expenses, Per Average Subscriber, is derived from total customer service and billing expenses, excluding connected vehicle customer service and billing expenses and share-based payment expense, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. (For a reconciliation to GAAP see the accompanying glossary on pages 19 through 24 for more details.)

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, customer service and billing expenses, per average subscriber, were $1.07 and $1.06, respectively. The increase was primarily driven by increased bad debt expense.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, customer service and billing expenses, per average subscriber, were $1.06 and $1.07, respectively. The decrease was primarily driven by higher subscriber growth compared to spend for agent staffing and training.

Free Cash Flow includes the net cash provided by operations, additions to property and equipment, and restricted and other investment activity, excluding cash used for certain of Holdings' equity-related transactions. (For a reconciliation to GAAP see the accompanying glossary on pages 19 through 24 for more details.)

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, free cash flow was $1,155,776 and $927,496, respectively, an increase of $228,280. The increase was primarily driven by higher net cash provided by operations (excluding cash used for certain of Holdings' equity-related transactions) from improved performance, collections from subscribers and distributors, the absence of satellite construction related payments and dividends received from Sirius XM Canada, partially offset by payments related to improvements to our terrestrial repeater network.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, free cash flow was $927,496 and $709,446, respectively, an increase of $218,050. The increase was primarily driven by higher net cash provided by operating activities from improved operating performance, lower interest payments, and higher collections from subscribers and distributors, partially offset by payments related to the launch of our FM-6 satellite and the purchase of certain long-lead parts for a future satellite.

Adjusted EBITDA. EBITDA is defined as net income before interest and investment income (loss); interest expense, net of amounts capitalized; income tax (expense) benefit and depreciation and amortization. Adjusted EBITDA excludes the impact of other income and expense, losses on extinguishment of debt, gain or loss on change in fair value of debt and equity instruments as well as certain other non-cash charges, such as certain purchase price accounting adjustments and share-based payment expense. (For a reconciliation to GAAP see the accompanying glossary on pages 19 through 24 for more details.)

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, adjusted EBITDA was $1,467,775 and $1,166,140, respectively, an increase of 26%, or $301,635. The increase was due to growth in adjusted revenues primarily as a result of the increase in our subscriber base and certain of our subscription rates, improved revenue share and OEM subsidy rates per vehicle, and the renewal of certain programming agreements at more cost effective terms; partially offset by higher legal expenses and costs associated with the growth in our revenues and subscriber base.

- *2013 vs. 2012*: For the years ended December 31, 2013 and 2012, adjusted EBITDA was $1,166,140 and $920,343, respectively, an increase of 27%, or $245,797. The increase was primarily due to increases in adjusted revenues, partially offset by increases in expenses included in adjusted EBITDA. The increase in adjusted revenues was primarily due to the increase in our subscriber base and certain of our subscription rates. The increase in expenses was primarily driven by higher revenue share and royalties expenses associated with growth in revenues, sales and marketing costs related to subscriber communications and retention marketing, customer service and billing costs related to increased agent training and staffing as well as subscriber volume and subscriber acquisition costs.

Liquidity and Capital Resources

Cash Flows for the year ended December 31, 2014 compared with the year ended December 31, 2013 and the year ended December 31, 2013 compared with the year ended December 31, 2012.

As of December 31, 2014 and December 31, 2013, we had $147,724 and $134,805, respectively, of cash and cash equivalents. The following table presents a summary of our cash flow activity for the periods set forth below:

	For the Years Ended December 31,				
(in thousands)	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Net cash provided by operating activities	$ 1,216,257	$ 1,088,582	$ 806,765	$ 127,675	$ 281,817
Net cash used in investing activities	(96,324)	(700,688)	(97,319)	604,364	(603,369)
Net cash used in financing activities	(1,107,014)	(774,034)	(962,491)	(332,980)	188,457
Net increase (decrease) in cash and cash equivalents	12,919	(386,140)	(253,045)	399,059	(133,095)
Cash and cash equivalents at beginning of period	134,805	520,945	773,990	(386,140)	(253,045)
Cash and cash equivalents at end of period	$ 147,724	$ 134,805	$ 520,945	$ 12,919	$ (386,140)

Cash Flows Provided by Operating Activities

Cash flows provided by operating activities increased by $127,675 to $1,216,257 for the year ended December 31, 2014 compared to $1,088,582 for the year ended December 31, 2013. Cash flows provided by operating activities increased by $281,817 to $1,088,582 for the year ended December 31, 2013 from $806,765 for the year ended December 31, 2012.

Our largest source of cash provided by operating activities is generated by subscription and subscription-related revenues. We also generate cash from the sale of advertising on certain non-music channels and the sale of satellite radios, components and accessories. Our primary uses of cash from operating activities include revenue share and royalty payments to distributors and content providers, and payments to radio manufacturers, distributors and automakers. In addition, uses of cash from operating activities include payments to vendors to service, maintain and acquire subscribers, general corporate expenditures, and compensation and related costs.

Cash Flows Used in Investing Activities

Cash flows used in investing activities are primarily due to additional spending to improve our terrestrial repeater network and for capitalized software, partially offset by the special one-time dividend received from Sirius XM Canada of $24,178. We expect to continue to incur significant costs to improve our terrestrial repeater network and broadcast and administrative infrastructure. In 2013, our cash flows used in investing activities included $525,352 related to our acquisition of the connected vehicle business of Agero, Inc. In 2012, our cash flows used in investing activities primarily related to capital expenditures for property and equipment.

Cash Flows Used in Financing Activities

Cash flows used in financing activities consists of intercompany financing activities related to the purchase of common stock under Holdings' share repurchase program, issuance and repayment of long-term debt, and in 2013 and 2012, included cash used in our stock option program. Proceeds from long-term debt, related party debt and equity issuances have been used to fund our operations, acquire the connected vehicle business of Agero, Inc., construct and launch new satellites and invest in other infrastructure improvements.

Cash flows used in financing activities in 2014 were primarily due to the purchase of shares of Holdings' common stock under Holdings' share repurchase program for $2,496,799 and repayments under the Credit Facility. In 2014, we issued $1,500,000 aggregate principal amount of 6.00% Senior Notes due 2024. Cash flows used in financing activities in 2013 were primarily due to the purchase of shares of our common stock for $1,762,360, and the extinguishment of $800,000 of our then outstanding 8.75% Senior Notes due 2015 and $700,000 of our then outstanding 7.625% Senior Notes due 2018. In 2013, we issued $650,000 aggregate principal amount of 5.875% Senior Notes due 2020, $600,000 aggregate principal amount of 5.75% Senior Notes due 2021, $500,000 aggregate principal amount of 4.25% Senior Notes due 2020 and $500,000 aggregate principal amount of 4.625% Senior Notes due 2023. Cash flows used in financing activities in 2012 were primarily due to the repayment of the remaining balance of our then outstanding 13% Senior Notes due 2013 and our then outstanding 9.75% Senior Secured Notes due 2015, partially offset by the issuance of our 5.25% Senior Notes due 2022 and the exercise of options.

Future Liquidity and Capital Resource Requirements

Based upon our current business plans, we expect to fund operating expenses, capital expenditures, working capital requirements, interest payments, taxes and scheduled maturities of our debt with existing cash, cash flow from operations and borrowings under our Credit Facility. We believe that we have sufficient cash and cash equivalents as well as debt capacity to cover our estimated short-term and long-term funding needs, stock repurchases and strategic opportunities.

Our ability to meet our debt and other obligations depends on our future operating performance and on economic, financial, competitive and other factors. We continually review our operations for opportunities to adjust the timing of expenditures to ensure that sufficient resources are maintained.

We regularly evaluate our business plans and strategy. These evaluations often result in changes to our business plans and strategy, some of which may be material and significantly change our cash requirements. These changes in our business plans or strategy may include: the acquisition of unique or compelling programming; the introduction of new features or services; significant new or enhanced distribution arrangements; investments in infrastructure, such as satellites, equipment or radio spectrum; and acquisitions, including acquisitions that are not directly related to our satellite radio business.

Holdings' Stock Repurchase Program

Since December 2012, Holdings' board of directors has approved for repurchase an aggregate of $6,000,000 of its common stock. As of December 31, 2014, Holdings' cumulative repurchases since December 2012 totaled $4,285,192, and $1,714,808 remained available under Holdings' stock repurchase program. We expect to fund future repurchases of Holdings' common stock through a combination of cash on hand, cash generated by operations and future borrowings.

Debt Covenants

The indentures governing our senior notes and the agreement governing our Credit Facility include restrictive covenants. As of December 31, 2014, we were in compliance with such indentures and agreement. For a discussion of our “Debt Covenants,” refer to Note 13 to our consolidated financial statements in this report.

Off-Balance Sheet Arrangements

We do not have any significant off-balance sheet arrangements other than those disclosed in Note 16 to our consolidated financial statements in this report that are reasonably likely to have a material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Contractual Cash Commitments

For a discussion of our “Contractual Cash Commitments,” refer to Note 16 to our consolidated financial statements in this report.

Related Party Transactions

For a discussion of “Related Party Transactions,” refer to Note 11 to our consolidated financial statements in this report.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods. Accounting estimates require the use of significant management assumptions and judgments as to future events, and the effect of those events cannot be predicted with certainty. The accounting estimates will change as new events occur, more experience is acquired and more information is obtained. We evaluate and update our assumptions and estimates on an ongoing basis and use outside experts to assist in that evaluation when we deem necessary. We have identified all significant accounting policies in Note 3 to our consolidated financial statements in this Annual Report.

Goodwill. Goodwill represents the excess of the purchase price over the estimated fair value of 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. Assessments are performed at other times if events or circumstances indicate it is more likely than not that the asset is impaired. Step one of the impairment assessment compares the fair value of the entity to its carrying value and if the fair value exceeds its carrying value, goodwill is not impaired. If the carrying value exceeds the fair value, the implied fair value of goodwill is compared to the carrying value of goodwill; an impairment loss will be recorded for the amount the carrying value exceeds the implied fair value. Our quantitative assessment is based on our enterprise fair value. At the date of our annual assessment for 2014, the fair value of our single reporting unit substantially exceeded its carrying value and therefore was not at risk of failing step one of ASC 350-20, *Goodwill*. Subsequent to our annual evaluation of the carrying value of goodwill, there were no events or circumstances that triggered the need for an interim evaluation for impairment. As a result, there were no impairment charges to our goodwill during the years ended December 31, 2014 or 2013.

Long-Lived and Indefinite-Lived Assets. We carry our long-lived assets at cost less accumulated amortization and depreciation. We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset is not recoverable. At the time an impairment in the value of a long-lived asset is identified, the impairment is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Our annual impairment assessment of indefinite-lived assets, our FCC licenses and XM trademark, is performed as of the fourth quarter of each year and an assessment is made at other times if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. ASU 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment,* establishes an option to first perform a qualitative assessment to determine whether it is more likely than not that an asset is impaired. If the qualitative assessment supports that it is more likely than not that the fair value of the asset exceeds its carrying value, a company is not required to perform a quantitative impairment test. If the qualitative assessment does not support the fair value of the asset, then a quantitative assessment is performed. During the fourth quarter of 2014, a qualitative impairment analysis was performed and we determined that the fair value of our FCC licenses and trademark substantially exceeded the carrying value and therefore was not at risk of impairment. Our qualitative assessment includes the consideration of our long-term financial projections, current and historical weighted average cost of capital and liquidity factors, legal and regulatory issues and industry and market pressures. Subsequent to our annual evaluation of the carrying value of our long-lived assets, there were no events or circumstances that triggered the need for an impairment evaluation.

There were no changes in the carrying value of our indefinite life intangible assets during the years ended December 31, 2014 or 2013.

Useful Life of Broadcast/Transmission System. Our satellite system includes the costs of our satellite construction, launch vehicles, launch insurance, capitalized interest, spare satellites, terrestrial repeater network and satellite uplink facilities. We monitor our satellites for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset is not recoverable.

