SIRIUS XM RADIO INC.

(Exact name of company as specified in its charter)

ANNUAL REPORT

For the Fiscal Year Ended December 31, 2015

Explanatory Note

Sirius XM Radio Inc. ("Sirius XM") is furnishing this Annual Report for the fiscal year ended December 31, 2015 (the "Annual Report") in order to comply with the reporting obligations in the indentures governing its 4.25% Senior Notes due 2020, 5.875% Senior Notes due 2020, 5.75% Senior Notes due 2021, 5.25% Senior Secured Notes due 2022, 4.625% Senior Notes due 2023, 6.00% Senior Notes due 2024 and 5.375% Senior Notes due 2025 (collectively, the "Notes").

Before making any investment decisions in Sirius XM or Sirius XM Holdings Inc. ("Holdings"), investors should read the following 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' Annual on Form 10-K for the fiscal year ended December 31, 2015 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' Annual Report on Form 10-K for the fiscal year ended December 31, 2015 is hereby incorporated by reference except for Section 9A and Exhibits 31.1, 31.2, 32.1 and 32.2 contained therein. Sirius XM is a wholly-owned subsidiary of Holdings, and Holdings has no operations independent of Sirius XM. Refer to Note 1 to the consolidated financial statements included within this Annual Report for an explanation of differences between Sirius XM and Holdings' consolidated financial statements.

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

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SELECTED FINANCIAL DATA

Our selected financial data set forth below with respect to the consolidated statements of comprehensive income for the years ended December 31, 2015, 2014 and 2013, and with respect to the consolidated balance sheets at December 31, 2015 and 2014, are derived from our audited consolidated financial statements included in this Annual Report. Historical operating and balance sheet data included within the following selected financial data from 2011 through 2013 is derived from our audited consolidated financial statements, which are not included in this Annual Report. This selected financial data should be read in conjunction with the audited consolidated financial statements, and related notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report.

	As of and for the Years Ended December 31,				
(in thousands, except per share data)	2015	2014	2013 (1)	2012 (2)	2011
Statements of Comprehensive Income Data (3):					
Total revenue	$ 4,570,058	$ 4,181,095	$ 3,799,095	$ 3,402,040	$ 3,014,524
Net income (loss) attributable to Sirius XM Radio Inc.'s sole stockholder	$ 509,724	$ 544,795	$ (66,494)	$ 3,472,702	$ 426,961
Cash dividends declared per share	$ —	$ —	$ —	$ 0.05	$ —
Balance Sheet Data:					
Cash and cash equivalents	$ 111,838	$ 147,724	$ 134,805	$ 520,945	$ 773,990
Restricted investments	$ 9,888	$ 5,922	$ 5,718	$ 3,999	$ 3,973
Total assets (4)	$ 11,568,824	$ 9,905,275	$ 8,833,675	$ 9,024,800	$ 7,452,738
Long-term debt, net of current portion (4)	$ 5,443,614	$ 4,487,419	$ 3,088,701	$ 2,400,943	$ 2,969,093
Stockholder equity	$ 3,355,671	$ 2,846,047	$ 2,301,346	$ 4,039,565	$ 704,145

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

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

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

(4) The 2011 – 2015 balances reflect the adoption of Accounting Standards Update 2015-03, *Interest- Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs,* and Accounting Standards Update 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Agreements.* As a result of our adoption of these ASUs, Total Assets was reduced by $7,155, $6,444, $17,821, $30,043 and $43,258 for the years ended December 31, 2015, 2014, 2013, 2012 and 2011, respectively, and Long-term debt, net of current portion, was reduced by $7,155, $6,444, $5,120, $30,043 and $43,258 for the years ended December 31, 2015, 2014, 2013, 2012 and 2011, respectively.

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report and with Holdings' Annual Report on Form 10-K for the year ended December 31, 2015.

Special Note Regarding Forward-Looking Statements

We have made various statements in this Annual Report that may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may also be made in our other reports furnished to holders of the Notes, in our press releases and in other documents. In addition, from time to time, we, through our management, may make oral forward-looking statements. Forward-looking statements are subject to risks and uncertainties, including those identified above, which could cause actual results to differ materially from such statements. The words "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "believe," "intend," "plan," "may," "should," "could," "would," "likely," "projection," "outlook" and similar expressions are intended to identify forward-looking statements. We caution you that the risk factors described above are not exclusive. There may also be other risks that we are unable to predict at this time that may cause actual results to differ materially from those in forward-looking statements. New factors emerge from time to time, and it is not possible for us to predict which will arise or to assess with any precision the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We believe these factors include but are not limited to those described under "Part I—Item 1A. Risk Factors" in Holdings' Annual Report on Form 10-K for the fiscal year ended December 31, 2015. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included Holdings' Annual Report on Form 10-K and in this Annual Report. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statements, except as required by law.

Executive Summary

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

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

As of December 31, 2015, we had approximately 29.6 million subscribers of which approximately 24.3 million were self-pay subscribers and approximately 5.3 million were paid promotional subscribers. Our subscriber totals include subscribers under our regular pricing plans; discounted pricing plans; subscribers that have prepaid, including payments either made or due from automakers for subscriptions included in the sale or lease price of a vehicle; subscribers to our Internet services who do not also have satellite radio subscriptions; and certain subscribers to our weather, traffic, and data services who do not also have satellite radio subscriptions. Subscribers and subscription related revenues and expenses associated with our connected vehicle services are not included in our subscriber count or subscriber-based operating metrics.

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

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

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

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

Results of Operations

Set forth below are our results of operations for the year ended December 31, 2015 compared with the year ended December 31, 2014 and the year ended December 31, 2014 compared with the year ended December 31, 2013.

	For the Years Ended December 31,			2015 vs 2014 Change		2014 vs 2013 Change	
	2015	2014	2013	Amount	%	Amount	%
Revenue:							
Subscriber revenue	$ 3,824,793	$ 3,554,302	$ 3,284,660	$ 270,491	8%	$ 269,642	8%
Advertising revenue	122,292	100,982	89,288	21,310	21%	11,694	13%
Equipment revenue	110,923	104,661	80,573	6,262	6%	24,088	30%
Other revenue	512,050	421,150	344,574	90,900	22%	76,576	22%
Total revenue	4,570,058	4,181,095	3,799,095	388,963	9%	382,000	10%
Operating expenses:							
Cost of services:							
Revenue share and royalties	1,034,832	810,028	677,642	224,804	28%	132,386	20%
Programming and content	293,091	297,313	290,323	(4,222)	(1%)	6,990	2%
Customer service and billing	377,908	370,585	320,755	7,323	2%	49,830	16%
Satellite and transmission	94,609	86,013	79,292	8,596	10%	6,721	8%
Cost of equipment	42,724	44,397	26,478	(1,673)	(4%)	17,919	68%
Subscriber acquisition costs	532,599	493,464	495,610	39,135	8%	(2,146)	0%
Sales and marketing	354,189	336,480	291,024	17,709	5%	45,456	16%
Engineering, design and development	64,403	62,784	57,969	1,619	3%	4,815	8%
General and administrative	324,801	293,938	262,135	30,863	10%	31,803	12%
Depreciation and amortization	272,214	266,423	253,314	5,791	2%	13,109	5%
Total operating expenses	3,391,370	3,061,425	2,754,542	329,945	11%	306,883	11%
Income from operations	1,178,688	1,119,670	1,044,553	59,018	5%	75,117	7%
Other income (expense):							
Interest expense, net of amounts capitalized	(299,103)	(269,010)	(204,671)	(30,093)	(11%)	(64,339)	(31%)
Loss on extinguishment of debt and credit facilities, net	—	—	(190,577)	—	0%	190,577	100%
Gain (loss) on change in fair value of debt and equity instruments	—	17,069	(464,102)	(17,069)	(100%)	481,171	104%
Other income	12,379	14,611	8,180	(2,232)	(15%)	6,431	79%
Total other expense	(286,724)	(237,330)	(851,170)	(49,394)	(21%)	613,840	72%
Income before income taxes	891,964	882,340	193,383	9,624	1%	688,957	356%
Income tax expense	(382,240)	(337,545)	(259,877)	(44,695)	(13%)	(77,668)	(30%)
Net income (loss) attributable to Sirius XM Radio Inc.'s sole stockholder	$ 509,724	$ 544,795	$ (66,494)	$ (35,071)	(6%)	$ 611,289	919%

Our results of operations discussed below include the impact of purchase price accounting adjustments associated with the July 2008 merger between our wholly owned subsidiary, Vernon Merger Corporation, and XM Satellite Radio Holdings Inc. (the "Merger"). The purchase price accounting adjustments related to the Merger, include the: (i) elimination of deferred revenue associated with the investment in XM Canada, (ii) recognition of deferred subscriber revenues not recognized in purchase price accounting, and (iii) elimination of the benefit of deferred credits on executory contracts, which are primarily attributable to third party arrangements with an OEM and programming providers. The deferred credits on executory contracts attributable to third party arrangements with an OEM included in revenue share and royalties, subscriber acquisition costs, and sales and marketing concluded with the expiration of the acquired contract during 2013. The purchase price accounting adjustments related to programming providers concluded with the expiration of the acquired contract in June 2015. The impact of these purchase price accounting adjustments is detailed in our Adjusted Revenues and Operating Expenses tables on pages 18 through 19 of our glossary.

Total Revenue

Subscriber Revenue includes subscription, activation and other fees.

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, subscriber revenue was $3,824,793 and $3,554,302, respectively, an increase of 8%, or $270,491. The increase was primarily attributable to an 8% increase in the daily weighted average number of subscribers and increases in certain of our self-pay subscription rates, partially offset by subscription discounts and limited channel plans offered in customer acquisition and retention programs.

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

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

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

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, advertising revenue was $122,292 and $100,982, respectively, an increase of 21%, or $21,310. The increase was primarily due to a greater number of advertising spots sold and transmitted as well as increases in rates charged per spot.

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

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

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

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, equipment revenue was $110,923 and $104,661, respectively, an increase of 6%, or $6,262. The increase was driven by royalties from higher OEM production and sales to distributors, partially offset by lower direct to consumer sales.

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

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

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

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, other revenue was $512,050 and $421,150, respectively, an increase of 22%, or $90,900. The increase was driven by revenues from the U.S. Music Royalty Fee as the number of subscribers subject to the 13.9% rate increased along with an overall increase in subscribers, higher revenue generated from our connected vehicle business, and increased revenue from our Canadian affiliate.

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

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

Operating Expenses

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

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, revenue share and royalties were $1,034,832 and $810,028, respectively, an increase of 28%, or $224,804, and increased as a percentage of total revenue. The increase was primarily due to $128,256 in expense recorded during the year ended December 31, 2015 related to our settlements associated with our use of certain pre-1972 sound recordings through December 31, 2015. Revenue share and royalties also increased due to greater revenues subject to royalty and revenue sharing arrangements and a 5.3% increase in the statutory royalty rate for the performance of post-1972 sound recordings.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, revenue share and royalties were $810,028 and $677,642, respectively, an increase of 20%, or $132,386, and increased as a percentage of total revenue. The increase was primarily attributable to the elimination of the benefit to earnings from the amortization of deferred credits on executory contracts initially recognized in purchase price accounting associated with the Merger, greater revenues subject to royalty and/or revenue sharing arrangements, and a 5.6% increase in the statutory royalty rate for the performance of post-1972 sound recordings. For the year ended December 31, 2013, revenue share and royalties was positively impacted by a benefit of $122,534 to earnings from the amortization of deferred credits on executory contracts associated with the Merger.

We expect our revenue share and royalty costs to increase as a result of the Capitol Records settlement and as our revenues grow and our post-1972 royalty rates increase. We expect to recognize $83,250 in expense related to the Capitol Records settlement for the use of pre-1972 sound recordings for 2016 through 2017. As determined by the Copyright Royalty Board, we have paid or will pay royalties for the use of certain post-1972 sound recordings on our satellite radio service of 9.0%, 9.5%, 10.0%, 10.5% and 11% in 2013, 2014, 2015, 2016 and 2017, respectively.

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.

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, programming and content expenses were $293,091 and $297,313, respectively, a decrease of 1%, or $4,222, and decreased as a percentage of total revenue. The decrease was primarily due to the termination of certain programming agreements, partially offset by the addition of new programming arrangements and personnel-related costs.

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

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

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

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, customer service and billing expenses were $377,908 and $370,585, respectively, an increase of 2%, or $7,323, but decreased as a percentage of total revenue. The increase was primarily due to a higher subscriber base driving increased transaction fees, bad debt expense and personnel related costs, partially offset by efficiencies achieved from management's strategic initiatives implemented at our call centers operated by our vendors.

