SIRIUS XM RADIO INC.

(Exact name of company as specified in its charter)

QUARTERLY REPORT

For the Quarterly Period Ended June 30, 2014

Explanatory Note

Sirius XM Radio Inc. is furnishing this Quarterly Report for the quarterly period ended June 30, 2014 in order to comply with the reporting obligations in the indentures governing its 7% Exchangeable Senior Subordinated Notes due 2014, 4.25% Senior Notes due 2020, 5.875% Senior Notes due 2020, 5.75% Senior Notes due 2021, 5.25% Senior Notes due 2022, 4.625% Senior Notes due 2023 and 6.00% Senior Notes due 2024 (collectively, the "Notes").

Before making any investment decisions in Sirius XM Radio Inc. 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 Radio Inc. in conjunction with Holdings' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014 and other reports which are available through the Securities and Exchange Commission website at www.sec.gov and our website at www.siriusxm.com. Holdings' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014 is hereby incorporated by reference. Sirius XM Radio Inc. is a wholly-owned subsidiary of Holdings and has no operations independent of Holdings.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(in thousands, except per share data)	**2014**	**2013**	**2014**	**2013**
Revenue:				
Subscriber revenue	$ 878,160	$ 814,718	$ 1,729,596	$ 1,598,060
Advertising revenue	25,498	21,757	47,712	41,968
Equipment revenue	27,616	18,443	51,594	36,599
Other revenue	104,071	85,192	204,154	160,881
Total revenue	1,035,345	940,110	2,033,056	1,837,508
Operating expenses:				
Cost of services:				
Revenue share and royalties	200,221	155,859	395,632	304,390
Programming and content	69,570	70,381	144,440	144,991
Customer service and billing	90,092	80,290	181,161	160,684
Satellite and transmission	21,272	19,493	42,651	39,188
Cost of equipment	12,030	5,442	19,834	12,469
Subscriber acquisition costs	124,407	129,992	247,429	246,103
Sales and marketing	77,759	68,058	154,086	133,956
Engineering, design and development	15,630	15,052	31,541	29,894
General and administrative	72,582	60,392	148,825	116,732
Depreciation and amortization	67,204	67,415	135,471	134,433
Total operating expenses	750,767	672,374	1,501,070	1,322,840
Income from operations	284,578	267,736	531,986	514,668
Other income (expense):				
Interest expense, net of amounts capitalized	(67,521)	(49,728)	(121,613)	(95,902)
Loss on extinguishment of debt and credit facilities, net	—	(16,377)	—	(16,377)
Interest and investment (loss) income	(1,066)	294	3,283	1,932
(Loss) gain on change in fair value of debt instruments	(67,909)	—	21,201	—
Other (loss) income	(1,745)	256	(1,652)	502
Total other expense	(138,241)	(65,555)	(98,781)	(109,845)
Income before income taxes	146,337	202,181	433,205	404,823
Income tax expense	(86,822)	(76,659)	(163,570)	(155,699)
Net income attributable to Sirius XM Radio Inc.'s sole stockholder	$ 59,515	$ 125,522	$ 269,635	$ 249,124
Foreign currency translation adjustment, net of tax	(40)	(109)	78	(281)
Total comprehensive income attributable to Sirius XM Radio Inc.'s sole stockholder	$ 59,475	$ 125,413	$ 269,713	$ 248,843

See accompanying notes to the unaudited consolidated financial statements.

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

(in thousands, except share and per share data)	As of June 30, 2014 (unaudited)	As of December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 169,980	$ 134,805
Accounts receivable, net	109,117	103,937
Receivables from distributors	93,159	88,975
Inventory, net	21,555	13,863
Prepaid expenses	110,994	110,530
Related party current assets	1,547,443	15,861
Deferred tax asset	846,612	937,598
Other current assets	13,764	20,160
Total current assets	2,912,624	1,425,729
Property and equipment, net	1,549,881	1,594,574
Long-term restricted investments	5,718	5,718
Deferred financing fees, net	13,334	12,604
Intangible assets, net	2,672,118	2,700,062
Goodwill	2,203,409	2,204,553
Related party long-term assets	108	30,164
Long-term deferred tax asset	801,079	868,057
Other long-term assets	8,769	10,035
Total assets	$ 10,167,040	$ 8,851,496
LIABILITIES AND STOCKHOLDER EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 560,591	$ 578,332
Accrued interest	52,162	42,085
Current portion of deferred revenue	1,635,901	1,586,611
Current portion of deferred credit on executory contracts	3,285	3,781
Current maturities of long-term debt	958,150	963,630
Current maturities of long-term related party debt	10,981	10,959
Related party current liabilities	4,897	4,618
Total current liabilities	3,225,967	3,190,016
Deferred revenue	144,717	149,026
Deferred credit on executory contracts	—	1,394
Long-term debt	4,115,429	3,093,821
Related party long-term liabilities	15,055	16,337
Other long-term liabilities	94,813	99,556
Total liabilities	7,595,981	6,550,150
Commitments and contingencies (Note 15)		
Stockholder equity:		
Preferred stock, undesignated, par value $0.001 (liquidation preference of $0.001 per share); 50,000,000 shares authorized and 0 shares issued and outstanding at June 30, 2014 and December 31, 2013	—	—
Common stock, par value $0.001; 9,000,000,000 shares authorized and 1,000 shares issued and outstanding at June 30, 2014 and December 31, 2013	—	—
Accumulated other comprehensive loss, net of tax	(230)	(308)
Additional paid-in capital	8,679,538	8,679,538
Accumulated deficit	(6,108,249)	(6,377,884)
Total stockholder equity	2,571,059	2,301,346
Total liabilities and stockholder equity	$ 10,167,040	$ 8,851,496

See accompanying notes to the unaudited consolidated financial statements.

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

	Convertible Perpetual Preferred Stock, Series B-1		Common Stock					
(in thousands, except share data)	Shares	Amount	Shares	Amount	Accumulated Other Comprehensive Loss	Additional Paid-in Capital	Accumulated Deficit	Total Stockholder Equity
Balance at December 31, 2013	—	$ —	1,000	$ —	$ (308)	$ 8,679,538	$ (6,377,884)	$ 2,301,346
Comprehensive income, net of tax	—	—	—	—	78	—	269,635	269,713
Balance at June 30, 2014	—	$ —	1,000	$ —	$ (230)	$ 8,679,538	$ (6,108,249)	$ 2,571,059

See accompanying notes to the unaudited consolidated financial statements.

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

(in thousands)	For the Six Months Ended June 30, 2014	2013
Cash flows from operating activities:		
Net income	$ 269,635	$ 249,124
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	135,471	134,433
Non-cash interest expense, net of amortization of premium	10,779	10,932
Provision for doubtful accounts	21,287	20,153
Amortization of deferred income related to equity method investment	(1,388)	(1,388)
Loss on extinguishment of debt and credit facilities, net	—	16,377
Gain on unconsolidated entity investments, net	(966)	(1,382)
Dividend received from unconsolidated entity investment	8,554	13,217
Loss on disposal of assets	—	126
Gain on change in fair value of debt instruments	(21,201)	—
Share-based payment expense	36,027	30,012
Deferred income taxes	157,965	159,191
Other non-cash purchase price adjustments	(1,890)	(137,889)
Changes in operating assets and liabilities:		
Accounts receivable	(26,467)	(15,214)
Receivables from distributors	(4,184)	(6,863)
Inventory	(7,692)	8,649
Related party assets	(1,554,777)	205
Prepaid expenses and other current assets	(1,057)	(28,317)
Other long-term assets	1,238	1,353
Accounts payable and accrued expenses	(19,220)	(69,310)
Accrued interest	10,077	3,868
Deferred revenue	44,981	59,116
Related party liabilities	385	1,171
Other long-term liabilities	(4,702)	(5,543)
Net cash (used in) provided by operating activities	(947,145)	442,021
Cash flows from investing activities:		
Additions to property and equipment	(58,417)	(62,980)
Acquisition of business, net of cash acquired	1,144	—
Return of capital from investment in unconsolidated entity	24,178	—
Net cash used in investing activities	(33,095)	(62,980)
Cash flows from financing activities:		
Proceeds from exercise of stock options	—	21,658
Proceeds from long-term borrowings and revolving credit facility, net of costs	1,921,230	1,136,640
Payment of premiums on redemption of debt	—	(14,719)
Repayment of long-term borrowings and revolving credit facility	(905,815)	(283,180)
Common stock repurchased and retired	—	(1,108,616)
Net cash provided by (used in) financing activities	1,015,415	(248,217)
Net increase in cash and cash equivalents	35,175	130,824
Cash and cash equivalents at beginning of period	134,805	520,945
Cash and cash equivalents at end of period	$ 169,980	$ 651,769

See accompanying notes to the unaudited consolidated financial statements.

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

(in thousands)	For the Six Months Ended June 30, 2014	2013
Supplemental Disclosure of Cash and Non-Cash Flow Information		
Cash paid during the period for:		
Interest, net of amounts capitalized	$ 92,068	$ 76,540
Non-cash investing and financing activities:		
Capital lease obligations incurred to acquire assets	$ 719	$ —
Conversion of 7% Exchangeable Notes to common stock, net of debt issuance and deferred financing costs	$ —	$ 45,097

See accompanying notes to the unaudited consolidated financial statements.

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

(1) Business & Basis of Presentation

Business

We broadcast music, sports, entertainment, comedy, talk, news, traffic and weather channels, as well as infotainment services, in the United States on a subscription fee basis through our two proprietary satellite radio systems. Subscribers can also receive music and other channels, plus features such as SiriusXM On Demand and MySXM, over the Internet, including through applications for mobile devices. We are also a leader in providing connected vehicle applications and services. Our connected vehicle services are designed to enhance the safety, security and driving experience for vehicle owners while providing marketing and operational benefits to automakers and their dealers. Subscribers to our connected vehicle services are not included in our subscriber count.

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

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

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

Liberty Media Corporation ("Liberty Media") beneficially owns, directly and indirectly, over 50% of the outstanding shares of Sirius XM Holdings Inc. ("Holdings") common stock. As a result, Holdings is a "controlled company" for the purposes of the NASDAQ corporate governance requirements. Liberty Media owns interests in a broad range of media, communications and entertainment businesses, including its subsidiaries, Atlanta National League Baseball Club, Inc. and TruePosition, Inc., interests in Charter Communications, Live Nation and minority equity investments in Time Warner Inc., Time Warner Cable, and Viacom.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Certain information and footnote disclosures normally included in the financial statements presented in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations.