We operate five in-orbit Sirius satellites, FM-1, FM-2, FM-3, FM-5 and FM-6. Our FM-1 and FM-2 satellites were launched in 2000 and reached the end of their depreciable lives in 2013, but are still in operation. We estimate that our FM-3 and FM-5 satellites launched in 2000 and 2009, respectively, will operate effectively through the end of their depreciable lives in 2015 and 2024, respectively. Our FM-6 satellite that was launched in 2013 is currently used as an in-orbit spare that is planned to start full-time operation in 2015 and is expected to operate effectively through the end of its depreciable life in 2028.

We operate four in-orbit XM satellites, XM-1, XM-3, XM-4 and XM-5. Our XM-1 satellite reached the end of its depreciable life in 2013 and will be de-orbited in 2015. We estimate that our XM-3 and XM-4 satellites launched in 2005 and 2006, respectively, will reach the end of their depreciable lives in 2020 and 2021, respectively. Our XM-5 satellite was launched in 2010, is used as an in-orbit spare and is expected to reach the end of its depreciable life in 2025.

Our satellites have been designed to last fifteen-years, which is consistent with our satellite performance incentives. Our in-orbit satellites may experience component failures which could adversely affect their useful life. We monitor the operating condition of our in-orbit satellites and if events or circumstances indicate that the depreciable lives of our in-orbit satellites have changed, we will modify the depreciable life accordingly. If we were to revise our estimates, our depreciation expense would change.

Income Taxes. Deferred income taxes are recognized for the tax consequences related to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. In determining the period in which related tax benefits are realized for book purposes, excess share-based compensation deductions included in net operating losses are realized after regular net operating losses are exhausted; excess tax compensation benefits are recorded off-balance sheet as a memo entry until the period the excess tax benefit is realized through a reduction of taxes payable. Income tax expense is the sum of current income tax plus the change in deferred tax assets and liabilities.

We assess the recoverability of deferred tax assets at each reporting date and where applicable a valuation allowance is recognized when, based on the weight of all available evidence, it is considered more likely than not that all, or some portion, of the deferred tax assets will not be realized. Our assessment includes an analysis of whether deferred tax assets will be realized in the ordinary course of operations based on the available positive and negative evidence, including the scheduling of deferred tax liabilities and forecasted income from operations. The underlying assumptions we use in forecasting future taxable income require significant judgment. In the event that actual income from operations differs from forecasted amounts, or if we change our estimates of forecasted income from operations, we could record additional charges or reduce allowances in order to adjust the carrying value of deferred tax assets to their realizable amount. Such adjustments could be material to our consolidated financial statements.

As of December 31, 2014, we had a valuation allowance of $4,995 relating to deferred tax assets that are not likely to be realized due to certain state net operating loss limitations.

Glossary

Adjusted EBITDA - EBITDA is defined as net income before interest and investment income (loss); interest expense, net of amounts capitalized; income tax expense and depreciation and amortization. We adjust EBITDA to exclude the impact of other income and expense, loss on extinguishment of debt, gain or loss on change in fair value of debt and equity instruments as well as certain other charges discussed below. This measure is one of the primary Non-GAAP financial measures on which we (i) evaluate the performance of our businesses, (ii) base our internal budgets and (iii) compensate management. Adjusted EBITDA is a Non-GAAP financial performance measure that excludes (if applicable): (i) certain adjustments as a result of the purchase price accounting for the Merger, (ii) depreciation and amortization and (iii) share-based payment expense. The purchase price accounting adjustments include: (i) the elimination of deferred revenue associated with the investment in XM Canada, (ii) recognition of deferred subscriber revenues not recognized in purchase price accounting, and (iii) elimination of the benefit of deferred credits on executory contracts, which are primarily attributable to third party arrangements with an OEM and programming providers. We believe adjusted EBITDA is a useful measure of the underlying trend of our operating performance, which provides useful information about our business apart from the costs associated with our physical plant, capital structure and purchase price accounting. We believe investors find this Non-GAAP financial measure useful when analyzing our results and comparing our operating performance to the performance of other communications, entertainment and media companies. We believe investors use current and projected adjusted EBITDA to estimate our current and prospective enterprise value and to make investment decisions. Because we fund and build-out our satellite radio system through the periodic raising and expenditure of large amounts of capital, our results of operations reflect significant charges for depreciation expense. The exclusion of depreciation and amortization expense is useful given significant variation in depreciation and amortization expense that can result from the potential variations in estimated useful lives, all of which can vary widely across different industries or among companies within the same industry. We also believe the exclusion of share-based payment expense is useful given share-based payment expense is not directly related to the operational conditions of our business.

Adjusted EBITDA has certain limitations in that it does not take into account the impact to our statements of comprehensive income of certain expenses, including share-based payment expense and certain purchase price accounting for the Merger. We endeavor to compensate for the limitations of the Non-GAAP measure presented by also providing the comparable GAAP measure with equal or greater prominence and descriptions of the reconciling items, including quantifying such items, to derive the Non-GAAP measure. Investors that wish to compare and evaluate our operating results after giving effect for these costs, should refer to net income as disclosed in our consolidated statements of comprehensive income. Since adjusted EBITDA is a Non-GAAP financial performance measure, our calculation of adjusted EBITDA may be susceptible to varying calculations; may not be comparable to other similarly titled measures of other companies; and should not be considered in isolation, as a substitute for, or superior to measures of financial performance prepared in accordance with GAAP. The reconciliation of net income to the adjusted EBITDA is calculated as follows (in thousands):

	Unaudited		
	For the Years Ended December 31,		
	2014	2013	2012
Net income (GAAP):	$ 544,795	$ (66,494)	$ 3,472,702
Add back items excluded from Adjusted EBITDA:			
Purchase price accounting adjustments:			
Revenues (see pages 20-22)	7,251	7,251	7,479
Operating expenses (see pages 20-22)	(3,781)	(207,854)	(289,278)
Share-based payment expense (GAAP)	78,212	68,876	63,822
Depreciation and amortization (GAAP)	266,423	253,314	266,295
Interest expense, net of amounts capitalized (GAAP)	269,010	204,671	265,321
Loss on extinguishment of debt and credit facilities, net (GAAP)	—	190,577	132,726
Interest and investment income (GAAP)	(15,498)	(6,976)	(716)
(Gain) loss on change in fair value of debt and equity instruments (GAAP)	(17,069)	464,102	—
Other loss (income) (GAAP)	887	(1,204)	226
Income tax expense (benefit) (GAAP)	337,545	259,877	(2,998,234)
Adjusted EBITDA	$ 1,467,775	$ 1,166,140	$ 920,343

Adjusted Revenues and Operating Expenses - We define this Non-GAAP financial measure as our actual revenues and operating expenses adjusted to exclude the impact of certain purchase price accounting adjustments from the Merger and share-based payment expense. We use this Non-GAAP financial measure to manage our business, to set operational goals and as a basis for determining performance-based compensation for our employees. The following tables reconcile our actual revenues and operating expenses to our adjusted revenues and operating expenses for the years ended December 31, 2014, 2013 and 2012:

	Unaudited For the Year Ended December 31, 2014			
(in thousands)	As Reported	Purchase Price Accounting Adjustments	Allocation of Share-based Payment Expense	Adjusted
Revenue:				
Subscriber revenue	$ 3,554,302	$ —	$ —	$ 3,554,302
Advertising revenue	100,982	—	—	100,982
Equipment revenue	104,661	—	—	104,661
Other revenue	421,150	7,251	—	428,401
Total revenue	$ 4,181,095	$ 7,251	$ —	$ 4,188,346
Operating expenses				
Cost of services:				
Revenue share and royalties	$ 810,028	$ —	$ —	$ 810,028
Programming and content	297,313	3,781	(9,180)	291,914
Customer service and billing	370,585	—	(2,780)	367,805
Satellite and transmission	86,013	—	(4,091)	81,922
Cost of equipment	44,397	—	—	44,397
Subscriber acquisition costs	493,464	—	—	493,464
Sales and marketing	336,480	—	(15,454)	321,026
Engineering, design and development	62,784	—	(8,675)	54,109
General and administrative	293,938	—	(38,032)	255,906
Depreciation and amortization (a)	266,423	—	—	266,423
Share-based payment expense	—	—	78,212	78,212
Total operating expenses	$ 3,061,425	$ 3,781	$ —	$ 3,065,206

(a) Purchase price accounting adjustments included above exclude the incremental depreciation and amortization associated with the $785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the year ended December 31, 2014 was $39,000.

(in thousands)	Unaudited For the Year Ended December 31, 2013			
	As Reported	Purchase Price Accounting Adjustments	Allocation of Share-based Payment Expense	Adjusted
Revenue:				
Subscriber revenue	$ 3,284,660	$ —	$ —	$ 3,284,660
Advertising revenue	89,288	—	—	89,288
Equipment revenue	80,573	—	—	80,573
Other revenue	344,574	7,251	—	351,825
Total revenue	$ 3,799,095	$ 7,251	$ —	$ 3,806,346
Operating expenses				
Cost of services:				
Revenue share and royalties	$ 677,642	$ 122,534	$ —	$ 800,176
Programming and content	290,323	8,033	(7,584)	290,772
Customer service and billing	320,755	—	(2,219)	318,536
Satellite and transmission	79,292	—	(3,714)	75,578
Cost of equipment	26,478	—	—	26,478
Subscriber acquisition costs	495,610	64,365	—	559,975
Sales and marketing	291,024	12,922	(14,792)	289,154
Engineering, design and development	57,969	—	(7,405)	50,564
General and administrative	262,135	—	(33,162)	228,973
Depreciation and amortization (a)	253,314	—	—	253,314
Share-based payment expense	—	—	68,876	68,876
Total operating expenses	$ 2,754,542	$ 207,854	$ —	$ 2,962,396

(a) Purchase price accounting adjustments included above exclude the incremental depreciation and amortization associated with the $785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the year ended December 31, 2013 was $47,000.

(in thousands)	Unaudited For the Year Ended December 31, 2012 As Reported	Purchase Price Accounting Adjustments	Allocation of Share-based Payment Expense	Adjusted
Revenue:				
Subscriber revenue	$ 2,962,665	$ 228	$ —	$ 2,962,893
Advertising revenue	82,320	—	—	82,320
Equipment revenue	73,456	—	—	73,456
Other revenue	283,599	7,251	—	290,850
Total revenue	$ 3,402,040	$ 7,479	$ —	$ 3,409,519
Operating expenses				
Cost of services:				
Revenue share and royalties	$ 551,012	$ 146,601	$ —	$ 697,613
Programming and content	278,997	37,346	(6,120)	310,223
Customer service and billing	294,980	—	(1,847)	293,133
Satellite and transmission	72,615	—	(3,329)	69,286
Cost of equipment	31,766	—	—	31,766
Subscriber acquisition costs	474,697	90,503	—	565,200
Sales and marketing	248,905	14,828	(10,310)	253,423
Engineering, design and development	48,843	—	(6,238)	42,605
General and administrative	261,905	—	(35,978)	225,927
Depreciation and amortization (a)	266,295	—	—	266,295
Share-based payment expense	—	—	63,822	63,822
Total operating expenses	$ 2,530,015	$ 289,278	$ —	$ 2,819,293

(a) Purchase price accounting adjustments included above exclude the incremental depreciation and amortization associated with the $785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the year ended December 31, 2012 was $53,000.

ARPU - is derived from total earned subscriber revenue, advertising revenue and other subscription-related revenue, excluding revenue associated with our connected vehicle business, net of purchase price accounting adjustments, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. Other subscription-related revenue includes the U.S. Music Royalty Fee. ARPU is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited For the Years Ended December 31, 2014	2013	2012
Subscriber revenue, excluding connected vehicle (GAAP)	$ 3,466,050	$ 3,272,718	$ 2,962,665
Add: advertising revenue (GAAP)	100,982	89,288	82,320
Add: other subscription-related revenue (GAAP)	336,408	290,895	237,868
Add: purchase price accounting adjustments	—	—	228
	$ 3,903,440	$ 3,652,901	$ 3,283,081
Daily weighted average number of subscribers	26,283,785	24,886,300	22,794,170
ARPU	$ 12.38	$ 12.23	$ 12.00

Average self-pay monthly churn - is defined as the monthly average of self-pay deactivations for the period divided by the average number of self-pay subscribers for the period.