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

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

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

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, satellite and transmission expenses were $94,609 and $86,013, respectively, an increase of 10%, or $8,596, and remained flat as a percentage of total revenue. The increase was primarily due to the loss on disposal of certain obsolete terrestrial repeaters and related parts of $7,384, and higher costs associated with our Internet streaming operations, partially offset by lower satellite insurance costs.

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

We expect satellite and transmission expenses, excluding losses from disposal of assets, to remain relatively unchanged as decreases in Internet streaming costs are offset by increases in terrestrial repeater network costs.

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

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, cost of equipment was $42,724 and $44,397, respectively, a decrease of 4%, or $1,673, and decreased as a percentage of equipment revenue. The decrease was primarily due to lower direct to consumer sales, partially offset by higher sales to distributors.

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

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

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

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, subscriber acquisition costs were $532,599 and $493,464, respectively, an increase of 8%, or $39,135, and remained flat as a percentage of total revenue. Increased costs related to a larger number of satellite radio installations in new vehicles were partially offset by improved OEM and chipset subsidy rates per vehicle.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, subscriber acquisition costs were $493,464 and $495,610, respectively, a decrease of less than 1%, or $2,146, and decreased as a percentage of total revenue. Improved OEM subsidy rates per vehicle and a change in a contract with an automaker decreased subscriber acquisition costs. The decrease was partially offset by the elimination of the benefit to earnings in 2014 from the amortization of deferred credits on executory contracts initially recognized in purchase price accounting associated with the Merger and increased subsidy costs related to a larger number of satellite radio installations in new vehicles. For the year ended December 31, 2013, the benefit to earnings from amortization of deferred credits was $64,365.

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

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

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, sales and marketing expenses were $354,189 and $336,480, respectively, an increase of 5%, or $17,709, but decreased as a percentage of total revenue. The increase was primarily due to additional subscriber communications and retention programs associated with a greater number of subscribers and promotional trials and higher personnel-related costs.

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

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

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

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, engineering, design and development expenses were $64,403 and $62,784, respectively, an increase of 3%, or $1,619, and remained flat as a percentage of total revenue. The increase was driven primarily by additional costs associated with streaming development, partially offset by lower personnel costs.

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

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.

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, general and administrative expenses were $324,801 and $293,938, respectively, an increase of 10%, or $30,863, and remained flat as a percentage of total revenue. The increase was driven primarily by higher personnel costs, reserves for consumer legal settlements and facilities costs, partially offset by insurance recoveries and lower professional fees related to the proposal made in January 2014 by Liberty Media to acquire the balance of our common stock not already owned by it.

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

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

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

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, depreciation and amortization expense was $272,214 and $266,423, respectively, an increase of 2%, or $5,791, but decreased as a percentage of total revenue. The increase was driven by additional software placed in-service, partially offset by a reduction of amortization associated with the stepped-up basis in assets acquired in the Merger (including intangible assets, property and equipment) through the end of their estimated service lives and certain satellites reaching the end of their estimated service lives.

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

Other Income (Expense)

Interest Expense, Net of Amounts Capitalized, includes interest on outstanding debt.

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, interest expense was $299,103 and $269,010, respectively, an increase of 11%, or $30,093. The increase was primarily due to higher average debt during the year ended December 31, 2015 compared to the year ended December 31, 2014. The increase was partially offset by lower average interest rates resulting from the redemption and conversion of higher interest rate debt during 2014.

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

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

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

- *2015 vs. 2014*: There was no loss on extinguishment of debt and credit facilities for the years ended December 31, 2015 and 2014.

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

Gain (loss) on Change in Fair Value of Debt and Equity Instruments represents the change in fair value associated with the 7% Exchangeable Senior Subordinated Notes due 2014 that were outstanding until December 1, 2014.

- *2015 vs 2014*: For the years ended December 31, 2015 and 2014, the gain (loss) on change in value of debt and equity instruments was $0 and $17,069, respectively. The gain in 2014 resulted from a change in the fair value price of the 7% Exchangeable Senior Subordinated Notes due 2014 ("Exchangeable Notes").

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, there was a $17,069 and $(464,102) gain (loss) on change in fair value of debt and equity instruments, respectively, which resulted from a change in the fair value price of the Exchangeable Notes, which in 2013 was partially offset by a $2,713 gain on change in fair value associated with the share repurchase agreement with Liberty Media. The Exchangeable Notes matured on December 1, 2014.

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

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, other income was $12,379 and $14,611, respectively. Other income for the year ended December 31, 2015 was driven by dividends received from Sirius XM Canada in excess of our investment. Other income for the year ended December 31, 2014 was driven by our share of Sirius XM Canada's net income and gain from the conversion of certain debentures into shares of Sirius XM Canada, partially offset by the amortization expense related to our equity method intangible assets.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, other income was $14,611 and $8,180, respectively. The other income for the year ended December 31, 2014 was driven by dividends received from Sirius XM Canada, our share of Sirius XM Canada's net income and income from the conversion of certain debentures into shares of Sirius XM Canada, partially offset by the amortization expense related to our equity method intangible assets. The other income for 2013 was primarily due to the inclusion of our share of Sirius XM Canada's net income, partially offset by the amortization expense related to our equity method intangible assets.

Income Taxes

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

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, income tax expense was $382,240 and $337,545, respectively. Our annual effective tax rate for the year ended December 31, 2015 was 42.9%, which was impacted by tax law changes in the District of Columbia and New York City. The tax law change in the District of Columbia will reduce our future taxes and use less of certain net operating losses in the future. The District of Columbia tax law change resulted in a $44,392 increase in our valuation allowance during the year ended December 31, 2015. The tax law change in New York City will increase certain net operating losses to be utilized in the future. The New York City tax law change resulted in a $14,831 increase in our deferred tax asset during the year ended December 31, 2015. Our effective tax rate for the year ended December 31, 2014 was 38.3% which was primarily impacted by the change in fair value associated with the 7% Exchangeable Senior Subordinated Notes due 2014.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, income tax expense was $337,545 and $259,877, respectively. Our annual effective tax rate for the year ended December 31, 2014 was 38.3% primarily due to the impact of the change in fair value associated with the 7% Exchangeable Senior Subordinated Notes due 2014. For the year ended December 31, 2013, income tax expense included non-deductible expenses primarily due to the impact of the change in fair value associated with the Exchangeable Notes.

Key Operating Metrics

In this section, we present certain financial and operating performance measures that are not calculated and presented in accordance with generally accepted accounting principles in the United States ("Non-GAAP"). These metrics include: average monthly revenue per subscriber, or ARPU; customer service and billing expenses, per average subscriber; subscriber acquisition cost, or SAC, per installation; free cash flow; and adjusted EBITDA. These measures exclude the impact of share-based payment expense and certain purchase price accounting adjustments related to the Merger, which include the: (i) elimination of deferred revenue associated with the investment in XM Canada, (ii) recognition of deferred subscriber revenues not recognized in purchase price accounting, and (iii) elimination of the benefit of deferred credits on executory contracts, which are primarily attributable to third party arrangements with an OEM and programming providers. Additionally, when applicable, our adjusted EBITDA and free cash flow metrics exclude the effect of any significant items that do not relate to the on-going performance of our business, such as settlements related to our historical use of pre-1972 sound recordings. We use these Non-GAAP financial measures to manage our business, to set operational goals and as a basis for determining performance-based compensation for our employees.

Free cash flow is a metric that our management and board of directors use to evaluate the cash generated by our operations, net of certain of Holdings' equity-related transactions, capital expenditures and other investment activity and significant items that do not relate to the on-going performance of our business. In a capital intensive business, with significant investments in satellites, we look at our operating cash flow, net of these investing and financing 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 Holdings' stockholders. We believe free cash flow is an indicator of the long-term financial stability of our business. Free cash flow, which is reconciled to "Net cash provided by operating activities," is a Non-GAAP financial measure. This measure can be calculated by deducting amounts used in certain of Holdings' equity-related transactions, and by deducting amounts under the captions "Additions to property and equipment", deducting or adding Restricted and other investment activity and the return of capital from investment in unconsolidated entity from "Net cash provided by operating activities" from the consolidated statements of cash flows, adjusted for any significant legal settlements. Free cash flow should be used in conjunction with other GAAP financial performance measures and may not be comparable to free cash flow measures presented by other companies. Free cash flow should be viewed as a supplemental measure rather than an alternative measure of cash flows from operating activities, as determined in accordance with GAAP. Free cash flow is limited and does not represent remaining cash flows available for discretionary expenditures due to the fact that the measure does not deduct the payments required for debt maturities. We believe free cash flow provides useful supplemental information to investors regarding our current and projected cash flow, along with other GAAP measures (such as cash flows from operating and investing activities), to determine our financial condition, and to compare our operating performance to other communications, entertainment and media companies. We have excluded the $210,000 payment related to the pre-1972 sound recordings legal settlement from our free cash flow calculation in the year ended December 31, 2015.

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

These Non-GAAP financial measures should be viewed in addition to, and not as an alternative for or superior to, our reported results prepared in accordance with GAAP. In addition, these Non-GAAP financial measures may not be comparable to similarly-titled measures by other companies. Please refer to the glossary (pages 17 through 21) for a further discussion of such Non-GAAP financial measures and reconciliations to the most directly comparable GAAP measure. The following table contains our key operating metrics based on our adjusted results of operations for the years ended December 31, 2015, 2014 and 2013. Subscribers and subscription related revenues and expenses associated with our connected vehicle services are not included in our subscriber count or subscriber-based operating metrics:

	Unaudited					
	For the Years Ended December 31,					
	2015		2014		2013	
Self-pay subscribers		24,288		22,523		21,082
Paid promotional subscribers		5,306		4,788		4,477
Ending subscribers		29,594		27,311		25,559
Self-pay subscribers		1,765		1,441		1,512
Paid promotional subscribers		517		311		147
Net additions (a)		2,283		1,752		1,659
Daily weighted average number of subscribers		28,337		26,284		24,886
Average self-pay monthly churn		1.8%		1.9%		1.8%
New vehicle consumer conversion rate		40%		41%		44%
ARPU	$	12.53	$	12.38	$	12.23
SAC, per installation	$	33	$	34	$	43
Customer service and billing expenses, per average subscriber	$	1.01	$	1.07	$	1.06
Free cash flow	$	1,315,193	$	1,155,776	$	927,496
Adjusted EBITDA	$	1,657,617	$	1,467,775	$	1,166,140

(a) Note: Amounts may not sum as a result of rounding.

Subscribers. At December 31, 2015, we had approximately 29.6 million subscribers, an increase of approximately 2.3 million subscribers, or 8%, from the approximate 27.3 million subscribers as of December 31, 2014.

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, net additions were 2,283 thousand and 1,752 thousand, respectively, an increase of 30%, or 531 thousand. The increase in subscribers was primarily due to increases in original and subsequent owner trial conversions, as well as increases in shipments by OEMs offering paid trials and activations of inactive radios, partially offset by higher deactivations related to vehicle turnover and non-pay churn resulting from changes in telemarketing practices following the Federal Communications Commission's July 10, 2015 order relating to the Telephone Consumer Protection Act of 1991.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, net additions were 1,752 thousand and 1,659 thousand, respectively, an increase of 6%, or 93 thousand. The increase in subscribers was primarily due to increases in shipments by OEMs offering paid trials as well as increases in trial conversions, offset by higher deactivations related to vehicle turnover as well as voluntary reasons.

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 17 through 21 for more details.)

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, our average self-pay monthly churn rate was 1.8% and 1.9%, respectively. The decrease in churn was due to a reduction in the total number of subscribers leaving for voluntary reasons.

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

New Vehicle Consumer Conversion Rate is the percentage of owners and lessees of new vehicles that receive our service and convert to become self-paying subscribers after an initial promotional period. The metric excludes rental and fleet vehicles. (See accompanying glossary on pages 17 through 21 for more details).

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, the new vehicle consumer conversion rate was 40% and 41%, respectively. The decrease in conversion was primarily due to an increased vehicle penetration rate and the effect of the suspension of certain outbound calling efforts by our vendors as they evaluated the Federal Communications Commission's July 10, 2015 order relating to the Telephone Consumer Protection Act of 1991, partially offset by improvements in converting previously active subscribers during a trial.

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

ARPU is derived from total earned subscriber revenue (excluding revenue derived from our connected vehicle services business), net advertising revenue and other subscription-related revenue, net of purchase price accounting adjustments, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. (For a reconciliation to GAAP see the accompanying glossary on pages 17 through 21 for more details.)

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, ARPU was $12.53 and $12.38, respectively. The increase was driven primarily by increases in certain of our subscription rates, partially offset by growth in subscription discounts and limited channel plans offered through customer acquisition and retention programs, and a shift to longer-term promotional data service plans with lower rates.

