# SIRIUS XM RADIO INC.

(Exact name of company as specified in its charter)

# QUARTERLY REPORT

For the Quarterly Period Ended June 30, 2021

## Explanatory Note

*Sirius XM Radio Inc. ("Sirius XM") is furnishing this Quarterly Report for the quarterly period ended June 30, 2021 (the "Quarterly Report") in order to comply with the reporting obligations in the indentures governing its 3.875% Senior Notes due 2022, 4.625% Senior Notes due 2024, 5.375% Senior Notes due 2026, 5.00% Senior Notes due 2027, 4.00% Senior Notes due 2028, 5.50% Senior Notes due 2029 and 4.125% Senior Notes due 2030 (collectively, the "Notes").*

*Before making any investment decisions in Sirius XM or Sirius XM Holdings Inc. ("Holdings"), investors should read the following unaudited consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Sirius XM in conjunction with Holdings' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021 and Holdings' other reports available through the Securities and Exchange Commission website at www.sec.gov and our website at www.siriusxm.com, and with Sirius XM's other reports available through our website. Holdings' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021 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 unaudited consolidated financial statements included within this Quarterly Report for an explanation of differences between Sirius XM and Holdings' unaudited 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. "Pandora" refers to Sirius XM's wholly owned subsidiary Pandora Media, LLC (the successor to Pandora Media, Inc.) and its subsidiaries.*

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

| *(in millions)* | For the Three Months Ended June 30, 2021 | For the Three Months Ended June 30, 2020 | For the Six Months Ended June 30, 2021 | For the Six Months Ended June 30, 2020 |
|---|---|---|---|---|
| Revenue: | | | | |
| Subscriber revenue | $ 1,641 | $ 1,578 | $ 3,252 | $ 3,163 |
| Advertising revenue | 429 | 236 | 783 | 521 |
| Equipment revenue | 51 | 25 | 108 | 66 |
| Other revenue | 38 | 35 | 74 | 76 |
| Total revenue | 2,159 | 1,874 | 4,217 | 3,826 |
| Operating expenses: | | | | |
| Cost of services: | | | | |
| Revenue share and royalties | 662 | 587 | 1,303 | 1,157 |
| Programming and content | 136 | 110 | 265 | 228 |
| Customer service and billing | 128 | 122 | 244 | 240 |
| Transmission | 52 | 43 | 101 | 83 |
| Cost of equipment | 4 | 4 | 9 | 8 |
| Subscriber acquisition costs | 89 | 48 | 175 | 147 |
| Sales and marketing | 240 | 217 | 456 | 442 |
| Engineering, design and development | 65 | 61 | 130 | 132 |
| General and administrative | 130 | 119 | 251 | 226 |
| Depreciation and amortization | 131 | 124 | 263 | 256 |
| Impairment, restructuring and acquisition costs | (136) | 24 | 108 | 24 |
| Total operating expenses | 1,501 | 1,459 | 3,305 | 2,943 |
| Income from operations | 658 | 415 | 912 | 883 |
| Other (expense) income: | | | | |
| Interest expense | (101) | (101) | (199) | (198) |
| Other income (expense) | 1 | (14) | (4) | 30 |
| Total other (expense) income | (100) | (115) | (203) | (168) |
| Income before income taxes | 558 | 300 | 709 | 715 |
| Income tax expense | (127) | (69) | (65) | (158) |
| Net income attributable to Sirius XM Radio Inc.'s sole stockholder | $ 431 | $ 231 | $ 644 | $ 557 |
| Foreign currency translation adjustment, net of tax | 7 | 10 | 12 | (15) |
| Total comprehensive income attributable to Sirius XM Radio Inc.'s sole stockholder | $ 438 | $ 241 | $ 656 | $ 542 |

See accompanying notes to the unaudited consolidated financial statements.

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

| *(in millions, except per share data)* | June 30, 2021 | December 31, 2020 |
|---|---|---|
| **ASSETS** | (unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,124 | $ 71 |
| Receivables, net | 654 | 672 |
| Inventory, net | 5 | 10 |
| Related party current assets | 11 | 20 |
| Prepaid expenses and other current assets | 335 | 194 |
| Total current assets | 2,129 | 967 |
| Property and equipment, net | 1,405 | 1,629 |
| Intangible assets, net | 3,263 | 3,340 |
| Goodwill | 3,136 | 3,107 |
| Related party long-term assets | 11,080 | 10,167 |
| Deferred tax assets | 122 | 122 |
| Operating lease right-of-use assets | 379 | 427 |
| Other long-term assets | 214 | 206 |
| Total assets | $ 21,728 | $ 19,965 |
| **LIABILITIES AND STOCKHOLDER EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 1,132 | $ 1,223 |
| Accrued interest | 173 | 174 |
| Current portion of deferred revenue | 1,583 | 1,721 |
| Current maturities of debt | 998 | 1 |
| Operating lease current liabilities | 51 | 48 |
| Total current liabilities | 3,937 | 3,167 |
| Long-term deferred revenue | 110 | 118 |
| Long-term debt | 8,889 | 8,544 |
| Deferred tax liabilities | 307 | 266 |
| Operating lease liabilities | 388 | 419 |
| Other long-term liabilities | 139 | 149 |
| Total liabilities | 13,770 | 12,663 |
| Commitments and contingencies (Note 15) | | |
| Stockholder equity: | | |
| Common stock, par value $0.001 per share; 9,000 shares authorized; 0.001 shares issued and outstanding at June 30, 2021 and December 31, 2020, respectively | — | — |
| Accumulated other comprehensive income, net of tax | 27 | 15 |
| Additional paid-in capital | 8,680 | 8,680 |
| Accumulated deficit | (749) | (1,393) |
| Total stockholder equity | 7,958 | 7,302 |
| Total liabilities and stockholder equity | $ 21,728 | $ 19,965 |

See accompanying notes to the unaudited consolidated financial statements.

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

**For the Six Months Ended June 30, 2021**

| *(in millions)* | Common Stock Shares | Common Stock Amount | Accumulated Other Comprehensive Income | Additional Paid-in Capital | Accumulated Deficit | Total Stockholder Equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2020 | — | $ — | $ 15 | $ 8,680 | $ (1,393) | $ 7,302 |
| Comprehensive income, net of tax | — | — | 12 | — | 644 | 656 |
| Balance at June 30, 2021 | — | $ — | $ 27 | $ 8,680 | $ (749) | $ 7,958 |

**For the Three Months Ended June 30, 2021**

| *(in millions)* | Common Stock Shares | Common Stock Amount | Accumulated Other Comprehensive Income | Additional Paid-in Capital | Accumulated Deficit | Total Stockholder Equity |
|---|---|---|---|---|---|---|
| Balance at March 31, 2021 | — | $ — | $ 20 | $ 8,680 | $ (1,180) | $ 7,520 |
| Comprehensive income, net of tax | — | — | 7 | — | 431 | 438 |
| Balance at June 30, 2021 | — | $ — | $ 27 | $ 8,680 | $ (749) | $ 7,958 |

See accompanying notes to the unaudited consolidated financial statements.

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

**For the Six Months Ended June 30, 2020**

| | Common Stock | | Accumulated Other Comprehensive Income (Loss) | Additional Paid-in Capital | Accumulated Deficit | Total Stockholder Equity |
|---|---|---|---|---|---|---|
| *(in millions)* | Shares | Amount | | | | |
| Balance at December 31, 2019 | — | $ — | $ 8 | $ 8,680 | $ (1,552) | $ 7,136 |
| Comprehensive (loss) income, net of tax | — | — | (15) | — | 557 | 542 |
| Balance at June 30, 2020 | — | $ — | $ (7) | $ 8,680 | $ (995) | $ 7,678 |

**For the Three Months Ended June 30, 2020**

| | Common Stock | | Accumulated Other Comprehensive (Loss) Income | Additional Paid-in Capital | Accumulated Deficit | Total Stockholder Equity |
|---|---|---|---|---|---|---|
| *(in millions)* | Shares | Amount | | | | |
| Balance at March 31, 2020 | — | $ — | $ (17) | $ 8,680 | $ (1,226) | $ 7,437 |
| Comprehensive income, net of tax | — | — | 10 | — | 231 | 241 |
| Balance at June 30, 2020 | — | $ — | $ (7) | $ 8,680 | $ (995) | $ 7,678 |

See accompanying notes to the unaudited consolidated financial statements.

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

| *(in millions)* | For the Six Months Ended June 30, 2021 | 2020 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 644 | $ 557 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 263 | 256 |
| Non cash impairment and restructuring costs | 245 | 24 |
| Non-cash interest expense, net of amortization of premium | 6 | 7 |
| Provision for doubtful accounts | 24 | 38 |
| Amortization of deferred income related to equity method investment | — | (1) |
| Loss on unconsolidated entity investments, net | 3 | 3 |
| Loss (gain) on fair value instrument | 12 | (22) |
| Dividend received from unconsolidated entity investment | 1 | 1 |
| (Gain) loss on other investments | (4) | 1 |
| Share-based payment expense | 98 | 107 |
| Deferred income tax expense | 37 | 119 |
| Amortization of right-of-use assets | 28 | 28 |
| Changes in operating assets and liabilities: | | |
| Receivables | (11) | 134 |
| Inventory | 5 | (4) |
| Related party, net | (17) | (42) |
| Prepaid expenses and other current assets | (141) | (13) |
| Other long-term assets | (4) | 10 |
| Accounts payable and accrued expenses | (99) | (136) |
| Accrued interest | (1) | (3) |
| Deferred revenue | (145) | (105) |
| Operating lease liabilities | (26) | (26) |
| Other long-term liabilities | (18) | 22 |
| Net cash provided by operating activities | 900 | 955 |
| Cash flows from investing activities: | | |
| Additions to property and equipment | (164) | (149) |
| Purchases of other investments | (3) | (7) |
| Acquisition of business, net of cash acquired | (14) | (28) |
| Investments in related parties and other equity investees | (11) | (84) |
| Repayment from related party | 2 | 3 |
| Net cash used in investing activities | (190) | (265) |
| Cash flows from financing activities: | | |
| Intercompany financing activities | (986) | (507) |
| Revolving credit facility, net of deferred financing costs | (649) | — |
| Proceeds from long-term borrowings, net of costs | 1,976 | 1,483 |
| Principal payments of long-term borrowings | (2) | (5) |
| Net cash provided by financing activities | 339 | 971 |
| Net increase in cash, cash equivalents and restricted cash | 1,049 | 1,661 |
| Cash, cash equivalents and restricted cash at beginning of period[(1)] | 83 | 120 |
| Cash, cash equivalents and restricted cash at end of period[(1)] | $ 1,132 | $ 1,781 |

See accompanying notes to the unaudited consolidated financial statements.

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

| | For the Six Months Ended June 30, | |
|---|---|---|
| *(in millions)* | **2021** | **2020** |
| Supplemental Disclosure of Cash and Non-Cash Flow Information | | |
| Cash paid during the period for: | | |
| Interest, net of amounts capitalized | $ 193 | $ 194 |
| Income taxes paid | $ 34 | $ 10 |
| Non-cash investing and financing activities: | | |
| Accumulated other comprehensive income (loss), net of tax | $ 12 | $ (15) |

(1) The following table reconciles cash, cash equivalents and restricted cash per the statement of cash flows to the balance sheet. The restricted cash balances are primarily due to letters of credit which have been issued to the landlords of leased office space. The terms of the letters of credit primarily extend beyond one year.

| *(in millions)* | June 30, 2021 | December 31, 2020 | June 30, 2020 | December 31, 2019 |
|---|---|---|---|---|
| Cash and cash equivalents | $ 1,124 | $ 71 | $ 1,770 | $ 106 |
| Restricted cash included in Other long-term assets | 8 | 12 | 11 | 14 |
| Total cash, cash equivalents and restricted cash at end of period | $ 1,132 | $ 83 | $ 1,781 | $ 120 |

See accompanying notes to the unaudited consolidated financial statements.

**SIRIUS XM RADIO INC. AND SUBSIDIARIES**
**(a wholly-owned subsidiary of Sirius XM Holdings Inc.)**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(UNAUDITED)**
**(Dollars and shares in millions, except per share amounts)**

## (1) Business & Basis of Presentation

***Business***

We operate two complementary audio entertainment businesses - our Sirius XM business and our Pandora business.

*Sirius XM*

Our Sirius XM business features music, sports, entertainment, comedy, talk, news, traffic and weather channels and other content, as well as podcasts and infotainment services, in the United States on a subscription fee basis. Sirius XM's premier content bundles include live, curated and certain exclusive and on demand programming. The Sirius XM service is distributed through our two proprietary satellite radio systems and streamed via applications for mobile devices, home devices and other consumer electronic equipment. Satellite radios are primarily distributed through automakers, retailers and our website. Our Sirius XM service is also available through our user interface, which we call "360L," that combines our satellite and streaming services into a single, cohesive in-vehicle entertainment experience.

The primary source of revenue from our Sirius XM business is subscription fees, with most of our customers subscribing to monthly, quarterly, semi-annual or annual plans. We also derive revenue from advertising on select non-music channels, which is sold under the SXM Media brand, direct sales of our satellite radios and accessories, and other ancillary services. As of June 30, 2021, our Sirius XM business had approximately 34.5 million subscribers.

In addition to our audio entertainment businesses, we provide connected vehicle services to several automakers. These services are designed to enhance the safety, security and driving experience of consumers. We also offer a suite of data services that includes graphical weather, fuel prices, sports schedules and scores and movie listings, a traffic information service that includes information as to road closings, traffic flow and incident data to consumers with compatible in-vehicle navigation systems, and real-time weather services in vehicles, boats and planes.

In May 2020, we terminated the Automatic Labs Inc. ("Automatic") service, which was part of our connected vehicle services business. Automatic operated a service for consumers and auto dealers and offered an install-it-yourself adapter and mobile application, which transformed older vehicles into connected vehicles. During the three and six months ended June 30, 2020, we recorded $24 of restructuring expenses in our unaudited consolidated statements of comprehensive income related to this termination of the service. Refer to Note 4 for more information.

Sirius XM also holds a 70% equity interest and 33% voting interest in Sirius XM Canada Holdings Inc. ("Sirius XM Canada"). Sirius XM Canada's subscribers are not included in our subscriber count or subscriber-based operating metrics.

*Pandora*

Our Pandora business operates a music, comedy and podcast streaming discovery platform, offering a personalized experience for each listener wherever and whenever they want to listen, whether through mobile devices, car speakers or connected devices. Pandora enables listeners to create personalized stations and playlists, discover new content, hear artist- and expert-curated playlists, podcasts and select Sirius XM content as well as search and play songs and albums on-demand. Pandora is available as (1) an ad-supported radio service, (2) a radio subscription service (Pandora Plus) and (3) an on-demand subscription service (Pandora Premium). As of June 30, 2021, Pandora had approximately 6.6 million subscribers.

The majority of revenue from our Pandora business is generated from advertising on our Pandora ad-supported radio service which are sold under the SXM Media brand. We also derive subscription revenue from our Pandora Plus and Pandora Premium subscribers.

Our Pandora business also sells advertising on audio platforms and in podcasts unaffiliated with us. Pandora has an arrangement with SoundCloud Holdings, LLC ("SoundCloud") to be its exclusive US ad sales representative. Through this arrangement, Pandora is able to offer advertisers the ability to execute campaigns in the US across the Pandora and SoundCloud listening platforms. We also have arrangements to serve as the ad sales representative for certain podcasts. In addition, through AdsWizz Inc., Pandora provides a comprehensive digital audio and programmatic advertising technology platform, which connects audio publishers and advertisers with a variety of ad insertion, campaign trafficking, yield optimization, programmatic buying, marketplace and podcast monetization solutions.

On February 10, 2020, Sirius XM invested $75 in SoundCloud. SoundCloud is a next-generation music entertainment company, powered by an ecosystem of artists, listeners, and curators on the pulse of what's new, now and next in culture. SoundCloud's platform enables its users to upload, promote, share and create audio entertainment. The minority investment complements the existing ad sales relationship between SoundCloud and Pandora. Refer to Note 11 for more information on this investment.

On June 16, 2020, Sirius XM acquired Simplecast for $28 in cash. Simplecast is a podcast management and analytics platform. Refer to Note 3 for more information on this acquisition.

On October 16, 2020, Sirius XM acquired certain assets and liabilities of Stitcher from The E.W. Scripps Company and certain of its subsidiaries ("Scripps") for total consideration of $302, which included $266 in cash and $36 related to the acquisition date fair value of contingent consideration. As of June 30, 2021, we will potentially make up to $49 in additional payments to Scripps related to the contingent consideration based on Stitcher's 2020 results and its achievement of certain financial metrics in 2021. The acquisition of Stitcher, in conjunction with Simplecast, created a full-service platform for podcast creators, publishers and advertisers. Refer to Note 3 for more information on this acquisition.