The unaudited consolidated balance sheets and unaudited consolidated statements of comprehensive income for Sirius XM for the quarterly period ended June 30, 2014 are essentially identical to the unaudited consolidated balance sheets and unaudited consolidated statements of comprehensive income included in Holdings' Form 10-Q for the quarterly period ended June 30, 2014, filed with the SEC on July 29, 2014, with the following exceptions:

- Changes in fair value related to the share repurchase agreement with Liberty Media were recorded in Holdings' unaudited consolidated statements of comprehensive income. Refer to Note 10 for additional information related to the share repurchase agreement.
- The fair value of the 7% Exchangeable Senior Subordinated Notes due 2014 (the "Exchangeable Notes") was recorded in Sirius XM's unaudited consolidated balance sheets, with changes in fair value recorded in Sirius XM's unaudited statements of comprehensive income. The Exchangeable Notes are recorded at carrying value in Holdings' unaudited consolidated balance sheets. The difference between the fair value and carrying value of the Exchangeable Notes is eliminated in Holdings' unaudited consolidated balance sheets and unaudited statements of comprehensive income.
- As a result of our corporate reorganization effective November 15, 2013, all of the outstanding shares of Sirius XM's common stock were converted, on a share for share basis, into identical shares of common stock of Holdings.

Following this reorganization, all equity-related transactions, including repurchases of Holdings' common stock and the issuance of equity related to stock-based compensation to Sirius XM employees, have been reported as related party transactions within Sirius XM's consolidated financial statements. The stock-based compensation for Sirius XM employees is recorded in Sirius XM's consolidated financial statements. Refer to Note 10 for additional information related to related party transactions.

All significant intercompany transactions have been eliminated in consolidation. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of our unaudited consolidated financial statements as of June 30, 2014 and for the three and six months ended June 30, 2014 and 2013 have been made. Interim results are not necessarily indicative of the results that may be expected for a full year.

We have evaluated events subsequent to the balance sheet date and prior to furnishing these financial statements for the three and six months ended June 30, 2014 and have determined that no events have occurred that would require adjustment to our unaudited consolidated financial statements. For a discussion of subsequent events that do not require adjustment to our unaudited consolidated financial statements refer to Note 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 unaudited consolidated financial statements include asset impairment, depreciable lives of our satellites, share-based payment expense, and income taxes.

(2) Acquisitions

On November 4, 2013, we purchased all of the outstanding shares of the capital stock of the connected vehicle business of Agero, Inc. ("Agero"). The transaction was accounted for using the acquisition method of accounting. During the six months ended June 30, 2014, the working capital calculation associated with this transaction was finalized, resulting in a decrease of $1,144 to the original purchase price and Goodwill, which we collected during the three months ended March 31, 2014. As of June 30, 2014, our Goodwill balance associated with the acquisition was $388,318. No other assets or liabilities have been adjusted as a result of the final working capital calculation.

(3) Summary of Significant Accounting Policies

Fair Value of Financial Instruments

For assets and liabilities required to be reported at fair value, GAAP provides a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are based on unadjusted quoted prices in active markets for identical instruments. Level 2 inputs are inputs, other than quoted market prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. As of June 30, 2014 and December 31, 2013, the carrying amounts of cash and cash equivalents, accounts and other receivables, and accounts payable approximated fair value due to the short-term nature of these instruments.

(Dollar amounts in thousands, unless otherwise stated)

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

	June 30, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	Total Fair Value
Assets:								
Sirius XM Canada Holdings Inc. ("Sirius XM Canada") - investment (a)	$310,300	—	—	$ 310,300	$432,200	—	—	$ 432,200
Sirius XM Canada - fair value of host contract of debenture (b)	$ —	—	—	$ —	$ —	—	3,641	$ 3,641
Sirius XM Canada - fair value of embedded derivative of debenture (b)	$ —	—	—	$ —	$ —	—	57	$ 57
Liabilities:								
Debt (c)	$ —	5,267,804	—	$ 5,267,804	$ —	4,066,755	—	$ 4,066,755

(a) This amount approximates fair value. The carrying value of our investment in Sirius XM Canada was $0 and $26,972 as of June 30, 2014 and December 31, 2013, respectively.

(b) As of December 31, 2013, we held an investment in CAD $4,000 face value of 8% convertible unsecured subordinated debentures issued by Sirius XM Canada for which the embedded conversion feature was bifurcated from the host contract. Sirius XM Canada redeemed and converted the debentures during the three months ended March 31, 2014.

(c) The fair value for non-publicly traded instruments is based upon estimates from a market maker and brokerage firm. Refer to Note 12 for information related to the carrying value of our debt as of June 30, 2014 and December 31, 2013.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive loss of $230 at June 30, 2014 was primarily comprised of the cumulative foreign currency translation adjustments related to our interest in Sirius XM Canada. During the three and six months ended June 30, 2014, we recorded a foreign currency translation adjustment of $(40) and $78, respectively. In addition, during the six months ended June 30, 2014, upon the redemption and conversion of the 8% convertible unsecured subordinated debentures issued by Sirius XM Canada, we reclassified $223, net of tax, of previously recognized foreign currency translation losses out of Accumulated other comprehensive loss and into Interest and investment (loss) income.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This ASU is effective for annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. Accordingly, we will adopt this ASU on January 1, 2017. Companies may use either a full retrospective or a modified retrospective approach to adopt this ASU and we are currently evaluating which transition approach to use. We are currently evaluating the impact of the adoption of this ASU on our consolidated financial statements.

(4) Receivables

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

(Dollar amounts in thousands, unless otherwise stated)

Accounts receivable, net, consists of the following:

	June 30, 2014	December 31, 2013
Gross accounts receivable	$ 116,703	$ 113,015
Allowance for doubtful accounts	(7,586)	(9,078)
Total accounts receivable, net	$ 109,117	$ 103,937

Receivables from distributors 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 distributors and retailers of our satellite radios. We have not established an allowance for doubtful accounts for our receivables from distributors as we have historically not experienced any significant collection issues with OEMs. Receivables from distributors consist of the following:

	June 30, 2014	December 31, 2013
Billed	$ 41,153	$ 38,532
Unbilled	52,006	50,443
Total	$ 93,159	$ 88,975

(5) Inventory, net

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

Inventory, net, consists of the following:

	June 30, 2014	December 31, 2013
Raw materials	$ 12,438	$ 12,358
Finished goods	20,354	15,723
Allowance for obsolescence	(11,237)	(14,218)
Total inventory, net	$ 21,555	$ 13,863

(6) Goodwill

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

As of June 30, 2014, there were no indicators of impairment and no impairment loss was recorded for goodwill during the three and six months ended June 30, 2014 and 2013. During the six months ended June 30, 2014, the working capital calculation associated with our acquisition of the connected vehicle business of Agero was finalized, resulting in a decrease of $1,144 to the original purchase price and Goodwill. As of June 30, 2014, the cumulative balance of goodwill impairments recorded since the July 2008 merger (the "Merger") between our wholly owned subsidiary, Vernon Merger Corporation, and XM Satellite Radio Holdings Inc. ("XM"), was $4,766,190, which was recognized during the year ended December 31, 2008.

(Dollar amounts in thousands, unless otherwise stated)

(7) Intangible Assets

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

		June 30, 2014			December 31, 2013		
	Weighted Average Useful Lives	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Due to the Merger:							
Indefinite life intangible assets:							
FCC licenses	Indefinite	$ 2,083,654	$ —	$ 2,083,654	$ 2,083,654	$ —	$ 2,083,654
Trademark	Indefinite	250,000	—	250,000	250,000	—	250,000
Definite life intangible assets:							
Subscriber relationships	9 years	380,000	(288,999)	91,001	380,000	(271,372)	108,628
Licensing agreements	9.1 years	45,289	(21,447)	23,842	45,289	(19,604)	25,685
Proprietary software	6 years	16,552	(13,678)	2,874	16,552	(13,384)	3,168
Developed technology	10 years	2,000	(1,183)	817	2,000	(1,083)	917
Leasehold interests	7.4 years	132	(105)	27	132	(96)	36
Due to acquisition of connected vehicle business of Agero:							
Definite life intangible assets:							
OEM relationships	15 years	220,000	(9,778)	210,222	220,000	(2,444)	217,556
Proprietary software	10 years	10,663	(982)	9,681	10,663	(245)	10,418
Total intangible assets		$ 3,008,290	$ (336,172)	$ 2,672,118	$ 3,008,290	$ (308,228)	$ 2,700,062

Indefinite Life Intangible Assets

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

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 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 (1)	
XM-1 (2)	
XM-2 (3)	
XM-3	2021
XM-4	2014
XM-5	2018

(1) The FCC license for our FM-6 satellite will be issued for a period of eight years, beginning on the date we certify to the FCC that the satellite has been successfully placed into orbit and that the operations of the satellite fully conform to the terms and conditions of the space station radio authorization.

(2) The FCC license for our XM-1 satellite expired on May 31, 2014. The FCC has granted us special temporary authority for approximately six months to operate our XM-1 satellite and prepare it for deorbiting maneuvers.

(3) The FCC license for our XM-2 satellite expired on March 31, 2014. The FCC has granted us special temporary authority for approximately six months to operate our XM-2 satellite and perform deorbiting maneuvers.

(Dollar amounts in thousands, unless otherwise stated)

Prior to expiration, we are required to apply for a renewal of our FCC licenses. The renewal and extension of our licenses is reasonably certain at minimal cost, which is expensed as incurred. Each of the FCC licenses authorizes us to use the broadcast spectrum, which is a renewable, reusable resource that does not deplete or exhaust over time. We have filed an application to renew the license for our XM-4 satellite which expires in December 2014. That application is being processed by the FCC and we expect it will be granted in due course.

In connection with the Merger, $250,000 of the purchase price was allocated to the XM trademark. As of June 30, 2014, there were no legal, regulatory or contractual limitations associated with the XM trademark.

Our annual impairment assessment of our indefinite intangible assets is performed as of the fourth quarter of each year. An assessment is performed at other times if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset below its carrying value. If the carrying value of the intangible assets exceeds its fair value, an impairment loss is recognized. As June 30, 2014, there were no indicators of impairment, and no impairment loss was recorded for intangible assets with indefinite lives during the three and six months ended June 30, 2014 and 2013.