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

SAC, Per Installation, is derived from subscriber acquisition costs and margins from the sale of radios, components and accessories, excluding purchase price accounting adjustments, divided by the number of satellite radio installations in new vehicles and shipments of aftermarket radios for the period. (For a reconciliation to GAAP see the accompanying glossary on pages 17 through 21 for more details.)

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, SAC, per installation, was $33 and $34, respectively. The decrease was primarily due to lower subsidies on chipsets and improvements in contractual OEM rates.

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

Customer Service and Billing Expenses, Per Average Subscriber, is derived from total customer service and billing expenses, excluding connected vehicle customer service and billing expenses and share-based payment expense, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. (For a reconciliation to GAAP see the accompanying glossary on pages 17 through 21 for more details.)

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, customer service and billing expenses, per average subscriber, were $1.01 and $1.07, respectively. The decrease was driven primarily by efficiencies achieved from management's strategic initiatives implemented at our call centers operated by our vendors, as well as a decrease in the rate at which subscribers call to cancel.

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

Free Cash Flow includes cash provided by operations, net of additions to property and equipment, restricted and other investment activity, and the return of capital from investment in unconsolidated entity, excluding cash used for certain of Holdings' equity-related transactions and the $210,000 pre-1972 sound recordings legal settlement payment. (For a reconciliation to GAAP see the accompanying glossary on pages 17 through 21 for more details.)

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, free cash flow was $1,315,193 and $1,155,776, respectively, an increase of $159,417, or 14%. Excluding the $210,000 pre-1972 sound recordings legal settlement payment, the increase was primarily driven by higher net cash provided by operating activities from improved operating performance, and higher collections from subscribers, partially offset by higher interest payments.

- *2014 vs. 2013*: For the years ended December 31, 2014 and 2013, free cash flow was $1,155,776 and $927,496, respectively, an increase of $228,280, or 25%. The increase was primarily driven by higher net cash provided by operating activities from improved performance, collections from subscribers and distributors, the absence of satellite construction related payments and dividends received from Sirius XM Canada, partially offset by payments related to improvements to our terrestrial repeater network.

Adjusted EBITDA. EBITDA is defined as net income before interest expense, net of amounts capitalized; income tax expense and depreciation and amortization. Adjusted EBITDA excludes the impact of other income, loss on disposal of assets, loss on extinguishment of debt, gain (loss) on change in fair value of debt and equity instruments as well as certain other non-cash charges, such as certain purchase price accounting adjustments, share-based payment expense and settlements related to the historical use of pre-1972 sound recordings. (For a reconciliation to GAAP see the accompanying glossary on pages 17 through 21 for more details.)

- *2015 vs. 2014*: For the years ended December 31, 2015 and 2014, adjusted EBITDA was $1,657,617 and $1,467,775, respectively, an increase of 13%, or $189,842. The increase was due to growth in adjusted revenues primarily as a result of the increase in our subscriber base and certain of our subscription rates, partially offset by higher costs associated with the growth in our revenues and subscriber base.

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

Liquidity and Capital Resources

Cash Flows for years ended December 31, 2015 compared with the years ended December 31, 2014 and the year ended December 31, 2014 compared with the year ended December 31, 2013.

As of December 31, 2015 and 2014, we had $111,838 and $147,724, respectively, of cash and cash equivalents. The following table presents a summary of our cash flow activity for the periods set forth below:

	For the Years Ended December 31,				
	2015	**2014**	**2013**	**2015 vs 2014**	**2014 vs 2013**
Net cash provided by operating activities	$ 1,189,772	$ 1,216,257	$ 1,088,582	$ (26,485)	$ 127,675
Net cash used in investing activities	(138,858)	(96,324)	(700,688)	(42,534)	604,364
Net cash used in financing activities	(1,086,800)	(1,107,014)	(774,034)	20,214	(332,980)
Net (decrease) increase in cash and cash equivalents	(35,886)	12,919	(386,140)	(48,805)	399,059
Cash and cash equivalents at beginning of period	147,724	134,805	520,945	12,919	(386,140)
Cash and cash equivalents at end of period	$ 111,838	$ 147,724	$ 134,805	$ (35,886)	$ 12,919

Cash Flows Provided by Operating Activities

Cash flows provided by operating activities decreased by $26,485 to $1,189,772 for the year ended December 31, 2015 from $1,216,257 for the year ended December 31, 2014. Cash flows provided by operating activities increased by $127,675 to $1,216,257 for the year ended December 31, 2014 from $1,088,582 for the year ended December 31, 2013.

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

Cash Flows Used in Investing Activities

Cash flows used in investing activities are primarily due to additional spending to improve our terrestrial repeater network and for capitalized software. In 2015, our cash flows used in investing activities also included an increase to our letters of credit issued for the benefit of lessors of certain of our office space. In 2014, our cash flows used in investing activities were primarily due to additional spending to improve our terrestrial repeater network and for capitalized software, partially offset by a special one-time dividend received from our investment in Sirius XM Canada of $24,178. We expect to continue to incur significant costs to improve our terrestrial repeater network and broadcast and administrative infrastructure. In 2013, our cash flows used in investing activities included $525,352 related to our acquisition of the connected vehicle business of Agero, Inc.

Cash Flows Used in Financing Activities

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

Cash flows provided by financing activities in 2015 were due to the issuance of $1,000,000 aggregate principal amount of 5.375% Senior Notes due 2025 and borrowings under the Credit Facility. Cash flows used in financing activities in 2015 were primarily due to the purchase and retirement of shares of Holdings' common stock under Holdings' repurchase program for $2,018,254 and repayments under the Credit Facility. Cash flows used in financing activities in 2014 were primarily due to the purchase of shares of Holdings' common stock under Holdings' repurchase program for $2,496,799 and repayments under the Credit Facility. In 2014, we issued $1,500,000 aggregate principal amount of 6.00% Senior Notes due 2024. Cash flows used in financing activities in 2013 were primarily due to the purchase of shares of Holdings' common stock under Holdings' repurchase program for $1,762,360, and the extinguishment of $800,000 of our then outstanding 8.75% Senior Notes due 2015 and $700,000 of our then outstanding 7.625% Senior Notes due 2018. In 2013, we issued $650,000 aggregate principal amount of 5.875% Senior Notes due 2020, $600,000 aggregate principal amount of 5.75% Senior Notes due 2021, $500,000 aggregate principal amount of 4.25% Senior Notes due 2020 and $500,000 aggregate principal amount of 4.625% Senior Notes due 2023.

Future Liquidity and Capital Resource Requirements

Based upon our current business plans, we expect to fund operating expenses, capital expenditures, working capital requirements, legal settlements, interest payments, taxes and scheduled maturities of our debt with existing cash, cash flow from operations and borrowings under our Credit Facility. As of December 31, 2015, $1,410,000 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, Holdings' stock repurchases and any strategic opportunities.

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

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

Holdings' Stock Repurchase Program

Since December 2012, Holdings' board of directors approved for repurchase an aggregate of $8,000,000 as of December 31, 2015. As of December 31, 2015, Holdings' cumulative repurchases since December 2012 totaled $6,301,140 and $1,698,860 remained available under Holdings' stock repurchase program. We expect to fund future repurchases of Holdings' common stock through a combination of cash on hand, cash generated by operations and future borrowings.

Debt Covenants

The indentures governing our senior notes, and the agreement governing the Credit Facility include restrictive covenants. As of December 31, 2015, we were in compliance with such covenants. For a discussion of our "Debt Covenants," refer to Note 12 to our consolidated financial statements in this Annual Report.

Off-Balance Sheet Arrangements

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

Related Party Transactions

For a discussion of "Related Party Transactions," refer to Note 10 to our consolidated financial statements in this Annual Report.

Critical Accounting Policies and Estimates

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

Goodwill. Goodwill represents the excess of the purchase price over the estimated fair value of net tangible and identifiable intangible assets acquired in business combinations. Our annual impairment assessment of our single reporting unit is performed as of the fourth quarter of each year. Assessments are performed at other times if events or circumstances indicate it is more likely than not that the asset is impaired. Step one of the impairment assessment compares the fair value of the entity to its carrying value and if the fair value exceeds its carrying value, goodwill is not impaired. If the carrying value exceeds the fair value, the implied fair value of goodwill is compared to the carrying value of goodwill; an impairment loss will be recorded for the amount the carrying value exceeds the implied fair value. Our quantitative assessment is based on our enterprise fair value. At the date of our annual assessment for 2015, the fair value of our single reporting unit substantially exceeded its carrying value and therefore was not at risk of failing step one of Accounting Standards Codification ("ASC") 350-20, *Goodwill*. ASC 350-35 states that if the carrying amount of the reporting unit is zero or negative, the second step of the impairment test shall be performed to measure the amount of impairment loss, if any, when it is more likely than not that a goodwill impairment exists based on adverse qualitative factors. Subsequent to our annual assessment performed in the fourth quarter of 2015, we were not aware of any adverse qualitative factors that would indicate any impairment to our goodwill as of December 31, 2015. No impairment losses were recorded for goodwill during the years ended December 31, 2015, 2014 and 2013

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

Our annual impairment assessment of indefinite-lived assets, our FCC licenses and XM trademark, is performed as of the fourth quarter of each year and an assessment is made at other times if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. Accounting Standards Update 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment,* establishes an option to first perform a qualitative assessment to determine whether it is more likely than not that an asset is impaired. If the qualitative assessment supports that it is more likely than not that the fair value of the asset exceeds its carrying value, a company is not required to perform a quantitative impairment test. If the qualitative assessment does not support the fair value of the asset, then a quantitative assessment is performed. During the fourth quarter of 2015, a qualitative impairment analysis was performed and we determined that the fair value of our FCC licenses and trademark substantially exceeded the carrying value and therefore was not at risk of impairment. Our qualitative assessment includes the consideration of our long-term financial projections, current and historical weighted average cost of capital and liquidity factors, legal and regulatory issues and industry and market pressures. Subsequent to our annual evaluation of the carrying value of our long-lived assets, there were no events or circumstances that triggered the need for an impairment evaluation.

There were no changes in the carrying value of our indefinite life intangible assets during the years ended December 31, 2015 or 2014.

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

We operate five in-orbit Sirius satellites, FM-1, FM-2, FM-3, FM-5 and FM-6. Our FM-1, FM-2 and FM-3 satellites were launched in 2000 and reached the end of their depreciable lives in 2013 and 2015 but are still in operation. We estimate that our FM-5 satellite launched in 2009 will operate effectively through the end of its depreciable life in 2024. Our FM-6 satellite that was launched in 2013, is currently used as an in-orbit spare that is planned to start full-time operation in 2016 and is expected to operate effectively through the end of its depreciable life in 2028.

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

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

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

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

As of December 31, 2015, we had a valuation allowance of $49,095 relating to deferred tax assets that are not likely to be realized due to certain state net operating loss limitations and acquired net operating losses that we were not likely to utilize.

ASC 740 requires a company to first determine whether it is more likely than not that a tax position will be sustained based on its technical merits as of the reporting date, assuming that taxing authorities will examine the position and have full knowledge of all relevant information. A tax position that meets this more likely than not threshold is then measured and recognized at the largest amount of benefit that is greater than fifty percent likely to be realized upon effective settlement with a taxing authority. If the tax position is not more likely than not to be sustained, the gross amount of the unrecognized tax position will not be recorded in the financial statements but will be shown in tabular format within the uncertain income tax positions. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs due to the following conditions: (1) the tax position is "more likely than not" to be sustained, (2) the tax position, amount, and/or timing is ultimately settled through negotiation or litigation, or (3) the statute of limitations for the tax position has expired. A number of years may elapse before an uncertain tax position is effectively settled or until there is a lapse in the applicable statute of limitations. We record interest and penalties related to uncertain tax positions in Income tax expense in our consolidated statements of comprehensive income. As of December 31, 2015, the gross liability for income taxes associated with uncertain state tax positions was $253,277.