***Liberty Media***

As of June 30, 2021, Liberty Media Corporation ("Liberty Media") beneficially owned, directly and indirectly, approximately 78% 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.

***Basis of Presentation***

The accompanying unaudited 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 and footnotes have been reclassified or consolidated to conform to our current period presentation.

The unaudited consolidated financial statements for Sirius XM for the quarterly period ended June 30, 2021 are essentially identical to the unaudited consolidated financial statements included in Holdings' Form 10-Q for the quarterly period ended June 30, 2021, filed with the SEC on July 27, 2021, 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 and all equity-related transactions, including repurchases of Holdings' common stock, dividend payments on shares of Holdings' common stock, the issuance of equity related to stock-based compensation to Sirius XM employees, Holdings' directors and third parties, and the issuance of Holdings' common stock related to the Pandora Acquisition have been reported as related party transactions within Sirius XM's unaudited consolidated financial statements. Refer to Note 11 for additional information related to related party transactions.

- As a result of the Pandora Acquisition effective February 1, 2019, we assumed Pandora's 1.75% Convertible Senior Notes due 2023 (the "Pandora 2023 Notes"). Upon the occurrence of certain events, the Pandora 2023 Notes can be convertible into shares of Holdings' common stock. Holdings allocates the principal amount of the Pandora 2023 Notes between liability and equity components. We have elected to measure the Pandora 2023 Notes at fair value with changes in fair value recorded within Sirius XM's consolidated statements of operations. Refer to Note 12 for more information regarding the Pandora 2023 Notes.

In the opinion of our management, all normal recurring adjustments necessary for a fair presentation of our unaudited consolidated financial statements as of June 30, 2021 and for the three and six months ended June 30, 2021 and 2020 have been made.

**SIRIUS XM RADIO INC. AND SUBSIDIARIES**
**(a wholly-owned subsidiary of Sirius XM Holdings Inc.)**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**
**(UNAUDITED)**
**(Dollars and shares in millions, except per share amounts)**

Interim results are not necessarily indicative of the results that may be expected for a full year. This Quarterly Report should be read together with our Annual Report for the year ended December 31, 2020, which is available on our website at http://investor.siriusxm.com/investoroverview/default.aspx#dividend-tab2, and with Holdings' Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the SEC on February 2, 2021.

Public companies, including our parent Holdings, 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 maker in deciding how to allocate resources to an individual segment and in assessing performance of the segment. We have determined that we have two reportable segments as our chief operating decision maker, our Chief Executive Officer, assesses performance and allocates resources based on the financial results of these segments. Refer to Note 17 for information related to our segments.

We have evaluated events subsequent to the balance sheet date and prior to the furnishing of this Quarterly Report for the three and six months ended June 30, 2021 and have determined that no events have occurred that would require adjustment to our unaudited consolidated financial statements. For a discussion of subsequent events that do not require adjustment to our unaudited consolidated financial statements refer to Note 18.

***Use of Estimates***

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

## (2) Summary of Significant Accounting Policies

***Fair Value Measurements***

For assets and liabilities required to be reported at fair value, GAAP provides a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are based on unadjusted quoted prices in active markets for identical instruments. Level 2 inputs are inputs, other than quoted market prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. As of June 30, 2021 and December 31, 2020, the carrying amounts of cash and cash equivalents, receivables and accounts payable approximated fair value due to the short-term nature of these instruments.

Our liabilities measured at fair value were as follows:

| | June 30, 2021 | | | | December 31, 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value | Level 1 | Level 2 | Level 3 | Total Fair Value |
| **Liabilities:** | | | | | | | | |
| Debt [(a)] | — | $ 10,308 | — | $ 10,308 | — | $ 9,011 | — | $ 9,011 |

(a) The fair value for non-publicly traded debt is based upon estimates from a market maker and brokerage firm. Refer to Note 12 for information related to the carrying value of our debt as of June 30, 2021 and December 31, 2020.

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

***Accumulated Other Comprehensive Income (Loss)***

Accumulated other comprehensive income of $27 was primarily comprised of the cumulative foreign currency translation adjustments related to our investment in and loan to Sirius XM Canada (refer to Note 12 for additional information). During the three and six months ended June 30, 2021, we recorded foreign currency translation adjustment income of $7 and $12, respectively, net of tax expense of $2 and $4, respectively. During the three and six months ended June 30, 2020, we recorded foreign currency translation adjustment income (loss) of $10 and $(15), respectively, net of a tax (expense) benefit of $(3) and $5, respectively.

## (3) Acquisitions

*Stitcher*

On October 16, 2020, Sirius XM acquired certain assets and liabilities of Stitcher from Scripps for $266 in cash, which amount includes net working capital adjustments. The total purchase consideration of $302 includes $36 related to the acquisition date fair value of the contingent consideration. As of June 30, 2021, we will potentially make up to $49 in additional payments to Scripps related to the contingent consideration based on Stitcher's 2020 results and its achievement of certain financial metrics in 2021. The fair value of the contingent consideration was determined using a probability-weighted cash flow model and will be remeasured to fair value at each subsequent reporting period. Stitcher is included in our Pandora reporting unit.

The table below summarizes the fair value of the assets acquired and liabilities assumed as of the acquisition date:

| | | |
|---|---|---|
| Acquired Assets: | | |
| Receivables, net | $ | 21 |
| Prepaid expenses and other current assets | | 16 |
| Property and equipment | | 8 |
| Intangible assets | | 38 |
| Goodwill | | 224 |
| Operating lease right-of-use assets | | 11 |
| Total assets | $ | 318 |
| | | |
| Assumed Liabilities: | | |
| Accounts payable and accrued expenses | $ | 4 |
| Deferred revenue | | 1 |
| Operating lease current liabilities | | 2 |
| Operating lease liabilities | | 9 |
| Total liabilities | $ | 16 |
| Total consideration | $ | 302 |

The Stitcher acquisition was accounted for using the acquisition method of accounting and was financed through borrowings under our Credit Facility.

*Simplecast*

On June 16, 2020, Sirius XM acquired Simplecast for $28 in cash. Simplecast is a podcast management and analytics platform. Simplecast complements AdsWizz's advertising technology platform, allowing the company to offer podcasters of all sizes a powerful, comprehensive solution for publishing, analytics, distribution and advertising sales, and is included in the Pandora reporting unit. The Simplecast acquisition was accounted for using the acquisition method of accounting. We recognized goodwill of $17, amortizable intangible assets of $12, other assets of less than $1 and deferred tax liabilities of $1.

*Other acquisitions*

On April 23, 2021, we completed a small acquisition for total consideration of $27 which includes $20 in cash, a $3 deferred cash payment and $4 in restricted stock units. We recognized goodwill of $22 and other assets of $5.

Acquisition related costs of $3 were recognized for the three and six months ended June 30, 2021.

## (4) Restructuring Costs

During the six months ended June 30, 2021, we evaluated our office space needs and, as a result of such analysis, surrendered certain office leases primarily in New York, New York and Oakland, California. We assessed the recoverability of the carrying value of the operating lease right of use assets related to these locations. Based on that assessment, the carrying values of the assets were not recoverable and we recorded an impairment of $18 to reduce the carrying value of the assets to their fair values. Additionally, we accrued expenses of $6 which we will not recognize any future economic benefits and wrote off leasehold improvements of $1. The fair values of the assets were determined using a discounted cash flow model based on management's assumptions regarding the ability to sublease the locations and the remaining term of the leases. The total charge of $25 was recorded to Impairment, restructuring and acquisition costs in our unaudited consolidated statement of comprehensive income for the six months ended June 30, 2021. There were no restructuring charges recorded during the three months ended June 30, 2021.

In May 2020, we terminated the Automatic service, which was part of our connected services business. During the three and six months ended June 30, 2020, we recorded $24 of restructuring expenses primarily related to the write down of property and equipment, definite lived intangible assets and certain other assets in Acquisition and restructuring costs in our unaudited consolidated statements of comprehensive income. The termination of the Automatic service does not meet the requirements to be reported as a discontinued operation in our unaudited consolidated statements of comprehensive income because the termination of the service does not represent a strategic shift that will have a major effect on our operations and financial results.

## (5) Receivables, net

Receivables, net, includes customer accounts receivable, receivables from distributors and other receivables. We do not have any customer receivables that individually represent more than ten percent of our receivables.

Customer accounts receivable, net, includes receivables from our subscribers and advertising customers, including advertising agencies and other 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, industry experience and other factors that may affect the counterparty’s ability to pay. Bad debt expense is included in Customer service and billing expense in our unaudited consolidated statements of comprehensive income.

Receivables from distributors primarily include billed and unbilled amounts due from automakers for services included in the sale or lease price of vehicles, as well as billed amounts due from wholesale distributors of our satellite radios. Other receivables primarily include amounts due from manufacturers of our radios, modules and chipsets where we are entitled to subsidies and royalties based on 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 automakers or other third parties and do not expect issues in the foreseeable future.

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

Receivables, net, consists of the following:

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| Gross customer accounts receivable | $ 569 | $ 574 |
| Allowance for doubtful accounts | (11) | (15) |
| Customer accounts receivable, net | $ 558 | $ 559 |
| Receivables from distributors | 60 | 73 |
| Other receivables | 36 | 40 |
| Total receivables, net | $ 654 | $ 672 |

## (6) Inventory, net

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

Inventory, net, consists of the following:

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| Finished goods | $ 8 | $ 13 |
| Allowance for obsolescence | (3) | (3) |
| Total inventory, net | $ 5 | $ 10 |

## (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 two reporting units 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 a reporting unit below its carrying amount. ASC 350, *Intangibles - Goodwill and Other*, states that an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value.

As of June 30, 2021, there were no indicators of impairment, and no impairment losses were recorded for goodwill during the three and six months ended June 30, 2021 and 2020. As of June 30, 2021, the cumulative balance of goodwill impairments recorded was $5,722, of which $4,766 was recognized during the year ended December 31, 2008 and is included in the carrying amount of the goodwill allocated to our Sirius XM reporting unit and $956 was recognized during the year ended December 31, 2020 and is included in the carrying amount of the goodwill allocated to our Pandora reporting unit.

As of June 30, 2021, the carrying amount of goodwill for our Sirius XM and Pandora reporting units was $2,290 and $860, respectively. During the six months ended June 30, 2021, we recorded $6 of goodwill related to purchase accounting adjustments for the acquisition of Stitcher and $22 of goodwill related to a small acquisition which was recorded to our Pandora reporting unit. As of December 31, 2020, the carrying amount of goodwill for our Sirius XM and Pandora reporting units was $2,290 and $832, respectively.

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

## (8) Intangible Assets

Our intangible assets include the following:

| | | June 30, 2021 | | | December 31, 2020 | | |
|---|---|---|---|---|---|---|---|
| | Weighted Average Useful Lives | Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| Indefinite life intangible assets: | | | | | | | |
| FCC licenses | Indefinite | $ 2,084 | $ — | $ 2,084 | $ 2,084 | $ — | $ 2,084 |
| Trademarks | Indefinite | 250 | — | 250 | 250 | — | 250 |
| Definite life intangible assets: | | | | | | | |
| OEM relationships | 15 years | 220 | (112) | 108 | 220 | (105) | 115 |
| Licensing agreements | 12 years | 45 | (45) | — | 45 | (45) | — |
| Software and technology | 7 years | 31 | (18) | 13 | 31 | (16) | 15 |
| **Due to Pandora and Stitcher Acquisitions:** | | | | | | | |
| Indefinite life intangible assets: | | | | | | | |
| Trademarks | Indefinite | 311 | — | 311 | 311 | — | 311 |
| Definite life intangible assets: | | | | | | | |
| Customer relationships | 8 years | 441 | (134) | 307 | 441 | (104) | 337 |
| Software and technology | 5 years | 373 | (183) | 190 | 373 | (145) | 228 |
| Total intangible assets | | $ 3,755 | $ (492) | $ 3,263 | $ 3,755 | $ (415) | $ 3,340 |

### *Indefinite Life Intangible Assets*

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

We hold FCC licenses to operate our satellite digital audio radio service and provide ancillary services. Each of the FCC licenses authorizes us to use radio spectrum, a reusable resource that does not deplete or exhaust over time.

Our annual impairment assessment of our identifiable indefinite lived 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. As of June 30, 2021, there were no indicators of impairment, and no impairment loss was recognized for intangible assets with indefinite lives during the three and six months ended June 30, 2021. During the three and six months ended June 30, 2020, we recognized an impairment loss of less than $1 for intangible assets with indefinite lives related to the termination of the Automatic service.

### *Definite Life Intangible Assets*

Amortization expense for all definite life intangible assets was $38 for each of the three months ended June 30, 2021 and 2020, and $77 and $76 for the six months ended June 30, 2021 and 2020, respectively. There were retirements of definite lived intangible assets of $17, which included a loss of $4, due to the termination of the Automatic service, during the six months ended June 30, 2020. There were no retirements of definite lived intangible assets during the six months ended June 30, 2021.

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

The expected amortization expense for each of the fiscal years 2021 through 2025 and for periods thereafter is as follows:

| Years ending December 31, | Amount |
|---|---|
| 2021 (remaining) | $ 76 |
| 2022 | 154 |
| 2023 | 141 |
| 2024 | 75 |
| 2025 | 69 |
| Thereafter | 103 |
| Total definite life intangible assets, net | $ 618 |

## (9) Property and Equipment

Property and equipment, net, consists of the following:

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| Satellite system | $ 1,591 | $ 1,587 |
| Terrestrial repeater network | 106 | 105 |
| Leasehold improvements | 108 | 111 |
| Broadcast studio equipment | 106 | 100 |
| Capitalized software and hardware | 1,411 | 1,372 |
| Satellite telemetry, tracking and control facilities | 99 | 96 |
| Furniture, fixtures, equipment and other | 92 | 92 |
| Land | 38 | 38 |
| Building | 63 | 63 |
| Construction in progress | 417 | 510 |
| Total property and equipment | 4,031 | 4,074 |
| Accumulated depreciation and amortization | (2,626) | (2,445) |
| Property and equipment, net | $ 1,405 | $ 1,629 |

Construction in progress consists of the following:

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| Satellite system | $ 229 | $ 429 |
| Terrestrial repeater network | 10 | 8 |
| Capitalized software and hardware | 146 | 52 |
| Other | 32 | 21 |
| Construction in progress | $ 417 | $ 510 |

Depreciation and amortization expense on property and equipment was $93 and $86 for the three months ended June 30, 2021 and 2020, respectively, and $186 and $180 for the six months ended June 30, 2021 and 2020, respectively. We retired property and equipment of $3 and $8 during the three and six months ended June 30, 2021, respectively. Property and equipment of $36 and $65, which included a loss of $13 related to the termination of the Automatic service, was retired during the three and six months ended June 30, 2020, respectively.

We capitalize a portion of the interest on funds borrowed to finance the construction and launch of our satellites. Capitalized interest is recorded as part of the asset's cost and depreciated over the satellite's useful life. Capitalized interest costs were and $2 and $4 for the three months ended June 30, 2021 and 2020, respectively, and $5 and $9 for the six months ended June 30, 2021 and 2020, respectively, which related to the construction of our SXM-8 satellite. We also capitalize a portion of share-based compensation related to employee time for capitalized software projects. Capitalized share-based compensation costs were $3 and $5 for the three months ended June 30, 2021 and 2020, respectively, and $6 and $8 for the six months ended June 30, 2021 and 2020, respectively.

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

***Satellites***

As of June 30, 2021, we operated a fleet of six satellites. Each satellite requires an FCC license, and prior to the expiration of each license, we are required to apply for a renewal of the FCC satellite license. The renewal and extension of our licenses is reasonably certain at minimal cost, which is expensed as incurred. The chart below provides certain information on our satellites as of June 30, 2021:

| Satellite Description | Year Delivered | Estimated End of Depreciable Life | FCC License Expiration Year |
|---|---|---|---|
| SIRIUS FM-5 | 2009 | 2024 | 2025 |
| SIRIUS FM-6 | 2013 | 2028 | 2022 |
| XM-3 | 2005 | 2020 | 2021 (a) |
| XM-4 | 2006 | 2021 | 2022 |
| XM-5 | 2010 | 2025 | 2026 |
| SXM-8 | 2021 | 2036 | (b) |

(a) We filed an application with the FCC to extend the license for the XM-3 satellite on February 26, 2021 and expect it to be granted routinely.
(b) SXM-8 will not be licensed until we notify the FCC that the satellite has been successfully placed into orbit at its assigned orbital location and that its operations conform to the terms and conditions of its authorization, which is expected in the third quarter.