Customer service and billing expenses, per average subscriber - is derived from total customer service and billing expenses, excluding connected vehicle customer service and billing expenses and share-based payment expense, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. We believe the exclusion of share-based payment expense in our calculation of customer service and billing expenses, per average subscriber, is useful as share-based payment expense is not directly related to the operational conditions that give rise to variations in the components of our customer service and billing expenses. Customer service and billing expenses, per average subscriber, is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited		
	For the Years Ended December 31,		
	2014	2013	2012
Customer service and billing expenses, excluding connected vehicle (GAAP)	$ 340,094	$ 317,832	$ 294,980
Less: share-based payment expense (GAAP)	(2,780)	(2,219)	(1,847)
	$ 337,314	$ 315,613	$ 293,133
Daily weighted average number of subscribers	26,283,785	24,886,300	22,794,170
Customer service and billing expenses, per average subscriber	$ 1.07	$ 1.06	$ 1.07

Free cash flow - is derived from cash flow provided by operating activities less cash used for certain of Holdings' equity-related transactions, capital expenditures and restricted and other investment activity. Free cash flow is calculated as follows (in thousands):

	Unaudited		
	For the Years Ended December 31,		
	2014	2013	2012
Cash Flow information			
Net cash provided by operating activities	$ 1,216,257	$ 1,088,582	$ 806,765
Net cash used in investing activities	$ (96,324)	$ (700,688)	$ (97,319)
Net cash used in financing activities	$ (1,107,014)	$ (774,034)	$ (962,491)
Free Cash Flow			
Net cash provided by operating activities	$ 1,216,257	$ 1,088,582	$ 806,765
Equity-related transactions for Holdings (a)	36,987	14,250	—
Additions to property and equipment	(121,646)	(173,617)	(97,293)
Purchases of restricted and other investments	—	(1,719)	(26)
Return of capital from investment in unconsolidated entity	24,178	—	—
Free cash flow	$ 1,155,776	$ 927,496	$ 709,446

(a) Subsequent to our corporate reorganization effective November 15, 2013, certain equity-related transactions are reported as related party transactions within Sirius XM's consolidated statements of cash flows. For the year ended December 31, 2014, this included payments of $37,318 for taxes paid in lieu of shares issued for stock-based compensation and $331 in proceeds from the exercise of stock options. For the year ended December 31, 2013, this included $14,401 for taxes paid in lieu of shares issued for stock-based compensation and $151 in proceeds from the exercise of stock options. All of these equity-related transactions are classified as Cash flows provided by financing activities within Holdings' consolidated statements of cash flows, and therefore, are adjusted to reflect free cash flow at Sirius XM.

New vehicle consumer conversion rate - is defined as the percentage of owners and lessees of new vehicles that receive our satellite radio service and convert to become self-paying subscribers after the initial promotion period. At the time satellite radio enabled vehicles are sold or leased, the owners or lessees generally receive trial subscriptions ranging from three to twelve months. We measure conversion rate three months after the period in which the trial service ends. The metric excludes rental and fleet vehicles.

Subscriber acquisition cost, per installation - or SAC, per installation, is derived from subscriber acquisition costs and margins from the sale of radios and accessories, excluding purchase price accounting adjustments, divided by the number of satellite radio installations in new vehicles and shipments of aftermarket radios for the period. Purchase price accounting adjustments associated with the Merger include the elimination of the benefit of amortization of deferred credits on executory contracts recognized at the Merger date attributable to an OEM. SAC, per installation, is calculated as follows (in thousands, except for installation amounts):

	Unaudited		
	For the Years Ended December 31,		
	2014	2013	2012
Subscriber acquisition costs (GAAP)	$ 493,464	$ 495,610	$ 474,697
Less: margin from direct sales of radios and accessories (GAAP)	(60,264)	(54,095)	(41,690)
Add: purchase price accounting adjustments	—	64,365	90,503
	$ 433,200	$ 505,880	$ 523,510
Installations	12,787,537	11,765,078	11,061,304
SAC, per installation	$ 34	$ 43	$ 47

Independent Auditor's Report

The Board of Directors
Sirius XM Radio Inc. and subsidiaries:

We have audited the accompanying consolidated financial statements of Sirius XM Radio Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, stockholder equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sirius XM Radio Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014 in accordance with U.S. generally accepted accounting principles.

/s/ KPMG LLP

New York, New York
February 5, 2015

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Years Ended December 31,		
(in thousands, except per share data)	**2014**	**2013**	**2012**
Revenue:			
Subscriber revenue	$ 3,554,302	$ 3,284,660	$ 2,962,665
Advertising revenue	100,982	89,288	82,320
Equipment revenue	104,661	80,573	73,456
Other revenue	421,150	344,574	283,599
Total revenue	4,181,095	3,799,095	3,402,040
Operating expenses:			
Cost of services:			
Revenue share and royalties	810,028	677,642	551,012
Programming and content	297,313	290,323	278,997
Customer service and billing	370,585	320,755	294,980
Satellite and transmission	86,013	79,292	72,615
Cost of equipment	44,397	26,478	31,766
Subscriber acquisition costs	493,464	495,610	474,697
Sales and marketing	336,480	291,024	248,905
Engineering, design and development	62,784	57,969	48,843
General and administrative	293,938	262,135	261,905
Depreciation and amortization	266,423	253,314	266,295
Total operating expenses	3,061,425	2,754,542	2,530,015
Income from operations	1,119,670	1,044,553	872,025
Other income (expense):			
Interest expense, net of amounts capitalized	(269,010)	(204,671)	(265,321)
Loss on extinguishment of debt and credit facilities, net	—	(190,577)	(132,726)
Interest and investment income	15,498	6,976	716
Gain (loss) on change in fair value of debt and equity instruments	17,069	(464,102)	—
Other (loss) income	(887)	1,204	(226)
Total other expense	(237,330)	(851,170)	(397,557)
Income before income taxes	882,340	193,383	474,468
Income tax (expense) benefit	(337,545)	(259,877)	2,998,234
Net income attributable to Sirius XM Radio Inc.'s sole stockholder	$ 544,795	$ (66,494)	$ 3,472,702
Foreign currency translation adjustment, net of tax	(94)	(428)	49
Total comprehensive income attributable to Sirius XM Radio Inc.'s sole stockholder	$ 544,701	$ (66,922)	$ 3,472,751

See accompanying notes to the consolidated financial statements.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)	As of December 31, 2014	As of December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 147,724	$ 134,805
Receivables, net	220,579	192,912
Inventory, net	19,397	13,863
Prepaid expenses	116,336	110,530
Related party current assets	4,344	15,861
Deferred tax asset	1,038,603	937,598
Other current assets	2,763	20,160
Total current assets	1,549,746	1,425,729
Property and equipment, net	1,510,112	1,594,574
Long-term restricted investments	5,922	5,718
Deferred financing fees, net	12,021	12,604
Intangible assets, net	2,645,046	2,700,062
Goodwill	2,205,107	2,204,553
Related party long-term assets	1,539,210	30,164
Long-term deferred tax asset	437,736	868,057
Other long-term assets	6,819	10,035
Total assets	$ 9,911,719	$ 8,851,496
LIABILITIES AND STOCKHOLDER EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 587,755	$ 578,332
Accrued interest	80,440	42,085
Current portion of deferred revenue	1,632,381	1,586,611
Current portion of deferred credit on executory contracts	1,394	3,781
Current maturities of long-term debt	7,482	963,630
Current maturities of long-term related party debt	—	10,959
Related party current liabilities	4,340	4,618
Total current liabilities	2,313,792	3,190,016
Deferred revenue	151,901	149,026
Deferred credit on executory contracts	—	1,394
Long-term debt	4,493,863	3,093,821
Related party long-term liabilities	13,635	16,337
Other long-term liabilities	92,481	99,556
Total liabilities	7,065,672	6,550,150
Commitments and contingencies (Note 16)		
Stockholder equity:		
Preferred stock, undesignated, par value $0.001 (liquidation preference of $0.001 per share); 50,000,000 shares authorized and 0 shares issued and outstanding at December 31, 2014 and December 31, 2013	—	—
Common stock, par value $0.001; 9,000,000,000 shares authorized and 1,000 shares issued and outstanding at December 31, 2014 and December 31, 2013	—	—
Accumulated other comprehensive loss, net of tax	(402)	(308)
Additional paid-in capital	8,679,538	8,679,538
Accumulated deficit	(5,833,089)	(6,377,884)
Total stockholder equity	2,846,047	2,301,346
Total liabilities and stockholder equity	$ 9,911,719	$ 8,851,496

See accompanying notes to the consolidated financial statements.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
CONSOLIDATED STATEMENT OF STOCKHOLDER EQUITY

	Convertible Perpetual Preferred Stock, Series B-1		Common Stock				Treasury Stock			
(in thousands, except share data)	Shares	Amount	Shares	Amount	Accumulated Other Comprehensive Income (Loss)	Additional Paid-in Capital	Shares	Amount	Accumulated Deficit	Total Stockholder Equity
Balance at January 1, 2012	12,500,000	$ 13	3,753,201,929	$ 3,753	$ 71	$ 10,484,400	—	$ —	$ (9,784,092)	$ 704,145
Comprehensive income, net of tax	—	—	—	—	49		—	—	3,472,702	3,472,751
Issuance of common stock to employees and employee benefit plans, net of forfeitures	—	—	1,571,175	2	—	3,521	—	—	—	3,523
Share-based payment expense	—	—	—	—	—	60,299	—	—	—	60,299
Exercise of options	—	—	214,199,297	214	—	125,695	—	—	—	125,909
Cash dividends paid on common shares ($0.05)	—	—	—	—	—	(262,387)	—	—	—	(262,387)
Cash dividends paid on preferred shares	—	—	—	—	—	(64,675)	—	—	—	(64,675)
Conversion of preferred stock to common stock on as-converted basis	(6,249,900)	(7)	1,293,467,684	1,294	—	(1,287)	—	—	—	—
Balance at December 31, 2012	6,250,100	$ 6	5,262,440,085	$ 5,263	$ 120	$ 10,345,566	—	$ —	$ (6,311,390)	$ 4,039,565
Comprehensive income, net of tax	—	—	—	—	(428)	—	—	—	(66,494)	(66,922)
Share-based payment expense	—	—	—	—	—	58,903	—	—	—	58,903
Exercise of options and vesting of restricted stock units	—	—	29,157,786	28	—	19,249	—	—	—	19,277
Minimum withholding taxes on net share settlement of stock-based compensation	—	—	—	—	—	(31,941)	—	—	—	(31,941)
Conversion of preferred stock to common stock	(6,250,100)	(6)	1,293,509,076	1,293	—	(1,287)	—	—	—	—
Conversion of Exchangeable Notes to common stock	—	—	27,687,850	28	—	45,069	—	—	—	45,097
Common stock repurchased	—	—	—	—	—	—	520,257,866	(1,764,969)	—	(1,764,969)
Common stock retired	—	—	(520,257,866)	(520)	—	(1,764,449)	(520,257,866)	1,764,969	—	—
Transfer of common stock to Sirius XM Holdings Inc.	—	—	(6,092,536,931)	(6,092)	—	6,092	—	—	—	—
Transfer of forward contract to Sirius XM Holdings Inc.	—	—	—	—	—	(4,964)	—	—	—	(4,964)
Initial value of forward contract	—	—	—	—	—	7,300	—	—	—	7,300
Common stock issued by Sirius XM Radio Inc. to Sirius XM Holdings Inc.	—	—	1,000	—	—	—	—	—	—	—
Balance at December 31, 2013	—	$ —	1,000	$ —	$ (308)	$ 8,679,538	—	$ —	$ (6,377,884)	$ 2,301,346
Comprehensive income, net of tax	—	—	—	—	(94)	—	—	—	544,795	544,701
Balance at December 31, 2014	—	$ —	1,000	$ —	$ (402)	$ 8,679,538	—	$ —	$ (5,833,089)	$ 2,846,047