Glossary

Adjusted EBITDA - EBITDA is defined as net income before interest expense, net of amounts capitalized; income tax expense and depreciation and amortization. We adjust EBITDA to exclude the impact of other income, loss on disposal of assets, loss on extinguishment of debt, gain (loss) on change in fair value of debt and equity instruments as well as certain other charges discussed below. This measure is one of the primary Non-GAAP financial measures on which we (i) evaluate the performance of our on-going core operating results period over period, (ii) base our internal budgets and (iii) compensate management. As such, adjusted EBITDA is a Non-GAAP financial performance measure that excludes (if applicable): (i) certain adjustments as a result of the purchase price accounting for the Merger, (ii) depreciation and amortization, (iii) share-based payment expense and (iv) other significant operating expense (income) that do not relate to the on-going performance of our business. The purchase price accounting adjustments include: (i) the elimination of deferred revenue associated with the investment in XM Canada, (ii) recognition of deferred subscriber revenues not recognized in purchase price accounting, and (iii) elimination of the benefit of deferred credits on executory contracts, which are primarily attributable to third party arrangements with an OEM and programming providers. We believe adjusted EBITDA is a useful measure of the underlying trend of our operating performance, which provides useful information about our business apart from the costs associated with our physical plant, capital structure and purchase price accounting. We believe investors find this Non-GAAP financial measure useful when analyzing our results and comparing our operating performance to the performance of other communications, entertainment and media companies. We believe investors use current and projected adjusted EBITDA to estimate our current and prospective enterprise value and to make investment decisions. Because we fund and build-out our satellite radio system through the periodic raising and expenditure of large amounts of capital, our results of operations reflect significant charges for depreciation expense. The exclusion of depreciation and amortization expense is useful given significant variation in depreciation and amortization expense that can result from the potential variations in estimated useful lives, all of which can vary widely across different industries or among companies within the same industry. We believe the exclusion of share-based payment expense and loss on disposal of assets is useful as they are not directly related to the operational conditions of our business. We also believe the exclusion of settlements related only to the historical use of pre-1972 sound recordings is useful as it does not represent an expense incurred as part of normal operations for the period.

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

	Unaudited		
	For the Years Ended December 31,		
	2015	2014	2013
Net income (GAAP):	$ 509,724	$ 544,795	$ (66,494)
Add back items excluded from Adjusted EBITDA:			
Purchase price accounting adjustments:			
Revenues (see pages 18-19)	7,251	7,251	7,251
Operating expenses (see pages 18-19)	(1,394)	(3,781)	(207,854)
Pre-1972 sound recordings historical legal settlements (GAAP)	109,164	—	—
Loss on disposal of assets (GAAP)	7,384	—	—
(Gain) loss on change in fair value of debt and equity instruments (GAAP)	—	(17,069)	464,102
Share-based payment expense (GAAP)	84,310	78,212	68,876
Depreciation and amortization (GAAP)	272,214	266,423	253,314
Interest expense, net of amounts capitalized (GAAP)	299,103	269,010	204,671
Loss on extinguishment of debt and credit facilities, net (GAAP)	—	—	190,577
Other income (GAAP)	(12,379)	(14,611)	(8,180)
Income tax expense (GAAP)	382,240	337,545	259,877
Adjusted EBITDA	$ 1,657,617	$ 1,467,775	$ 1,166,140

Adjusted Revenues and Operating Expenses - We define this Non-GAAP financial measure as our actual revenues and operating expenses adjusted to exclude the impact of certain purchase price accounting adjustments from the Merger and share-based payment expense. We use this Non-GAAP financial measure to manage our business, to set operational goals and as a basis for determining performance-based compensation for our employees. The following tables reconcile our actual revenues and operating expenses to our adjusted revenues and operating expenses for the years ended December 31, 2015, 2014 and 2013:

	Unaudited For the Year Ended December 31, 2015			
	As Reported	Purchase Price Accounting Adjustments	Allocation of Share-based Payment Expense	Adjusted
Revenue:				
Subscriber revenue	$ 3,824,793	$ —	$ —	$ 3,824,793
Advertising revenue	122,292	—	—	122,292
Equipment revenue	110,923	—	—	110,923
Other revenue	512,050	7,251	—	519,301
Total revenue	$ 4,570,058	$ 7,251	$ —	$ 4,577,309
Operating expenses				
Cost of services:				
Revenue share and royalties	$ 1,034,832	$ —	$ —	$ 1,034,832
Programming and content	293,091	1,394	(10,325)	284,160
Customer service and billing	377,908	—	(2,982)	374,926
Satellite and transmission	94,609	—	(4,147)	90,462
Cost of equipment	42,724	—	—	42,724
Subscriber acquisition costs	532,599	—	—	532,599
Sales and marketing	354,189	—	(17,985)	336,204
Engineering, design and development	64,403	—	(9,470)	54,933
General and administrative	324,801	—	(39,401)	285,400
Depreciation and amortization (a)	272,214	—	—	272,214
Share-based payment expense	—	—	84,310	84,310
Total operating expenses	$ 3,391,370	$ 1,394	$ —	$ 3,392,764

(a) Purchase price accounting adjustments included above exclude the incremental depreciation and amortization associated with the $785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the year ended December 31, 2015 was $35,000.

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

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

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

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

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

	Unaudited		
	For the Years Ended December 31,		
	2015	2014	2013
Subscriber revenue, excluding connected vehicle (GAAP)	$ 3,726,340	$ 3,466,050	$ 3,272,718
Add: advertising revenue (GAAP)	122,292	100,982	89,288
Add: other subscription-related revenue (GAAP)	410,644	336,408	290,895
	$ 4,259,276	$ 3,903,440	$ 3,652,901
Daily weighted average number of subscribers	28,337	26,284	24,886
ARPU	$ 12.53	$ 12.38	$ 12.23

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

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

	Unaudited		
	For the Years Ended December 31,		
	2015	2014	2013
Customer service and billing expenses, excluding connected vehicle (GAAP)	$ 346,789	$ 340,094	$ 317,832
Less: share-based payment expense (GAAP)	(2,982)	(2,780)	(2,219)
	$ 343,807	$ 337,314	$ 315,613
Daily weighted average number of subscribers	28,337	26,284	24,886
Customer service and billing expenses, per average subscriber	$ 1.01	$ 1.07	$ 1.06

Free cash flow - is derived from cash flow provided by operating activities, net of additions to property and equipment, restricted and other investment activity, and the return of capital from investment in unconsolidated entity, excluding the $210,000 pre-1972 sound recordings legal settlement payment and cash used for certain of Holdings' equity-related transactions. Free cash flow is calculated as follows:

	Unaudited		
	For the Years Ended December 31,		
	2015	2014	2013
Cash Flow information			
Net cash provided by operating activities	$ 1,189,772	$ 1,216,257	$ 1,088,582
Net cash used in investing activities	$ (138,858)	$ (96,324)	$ (700,688)
Net cash used in financing activities	$ (1,086,800)	$ (1,107,014)	$ (774,034)
Free Cash Flow			
Net cash provided by operating activities	$ 1,189,772	$ 1,216,257	$ 1,088,582
Equity-related transactions for Holdings [(a)]	54,279	36,987	14,250
Additions to property and equipment	(134,892)	(121,646)	(173,617)
Purchases of restricted and other investments	(3,966)	—	(1,719)
Return of capital from investment in unconsolidated entity	—	24,178	—
Pre-1972 sound recordings legal settlement	210,000	—	—
Free cash flow	$ 1,315,193	$ 1,155,776	$ 927,496

(a) Subsequent to our corporate reorganization in November 2013, certain equity-related transactions are reported as related party transactions within Sirius XM's consolidated statements of cash flows. For the years ended December 31, 2015, 2014 and 2013 this included payments of $54,539, $37,318 and $14,401, respectively, for taxes paid in lieu of shares issued for stock-based compensation and $260, $331 and $151, respectively, in proceeds from the exercise of stock options. These equity-related transactions are classified as Cash flows provided by financing activities within Holdings' consolidated statements of cash flows, and therefore, are adjusted to reflect free cash flow at Sirius XM.

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

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

	Unaudited		
	For the Years Ended December 31,		
	2015	2014	2013
Subscriber acquisition costs (GAAP)	$ 532,599	$ 493,464	$ 495,610
Less: margin from direct sales of radios and accessories (GAAP)	(68,199)	(60,264)	(54,095)
Add: purchase price accounting adjustments	—	—	64,365
	$ 464,400	$ 433,200	$ 505,880
Installations	14,041	12,788	11,765
SAC, per installation	$ 33	$ 34	$ 43

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Sirius XM Radio Inc. and subsidiaries which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, changes in stockholder equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sirius XM Radio Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in accordance with U.S. generally accepted accounting principles.

/s/ KPMG LLP

New York, New York
February 2, 2016

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

	For the Years Ended December 31,		
(in thousands, except per share data)	2015	2014	2013
Revenue:			
Subscriber revenue	$ 3,824,793	$ 3,554,302	$ 3,284,660
Advertising revenue	122,292	100,982	89,288
Equipment revenue	110,923	104,661	80,573
Other revenue	512,050	421,150	344,574
Total revenue	4,570,058	4,181,095	3,799,095
Operating expenses:			
Cost of services:			
Revenue share and royalties	1,034,832	810,028	677,642
Programming and content	293,091	297,313	290,323
Customer service and billing	377,908	370,585	320,755
Satellite and transmission	94,609	86,013	79,292
Cost of equipment	42,724	44,397	26,478
Subscriber acquisition costs	532,599	493,464	495,610
Sales and marketing	354,189	336,480	291,024
Engineering, design and development	64,403	62,784	57,969
General and administrative	324,801	293,938	262,135
Depreciation and amortization	272,214	266,423	253,314
Total operating expenses	3,391,370	3,061,425	2,754,542
Income from operations	1,178,688	1,119,670	1,044,553
Other income (expense):			
Interest expense, net of amounts capitalized	(299,103)	(269,010)	(204,671)
Loss on extinguishment of debt and credit facilities, net	—	—	(190,577)
Gain (loss) on change in fair value of debt and equity instruments	—	17,069	(464,102)
Other income	12,379	14,611	8,180
Total other expense	(286,724)	(237,330)	(851,170)
Income before income taxes	891,964	882,340	193,383
Income tax expense	(382,240)	(337,545)	(259,877)
Net income (loss) attributable to Sirius XM Radio Inc.'s sole stockholder	$ 509,724	$ 544,795	$ (66,494)
Foreign currency translation adjustment, net of tax	(100)	(94)	(428)
Total comprehensive income (loss) attributable to Sirius XM Radio Inc.'s sole stockholder	$ 509,624	$ 544,701	$ (66,922)

See accompanying notes to the consolidated financial statements.

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

	As of December 31,	
(in thousands, except per share data)	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 111,838	$ 147,724
Receivables, net	234,782	220,579
Inventory, net	22,295	19,397
Related party current assets	5,941	4,344
Deferred tax assets	—	1,038,603
Prepaid expenses and other current assets	187,033	119,099
Total current assets	561,889	1,549,746
Property and equipment, net	1,415,401	1,510,112
Long-term restricted investments	9,888	5,922
Intangible assets, net	2,593,346	2,645,046
Goodwill	2,205,107	2,205,107
Related party long-term assets	3,522,162	1,539,210
Deferred tax assets	1,115,731	437,736
Other long-term assets	145,300	12,396
Total assets	$ 11,568,824	$ 9,905,275
LIABILITIES AND STOCKHOLDER EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 625,313	$ 587,755
Accrued interest	91,655	80,440
Current portion of deferred revenue	1,771,915	1,632,381
Current portion of deferred credit on executory contracts	—	1,394
Current maturities of long-term debt	4,764	7,482
Related party current liabilities	2,840	4,340
Total current liabilities	2,496,487	2,313,792
Deferred revenue	157,609	151,901
Long-term debt	5,443,614	4,487,419
Related party long-term liabilities	10,795	13,635
Deferred tax liabilities	6,681	—
Other long-term liabilities	97,967	92,481
Total liabilities	8,213,153	7,059,228
Commitments and contingencies (Note 15)		
Stockholder equity:		
Preferred stock, undesignated, par value $0.001 (liquidation preference of $0.001 per share); 50,000 shares authorized and 0 shares issued and outstanding at December 31, 2015 and December 31, 2014, respectively	—	—
Common stock, par value $0.001; 9,000,000 shares authorized; 1 share issued and outstanding at December 31, 2015 and December 31, 2014, respectively	—	—
Accumulated other comprehensive loss, net of tax	(502)	(402)
Additional paid-in capital	8,679,538	8,679,538
Accumulated deficit	(5,323,365)	(5,833,089)
Total stockholder equity	3,355,671	2,846,047
Total liabilities and stockholder equity	$ 11,568,824	$ 9,905,275

See accompanying notes to the consolidated financial statements.