On December 13, 2020, our SXM-7 satellite was launched and in-orbit testing of SXM-7 began on January 4, 2021. During in-orbit testing of SXM-7, events occurred which caused failures of certain SXM-7 payload units. The evaluation of SXM-7 concluded that the satellite will not function as intended, which we considered to be a triggering event prompting the assessment as to whether the asset's carrying value of $220 was recoverable. In determining recoverability of SXM-7, we compared the asset's carrying value to the undiscounted cash flows derived from the satellite. SXM-7 was determined to be a total loss and therefore, we determined that the carrying value of the satellite is not recoverable and an impairment charge of $220 was recorded to Impairment, restructuring and acquisition costs in our unaudited consolidated statements of comprehensive income for the six months ended June 30, 2021. SXM-7 remains in-orbit and has been moved to its assigned orbital location, but is not being used to provide satellite radio service.

We procured insurance for SXM-7 to cover the risks associated with the satellite's launch and first year of in-orbit operation. The aggregate coverage under the insurance policies with respect to SXM-7 is $225. We filed insurance claims with the insurers with respect to SXM-7 in May 2021. During the three and six months ended June 30, 2021 we recorded insurance recoveries of $140 which have been recorded as a reduction to Impairment, restructuring and acquisition costs in our unaudited consolidated statements of comprehensive income. We collected $17 of insurance recoveries through June 30, 2021 and the remaining $123 is recorded as a receivable in Prepaid expenses and other current assets in our unaudited consolidated balance sheet. At this time, we are unable to reliably estimate the timing and amount of the remaining insurance recoveries and will record the insurance recoveries when they are probable and estimable.

We do not expect our satellite radio service to be impacted by these adverse SXM-7 events. Our XM-3 and XM-4 satellites continue to operate and are expected to support our satellite radio service for several years. In addition, our XM-5 satellite remains available as an in-orbit spare. Our SXM-8 satellite was successfully launched into a geostationary orbit on June 6, 2021 and is expected to be placed into service during the third quarter of 2021 following the completion of in-orbit testing.

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

## (10) Leases

We have operating and finance leases for offices, terrestrial repeaters, data centers and certain equipment. Our leases have remaining lease terms of less than 1 year to 17 years, some of which may include options to extend the leases for up to 5 years, and some of which may include options to terminate the leases within 1 year. We elected the practical expedient to account for the lease and non-lease components as a single component. Additionally, we elected the practical expedient to not recognize right-of-use assets or lease liabilities for short-term leases, which are those leases with a term of twelve months or less at the lease commencement date.

The components of lease expense were as follows:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Operating lease cost | $ 21 | $ 21 | $ 42 | $ 41 |
| Finance lease cost | — | 1 | — | 1 |
| Sublease income | — | (1) | (1) | (1) |
| Total lease cost | $ 21 | $ 21 | $ 41 | $ 41 |

During the six months ended June 30, 2021, we ceased using certain leased locations and recorded an impairment charge of $18 to write down the carrying value of the right-of-use assets for these locations to their estimated fair values. Refer to Note 4 for additional information.

## (11) Related Party Transactions

In the normal course of business, we enter into transactions with related parties such as Sirius XM Canada and SoundCloud.

### *Liberty Media*

As of June 30, 2021, Liberty Media beneficially owned, directly and indirectly, approximately 78% of the outstanding shares of Holdings' common stock. Liberty Media has three of its executives and one of its directors on our board of directors. Gregory B. Maffei, the President and Chief Executive Officer of Liberty Media, is the Chairman of our board of directors.

### *Sirius XM Holdings*

Sirius XM is a wholly-owned subsidiary of Holdings. Holdings has no operations independent of Sirius XM. All equity-related transactions, including repurchases of Holdings' common stock, dividend payments on shares of Holdings' common stock, the issuance of equity related to share-based compensation for Sirius XM employees, Holdings' directors and third parties and the issuance of Holdings' common stock related to the recapitalization of Sirius XM Canada and the Pandora Acquisition have been reported as related party transactions within our unaudited consolidated financial statements. The share-based compensation for Sirius XM employees, Holdings' directors and third parties has been recorded in our unaudited consolidated financial statements. The Related party long-term assets balance as of June 30, 2021 and December 31, 2020 of Sirius XM includes $10,530 and $9,636 respectively, primarily for net amounts due from Holdings in connection with these equity-related transactions.

During the six months ended June 30, 2021, we used $986 of our cash for the purchase and retirement of shares of Holdings' common stock under Holdings' repurchase program and payment of a cash dividend on Holdings' common stock. This amount is included in our Related party long-term asset balance as a receivable due from Holdings.

### *Sirius XM Canada*

We hold a 70% equity interest and 33% voting interest in Sirius XM Canada, a privately held corporation. We own 591 shares of preferred stock of Sirius XM Canada, which has a liquidation preference of one Canadian dollar per share. Sirius XM also made a loan to Sirius XM Canada in the aggregate amount of $131. The loan is denominated in Canadian dollars and is considered a long-term investment with any unrealized gains or losses reported within Accumulated other comprehensive (loss) income. During the six months ended June 30, 2021 and 2020, Sirius XM Canada repaid $2 and $3 of the principal amount of the loan, respectively.

We also entered into a Services Agreement and an Advisory Services Agreement with Sirius XM Canada. Each agreement has a thirty-year term. Pursuant to the Services Agreement, Sirius XM Canada currently pays Sirius XM 25% of its gross revenues on a monthly basis, and pursuant to the Advisory Services Agreement, Sirius XM Canada pays Sirius XM 5% of its gross revenues on a monthly basis.

Sirius XM Canada is accounted for as an equity method investment, and its results are not consolidated in our unaudited consolidated financial statements. Sirius XM Canada does not meet the requirements for consolidation as we do not have the ability to direct the most significant activities that impact Sirius XM Canada's economic performance.

Our related party long-term assets as of June 30, 2021 and December 31, 2020 included the carrying value of our investment balance in Sirius XM Canada of $349 and $332, respectively, and, as of June 30, 2021 and December 31, 2020, also included $124 and $123, respectively, for the long-term value of the outstanding loan to Sirius XM Canada.

Sirius XM Canada paid gross dividends to us of less than $1 during each of the three months ended June 30, 2021 and 2020 and $1 during each of the six months ended June 30, 2021 and 2020. Dividends are first recorded as a reduction to our investment balance in Sirius XM Canada to the extent a balance exists and then as Other (expense) income for any remaining portion.

We recorded revenue from Sirius XM Canada as Other revenue in our unaudited consolidated statements of comprehensive income of $26 and $23 for the three months ended June 30, 2021 and 2020, respectively, and $50 and $48 for the six months ended June 30, 2021 and 2020, respectively.

***SoundCloud***

In February 2020, we completed a $75 investment in SoundCloud's Series G Membership Units ("Series G Units"). The Series G Units are convertible at the option of the holders at any time into shares of ordinary membership units of SoundCloud at a ratio of one ordinary membership unit for each Series G Unit. The investment in SoundCloud is accounted for as an equity method investment which is recorded in Related party long-term assets in our unaudited consolidated balance sheets. Sirius XM has appointed two individuals to serve on SoundCloud's nine-member board of managers. Sirius XM's share of SoundCloud's net income (loss) was $1 and $(1) for the three months ended June 30, 2021 and 2020, respectively, and $1 and $(1) for the six months ended June 30, 2021 and 2020, respectively, which was recorded in Other income (expense) in our unaudited consolidated statement of comprehensive income.

In addition to our investment in SoundCloud, Pandora has an agreement with SoundCloud to be its exclusive US ad sales representative. Through this arrangement, Pandora offers advertisers the ability to execute campaigns in the US across the Pandora and SoundCloud listening platforms. We recorded revenue share expense of $14 and $10 for the three months ended June 30, 2021 and 2020, respectively, and $27 and $22 for the six months ended June 30, 2021 and 2020, respectively. We also had related party liabilities of $19 as of June 30, 2021 related to this agreement.

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

## (12) Debt

Our debt as of June 30, 2021 and December 31, 2020 consisted of the following:

| Issuer / Borrower | Issued | Debt | Maturity Date | Interest Payable | Principal Amount at June 30, 2021 | Carrying value[(a)] at June 30, 2021 | Carrying value[(a)] at December 31, 2020 |
|---|---|---|---|---|---|---|---|
| Sirius XM (b) (g) | July 2017 | 3.875% Senior Notes | August 1, 2022 | semi-annually on February 1 and August 1 | $ 1,000 | $ 998 | $ 997 |
| Pandora (c) (d) | June 2018 | 1.75% Convertible Senior Notes | December 1, 2023 | semi-annually on June 1 and December 1 | 193 | 227 | 215 |
| Sirius XM (b) | July 2019 | 4.625% Senior Notes | July 15, 2024 | semi-annually on January 15 and July 15 | 1,500 | 1,489 | 1,488 |
| Sirius XM (b) | May 2016 | 5.375% Senior Notes | July 15, 2026 | semi-annually on January 15 and July 15 | 1,000 | 994 | 993 |
| Sirius XM (b) | July 2017 | 5.00% Senior Notes | August 1, 2027 | semi-annually on February 1 and August 1 | 1,500 | 1,490 | 1,490 |
| Sirius XM (b) (f) | June 2021 | 4.00% Senior Notes | July 15, 2028 | semi-annually on January 15 and July 15 | 2,000 | 1,978 | — |
| Sirius XM (b) | June 2019 | 5.500% Senior Notes | July 1, 2029 | semi-annually on January 1 and July 1 | 1,250 | 1,238 | 1,237 |
| Sirius XM (b) | June 2020 | 4.125% Senior Notes | July 1, 2030 | semi-annually on January 1 and July 1 | 1,500 | 1,485 | 1,484 |
| Sirius XM (e) | December 2012 | Senior Secured Revolving Credit Facility (the "Credit Facility") | June 29, 2023 | variable fee paid quarterly | — | — | 649 |
| Sirius XM | Various | Finance leases | Various | n/a | n/a | — | 1 |
| Total Debt | | | | | | 9,899 | 8,554 |
| Less: total current maturities (g) | | | | | | 998 | 1 |
| Less: total deferred financing costs | | | | | | 12 | 9 |
| Total long-term debt | | | | | | $ 8,889 | $ 8,544 |

(a) The carrying value of the obligations is net of any remaining unamortized original issue discount.
(b) All material domestic subsidiaries, including Pandora and its subsidiaries, that guarantee the Credit Facility have guaranteed these notes.
(c) Holdings has unconditionally guaranteed all of the payment obligations of Pandora under these notes.
(d) We acquired $193 in principal amount of the 1.75% Convertible Senior Notes due 2023 as part of the acquisition of Pandora Media, Inc. in 2019. We elected to record the 1.75% Convertible Senior Notes due 2023 at fair value which will be remeasured each reporting period. The changes in fair value will be recorded in our consolidated statements of comprehensive income. The 1.75% Convertible Senior Notes due 2023 were not convertible into Holdings' common stock and not redeemable as of June 30, 2021. As a result, we have classified the debt as Long-term within our unaudited consolidated balance sheets.
(e) The $1,750 Credit Facility expires in June 2023. Our obligations under the Credit Facility are guaranteed by certain of our material domestic subsidiaries, including Pandora and its subsidiaries, and are secured by a lien on substantially all of our assets and the assets of our material domestic subsidiaries. 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 which is payable on a quarterly basis. The variable rate for the unused portion of the Credit Facility was 0.25% per annum as of June 30, 2021. Our outstanding borrowings under the Credit Facility are classified as Long-term debt within our unaudited consolidated balance sheets due to the long-term maturity of this debt. Additionally, the amount available for future borrowing under the Credit Facility is reduced by letters of credit issued for the benefit of Pandora, which were $1 as of June 30, 2021.
(f) On June 21, 2021, we issued $2,000 aggregate principal amount of the 4.00% Senior Notes due 2028 with a net original issuance discount and deferred financing costs in the aggregate of $26.
(g) On June 21, 2021, we issued a redemption notice pursuant to the indenture governing its 3.875% Senior Notes due 2022 to redeem all of the $1,000 aggregate principal amount outstanding at par value. These Notes have been presented in Current maturities of debt in our June 30, 2021 unaudited consolidated balance sheet.

***Covenants and Restrictions***

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

The indenture governing the Pandora 2023 Notes (as defined below) contains covenants that limit Pandora's ability to merge or consolidate and provides for customary events of default, which include nonpayment of principal or interest, breach of covenants, payment defaults or acceleration of other indebtedness and certain events of bankruptcy.

At June 30, 2021 and December 31, 2020, we were in compliance with our debt covenants.

***Pandora Convertible Notes***

Pandora's 1.75% Convertible Senior Notes due 2023 (the "Pandora 2023 Notes") are unsecured, senior obligations of Pandora. Holdings has guaranteed the payment and performance obligations of Pandora under the Pandora 2023 Notes and the indenture governing the Pandora 2023 Notes.

The Pandora 2023 Notes will mature on December 1, 2023, unless earlier repurchased or redeemed by Pandora or converted in accordance with their terms. As of June 30, 2021, the conversion rate applicable to the Pandora 2023 Notes was 153.7797 shares of Holdings' common stock per one thousand principal amount of the Pandora 2023 Notes.

## (13) Stockholder Equity

***Common Stock, par value $0.001 per share***

We are authorized to issue up to 9,000 shares of common stock. There were 0.001 shares of common stock of Sirius XM issued and outstanding on June 30, 2021 and December 31, 2020, which were owned by Holdings.

***Preferred Stock, par value $0.001 per share***

We are authorized to issue up to 50 shares of undesignated preferred stock with a liquidation preference of $0.001 per share. There were no shares of preferred stock issued or outstanding as of June 30, 2021 and December 31, 2020.

## (14) Benefit Plans

We recognized share-based payment expense of $47 and $52 for the three months ended June 30, 2021 and 2020, respectively, and $98 and $107 for the six months ended June 30, 2021 and 2020, respectively.

### *2015 Long-Term Stock Incentive Plan*

In May 2015, our stockholders approved the Sirius XM Holdings Inc. 2015 Long-Term Stock Incentive Plan (the "2015 Plan"). Employees, consultants and members of our board of directors are eligible to receive awards under the 2015 Plan. The 2015 Plan provides for the grant of stock options, restricted stock awards, restricted stock units and other stock-based awards that the Compensation Committee of Holdings' Board of Directors deems appropriate. Stock-based awards granted under the 2015 Plan are generally subject to a graded vesting requirement, which is generally three to four years from the grant date. Stock options generally expire ten years from the date of grant. Restricted stock units include performance-based restricted stock units ("PRSUs"), the vesting of which are subject to the achievement of performance goals and the employee's continued employment and generally cliff vest on the third anniversary of the grant date. Each restricted stock unit entitles the holder to receive one share of common stock upon vesting. As of June 30, 2021, 138 shares of common stock were available for future grants under the 2015 Plan.

In February 2021, the Compensation Committee of Holdings' Board of Directors approved a modification to the design of our long-term equity compensation program for our senior management. The Compensation Committee intends to award equity-based compensation to our senior management in the form of: 25% stock options, which awards will vest in installments on the first three anniversaries of the date of grant; 25% restricted stock units, which awards will vest in installments on the first three anniversaries of the date of grant; 25% PRSUs, which will cliff vest on the third anniversary of the date of grant after a two-year performance period if the free cash flow target established by the Compensation Committee is achieved; and 25% PRSUs, which will cliff vest after a three-year performance period based on the performance of our common stock relative to the companies included in the S&P 500 Index. We refer to this performance measure as a relative "TSR" or "total stockholder return" metric. PRSUs based on the relative total stockholder return metric will only vest if our performance achieves at least the 25th percentile, with a target payout requiring performance at the 50th percentile. The settlement of PRSUs earned in respect of the applicable three-year performance period will be generally subject to the executive's continued employment with us through the date the total stockholder return performance is certified by the Compensation Committee.

In connection with our February 2019 acquisition of Pandora, we assumed all shares available for issuance (including any shares that later become available for issuance in accordance with the terms of the applicable plans) under each of the 2014 Stock Incentive Plan of AdsWizz Inc., the Pandora Media, Inc. 2011 Equity Incentive Plan, the Pandora Media, Inc. 2004 Stock Plan and the TheSavageBeast.com, Inc. 2000 Stock Incentive Plan, which were previously approved by stockholders of Pandora or the applicable adopting entity. All shares available under these stock plans became additional shares available for grant pursuant to the terms of the 2015 Plan (as adjusted, to the extent appropriate, to reflect the application of the exchange ratio). Subject to certain limitations set forth in the 2015 Plan, such shares may be used for awards under the 2015 Plan.