Definite Life Intangible Assets

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

Amortization expense for all definite life intangible assets was $13,860 and $12,345 for the three months ended June 30, 2014 and 2013, respectively, and $27,944 and $24,936 for the six months ended June 30, 2014 and 2013, respectively. Expected amortization expense for the remaining period in 2014, each of the fiscal years 2015 through 2018 and for periods thereafter is as follows:

Year ending December 31,	Amount
2014 (remaining)	$ 27,072
2015	51,700
2016	48,545
2017	34,882
2018	19,463
Thereafter	156,802
Total definite life intangible assets, net	$ 338,464

(8) Interest Costs

We capitalized a portion of the interest on funds borrowed as part of the cost of constructing our satellites and related launch vehicles. We capitalized interest associated with our FM-6 satellite and related launch vehicle through its placement into orbit during the fourth quarter of 2013. We also incurred interest costs on our debt instruments and on our satellite incentive agreements. The following is a summary of our interest costs:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Interest costs charged to expense	$ 67,521	$ 49,728	$ 121,613	$ 95,902
Interest costs capitalized	204	8,038	410	16,008
Total interest costs incurred	$ 67,725	$ 57,766	$ 122,023	$ 111,910

Included in interest costs incurred is non-cash interest expense, consisting of amortization related to original issue discounts, premiums and deferred financing fees of $5,548 and $5,490 for the three months ended June 30, 2014 and 2013, respectively, and $10,779 and $10,932 for the six months ended June 30, 2014 and 2013, respectively.

(Dollar amounts in thousands, unless otherwise stated)

(9) Property and Equipment

Property and equipment, net, consists of the following:

	June 30, 2014	December 31, 2013
Satellite system	$ 2,397,611	$ 2,407,423
Terrestrial repeater network	107,885	109,367
Leasehold improvements	48,899	46,173
Broadcast studio equipment	59,502	59,020
Capitalized software and hardware	314,529	298,267
Satellite telemetry, tracking and control facilities	65,868	63,944
Furniture, fixtures, equipment and other	67,755	67,275
Land	38,411	38,411
Building	58,921	58,662
Construction in progress	141,820	103,148
Total property and equipment	3,301,201	3,251,690
Accumulated depreciation and amortization	(1,751,320)	(1,657,116)
Property and equipment, net	$ 1,549,881	$ 1,594,574

Construction in progress consists of the following:

	June 30, 2014	December 31, 2013
Satellite system	$ 12,842	$ 11,879
Terrestrial repeater network	41,958	30,078
Capitalized software	64,654	39,924
Other	22,366	21,267
Construction in progress	$ 141,820	$ 103,148

Depreciation expense on property and equipment was $53,344 and $55,070 for the three months ended June 30, 2014 and 2013, respectively, and $107,527 and $109,497 for the six months ended June 30, 2014 and 2013, respectively. We retired property and equipment of $13,518 and $12,862 during the six months ended June 30, 2014 and 2013, respectively, which included the retirement of our XM-2 satellite. Our XM-1 satellite is expected to be retired in the fourth quarter of 2014.

Satellites

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

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

* Satellite was fully depreciated as of June 30, 2014 but is still in operation.

(Dollar amounts in thousands, unless otherwise stated)

(10) Related Party Transactions

In the normal course of business, we enter into transactions with related parties. Our related parties include Liberty Media, which has beneficially owned over 50% of Holdings' outstanding common stock since January 2013 and has two executives and one director on Holdings' board of directors. Gregory B. Maffei, the President and Chief Executive Officer of Liberty Media, is the Chairman of Holdings' board of directors.

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

Effective November 15, 2013, we completed a corporate reorganization. As part of the reorganization Holdings replaced Sirius XM Radio Inc. as the publicly held corporation and Sirius XM became a wholly-owned subsidiary of Holdings. Sirius XM has no operations independent of its parent, Holdings.

During the three months ended June 30, 2014, we evaluated our investment in M-Way Solutions GmbH ("M-Way") and determined that there was an other than temporary decline in the fair value. As a result, we reduced our investment balance to zero and recognized a loss of $2,342 in Other (loss) income in our unaudited consolidated statements of comprehensive income.

We had the following related party balances at June 30, 2014 and December 31, 2013:

	Related party current assets		Related party long-term assets		Related party current liabilities		Related party current debt		Related party long-term liabilities	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Liberty Media	$ 130	$ 278	$ —	$ —	$ —	$ 64	$ 10,981	$ 10,959	$ —	$ —
Sirius XM Canada	4,807	8,867	108	27,619	4,897	4,554	—	—	15,055	16,337
Sirius XM Holdings Inc.	1,542,506	6,716	—	—	—	—	—	—	—	—
M-Way	—	—	—	2,545	—	—	—	—	—	—
Total	$ 1,547,443	$ 15,861	$ 108	$ 30,164	$ 4,897	$ 4,618	$ 10,981	$ 10,959	$ 15,055	$ 16,337

Liberty Media

Liberty Media held $11,000 in principal amount of our 7% Exchangeable Senior Subordinated Notes due 2014 at June 30, 2014 and December 31, 2013.

Sirius XM Canada

Our related party current asset balances primarily consist of deferred programming costs, accrued interest and chip set costs that we are reimbursed for. Our related party long-term asset balance as of December 31, 2013 included our investment balance in Sirius XM Canada of which $26,161 related to equity method goodwill and intangible assets. Sirius XM Canada declared dividends to us of $30,010 and $3,730 during the three months ended June 30, 2014 and 2013, respectively, and $34,455 and $7,482 during the six months ended June 30, 2014 and 2013, respectively, which were recorded as a reduction to our investment balance in Sirius XM Canada. As a result of the dividends received from Sirius XM Canada during the three months ended June 30, 2014, our investment balance has been reduced to $0. Our related party liabilities as of June 30, 2014 and December 31, 2013 include $2,776 for the current portion of deferred revenue and $14,802 and $16,190, respectively, for the long-term portion of deferred revenue due to the carrying value of deferred revenue recorded as of the Merger date related to agreements with XM Canada, now Sirius XM Canada, for the rights to broadcast and market National Hockey League games for a ten-year term. The estimated fair value of deferred revenue from XM Canada as of the Merger date was approximately $34,000, which is amortized on a straight-line basis through 2020, the end of the expected term of the current existing agreements.

Sirius XM Holdings

Effective November 15, 2013, all of the outstanding shares of Sirius XM's common stock were converted, on a share for share basis, into identical shares of common stock of Holdings. Following this reorganization, all equity-related transactions, including repurchases of Holdings' common stock and the issuance of equity related to stock-based compensation for Sirius XM employees, have been reported as related party transactions within Sirius XM's consolidated financial statements. The stock-based compensation for Sirius XM employees is recorded in Sirius XM's consolidated financial statements. The Related party current assets balance of Sirius XM includes net amounts due from Holdings' in connection with these equity-related transactions.

(Dollar amounts in thousands, unless otherwise stated)

On October 9, 2013, we entered into an agreement with Liberty Media to repurchase $500,000 of Holdings' common stock from Liberty Media. In connection with the corporate reorganization, Holdings' assumed our obligations under such agreement. Pursuant to that agreement, Holdings has repurchased $500,000 of its common stock from Liberty Media. In May 2014, Holdings entered into an accelerated share repurchase agreement ("ASR agreement") with a third-party financial institution to repurchase up to $600,000 of Holdings' common stock. Under the ASR agreement Holdings prepaid $600,000 to the financial institution in May 2014.

During the six months ended June 30, 2014, Holdings repurchased additional shares of its common stock for $612,903, including fees and commissions, on the open market. As of June 30, 2014, Holdings' cumulative repurchases since December 2012 have totaled $3,315,263, and $684,737 remained available under Holdings' stock repurchase program, which excludes an additional $2,000,000 authorized by Holdings' board of directors in July 2014.

We recorded the following revenue and expenses associated with our related parties which were recorded in our unaudited consolidated statements of comprehensive income:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Sirius XM Canada:				
Revenue (a)	$ 12,559	$ 12,562	$ 24,340	$ 23,311
Share of net (losses) earnings (b)	$ (1,018)	$ 37	$ 3,308	$ 1,382
Liberty Media:				
Expenses (c)	$ (279)	$ (4,682)	$ (556)	$ (9,359)

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

(b) Our share of Sirius XM Canada's net (losses) earnings is recorded to Interest and investment (loss) income in our unaudited consolidated statements of comprehensive income on a one month lag. During the six months ended June 30, 2014, our share of Sirius XM Canada's net earnings included a gain of $1,251 related to the fair value received in excess of the carrying value associated with the redemption of our investment in Sirius XM Canada's 8% convertible unsecured subordinated debentures in February 2014. This amount includes amortization related to the equity method intangible assets of $0 and $364 for the three months ended June 30, 2014 and 2013, respectively, and $363 and $727 for the six months ended June 30, 2014 and 2013, respectively.

(c) We recognize Interest expense associated with the portion of the 7% Exchangeable Senior Subordinated Notes due 2014 held by Liberty Media.

(11) Investments

Long Term Restricted Investments

Restricted investments relate to reimbursement obligations under letters of credit issued for the benefit of lessors of our office space. As of June 30, 2014 and December 31, 2013 our Long-term restricted investments were $5,718.

(Dollar amounts in thousands, unless otherwise stated)

(12) Debt

Our debt as of June 30, 2014 and December 31, 2013 consisted of the following:

Issuer / Borrower	Issued	Debt	Maturity Date	Interest Payable	Principal Amount	Carrying value at June 30, 2014	Carrying value at December 31, 2013
Sirius XM (a)(b)	August 2008	7% Exchangeable Senior Subordinated Notes (the "Exchangeable Notes")	December 1, 2014	semi-annually on June 1 and December 1	$ 502,370	$ 961,755	$ 967,296
Sirius XM (a)(c)	May 2013	4.25% Senior Notes (the "4.25% Notes")	May 15, 2020	semi-annually on May 15 and November 15	500,000	495,165	494,809
Sirius XM (a)(c)	September 2013	5.875% Senior Notes (the "5.875% Notes")	October 1, 2020	semi-annually on April 1 and October 1	650,000	643,345	642,914
Sirius XM (a)(c)	August 2013	5.75% Senior Notes (the "5.75% Notes")	August 1, 2021	semi-annually on February 1 and August 1	600,000	594,791	594,499
Sirius XM (a)(c)	May 2013	4.625% Senior Notes (the "4.625% Notes")	May 15, 2023	semi-annually on May15 and November 15	500,000	494,882	494,653
Sirius XM (a)(c)(d)	May 2014	6.00% Senior Notes (the "6.00% Notes")	July 15, 2024	semi-annually on January 15 and July 15	1,500,000	1,483,308	—
Sirius XM (a)(c)(e)	August 2012	5.25% Senior Secured Notes (the "5.25% Notes")	August 15, 2022	semi-annually on February 15 and August 15	400,000	394,894	394,648
Sirius XM (f)	December 2012	Senior Secured Revolving Credit Facility (the "Credit Facility")	December 5, 2017	variable fee paid quarterly	1,250,000	—	460,000
Sirius XM	Various	Capital leases	Various	n/a	n/a	16,420	19,591
Total Debt						5,084,560	4,068,410
Less: total current maturities non-related party						958,150	963,630
Less: total current maturities related party						10,981	10,959
Total long-term debt						$ 4,115,429	$ 3,093,821

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

(b) Sirius XM and Holdings are co-obligors with respect to the Exchangeable Notes. The Exchangeable Notes are senior subordinated obligations and rank junior in right of payment to our existing and future senior debt and equally in right of payment with our existing and future senior subordinated debt. Substantially all of our domestic wholly-owned subsidiaries guarantee our obligations under these notes on a senior subordinated basis. The Exchangeable Notes are exchangeable at any time at the option of the holder into shares of Holdings' common stock at an exchange rate of 543.1372 shares of common stock per $1,000 principal amount of the notes, which is equivalent to an approximate exchange price of $1.841 per share of common stock.
In connection with our corporate reorganization in November 2013, the Exchangeable Notes were amended such that the settlement of the conversion feature is into shares of Holdings' common stock. Due to this significant change in the accounting structure of the Exchangeable Notes, there was a new accounting basis, and therefore, the fair value of the entire instrument is included in our unaudited consolidated balance sheet and any changes in the fair value are recorded in our unaudited consolidated statements of comprehensive income. We recognized $(67,909) and $21,201 to (Loss) gain on change in fair value of debt instruments during the three and six months ended June 30, 2014, respectively.