See accompanying notes to the consolidated financial statements.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	For the Years Ended December 31, 2014	2013	2012
Cash flows from operating activities:			
Net income	$ 544,795	$ (66,494)	$ 3,472,702
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	266,423	253,314	266,295
Non-cash interest expense, net of amortization of premium	21,039	21,698	35,924
Provision for doubtful accounts	44,961	39,016	34,548
Amortization of deferred income related to equity method investment	(2,776)	(2,776)	(2,776)
Loss on extinguishment of debt and credit facilities, net	—	190,577	132,726
(Gain) loss on unconsolidated entity investments, net	(5,547)	(5,865)	420
Dividend received from unconsolidated entity investment	17,019	22,065	1,185
Loss on disposal of assets	220	351	657
(Gain) loss on change in fair value of debt and equity instruments	(17,069)	464,102	—
Share-based payment expense	78,212	58,903	63,822
Deferred income taxes	327,461	259,787	(3,001,818)
Other non-cash purchase price adjustments	(3,781)	(207,854)	(289,050)
Changes in operating assets and liabilities:			
Receivables	(72,628)	(15,245)	(58,593)
Inventory	(5,534)	11,474	11,374
Related party assets	(67,118)	(2,246)	9,523
Prepaid expenses and other current assets	(1,195)	16,788	647
Other long-term assets	3,173	2,973	22,779
Accounts payable and accrued expenses	8,843	(44,009)	46,043
Accrued interest	38,355	8,131	(36,451)
Deferred revenue	48,645	73,593	101,311
Related party liabilities	(206)	(1,991)	(7,545)
Other long-term liabilities	(7,035)	12,290	3,042
Net cash provided by operating activities	1,216,257	1,088,582	806,765
Cash flows from investing activities:			
Additions to property and equipment	(121,646)	(173,617)	(97,293)
Purchases of restricted and other investments	—	(1,719)	(26)
Acquisition of business, net of cash acquired	1,144	(525,352)	—
Return of capital from investment in unconsolidated entity	24,178	—	—
Net cash used in investing activities	(96,324)	(700,688)	(97,319)
Cash flows from financing activities:			
Intercompany financing activities	(2,496,799)	—	—
Proceeds from exercise of stock options	—	21,817	123,369
Taxes paid in lieu of shares issued for stock-based compensation	—	(31,941)	—
Proceeds from long-term borrowings and revolving credit facility, net of costs	2,406,205	3,156,063	383,641
Payment of premiums on redemption of debt	—	(175,453)	(100,615)
Repayment of long-term borrowings and revolving credit facility	(1,016,420)	(1,782,160)	(915,824)
Repayment of related party long-term borrowings	—	(200,000)	(126,000)
Common stock repurchased and retired	—	(1,762,360)	—
Dividends paid	—	—	(327,062)
Net cash used in financing activities	(1,107,014)	(774,034)	(962,491)
Net increase (decrease) in cash and cash equivalents	12,919	(386,140)	(253,045)
Cash and cash equivalents at beginning of period	134,805	520,945	773,990
Cash and cash equivalents at end of period	$ 147,724	$ 134,805	$ 520,945

See accompanying notes to the consolidated financial statements.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	For the Years Ended December 31, 2014	2013	2012
Supplemental Disclosure of Cash and Non-Cash Flow Information			
Cash paid during the period for:			
Interest, net of amounts capitalized	$ 199,424	$ 169,781	$ 262,039
Income taxes paid	$ 8,713	$ 2,783	$ 4,935
Acquisition related costs	$ —	$ 2,902	$ —
Non-cash investing and financing activities:			
Capital lease obligations incurred to acquire assets	$ 719	$ 11,966	$ 12,781
Conversion of Series B preferred stock to common stock	$ —	$ 1,293	$ 1,294
Conversion of 7% Exchangeable Notes to common stock, net of debt issuance and deferred financing costs	$ 502,097	$ 45,097	$ —
Performance incentive payments	$ —	$ 16,900	$ —
Goodwill reduced for the exercise and vesting of certain stock awards	$ —	$ 274	$ 19,491
Purchase price accounting adjustments to goodwill	$ 1,698	$ —	$ —

See accompanying notes to the consolidated financial statements.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands, unless otherwise stated)

(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. Subscribers to our connected vehicle services are not included in our subscriber count or subscriber-based operating metrics.

We have agreements with every major automaker (“OEMs”) to offer satellite radios in their vehicles from which we acquire a majority of our subscribers. 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 basis. We offer discounts for prepaid and longer term subscription plans as well as discounts for multiple subscriptions. 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, data and Backseat TV 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 Sirius XM Holdings Inc. ("Holdings") 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

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). All significant intercompany transactions have been eliminated in consolidation. Certain numbers in our prior period consolidated financial statements have been reclassified or consolidated to conform to our current period presentation.

Public companies, including our parent Sirius XM Holdings Inc., 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, the Chief Executive Officer, assesses performance and allocates resources based on the consolidated results of operations of our business.

The consolidated financial statements for Sirius XM for the period ended December 31, 2014 are essentially identical to the consolidated financial statements included in Holdings' Annual Report on Form 10-K for period ended December 31, 2014, filed with the SEC on February 5, 2015, with the following exceptions:

- As a result of our corporate reorganization effective November 15, 2013, all of the outstanding shares of Sirius XM's common stock were converted, on a share for share basis, into identical shares of common stock of Holdings. Following this reorganization, all equity-related transactions, including repurchases of Holdings' common stock and the issuance of equity related to stock-based compensation to Sirius XM employees, have been reported as related party transactions within Sirius XM's consolidated financial statements. The stock-based compensation for Sirius XM employees is recorded in Sirius XM's consolidated financial statements. Refer to Note 11 for additional information related to related party transactions.

(Dollar amounts in thousands, unless otherwise stated)

- The fair value of the 7% Exchangeable Senior Subordinated Notes due 2014 (the "Exchangeable Notes") was recorded in Sirius XM's consolidated balance sheets, with changes in fair value recorded in Sirius XM's statements of comprehensive income through the notes maturity in December 2014. For the years ended December 31, 2014, 2013 and 2012, there was a $17,069, $(466,815) and $0, Gain (loss) on change in fair value of debt and equity instruments, respectively related to the Exchangeable Notes. The Exchangeable Notes were recorded at carrying value in Holdings' consolidated balance sheets. The difference between the fair value and carrying value of the Exchangeable Notes was eliminated in Holdings' consolidated balance sheets and statements of comprehensive income.
- Changes in fair value related to the share repurchase agreement with Liberty Media were recorded in Holdings' consolidated statements of comprehensive income for $(34,485), $(20,393), and $0, for the years ended December 31, 2014, 2013 and 2012, respectively. Refer to Note 11 for additional information related to the share repurchase agreement.

We have evaluated events subsequent to the balance sheet date and prior to furnishing these financial statements for the year ended December 31, 2014 and have determined that no events have occurred that would require adjustment to our consolidated financial statements. For a discussion of subsequent events that do not require adjustment to our consolidated financial statements refer to Note 18.

Use of Estimates

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

(2) Acquisitions

On November 4, 2013, we purchased all of the outstanding shares of the capital stock of the connected vehicle business of Agero, Inc. ("Agero"). The transaction was accounted for using the acquisition method of accounting. During the year ended December 31, 2014, the purchase price allocation associated with the connected vehicle business of Agero was finalized resulting in a net increase to Goodwill of $554, of which $1,144 related to the finalization of the working capital calculation.

As of December 31, 2014, our Goodwill balance associated with this acquisition was $390,016. No other assets or liabilities have been adjusted as a result of the final working capital calculation and adjusted purchase price allocation.

(3) Summary of Significant Accounting Policies

In addition to the significant accounting policies discussed in this Note 3, the following table includes our significant accounting policies that are described in other notes to our consolidated financial statements, including the number and page of the note:

Significant Accounting Policy	Note #	Page #
Fair Value Measurements	4	F-11
Goodwill	7	F-12
Intangible Assets	8	F-13
Property and Equipment	10	F-15
Equity Method Investments	11	F-17
Share-Based Compensation	15	F-21
Legal Costs	16	F-24
Income Taxes	17	F-27

Cash and Cash Equivalents

Our cash and cash equivalents consist of cash on hand, money market funds, certificates of deposit, in-transit credit card receipts and highly liquid investments purchased with an original maturity of three months or less.

Revenue Recognition

We derive revenue primarily from subscribers, advertising and direct sales of merchandise.

Revenue from subscribers consists primarily of subscription fees, and to a lesser extent, daily rental fleet revenue and non-refundable activation and other fees. Revenue is recognized as it is realized or realizable and earned. We recognize subscription fees as our services are provided. At the time of sale, vehicle owners purchasing or leasing a vehicle with a subscription to our service typically receive between a three and twelve month prepaid subscription. Prepaid subscription fees received from certain automakers are recorded as deferred revenue and amortized to revenue ratably over the service period which commences upon retail sale and activation.

We recognize revenue from the sale of advertising as the advertising is broadcast. Agency fees are calculated based on a stated percentage applied to gross billing revenue for our advertising inventory and are reported as a reduction of advertising revenue. We pay certain third parties a percentage of advertising revenue. Advertising revenue is recorded gross of such revenue share payments as we are the primary obligor in the transaction. Advertising revenue share payments are recorded to Revenue share and royalties during the period in which the advertising is broadcast.

Equipment revenue and royalties from the sale of satellite radios, components and accessories are recognized upon shipment, net of discounts and rebates. Shipping and handling costs billed to customers are recorded as revenue. Shipping and handling costs associated with shipping goods to customers are reported as a component of Cost of equipment.

Other revenue primarily includes U.S. Music Royalty Fees which are recorded as revenue and as a component of Revenue share and royalties expense. Fees received from subscribers for the U.S. Music Royalty Fee are recorded as deferred revenue and amortized to revenue ratably over the service period which coincides with the recognition of the subscriber's subscription revenue.

We report revenues net of any tax assessed by a governmental authority that is both imposed on, and concurrent with, a specific revenue-producing transaction between a seller and a customer in our consolidated statements of comprehensive income.

ASC 605, *Revenue Recognition,* provides guidance on how and when to recognize revenues for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets, such as in our bundled subscription plans. Revenue arrangements with multiple deliverables are required to be divided into separate units of accounting if the deliverables in the arrangement meet certain criteria. Consideration must be allocated at the inception of the arrangement to all deliverables based on their relative selling price, which has been determined using vendor specific objective evidence of the selling price to self-pay customers.

Revenue Share

We share a portion of our subscription revenues earned from subscribers with certain automakers. The terms of the revenue share agreements vary with each automaker, but are typically based upon the earned audio revenue as reported or gross billed audio revenue. Revenue share is recorded as an expense in our consolidated statements of comprehensive income and not as a reduction to revenue.

Programming Costs

Programming costs which are for a specified number of events are amortized on an event-by-event basis; programming costs which are for a specified season or period are amortized over the season or period on a straight-line basis. We allocate a portion of certain programming costs which are related to sponsorship and marketing activities to Sales and marketing expense on a straight-line basis over the term of the agreement.

Advertising Costs

Media is expensed when aired and advertising production costs are expensed as incurred. Advertising production costs include expenses related to marketing and retention activities, including expenses related to direct mail, outbound telemarketing and email communications. We also incur advertising production costs related to cooperative marketing and promotional events and sponsorships. During the years ended December 31, 2014, 2013 and 2012, we recorded advertising costs of $222,962, $178,364 and $139,830, respectively. These costs are reflected in Sales and marketing expense in our consolidated statements of comprehensive income.