### *Other Plans*

We maintain six share-based benefit plans in addition to the 2015 Plan — the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan, the Amended and Restated Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan, the 2014 Stock Incentive Plan of AdsWizz Inc., the Pandora Media, Inc. 2011 Equity Incentive Plan, the Pandora Media, Inc. 2004 Stock Plan and the TheSavageBeast.com, Inc. 2000 Stock Incentive Plan. Excluding dividend equivalent units granted as a result of a declared dividend, no further awards may be made under these plans.

**SIRIUS XM RADIO INC. AND SUBSIDIARIES**
**(a wholly-owned subsidiary of Sirius XM Holdings Inc.)**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**
**(UNAUDITED)**
**(Dollars and shares in millions, except per share amounts)**

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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Risk-free interest rate | 0.3% | 0.3% | 0.6% | 1.3% |
| Expected life of options — years | 2.71 | 3.80 | 6.06 | 3.82 |
| Expected stock price volatility | 34% | 36% | 33% | 25% |
| Expected dividend yield | 1.0% | 0.9% | 1.0% | 0.7% |

The following table summarizes stock option activity under our share-based plans for the six months ended June 30, 2021:

| | Options | Weighted-Average Exercise Price Per Share | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding as of December 31, 2020 | 184 | $ 4.73 | | |
| Granted | 53 | $ 6.14 | | |
| Exercised | (55) | $ 3.98 | | |
| Forfeited, cancelled or expired | (2) | $ 6.33 | | |
| Outstanding as of June 30, 2021 | 180 | $ 5.36 | 5.85 | $ 225 |
| Exercisable as of June 30, 2021 | 101 | $ 4.67 | 4.57 | $ 195 |

The weighted average grant date fair value per stock option granted during the six months ended June 30, 2021 was $1.78. The total intrinsic value of stock options exercised during the six months ended June 30, 2021 and 2020 was $130 and $39, respectively.

We recognized share-based payment expense associated with stock options of $11 and $12 for the three months ended June 30, 2021 and 2020, respectively, and $22 and $23 for the six months ended June 30, 2021 and 2020, respectively.

The following table summarizes the restricted stock unit, including PRSU, activity under our share-based plans for the six months ended June 30, 2021:

| | Shares | Grant Date Fair Value Per Share |
|---|---|---|
| Nonvested as of December 31, 2020 | 75 | $ 6.06 |
| Granted | 13 | $ 6.03 |
| Vested | (9) | $ 6.05 |
| Forfeited | (5) | $ 6.05 |
| Nonvested as of June 30, 2021 | 74 | $ 6.06 |

The total intrinsic value of restricted stock units, including PRSUs, vesting during the six months ended June 30, 2021 and 2020 was $54 and $77, respectively. During the six months ended June 30, 2021, we granted 7 PRSUs to certain employees. We believe it is probable that the performance target applicable to these PRSUs will be achieved.

In connection with the cash dividends paid during the six months ended June 30, 2021, we granted less than 1 restricted stock units, including PRSUs, in accordance with the terms of existing award agreements. These grants did not result in any additional incremental share-based payment expense being recognized during the six months ended June 30, 2021.

We recognized share-based payment expense associated with restricted stock units, including PRSUs, of $36 and $40 for the three months ended June 30, 2021 and 2020, respectively, and $76 and $84 for the six months ended June 30, 2021 and 2020, respectively.

Total unrecognized compensation costs related to unvested share-based payment awards for stock options and restricted stock units, including PRSUs, granted to employees, members of our board of directors and third parties at June 30, 2021 and December 31, 2020 was $413 and $385, respectively. The total unrecognized compensation costs at June 30, 2021 are expected to be recognized over a weighted-average period of 2.2 years.

***401(k) Savings Plans***

*Sirius XM Radio Inc. 401(k) Savings Plan*

We sponsor 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. We may also make additional discretionary matching, true-up matching and non-elective contributions to the Sirius XM Plan. 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. Our cash employer matching contributions are not 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. In October 2020, the Pandora Media, LLC 401(k) Profit Sharing Plan and Trust merged with the Sirius XM Plan.

We recognized expenses of $8 and $3 for the three months ended June 30, 2021 and 2020, respectively, and $13 and $8 for the six months ended June 30, 2021 and 2020, respectively, in connection with the Sirius XM and Pandora Plans.

***Sirius XM Holdings Inc. Deferred Compensation Plan***

The Sirius XM Holdings Inc. Deferred Compensation Plan (the "DCP") allows members of Holdings' board of directors and certain eligible employees to defer all or a portion of their base salary, cash incentive compensation and/or board of directors' cash compensation, as applicable. Pursuant to the terms of the DCP, Holdings or any of its subsidiaries may elect to make additional contributions beyond amounts deferred by participants, but is under no obligation to do so. Holdings has established a grantor (or "rabbi") trust to facilitate the payment of its obligations under the DCP.

Contributions to the DCP, net of withdrawals, were less than $1 and $1 for the three months ended June 30, 2021 and 2020, respectively, and $3 and $7 for the six months ended June 30, 2021 and 2020, respectively. As of June 30, 2021 and December 31, 2020, the fair value of the investments held in the trust were $53 and $46, respectively, which is included in Other long-term assets in our unaudited consolidated balance sheets and classified as trading securities. Trading gains and losses associated with these investments are recorded in Other (expense) income within our unaudited consolidated statements of comprehensive income. The associated liability is recorded within Other long-term liabilities in our unaudited consolidated balance sheets, and any increase or decrease in the liability is recorded in General and administrative expense within our unaudited consolidated statements of comprehensive income. We recorded unrealized gains (losses) on investments held in the trust of $3 and $4 for the three months ended June 30, 2021 and 2020, respectively, and $4 and $(1) for the six months ended June 30, 2021 and 2020, respectively.

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

## (15) Commitments and Contingencies

The following table summarizes our expected contractual cash commitments as of June 30, 2021:

| | 2021 | 2022 | 2023 | 2024 | 2025 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Debt obligations | $ 1,000 | $ — | $ 193 | $ 1,500 | $ — | $ 7,250 | $ 9,943 |
| Cash interest payments | 187 | 422 | 415 | 409 | 339 | 1,028 | 2,800 |
| Satellite and transmission | 27 | 3 | 2 | 2 | 2 | 10 | 46 |
| Programming and content | 202 | 374 | 291 | 169 | 122 | 195 | 1,353 |
| Sales and marketing | 28 | 45 | 13 | 3 | 3 | 6 | 98 |
| Satellite incentive payments | 4 | 7 | 7 | 8 | 7 | 23 | 56 |
| Operating lease obligations | 35 | 71 | 62 | 49 | 47 | 135 | 399 |
| Royalties, minimum guarantees and other | 218 | 399 | 533 | 23 | 6 | — | 1,179 |
| Total [(1)] | $ 1,701 | $ 1,321 | $ 1,516 | $ 2,163 | $ 526 | $ 8,647 | $ 15,874 |

(1) The table does not include our reserve for uncertain tax positions, which at June 30, 2021 totaled $26.

*Debt obligations.* Debt obligations include principal payments on outstanding debt and finance 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 several third parties to design, build, launch and insure one satellite, SXM-8. We also have entered into agreements with third parties to operate and maintain satellite telemetry, tracking and control facilities and certain components of our terrestrial repeater networks.

*Programming and content.* We have entered into various programming and content agreements. Under the terms of these agreements, our obligations include fixed payments, advertising commitments and revenue sharing arrangements. In certain of these agreements, the 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.

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

*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 upon XM-4 meeting its fifteen-year design life, which we expect to occur. Boeing may also be entitled to up to $10 of additional incentive payments if our XM-4 satellite continues to operate above baseline specifications during the five years beyond the satellite's fifteen-year design life.

Maxar Technologies (formerly Space Systems/Loral), the manufacturer of certain of our in-orbit satellites, may be entitled to future in-orbit performance payments upon XM-5, SIRIUS FM-5 and SIRIUS FM-6 meeting their fifteen-year design life, which we expect to occur.

*Operating lease obligations.* We have entered into both cancelable and non-cancelable operating leases for office space, terrestrial repeaters, data centers and equipment. 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.

*Royalties, Minimum Guarantees and Other.* We have entered into music royalty arrangements that include fixed payments. Certain of our content agreements also contain minimum guarantees. During the six months ended June 30, 2021, we prepaid $5 in content costs related to minimum guarantees. As of June 30, 2021, we had future fixed minimum guarantee commitments of $700, of which $265 will be paid in 2021 and the remainder will be paid thereafter. On a quarterly basis, we record the greater of the cumulative actual content costs incurred or the cumulative minimum guarantee based on forecasted usage for the minimum guarantee period. The minimum guarantee period is the period of time that the minimum guarantee relates to, as specified in each agreement, which may be annual or a longer period. The cumulative minimum guarantee, based on forecasted usage, considers factors such as listening hours, revenue, subscribers and other terms of each agreement that impact our expected attainment or recoupment of the minimum guarantees based on the relative attribution method.

Several of our content agreements also include provisions related to the royalty payments and structures of those agreements relative to other content licensing arrangements, which, if triggered, cause our payments under those agreements to escalate. In addition, record labels, publishers and performing rights organizations ("PROs") with whom we have entered into direct license agreements have the right to audit our content payments, and any such audit could result in disputes over whether we have paid the proper content costs.

We have also entered into various agreements with third parties for general operating purposes. The cost of Holdings' common stock acquired in our capital return program but not paid for as of June 30, 2021 was also included in this category.

In addition to the minimum contractual cash commitments described above, we have entered into other variable cost arrangements. These future costs are dependent upon many factors and are difficult to anticipate; however, these costs may be substantial. We may enter into additional programming, distribution, marketing and other agreements that contain similar variable cost provisions. We also have a surety bond of approximately $45 primarily used as security against non-performance in the normal course of business. 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.

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 the likelihood or magnitude of a possible eventual loss, if any.

*Pre-1972 Sound Recording Litigation.* On October 2, 2014, Flo & Eddie Inc. filed a class action suit against Pandora in the federal district court for the Central District of California. The complaint alleges a violation of California Civil Code Section 980, unfair competition, misappropriation and conversion in connection with the public performance of sound recordings recorded prior to February 15, 1972 (which we refer to as, "pre-1972 recordings"). On December 19, 2014, Pandora filed a motion to strike the complaint pursuant to California's Anti-Strategic Lawsuit Against Public Participation ("Anti-SLAPP") statute, which following denial of Pandora's motion was appealed to the Ninth Circuit Court of Appeals. In March 2017, the Ninth Circuit requested certification to the California Supreme Court on the substantive legal questions. The California Supreme Court accepted certification. In May 2019, the California Supreme Court issued an order dismissing consideration of the certified questions on the basis that, following the enactment of the Orrin G. Hatch-Bob Goodlatte Music Modernization Act, Pub. L. No. 115-264, 132 Stat. 3676 (2018) (the "MMA"), resolution of the questions posed by the Ninth Circuit Court of Appeals was no longer "necessary to . . . settle an important question of law."

The MMA grants a potential federal preemption defense to the claims asserted in the aforementioned lawsuits. In July 2019, Pandora took steps to avail itself of this preemption defense, including making the required payments under the MMA for certain of its uses of pre-1972 recordings. Based on the federal preemption contained in the MMA (along with other considerations), Pandora asked the Ninth Circuit to order the dismissal of the *Flo & Eddie, Inc. v. Pandora Media, Inc.* case. On October 17, 2019, the Ninth Circuit Court of Appeals issued a memorandum disposition concluding that the question of whether the MMA preempts Flo and Eddie's claims challenging Pandora's performance of pre-1972 recordings "depends on various unanswered factual questions" and remanded the case to the District Court for further proceedings.

In October 2020, the District Court denied Pandora's renewed motion to dismiss the case under California's anti-SLAPP statute, finding the case no longer qualified for anti-SLAPP due to intervening changes in the law, and denied Pandora's renewed attempt to end the case. Alternatively, the District Court ruled that the preemption defense likely did not apply to Flo & Eddie's claims, in part because the District Court believed that the MMA did not apply retroactively. Pandora promptly appealed the District Court's decision to the Ninth Circuit, and moved to stay appellate briefing pending the appeal of a related case against Sirius XM. On January 13, 2021, the Ninth Circuit issued an order granting the stay of appellate proceedings pending the resolution of a related case against Sirius XM.

We believe we have substantial defenses to the claims asserted in this action, and we intend to defend this action vigorously.

*Copyright Royalty Board Proceeding to Determine the Rate for Statutory Webcasting*. On June 11, 2021, the Copyright Royalty Board (the "CRB") of the Library of Congress issued its initial determination regarding the royalty rates payable by us under the statutory license by which webcasters perform sound recordings via digital transmission over the internet and make ephemeral (server) copies of those recordings during the five-year period starting January 1, 2021 and ending on December 31, 2025. Because the proceeding focuses on setting statutory rates for non-interactive online music streaming (commonly identified as "webcasting"), the proceeding sets the rates that our Pandora business pays for statutorily licensed music streaming on its free, ad-supported service (and for the non-interactive music streaming that occurs on its subscription tiers), and that our Sirius XM business pays for music streaming on its subscription internet radio service.

This proceeding does not set the rates that we pay for our other music offerings (such as our satellite radio or business establishment services) and does not affect the rates we pay music publishers for our services, which are covered under different licenses. The statutory rates set in this proceeding will, however, affect the amount we pay for streaming on Pandora under certain of its direct licenses with sound recording copyright owners (i.e., record companies). The royalty rates under many of those direct licenses, which cover a large majority of the sound recordings that we perform on Pandora, are indexed to the statutory rates established in this proceeding.

Under the terms of the CRB's decision, the statutory royalty rate in 2021 will be $0.0021 per performance for non-subscription transmissions (such as offered by the Pandora ad-supported business) and $0.0026 per performance for subscription transmissions (such as offered by the Sirius XM internet radio service). The rate for 2020 was $0.0018 per performance for non-subscription transmissions and $0.0024 per performance for subscription transmissions. The rates announced by the CRB in this initial determination for 2021 are an approximate 17% increase in the rates for non-subscription transmissions and an approximate 8% increase in the rates for subscription transmissions, in each case over the rates in effect during 2020. Rates for the remainder of the five-year period are subject to adjustment each year by the CRB to reflect any changes occurring in the cost of living as determined by the most recent Consumer Price Index for All Urban Consumers.

Once the CRB has provided the Register of Copyrights with sixty days to review the determination for any legal error, the Librarian of Congress will publish the final determination in the Federal Register. The parties will have thirty days from that publication to appeal the decision to the U.S. Court of Appeals for the District of Columbia Circuit.

*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 other matters, in our opinion, is likely to have a material adverse effect on our business, financial condition or results of operations.

## (16) Income Taxes

We file a consolidated federal income tax return for all of our wholly owned subsidiaries. For the three months ended June 30, 2021 and 2020, income tax expense was $127 and $69, respectively, and $65 and $158 for the six months ended June 30, 2021 and 2020, respectively.

Our effective tax rate for the three months ended June 30, 2021 and 2020 was 22.8% and 22.1%, respectively. Our effective tax rate for the six months ended June 30, 2021 and 2020 was 9.2% and 23.0%, respectively. The effective tax rate for the three months ended June 30, 2021 was primarily impacted by the recognition of excess tax benefits related to share-based compensation. The effective tax rate for the six months ended June 30, 2021 was primarily impacted by a $95 benefit associated with a state tax audit settlement. The effective tax rates for the three and six months ended June 30, 2020 were primarily impacted by federal and state tax credits and the recognition of excess tax benefits related to share-based compensation. We estimate our effective tax rate for the year ending December 31, 2021 will be approximately 17%.

As of June 30, 2021 and December 31, 2020, we had a valuation allowance related to deferred tax assets of $76 and $54, respectively, that were not likely to be realized due to due to the timing of certain federal and state net operating loss limitations.

Holdings is participating in the Compliance Assurance Process of the U.S. Internal Revenue Service (“IRS”) for 2021 which is expected to conclude during 2022. This program allows Holdings to work with the IRS to identify and resolve potential U.S. Federal tax issues before the filing of tax returns. We are continuously audited by various taxing jurisdictions. There are no material assessments which we believe are probable at this time.

On February 1, 2021, Holdings entered into a tax sharing agreement with Liberty Media governing the allocation of consolidated U.S. income tax liabilities and setting forth agreements with respect to other tax matters.