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

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

(e) On April 10, 2014, we entered into a supplemental indenture to the indenture governing the 5.25% Notes pursuant to which we granted a first priority lien on substantially all of the assets of Sirius XM and the guarantors to the holders of the 5.25% Notes. The liens securing the 5.25% Notes are equal and ratable to the liens granted to secure the Credit Facility.

(f) In December 2012, we entered into a five-year Credit Facility with a syndicate of financial institutions for $1,250,000. Our obligations under the Credit Facility are guaranteed by certain of its material domestic subsidiaries and are secured by a lien on substantially all of our assets and the assets of its material domestic subsidiaries. Borrowings under the Credit Facility are used for working capital and other general corporate purposes, including dividends, financing of acquisitions and share repurchases. Interest on borrowings is payable on a quarterly basis and accrues at a rate based on LIBOR plus an applicable rate. We are also required to pay a variable fee on the average daily unused portion of the Credit Facility and is payable on a quarterly basis. The variable rate for the Credit Facility was 0.30% per annum as of June 30, 2014. As of June 30, 2014, $1,250,000 was available for future borrowing under the Credit Facility. Our outstanding borrowings under the Credit Facility are classified as Long-term debt within our unaudited consolidated balance sheets due to the long-term maturity of this debt.

Debt Repurchases

During the three months ended June 30, 2013, we purchased $29,013 and $100,650 of our then outstanding 8.75% Senior Notes due 2015 and 7.625% Senior Notes due 2018, respectively, for an aggregate purchase price, including interest, of $32,977 and $112,569, respectively, and recognized $3,755 and $12,622, respectively, to Loss on extinguishment of debt and credit facilities, net, consisting primarily of unamortized discount, deferred financing fees and repayment premium.

Covenants and Restrictions

The Exchangeable Notes require compliance with certain covenants that restrict our ability to, among other things, (i) enter into certain transactions with affiliates and (ii) merge or consolidate with another person.

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

The indentures for 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 4.25% Notes, 4.625% Notes, 5.75% Notes, 5.875% Notes and 6.00% Notes are also subject to covenants that, among other things, limit our ability and the ability of our subsidiaries to create certain liens; enter into sale/leaseback transactions; and merge or consolidate.

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

At June 30, 2014 and December 31, 2013, we were in compliance with our debt covenants.

(13) Stockholder Equity

Common Stock, par value $0.001 per share

We were authorized to issue up to 9,000,000,000 shares of common stock as of June 30, 2014 and December 31, 2013. As a result of our corporate reorganization in November 2013, 1,000 shares of common stock of Sirius XM were issued and outstanding, and were owned by Holdings as of June 30, 2014 and December 31, 2013.

Share Lending Arrangements

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

We recorded interest expense related to the amortization of the costs associated with the share lending arrangement and other issuance costs for our Exchangeable Notes of $3,433 and $3,097 for the three months ended June 30, 2014 and 2013, respectively, and $6,779 and $6,306 for the six months ended June 30, 2014 and 2013, respectively. As of June 30, 2014, the unamortized balance of the debt issuance costs was $5,922, with $5,792 recorded in Other current assets and $130 recorded in Related party current assets in our unaudited consolidated balance sheets. As of December 31, 2013, the unamortized balance of the debt issuance costs was $12,701, with $12,423 recorded in Other current assets, and $278 recorded in Related party current assets. These costs will continue to be amortized until the debt is terminated.

(Dollar amounts in thousands, unless otherwise stated)

Preferred Stock, par value $0.001 per share

We were authorized to issue up to 50,000,000 shares of undesignated preferred stock as of June 30, 2014 and December 31, 2013, respectively. In January 2013, Liberty Media converted its remaining shares of the Series B Preferred Stock into 1,293,509,076 shares of Holdings' common stock. There were no shares of preferred stock issued or outstanding as of June 30, 2014 and December 31, 2013.

(14) Benefit Plans

We recognized share-based payment expense of $17,787 and $15,494 for the three months ended June 30, 2014 and 2013, respectively, and $36,027 and $30,012 for the six months ended June 30, 2014 and 2013, respectively.

As a result of our corporate reorganization effective November 15, 2013, all of the outstanding share-based compensation plans of Sirius XM were assumed by Holdings.

2009 Long-Term Stock Incentive Plan

In May 2009, our stockholders approved the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan (the "2009 Plan"). Employees, consultants and members of Holdings' board of directors are eligible to receive awards under the 2009 Plan. The 2009 Plan provides for the grant of stock options, restricted stock awards, restricted stock units and other stock-based awards that the compensation committee of Holdings' board of directors may deem appropriate. Vesting and other terms of stock-based awards are set forth in the agreements with the individuals receiving the awards. Stock-based awards granted under the 2009 Plan are generally subject to a vesting requirement. Stock-based awards generally expire ten years from the date of grant. Each restricted stock unit entitles the holder to receive one share of common stock upon vesting. As of June 30, 2014, approximately 79,039,000 shares of common stock were available for future grants under the 2009 Plan.

Other Plans

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Risk-free interest rate	1.6%	0.7%	1.3%	0.7%
Expected life of options — years	4.78	4.71	4.11	4.71
Expected stock price volatility	40%	48%	36%	48%
Expected dividend yield	0%	0%	0%	0%

There were no options granted to third parties during the three and six months ended June 30, 2014 and 2013. We do not intend to pay regular dividends on Holdings' common stock. Accordingly, the dividend yield percentage used in the Black-Scholes-Merton option value is zero for all periods.

The following table summarizes stock option activity under our share-based plans for the six months ended June 30, 2014 (options in thousands):

	Options		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)		Aggregate Intrinsic Value
Outstanding as of December 31, 2013	264,239	$	2.42			
Granted	5,441	$	3.59			
Exercised	(11,568)	$	1.70			
Forfeited, cancelled or expired	(5,910)	$	4.40			
Outstanding as of June 30, 2014	252,202	$	2.44	6.83	$	299,833
Exercisable as of June 30, 2014	104,117	$	2.15	4.96	$	168,917

The weighted average grant date fair value of options granted during the six months ended June 30, 2014 and 2013 was $1.09 and $1.34, respectively. The total intrinsic value of stock options exercised during the six months ended June 30, 2014 and 2013 was $20,435 and $33,660, respectively.

We recognized share-based payment expense associated with stock options of $16,193 and $15,283 for the three months ended June 30, 2014 and 2013, respectively, and $32,808 and $29,801 for the six months ended June 30, 2014 and 2013, respectively.

The following table summarizes the nonvested restricted stock unit activity under our share-based plans for the six months ended June 30, 2014 (shares in thousands):

	Shares		Grant Date Fair Value
Nonvested as of December 31, 2013	6,984	$	3.58
Granted	270	$	3.70
Vested restricted stock units	—	$	—
Forfeited	(126)	$	3.61
Nonvested as of June 30, 2014	7,128	$	3.58

The weighted average grant date fair value of restricted stock units granted during the six months ended June 30, 2014 and 2013 was $3.70 and $3.30, respectively. The total intrinsic value of restricted stock units that vested during the six months ended June 30, 2013 was $605. We recognized share-based payment expense associated with restricted stock units of $1,594 and $211 during the three months ended June 30, 2014 and 2013, respectively, and $3,219 and $211 during the six months ended June 30, 2014 and 2013, respectively.

Total unrecognized compensation costs related to unvested share-based payment awards for stock options, restricted stock units and shares granted to employees and members of Holdings' board of directors at June 30, 2014 and December 31, 2013, net of estimated forfeitures, were $131,608 and $164,292, respectively. The total unrecognized compensation costs at June 30, 2014 are expected to be recognized over a weighted-average period of 2.5 years.

401(k) Savings Plan

Sirius XM sponsors the Sirius XM Radio Inc. 401(k) Savings Plan (the “Sirius XM Plan”) for eligible employees. The Sirius XM Plan allows eligible employees to voluntarily contribute from 1% to 50% of their pre-tax eligible earnings, subject to certain defined limits. We match 50% of an employee’s voluntary contributions per pay period on the first 6% of an employee’s pre-tax salary up to a maximum of 3% of eligible compensation. Employer matching contributions under the Sirius XM Plan vest at a rate of 33.33% for each year of employment and are fully vested after three years of employment for all current and future contributions. Beginning in January 2014, our cash employer matching contributions are no longer used to purchase shares of Holdings' common stock on the open market, unless the employee elects Holdings' common stock as their investment option for this contribution. Prior to January 2014, the cash from employer matching contributions was used to purchase shares of Holdings' common stock on the open market. We contributed $1,254 and $968 during the three months ended June 30, 2014 and 2013, respectively, and $3,133 and $2,387, during the six months ended June 30, 2014 and 2013, respectively, to the Sirius XM Plan in fulfillment of our matching obligation.