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

	Convertible Perpetual Preferred Stock, Series B-1		Common Stock				Treasury Stock			
(in thousands)	Shares	Amount	Shares	Amount	Accumulated Other Comprehensive Income (Loss)	Additional Paid-in Capital	Shares	Amount	Accumulated Deficit	Total Stockholder Equity
Balance at January 1, 2013	6,250	$ 6	5,262,440	$ 5,263	$ 120	$ 10,345,566	—	$ —	$ (6,311,390)	$ 4,039,565
Comprehensive income, net of tax	—	—	—	—	(428)	—	—	—	(66,494)	(66,922)
Share-based payment expense	—	—	—	—	—	58,903	—	—	—	58,903
Exercise of options and vesting of restricted stock units	—	—	29,158	28	—	19,249	—	—	—	19,277
Minimum withholding taxes on net share settlement of stock-based compensation	—	—	—	—	—	(31,941)	—	—	—	(31,941)
Conversion of preferred stock to common stock	(6,250)	(6)	1,293,509	1,293	—	(1,287)	—	—	—	—
Conversion of Exchangeable Notes to common stock	—	—	27,688	28	—	45,069	—	—	—	45,097
Common stock repurchased	—	—	—	—	—	—	520,258	(1,764,969)	—	(1,764,969)
Common stock retired	—	—	(520,258)	(520)	—	(1,764,449)	(520,258)	1,764,969	—	—
Transfer of common stock to Sirius XM Holdings Inc.	—	—	(6,092,537)	(6,092)	—	6,092	—	—	—	—
Transfer of forward contract to Sirius XM Holdings Inc.	—	—	—	—	—	(4,964)	—	—	—	(4,964)
Initial fair value of forward contract	—	—	—	—	—	7,300	—	—	—	7,300
Common stock issued by Sirius XM Radio Inc. to Sirius XM Holdings Inc.	—	—	1	—	—	—	—	—	—	—
Balance at December 31, 2013	—	$ —	1	$ —	$ (308)	$ 8,679,538	—	$ —	$ (6,377,884)	$ 2,301,346
Comprehensive income, net of tax	—	—	—	—	(94)	—	—	—	544,795	544,701
Balance at December 31, 2014	—	$ —	1	$ —	$ (402)	$ 8,679,538	—	$ —	$ (5,833,089)	$ 2,846,047
Comprehensive income, net of tax	—	—	—	—	(100)	—	—	—	509,724	509,624
Balance at December 31, 2015	—	$ —	1	$ —	$ (502)	$ 8,679,538	—	$ —	$ (5,323,365)	$ 3,355,671

See accompanying notes to the consolidated financial statements.

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

(in thousands)	For the Years Ended December 31, 2015	2014	2013
Cash flows from operating activities:			
Net income	$ 509,724	$ 544,795	$ (66,494)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	272,214	266,423	253,314
Non-cash interest expense, net of amortization of premium	7,872	21,039	21,698
Provision for doubtful accounts	47,237	44,961	39,016
Amortization of deferred income related to equity method investment	(2,776)	(2,776)	(2,776)
Loss on extinguishment of debt and credit facilities, net	—	—	190,577
Gain on unconsolidated entity investments, net	—	(5,547)	(5,865)
Dividend received from unconsolidated entity investment	14,788	17,019	22,065
Loss on disposal of assets	7,384	—	—
(Gain) loss on change in fair value of debt and equity instruments	—	(17,069)	464,102
Share-based payment expense	84,310	78,212	58,903
Deferred income taxes	365,499	327,461	259,787
Other non-cash purchase price adjustments	(1,394)	(3,781)	(207,854)
Changes in operating assets and liabilities:			
Receivables	(61,440)	(72,628)	(15,245)
Inventory	(2,898)	(5,534)	11,474
Related party, net	(66,963)	(67,324)	(4,237)
Prepaid expenses and other current assets	(67,204)	(1,195)	16,788
Other long-term assets	(130,741)	3,393	3,324
Accounts payable and accrued expenses	50,427	8,843	(44,009)
Accrued interest	11,215	38,355	8,131
Deferred revenue	145,242	48,645	73,593
Other long-term liabilities	7,276	(7,035)	12,290
Net cash provided by operating activities	1,189,772	1,216,257	1,088,582
Cash flows from investing activities:			
Additions to property and equipment	(134,892)	(121,646)	(173,617)
Purchases of restricted and other investments	(3,966)	—	(1,719)
Acquisition of business, net of cash acquired	—	1,144	(525,352)
Return of capital from investment in unconsolidated entity	—	24,178	—
Net cash used in investing activities	(138,858)	(96,324)	(700,688)
Cash flows from financing activities:			
Intercompany financing activities	(2,018,254)	(2,496,799)	—
Proceeds from exercise of stock options	—	—	21,817
Taxes paid in lieu of shares issued for stock-based compensation	—	—	(31,941)
Proceeds from long-term borrowings and revolving credit facility, net of costs	1,728,571	2,406,205	3,156,063
Payment of premiums on redemption of debt	—	—	(175,453)
Repayment of long-term borrowings and revolving credit facility	(797,117)	(1,016,420)	(1,782,160)
Repayment of related party long-term borrowings	—	—	(200,000)
Common stock repurchased and retired	—	—	(1,762,360)
Net cash used in financing activities	(1,086,800)	(1,107,014)	(774,034)
Net (decrease) increase in cash and cash equivalents	(35,886)	12,919	(386,140)
Cash and cash equivalents at beginning of period	147,724	134,805	520,945
Cash and cash equivalents at end of period	$ 111,838	$ 147,724	$ 134,805

See accompanying notes to the consolidated financial statements.

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

	For the Years Ended December 31,					
(in thousands)		2015		2014		2013
Supplemental Disclosure of Cash and Non-Cash Flow Information						
Cash paid during the period for:						
Interest, net of amounts capitalized	$	269,925	$	199,424	$	169,781
Income taxes paid	$	12,384	$	8,713	$	2,783
Acquisition related costs	$	—	$	—	$	2,902
Non-cash investing and financing activities:						
Capital lease obligations incurred to acquire assets	$	7,487	$	719	$	11,966
Conversion of Series B preferred stock to common stock	$	—	$	—	$	1,293
Conversion of 7% Exchangeable Notes to common stock, net of debt issuance and deferred financing costs	$	—	$	502,097	$	45,097
Performance incentive payments	$	—	$	—	$	16,900
Goodwill reduced for the exercise and vesting of certain stock awards	$	—	$	—	$	274
Purchase price accounting adjustments to goodwill	$	—	$	1,698	$	—

See accompanying notes to the consolidated financial statements.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars and shares in thousands, except per share amounts)

(1) Business & Basis of Presentation

Business

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

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

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

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

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

Basis of Presentation

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

The consolidated financial statements for Sirius XM for the annual period ended December 31, 2015 are essentially identical to the consolidated financial statements included in Holdings' Form 10-K for the year ended December 31, 2015, filed with the SEC on February 2, 2016, 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 and the issuance of equity related to stock-based compensation to Sirius XM employees have been reported as related party transactions within Sirius XM's consolidated financial statements. Refer to Note 10 for additional information related to related party transactions.
- Changes in fair value related to the 7% Exchangeable Senior Subordinated Notes due 2014 (the "Exchangeable Notes") were recorded in Sirius XM's statements of comprehensive income through the Notes' maturity in December 2014. For the years ended December 31, 2014 and 2013 there was a $17,069 and $(464,102) Gain (loss) on change in fair value of debt and equity instruments, respectively, related to the Exchangeable Notes. The difference between the fair value and carrying value of the Exchangeable Notes was eliminated in Holdings' consolidated statements of comprehensive income.
- Changes in fair value related to the share repurchase agreement with Liberty Media were recorded in Holdings' consolidated statements of comprehensive income, through the settlement of this agreement in April 2014. For years ended December 31, 2014 and 2013, there was a $34,485 and $20,393 Loss on change in value of derivatives recorded in Holdings' consolidated statements of comprehensive income.

This Annual Report should be read together with Holdings' Annual Report on Form 10-K for the year ended December 31, 2015, which was filed with the SEC on February 2, 2016.

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

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 makers in deciding how to allocate resources to an individual segment and in assessing performance of the segment. We have determined that we have one reportable segment as our chief operating decision maker, our Chief Executive Officer, assesses performance and allocates resources based on the consolidated results of operations of our business.

We have evaluated events subsequent to the balance sheet date and prior to furnishing this Annual Report for the year ended December 31, 2015 and have determined that no events have occurred that would require adjustment to our consolidated financial statements. For a discussion of subsequent events that do not require adjustment to our consolidated financial statements refer to Note 17.

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 consolidated financial statements include asset impairment, depreciable lives of our satellites, share-based payment expense, and income taxes.

(2) Acquisitions

On November 4, 2013, we purchased all of the outstanding shares of capital stock of the connected vehicle business of Agero, Inc. ("Agero") for $525,352. The transaction was accounted for using the acquisition method of accounting. During the year ended December 31, 2014, the purchase price allocation associated with the connected vehicle business of Agero was finalized resulting in a net decrease in the purchase price of $1,144.

(3) Summary of Significant Accounting Policies

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

Significant Accounting Policy	Note #	Page #
Fair Value Measurements	4	F-11
Goodwill	7	F-12
Intangible Assets	8	F-13
Property and Equipment	9	F-14
Equity Method Investments	10	F-15
Share-Based Compensation	14	F-19
Legal Costs	15	F-22
Income Taxes	16	F-25

Cash and Cash Equivalents

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

Revenue Recognition

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

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

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

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

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

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

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

Revenue Share

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

Programming Costs

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

Advertising Costs

Media is expensed when aired and advertising production costs are expensed as incurred. Advertising production costs include expenses related to marketing and retention activities, including expenses related to direct mail, outbound telemarketing and email communications. We also incur advertising production costs related to cooperative marketing and promotional events and sponsorships. During the years ended December 31, 2015, 2014 and 2013, we recorded advertising costs of $228,676, $222,962 and $178,364, respectively. These costs are reflected in Sales and marketing expense in our consolidated statements of comprehensive income.

Subscriber Acquisition Costs

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

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

Research & Development Costs

Research and development costs are expensed as incurred and primarily include the cost of new product development, chipset design, software development and engineering. During the years ended December 31, 2015, 2014 and 2013, we recorded research and development costs of $54,933, $54,109 and $50,564, respectively. These costs are reported as a component of Engineering, design and development expense in our consolidated statements of comprehensive income.

Recent Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, *Income Taxes – Balance Sheet Reclassification of Deferred Taxes (Topic 740)*. This ASU requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this update. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted and the amendments may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We early adopted this ASU in the fourth quarter of 2015 on a prospective basis and included the current portion of deferred tax assets within the non-current portion of deferred tax assets within our consolidated balance sheets. We did not adjust our prior period consolidated balance sheet as a result of the adoption of this ASU.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30),* and, in August 2015, the FASB issued ASU 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements.* These ASUs require debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt consistent with debt discounts. The presentation and subsequent measurement of debt issuance costs associated with lines of credit, may be presented as an asset and amortized ratably over the term of the line of credit arrangement, regardless of whether there are outstanding borrowings on the arrangement. The recognition and measurement guidance for debt issuance costs are not affected by these ASUs. These ASUs are effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those years. Early adoption is permitted for financial statements that have not been previously issued, and retrospective application is required for each balance sheet presented. We early adopted these ASUs in the fourth quarter of 2015, and debt issuance costs previously recorded as an asset, other than those related to our Credit Facility, in the amount of $7,155 and $6,444 for the years ended December 31, 2015 and 2014, respectively, have been reclassified as a reduction to our debt liability within our consolidated balance sheets.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU 2015-14 which amended the effective date of this ASU to fiscal years beginning after December 15, 2017, and early adoption is permitted only for fiscal years beginning after December 15, 2016. Accordingly, we plan to adopt this ASU on January 1, 2018. Companies may use either a full retrospective or a modified retrospective approach to adopt this ASU. We are currently evaluating the impact of the adoption of this ASU on our consolidated financial statements.

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

(4) Fair Value Measurements

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants. As of December 31, 2015 and 2014, the carrying amounts of cash and cash equivalents, receivables, and accounts payable approximated fair value due to the short-term nature of these instruments. ASC 820, *Fair Value Measurements and Disclosures,* establishes a fair value hierarchy for input into valuation techniques as follows:

i. Level 1 input: unadjusted quoted prices in active markets for identical instrument;

ii. Level 2 input: observable market data for the same or similar instrument but not Level 1, including quoted prices for identical or similar assets or liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

iii. Level 3 input: unobservable inputs developed using management's assumptions about the inputs used for pricing the asset or liability.

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

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

	December 31, 2015				December 31, 2014			
	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	Total Fair Value
Assets:								
Sirius XM Canada Holdings Inc. (“Sirius XM Canada”) - investment [(a)]	$141,850	—	—	$ 141,850	$246,500	—	—	$ 246,500
Liabilities:								
Debt [(b)]	—	$5,649,173	—	$5,649,173	—	$4,613,044	—	$4,613,044

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

(b) The fair value for non-publicly traded instruments is based upon estimates from a market maker and brokerage firm. Refer to Note 12 for information related to the carrying value of our debt as of December 31, 2015 and 2014.