Under the Internal Revenue Code, two corporations may form a consolidated tax group, and file a consolidated federal income tax return, if one corporation owns stock representing at least 80% of the voting power and value of the outstanding capital stock of the other corporation. As of June 30, 2021, Liberty Media beneficially owned, directly and indirectly, approximately 78% of the outstanding shares of our common stock. We expect that Liberty Media could beneficially own, directly and indirectly, over 80% of the outstanding shares of our common stock at some time in 2021, and Holdings and Liberty Media would then become members of the same consolidated tax group. Should that happen, the tax sharing agreement would govern certain matters related to the resulting consolidated federal income tax returns, as well as state and local returns filed on a consolidated or combined basis.

The tax sharing agreement contains provisions that Holdings believes are customary for tax sharing agreements between members of a consolidated group. The tax sharing agreement and our inclusion in Liberty Media’s consolidated tax group is not expected to have any material adverse effect on us.

## (17) Segments and Geographic Information

In accordance with FASB ASC Topic 280, *Segment Reporting*, we disaggregate our operations into two reportable segments: Sirius XM and Pandora. The financial results of these segments are utilized by the chief operating decision maker, who is our Chief Executive Officer, for evaluating segment performance and allocating resources. We report our segment information based on the "management" approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of our reportable segments. For additional information on our segments refer to Note 1.

Segment results include the revenues and cost of services which are directly attributable to each segment. There are no indirect revenues or costs incurred that are allocated to the segments. There are planned intersegment advertising campaigns which will be eliminated. We had less than $1 of intersegment advertising revenue during each of the three and six months ended June 30, 2021 and 2020.

**SIRIUS XM RADIO INC. AND SUBSIDIARIES**
**(a wholly-owned subsidiary of Sirius XM Holdings Inc.)**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**
**(UNAUDITED)**
**(Dollars and shares in millions, except per share amounts)**

Segment revenue and gross profit were as follows during the period presented:

| | For the Three Months Ended June 30, 2021 | | |
|---|---|---|---|
| | Sirius XM | Pandora | Total |
| Revenue | | | |
| Subscriber revenue | $ 1,508 | $ 133 | $ 1,641 |
| Advertising revenue | 46 | 383 | 429 |
| Equipment revenue | 51 | — | 51 |
| Other revenue | 38 | — | 38 |
| Total revenue | 1,643 | 516 | 2,159 |
| Cost of services (a) | (647) | (323) | (970) |
| Segment gross profit | $ 996 | $ 193 | $ 1,189 |

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

| | For the Three Months Ended June 30, 2021 |
|---|---|
| **Segment Gross Profit** | $ 1,189 |
| Subscriber acquisition costs | (89) |
| Sales and marketing (a) | (227) |
| Engineering, design and development (a) | (59) |
| General and administrative (a) | (114) |
| Depreciation and amortization | (131) |
| Share-based payment expense | (47) |
| Impairment, restructuring and acquisition costs | 136 |
| Total other (expense) income | (100) |
| **Consolidated income before income taxes** | $ 558 |

(a) Share-based payment expense of $12 related to cost of services, $13 related to sales and marketing, $6 related to engineering, design and development and $16 related to general and administrative has been excluded.

| | For the Three Months Ended June 30, 2020 | | |
|---|---|---|---|
| | Sirius XM | Pandora | Total |
| Revenue | | | |
| Subscriber revenue | $ 1,453 | $ 125 | $ 1,578 |
| Advertising revenue | 25 | 211 | 236 |
| Equipment revenue | 25 | — | 25 |
| Other revenue | 35 | — | 35 |
| Total revenue | 1,538 | 336 | 1,874 |
| Cost of services (b) | (593) | (263) | (856) |
| Segment gross profit | $ 945 | $ 73 | $ 1,018 |

**SIRIUS XM RADIO INC. AND SUBSIDIARIES**
**(a wholly-owned subsidiary of Sirius XM Holdings Inc.)**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**
**(UNAUDITED)**
**(Dollars and shares in millions, except per share amounts)**

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

| | For the Three Months Ended June 30, 2020 |
|---|---|
| **Segment Gross Profit** | $ 1,018 |
| Subscriber acquisition costs | (48) |
| Sales and marketing [(b)] | (201) |
| Engineering, design and development [(b)] | (52) |
| General and administrative [(b)] | (102) |
| Depreciation and amortization | (124) |
| Share-based payment expense | (52) |
| Impairment, restructuring and acquisition costs | (24) |
| Total other (expense) income | (115) |
| **Consolidated income before income taxes** | $ 300 |

(b) Share-based payment expense of $10 related to cost of services, $16 related to sales and marketing, $9 related to engineering, design and development and $17 related to general and administrative has been excluded.

| | For the Six Months Ended June 30, 2021 | | |
|---|---|---|---|
| | Sirius XM | Pandora | Total |
| Revenue | | | |
| Subscriber revenue | $ 2,989 | $ 263 | $ 3,252 |
| Advertising revenue | 87 | 696 | 783 |
| Equipment revenue | 108 | — | 108 |
| Other revenue | 74 | — | 74 |
| Total revenue | 3,258 | 959 | 4,217 |
| Cost of services [(c)] | (1,270) | (630) | (1,900) |
| Segment gross profit | $ 1,988 | $ 329 | $ 2,317 |

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

| | For the Six Months Ended June 30, 2021 |
|---|---|
| **Segment Gross Profit** | $ 2,317 |
| Subscriber acquisition costs | (175) |
| Sales and marketing [(c)] | (428) |
| Engineering, design and development [(c)] | (113) |
| General and administrative [(c)] | (220) |
| Depreciation and amortization | (263) |
| Share-based payment expense | (98) |
| Impairment, restructuring and acquisition costs | (108) |
| Total other (expense) income | (203) |
| **Consolidated income before income taxes** | $ 709 |

(c) Share-based payment expense of $22 related to cost of services, $28 related to sales and marketing, $17 related to engineering, design and development and $31 related to general and administrative has been excluded.

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

| | For the Six Months Ended June 30, 2020 | | |
|---|---|---|---|
| | Sirius XM | Pandora | Total |
| Revenue | | | |
| Subscriber revenue | $ 2,910 | $ 253 | 3,163 |
| Advertising revenue | 69 | 452 | 521 |
| Equipment revenue | 66 | — | 66 |
| Other revenue | 76 | — | 76 |
| Total revenue | 3,121 | 705 | 3,826 |
| Cost of services (d) | (1,186) | (509) | (1,695) |
| Segment gross profit | $ 1,935 | $ 196 | $ 2,131 |

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

| | For the Six Months Ended June 30, 2020 |
|---|---|
| **Segment Gross Profit** | $ 2,131 |
| Subscriber acquisition costs | (147) |
| Sales and marketing (d) | (409) |
| Engineering, design and development (d) | (112) |
| General and administrative (d) | (193) |
| Depreciation and amortization | (256) |
| Share-based payment expense | (107) |
| Impairment, restructuring and acquisition costs | (24) |
| Total other (expense) income | (168) |
| **Consolidated income before income taxes** | $ 715 |

(d) Share-based payment expense of $21 related to cost of services, $33 related to sales and marketing, $20 related to engineering, design and development and $33 related to general and administrative has been excluded.

A measure of segment assets is not currently provided to the Chief Executive Officer and has therefore not been provided.

As of June 30, 2021, long-lived assets were predominantly located in the United States. No individual foreign country represented a material portion of our consolidated revenue during the three and six months ended June 30, 2021 and 2020.

## (18) Subsequent Events

*Holdings' Capital Return Program*

For the period from July 1, 2021 to July 23, 2021 we repurchased $55 of Holdings' common stock on the open market, including fees and commissions.

On July 19, 2021, Holdings' board of directors declared a quarterly dividend on Holdings' common stock in the amount of $0.014641 per share of Holdings' common stock payable on August 30, 2021 to Holdings' stockholders of record as of the close of business on August 6, 2021.

On July 19, 2021, Holdings' board of directors approved an additional $2,000 of common stock repurchases, increasing Holdings' total authorization to $18,000 since the inception of the program.

## MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

All amounts referenced in this discussion and analysis are in millions, except subscriber amounts are in thousands and per subscriber and per installation amounts are in ones, unless otherwise stated.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and related notes included elsewhere in this Quarterly Report and with Holdings' Annual Report on Form 10-K for the year ended December 31, 2020.

### Special Note Regarding Forward-Looking Statements

The following cautionary statements identify important factors that could cause our actual results to differ materially from those projected in forward-looking statements made in this Quarterly Report and in other reports and documents published by us from time to time. Any statements about our beliefs, plans, objectives, expectations, assumptions, future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimated,” “intend,” “plan,” “projection” and “outlook.” Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Quarterly Report and in other reports and documents published by us from time to time, including the risk factors described under “Risk Factors” in Part I, Item 1A, of Holdings' Annual Report on Form 10-K for the year ended December 31, 2020 and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” herein and in Part II, Item 7, of Holdings' Annual Report on Form 10-K for the year ended December 31, 2020.

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

- We face substantial competition and that competition is likely to increase over time
- If our efforts to attract and retain subscribers and listeners, or convert listeners into subscribers, are not successful, our business will be adversely affected
- We engage in extensive marketing efforts and the continued effectiveness of those efforts is an important part of our business
- We rely on third parties for the operation of our business, and the failure of third parties to perform could adversely affect our business
- We may not realize the benefits of acquisitions or other strategic investments and initiatives
- A substantial number of our Sirius XM service subscribers periodically cancel their subscriptions and we cannot predict how successful we will be at retaining customers
- Our ability to profitably attract and retain subscribers to our Sirius XM service as our marketing efforts reach more price-sensitive consumers is uncertain
- Our business depends in part upon the auto industry; vehicle production and sales are dependent on many factors, including the availability of consumer credit, general economic conditions, consumer confidence, fuel costs and component supply shortages
- The impact of COVID-19, including its variant strains, on our business
- Failure of our satellites would significantly damage our business
- Our Sirius XM service may experience harmful interference from wireless operations
- Our Pandora ad-supported business has suffered a substantial and consistent loss of monthly active users, which may adversely affect our Pandora business
- Our failure to convince advertisers of the benefits of our Pandora ad-supported service could harm our business
- If we are unable to maintain revenue growth from our advertising products, particularly in mobile advertising, our results of operations will be adversely affected
- Changes to mobile operating systems and browsers may hinder our ability to sell advertising and market our services
- If we fail to accurately predict and play music, comedy or other content that our Pandora listeners enjoy, we may fail to retain existing and attract new listeners
- Privacy and data security laws and regulations may hinder our ability to market our services, sell advertising and impose legal liabilities
- Consumer protection laws and our failure to comply with them could damage our business
- Failure to comply with FCC requirements could damage our business
- If we fail to protect the security of personal information about our customers, we could be subject to costly government enforcement actions and private litigation and our reputation could suffer
- Interruption or failure of our information technology and communications systems could impair the delivery of our service and harm our business

- The market for music rights is changing and is subject to significant uncertainties
- Our Pandora services depend upon maintaining complex licenses with copyright owners, and these licenses contain onerous terms
- The rates we must pay for “mechanical rights” to use musical works on our Pandora service have increased substantially and these rates may adversely affect our business
- Our use of pre-1972 sound recordings on our Pandora service could result in additional costs
- Failure to protect our intellectual property or actions by third parties to enforce their intellectual property rights could substantially harm our business and operating results
- Some of our services and technologies may use “open source” software, which may restrict how we use or distribute our services or require that we release the source code subject to those licenses
- Rapid technological and industry changes and new entrants could adversely impact our services
- We have a significant amount of indebtedness, and our debt contains certain covenants that restrict our operations
- Holdings is a “controlled company” within the meaning of the NASDAQ listing rules and, as a result, qualify for, and rely on, exemptions from certain corporate governance requirements
- While Holdings currently pays a quarterly cash dividend to holders of Holdings' common stock, Holdings may change its dividend policy at any time
- Holdings' principal stockholder has significant influence, including over actions requiring stockholder approval, and its interests may differ from the interests of other holders of Holdings' common stock
- If we are unable to attract and retain qualified personnel, our business could be harmed
- Our facilities could be damaged by natural catastrophes or terrorist activities
- The unfavorable outcome of pending or future litigation could have an adverse impact on our operations and financial condition
- We may be exposed to liabilities that other entertainment service providers would not customarily be subject to
- Our business and prospects depend on the strength of our brands

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

**Executive Summary**

We operate two complementary audio entertainment businesses - our Sirius XM business and our Pandora business.

*Sirius XM*

Our Sirius XM business features music, sports, entertainment, comedy, talk, news, traffic and weather channels and other content, as well as podcasts and infotainment services, in the United States on a subscription fee basis. Sirius XM's premier content bundles include live, curated and certain exclusive and on demand programming. The Sirius XM service is distributed through our two proprietary satellite radio systems and streamed via applications for mobile devices, home devices and other consumer electronic equipment. Satellite radios are primarily distributed through automakers, retailers and our website. Our Sirius XM service is also available through our user interface, which we call “360L,” that combines our satellite and streaming services into a single, cohesive in-vehicle entertainment experience.

The primary source of revenue from our Sirius XM business is subscription fees, with most of our customers subscribing to monthly, quarterly, semi-annual or annual plans. We also derive revenue from advertising on select non-music channels, which is sold under the SXM Media brand, direct sales of our satellite radios and accessories, and other ancillary services. As of June 30, 2021, our Sirius XM business had approximately 34.5 million subscribers.

In addition to our audio entertainment businesses, we provide connected vehicle services to several automakers. These services are designed to enhance the safety, security and driving experience of consumers. We also offer a suite of data services that includes graphical weather, fuel prices, sports schedules and scores and movie listings, a traffic information service that includes information as to road closings, traffic flow and incident data to consumers with compatible in-vehicle navigation systems, and real-time weather services in vehicles, boats and planes.

Sirius XM also holds a 70% equity interest and 33% voting interest in Sirius XM Canada Holdings Inc. ("Sirius XM Canada"). Sirius XM Canada's subscribers are not included in our subscriber count or subscriber-based operating metrics.

*Pandora*

Our Pandora business operates a music, comedy and podcast streaming discovery platform, offering a personalized experience for each listener wherever and whenever they want to listen, whether through mobile devices, car speakers or connected devices. Pandora enables listeners to create personalized stations and playlists, discover new content, hear artist- and expert-curated playlists, podcasts and select Sirius XM content as well as search and play songs and albums on-demand. Pandora is available as (1) an ad-supported radio service, (2) a radio subscription service (Pandora Plus) and (3) an on-demand subscription service (Pandora Premium). As of June 30, 2021, Pandora had approximately 6.6 million subscribers.

The majority of revenue from our Pandora business is generated from advertising on our Pandora ad-supported radio service which is sold under the SXM Media brand. We also derive subscription revenue from our Pandora Plus and Pandora Premium subscribers.

Our Pandora business also sells advertising on audio platforms and in podcasts unaffiliated with us. Pandora is the exclusive US ad sales representative for SoundCloud. Through this arrangement, Pandora offers advertisers the ability to execute campaigns in the US across the Pandora and SoundCloud listening platforms. We also have arrangements to serve as the ad sales representative for certain podcasts. In addition, through AdsWizz, Pandora provides a comprehensive digital audio advertising technology platform, which connects audio publishers and advertisers with a variety of ad insertion, campaign trafficking, yield optimization, programmatic buying, marketplace and podcast monetization solutions. As of June 30, 2021, our Pandora business had approximately 55.1 million monthly active users.

In February 2020, Sirius XM completed a $75 investment in SoundCloud. SoundCloud is a next-generation music entertainment company, powered by an ecosystem of artists, listeners, and curators on the pulse of what's new, now and next in culture. SoundCloud's platform enables its users to upload, promote, share and create audio entertainment. The minority investment complements the existing ad sales relationship between SoundCloud and Pandora.

In June 2020, Sirius XM acquired Simplecast for $28 in cash. Simplecast is a podcast management and analytics platform. Refer to Note 3 to our unaudited consolidated financial statements for more information on this acquisition.

In October 2020, Sirius XM acquired the assets of Stitcher from The E.W. Scripps Company and certain of its subsidiaries ("Scripps") for total consideration of $302, which included $266 in cash and $36 related to contingent consideration. As of June 30, 2021, we will potentially make up to $49 in additional payments to Scripps related to the contingent consideration based on Stitcher's 2020 results and its achievement of certain financial metrics in 2021. The acquisition of Stitcher, in conjunction with Simplecast, creates a full-service platform for podcast creators, publishers and advertisers. Refer to Note 3 to our unaudited consolidated financial statements for more information on this acquisition.