(Dollar amounts in thousands, unless otherwise stated)

(15) Commitments and Contingencies

The following table summarizes our expected contractual cash commitments as of June 30, 2014:

	2014	2015	2016	2017	2018	Thereafter	Total
Debt obligations	$ 506,037	$ 7,482	$ 4,265	$ 928	$ 78	$ 4,150,000	$ 4,668,790
Cash interest payments	105,893	232,170	231,953	232,565	228,063	939,813	1,970,457
Satellite and transmission	15,630	17,976	4,326	3,404	3,995	16,648	61,979
Programming and content	121,493	226,271	105,121	74,721	60,150	108,333	696,089
Marketing and distribution	13,169	18,536	10,603	7,070	6,226	6,707	62,311
Satellite incentive payments	6,018	11,511	12,367	13,296	14,302	54,178	111,672
Operating lease obligations	19,130	46,263	39,832	33,415	31,465	225,540	395,645
Other	46,460	16,379	5,851	1,807	1,040	265	71,802
Total (1)	$ 833,830	$ 576,588	$ 414,318	$ 367,206	$ 345,319	$ 5,501,484	$ 8,038,745

(1) The table does not include our reserve for uncertain tax positions, which at June 30, 2014 totaled $1,432, as the specific timing of any cash payments cannot be projected with reasonable certainty.

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

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

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

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

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

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

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

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

Other: We have entered into various agreements with third parties for general operating purposes. In addition to the minimum contractual cash commitments described above, we have entered into agreements with other variable cost arrangements. These future costs are dependent upon many factors, including subscriber growth, and are difficult to anticipate; however, these costs may be substantial. We may enter into additional programming, distribution, marketing and other agreements that contain similar variable cost provisions. The cost of Holdings' treasury stock acquired from a third-party financial institution but not paid as of June 30, 2014 is included in this category.

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

Legal Proceedings

State Consumer Investigations. A Multistate Working Group of 32 State Attorneys General, led by the Attorney General of the State of Ohio, is investigating certain of our consumer practices. The investigation focuses on practices relating to the cancellation of subscriptions; automatic renewal of subscriptions; charging, billing, collecting, and refunding or crediting of payments from consumers; and soliciting customers.

A separate investigation into our consumer practices is being conducted by the Attorneys General of the State of Florida and the State of New York. We are cooperating with these investigations and believe our consumer practices comply with all applicable federal and state laws and regulations.

In our opinion, the result of these investigations, including a possible settlement, will likely not have a material adverse effect on our business, financial condition or results of operations.

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.

(16) Income Taxes

Income tax expense for the three months ended June 30, 2014 and 2013 was $86,822 and $76,659, respectively, and $163,570 and $155,699, for the six months ended June 30, 2014 and 2013, respectively. Our effective tax rate for the six months ended June 30, 2014 was 37.8% due to the impact of change in fair value in excess of carrying value associated with the 7% Exchangeable Senior Subordinated Notes due 2014. The differences in taxable income between Sirius XM and Holdings are all related to permanent items recognized for book purposes and therefore, the Income tax expense for 2014 will be the same as Holdings'. Sirius XM's Income tax expense for 2013 was the same as Holdings.

As of June 30, 2014, there remained a valuation allowance related to deferred tax assets of $7,699 that were not likely to be realized due to certain state net operating loss limitations and acquired net operating losses that we were not more likely than not going to utilize.

Liberty Media's increase in ownership in us to over 50% of Holdings' outstanding common stock in January 2013 did not create a change of control under Section 382 of the Internal Revenue Code.

(17) Subsequent Events

Holdings' Stock Repurchase Program

For the period from July 1, 2014 to July 25, 2014, Holdings repurchased $120,018 of its common stock, including fees and commissions, on the open market.

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and related notes included elsewhere in this Quarterly Report.

Special Note Regarding Forward-Looking Statements

The following cautionary statements identify important factors that could cause our actual results to differ materially from those projected in forward-looking statements made in this report and in other reports and documents published by us from time to time. Any statements about our beliefs, plans, objectives, expectations, assumptions, future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "intend," "plan," "projection" and "outlook." Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this report and in other reports and documents published by us from time to time, particularly the risk factors described under "Risk Factors" in Part I, Item 1A of Holdings' Annual Report on Form 10-K for the year ended December 31, 2013 and "Management's Discussion and Analysis of Financial Condition and Results or Operations" herein and in Part II, Item 7 of Holdings' Annual Report on Form 10-K for the year ended December 31, 2013.

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

- we face substantial competition and that competition is likely to increase over time;
- our ability to attract and retain subscribers in the future is uncertain;
- our business depends in large part upon the auto industry;
- general economic conditions can affect our business;
- failure of our satellites would significantly damage our business;
- interruption or failure of our information technology and communications systems could negatively impact our results and our brand;
- if we fail to protect the security of personal information about our customers, we could be subject to costly government enforcement actions and private litigation and our reputation could suffer;
- royalties for music rights have increased and there can be no assurance they will not continue to increase in the future;
- the unfavorable outcome of pending or future litigation could have a material adverse effect;
- we may not realize the benefits of acquisitions or other strategic initiatives, including the acquisition of Agero's connected vehicle business;
- rapid technological and industry changes could adversely impact our services;
- failure of third parties to perform could adversely affect our business;
- changes in consumer protection laws and their enforcement could damage our business;
- failure to comply with FCC requirements could damage our business;
- other existing or future government laws and regulations could harm our business;
- we may from time to time modify our business plan, and these changes could adversely affect us and our financial condition;
- our indebtedness could adversely affect our operations and could limit our ability to react to changes in the economy or our industry;
- our broadcast studios, terrestrial repeater networks, satellite uplink facilities or other ground facilities could be damaged by natural catastrophes or terrorist activities;
- Holdings' principal stockholder has significant influence over our management and over actions requiring general stockholder approval and its interests may differ from the interests of other holders of Holdings' common stock;
- Holdings is a "controlled company" within the meaning of the NASDAQ listing rules and, as a result, qualifies for, and relies on, exemptions from certain corporate governance requirements; and
- our business may be impaired by third-party intellectual property rights.

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

Executive Summary

We broadcast music, sports, entertainment, comedy, talk, news, traffic and weather channels, as well as infotainment services, in the United States on a subscription fee basis through our two proprietary satellite radio systems. Subscribers can also receive music and other channels, plus features such as SiriusXM On Demand and MySXM, over the Internet, including through applications for mobile devices. We are also a leader in providing connected vehicle applications and services. Our connected vehicle services are designed to enhance the safety, security and driving experience for vehicle owners while providing marketing and operational benefits to automakers and their dealers. Subscribers to our connected vehicle services are not included in our subscriber count.

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

As of June 30, 2014, we had 26,301,581 subscribers of which 21,635,008 were self-pay subscribers and 4,666,573 were paid promotional subscribers. Our subscriber totals include subscribers under our regular pricing plans; discounted pricing plans; subscribers that have prepaid, including payments either made or due from automakers for subscriptions included in the sale or lease price of a vehicle; subscribers to our Internet services who do not also have satellite radio subscriptions; and certain subscribers to our weather, traffic, data and Backseat TV services.

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

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

Liberty Media Corporation 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 broad range of media, communications and entertainment businesses, including its subsidiaries, Atlanta National League Baseball Club, Inc. and TruePosition, Inc., interests in Charter Communications, Live Nation and minority equity investments in Time Warner Inc., Time Warner Cable, and Viacom.

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

Results of Operations

Set forth below are our results of operations for the three and six months ended June 30, 2014 compared with the three and six months ended June 30, 2013.

	Unaudited				2014 vs 2013 Change		2014 vs 2013 Change	
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		Three Months		Six Months	
(in thousands)	2014	2013	2014	2013	Amount	%	Amount	%
Revenue:								
Subscriber revenue	$ 878,160	$ 814,718	$ 1,729,596	$ 1,598,060	$ 63,442	8 %	$ 131,536	8 %
Advertising revenue	25,498	21,757	47,712	41,968	3,741	17 %	5,744	14 %
Equipment revenue	27,616	18,443	51,594	36,599	9,173	50 %	14,995	41 %
Other revenue	104,071	85,192	204,154	160,881	18,879	22 %	43,273	27 %
Total revenue	1,035,345	940,110	2,033,056	1,837,508	95,235	10 %	195,548	11 %
Operating expenses:								
Cost of services:								
Revenue share and royalties	200,221	155,859	395,632	304,390	44,362	28 %	91,242	30 %
Programming and content	69,570	70,381	144,440	144,991	(811)	(1)%	(551)	0 %
Customer service and billing	90,092	80,290	181,161	160,684	9,802	12 %	20,477	13 %
Satellite and transmission	21,272	19,493	42,651	39,188	1,779	9 %	3,463	9 %
Cost of equipment	12,030	5,442	19,834	12,469	6,588	121 %	7,365	59 %
Subscriber acquisition costs	124,407	129,992	247,429	246,103	(5,585)	(4)%	1,326	1 %
Sales and marketing	77,759	68,058	154,086	133,956	9,701	14 %	20,130	15 %
Engineering, design and development	15,630	15,052	31,541	29,894	578	4 %	1,647	6 %
General and administrative	72,582	60,392	148,825	116,732	12,190	20 %	32,093	27 %
Depreciation and amortization	67,204	67,415	135,471	134,433	(211)	0 %	1,038	1 %
Total operating expenses	750,767	672,374	1,501,070	1,322,840	78,393	12 %	178,230	13 %
Income from operations	284,578	267,736	531,986	514,668	16,842	6 %	17,318	3 %
Other income (expense):								
Interest expense, net of amounts capitalized	(67,521)	(49,728)	(121,613)	(95,902)	(17,793)	(36)%	(25,711)	(27)%
Loss on extinguishment of debt and credit facilities, net	—	(16,377)	—	(16,377)	16,377	100 %	16,377	100 %
Interest and investment (loss) income	(1,066)	294	3,283	1,932	(1,360)	(463)%	1,351	70 %
(Loss) gain on change in fair value of debt instruments	(67,909)	—	21,201	—	(67,909)	(100)%	21,201	100 %
Other (loss) income	(1,745)	256	(1,652)	502	(2,001)	(782)%	(2,154)	(429)%
Total other expense	(138,241)	(65,555)	(98,781)	(109,845)	(72,686)	(111)%	11,064	10 %
Income before income taxes	146,337	202,181	433,205	404,823	(55,844)	(28)%	28,382	7 %
Income tax expense	(86,822)	(76,659)	(163,570)	(155,699)	(10,163)	(13)%	(7,871)	(5)%
Net income attributable to Sirius XM Radio Inc.'s sole stockholder	$ 59,515	$ 125,522	$ 269,635	$ 249,124	$ (66,007)	(53)%	$ 20,511	8 %

Our results of operations discussed below include Sirius XM Connected Vehicle Services Inc. activity in 2014, as well as the impact of purchase price accounting adjustments associated with the July 2008 merger between our wholly owned subsidiary, Vernon Merger Corporation, and XM Satellite Radio Holdings Inc. (the "Merger"). The purchase price accounting adjustments related to the Merger, include the: (i) elimination of deferred revenue associated with the investment in XM Canada, (ii) recognition of deferred subscriber revenues not recognized in purchase price accounting, and (iii) elimination of the benefit of deferred credits on executory contracts, which are primarily attributable to third party arrangements with an OEM and programming providers. The deferred credits on executory contracts attributable to third party arrangements with an OEM included in revenue share and royalties, subscriber acquisition costs, and sales and marketing concluded with the expiration of the acquired contract during 2013. The impact of these purchase price accounting adjustments is detailed in our Adjusted Revenues and Operating Expenses tables on pages 34 through 41 of our glossary.