(5) Receivables, net

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

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

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

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

Receivables, net consists of the following:

	December 31, 2015	December 31, 2014
Gross customer accounts receivable	$ 98,740	$ 101,634
Allowance for doubtful accounts	(6,118)	(7,815)
Customer accounts receivable, net	$ 92,622	$ 93,819
Receivables from distributors	120,012	105,731
Other receivables	22,148	21,029
Total receivables, net	$ 234,782	$ 220,579

(6) Inventory, net

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

Inventory, net consists of the following:

	December 31, 2015	December 31, 2014
Raw materials	$ 11,085	$ 12,150
Finished goods	21,159	17,971
Allowance for obsolescence	(9,949)	(10,724)
Total inventory, net	$ 22,295	$ 19,397

(7) Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired in business combinations. Our annual impairment assessment of our single reporting unit is performed as of the fourth quarter of each year, and an assessment is performed at other times if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset below its carrying value. Step one of the impairment assessment compares the fair value to its carrying value and if the fair value exceeds its carrying value, goodwill is not impaired. If the carrying value exceeds the fair value, the implied fair value of goodwill is compared to the carrying value of goodwill. If the implied fair value exceeds the carrying value then goodwill is not impaired; otherwise, an impairment loss will be recorded by the amount the carrying value exceeds the implied fair value. At the date of our annual assessment for 2015 and 2014, the fair value of our single reporting unit substantially exceeded its carrying value and therefore was not at risk of failing step one of ASC 350-20, *Goodwill*. ASC 350-35 states that if the carrying amount of the reporting unit is zero or negative, the second step of the impairment test shall be performed to measure the amount of impairment loss, if any, when it is more likely than not that a goodwill impairment exists based on adverse qualitative factors. Subsequent to our annual assessment performed in the fourth quarter of 2015, we were not aware of any adverse qualitative factors that would indicate any impairment to our goodwill as of December 31, 2015.

No impairment losses were recorded for goodwill during the years ended December 31, 2015, 2014 and 2013. As of December 31, 2015, the cumulative balance of goodwill impairments recorded since the July 2008 merger (the "Merger") between our wholly owned subsidiary, Vernon Merger Corporation, and XM Satellite Radio Holdings Inc. ("XM"), was $4,766,190, which was recognized during the year ended December 31, 2008.

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

(8) Intangible Assets

Our intangible assets include the following:

		December 31, 2015			December 31, 2014		
	Weighted Average Useful Lives	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Indefinite life intangible assets:							
FCC licenses	Indefinite	$2,083,654	$ —	$2,083,654	$2,083,654	$ —	$2,083,654
Trademark	Indefinite	250,000	—	250,000	250,000	—	250,000
Definite life intangible assets:							
Subscriber relationships	9 years	380,000	(336,822)	43,178	380,000	(305,755)	74,245
OEM relationships	15 years	220,000	(31,778)	188,222	220,000	(17,111)	202,889
Licensing agreements	12 years	45,289	(26,977)	18,312	45,289	(23,290)	21,999
Proprietary software	8 years	27,215	(17,752)	9,463	27,215	(15,691)	11,524
Developed technology	10 years	2,000	(1,483)	517	2,000	(1,283)	717
Leasehold interests	7.4 years	132	(132)	—	132	(114)	18
Total intangible assets		$3,008,290	$ (414,944)	$2,593,346	$3,008,290	$ (363,244)	$2,645,046

Indefinite Life Intangible Assets

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

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

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

Our XM-1 satellite is operating under Special Temporary Authority from the FCC and is in the process of being de-orbited. Prior to expiration of our FCC licenses, we are required to apply for a renewal of our FCC licenses. The renewal and extension of our licenses, including temporary licenses, is reasonably certain at minimal cost, which is expensed as incurred. Each of the FCC licenses authorizes us to use the radio spectrum, which is a renewable, reusable resource that does not deplete or exhaust over time.

ASU 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment,* established an option to first perform a qualitative assessment to determine whether it is more likely than not that an asset is impaired. If the qualitative assessment supports that it is more likely than not that the fair value of the asset exceeds its carrying value, a quantitative impairment test is not required. If the qualitative assessment does not support the fair value of the asset, then a quantitative assessment is performed. Our annual impairment assessment of our indefinite intangible assets is performed as of the fourth quarter of each year. An assessment is performed at other times if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset below its carrying value. If the carrying value of the intangible assets exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

We completed qualitative assessments of our FCC licenses and XM trademark during the fourth quarter of 2015, 2014 and 2013. As of the date of our annual assessment for 2015, 2014 and 2013, our qualitative impairment assessment of the fair value of our indefinite intangible assets indicated that such assets substantially exceeded their carrying value and therefore was not at risk of impairment. No impairments were recorded for intangible assets with indefinite lives during the years ended December 31, 2015, 2014, and 2013.

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

Definite Life Intangible Assets

Definite-lived intangible assets are amortized over their respective estimated useful lives to their estimated residual values, in a pattern that reflects when the economic benefits will be consumed, and are reviewed for impairment under the provisions of ASC 360-10-35, *Property, Plant and Equipment/Overall/Subsequent Measurement*. We review intangible assets subject to amortization for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected cash flows, undiscounted and without interest, is less than the carrying amount of the asset, an impairment loss is recognized as the amount by which the carrying amount of the asset exceeds its fair value. No impairment was recorded to our intangible assets with definite lives in 2015, 2014 or 2013.

Amortization expense for all definite life intangible assets was $51,700, $55,016 and $50,011 for the years ended December 31, 2015, 2014 and 2013, respectively. Expected amortization expense for each of the fiscal years 2016 through 2020 and for periods thereafter is as follows:

Years ending December 31,	**Amount**
2016	$ 48,545
2017	34,882
2018	19,463
2019	19,026
2020	18,446
Thereafter	119,330
Total definite life intangible assets, net	$ 259,692

(9) Property and Equipment

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

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

We review long-lived assets, such as property and equipment, for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds the estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the fair value of the asset. We did not record any impairments during the years ended December 31, 2015, 2014 or 2013.

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

Property and equipment, net, consists of the following:

	December 31, 2015	December 31, 2014
Satellite system	$ 2,388,000	$ 2,397,611
Terrestrial repeater network	117,127	108,341
Leasehold improvements	49,407	48,677
Broadcast studio equipment	70,888	61,306
Capitalized software and hardware	466,464	340,738
Satellite telemetry, tracking and control facilities	75,440	71,268
Furniture, fixtures, equipment and other	81,871	78,237
Land	38,411	38,411
Building	60,487	59,373
Construction in progress	101,324	155,716
Total property and equipment	3,449,419	3,359,678
Accumulated depreciation and amortization	(2,034,018)	(1,849,566)
Property and equipment, net	$ 1,415,401	$ 1,510,112

Construction in progress consists of the following:

	December 31, 2015	December 31, 2014
Satellite system	$ 12,912	$ 12,912
Terrestrial repeater network	25,578	48,406
Capitalized software	37,064	77,755
Other	25,770	16,643
Construction in progress	$ 101,324	$ 155,716

Depreciation expense on property and equipment was $220,514, $211,407, $203,303 for the years ended December 31, 2015, 2014 and 2013, respectively. We retired property and equipment of $43,833, $19,398 and $16,039 during the years ended December 31, 2015, 2014 and 2013, respectively, which included the retirement of our XM-1 and XM-2 satellites in 2015 and 2014, respectively. We recognized a loss on disposal of assets of $7,384 during the year ended December 31, 2015, which related to the disposal of certain obsolete terrestrial repeaters and related parts. We did not recognize any loss on disposal of assets during the years ended December 31, 2014 and 2013.

Satellites

We currently own a fleet of eight operating satellites. We are in the process of de-orbiting XM-1, a satellite that is no longer in use and has also reached the end of its operational life. The chart below provides certain information on our operating satellites:

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

* Satellite was fully depreciated and was still in operation as of December 31, 2015.

(10) Related Party Transactions

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

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

Liberty Media

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

During the years ended December 31, 2014 and 2013, we recognized $1,025 and $13,514 in Interest expense, respectively, associated with the portion of the Exchangeable Notes, the 7.625% Senior Notes due 2018 and the 8.75% Senior Notes due 2015 held by Liberty Media through November 2014, October 2013 and August 2013, respectively.

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 and the issuance of equity related to stock-based compensation for Sirius XM employees and third parties have been reported as related party transactions within Sirius XM's consolidated financial statements. The stock-based compensation for Sirius XM employees and third parties is recorded in Sirius XM's consolidated financial statements. The Related party long-term assets balance as of December 31, 2015 and 2014 of Sirius XM includes $3,522,162 and $1,536,210, respectively, for net amounts due from Holdings in connection with such equity-related transactions, as well as for the conversion of the Exchangeable Notes in December 2014.

On October 9, 2013, we entered into an agreement with Liberty Media to repurchase $500,000 of our then publicly traded common stock from Liberty Media. In connection with the corporate reorganization and Holdings becoming the issuer of the publicly traded equity, Holdings assumed our obligations under such agreement and completed the final purchase installment under this agreement in April 2014. As there were certain terms in the forward purchase contract with Liberty Media that could have caused the obligation not to be fulfilled, the instrument was classified as a liability and was marked to fair value with any gain or loss recorded to our consolidated statements of comprehensive income prior to the reorganization. We recognized $2,713 to Gain (loss) on change in fair value of debt and equity instruments in our consolidated statements of comprehensive income during the year ended December 31, 2013 associated with this share repurchase agreement.

During the year ended December 31, 2015, Holdings' repurchased and retired $2,015,947 of its common stock, which was funded with our cash. This amount is included in our Related party long-term asset balance as a receivable due from Holdings.

Sirius XM Canada

We hold an equity method investment in Sirius XM Canada. We own approximately 47,300 of Sirius XM Canada's Class A shares on a converted basis, representing an approximate 37% equity interest and an approximate 25% voting interest. We primarily provide programming and content services to Sirius XM Canada and are reimbursed from Sirius XM Canada for certain product development costs, production and distribution of chipset radios, as well as for information technology and streaming support costs.

Investments in which we have the ability to exercise significant influence but not control are accounted for pursuant to the equity method of accounting. We recognize our proportionate share of earnings or losses of Sirius XM Canada as they occur as a component of Interest and investment income in our consolidated statements of comprehensive income on a one month lag.

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

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

	December 31, 2015	December 31, 2014
Related party current assets	$ 5,941	$ 4,344
Related party long-term assets	$ —	$ 3,000
Related party current liabilities	$ 2,840	$ 4,340
Related party long-term liabilities	$ 10,795	$ 13,635

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

Our related party current asset balances primarily consist of activation fees and programming and chipset costs for which we are reimbursed. Our related party long-term asset balance in 2014 primarily included our investment balance in Sirius XM Canada. Our related party liabilities as of December 31, 2015 and 2014 included $2,776 for the current portion of deferred revenue and $10,639 and $13,415, respectively, for the long-term portion of deferred revenue recorded as of the Merger date related to agreements with XM Canada, now Sirius XM Canada. These costs are being amortized on a straight line basis through 2020.

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

	For the Years Ended December 31,		
	2015	2014	2013
Revenue [(a)]	$ 56,397	$ 49,691	$ 48,935
Other income			
Share of net earnings [(b)]	$ —	$ 7,889	$ 5,865
Dividends [(c)]	$ 12,645	$ 7,628	$ —

(a) Under our agreements with Sirius XM Canada, we currently receive a percentage-based royalty of 10% and 15% for certain types of subscription revenue earned by Sirius XM Canada for Sirius and XM platforms, respectively; and additional royalties for premium services and royalties for activation fees and reimbursements for other charges. We record revenue from Sirius XM Canada as Other revenue in our consolidated statements of comprehensive income. The license and services agreement entered into with Sirius Canada will expire in 2017. The license agreement entered into with XM Canada will expire in 2020.

(b) We recognize our proportionate share of earnings or losses of Sirius XM Canada as they occur as a component of Other income in our consolidated statements of comprehensive income on a one month lag. This amount included amortization related to the equity method intangible assets of $363 and $1,454 for the years ended December 31, 2014 and 2013, respectively, and for 2014, this also included a gain of $1,251 related to the fair value received in excess of the carrying value associated with the redemption of our investment in Sirius XM Canada's 8% convertible unsecured subordinated debentures in February 2014. As of December 31, 2015, we had $840 in losses related to our investment in Sirius XM Canada that we had not recorded in our consolidated financial statements since our investment balance is zero. Future equity income will be offset by these losses prior to recording equity income in our results.

(c) Sirius XM Canada paid gross dividends to us of $15,645, $43,492 and $16,796 during the years ended December 31, 2015, 2014 and 2013, respectively. These dividends were first recorded as a reduction to our investment balance in Sirius XM Canada to the extent a balance existed and then as Other income for the remaining portion.