*Liberty Media*

As of June 30, 2021, Liberty Media beneficially owned, directly and indirectly, approximately 78% 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.

**Results of Operations**

Set forth below are our results of operations for the three and six months ended June 30, 2021 compared with the three and six months ended June 30, 2020. The results of operations are presented for each of our reporting segments for revenue and cost of services and on a consolidated basis for all other items.

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | | 2021 vs 2020 Change | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Three Months | | Six Months | |
| | 2021 | 2020 | 2021 | 2020 | Amount | % | Amount | % |
| *Revenue* | | | | | | | | |
| Sirius XM: | | | | | | | | |
| Subscriber revenue | $ 1,508 | $ 1,453 | $ 2,989 | $ 2,910 | $ 55 | 4 % | $ 79 | 3 % |
| Advertising revenue | 46 | 25 | 87 | 69 | 21 | 84 % | 18 | 26 % |
| Equipment revenue | 51 | 25 | 108 | 66 | 26 | 104 % | 42 | 64 % |
| Other revenue | 38 | 35 | 74 | 76 | 3 | 9 % | (2) | (3)% |
| Total Sirius XM revenue | 1,643 | 1,538 | 3,258 | 3,121 | 105 | 7 % | 137 | 4 % |
| Pandora: | | | | | | | | |
| Subscriber revenue | 133 | 125 | 263 | 253 | 8 | 6 % | 10 | 4 % |
| Advertising revenue | 383 | 211 | 696 | 452 | 172 | 82 % | 244 | 54 % |
| Total Pandora revenue | 516 | 336 | 959 | 705 | 180 | 54 % | 254 | 36 % |
| Total consolidated revenue | 2,159 | 1,874 | 4,217 | 3,826 | 285 | 15 % | 391 | 10 % |
| *Cost of services* | | | | | | | | |
| Sirius XM: | | | | | | | | |
| Revenue share and royalties | 387 | 365 | 766 | 731 | 22 | 6 % | 35 | 5 % |
| Programming and content | 125 | 104 | 243 | 216 | 21 | 20 % | 27 | 13 % |
| Customer service and billing | 105 | 99 | 202 | 192 | 6 | 6 % | 10 | 5 % |
| Transmission | 36 | 30 | 70 | 57 | 6 | 20 % | 13 | 23 % |
| Cost of equipment | 4 | 4 | 9 | 8 | — | — % | 1 | 13 % |
| Total Sirius XM cost of services | 657 | 602 | 1,290 | 1,204 | 55 | 9 % | 86 | 7 % |
| Pandora: | | | | | | | | |
| Revenue share and royalties | 275 | 222 | 537 | 426 | 53 | 24 % | 111 | 26 % |
| Programming and content | 11 | 6 | 22 | 12 | 5 | 83 % | 10 | 83 % |
| Customer service and billing | 23 | 23 | 42 | 48 | — | — % | (6) | (13)% |
| Transmission | 16 | 13 | 31 | 26 | 3 | 23 % | 5 | 19 % |
| Total Pandora cost of services | 325 | 264 | 632 | 512 | 61 | 23 % | 120 | 23 % |
| Total consolidated cost of services | 982 | 866 | 1,922 | 1,716 | 116 | 13 % | 206 | 12 % |
| Subscriber acquisition costs | 89 | 48 | 175 | 147 | 41 | 85 % | 28 | 19 % |
| Sales and marketing | 240 | 217 | 456 | 442 | 23 | 11 % | 14 | 3 % |
| Engineering, design and development | 65 | 61 | 130 | 132 | 4 | 7 % | (2) | (2)% |
| General and administrative | 130 | 119 | 251 | 226 | 11 | 9 % | 25 | 11 % |
| Depreciation and amortization | 131 | 124 | 263 | 256 | 7 | 6 % | 7 | 3 % |
| Impairment, restructuring and acquisition costs | (136) | 24 | 108 | 24 | (160) | (667)% | 84 | 350 % |
| Total operating expenses | 1,501 | 1,459 | 3,305 | 2,943 | 42 | 3 % | 362 | 12 % |
| Income from operations | 658 | 415 | 912 | 883 | 243 | 59 % | 29 | 3 % |
| Other (expense) income: | | | | | | | | |
| Interest expense | (101) | (101) | (199) | (198) | — | — % | (1) | (1)% |
| Other income (expense) | 1 | (14) | (4) | 30 | 15 | 107 % | (34) | (113)% |
| Total other (expense) income | (100) | (115) | (203) | (168) | 15 | 13 % | (35) | (21)% |
| Income before income taxes | 558 | 300 | 709 | 715 | 258 | 86 % | (6) | (1)% |
| Income tax expense | (127) | (69) | (65) | (158) | (58) | (84)% | 93 | 59 % |
| Net income | $ 431 | $ 231 | $ 644 | $ 557 | $ 200 | 87 % | $ 87 | 16 % |

***Sirius XM Revenue***

*Sirius XM Subscriber Revenue* includes fees charged for self-pay and paid promotional subscriptions, U.S. Music Royalty Fees and other ancillary fees.

For the three months ended June 30, 2021 and 2020, subscriber revenue was $1,508 and $1,453, respectively, an increase of 4%, or $55. For the six months ended June 30, 2021 and 2020, subscriber revenue was $2,989 and $2,910, respectively, an increase of 3% or $79. The increases were primarily driven by growth in our self-pay subscriber base of 3% driving higher self-pay revenue and U.S. Music Royalty Fees, partially offset by lower revenue generated from automakers offering paid promotional subscriptions.

We expect subscriber revenues to increase based on the growth of our self-pay subscriber base, increases in the average price charged and the sale of additional services to subscribers.

*Sirius XM Advertising Revenue* includes the sale of advertising on Sirius XM's non-music channels.

For the three months ended June 30, 2021 and 2020, advertising revenue was $46 and $25, respectively, an increase of 84%, or $21. For the six months ended June 30, 2021 and 2020, advertising revenue was $87 and $69, respectively, an increase of 26% or $18. The increases were due to higher advertising as we continue to recover to pre-COVID-19 levels primarily on news and sports channels.

We expect our Sirius XM advertising revenue to grow as we continue our recovery to pre-COVID-19 levels.

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

For the three months ended June 30, 2021 and 2020, equipment revenue was $51 and $25, respectively, an increase of 104%, or $26. For the six months ended June 30, 2021 and 2020, equipment revenue was $108 and $66, respectively, an increase of 64% or $42. The increases were driven by higher royalty revenue from new vehicle production as automakers pushed to get back to pre-COVID-19 manufacturing levels and due to our transition to a new generation of chipsets.

We expect equipment revenue to remain relatively flat as volume of chipsets sold increases, offset by lower revenue per unit sold.

*Sirius XM Other Revenue* includes service and advisory revenue from Sirius XM Canada, our connected vehicle services, and ancillary revenues.

For the three months ended June 30, 2021 and 2020, other revenue was $38 and $35, respectively, an increase of 9%, or $3. For the six months ended June 30, 2021 and 2020, other revenue was $74 and $76, respectively, a decrease of 3% or $2. The increase for the three month period was primarily driven by higher revenue generated by our connected vehicle services and Sirius XM Canada. The decrease for the six month period was primarily driven by lower revenue generated by our rental car arrangements.

We expect other revenue to remain relatively flat.

***Pandora Revenue***

*Pandora Subscriber Revenue* includes fees charged for Pandora Plus and Pandora Premium subscriptions as well as Stitcher podcast subscriptions.

For the three months ended June 30, 2021 and 2020, Pandora subscriber revenue was $133 and $125, respectively, an increase of 6%, or $8. For the six months ended June 30, 2021 and 2020, Pandora subscriber revenue was $263 and $253, respectively, an increase of 4% or $10. The increases were primarily driven by growth in our subscriber base and the inclusion of Stitcher.

We expect Pandora subscriber revenues to remain relatively flat.

*Pandora Advertising Revenue* is generated primarily from audio, display and video advertising from on-platform and off-platform advertising.

For the three months ended June 30, 2021 and 2020, Pandora advertising revenue was $383 and $211, respectively, an increase of 82%, or $172. For the six months ended June 30, 2021 and 2020, Pandora advertising revenue was $696 and $452, respectively, an increase of 54% or $244. The increases were primarily due to growth in Pandora owned and operated revenue from higher sell-through, increases in the price of advertising sold, the inclusion of Stitcher as well as increased revenue from AdsWizz.

We expect our advertising revenue to increase due to off-platform advertising opportunities.

***Total Consolidated Revenue***

*Total Consolidated Revenue* for the three months ended June 30, 2021 and 2020, was $2,159 and $1,874, respectively, an increase of 15%, or $285. Total Consolidated Revenue for the six months ended June 30, 2021 and 2020, was $4,217 and $3,826, respectively, an increase of 10% or $391.

***Sirius XM Cost of Services***

*Sirius XM Cost of Services* includes revenue share and royalties, programming and content, customer service and billing, transmission and equipment expenses.

*Sirius XM Revenue Share and Royalties* include royalties for transmitting content, including streaming royalties, as well as automaker, content provider and advertising revenue share.

For the three months ended June 30, 2021 and 2020, revenue share and royalties were $387 and $365, respectively, an increase of 6%, or $22, but decreased as a percentage of total Sirius XM revenue. For the six months ended June 30, 2021 and 2020, revenue share and royalties were $766 and $731, respectively, an increase of 5% or $35, and increased as a percentage of total Sirius XM revenue. The increases were driven by overall greater revenues subject to music royalties and revenue share.

We expect our Sirius XM revenue share and royalty costs to increase as our revenues grow.

*Sirius XM 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.

For the three months ended June 30, 2021 and 2020, programming and content expenses were $125 and $104, respectively, an increase of 20%, or $21, and increased as a percentage of total Sirius XM revenue. For the six months ended June 30, 2021 and 2020, programming and content expenses were $243 and $216, respectively, an increase of 13% or $27, and increased as a percentage of total Sirius XM revenue. The increases were driven by higher content licensing costs.

We expect our Sirius XM programming and content expenses to increase as we offer additional programming and renew or replace expiring agreements.

*Sirius XM 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, bad debt expense, and transaction fees.

For the three months ended June 30, 2021 and 2020, customer service and billing expenses were $105 and $99, respectively, an increase of 6%, or $6, but decreased as a percentage of total Sirius XM revenue. For the six months ended June 30, 2021 and 2020, customer service and billing expenses were $202 and $192, respectively, an increase of 5%, or $10, and increased as a percentage of total Sirius XM revenue. The increases were driven by higher transaction costs, partially offset by lower bad debt expense.

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

*Sirius XM 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; studios; and delivery of our Internet streaming and connected vehicle services.

For the three months ended June 30, 2021 and 2020, transmission expenses were $36 and $30, respectively, an increase of 20%, or $6, and increased as a percentage of total Sirius XM revenue. For the six months ended June 30, 2021 and 2020, transmission expenses were $70 and $57, respectively, an increase of 23%, or $13, and increased as a percentage of total Sirius XM revenue. The increases were primarily driven by higher cloud hosting and wireless costs associated with our 360L platform, streaming content and our connected vehicle services.

We expect our Sirius XM transmission expenses to increase as costs associated with our 360L platform and investments in internet streaming grow.

*Sirius XM 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.

For each of the three months ended June 30, 2021 and 2020, cost of equipment was $4. For the six months ended June 30, 2021 and 2020, cost of equipment was $9 and $8, respectively, an increase of 13% or $1, and increased as a percentage of total Sirius XM revenue. The increase for the six month period was driven by higher inventory reserves.

We expect our Sirius XM cost of equipment to fluctuate with the sales of our satellite radios.

***Pandora Cost of Services***

*Pandora Cost of Services* includes revenue share and royalties, programming and content, customer service and billing, and transmission expenses.

*Pandora Revenue Share and Royalties* includes licensing fees paid for streaming music or other content to our subscribers and listeners as well as revenue share paid to third party ad servers. We make payments to third party ad servers for the period the advertising impressions are delivered or click-through actions occur, and accordingly, we record this as a cost of service in the related period.

For the three months ended June 30, 2021 and 2020, revenue share and royalties were $275 and $222, respectively, an increase of 24%, or $53, but decreased as a percentage of total Pandora revenue. For the six months ended June 30, 2021 and 2020, revenue share and royalties were $537 and $426, respectively, an increase of 26%, or $111, but decreased as a percentage of total Pandora revenue. The increases were primarily due to higher royalty rates, owned and operated revenue as well as higher AdsWizz revenue, the inclusion of Stitcher and the growth in other off-platform revenue.

We expect our Pandora revenue share to increase as off-platform revenue increases and our royalty costs to increase due to higher music royalty rates.

*Pandora Programming and Content* includes costs to produce live listener events and promote content.

For the three months ended June 30, 2021 and 2020, programming and content expenses were $11 and $6, respectively, an increase of 83%, or $5, and increased as a percentage of total Pandora revenue. For the six months ended June 30, 2021 and 2020, programming and content expenses were $22 and $12, respectively, an increase of 83%, or $10, and increased as a percentage of total Pandora revenue. The increases were primarily attributable to higher license and production costs driven by the inclusion of Stitcher.

We expect our Pandora programming and content costs to increase as we offer additional programming and continue to produce live listener events and promotions.

*Pandora Customer Service and Billing* includes transaction fees on subscription purchases through mobile app stores, and bad debt expense.

For each of the three months ended June 30, 2021 and 2020, customer service and billing expenses were $23. For the six months ended June 30, 2021 and 2020, customer service and billing expenses were $42 and $48, respectively, a decrease of 13%, or $6, and decreased as a percentage of total Pandora revenue. The decrease was primarily driven by lower bad debt expense.

We expect our Pandora customer service and billing costs to increase as our advertising revenue grows.

*Pandora Transmission* includes costs associated with content streaming, maintaining our streaming radio and on-demand subscription services and creating and serving advertisements through third-party ad servers.

For the three months ended June 30, 2021 and 2020, transmission expenses were $16 and $13, respectively, an increase of 23%, or $3, but decreased as a percentage of total Pandora revenue. For the six months ended June 30, 2021 and 2020, transmission expenses were $31 and $26, respectively, an increase of 19%, or $5, but decreased as a percentage of total Pandora revenue. The increases were driven by higher streaming costs.

We expect our Pandora transmission costs to fluctuate with changes in listener hours.

***Operating Costs***

*Subscriber Acquisition Costs* are costs associated with our satellite radio service and 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; product warranty obligations; and freight. The majority of subscriber acquisition costs are incurred and expensed in advance of 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.

For the three months ended June 30, 2021 and 2020, subscriber acquisition costs were $89 and $48, respectively, an increase of 85%, or $41, and increased as a percentage of total revenue. For the six months ended June 30, 2021 and 2020, subscriber acquisition costs were $175 and $147, respectively, an increase of 19%, or $28, and increased as a percentage of total revenue. The increases were driven by higher OEM installations following factory shutdowns in the second quarter of 2020 associated with the COVID-19 pandemic; partially offset by lower subsidies from contract improvements with certain automakers and, to a lesser extent, lower costs resulting from silicon supply constraints in 2021.

We expect subscriber acquisition costs to fluctuate with OEM installations. We intend to continue to offer subsidies and other incentives to induce OEMs to include our technology in their vehicles.

*Sales and Marketing* includes costs for marketing, advertising, media and production, including promotional events and sponsorships; cooperative and artist marketing; and personnel related costs including salaries, commissions, and sales support. Marketing costs include expenses related to direct mail, outbound telemarketing, email communications, social media, television and digital performance media.

For the three months ended June 30, 2021 and 2020, sales and marketing expenses were $240 and $217, respectively, an increase of 11%, or $23, but decreased as a percentage of total revenue. For the six months ended June 30, 2021 and 2020, sales and marketing expenses were $456 and $442, respectively, an increase of 3%, or $14, but decreased as a percentage of total revenue. The increase for the three month period was primarily due to higher personnel-related costs and trial-related direct marketing costs. The increase for the six month period was primarily due to higher personnel-related costs.

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 and listeners.

*Engineering, Design and Development* consists primarily of compensation and related costs to develop chipsets and new products and services, including streaming and connected vehicle services, research and development for broadcast information systems and the design and development costs to incorporate Sirius XM radios into new vehicles manufactured by automakers.

For the three months ended June 30, 2021 and 2020, engineering, design and development expenses were $65 and $61, respectively, an increase of 7%, or $4, but decreased as a percentage of total revenue. For the six months ended June 30, 2021 and 2020, engineering, design and development expenses were $130 and $132, respectively, a decrease of 2%, or $2, and decreased as a percentage of total revenue. The increase for the three month period was driven by higher personnel-related costs partially offset by lower research and development costs. The decrease for the six month period was driven by lower research and development costs, partially offset by higher personnel-related costs.