Total Revenue

Subscriber Revenue includes subscription, activation and other fees.

For the three months ended June 30, 2014 and 2013, subscriber revenue was $878,160 and $814,718, respectively, an increase of 8%, or $63,442. For the six months ended June 30, 2014 and 2013, subscriber revenue was $1,729,596 and $1,598,060, respectively, an increase of 8%, or $131,536. The increases were primarily attributable to increases in the daily weighted average number of subscribers, the inclusion 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 an increasing number of lifetime subscription plans that have reached full revenue recognition and a change in an agreement with an automaker.

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

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

For the three months ended June 30, 2014 and 2013, advertising revenue was $25,498 and $21,757, respectively, an increase of 17%, or $3,741. For the six months ended June 30, 2014 and 2013, advertising revenue was $47,712 and $41,968, respectively, an increase of 14%, or $5,744. The increase was primarily due to a greater number of advertising spots sold and broadcast.

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

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

For the three months ended June 30, 2014 and 2013, equipment revenue was $27,616 and $18,443, respectively, an increase of 50%, or $9,173. For the six months ended June 30, 2014 and 2013, equipment revenue was $51,594 and $36,599, respectively, an increase of 41%, or $14,995. 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 increase based on OEM production for which we receive royalty payments for our technology and, to a lesser extent, on the volume of equipment sales in our aftermarket and direct to consumer business.

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

For the three months ended June 30, 2014 and 2013, other revenue was $104,071 and $85,192, respectively, an increase of 22%, or $18,879. For the six months ended June 30, 2014 and 2013, other revenue was $204,154 and $160,881, respectively, an increase of 27%, or $43,273. 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 increase in subscribers.

We expect other revenue to increase as our subscriber base drives higher U.S. Music Royalty Fees and as the revenue of our Canadian affiliate grows.

Operating Expenses

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

For the three months ended June 30, 2014 and 2013, revenue share and royalties were $200,221 and $155,859, respectively, an increase of 28%, or $44,362, and increased as a percentage of total revenue. For the six months ended June 30, 2014 and 2013, revenue share and royalties were $395,632 and $304,390, respectively, an increase of 30%, or $91,242, and increased as a percentage of total revenue. For the three and six months ended June 30, 2013, revenue share and royalties was positively impacted by benefits of $40,831 and $80,592, respectively, to earnings from the amortization of deferred credits on executory contracts. The remainder of the increases were due, in part, to greater revenues subject to royalty and revenue sharing arrangements and a 5.6% increase in the statutory royalty rate for the performance of sound recordings.

We expect our revenue share and royalty costs to increase as our revenues grow, our royalty rates increase and as a result of the discontinued deferred credits on executory contracts associated with the Merger.

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

For the three months ended June 30, 2014 and 2013, programming and content expenses were $69,570 and $70,381, respectively, a decrease of 1%, or $811, and decreased as a percentage of total revenue. For the six months ended June 30, 2014 and 2013, programming and content expenses were $144,440 and $144,991, respectively, a decrease of less than 1%, or $551, and decreased as a percentage of total revenue. The decreases were primarily due to the renewal of certain agreements at more cost effective terms, partially offset by a reduction in the benefit to earnings from the purchase price accounting adjustments associated with the Merger.

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

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

For the three months ended June 30, 2014 and 2013, customer service and billing expenses were $90,092 and $80,290, respectively, an increase of 12%, or $9,802, but remained flat as a percentage of total revenue. For the six months ended June 30, 2014 and 2013, customer service and billing expenses were $181,161 and $160,684, respectively, an increase of 13%, or $20,477, but remained flat as a percentage of total revenue. These increases were primarily due to the inclusion of costs associated with our connected vehicle services business and higher subscriber volume driving increased subscriber contacts.

We expect our customer service and billing expenses to increase as our subscriber base grows and as we attempt to improve the customer service experience for our subscribers.

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

For the three months ended June 30, 2014 and 2013, satellite and transmission expenses were $21,272 and $19,493, respectively, an increase of 9%, or $1,779, but remained flat as a percentage of total revenue. For the six months ended June 30, 2014 and 2013, satellite and transmission expenses were $42,651 and $39,188, respectively, an increase of 9%, or $3,463, but remained flat as a percentage of total revenue. These increases were primarily due to increased satellite insurance expense and costs associated with our Internet streaming operations.

We expect overall satellite and transmission expenses to remain relatively unchanged as decreases in satellite insurance and Internet-based service costs are offset by increases in terrestrial repeater network and personnel 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.

For the three months ended June 30, 2014 and 2013, cost of equipment was $12,030 and $5,442, respectively, an increase of 121%, or $6,588, and increased as a percentage of equipment revenue. For the six months ended June 30, 2014 and 2013, cost of equipment was $19,834 and $12,469, respectively, an increase of 59%, or $7,365, and increased as a percentage of equipment revenue. These increases were 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 chip sets and certain other components used in manufacturing radios; device royalties for certain radios and chip sets; 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, marketing, loyalty payments to distributors and dealers of satellite radios or revenue share payments to automakers and retailers of satellite radios.

For the three months ended June 30, 2014 and 2013, subscriber acquisition costs were $124,407 and $129,992, respectively, a decrease of 4%, or $5,585, and decreased as a percentage of total revenue. For the six months ended June 30, 2014 and 2013, subscriber acquisition costs were $247,429 and $246,103, respectively, an increase of 1%, or $1,326, but 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. In the second quarter of 2014, these decreases were 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 satellite radio installations in new vehicles. For the six month period, the amortization of the deferred credits and increased satellite radio installations were slightly greater than the decreases provided from the improved OEM subsidy rates and change in the contract with an automaker. For the three and six months ended June 30, 2013, the benefit to earnings from amortization of deferred credits were $22,017 and $44,022, respectively.

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

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

For the three months ended June 30, 2014 and 2013, sales and marketing expenses were $77,759 and $68,058, respectively, an increase of 14%, or $9,701, and increased as a percentage of total revenue. For the six months ended June 30, 2014 and 2013, sales and marketing expenses were $154,086 and $133,956, respectively, an increase of 15%, or $20,130, and increased as a percentage of total revenue. These increases were primarily due to additional subscriber communications and retention programs associated with a greater number of subscribers and promotional trials, costs associated with our connected vehicle services business, 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. The benefits to earnings from the amortization of the deferred credit for acquired executory contracts for the three and six months ended June 30, 2013 were $4,153 and $8,319, respectively.

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 chip sets and new products and services, research and development for broadcast information systems and costs associated with the incorporation of our radios into new vehicles manufactured by automakers.

For the three months ended June 30, 2014 and 2013, engineering, design and development expenses were $15,630 and $15,052, respectively, an increase of 4%, or $578, but remained flat as a percentage of total revenue. For the six months ended June 30, 2014 and 2013, engineering, design and development expenses were $31,541 and $29,894, respectively, an increase of 6%, or $1,647, but remained flat as a percentage of total revenue. These increases were driven primarily by costs associated with our connected vehicle services business, higher product development costs, and expenses related to the development of enhanced subscriber features and functionality for our service.

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

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

For the three months ended June 30, 2014 and 2013, general and administrative expenses were $72,582 and $60,392, respectively, an increase of 20% or $12,190, and increased as a percentage of total revenue. For the six months ended June 30, 2014 and 2013, general and administrative expenses were $148,825 and $116,732, respectively, an increase of 27% or $32,093, and increased as a percentage of total revenue. These increases were primarily driven by costs associated with our connected vehicle services business, as well as higher legal, personnel, consulting 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.

For the three months ended June 30, 2014 and 2013, depreciation and amortization expense was $67,204 and $67,415, respectively, a decrease of less than 1%, or $211, and decreased as a percentage of total revenue. For the six months ended June 30, 2014 and 2013, depreciation and amortization expense was $135,471 and $134,433, respectively, an increase of 1%, or $1,038, but decreased as a percentage of total revenue. Decreased depreciation and amortization expense was driven 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 service lives and certain satellites reaching the end of their estimated service lives. These decreases were offset by the inclusion of costs associated with our connected vehicle services business, and additional assets placed in-service, including our FM-6 satellite.

Other Income (Expense)

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

For the three months ended June 30, 2014 and 2013, interest expense was $67,521 and $49,728, respectively, an increase of 36%, or $17,793. For the six months ended June 30, 2014 and 2013, interest expense was $121,613 and $95,902, respectively, an increase of 27%, or $25,711. 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 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.

For the three and six months ended June 30, 2014 and 2013, loss on extinguishment of debt and credit facilities, net, was $0 and $16,377, respectively. During the three and six months ended June 30, 2013, a $16,377 loss was recorded on the partial repayment of our then outstanding 7.625% Senior Notes due 2018 and 8.75% Senior Notes due 2015.

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

For the three months ended June 30, 2014, interest and investment loss was $1,066 compared to income of $294 for the same period in 2013. For the six months ended June 30, 2014 and 2013, interest and investment income was $3,283 and $1,932, respectively. The loss for the three months ended June 30, 2014 was due to the inclusion of our share of Sirius XM Canada's net loss. For the six months ended June 30, 2014, interest and investment income was primarily due to the inclusion of our share of Sirius XM Canada's net income, and the conversion of the Canadian debentures into shares of Sirius XM Canada, partially offset by the amortization expense related to our equity method intangible assets. The interest and investment income for 2013 was primarily due to the inclusion of our share of Sirius XM Canada's net income, partially offset by the amortization expense related to our equity method intangible assets.

(Loss) Gain on Change in Fair Value of Debt Instruments represents the change in fair value in excess of carrying value associated with the 7% Exchangeable Senior Subordinated Notes due 2014.

For three months ended June 30, 2014 there was a $67,909 loss on change in fair value of debt instruments which resulted from an increase in the fair value of the 7% Exchangeable Senior Subordinated Notes due 2014, primarily due to the increase in the price of Holdings' common stock from March 31, 2014. For the six months ended June 30, 2014, there was a $21,201 gain on change in fair value of debt instruments which resulted from a decrease in the fair value of the 7% Exchangeable Senior Subordinated Notes due 2014, primarily due to the decrease in the price of Holdings' common stock from December 31, 2013.