Subscriber Acquisition Costs

Subscriber acquisition costs consist of costs incurred to acquire new subscribers which include hardware subsidies paid to radio manufacturers, distributors and automakers, including subsidies paid to automakers who include a satellite radio and a prepaid subscription to our service in the sale or lease price of a new vehicle; subsidies paid for chipsets and certain other components used in manufacturing radios; device royalties for certain radios and chipsets; commissions paid to retailers and automakers as incentives to purchase, install and activate radios; product warranty obligations; freight; and provisions for inventory allowance attributable to inventory consumed in our OEM and retail distribution channels. Subscriber acquisition costs do not include advertising costs, loyalty payments to distributors and dealers of radios and revenue share payments to automakers and retailers of radios.

Subsidies paid to radio manufacturers and automakers are expensed upon installation, shipment, receipt of product or activation and are included in Subscriber acquisition costs because we are responsible for providing the service to the customers. Commissions paid to retailers and automakers are expensed upon either the sale or activation of radios. Chipsets that are shipped to radio manufacturers and held on consignment are recorded as inventory and expensed as Subscriber acquisition costs when placed into production by radio manufacturers. Costs for chipsets not held on consignment are expensed as Subscriber acquisition costs when the automaker confirms receipt.

Research & Development Costs

Research and development costs are expensed as incurred and primarily include the cost of new product development, chipset design, software development and engineering. During the years ended December 31, 2014, 2013 and 2012, we recorded research and development costs of $54,109, $50,564 and $42,605, respectively. These costs are reported as a component of Engineering, design and development expense in our consolidated statements of comprehensive income.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss of $402 at December 31, 2014 was primarily comprised of the cumulative foreign currency translation adjustments related to our interest in Sirius XM Canada. During the years ended December 31, 2014, 2013 and 2012, we recorded other comprehensive (loss) income related to foreign currency translation adjustments, of $(94), $(428) and $49, respectively. In addition, during the year ended December 31, 2014, upon the redemption and conversion of the 8% convertible unsecured subordinated debentures issued by Sirius XM Canada, we reclassified $223, net of tax, of previously recognized foreign currency translation losses out of Accumulated other comprehensive loss and into Interest and investment income.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. This ASU is effective for annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. Accordingly, we will adopt this ASU on January 1, 2017. Companies may use either a full retrospective or a modified retrospective approach to adopt this ASU and we are currently evaluating which transition approach to use. We are currently evaluating the impact of the adoption of this ASU on our consolidated financial statements.

(Dollar amounts in thousands, unless otherwise stated)

(4) Fair Value Measurements

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants. As of December 31, 2014 and 2013, the carrying amounts of cash and cash equivalents, accounts and other receivables, and accounts payable approximated fair value due to the short-term nature of these instruments. ASC 820, *Fair Value Measurements and Disclosures,* establishes a fair value hierarchy for input into valuation techniques as follows:

i. Level 1 input: unadjusted quoted prices in active markets for identical instrument;
ii. Level 2 input: observable market data for the same or similar instrument but not Level 1, including quoted prices for identical or similar assets or liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
iii. Level 3 input: unobservable inputs developed using management's assumptions about the inputs used for pricing the asset or liability.

Investments are periodically reviewed for impairment and an impairment is recorded whenever declines in fair value below carrying value are determined to be other than temporary. In making this determination, we consider, among other factors, the severity and duration of the decline as well as the likelihood of a recovery within a reasonable timeframe.

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

	December 31, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	Total Fair Value
Assets:								
Sirius XM Canada Holdings Inc. ("Sirius XM Canada") - investment (a)	$246,500	—	—	$ 246,500	$432,200	—	—	$ 432,200
Sirius XM Canada - fair value of host contract of debenture (b)	$ —	—	—	$ —	$ —	—	3,641	$ 3,641
Sirius XM Canada - fair value of embedded derivative of debenture (b)	$ —	—	—	$ —	$ —	—	57	$ 57
Liabilities:								
Debt (c)	$ —	4,613,044	—	$ 4,613,044	$ —	4,066,755	—	$ 4,066,755

(a) This amount approximates fair value. The carrying value of our investment in Sirius XM Canada was $2,654 and $26,972 as of December 31, 2014 and 2013, respectively.
(b) As of December 31, 2013, we held an investment in CAD $4,000 face value of 8% convertible unsecured subordinated debentures issued by Sirius XM Canada for which the embedded conversion feature was bifurcated from the host contract. Sirius XM Canada redeemed and converted the debentures during the year ended December 31, 2014.
(c) The fair value for non-publicly traded instruments is based upon estimates from a market maker and brokerage firm. Refer to Note 13 for information related to the carrying value of our debt as of December 31, 2014 and December 31, 2013.

(5) 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 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 a subsidy based on 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.

(Dollar amounts in thousands, unless otherwise stated)

Receivables, net consists of the following:

	December 31, 2014	December 31, 2013
Gross customer accounts receivable	$ 101,634	$ 95,562
Allowance for doubtful accounts	(7,815)	(9,078)
Customer accounts receivable, net	$ 93,819	$ 86,484
Receivables from distributors	105,731	88,975
Other receivables	21,029	17,453
Total Receivables, net	$ 220,579	$ 192,912

(6) 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 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 consolidated statements of comprehensive income.

Inventory, net, consists of the following:

	December 31, 2014	December 31, 2013
Raw materials	$ 12,150	$ 12,358
Finished goods	17,971	15,723
Allowance for obsolescence	(10,724)	(14,218)
Total inventory, net	$ 19,397	$ 13,863

(7) 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. Step one of the impairment assessment compares the fair value to its carrying value and if the fair value exceeds its carrying value, goodwill is not impaired. If the carrying value exceeds the fair value, the implied fair value of goodwill is compared to the carrying value of goodwill. If the implied fair value exceeds the carrying value then goodwill is not impaired; otherwise, an impairment loss will be recorded by the amount the carrying value exceeds the implied fair value. At the date of our annual assessment for 2014 and 2013, the fair value of our single reporting unit substantially exceeded its carrying value and therefore was not at risk of failing step one of ASC 350-20, *Goodwill*.

(Dollar amounts in thousands, unless otherwise stated)

As of December 31, 2014, there were no indicators of impairment and no impairment loss was recorded for goodwill during the years ended December 31, 2014, 2013 and 2012. During the year ended December 31, 2014, the purchase price allocation and working capital calculation associated with the connected vehicle business we purchased from Agero were adjusted. These adjustments resulted in a net increase to Goodwill of $554. As of December 31, 2014, 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.

During the years ended December 31, 2014 and 2013, we reduced goodwill by $0 and $274, respectively. The goodwill reduction during the year ended December 31, 2013, related to the subsequent exercise of certain stock options and vesting of certain restricted stock units that were recorded at fair value in connection with the Merger.

(8) Intangible Assets

We recorded intangible assets at fair value related to the Merger that were formerly held by XM. In November 2013, we recorded intangible assets at fair value as a result of the acquisition of the connected vehicle business of Agero. Our intangible assets include the following:

		December 31, 2014			December 31, 2013		
	Weighted Average Useful Lives	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Due to the Merger:							
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	(305,755)	74,245	380,000	(271,372)	108,628
Licensing agreements	9.1 years	45,289	(23,290)	21,999	45,289	(19,604)	25,685
Proprietary software	6 years	16,552	(13,973)	2,579	16,552	(13,384)	3,168
Developed technology	10 years	2,000	(1,283)	717	2,000	(1,083)	917
Leasehold interests	7.4 years	132	(114)	18	132	(96)	36
Due to the acquisition of the connected vehicle business of Agero:							
Definite life intangible assets:							
OEM relationships	15 years	220,000	(17,111)	202,889	220,000	(2,444)	217,556
Proprietary software	10 years	10,663	(1,718)	8,945	10,663	(245)	10,418
Total intangible assets		$ 3,008,290	$ (363,244)	$ 2,645,046	$ 3,008,290	$ (308,228)	$ 2,700,062

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.

(Dollar amounts in thousands, unless otherwise stated)

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.

ASU 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment,* established an option to first perform a qualitative assessment to determine whether it is more likely than not that an asset is impaired. If the qualitative assessment supports that it is more likely than not that the fair value of the asset exceeds its carrying value, a quantitative impairment test is not required. If the qualitative assessment does not support the fair value of the asset, then a quantitative assessment is performed. 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 in an amount equal to that excess.

We completed qualitative assessments of our FCC licenses and XM trademark during the fourth quarter of 2014, 2013 and 2012. As of the date of our annual assessment for 2014, 2013 and 2012, our qualitative impairment assessment of the fair value of our indefinite intangible assets indicated that such assets substantially exceeded their carrying value and therefore was not at risk of impairment. No impairments were recorded for intangible assets with indefinite lives during the years ended December 31, 2014, 2013 and 2012.

Definite Life Intangible Assets

Definite-lived intangible assets are amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment under the provisions of ASC 360-10-35, *Property, Plant and Equipment/Overall/ Subsequent Measurement*. We review intangible assets subject to amortization for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected cash flows, undiscounted and without interest, is less than the carrying amount of the asset, an impairment loss is recognized as the amount by which the carrying amount of the asset exceeds its fair value. No impairment was recorded to our intangible assets with definite lives in 2014, 2013 or 2012.

Subscriber relationships are amortized on an accelerated basis over 9 years, which reflects the estimated pattern in which the economic benefits will be consumed. Other definite life intangible assets include certain licensing agreements, which are amortized over a weighted average useful life of 9.1 years on a straight-line basis. The fair value of the OEM relationships and proprietary software acquired from the acquisition of the connected vehicle business of Agero are being amortized over their estimated weighted average useful lives of 15 and 10 years, respectively.

(Dollar amounts in thousands, unless otherwise stated)

Amortization expense for all definite life intangible assets was $55,016, $50,011 and $53,620 for the years ended December 31, 2014, 2013 and 2012, respectively. Expected amortization expense for each of the fiscal years 2015 through 2019 and for periods thereafter is as follows:

Years ending December 31,	Amount
2015	$ 51,700
2016	48,545
2017	34,882
2018	19,463
2019	19,026
Thereafter	137,776
Total definite life intangible assets, net	$ 311,392

(9) Interest Costs

We capitalized a portion of the interest on funds borrowed as part of the cost of constructing our satellites and related launch vehicles. We primarily capitalized interest associated with our FM-6 satellite and related launch vehicle for the years ended December 31, 2013 and 2012. We also incurred interest costs on our debt instruments and on our satellite incentive agreements. The following is a summary of our interest costs:

	For the Years Ended December 31,		
	2014	2013	2012
Interest costs charged to expense	$ 269,010	$ 204,671	$ 265,321
Interest costs capitalized	480	26,445	31,982
Total interest costs incurred	$ 269,490	$ 231,116	$ 297,303

Included in interest costs incurred is non-cash interest expense, consisting of amortization related to original issue discounts, premiums and deferred financing fees, of $21,039, $21,698 and $35,924 for the years ended December 31, 2014, 2013 and 2012, respectively.

(10) Property and Equipment

Property and equipment, including satellites, are stated at cost, less accumulated depreciation. Equipment under capital leases is stated at the present value of minimum lease payments. Depreciation is calculated using the straight-line method over the following estimated useful life of the asset:

Satellite system	2 - 15 years
Terrestrial repeater network	5 - 15 years
Broadcast studio equipment	3 - 15 years
Capitalized software and hardware	3 - 7 years
Satellite telemetry, tracking and control facilities	3 - 15 years
Furniture, fixtures, equipment and other	2 - 7 years
Building	20 or 30 years
Leasehold improvements	Lesser of useful life or remaining lease term

We review long-lived assets, such as property and equipment, for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds the estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the fair value of the asset. We did not record any impairments in 2014, 2013 or 2012.