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

For the three months ended June 30, 2021 and 2020, general and administrative expenses were $130 and $119, respectively, an increase of 9%, or $11, but decreased as a percentage of total revenue. For the six months ended June 30, 2021 and 2020, general and administrative expenses were $251 and $226, respectively, an increase of 11%, or $25, and increased as a percentage of total revenue. The increase for the three month period was driven by the closure of a sales and use tax audit in 2020 which resulted in lower tax expense during the three months ended June 30, 2020, and higher personnel-related and consulting costs. The increase for the six month period was primarily driven by the closure of a sales and use tax audit in 2020 which resulted in lower tax expense during the six months ended June 30, 2020, gains recorded on our deferred compensation investments during the six months ended June 30, 2021 compared to losses recorded on our deferred compensation investments during the six months ended June 30, 2020 as well as higher personnel-related, consulting and technology related costs.

We expect our general and administrative expenses to increase to support the growth of our business.

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

For the three months ended June 30, 2021 and 2020, depreciation and amortization expense was $131 and $124, respectively. For the six months ended June 30, 2021 and 2020, depreciation and amortization expense was $263 and $256, respectively. The increases were primarily driven by developed software placed in service.

*Impairment, Restructuring and Acquisition Costs* represents impairment charges, net of insurance recoveries, associated with the carrying amount of an asset exceeding the asset's fair value, and restructuring expenses associated with the abandonment of certain leased office spaces.

For the three months ended June 30, 2021 and 2020, impairment, restructuring and acquisition costs were $(136) and $24, respectively. For the six months ended June 30, 2021 and 2020, impairment, restructuring and acquisition costs were $108 and $24, respectively. During the three months ended June 30, 2021, we recorded insurance recoveries related to our SXM-7 satellite of $140 which was partially offset by acquisition and restructuring costs of $3. During the six month period ended June 30, 2021, we also recorded $220 to write down the value of our SXM-7 satellite after it experienced failures of certain payload units during in-orbit testing, and restructuring costs of $25 resulting from the termination of leased office space. During the three and six months ended June 30, 2020, we recorded costs of $24 associated with the termination of the Automatic service and costs associated with the acquisition of Simplecast.

***Other (Expense) Income***

*Interest Expense* includes interest on outstanding debt.

For both the three months ended June 30, 2021 and 2020, interest expense was $101. For the six months ended June 30, 2021 and 2020, interest expense was $199 and $198, respectively. The increase for the six month period was primarily driven by a higher average outstanding balance on our Credit Facility as well as lower capitalized interest, partially offset by lower interest rates.

*Other Income (Expense)* primarily includes realized and unrealized gains and losses from our Deferred Compensation Plan and other investments, interest and dividend income, our share of the income or loss from equity investments in Sirius XM Canada and SoundCloud, and transaction costs related to non-operating investments.

For the three months ended June 30, 2021 and 2020, other income (expense) was $1 and $(14), respectively. For the six months ended June 30, 2021 and 2020, other (expense) income was $(4) and $30, respectively. For the three and six months ended June 30, 2021, we recorded our share of Sirius XM Canada's net income, interest earned on our loan to Sirius XM Canada, and trading gains associated with the investments held for our Deferred Compensation Plan; partially offset by our loss on the fair value of Pandora's 1.75% Convertible Senior Notes due 2023 and losses on other investments. For the three months ended June 30, 2020, we recorded our share of Sirius XM Canada's net income and interest earned on our loan to Sirius XM Canada; partially offset by our loss on the fair value of Pandora's 1.75% Convertible Senior Notes due 2023, trading losses associated with the investments held for our Deferred Compensation Plan and losses on other investments. During the six months ended June 30, 2020, we recorded a one-time lawsuit settlement of $7, a gain on the fair value of Pandora's 1.75% Convertible Senior Notes due 2023, our share of Sirius XM Canada's net income and interest earned on our loan to Sirius XM Canada.

***Income Taxes***

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

For the three months ended June 30, 2021 and 2020, income tax expense was $127 and $69, respectively. For the six months ended June 30, 2021 and 2020, income tax expense was $65 and $158, respectively.

Our effective tax rate for the three months ended June 30, 2021 and 2020 was 22.8% and 22.1%, respectively. Our effective tax rate for the six months ended June 30, 2021 and 2020 was 9.2% and 23.0%, respectively. The effective tax rate for the three months ended June 30, 2021 was primarily impacted by the recognition of excess tax benefits related to share-based compensation. The effective tax rate for the six months ended June 30, 2021 was primarily impacted by a $95 benefit associated with a state tax audit settlement. The effective tax rates for the three and six months ended June 30, 2020 were primarily impacted by federal and state tax credits and the recognition of excess tax benefits related to share-based compensation. We estimate our effective tax rate for the year ending December 31, 2021 will be approximately 17%.

**Key Financial and Operating Performance Metrics**

In this section, we present certain financial performance measures some of which are presented as Non-GAAP items, which include free cash flow and adjusted EBITDA. We also present certain operating performance measures. Our adjusted EBITDA excludes the impact of share-based payment expense and certain purchase price accounting adjustments related to the merger of Sirius and XM ("XM Merger") and our February 2019 acquisition of Pandora ("the Pandora Acquisition"). Additionally, when applicable, our adjusted EBITDA metric excludes the effect of significant items that do not relate to the on-going performance of our business. We use these Non-GAAP financial and operating performance measures to manage our business, to set operational goals and as a basis for determining performance-based compensation for our employees. See the accompanying glossary on pages 46 through 49 for more details and for the reconciliation to the most directly comparable GAAP measure (where applicable).

We believe these Non-GAAP financial and operating performance measures provide useful information to investors regarding our financial condition and results of operations. We believe these Non-GAAP financial and operating performance measures may be useful to investors in evaluating our core trends because they provide a more direct view of our underlying costs. We believe investors may use our adjusted EBITDA to estimate our current enterprise value and to make investment decisions. We believe free cash flow provides useful supplemental information to investors regarding our cash available for future subscriber acquisitions and capital expenditures, to repurchase or retire debt, to acquire other companies and our ability to return capital to stockholders. By providing these Non-GAAP financial and operating performance measures, together with the reconciliations to the most directly comparable GAAP measure (where applicable), we believe we are enhancing investors' understanding of our business and our results of operations.

Our 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, our Non-GAAP financial measures may not be comparable to similarly-titled measures by other companies. Please refer to the glossary (pages 46 through 49) for a further discussion of such Non-GAAP financial and operating performance measures and reconciliations to the most directly comparable GAAP measure (where applicable). Subscribers and subscription related revenues and expenses associated with our connected vehicle services and Sirius XM Canada are not included in Sirius XM's subscriber count or subscriber-based operating metrics.

Set forth below are our subscriber balances as of June 30, 2021 compared to June 30, 2020.

| | As of June 30, | | 2021 vs 2020 Change | |
|---|---|---|---|---|
| *(subscribers in thousands)* | 2021 | 2020 | Amount | % |
| **Sirius XM** | | | | |
| Self-pay subscribers | 31,368 | 30,311 | 1,057 | 3 % |
| Paid promotional subscribers | 3,108 | 3,939 | (831) | (21)% |
| Ending subscribers | 34,476 | 34,250 | 226 | 1 % |
| Traffic users | 9,234 | 9,414 | (180) | (2)% |
| Sirius XM Canada subscribers | 2,578 | 2,607 | (29) | (1)% |
| | | | | |
| **Pandora** | | | | |
| Monthly active users - all services | 55,137 | 59,604 | (4,467) | (7)% |
| Self-pay subscribers | 6,510 | 6,246 | 264 | 4 % |
| Paid promotional subscribers | 67 | 56 | 11 | 20 % |
| Ending subscribers | 6,577 | 6,302 | 275 | 4 % |

The following table contains our Non-GAAP financial and operating performance measures which are based on our adjusted results of operations for the three and six months ended June 30, 2021 and 2020.

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | | 2021 vs 2020 Change | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Three Months | | Six Months | |
| *(subscribers in thousands)* | 2021 | 2020 | 2021 | 2020 | Amount | % | Amount | % |
| **Sirius XM** | | | | | | | | |
| Self-pay subscribers | 355 | 264 | 481 | 333 | 91 | 34 % | 148 | 44 % |
| Paid promotional subscribers | (378) | (780) | (719) | (992) | 402 | 52 % | 273 | 28 % |
| Net additions | (23) | (516) | (238) | (659) | 493 | 96 % | 421 | (64)% |
| Weighted average number of subscribers | 34,473 | 34,288 | 34,468 | 34,556 | 185 | 1 % | (88) | — % |
| Average self-pay monthly churn | 1.5 % | 1.6 % | 1.6 % | 1.7 % | (0.1)% | (6)% | (0.1)% | (6)% |
| ARPU [(1)] | $ 14.57 | $ 13.96 | $ 14.43 | $ 13.95 | $ 0.61 | 4 % | $ 0.48 | 3 % |
| SAC, per installation | $ 15.20 | $ 20.14 | $ 12.93 | $ 20.14 | $ (4.94) | (25)% | $ (7.21) | (36)% |
| **Pandora** | | | | | | | | |
| Self-pay subscribers | 118 | 32 | 231 | 81 | 86 | 269 % | 150 | 185 % |
| Paid promotional subscribers | 3 | 4 | 5 | 7 | (1) | (25)% | (2) | 29 % |
| Net additions | 121 | 36 | 236 | 88 | 85 | 236 % | 148 | (168)% |
| Weighted average number of subscribers | 6,518 | 6,223 | 6,451 | 6,233 | 295 | 5 % | 218 | 3 % |
| ARPU | $ 6.67 | $ 6.70 | $ 6.67 | $ 6.77 | $ (0.03) | — % | $ (0.10) | (1)% |
| Ad supported listener hours (in billions) | 3.03 | 3.29 | 5.90 | 6.41 | (0.26) | (8)% | (0.51) | (8)% |
| Advertising revenue per thousand listener hours (RPM) | $100.35 | $ 55.23 | $ 93.26 | $ 61.23 | $ 45.12 | 82 % | $ 32.03 | 52 % |
| Licensing costs per thousand listener hours (LPM) | $ 44.46 | $ 37.16 | $ 44.89 | $ 37.12 | $ 7.30 | 20 % | $ 7.77 | 21 % |
| Licensing costs per paid subscriber (LPU) | $ 4.18 | $ 4.06 | $ 4.19 | $ 4.08 | $ 0.12 | 3 % | $ 0.11 | 3 % |
| **Total Company** | | | | | | | | |
| Adjusted EBITDA | $ 700 | $ 615 | $ 1,381 | $ 1,254 | $ 85 | 14 % | $ 127 | 10 % |
| Free cash flow | $ 550 | $ 503 | $ 761 | $ 851 | $ 47 | 9 % | $ (90) | (11)% |

(1) ARPU for Sirius XM excludes subscriber revenue from our connected vehicle services of $47 and $42 for the three months ended June 30, 2021 and 2020, respectively, and $92 and $86 for the six months ended June 30, 2021 and 2020, respectively.

***Sirius XM***

*Subscribers.* At June 30, 2021, Sirius XM had approximately 34,476 subscribers, an increase of 226, from the approximately 34,250 subscribers as of June 30, 2020. The increase was due to the growth in our self-pay subscriber base as a result of vehicle sales growth, lower churn rate, and higher new vehicle penetration rate, partially offset by the decrease in paid promotional subscribers generated by automakers driven by a shift to shorter paid trials and unpaid trials.

For the three months ended June 30, 2021 and 2020, net subscriber additions were (23) and (516), respectively. For the six months ended June 30, 2021 and 2020, net subscriber additions were (238) and (659), respectively. Paid promotional subscribers decreased due to a shift to shorter paid or free trials at certain automakers, and to a lesser extent, lower vehicle shipments due to silicon supply constraints. Self-pay net additions increased driven by higher conversion from vehicle sales growth and lower non-pay churn and voluntary churn.

*Traffic Users.* We offer services that provide graphic information as to road closings, traffic flow and incident data to consumers with compatible in-vehicle navigation systems. At June 30, 2021, Sirius XM had approximately 9,234 traffic users, a decrease of 180 users, or 2%, from the approximately 9,414 traffic users as of June 30, 2020.

*Sirius XM Canada Subscribers.* At June 30, 2021, Sirius XM Canada had approximately 2,578 subscribers, a decrease of 29, or 1%, from the approximately 2,607 Sirius XM Canada subscribers as of June 30, 2020.

*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 46 through 49 for more details.)

For the three months ended June 30, 2021 and 2020, our average self-pay monthly churn rate was 1.5% and 1.6%, respectively. For the six months ended June 30, 2021 and 2020, our average self-pay monthly churn rate was 1.6% and 1.7%, respectively. The decreases were driven by lower non-pay churn and voluntary churn.

*ARPU* is derived from total earned Sirius XM subscriber revenue (excluding revenue derived from our connected vehicle services) and net advertising revenue, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. (See the accompanying glossary on pages 48 through 51 for more details.)

For the three months ended June 30, 2021 and 2020, subscriber ARPU - Sirius XM was $14.57 and $13.96, respectively. For the six months ended June 30, 2021 and 2020, subscriber ARPU - Sirius XM was $14.43 and $13.95, respectively. The increases were driven by higher advertising revenue as we continue to recover to pre-COVID-19 levels, the decline in paid trials, and an increase in certain subscription rates and the U.S. Music Royalty Fee .

*SAC, Per Installation,* is derived from subscriber acquisition costs and margins from the sale of radios, components and accessories (excluding connected vehicle services), divided by the number of satellite radio installations in new vehicles and shipments of aftermarket radios for the period. (See the accompanying glossary on pages 46 through 49 for more details.)

For the three months ended June 30, 2021 and 2020, SAC, per installation, was $15.20 and $20.14, respectively. For the six months ended June 30, 2021 and 2020, SAC, per installation, was $12.93 and $20.14, respectively. The decreases were driven by reductions to OEM hardware subsidy rates.

***Pandora***

*Monthly Active Users.* At June 30, 2021, Pandora had approximately 55,137 monthly active users, a decrease of 4,467 monthly active users, or 7%, from the 59,604 monthly active users as of June 30, 2020. The decrease in monthly active users was driven by a decline in the number of new users.

*Subscribers.* At June 30, 2021, Pandora had approximately 6,577 subscribers, an increase of 275, or 4%, from the approximately 6,302 subscribers as of June 30, 2020.

For the three months ended June 30, 2021 and 2020, net subscriber additions were 121 and 36, respectively. For the six months ended June 30, 2021 and 2020, net subscriber additions were 236 and 88, respectively. The increases were a function of lower churn.

*ARPU* is defined as average monthly revenue per paid subscriber on our Pandora subscription services. (See the accompanying glossary on pages 46 through 49 for more details.)

For the three months ended June 30, 2021 and 2020, subscriber ARPU - Pandora was $6.67 and $6.70, respectively. For the six months ended June 30, 2021 and 2020, subscriber ARPU - Pandora was $6.67 and $6.77, respectively. The decreases in subscriber ARPU were primarily due to the mix of Pandora's premium plans.

*Ad supported listener hours* are a key indicator of our Pandora business and the engagement of our Pandora listeners. We include ad supported listener hours related to Pandora's non-radio content offerings in the definition of listener hours.

For the three months ended June 30, 2021 and 2020, ad supported listener hours were 3,029 and 3,286, respectively. For the six months ended June 30, 2021 and 2020, ad supported listener hours were 5,895 and 6,412, respectively. The decreases in ad supported listener hours were primarily driven by the decline in monthly active users, partially offset by higher hours per active user.

*RPM* is a key indicator of our ability to monetize advertising inventory created by our listener hours on the Pandora services. Ad RPM is calculated by dividing advertising revenue by the number of thousands of listener hours of our Pandora advertising-based service.

For the three months ended June 30, 2021 and 2020, RPM was $100.35 and $55.23, respectively. For the six months ended June 30, 2021 and 2020, RPM was $93.26 and $61.23, respectively. The increases were the result of higher sell-through and pricing combined with lower listener hours.

*LPM* is tracked for our non-subscription, ad-supported service across all Pandora delivery platforms. The content acquisition costs included in our ad LPM calculations are based on the rates set by our license agreements with record labels, performing rights organizations and music publishers or the applicable rates set by the Copyright Royalty Board if we have not entered into a license agreement with the copyright owner of a particular sound recording.