(11) Investments

Long Term Restricted Investments

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

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

(12) Debt

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

Issuer / Borrower	Issued	Debt	Maturity Date	Interest Payable	Principal Amount at December 31, 2015	Carrying value(a) at December 31, 2015	Carrying value(a) at December 31, 2014
Sirius XM (b)	May 2013	4.25% Senior Notes (the "4.25% Notes")	May 15, 2020	semi-annually on May 15 and November 15	$ 500,000	$ 496,282	$ 495,529
Sirius XM (b)	September 2013	5.875% Senior Notes (the "5.875% Notes")	October 1, 2020	semi-annually on April 1 and October 1	650,000	644,720	643,790
Sirius XM (b)	August 2013	5.75% Senior Notes (the "5.75% Notes")	August 1, 2021	semi-annually on February 1 and August 1	600,000	595,720	595,091
Sirius XM (b)	May 2013	4.625% Senior Notes (the "4.625% Notes")	May 15, 2023	semi-annually on May 15 and November 15	500,000	495,602	495,116
Sirius XM (b)	May 2014	6.00% Senior Notes (the "6.00% Notes")	July 15, 2024	semi-annually on January 15 and July 15	1,500,000	1,485,196	1,483,918
Sirius XM (b)(c)	March 2015	5.375% Senior Notes (the "5.375% Notes")	April 15, 2025	semi-annually on April 15 and October 15	1,000,000	989,446	—
Sirius XM (b)(d)	August 2012	5.25% Senior Secured Notes (the "5.25% Notes")	August 15, 2022	semi-annually on February 15 and August 15	400,000	395,675	395,147
Sirius XM (e)	December 2012	Senior Secured Revolving Credit Facility (the "Credit Facility")	June 16, 2020	variable fee paid quarterly	1,750,000	340,000	380,000
Sirius XM	Various	Capital leases	Various	n/a	n/a	12,892	12,754
Total Debt						5,455,533	4,501,345
Less: total current maturities						4,764	7,482
Less: total deferred financing costs for Notes						7,155	6,444
Total long-term debt						$ 5,443,614	$ 4,487,419

(a) The carrying value of the obligations is net of any remaining unamortized original issue discount.
(b) Substantially all of our domestic wholly-owned subsidiaries have guaranteed these notes.
(c) In March 2015, we issued $1,000,000 aggregate principal amount of 5.375% Senior Notes due 2025, with an original issuance discount of $11,250.
(d) The liens securing the 5.25% Notes are equal and ratable to the liens granted to secure the Credit Facility.
(e) In December 2012, we entered into a five-year Credit Facility with a syndicate of financial institutions for $1,250,000. In June 2015, we entered into an amendment to increase the total borrowing capacity under the Credit Facility to $1,750,000 and to extend the maturity to June 2020. Our obligations under the Credit Facility are guaranteed by certain of its material domestic 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 0.30% per annum as of December 31, 2015. As of December 31, 2015, $1,410,000 was available for future borrowing under the Credit Facility. Our outstanding borrowings under the Credit Facility are classified as Long-term debt within our consolidated balance sheets due to the long-term maturity of this debt.

Retired and Converted Debt

During the year ended December 31, 2014, $502,370 in principal amount of the Exchangeable Notes were converted, resulting in the issuance of 272,856 shares of Holdings' common stock. No loss was recognized as a result of this conversion.

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

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

Covenants and Restrictions

Under the Credit Facility, we must comply with a debt maintenance covenant that it not exceed a total leverage ratio, calculated as 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 its subsidiaries to create certain liens; enter into sale/leaseback transactions; and merge or consolidate.

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

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

(13) Stockholder Equity

Common Stock, par value $0.001 per share

We are authorized to issue up to 9,000,000 shares of common stock. As of December 31, 2015 and 2014, there were one thousand shares of common stock of Sirius XM issued and outstanding, which was owned by Holdings.

Preferred Stock, par value $0.001 per share

We are authorized to issue up to 50,000 shares of undesignated preferred stock with a liquidation preference of $0.001 per share. In January 2013, Liberty Media converted its remaining shares of the Series B Preferred Stock into 1,293,509 shares of Holdings' common stock. There were no shares of preferred stock issued or outstanding as of December 31, 2015 and 2014.

Share Lending Arrangements

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

We recorded interest expense related to the amortization of the costs associated with the share lending arrangement and other issuance costs for our Exchangeable Notes of $12,701 and $12,745 for the years ended December 31, 2014 and 2013, respectively. These costs were fully amortized as of December 31, 2014 as the Exchangeable Notes matured on December 1, 2014.

(14) Benefit Plans

We recognized share-based payment expense of $84,310, $78,212 and $68,876 for the years ended December 31, 2015, 2014 and 2013, respectively.

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

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

Fair value as determined using the Black-Scholes-Merton model varies based on assumptions used for the expected life, expected stock price volatility and risk-free interest rates. For the years ended December 31, 2015, 2014 and 2013, we estimated the fair value of awards granted using the hybrid approach for volatility, which weights observable historical volatility and implied volatility of qualifying actively traded options on our common stock. The expected life assumption represents the weighted-average period stock-based awards are expected to remain outstanding. These expected life assumptions are established through a review of historical exercise behavior of stock-based award grants with similar vesting periods. Where historical patterns do not exist, contractual terms are used. The risk-free interest rate represents the daily treasury yield curve rate at the grant date based on the closing market bid yields on actively traded U.S. treasury securities in the over-the-counter market for the expected term. Our assumptions may change in future periods.

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

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

2015 Long-Term Stock Incentive Plan

In May 2015, Holdings' stockholders approved the Sirius XM Holdings Inc. 2015 Long-Term Stock Incentive Plan (the "2015 Plan"). Employees, consultants and members of Holdings' 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 deem appropriate. Vesting and other terms of stock-based awards are set forth in the agreements with the individuals receiving the awards. Stock-based awards granted under the 2015 Plan are generally subject to a vesting requirement. Stock options generally expire ten years from the date of grant. Each restricted stock unit entitles the holder to receive one share of common stock upon vesting. As of December 31, 2015, 246,778 shares of common stock were available for future grants under the 2015 Plan.

Other Plans

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

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

	For the Years Ended December 31,		
	2015	2014	2013
Risk-free interest rate	1.4%	1.6%	1.4%
Expected life of options — years	4.17	4.72	4.73
Expected stock price volatility	26%	33%	47%
Expected dividend yield	0%	0%	0%

The following table summarizes the weighted-average assumptions used to compute the fair value of options granted to third parties, other than non-employee members of Holdings' board of directors:

	For the Year Ended December 31,
	2015
Risk-free interest rate	2.0%
Expected life of options — years	7.00
Expected stock price volatility	37%
Expected dividend yield	0%

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

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

The following table summarizes stock option activity under our share-based plans for the years ended December 31, 2015, 2014 and 2013:

	Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at the beginning of January 1, 2013	274,512	$ 1.92		
Granted	57,228	$ 3.59		
Exercised	(61,056)	$ 1.31		
Forfeited, cancelled or expired	(6,445)	$ 2.02		
Outstanding as of December 31, 2013	264,239	$ 2.42		
Granted	61,852	$ 3.39		
Exercised	(46,943)	$ 1.63		
Forfeited, cancelled or expired	(11,294)	$ 4.08		
Outstanding as of December 31, 2014	267,854	$ 2.72		
Granted	145,366	$ 3.95		
Exercised	(57,667)	$ 1.88		
Forfeited, cancelled or expired	(17,072)	$ 4.60		
Outstanding as of December 31, 2015	338,481	$ 3.29	7.49	$ 267,813
Exercisable as of December 31, 2015	121,751	$ 2.51	5.50	$ 194,362

The weighted average grant date fair value per share of options granted during the years ended December 31, 2015, 2014 and 2013 was $1.11, $1.05 and $1.48, respectively. The total intrinsic value of stock options exercised during the years ended December 31, 2015, 2014 and 2013 was $117,944, $89,428 and $142,491, respectively.

We recognized share-based payment expense associated with stock options of $70,084, $69,754 and $66,231 for the years ended December 31, 2015, 2014 and 2013, respectively.

The following table summarizes the restricted stock unit and stock award activity under our share-based plans for the years ended December 31, 2015, 2014 and 2013:

	Shares	Grant Date Fair Value Per Share
Nonvested at the beginning of January 1, 2013	429	$ 3.25
Granted	6,873	$ 3.59
Vested	(192)	$ 3.27
Forfeited	(126)	$ 3.61
Nonvested as of December 31, 2013	6,984	$ 3.58
Granted	6,108	$ 3.38
Vested	(1,138)	$ 3.62
Forfeited	(379)	$ 3.52
Nonvested as of December 31, 2014	11,575	$ 3.47
Granted	8,961	$ 3.92
Vested	(3,464)	$ 3.44
Forfeited	(984)	$ 3.52
Nonvested as of December 31, 2015	16,088	$ 3.73

The weighted average grant date fair value per share of restricted stock units and stock awards granted during the years ended December 31, 2015, 2014 and 2013 was $3.92, $3.38 and $3.59, respectively. The total intrinsic value of restricted stock units and stock awards vesting during the years ended December 31, 2015, 2014 and 2013 was $13,720, $4,044 and $605, respectively.

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

We recognized share-based payment expense associated with restricted stock units and stock awards of $14,226, $8,458 and $2,645 during the years ended December 31, 2015, 2014 and 2013, respectively.

Total unrecognized compensation costs related to unvested share-based payment awards for stock options and restricted stock units granted to employees, members of Holdings' board of directors and third parties at December 31, 2015 and 2014, net of estimated forfeitures, were $261,628 and $162,985, respectively. The total unrecognized compensation costs at December 31, 2015 are expected to be recognized over a weighted-average period of 3 years.

401(k) Savings Plan

Sirius XM sponsors the Sirius XM Radio Inc. 401(k) Savings Plan (the "Sirius XM Plan") for eligible employees. The Sirius XM Plan allows eligible employees to voluntarily contribute from 1% to 50% of their pre-tax eligible earnings, subject to certain defined limits. We match 50% of an employee's voluntary contributions per pay period on the first 6% of an employee's pre-tax salary up to a maximum of 3% of eligible compensation. We may also make additional discretionary matching, true-up matching and non-elective contributions to the Sirius XM Plan based on certain conditions. Employer matching contributions under the Sirius XM Plan vest at a rate of 33.33% for each year of employment and are fully vested after three years of employment for all current and future contributions. Beginning in January 2014, our cash employer matching contributions were no longer used to purchase shares of our common stock on the open market, unless the employee elects our common stock as their investment option for this contribution. We recognized $8,144, $5,385 and $4,181 in expense during years ended December 31, 2015, 2014 and 2013, respectively, to the Sirius XM Plan in fulfillment of our matching obligation.

Sirius XM Holdings Inc. Deferred Compensation Plan

In June 2015, we adopted the Sirius XM Holdings Inc. Deferred Compensation Plan (the "DCP"), effective July 1, 2015. The DCP allows members of our board of directors and certain eligible employees to defer all or a portion of their base salary, cash incentive compensation and/or board of directors' compensation, as applicable, each plan year starting in 2016. Pursuant to the terms of the DCP, we may elect to make additional contributions beyond amounts deferred by participants, but we are under no obligation to do so. We have established a grantor (or "rabbi") trust to facilitate the payment of our obligations under the DCP. As of December 31, 2015, there were no balances or amounts associated with the DCP that were recorded in our consolidated financial statements.

(15) Commitments and Contingencies

The following table summarizes our expected contractual cash commitments as of December 31, 2015:

	2016	2017	2018	2019	2020	Thereafter	Total
Debt obligations	$ 4,764	$ 3,840	$ 2,810	$ 1,478	$1,490,000	$4,000,000	$5,502,892
Cash interest payments	294,797	294,651	294,543	294,467	278,147	736,188	2,192,793
Satellite and transmission	10,814	3,166	4,171	4,161	3,858	8,972	35,142
Programming and content	246,899	225,519	204,569	187,644	163,332	298,650	1,326,613
Marketing and distribution	19,969	13,282	12,379	10,108	4,646	4,600	64,984
Satellite incentive payments	11,780	13,296	14,302	10,652	7,918	35,609	93,557
Operating lease obligations	44,749	42,978	41,619	37,165	34,594	179,147	380,252
Other	68,665	14,429	4,686	559	360	40	88,739
Total (1)	$ 702,437	$ 611,161	$ 579,079	$ 546,234	$1,982,855	$5,263,206	$9,684,972

(1) The table does not include our reserve for uncertain tax positions, which at December 31, 2015 totaled $3,525, as the specific timing of any cash payments cannot be projected with reasonable certainty.