(Dollar amounts in thousands, unless otherwise stated)

Property and equipment, net, consists of the following:

	December 31, 2014	December 31, 2013
Satellite system	$ 2,397,611	$ 2,407,423
Terrestrial repeater network	108,341	109,367
Leasehold improvements	48,677	46,173
Broadcast studio equipment	61,306	59,020
Capitalized software and hardware	340,738	298,267
Satellite telemetry, tracking and control facilities	71,268	63,944
Furniture, fixtures, equipment and other	78,237	67,275
Land	38,411	38,411
Building	59,373	58,662
Construction in progress	155,716	103,148
Total property and equipment	3,359,678	3,251,690
Accumulated depreciation and amortization	(1,849,566)	(1,657,116)
Property and equipment, net	$ 1,510,112	$ 1,594,574

Construction in progress consists of the following:

	December 31, 2014	December 31, 2013
Satellite system	$ 12,912	$ 11,879
Terrestrial repeater network	48,406	30,078
Capitalized software	77,755	39,924
Other	16,643	21,267
Construction in progress	$ 155,716	$ 103,148

Depreciation expense on property and equipment was $211,407, $203,303 and $212,675 for the years ended December 31, 2014, 2013 and 2012, respectively. During the years ended December 31, 2014, 2013 and 2012, we retired property and equipment of $19,398, $16,039 and $5,251, respectively, which included the retirement of our XM-2 satellite in 2014, and recognized a loss on disposal of assets of $220, $351 and $657, respectively.

(Dollar amounts in thousands, unless otherwise stated)

Satellites

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

Satellite Designation	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 was fully depreciated as of December 31, 2014 but is still in operation.

(11) Related Party Transactions

In the normal course of business, we enter into transactions with related parties. We had the following related party balances at December 31, 2014 and 2013:

	Related party current assets		Related party long-term assets		Related party current liabilities		Related party current debt		Related party long-term liabilities	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Liberty Media	$ —	$ 278	$ —	$ —	$ —	$ 64	$ —	$ 10,959	$ —	$ —
Sirius XM Canada	4,344	8,867	3,000	27,619	4,340	4,554	—	—	13,635	16,337
Sirius XM Holdings Inc.	—	6,716	1,536,210	—	—	—	—	—	—	—
M-Way	—	—	—	2,545	—	—	—	—	—	—
Total	$ 4,344	$ 15,861	$ 1,539,210	$ 30,164	$ 4,340	$ 4,618	$ —	$ 10,959	$ 13,635	$ 16,337

Liberty Media

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

We understand that Liberty Media held $11,000 in principal amount of our 7% Exchangeable Senior Subordinated Notes due 2014 at December 31, 2013, which were converted upon maturity in December 2014 into 5,974,510 shares of our common stock.

Sirius XM Canada

We hold an equity method investment in Sirius XM Canada. We own approximately 47,300,000 shares of Sirius XM Canada, representing a 37.0% equity interest and a 25.0% voting interest. We primarily provide programming and content services to Sirius XM Canada.

Investments in which we have the ability to exercise significant influence but not control are accounted for pursuant to the equity method of accounting. 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 consolidated statements of comprehensive income on a one month lag.

The difference between our investment and our share of the fair value of the underlying net assets of Sirius XM Canada is first allocated to either finite-lived intangibles or indefinite-lived intangibles and the balance is attributed to goodwill.

(Dollar amounts in thousands, unless otherwise stated)

We follow ASC 350, *Intangibles - Goodwill and Other*, which requires that equity method finite-lived intangibles be amortized over their estimated useful life while indefinite-lived intangibles and goodwill are not amortized. The amortization of equity method finite-lived intangible assets is recorded in Interest and investment income in our consolidated statements of comprehensive income. We periodically evaluate our equity method investments to determine if there has been an other-than-temporary decline below carrying value. Equity method finite-lived intangibles, indefinite-lived intangibles and goodwill are included in the carrying amount of the investment.

Our related party current asset balances primarily consist of programming and chipset costs that we are reimbursed for. Our related party long-term asset balances primarily include our investment balance in Sirius XM Canada. As of December 31, 2014, $2,654 of our investment balance in Sirius XM Canada related to equity method goodwill and as of December 31, 2013, $26,161 of our investment balance related to equity method goodwill and intangible assets. Our related party liabilities as of December 31, 2014 and December 31, 2013 included $2,776 for the current portion of deferred revenue and $13,415 and $16,190, 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. The estimated fair value of deferred revenue from XM Canada as of the Merger date was approximately $34,000, which is amortized on a straight-line basis through 2020, the end of the expected term of the current existing agreements.

Sirius XM Holdings

Effective November 15, 2013, we completed a corporate reorganization. As part of the reorganization, Holdings replaced Sirius XM as the publicly held corporation, and Sirius XM became a wholly-owned subsidiary of Holdings. Holdings has no operations independent of Sirius XM. Effective November 15, 2013, all of the outstanding shares of Sirius XM's common stock were converted, on a share for share basis, into identical shares of common stock of Holdings. Following this reorganization, all equity-related transactions, including repurchases of Holdings' common stock and the issuance of equity related to stock-based compensation for Sirius XM employees, have been reported as related party transactions within Sirius XM's consolidated financial statements. The stock-based compensation for Sirius XM employees is recorded in Sirius XM's consolidated financial statements. The Related party long-term assets balance of Sirius XM includes net amounts due from Holdings in connection with these equity-related transactions as well as for the conversion of the Exchangeable Notes. The Related party current assets balance of Sirius XM for 2013 includes net amounts due from Holdings in connection with certain equity-related transactions.

On October 9, 2013, we entered into an agreement with Liberty Media to repurchase $500,000 of Holdings' common stock from Liberty Media. In connection with the corporate reorganization, Holdings assumed our obligations under such agreement. During the year ended December 31, 2014, Holdings' repurchased $2,522,832 of its common stock, which was funded with our cash. This amount is included in our Related party long-term asset balance as a receivable due from Holdings.

We recorded the following revenue and expenses associated with Sirius XM Canada and Liberty Media which were recorded in our consolidated statements of comprehensive income:

	For the Years Ended December 31,		
	2014	2013	2012
Sirius XM Canada:			
Revenue (a)	$ 49,691	$ 48,935	$ 39,477
Share of net earnings (losses) (b)	$ 15,517	$ 5,865	$ (420)
Liberty Media:			
Expenses (c)	$ (1,025)	$ (13,514)	$ (30,931)

(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 consolidated statements of comprehensive income.

(b) During the year ended December 31, 2014, our share of Sirius XM Canada’s net earnings included a gain of $1,251 related to the fair value received in excess of the carrying value associated with the redemption of our investment in Sirius XM Canada’s 8% convertible unsecured subordinated debentures in February 2014. Sirius XM Canada declared dividends to us of $43,492, $16,796 and $7,749 during the years ended December 31, 2014, 2013 and 2012, respectively. These dividends are first recorded as a reduction to our investment balance in Sirius XM Canada to the extent a balance exists and then as Interest and investment income for the remaining portion. This amount includes amortization related to the equity method intangible assets of $363, $1,454 and

(Dollar amounts in thousands, unless otherwise stated)

$974 for the years ended December 31, 2014, 2013 and 2012, respectively.

(c) We recognized Interest expense associated with the portion of the 7% Exchangeable Senior Subordinated Notes due 2014, the portion of the 7.625% Senior Notes due 2018, and the portion of the 8.75% Senior Notes due 2015 held by Liberty Media through December 2014, October 2013 and August 2013, respectively.

M-Way

During the year ended December 31, 2014, we evaluated our investment in M-Way Solutions GmbH ("M-Way") and determined that there was an other than temporary decline in its fair value. As a result, we reduced our investment balance to zero and recognized a loss of $2,342 in Other (loss) income in our consolidated statements of comprehensive income during the year ended December 31, 2014. In November 2014, we sold our investment in M-Way and recognized a loss of $353 in Engineering, design and development in connection with this transaction in our consolidated statements of comprehensive income during the year ended December 31, 2014.

(12) Investments

Long Term Restricted Investments

Restricted investments relate to reimbursement obligations under letters of credit issued for the benefit of lessors of our office space. As of December 31, 2014 and 2013 our Long-term restricted investments were $5,922 and $5,718, respectively.

(13) Debt

Our debt as of December 31, 2014 and 2013 consisted of the following:

Issuer / Borrower	Issued	Debt	Maturity Date	Interest Payable	Principal Amount	Carrying value at December 31, 2014	Carrying value at December 31, 2013
Sirius XM (a)(b)	August 2008	7% Exchangeable Senior Subordinated Notes (the "Exchangeable Notes")	December 1, 2014	semi-annually on June 1 and December 1	$ —	$ —	$ 967,296
Sirius XM (a)(c)	May 2013	4.25% Senior Notes (the "4.25% Notes")	May 15, 2020	semi-annually on May 15 and November 15	500,000	495,529	494,809
Sirius XM (a)(c)	September 2013	5.875% Senior Notes (the "5.875% Notes")	October 1, 2020	semi-annually on April 1 and October 1	650,000	643,790	642,914
Sirius XM (a)(c)	August 2013	5.75% Senior Notes (the "5.75% Notes")	August 1, 2021	semi-annually on February 1 and August 1	600,000	595,091	594,499
Sirius XM (a)(c)	May 2013	4.625% Senior Notes (the "4.625% Notes")	May 15, 2023	semi-annually on May 15 and November 15	500,000	495,116	494,653
Sirius XM (a)(c)(d)	May 2014	6.00% Senior Notes (the "6.00% Notes")	July 15, 2024	semi-annually on January 15 and July 15	1,500,000	1,483,918	—
Sirius XM (a)(c)(e)	August 2012	5.25% Senior Secured Notes (the "5.25% Notes")	August 15, 2022	semi-annually on February 15 and August 15	400,000	395,147	394,648
Sirius XM (f)	December 2012	Senior Secured Revolving Credit Facility (the "Credit Facility")	December 5, 2017	variable fee paid quarterly	1,250,000	380,000	460,000
Sirius XM	Various	Capital leases	Various	n/a	n/a	12,754	19,591
Total Debt						4,501,345	4,068,410
Less: total current maturities non-related party						7,482	963,630
Less: total current maturities related party						—	10,959
Total long-term debt						$ 4,493,863	$ 3,093,821

(a) The carrying value of the notes are net of the remaining unamortized original issue discount.

(b) In connection with our corporate reorganization in November 2013, the Exchangeable Notes were amended such that the settlement of the conversion feature was into shares of Holdings' common stock. Due to this significant change in the accounting structure of the Exchangeable Notes, there was a new accounting basis, and therefore, the fair value of the entire instrument was included in our consolidated balance sheet as of December 31, 2013 and any changes in the fair value were recorded in our consolidated statements of comprehensive income through the maturity of the Exchangeable Notes in December 2014. We recognized $17,069 and $(466,815) to Gain (loss) on change in fair value of debt and equity instruments during the years ended December 31, 2014 and

2013, respectively.

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

(d) In May 2014, we issued $1,500,000 aggregate principal amount of 6.00% Senior Notes due 2024, with an original issuance discount of $16,875.

(e) In April 2014, we entered into a supplemental indenture to the indenture governing the 5.25% Notes pursuant to which we granted a first priority lien on substantially all of the assets of Sirius XM and the guarantors to the holders of the 5.25% Notes. The liens securing the 5.25% Notes are equal and ratable to the liens granted to secure the Credit Facility.

(f) In December 2012, we entered into a five-year Credit Facility with a syndicate of financial institutions for $1,250,000. Our obligations under the Credit Facility are guaranteed by certain of our material domestic subsidiaries and are secured by a lien on substantially all of our assets and the assets of our material domestic subsidiaries. Borrowings under the Credit Facility are used for working capital and other general corporate purposes, including dividends, financing of acquisitions and share repurchases. Interest on borrowings is payable on a monthly basis and accrues at a rate based on LIBOR plus an applicable rate. We are also required to pay a variable fee on the average daily unused portion of the Credit Facility and is payable on a quarterly basis. The variable rate for the unused portion of the Credit Facility was 0.35% per annum as of December 31, 2014. As of December 31, 2014, $870,000 was available for future borrowing under the Credit Facility. Our outstanding borrowings under the Credit Facility are classified as Long-term debt within our consolidated balance sheets due to the long-term maturity of this debt.