Income Taxes

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

Income tax expense for the three months ended June 30, 2014 and 2013 was $86,822 and $76,659, respectively, and $163,570 and $155,699, for the six months ended June 30, 2014 and 2013, respectively. Our effective tax rate for the six months ended June 30, 2014 was 37.8% due to the impact of change in fair value in excess of carrying value associated with the 7% Exchangeable Senior Subordinated Notes due 2014. The differences in taxable income between Sirius XM and Holdings are all related to permanent items recognized for book purposes and therefore, the Income tax expense for 2014 will be the same as Holdings'. Sirius XM's Income tax expense for 2013 was the same as Holdings.

Key Operating Metrics

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

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

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

These Non-GAAP financial measures should be viewed in addition to, and not as an alternative for or superior to, our reported results prepared in accordance with GAAP. In addition, these Non-GAAP financial measures may not be comparable to similarly-titled measures by other companies. Please refer to the glossary (pages 34 through 41) 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 three and six months ended June 30, 2014 and 2013, respectively. Subscribers to our connected vehicle services are not included in our subscriber count:

	Unaudited		Unaudited	
	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(in thousands, except for subscriber, per subscriber and per installation amounts)	2014	2013	2014	2013
Self-pay subscribers	21,635,008	20,297,736	21,635,008	20,297,736
Paid promotional subscribers	4,666,573	4,771,252	4,666,573	4,771,252
Ending subscribers	26,301,581	25,068,988	26,301,581	25,068,988
Self-pay subscribers	379,711	423,076	553,191	727,462
Paid promotional subscribers	95,761	292,686	189,080	441,190
Net additions	475,472	715,762	742,271	1,168,652
Daily weighted average number of subscribers	26,005,691	24,651,268	25,805,030	24,331,646
Average self-pay monthly churn	1.8%	1.7%	1.9%	1.8%
New vehicle consumer conversion rate	42%	45%	42%	44%
ARPU	$ 12.36	$ 12.28	$ 12.27	$ 12.16
SAC, per installation	$ 33	$ 47	$ 34	$ 47
Customer service and billing expenses, per average subscriber	$ 1.05	$ 1.08	$ 1.07	$ 1.09
Free cash flow	$ 335,044	$ 236,560	$ 557,833	$ 379,041
Adjusted EBITDA	$ 370,437	$ 282,979	$ 705,220	$ 544,850

Note: See pages 34 through 41 for glossary.

Subscribers. At June 30, 2014, we had 26,301,581 subscribers, an increase of 1,232,593 subscribers, or 5%, from the 25,068,988 subscribers as of June 30, 2013.

For the three months ended June 30, 2014 and 2013, net additions were 475,472 and 715,762, respectively, a decrease of 34%, or 240,290. For the six months ended June 30, 2014 and 2013, net additions were 742,271 and 1,168,652, respectively, a decrease of 36%, or 426,381. The decreases in self-pay net additions were due to increased churn associated with our larger subscriber base and vehicle turnover, partially offset by higher conversions from trial subscriptions. The decreases in paid promotional net additions were due to lower growth in auto sales and a change from paid to unpaid trials under a contract with an automaker.

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 34 through 41 for more details.)

For the three months ended June 30, 2014 and 2013, our average self-pay monthly churn rate was 1.8% and 1.7%, respectively. For the six months ended June 30, 2014 and 2013, our average self-pay monthly churn rate was 1.9% and 1.8%, respectively. These increases for the three and six month periods were due to increased migrations of existing self-pay subscribers to unpaid vehicle trials.

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 34 through 41 for more details).

For the three months ended June 30, 2014 and 2013, the new vehicle consumer conversion rate was 42% and 45%, respectively. For the six months ended June 30, 2014 and 2013, the new vehicle consumer conversion rate was 42% and 44%, respectively. The decrease in the new vehicle consumer conversion rate for the three and six month periods were primarily due to an increased penetration rate and lower conversion of first-time satellite enabled car buyers.

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 34 through 41 for more details.)

For the three months ended June 30, 2014 and 2013, ARPU was $12.36 and $12.28, respectively. For the six months ended June 30, 2014 and 2013, ARPU was $12.27 and $12.16, respectively. These increases were 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 offered through customer acquisition and retention programs, lifetime subscription plans that have reached full revenue recognition, and changes in contracts with an automaker and a rental car provider.

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 34 through 41 for more details.)

For the three months ended June 30, 2014 and 2013, SAC, per installation, was $33 and $47, respectively. For the six months ended June 30, 2014 and 2013, SAC, per installation, was $34 and $47, respectively. These decreases were 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 34 through 41 for more details.)

For the three months ended June 30, 2014 and 2013, customer service and billing expenses, per average subscriber, were $1.05 and $1.08, respectively. For the six months ended June 30, 2014 and 2013, customer service and billing expenses, per average subscriber, were $1.07 and $1.09, respectively. These decreases were primarily driven by lower rates for foreign-based customer service agents and lower call volume per subscriber.

Free Cash Flow includes the net cash provided by operations, additions to property and equipment, and restricted and other investment activity. (For a reconciliation to GAAP see the accompanying glossary on pages 34 through 41 for more details.)

For the three months ended June 30, 2014 and 2013, free cash flow was $335,044 and $236,560, respectively, an increase of $98,484. For the six months ended June 30, 2014 and 2013, free cash flow was $557,833 and $379,041, respectively, an increase of $178,792. These increases were primarily driven by higher net cash provided by operating activities from improved performance, higher collections from subscribers and distributors, and a special one-time dividend from Sirius XM Canada, partially offset by payments related to improvements to our terrestrial repeater network and higher interest payments.

Adjusted EBITDA. EBITDA is defined as net income before interest and investment income (loss); interest expense, net of amounts capitalized; income tax benefit (expense) and depreciation and amortization. Adjusted EBITDA excludes the impact of other income and expense, losses on extinguishment of debt, gain or loss on change in fair value of debt instruments as well as certain other charges, such as goodwill impairment, certain purchase price accounting adjustments and share-based payment expense. (For a reconciliation to GAAP see the accompanying glossary on pages 34 through 41 for more details.)

For the three months ended June 30, 2014 and 2013, adjusted EBITDA was $370,437 and $282,979, respectively, an increase of 31%, or $87,458. For the six months ended June 30, 2014 and 2013, adjusted EBITDA was $705,220 and $544,850, respectively, an increase of 29%, or $160,370. These increases were due to growth in adjusted revenues primarily due to the increase in our subscriber base and certain of our subscription rates, improved revenue share and OEM subsidy rates per vehicle, the renewal of certain programming and content agreements at more cost effective terms, and the inclusion of the results of our connected vehicle services business; partially offset by higher legal expenses and costs correlated to the growth in our revenues and subscriber base.

Liquidity and Capital Resources

Cash Flows for the six months ended June 30, 2014 compared with the six months ended June 30, 2013.

As of June 30, 2014 and December 31, 2013, we had $169,980 and $134,805, respectively, of cash and cash equivalents. The following table presents a summary of our cash flow activity for the periods set forth below:

	For the Six Months Ended June 30,		
(in thousands)	**2014**	**2013**	**2014 vs. 2013**
Net cash (used in) provided by operating activities	$ (947,145)	$ 442,021	$ (1,389,166)
Net cash used in investing activities	(33,095)	(62,980)	29,885
Net cash provided by (used in) financing activities	1,015,415	(248,217)	1,263,632
Net increase in cash and cash equivalents	35,175	130,824	(95,649)
Cash and cash equivalents at beginning of period	134,805	520,945	(386,140)
Cash and cash equivalents at end of period	$ 169,980	$ 651,769	$ (481,789)

Cash Flows (Used in) Provided by Operating Activities

Cash flows from operating activities decreased by $1,389,166 to $947,145 for the six months ended June 30, 2014 compared to net cash provided by operating activities of $442,021 for the six months ended June 30, 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 and content providers, and payments to radio manufacturers, distributors and automakers and for Holdings' equity-related transactions including the repurchase of shares of Holdings' common stock for $1,532,164 in 2014. Share repurchases in 2013 were included in Cash flows used in financing activities as those repurchases occurred prior to the reorganization. In addition, uses of cash from operating activities include payments to vendors to service, maintain and acquire subscribers, general corporate expenditures, and compensation and related costs.

Cash Flows Used in Investing Activities

Cash flows used in investing activities are primarily due to additional spending to improve our terrestrial repeater network and for capitalized software, partially offset by the special one-time dividend received from 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.

Cash Flows Provided by (Used in) Financing Activities

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

Cash flows provided by financing activities in 2014 were primarily due to the issuance of $1,500,000 aggregate principal amount of 6.00% Senior Notes due 2024, partially offset by repayments under the Credit Facility. Cash flows used in financing activities in 2013 were primarily due to the purchase of shares of common stock under Holdings' share repurchase program for $1,108,616, and open market purchases of $29,013 of our 8.75% Senior Notes due 2015 and $100,650 of our 7.625% Senior Notes due 2018. In 2013, we issued $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, interest payments, taxes and scheduled maturities of our debt with existing cash, cash flow from operations and borrowings under our Credit Facility. We believe that we have sufficient cash and cash equivalents as well as debt capacity to cover our estimated short-term and long-term funding needs, Holdings' stock repurchases and strategic opportunities.

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

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

Holdings' Stock Repurchase Program

As of June 30, 2014, Holdings' board of directors had approved $4,000,000 for repurchases of its common stock. In July 2014, Holdings' board of directors approved an additional $2,000,000 for repurchases of its common stock. As of June 30, 2014, Holdings' cumulative repurchases since December 2012 have totaled $3,315,263, and $684,737 remained available under Holdings' stock repurchase program, which excludes the additional $2,000,000 authorized by Holdings' board of directors in July 2014. We expect to fund future repurchases of Holdings' common stock through a combination of cash on hand, cash generated by operations and future borrowings.

Debt Covenants

The indentures governing our senior notes and the agreement governing our Credit Facility include restrictive covenants. As of June 30, 2014, we were in compliance with such indentures and agreement. For a discussion of our “Debt Covenants,” refer to Note 12 to our unaudited consolidated financial statements in this report.

Off-Balance Sheet Arrangements

We do not have any significant off-balance sheet arrangements other than those disclosed in Note 15 to our unaudited consolidated financial statements in this report that are reasonably likely to have a material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Contractual Cash Commitments

For a discussion of our “Contractual Cash Commitments,” refer to Note 15 to our unaudited consolidated financial statements in this report.

Related Party Transactions

For a discussion of “Related Party Transactions,” refer to Note 10 to our unaudited consolidated financial statements in this report.