For the three months ended June 30, 2021 and 2020, LPM was $44.46 and $37.16, respectively. For the six months ended June 30, 2021 and 2020, LPM was $44.89 and $37.12, respectively. The increases were primarily due to the provisions of certain direct licenses between Pandora and the owners of copyrights in sound recordings which require Pandora, under certain circumstances, to pay royalties on the greater of a percentage of its applicable revenue or a per play per consumer basis as well as higher statutory webcasting royalty rates.

*LPU* is defined as average monthly licensing costs per paid subscriber on our Pandora subscription services. LPU is a key measure of our ability to manage costs for our subscription services.

For the three months ended June 30, 2021 and 2020, LPU was $4.18 and $4.06, respectively. For the six months ended June 30, 2021 and 2020, LPU was $4.19 and $4.08, respectively. The increases were due to lower minimum guarantees during the three and six months ended June 30, 2020 as well as higher statutory webcasting royalty rates in 2021.

***Total Company***

*Adjusted EBITDA. A*djusted EBITDA is defined as net income before interest expense, income tax expense and depreciation and amortization. Adjusted EBITDA excludes the impact of other expense (income), loss on extinguishment of debt, other non-cash charges, such as certain purchase price accounting adjustments, share-based payment expense, legal settlements and reserves, and impairment, restructuring and acquisition costs (if applicable). (See the accompanying glossary on pages 46 through 49 for a reconciliation to GAAP and for more details.)

For the three months ended June 30, 2021 and 2020, adjusted EBITDA was $700 and $615, respectively, an increase of 14%, or $85. For the six months ended June 30, 2021 and 2020, adjusted EBITDA was $1,381 and $1,254, respectively, an increase of 10%, or $127. The increases were driven by higher advertising, subscriber and equipment revenue, partially offset by higher revenue share and royalties, subscriber acquisition, and programming costs.

*Free Cash Flow* includes cash provided by operations, net of additions to property and equipment, and restricted and other investment activity. (See the accompanying glossary on pages 46 through 49 for a reconciliation to GAAP and for more details.)

For the three months ended June 30, 2021 and 2020, free cash flow was $550 and $503, respectively, an increase of $47, or 9%. For the six months ended June 30, 2021 and 2020, free cash flow was $761 and $851, respectively, a decrease of $90 or 11%. The increase for the three month period was driven by increased operating performance, lower interest payments and lower vendor spend; partially offset by lower OEM receipts. The decrease for the six month period was driven by lower OEM receipts and higher spending on property and equipment.

## Liquidity and Capital Resources

*Cash Flows for the six months ended June 30, 2021 compared with the six months ended June 30, 2020.*

The following table presents a summary of our cash flow activity for the periods set forth below:

| | For the Six Months Ended June 30, | | 2021 vs 2020 |
|---|---|---|---|
| | 2021 | 2020 | Amount |
| Net cash provided by operating activities | $ 900 | $ 955 | (55) |
| Net cash used in investing activities | (190) | (265) | 75 |
| Net cash provided by financing activities | 339 | 971 | (632) |
| Net increase in cash, cash equivalents and restricted cash | 1,049 | 1,661 | (612) |
| Cash, cash equivalents and restricted cash at beginning of period | 83 | 120 | (37) |
| Cash, cash equivalents and restricted cash at end of period | $ 1,132 | $ 1,781 | $ (649) |

*Cash Flows Provided by Operating Activities*

Cash flows provided by operating activities decreased by $55 to $900 for the six months ended June 30, 2021 from $955 for the six months ended June 30, 2020.

Our largest source of cash provided by operating activities is cash generated by subscription and subscription-related revenues. We also generate cash from the sale of advertising through our Pandora business, advertising on certain non-music channels on Sirius XM 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, programming 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 listeners and subscribers, general corporate expenditures, and compensation and related costs.

*Cash Flows Used in Investing Activities*

Cash flows used in investing activities in the six months ended June 30, 2021 were primarily due to spending primarily for capitalized software and hardware, and to construct a replacement satellite. Cash flows used in investing activities in the six months ended June 30, 2020 were primarily due to our $75 investment in SoundCloud, spending for capitalized software and hardware, and to construct replacement satellites. We spent $116 and $109 on capitalized software and hardware as well as $25 and $20 to construct replacement satellites during the six months ended June 30, 2021 and 2020, respectively.

*Cash Flows Provided by Financing Activities*

Cash flows provided by financing activities consists of the issuance and repayment of long-term debt, the purchase of common stock under our share repurchase program, the payment of cash dividends and taxes paid in lieu of shares issued for stock-based compensation. Proceeds from long term debt have been used to fund our operations, construct and launch new satellites, invest in other infrastructure improvements and purchase shares of our common stock.

Cash flows provided by financing activities in the six months ended June 30, 2021 were primarily due to issuance of $2,000 in aggregate principal amount of 4.00% Senior Notes due 2028, ($1,976 net of costs); partially offset by the purchase and retirement of shares of Holdings' common stock under Holdings' repurchase program for $856, the payment of cash dividends on Holdings' common stock of $121; and the repayment of borrowings under our Credit Facility of $649. Cash flows provided by financing activities in the six months ended June 30, 2020 were primarily due to the issuance of $1,500 in aggregate principal amount of 4.125% Senior Notes due 2030, ($1,483 net of costs); partially offset by the purchase and retirement of shares of Holdings' common stock under Holdings' repurchase program for $399 and the payment of cash dividends on Holdings' common stock of $117.

***Future Liquidity and Capital Resource Requirements***

Based upon our current business plans, we expect to fund operating expenses, capital expenditures, including the construction of replacement satellites, 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. As of June 30, 2021, no amounts were outstanding under our Credit Facility. As the amount available for future borrowing is reduced by $1 related to letters of credit issued for the benefit of Pandora, $1,749 was available for future borrowing 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, including amounts to construct, launch and insure replacement satellites, as well as fund Holdings' future stock repurchases, future dividend payments on Holdings' common stock and pursue 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 development and introduction of new features or services; significant new or enhanced distribution arrangements; investments in infrastructure, such as satellites, equipment or radio spectrum; and acquisitions and investments, including acquisitions and investments that are not directly related to our existing business.

We may from time to time purchase our outstanding debt through open market purchases, privately negotiated transactions or otherwise. Purchases or retirement of debt, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

*Holdings' Capital Return Program*

As of June 30, 2021, Holdings' board of directors had authorized for repurchase an aggregate of $16,000 of Holdings' common stock. As of June 30, 2021, Holdings' cumulative repurchases since December 2012 under Holdings' stock repurchase program totaled $15,252, and $748 remained available for additional repurchases under Holdings' existing stock repurchase program authorization.

Shares of common stock may be purchased from time to time on the open market and in privately negotiated transactions, including in accelerated stock repurchase transactions and transactions with Liberty Media and its affiliates. We intend to fund the additional repurchases through a combination of cash on hand, cash generated by operations and future borrowings. The size and timing of any purchases will be based on a number of factors, including price and business and market conditions.

On July 19, 2021, Holdings' board of directors declared a quarterly dividend on Holdings' common stock in the amount of $0.014641 per share of Holdings' common stock payable on August 30, 2021 to Holdings' stockholders of record as of the close of business on August 6, 2021. Holdings' board of directors expects to declare regular quarterly dividends, in an aggregate annual amount of $0.058564 per share of Holdings' common stock.

On July 19, 2021, Holdings' board of directors approved an additional $2,000 of common stock repurchases, increasing Holdings' total authorization to $18,000 since the inception of the program.

***Debt Covenants***

The indentures governing our senior notes and Pandora's convertible notes and the agreement governing the Credit Facility include restrictive covenants. As of June 30, 2021, we were in compliance with such covenants. For a discussion of our "Debt Covenants," refer to Note 12 to our unaudited consolidated financial statements in this Quarterly Report.

***Off-Balance Sheet Arrangements***

We do not have any significant off-balance sheet arrangements other than those disclosed in Note 15 to our unaudited consolidated financial statements in this Quarterly 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 15 to our unaudited consolidated financial statements in this Quarterly Report.

### *Related Party Transactions*

For a discussion of "Related Party Transactions," refer to Note 11 to our unaudited consolidated financial statements in this Quarterly Report.

On February 1, 2021, Holdings entered into a tax sharing agreement with Liberty Media governing the allocation of consolidated U.S. income tax liabilities and setting forth agreements with respect to other tax matters. The tax sharing agreement was negotiated and approved by a special committee of Holdings' board of directors, all of whom are independent of Liberty Media.

Under the Internal Revenue Code, two corporations may form a consolidated tax group, and file a consolidated federal income tax return, if one corporation owns stock representing at least 80% of the voting power and value of the outstanding capital stock of the other corporation. As of June 30, 2021, Liberty Media beneficially owned, directly and indirectly, approximately 78% of the outstanding shares of our common stock. We expect that Liberty Media could beneficially own, directly and indirectly, over 80% of the outstanding shares of our common stock at some time in 2021, and Holdings and Liberty Media would then become members of the same consolidated tax group. Should that happen, the tax sharing agreement would govern certain matters related to the resulting consolidated federal income tax returns, as well as state and local returns filed on a consolidated or combined basis.

The tax sharing agreement contains provisions that Holdings believes are customary for tax sharing agreements between members of a consolidated group. The tax sharing agreement and our inclusion in Liberty Media's consolidated tax group is not expected to have any material adverse effect on us.

### *Critical Accounting Policies and Estimates*

For a discussion of our "Critical Accounting Policies and Estimates," refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report for the year ended December 31, 2020. There have been no material changes to our critical accounting policies and estimates since December 31, 2020.

### *Glossary*

**Monthly active users** - the number of distinct registered users on the Pandora services, including subscribers, which have consumed content within the trailing 30 days to the end of the final calendar month of the period. The number of monthly active users on the Pandora services may overstate the number of unique individuals who actively use our Pandora service, as one individual may use multiple accounts. To become a registered user on the Pandora services, a person must sign-up using an email address or phone number, or access our service using a device with a unique identifier, which we use to create an account for our service.

**Average self-pay monthly churn** - the Sirius XM monthly average of self-pay deactivations for the period divided by the average number of self-pay subscribers for the period.

**Adjusted EBITDA** - EBITDA is defined as net income before interest expense, income tax expense and depreciation and amortization. We adjust EBITDA to exclude the impact of other expense (income) as well as certain other charges discussed below. Adjusted EBITDA is a Non-GAAP financial measure that excludes or adjusts for (if applicable): (i) certain adjustments as a result of the purchase price accounting for the XM Merger and the Pandora Acquisition, (ii) share-based payment expense, (iii) impairment, restructuring and acquisition costs, (iv) legal settlements/reserves and (v) other significant operating expense (income) that do not relate to the on-going performance of our business. 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 capital structure and purchase price accounting. We believe investors find this Non-GAAP financial measure useful when analyzing our past operating performance with our current performance and comparing our operating performance to the performance of other communications, entertainment and media companies. We believe investors use adjusted EBITDA to estimate our current enterprise value and to make investment decisions. As a result of large capital investments in our satellite radio system, our results of operations reflect significant charges for depreciation expense. We believe the exclusion of share-based payment expense is useful as it is not directly related to the operational conditions of our business. We also believe the exclusion of the legal settlements and reserves, impairment, restructuring and acquisition related costs, and loss on extinguishment of debt, to the extent they occur during the period, is useful as they are significant expenses not incurred as part of our normal operations for the period.

Adjusted EBITDA has certain limitations in that it does not take into account the impact to our consolidated statements of comprehensive income of certain expenses, including share-based payment expense and certain purchase price accounting for the XM Merger and the Pandora Acquisition. 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 unaudited 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:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Net income: | $ 431 | $ 231 | $ 644 | $ 557 |
| Add back items excluded from Adjusted EBITDA: | | | | |
| Legal settlements and reserves | — | — | — | (16) |
| Impairment, restructuring and acquisition costs | (136) | 24 | 108 | 24 |
| Share-based payment expense [1] | 47 | 52 | 98 | 107 |
| Depreciation and amortization | 131 | 124 | 263 | 256 |
| Interest expense | 101 | 101 | 199 | 198 |
| Other (income) expense | (1) | 14 | 4 | (30) |
| Income tax expense | 127 | 69 | 65 | 158 |
| Purchase price accounting adjustments: | | | | |
| Revenues | — | 2 | — | 4 |
| Operating expenses | — | (2) | — | (4) |
| Adjusted EBITDA | $ 700 | $ 615 | $ 1,381 | $ 1,254 |

(1) Allocation of share-based payment expense:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| *(in millions)* | 2021 | 2020 | 2021 | 2020 |
| Programming and content | $ 8 | $ 7 | $ 16 | $ 15 |
| Customer service and billing | 2 | 1 | 3 | 3 |
| Transmission | 2 | 2 | 3 | 3 |
| Sales and marketing | 13 | 16 | 28 | 33 |
| Engineering, design and development | 6 | 9 | 17 | 20 |
| General and administrative | 16 | 17 | 31 | 33 |
| Total share-based payment expense | $ 47 | $ 52 | $ 98 | $ 107 |

**Free cash flow** - is derived from cash flow provided by operating activities, net of additions to property and equipment and purchases of other investments. Free cash flow is a metric that our management and board of directors use to evaluate the cash generated by our operations, net of 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 exclude from free cash flow certain items that do not relate to the on-going performance of our business, such as cash flows related to acquisitions, strategic and short-term investments, and net loan activity with related parties and other equity investees. 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 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 unaudited 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 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. Free cash flow is calculated as follows:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Cash Flow information** | | | | |
| Net cash provided by operating activities | $ 622 | $ 574 | $ 900 | $ 955 |
| Net cash used in investing activities | (112) | (120) | (190) | (265) |
| Net cash provided by financing activities | 555 | 1,275 | 339 | 971 |
| **Free Cash Flow** | | | | |
| Net cash provided by operating activities | 622 | 574 | 900 | 955 |
| Equity-related transactions for Holdings [(a)] | 14 | 17 | 28 | 52 |
| Additions to property and equipment | (86) | (87) | (164) | (149) |
| Purchases of other investments | — | (1) | (3) | (7) |
| Free cash flow | $ 550 | $ 503 | $ 761 | $ 851 |

(a) Subsequent to our corporate reorganization in November 2013, certain equity-related transactions are reported as related party transactions within our unaudited consolidated statements of cash flows. For the six months ended June 30, 2021, this included $43 for taxes paid in lieu of shares issued for stock-based compensation, $12 for the change in treasury shares, proceeds of $6 from the exercise of stock options, and deferred equity consideration related to a small acquisition of $(3). For the six months ended June 30, 2020, this included payments of $43 for taxes paid in lieu of shares issued for stock-based compensation and $(9) for the change in treasury shares. These equity-related transactions are classified as Cash flows used in financing activities within Holdings' consolidated statements of cash flows, and therefore, are adjusted to reflect free cash flow at Sirius XM.

**ARPU** - Sirius XM ARPU is derived from total earned subscriber revenue (excluding revenue associated with our connected vehicle services) and advertising revenue, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. Pandora ARPU is defined as average monthly subscriber revenue per paid subscriber on our Pandora subscription services.

**Subscriber acquisition cost, per installation -** or SAC, per installation, is derived from subscriber acquisition costs less margins from the sale of radios and accessories (excluding connected vehicle services), divided by the number of satellite radio installations in new vehicles and shipments of aftermarket radios for the period. SAC, per installation, is calculated as follows:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Subscriber acquisition costs, excluding connected vehicle services | $ 89 | $ 48 | $ 175 | $ 147 |
| Less: margin from sales of radios and accessories, excluding connected vehicle services | (47) | (21) | (100) | (58) |
| | $ 42 | $ 27 | $ 75 | $ 89 |
| Installations | 2,724 | 1,320 | 5,791 | 4,403 |
| SAC, per installation [(a)] | $ 15.20 | $ 20.14 | $ 12.93 | $ 20.14 |

(a) Amounts may not recalculate due to rounding.

**Ad supported listener hours** - is based on the total bytes served over our Pandora advertising supported platforms for each track that is requested and served from our Pandora servers, as measured by our internal analytics systems, whether or not a listener listens to the entire track. For non-music content such as podcasts, episodes are divided into approximately track-length parts, which are treated as tracks. To the extent that third-party measurements of advertising hours are not calculated using a similar server-based approach, the third-party measurements may differ from our measurements.

**RPM** - is calculated by dividing advertising revenue, excluding AdsWizz and other off-platform revenue, by the number of thousands of listener hours on our Pandora advertising-based service.

**LPM** - is calculated by dividing advertising licensing costs by the number of thousands of listener hours on our Pandora advertising-based service.

**LPU** - is calculated by dividing subscriber licensing costs by the number of paid subscribers on our Pandora subscription services.