Retired and Converted Debt

The Exchangeable Notes were exchangeable at anytime at the option of the holder into shares of Holdings' common stock at an exchange rate of 543.1372 shares of common stock per 1,000 dollars of principal amount of the notes, which is equivalent to an approximate exchange price of $1.841 per share of common stock. During the year ended December 31, 2014, $502,370 in principal amount of the Exchangeable Notes were converted prior to the Exchangeable Notes' maturity on December 1, 2014, resulting in the issuance of 272,855,859 shares of Holdings' common stock.

During the year ended December 31, 2013, we purchased $800,000 of our then outstanding 8.75% Senior Notes due 2015, for an aggregate purchase price, including premium and interest, of $927,860. We recognized $104,818 to Loss on extinguishment of debt and credit facilities, net, consisting primarily of unamortized discount, deferred financing fees and repayment premium, as a result of this transaction.

During the year ended December 31, 2013, we also purchased $700,000 of our then outstanding 7.625% Senior Notes due 2018, for an aggregate purchase price, including premium and interest, of $797,830. We recognized $85,759 to Loss on extinguishment of debt and credit facilities, net, consisting primarily of unamortized discount, deferred financing fees and repayment premium, as a result of this transaction.

Covenants and Restrictions

Under the Credit Facility, we must comply with a debt maintenance covenant that it not exceed a total leverage ratio, calculated as total consolidated debt to consolidated operating cash flow, of 5.0 to 1.0. The Credit Facility generally requires compliance with certain covenants that restrict our 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.

The indentures governing our notes restrict our 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 our ability and the ability of our subsidiaries to create certain liens; enter into sale/leaseback transactions; and merge or consolidate.

Under our 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 December 31, 2014 and 2013, we were in compliance with our debt covenants.

(14) Stockholder Equity

Common Stock, par value $0.001 per share

We were authorized to issue up to 9,000,000,000 shares of common stock as of December 31, 2014 and 2013. As a result of our corporate reorganization in November 2013, 1,000 shares of common stock of Sirius XM were issued and outstanding, and were owned by Holdings as of December 31, 2014 and 2013.

Share Lending Arrangements

To facilitate the offering of the Exchangeable Notes, we entered into share lending agreements with Morgan Stanley Capital Services Inc. and UBS AG London Branch in July 2008. All loaned shares were returned to us as of October 2011, and the share lending agreements were terminated.

We recorded interest expense related to the amortization of the costs associated with the share lending arrangement and other issuance costs for our Exchangeable Notes of $12,701, $12,745 and $12,402 for the years ended December 31, 2014, 2013 and 2012, respectively. As of December 31, 2013, the unamortized balance of the debt issuance costs was $12,701, with $12,423 recorded in Other current assets, and $278 recorded in Related party current assets. These costs were fully amortized as of December 31, 2014 as the Exchangeable Notes matured on December 1, 2014.

Preferred Stock, par value $0.001 per share

We were authorized to issue up to 50,000,000 shares of undesignated preferred stock as of December 31, 2014 and 2013. In January 2013, Liberty Media converted its remaining shares of the Series B Preferred Stock into 1,293,509,076 shares of Holdings' common stock. There were no shares of preferred stock issued or outstanding as of December 31, 2014 and 2013.

(15) Benefit Plans

We recognized share-based payment expense of $78,212, $68,876 and $63,822 for the years ended December 31, 2014, 2013 and 2012, respectively.

We account for equity instruments granted to employees in accordance with ASC 718, *Compensation - Stock Compensation*. ASC 718 requires all share-based compensation payments to be recognized in the financial statements based on fair value. ASC 718 requires forfeitures to be estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from initial estimates. We use the Black-Scholes-Merton option-pricing model to value stock option awards and have elected to treat awards with graded vesting as a single award. Share-based compensation expense is recognized ratably over the requisite service period, which is generally the vesting period, net of forfeitures. We measure restricted stock awards and units using the fair market value of the restricted shares of common stock on the day the award is granted.

Fair value as determined using the Black-Scholes-Merton model varies based on assumptions used for the expected life, expected stock price volatility and risk-free interest rates. In 2014, 2013 and 2012, we estimated the fair value of awards granted using the hybrid approach for volatility, which weights observable historical volatility and implied volatility of qualifying actively traded options on our common stock. The expected life assumption represents the weighted-average period stock-based awards are expected to remain outstanding. These expected life assumptions are established through a review of historical exercise behavior of stock-based award grants with similar vesting periods. Where historical patterns do not exist, contractual terms are used. The risk-free interest rate represents the daily treasury yield curve rate at the grant date based on the closing market bid yields on actively traded U.S. treasury securities in the over-the-counter market for the expected term. Our assumptions may change in future periods.

Stock-based awards granted to employees, non-employees and members of our board of directors include warrants, stock options, and restricted stock units.

As a result of our corporate reorganization effective November 15, 2013, all of the outstanding share-based compensation plans of Sirius XM were assumed by Holdings. The stock-based compensation for Sirius XM employees is recorded in Sirius XM's consolidated financial statements.

(Dollar amounts in thousands, unless otherwise stated)

2009 Long-Term Stock Incentive Plan

In May 2009, our stockholders approved the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan (the "2009 Plan"). Employees, consultants and members of Holdings' board of directors are eligible to receive awards under the 2009 Plan. The 2009 Plan provides for the grant of stock options, restricted stock awards, restricted stock units and other stock-based awards that the compensation committee of Holdings' 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 2009 Plan are generally subject to a vesting requirement. Stock-based awards 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 December 31, 2014, approximately 19,950,000 shares of Holdings' common stock were available for future grants under the 2009 Plan.

Other Plans

There are four other share-based benefit plans — the XM 2007 Stock Incentive Plan, the Amended and Restated Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan, the XM 1998 Shares Award Plan and the XM Talent Option Plan. No further awards may be made under these plans, and all outstanding awards are fully vested.

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 Years Ended December 31,		
	2014	2013	2012
Risk-free interest rate	1.6%	1.4%	0.8%
Expected life of options — years	4.72	4.73	5.06
Expected stock price volatility	33%	47%	49%
Expected dividend yield	0%	0%	0%

There were no options granted to third parties during the years ended December 31, 2014, 2013 and 2012. We do not intend to pay regular dividends on Holdings' common stock. Accordingly, the dividend yield percentage used in the Black-Scholes-Merton option value was zero for all periods.

The following table summarizes stock option activity under the share-based plans for the years ended December 31, 2014, 2013 and 2012 (options in thousands):

	Options	Weighted-Average Exercise Price (1)	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at the beginning of January 1, 2012	439,580	$ 1.25		
Granted	58,626	$ 2.53		
Exercised	(214,199)	$ 0.59		
Forfeited, cancelled or expired	(9,495)	$ 3.09		
Outstanding as of December 31, 2012	274,512	$ 1.92		
Granted	57,228	$ 3.59		
Exercised	(61,056)	$ 1.31		
Forfeited, cancelled or expired	(6,445)	$ 2.02		
Outstanding as of December 31, 2013	264,239	$ 2.42		
Granted	61,852	$ 3.39		
Exercised	(46,943)	$ 1.63		
Forfeited, cancelled or expired	(11,294)	$ 4.08		
Outstanding as of December 31, 2014	267,854	$ 2.72	7.09	$ 246,067
Exercisable as of December 31, 2014	121,272	$ 2.27	5.28	$ 179,913

(1) The weighted-average exercise price for options outstanding as of December 31, 2012 in the table above has been adjusted to reflect the reduction to the exercise prices related to the December 28, 2012 special cash dividend.

The weighted average grant date fair value of options granted during the years ended December 31, 2014, 2013 and 2012 was $1.05, $1.48 and $1.09, respectively. The total intrinsic value of stock options exercised during the years ended December 31, 2014, 2013 and 2012 was $89,428, $142,491 and $399,794, respectively. We recognized share-based payment expense associated with stock options of $69,754, $66,231 and $60,299 for the years ended December 31, 2014, 2013 and 2012, respectively.

The following table summarizes the nonvested restricted stock unit activity under the share-based plans for the years ended December 31, 2014, 2013 and 2012 (shares in thousands):

	Shares	Grant Date Fair Value
Nonvested as of January 1, 2012	421	$ 1.46
Granted	8	$ —
Vested	—	$ —
Forfeited	—	$ —
Nonvested as of December 31, 2012	429	$ 3.25
Granted	6,873	$ 3.59
Vested	(192)	$ 3.27
Forfeited	(126)	$ 3.61
Nonvested as of December 31, 2013	6,984	$ 3.58
Granted	6,108	$ 3.38
Vested	(1,138)	$ 3.62
Forfeited	(379)	$ 3.52
Nonvested as of December 31, 2014	11,575	$ 3.47

(Dollar amounts in thousands, unless otherwise stated)

The weighted average grant date fair value of restricted stock units granted during the years ended December 31, 2014 and 2013 was $3.38 and $3.59, respectively. The total intrinsic value of restricted stock units that vested during the years ended December 31, 2014, 2013 and 2012 was $4,044, $605 and $0, respectively. In connection with the special cash dividend paid in December 2012, we granted 8,000 incremental restricted stock units to prevent the economic dilution of the holders of our restricted stock units. This grant did not result in any additional incremental share-based payment expense being recognized in 2012.

We recognized share-based payment expense associated with restricted stock units of $8,458, $2,645 and $0 during the years ended December 31, 2014, 2013 and 2012, 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 December 31, 2014 and 2013, net of estimated forfeitures, were $162,985 and $164,292, respectively. The total unrecognized compensation costs at December 31, 2014 are expected to be recognized over a weighted-average period of 3 years.

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 Holdings' common stock on the open market, unless the employee elects Holdings' common stock as their investment option for this contribution. Prior to January 2014, the cash from employer matching contributions was used to purchase shares of Holdings' common stock on the open market. We contributed $5,385 and $4,181 during the years ended December 31, 2014 and 2013, respectively, to the Sirius XM Plan in fulfillment of our matching obligation. During the year ended December 31, 2012, employer matching contributions were made in the form of shares of our common stock, resulting in share-based payment expense of $3,523.

(16) Commitments and Contingencies

The following table summarizes our expected contractual cash commitments as of December 31, 2014:

	2015	2016	2017	2018	2019	Thereafter	Total
Debt obligations	$ 7,482	$ 4,266	$ 380,928	$ 78	$ —	$ 4,150,000	$ 4,542,754
Cash interest payments	240,874	240,551	240,803	228,063	228,063	711,750	1,890,104
Satellite and transmission	15,364	4,594	3,643	4,170	4,187	12,719	44,677
Programming and content	231,272	109,903	74,816	60,150	48,333	60,000	584,474
Marketing and distribution	31,645	13,114	9,185	8,298	6,218	1,538	69,998
Satellite incentive payments	11,511	12,367	13,296	14,302	10,652	43,527	105,655
Operating lease obligations	49,408	43,634	36,636	34,036	29,224	200,884	393,822
Other	66,462	13,829	2,479	895	150	50	83,865
Total (1)	$ 654,018	$ 442,258	$ 761,786	$ 349,992	$ 326,827	$ 5,180,468	$ 7,715,349

(1) The table does not include our reserve for uncertain tax positions, which at December 31, 2014 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 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 based on the expected operating performance 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 based on their expected operating performance 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. Total rent recognized in connection with leases for the years ended December 31, 2014, 2013 and 2012 was $45,107, $39,228 and $37,474, respectively.