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

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

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

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

Marketing and distribution. We have entered into various marketing, sponsorship and distribution agreements to promote our brand and are obligated to make payments to sponsors, retailers, automakers and radio manufacturers under these agreements. Certain programming and content agreements also require us to purchase advertising on properties owned or controlled by the licensors. We also reimburse automakers for certain engineering and development costs associated with the incorporation of satellite radios into new vehicles they manufacture. In addition, in the event certain new products are not shipped by a distributor to its customers within 90 days of the distributor's receipt of goods, we have agreed to purchase and take title to the product.

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

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

Operating lease obligations. We have entered into both cancelable and non-cancelable operating leases for office space, equipment and terrestrial repeaters. These leases provide for minimum lease payments, additional operating expense charges, leasehold improvements and rent escalations that have initial terms ranging from one to fifteen years, and certain leases have options to renew. The effect of the rent holidays and rent concessions are recognized on a straight-line basis over the lease term, including reasonably assured renewal periods. Total rent recognized in connection with leases for the years ended December 31, 2015, 2014 and 2013 was $47,679, $45,107 and $39,228, respectively.

Other. We have entered into various agreements with third parties for general operating purposes. In addition to the minimum contractual cash commitments described above, we have entered into agreements with other variable cost arrangements. These future costs are dependent upon many factors and are difficult to anticipate; however, these costs may be substantial. We may enter into additional programming, distribution, marketing and other agreements that contain similar variable cost provisions. The cost of our stock acquired from a third-party financial institution but not paid for as of December 31, 2015 is also included in this category.

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

Legal Proceedings

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

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

Telephone Consumer Protection Act Suits. We are a defendant in several purported class action suits that allege that we, or call center vendors acting on our behalf, made calls which violate provisions of the Telephone Consumer Protection Act of 1991 (the "TCPA"). The plaintiffs in these actions allege, among other things, that we called mobile phones using an automatic telephone dialing system without the consumer's prior consent or, alternatively, after the consumer revoked his or her prior consent. In one of the actions, the plaintiff also alleges that we violated the TCPA's call time restrictions and in one of the other actions the plaintiff also alleges that we violated the TCPA's do not call restrictions. Our vendors make millions of calls each month to consumers, including our subscribers, as part of our customer service and marketing efforts. The plaintiffs in these suits are seeking various forms of relief, including statutory damages of five hundred dollars for each violation of the TCPA or, in the alternative, treble damages of up to fifteen hundred dollars for each knowing and willful violation of the TCPA, as well as payment of interest, attorneys' fees and costs, and certain injunctive relief prohibiting any violations of the TCPA in the future.

These purported class action cases are titled Erik Knutson v. Sirius XM Radio Inc., No. 12-cv-0418-AJB-NLS (S.D. Cal.), Francis W. Hooker v. Sirius XM Radio, Inc., No. 4:13-cv-3 (E.D. Va.), Yefim Elikman v. Sirius XM Radio, Inc. and Career Horizons, Inc., No. 1:15-cv-02093 (N.D. Ill.), and Anthony Parker v. Sirius XM Radio, Inc., No. 8:15-cv-01710-JSM-EAJ (M.D. Fla). These actions were commenced in February 2012, January 2013, April 2015 and July 2015, respectively. Information concerning each of these actions is publicly available in court filings under their docket numbers.

We have notified certain of our call center vendors of these actions and requested that they defend and indemnify us against these claims pursuant to the provisions of their existing or former agreements with us. We believe we have valid contractual claims against call center vendors in connection with these claims and intend to preserve and pursue our rights to recover from these entities; however, no assurance can be made as to our ability to fully recover all claims we may have against these entities.

Pre-1972 Sound Recording Matters. In August 2013, SoundExchange, Inc. filed a complaint in the United States District Court for the District of Columbia alleging that we underpaid royalties for statutory licenses during the 2007-2012 period in violation of the regulations established by the Copyright Royalty Board for that period. SoundExchange principally alleges that we improperly reduced our calculation of gross revenues, on which the royalty payments are based, by deducting non-recognized revenue attributable to pre-1972 recordings and Premier package revenue that is not "separately charged" as required by the regulations. SoundExchange is seeking compensatory damages of not less than $50,000 and up to $100,000 or more, payment of late fees and interest, and attorneys' fees and costs.

In August 2014, the United States District Court for the District of Columbia granted our motion to dismiss the complaint without prejudice on the grounds that the case properly should be pursued before the Copyright Royalty Board rather than the district court. In December 2014, SoundExchange filed a petition with the Copyright Royalty Board requesting an order interpreting the applicable regulations.

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

In addition, since 2013, we have been named as a defendant in several suits, including putative class action suits, challenging our use and public performance via satellite radio and the Internet of sound recordings fixed prior to February 15, 1972 ("pre-1972 recordings") under various state laws. In June 2015, we settled the suit brought by Capitol Records LLC, Sony Music Entertainment, UMG Recordings, Inc., Warner Music Group Corp. and ABKCO Music & Records, Inc. relating to our use and public performance of pre-1972 recordings for $210,000 which amount was paid in July 2015. These settling record companies claim to own, control or otherwise have the right to settle with respect to approximately 85% of the pre-1972 recordings we have historically played. We have also entered into certain direct licenses with other owners of pre-1972 recordings, which in many cases include releases of any claims associated with our use of pre-1972 recordings. The portion of the June 2015 settlement covering the remaining future service periods is being amortized to Revenue share and royalties within our statements of comprehensive income through December 2017 and as of December 31, 2015, $39,808 was recorded to Prepaid expenses and other current assets and $43,442 was recorded to Other long-term assets within our consolidated balance sheets.

Several putative class actions suits challenging our use and public performance of other pre-1972 recordings under various state laws remain pending. We believe we have substantial defenses to the claims asserted, we are defending these actions vigorously, and do not believe that the resolution of these remaining cases will have a material adverse effect on our business, financial condition or results of operations.

With respect to certain matters described above under the captions "*Telephone Consumer Protection Act Suits*" and "*Pre-1972 Sound Recording Matters*", we have determined that the outcome of these matters is inherently unpredictable and subject to significant uncertainties, many of which are beyond our control. No provision was made for losses to the extent such are not probable and estimable. We believe we have substantial defenses to the claims asserted, and intend to defend these actions vigorously.

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

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

(16) Income Taxes

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

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

	For the Years Ended December 31,		
	2015	2014	2013
Current taxes:			
Federal	$ —	$ —	$ —
State	(15,916)	(7,743)	(5,359)
Foreign	(825)	(2,341)	5,269
Total current taxes	(16,741)	(10,084)	(90)
Deferred taxes:			
Federal	(318,933)	(302,350)	(211,044)
State	(46,566)	(25,111)	(48,743)
Total deferred taxes	(365,499)	(327,461)	(259,787)
Total income tax expense	$ (382,240)	$ (337,545)	$ (259,877)

Income tax expense for Sirius XM and Holdings is the same for the years ended December 31, 2015, 2014 and 2013. The difference in Income before income taxes in the respective consolidated statements of comprehensive income of Sirius XM and Holdings fully relates to permanent differences recognized for tax purposes. The following table indicates the significant elements contributing to the difference between the federal tax expense at the statutory rate and at Sirius XM's effective rate:

	For the Years Ended December 31,		
	2015	2014	2013
Federal tax expense, at statutory rate	$ (312,188)	$ (308,819)	$ (67,684)
State income tax expense, net of federal benefit	(26,018)	(33,807)	(4,467)
State rate changes	608	5,334	(8,666)
Non-deductible expenses	(1,106)	(746)	(699)
Change in valuation allowance	(44,100)	2,836	4,228
Fair value of debt instrument	—	6,616	(178,704)
Other, net	564	(8,959)	(3,885)
Income tax expense	$ (382,240)	$ (337,545)	$ (259,877)

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

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

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

	For the Years Ended December 31,	
	2015	2014
Deferred tax assets:		
Net operating loss carryforwards	$ 1,447,159	$ 1,818,719
Deferred revenue	730,239	691,323
Accrued bonus	31,458	28,170
Expensed costs capitalized for tax	19,584	19,624
Investments	46,857	46,751
Stock based compensation	66,030	79,296
Other	37,226	38,365
Total deferred tax assets	2,378,553	2,722,248
Deferred tax liabilities:		
Depreciation of property and equipment	(250,821)	(237,971)
FCC license	(779,145)	(789,857)
Other intangible assets	(190,442)	(213,086)
Total deferred tax liabilities	(1,220,408)	(1,240,914)
Net deferred tax assets before valuation allowance	1,158,145	1,481,334
Valuation allowance	(49,095)	(4,995)
Total net deferred tax asset	$ 1,109,050	$ 1,476,339

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences can be carried forward under tax law. Management's evaluation of the realizability of deferred tax assets considers both positive and negative evidence, including historical financial performance, scheduled reversal of deferred tax assets and liabilities, projected taxable income and tax planning strategies in making this assessment. The weight given to the potential effects of positive and negative evidence is based on the extent to which it can be objectively verified. The net deferred tax assets are primarily related to net operating loss carryforwards of approximately $3,762,205. In addition to the gross book net operating loss carryforwards, we have $827,150 of excess share-based compensation deductions that will not be realized until we utilize these net operating losses, resulting in an approximate gross operating loss carryforward on our tax return of $4,589,355.

As of December 31, 2015 and 2014, we had a valuation allowance related to deferred tax assets of $49,095 and $4,995, respectively, which were not likely to be realized due to certain state net operating loss limitations. During the year ended December 31, 2015, the tax law change in the District of Columbia will reduce our future taxes and use less of certain net operating losses in the future. The District of Columbia tax law change resulted in a $44,392 increase in our valuation allowance. These net operating loss carryforwards expire on various dates through 2035.

ASC 740 requires a company to first determine whether it is more likely than not that a tax position will be sustained based on its technical merits as of the reporting date, assuming that taxing authorities will examine the position and have full knowledge of all relevant information. A tax position that meets this more likely than not threshold is then measured and recognized at the largest amount of benefit that is greater than fifty percent likely to be realized upon effective settlement with a taxing authority. If the tax position is not more likely than not to be sustained, the gross amount of the unrecognized tax position will not be recorded in the financial statements but will be shown in tabular format within the uncertain income tax positions. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs due to the following conditions: (1) the tax position is "more likely than not" to be sustained, (2) the tax position, amount, and/or timing is ultimately settled through negotiation or litigation, or (3) the statute of limitations for the tax position has expired. A number of years may elapse before an uncertain tax position is effectively settled or until there is a lapse in the applicable statute of limitations. We record interest and penalties related to uncertain tax positions in Income tax expense in our consolidated statements of comprehensive income.

As of December 31, 2015 and 2014, the gross liability for income taxes associated with uncertain state tax positions was $253,277 and $1,432, respectively. If recognized, $183,974 of unrecognized tax benefits would affect our effective tax rate. Uncertain tax positions are recognized in Other long-term liabilities which, as of December 31, 2015 and 2014, we had recorded $3,525 and $1,432, respectively. No penalties have been accrued.

We have federal and certain state income tax audits pending. We do not expect the ultimate outcome of these audits to have a material adverse effect on our financial position or results of operations. We also do not currently anticipate that our existing reserves related to uncertain tax positions as of December 31, 2015 will significantly increase or decrease during the twelve month period ending December 31, 2016; however, various events could cause our current expectations to change in the future. Should our position with respect to the majority of these uncertain tax positions be upheld, the effect would be recorded in our consolidated statements of comprehensive income as part of the income tax provision. We recorded interest expense of $89 and $55 for the years ended December 31, 2015 and 2014, respectively, related to our unrecognized tax benefits.

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

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

	2015	2014
Balance, beginning of year	$ 1,432	$ 1,432
Increases in tax positions for prior years	251,845	—
Balance, end of year	$ 253,277	$ 1,432

(17) Subsequent Events

Holdings' Stock Repurchase Program

For the period from January 1, 2016 to January 29, 2016, we repurchased $194,127 of Holdings' common stock on the open market, including fees and commissions.

(18) Quarterly Financial Data--Unaudited

Our quarterly results of operations are summarized below:

	For the Three Months Ended			
	March 31	June 30	September 30	December 31
2015 (1)				
Total revenue	$ 1,080,990	$ 1,123,210	$ 1,169,712	$ 1,196,146
Cost of services	$ (406,370)	$ (525,463)	$ (440,808)	$ (470,523)
Income from operations	$ 313,806	$ 219,429	$ 351,584	$ 293,869
Net income	$ 105,692	$ 102,849	$ 166,550	$ 134,633
2014 (1)				
Total revenue	$ 997,711	$ 1,035,345	$ 1,057,087	$ 1,090,952
Cost of services	$ (390,534)	$ (393,185)	$ (403,519)	$ (421,098)
Income from operations	$ 247,407	$ 284,578	$ 294,028	$ 293,657
Net income	$ 210,121	$ 59,515	$ 135,932	$ 139,227

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