Critical Accounting Policies and Estimates

For a discussion of our "Critical Accounting Policies and Estimates," refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Holdings' Annual Report on Form 10-K for the year ended December 31, 2013. There have been no material changes to our critical accounting policies and estimates since December 31, 2013.

Glossary

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

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 unaudited consolidated statements of comprehensive income. Since adjusted EBITDA is a Non-GAAP financial performance measure, our calculation of adjusted EBITDA may be susceptible to varying calculations; may not be comparable to other similarly titled measures of other companies; and should not be considered in isolation, as a substitute for, or superior to measures of financial performance prepared in accordance with GAAP. The reconciliation of net income to the adjusted EBITDA is calculated as follows (in thousands):

	Unaudited			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (GAAP):	$ 59,515	$ 125,522	$ 269,635	$ 249,124
Add back items excluded from Adjusted EBITDA:				
Purchase price accounting adjustments:				
Revenues (see pages 36-39)	1,813	1,813	3,626	3,626
Operating expenses (see pages 36-39)	(945)	(69,479)	(1,890)	(137,889)
Share-based payment expense (GAAP)	17,787	15,494	36,027	30,012
Depreciation and amortization (GAAP)	67,204	67,415	135,471	134,433
Interest expense, net of amounts capitalized (GAAP)	67,521	49,728	121,613	95,902
Loss on extinguishment of debt and credit facilities, net (GAAP)	—	16,377	—	16,377
Interest and investment loss (income) (GAAP)	1,066	(294)	(3,283)	(1,932)
Loss (gain) on change in fair value of debt instruments (GAAP)	67,909	—	(21,201)	—
Other loss (income) (GAAP)	1,745	(256)	1,652	(502)
Income tax expense (GAAP)	86,822	76,659	163,570	155,699
Adjusted EBITDA	$ 370,437	$ 282,979	$ 705,220	$ 544,850

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 three and six months ended June 30, 2014 and 2013:

(in thousands)	Unaudited For the Three Months Ended June 30, 2014 As Reported	Purchase Price Accounting Adjustments	Allocation of Share-based Payment Expense	Adjusted
Revenue:				
Subscriber revenue	$ 878,160	$ —	$ —	$ 878,160
Advertising revenue	25,498	—	—	25,498
Equipment revenue	27,616	—	—	27,616
Other revenue	104,071	1,813	—	105,884
Total revenue	$ 1,035,345	$ 1,813	$ —	$ 1,037,158
Operating expenses				
Cost of services:				
Revenue share and royalties	$ 200,221	$ —	$ —	$ 200,221
Programming and content	69,570	945	(2,254)	68,261
Customer service and billing	90,092	—	(587)	89,505
Satellite and transmission	21,272	—	(956)	20,316
Cost of equipment	12,030	—	—	12,030
Subscriber acquisition costs	124,407	—	—	124,407
Sales and marketing	77,759	—	(3,407)	74,352
Engineering, design and development	15,630	—	(1,937)	13,693
General and administrative	72,582	—	(8,646)	63,936
Depreciation and amortization (a)	67,204	—	—	67,204
Share-based payment expense	—	—	17,787	17,787
Total operating expenses	$ 750,767	$ 945	$ —	$ 751,712

(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 three months ended June 30, 2014 was $10,000.

(in thousands)	Unaudited For the Three Months Ended June 30, 2013 As Reported	Purchase Price Accounting Adjustments	Allocation of Share-based Payment Expense	Adjusted
Revenue:				
Subscriber revenue	$ 814,718	$ —	$ —	$ 814,718
Advertising revenue	21,757	—	—	21,757
Equipment revenue	18,443	—	—	18,443
Other revenue	85,192	1,813	—	87,005
Total revenue	$ 940,110	$ 1,813	$ —	$ 941,923
Operating expenses				
Cost of services:				
Revenue share and royalties	$ 155,859	$ 40,831	$ —	$ 196,690
Programming and content	70,381	2,478	(1,639)	71,220
Customer service and billing	80,290	—	(511)	79,779
Satellite and transmission	19,493	—	(827)	18,666
Cost of equipment	5,442	—	—	5,442
Subscriber acquisition costs	129,992	22,017	—	152,009
Sales and marketing	68,058	4,153	(3,182)	69,029
Engineering, design and development	15,052	—	(1,634)	13,418
General and administrative	60,392	—	(7,701)	52,691
Depreciation and amortization (a)	67,415	—	—	67,415
Share-based payment expense	—	—	15,494	15,494
Total operating expenses	$ 672,374	$ 69,479	$ —	$ 741,853

(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 three months ended June 30, 2013 was $12,000.

(in thousands)	As Reported	Purchase Price Accounting Adjustments	Allocation of Share-based Payment Expense	Adjusted
	Unaudited For the Six Months Ended June 30, 2014			
Revenue:				
Subscriber revenue	$ 1,729,596	$ —	$ —	$ 1,729,596
Advertising revenue	47,712	—	—	47,712
Equipment revenue	51,594	—	—	51,594
Other revenue	204,154	3,626	—	207,780
Total revenue	$ 2,033,056	$ 3,626	$ —	$ 2,036,682
Operating expenses				
Cost of services:				
Revenue share and royalties	$ 395,632	$ —	$ —	$ 395,632
Programming and content	144,440	1,890	(4,469)	141,861
Customer service and billing	181,161	—	(1,164)	179,997
Satellite and transmission	42,651	—	(1,902)	40,749
Cost of equipment	19,834	—	—	19,834
Subscriber acquisition costs	247,429	—	—	247,429
Sales and marketing	154,086	—	(6,973)	147,113
Engineering, design and development	31,541	—	(3,863)	27,678
General and administrative	148,825	—	(17,656)	131,169
Depreciation and amortization (a)	135,471	—	—	135,471
Share-based payment expense	—	—	36,027	36,027
Total operating expenses	$ 1,501,070	$ 1,890	$ —	$ 1,502,960

(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 six months ended June 30, 2014 was $20,000.

(in thousands)	Unaudited For the Six Months Ended June 30, 2013 As Reported	Purchase Price Accounting Adjustments	Allocation of Share-based Payment Expense	Adjusted
Revenue:				
Subscriber revenue	$ 1,598,060	$ —	$ —	$ 1,598,060
Advertising revenue	41,968	—	—	41,968
Equipment revenue	36,599	—	—	36,599
Other revenue	160,881	3,626	—	164,507
Total revenue	$ 1,837,508	$ 3,626	$ —	$ 1,841,134
Operating expenses				
Cost of services:				
Revenue share and royalties	$ 304,390	$ 80,592	$ —	$ 384,982
Programming and content	144,991	4,956	(3,281)	146,666
Customer service and billing	160,684	—	(981)	159,703
Satellite and transmission	39,188	—	(1,677)	37,511
Cost of equipment	12,469	—	—	12,469
Subscriber acquisition costs	246,103	44,022	—	290,125
Sales and marketing	133,956	8,319	(6,243)	136,032
Engineering, design and development	29,894	—	(3,281)	26,613
General and administrative	116,732	—	(14,549)	102,183
Depreciation and amortization (a)	134,433	—	—	134,433
Share-based payment expense	—	—	30,012	30,012
Total operating expenses	$ 1,322,840	$ 137,889	$ —	$ 1,460,729

(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 six months ended June 30, 2013 was $25,000.

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

	Unaudited For the Three Months Ended June 30, 2014	 2013	 For the Six Months Ended June 30, 2014	 2013
Subscriber revenue, excluding connected vehicle (GAAP)	$ 855,846	$ 814,718	$ 1,688,649	$ 1,598,060
Add: advertising revenue (GAAP)	25,498	21,757	47,712	41,968
Add: other subscription-related revenue (GAAP)	82,990	71,648	163,758	135,785
	$ 964,334	$ 908,123	$ 1,900,119	$ 1,775,813
Daily weighted average number of subscribers	26,005,691	24,651,268	25,805,030	24,331,646
ARPU	$ 12.36	$ 12.28	$ 12.27	$ 12.16

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 given the significant variation in expense that can result from changes in the fair market value of Holdings' common stock, the effect of which is unrelated to the operational conditions that give rise to variations in the components of our customer service and billing expenses. Customer service and billing expenses, per average subscriber, is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Customer service and billing expenses, excluding connected vehicle (GAAP)	$ 82,705	$ 80,290	$ 166,809	$ 160,684
Less: share-based payment expense (GAAP)	(587)	(511)	(1,164)	(981)
	$ 82,118	$ 79,779	$ 165,645	$ 159,703
Daily weighted average number of subscribers	26,005,691	24,651,268	25,805,030	24,331,646
Customer service and billing expenses, per average subscriber	$ 1.05	$ 1.08	$ 1.07	$ 1.09

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

	Unaudited			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Cash Flow information				
Net cash (used in) provided by operating activities	$ (1,113,496)	$ 273,106	$ (947,145)	$ 442,021
Net cash used in investing activities	$ (5,638)	$ (36,546)	$ (33,095)	$ (62,980)
Net cash provided by (used in) financing activities	$ 1,167,943	$ 208,482	$ 1,015,415	$ (248,217)
Free Cash Flow				
Net cash (used in) provided by operating activities	$ (1,113,496)	$ 273,106	$ (947,145)	$ 442,021
Equity-related transactions for Holdings' (a)	1,454,178	—	1,539,217	—
Additions to property and equipment	(29,816)	(36,546)	(58,417)	(62,980)
Return of capital from investment in unconsolidated entity	24,178	—	24,178	—
Free cash flow	$ 335,044	$ 236,560	$ 557,833	$ 379,041

(a) Subsequent to our corporate reorganization effective November 15, 2013, all equity-related transactions are reported as related party transactions within Sirius XM's consolidated financial statements. For the six months ended June 30, 2014, this included payments of $1,532,164 for repurchases of Holdings' common stock, $7,313 for taxes paid in lieu of shares issued for stock-based compensation and $260 in proceeds from the exercise of stock options. All of these equity-related transactions are classified as Cash flows provided by financing activities within Holdings' unaudited consolidated statements of cash flows, and therefore, adjusted to reflect free cash flow at Sirius XM.

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

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

	Unaudited			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Subscriber acquisition costs (GAAP)	$ 124,407	$ 129,992	$ 247,429	$ 246,103
Less: margin from direct sales of radios and accessories (GAAP)	(15,586)	(13,001)	(31,760)	(24,130)
Add: purchase price accounting adjustments	—	22,017	—	44,022
	$ 108,821	$ 139,008	$ 215,669	$ 265,995
Installations	3,279,564	2,973,267	6,358,074	5,684,160
SAC, per installation	$ 33	$ 47	$ 34	$ 47