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, including subscriber growth, 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 Holdings' stock acquired from a third-party financial institution but not paid for as of December 31, 2014 is included in this category.

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.

State Consumer Investigations. In December 2014, we entered into agreements with 46 States and the District of Columbia to settle a multistate investigation into certain of our consumer practices. The investigation focused on practices relating to the cancellation of subscriptions; automatic renewal of subscriptions; charging, billing, collecting, and refunding or crediting of payments from consumers; and soliciting customers. As part of the settlement agreements, we agreed to certain changes in our consumer practices relating to: the sale and cancellation of self-pay subscriptions, the contents of advertising for our products and services, refunds we provide to consumers, and consumer complaints. All of the changes contemplated by these settlement agreements have been implemented. We also agreed to provide, upon the request of the States, certain additional information about our consumer practices, to participate in a process designed to address any previously unresolved consumer complaints, and to make an aggregate payment to the States of approximately $4,000.

A separate investigation into our consumer practices is being conducted by the Attorney General of the State of New York. We are cooperating with this investigation and believe our consumer practices comply with all applicable federal and New York State laws and regulations. In our view, the result of this investigation, including a possible settlement, will not have a material adverse effect on our business, financial condition or results of operations.

Pre-1972 Sound Recording Matters. We are a defendant in three class action suits and one additional suit, which were commenced in August and September 2013 and challenge our use and public performance via satellite radio and the Internet of sound recordings fixed prior to February 15, 1972 under California, New York and/or Florida law. The plaintiffs in each of these suits purport to seek in excess of $100,000 in compensatory damages along with unspecified punitive damages and injunctive relief. Accordingly, 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 these actions vigorously.

In September 2014, the United States District Court for the Central District of California ruled that the grant of “exclusive ownership” to the owner of a sound recording under California’s copyright statute included the exclusive right to control public performances of the sound recording. The court further found that the unauthorized public performance of sound recordings violated California laws on unfair competition, misappropriation and conversion. In October 2014, the Superior Court of the State of California for the County of Los Angeles adopted the Central District Court's interpretation of "exclusive ownership" under California's copyright statute. That Court did not find that the unauthorized public performance of sound recordings violated California laws on unfair competition, misappropriation and conversion. In November 2014, the United States District Court for the Southern District of New York ruled that sound recordings fixed before February 15, 1972 were entitled under various theories of New York common law to the benefits of a public performances right. We intend to appeal these decisions.

These cases are titled Flo & Eddie Inc. v. Sirius XM Radio Inc. et al., No. 2:13-cv-5693-PSG-RZ (C.D. Cal.), Flo & Eddie, Inc. v. Sirius XM Radio Inc., et al., No. 1:13-cv-23182-DPG (S.D. Fla.), Flo & Eddie, Inc. v. Sirius XM Radio Inc. et al., No. 1:13-cv-5784-CM (S.D.N.Y.), and Capitol Records LLC et al. v. Sirius XM Radio Inc., No. BC-520981 (Super. Ct. L.A. County). Additional information concerning each of these actions is publicly available in court filings under their docket numbers.

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 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. The Copyright Royalty Board has requested that the parties submit briefs regarding whether the agency properly has jurisdiction to interpret the regulations and adjudicate this matter under the applicable statute. 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 these actions 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 three purported class action suits, which were commenced in February 2012, January 2013 and January 2015, in the United States District Court for the Eastern District of Virginia, Newport News Division, and the United States District Court for the Southern District of California 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 500 dollars for each violation of the TCPA or, in the alternative, treble damages of up to 1,500 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. 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 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.) and Brian Trenz v. Sirius XM Holdings, Inc. and Toyota Motor Sales, U.S.A., Inc., No. 15-cv-0044L-BLM (S.D. Cal). Additional information concerning each of these actions is publicly available in court filings under their docket numbers.

With respect to the 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.

(17) Income Taxes

There is no current U.S. federal income tax provision, as all federal taxable income was offset by utilizing U.S. federal net operating loss carryforwards. The current state income tax provision is primarily related to taxable income in certain states that have suspended the ability to use net operating loss carryforwards or where net operating losses have been fully utilized. The current foreign income tax provision is primarily related to foreign withholding taxes on dividend distributions between us and our Canadian affiliate. For the year ended December 31, 2013, the current foreign income tax provision related to reimbursement of foreign withholding taxes. Income tax expense is the sum of current income tax plus the change in deferred tax assets and liabilities.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollar amounts in thousands, unless otherwise stated)

Sirius XM and its wholly-owned subsidiaries are included in the consolidated federal income tax returns of Holdings. Holdings files a consolidated federal income tax return with its wholly-owned subsidiaries, including Sirius XM. Income tax (expense) benefit consisted of the following:

	For the Years Ended December 31,		
	2014	2013	2012
Current taxes:			
Federal	$ —	$ —	$ —
State	(7,743)	(5,359)	(1,319)
Foreign	(2,341)	5,269	(2,265)
Total current taxes	(10,084)	(90)	(3,584)
Deferred taxes:			
Federal	(302,350)	(211,044)	2,729,823
State	(25,111)	(48,743)	271,995
Total deferred taxes	(327,461)	(259,787)	3,001,818
Total income tax (expense) benefit	$ (337,545)	$ (259,877)	$ 2,998,234

Income tax (expense) benefit for Sirius XM and Holdings is the same for the years ended December 31, 2014, 2013 and 2012. The difference in Income before income taxes in the respective consolidated statements of comprehensive income of Sirius XM and Holdings fully relates to permanent differences recognized for tax purposes. The following table shows the significant elements contributing to the difference between the federal tax (expense) benefit at the statutory rate and at Sirius XM's effective rate:

	For the Years Ended December 31,		
	2014	2013	2012
Federal tax expense, at statutory rate	$ (308,819)	$ (67,684)	$ (166,064)
State income tax expense, net of federal benefit	(33,807)	(4,467)	(16,606)
State income rate changes	5,334	(8,666)	(2,251)
Non-deductible expenses	(746)	(699)	(477)
Change in valuation allowance	2,836	4,228	3,195,651
Fair value of debt instrument	6,616	(178,704)	—
Other, net	(8,959)	(3,885)	(12,019)
Income tax (expense) benefit	$ (337,545)	$ (259,877)	$ 2,998,234

Deferred income taxes are recognized for the tax consequences related to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes at each year-end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. In determining the period in which related tax benefits are realized for book purposes, excess share-based compensation deductions included in net operating losses are realized after regular net operating losses are exhausted; excess tax compensation benefits are recorded off balance-sheet as a memo entry until the period the excess tax benefit is realized through a reduction of taxes payable. A valuation allowance is recognized when, based on the weight of all available evidence, it is considered more likely than not that all, or some portion, of the deferred tax assets will not be realized.

(Dollar amounts in thousands, unless otherwise stated)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	For the Years Ended December 31,	
	2014	2013
Deferred tax assets:		
Net operating loss carryforwards	$ 1,818,719	$ 2,207,583
GM payments and liabilities	539	1,984
Deferred revenue	691,323	606,430
Severance accrual	271	388
Accrued bonus	28,170	25,830
Expensed costs capitalized for tax	19,624	22,679
Deferred financing costs	958	664
Investments	46,751	45,078
Stock based compensation	79,296	71,794
Other	36,597	31,735
Total deferred tax assets	2,722,248	3,014,165
Deferred tax liabilities:		
Depreciation of property and equipment	(237,971)	(188,675)
FCC license	(789,857)	(778,152)
Other intangible assets	(213,086)	(233,983)
Total deferred tax liabilities	(1,240,914)	(1,200,810)
Net deferred tax assets before valuation allowance	1,481,334	1,813,355
Valuation allowance	(4,995)	(7,831)
Total net deferred tax asset	$ 1,476,339	$ 1,805,524

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences can be carried forward under tax law. Management's evaluation of the realizability of deferred tax assets considers both positive and negative evidence, including historical financial performance, scheduled reversal of deferred tax assets and liabilities, projected taxable income and tax planning strategies in making this assessment. The weight given to the potential effects of positive and negative evidence is based on the extent to which it can be objectively verified. The net deferred tax assets are primarily related to gross net operating loss carryforwards of approximately $4,794,924. In addition to the gross book net operating loss carryforwards, we have $753,218 of excess share-based compensation deductions that will not be realized until we utilize the $4,794,924 of net operating losses, resulting in an approximate gross operating loss carryforward on our tax return of $5,548,142.

For the year ended December 31, 2012, our deferred tax asset valuation allowance decreased by $3,350,905 in response to cumulative positive evidence in 2012 which outweighed the historical negative evidence from our emergence from cumulative losses in recent years and updated assessments regarding that it was more likely than not that our deferred tax assets will be realized. As of December 31, 2014 and 2013, the deferred tax asset valuation allowance of $4,995 and $7,831, respectively, related to deferred tax assets that are not likely to be realized due to certain state net operating loss limitations we are not more likely than not going to utilize. These net operating loss carryforwards expire on various dates beginning in 2017 and ending in 2028.

ASC 740 requires a company to first determine whether it is more likely than not that a tax position will be sustained based on its technical merits as of the reporting date, assuming that taxing authorities will examine the position and have full knowledge of all relevant information. A tax position that meets this more likely than not threshold is then measured and recognized at the largest amount of benefit that is greater than fifty percent likely to be realized upon effective settlement with a taxing authority. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We record interest and penalties related to uncertain tax positions in Income tax (expense) benefit in our consolidated statements of comprehensive income.

(Dollar amounts in thousands, unless otherwise stated)

As of December 31, 2014 and 2013, the gross liability for income taxes associated with uncertain state tax positions was $1,432. If recognized, $1,432 of unrecognized tax benefits would affect our effective tax rate. This liability is recorded in Other long-term liabilities. No penalties have been accrued for. We do not currently anticipate that our existing reserves related to uncertain tax positions as of December 31, 2014 will significantly increase or decrease during the twelve-month period ending December 31, 2015; however, various events could cause our current expectations to change in the future. Should our position with respect to the majority of these uncertain tax positions be upheld, the effect would be recorded in our consolidated statements of comprehensive income as part of the income tax provision. Our policy is to recognize interest and penalties accrued on uncertain tax positions as part of income tax expense. We recorded interest expense of $55 and $40 for the years ended December 31, 2014 and 2013, respectively, related to our unrecognized tax benefits presented below.

Changes in our uncertain income tax positions, from January 1 through December 31 are presented below:

	2014	2013
Balance, beginning of year	$ 1,432	$ 1,432
Additions for tax positions from prior years	—	—
Balance, end of year	$ 1,432	$ 1,432

We have federal and certain state income tax audits pending. We do not expect the ultimate disposition of these audits to have a material adverse effect on our financial position or results of operations.

(18) Subsequent Events

Holdings' Stock Repurchase Program

For the period from January 1, 2015 to February 3, 2015, Holdings repurchased $231,026 of its common stock, including fees and commissions, on the open market.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollar amounts in thousands, unless otherwise stated)

(19) Quarterly Financial Data--Unaudited

Our quarterly results of operations are summarized below:

	For the Three Months Ended			
	March 31	June 30	September 30	December 31
2014 (1)				
Total revenue	$ 997,711	$ 1,035,345	$ 1,057,087	$ 1,090,952
Cost of services	$ (390,534)	$ (393,185)	$ (403,519)	$ (421,098)
Income from operations	$ 247,407	$ 284,578	$ 294,028	$ 293,657
Net income	$ 210,121	$ 59,515	$ 135,932	$ 139,227
2013 (1)				
Total revenue	$ 897,398	$ 940,110	$ 961,509	$ 1,000,078
Cost of services	$ (330,257)	$ (331,465)	$ (336,464)	$ (396,304)
Income from operations	$ 246,931	$ 267,736	$ 284,529	$ 245,357
Net income	$ 123,602	$ 125,522	$ 62,894	$ (378,512)

(1) Net income (loss) per share for Sirius XM is not presented since Sirius XM is a wholly-owned subsidiary of Holdings.