

SIRIUS XM HOLDINGS INC.
Form 10-Q
April 25, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2014

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 001-34295

SIRIUS XM HOLDINGS INC.
(Exact name of registrant as specified in its charter)

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

1221 Avenue of the Americas, 36th Floor
New York, New York 10020
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (212) 584-5100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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(Class)	(Outstanding as of April 23, 2014)	SHARES
COMMON STOCK, \$0.001 PAR VALUE	6,033,782,973	

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SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(in thousands, except per share data)	For the Three Months Ended March 31,	
	2014	2013
Revenue:		
Subscriber revenue	\$851,436	\$783,342
Advertising revenue	22,214	20,211
Equipment revenue	23,978	18,156
Other revenue	100,083	75,689
Total revenue	997,711	897,398
Operating expenses:		
Cost of services:		
Revenue share and royalties	195,411	148,531
Programming and content	74,870	74,610
Customer service and billing	91,069	80,394
Satellite and transmission	21,380	19,695
Cost of equipment	7,804	7,027
Subscriber acquisition costs	123,022	116,111
Sales and marketing	76,327	65,899
Engineering, design and development	15,911	14,842
General and administrative	76,243	56,340
Depreciation and amortization	68,267	67,018
Total operating expenses	750,304	650,467
Income from operations	247,407	246,931
Other income (expense):		
Interest expense, net of amounts capitalized	(54,092)	(46,174)
Interest and investment income	4,349	1,638
Loss on change in value of derivatives	(27,023)	—
Other income	95	247
Total other expense	(76,671)	(44,289)
Income before income taxes	170,736	202,642
Income tax expense	(76,748)	(79,040)
Net income	\$93,988	\$123,602
Foreign currency translation adjustment, net of tax	118	(172)
Total comprehensive income	\$94,106	\$123,430
Net income per common share:		
Basic	\$0.02	\$0.02
Diluted	\$0.02	\$0.02
Weighted average common shares outstanding:		
Basic	6,094,784	6,259,803
Diluted	6,173,848	6,606,276

See accompanying notes to the unaudited consolidated financial statements.

Table of ContentsSIRIUS XM HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2014	December 31, 2013
(in thousands, except share and per share data)		
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 121,171	\$ 134,805
Accounts receivable, net	103,872	103,937
Receivables from distributors	89,486	88,975
Inventory, net	18,987	13,863
Prepaid expenses	123,239	110,530
Related party current assets	5,143	9,145
Deferred tax asset	896,386	937,598
Other current assets	19,501	20,160
Total current assets	1,377,785	1,419,013
Property and equipment, net	1,571,460	1,594,574
Long-term restricted investments	5,718	5,718
Deferred financing fees, net	11,988	12,604
Intangible assets, net	2,685,978	2,700,062
Goodwill	2,203,409	2,204,553
Related party long-term assets	33,663	30,164
Long-term deferred tax asset	834,663	868,057
Other long-term assets	9,511	10,035
Total assets	\$ 8,734,175	\$ 8,844,780
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 558,756	\$ 578,333
Accrued interest	57,376	42,085
Current portion of deferred revenue	1,623,668	1,586,611
Current portion of deferred credit on executory contracts	3,672	3,781
Current maturities of long-term debt	497,516	496,815
Current maturities of long-term related party debt	10,970	10,959
Related party current liabilities	47,536	20,320
Total current liabilities	2,799,494	2,738,904
Deferred revenue	146,830	149,026
Deferred credit on executory contracts	558	1,394
Long-term debt	2,943,202	3,093,821
Related party long-term liabilities	15,627	16,337
Other long-term liabilities	103,051	99,556
Total liabilities	6,008,762	6,099,038
Commitments and contingencies (Note 16)		
Stockholders' 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 March 31, 2014 and December 31, 2013	—	—
Common stock, par value \$0.001; 9,000,000,000 shares authorized; 6,073,791,343 and 6,096,220,526 shares issued; 6,058,791,343 and 6,096,220,526 outstanding, at March 31, 2014 and December 31, 2013, respectively	6,074	6,096

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Accumulated other comprehensive loss, net of tax	(190)	(308)
Additional paid-in capital	8,607,329	8,674,129
Treasury stock, at cost; 15,000,000 and 0 shares of common stock at March 31, 2014 and December 31, 2013, respectively	(47,613)	—
Accumulated deficit	(5,840,187)	(5,934,175)
Total stockholders' equity	2,725,413	2,745,742
Total liabilities and stockholders' equity	\$8,734,175	\$ 8,844,780

See accompanying notes to the unaudited consolidated financial statements.

Table of ContentsSIRIUS XM HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(UNAUDITED)

(in thousands, except share data)	Convertible Perpetual Preferred Stock, Series B-1	Common Stock	Accumulated		Treasury Stock	Amount	Accumulated Deficit	Total Stockholders' Equity	
	Shares	Amount	Other Comprehensive Loss	Additional Paid-in Capital	Shares				
Balance at December 31, 2013	—	\$6,096,220,526	\$6,096	\$(308)	\$8,674,129	—	\$—	\$(5,934,175)	\$2,745,742
Comprehensive income, net of tax	—	—	118	—	—	—	—	93,988	94,106
Share-based payment expense	—	—	—	18,240	—	—	—	—	18,240
Exercise of options and vesting of restricted stock units	—2,070,817	2	—	257	—	—	—	—	259
Minimum withholding taxes on net share settlement of stock-based compensation	—	—	—	(4,252)	—	—	—	—	(4,252)
Common stock repurchased	—	—	—	—	39,500,000	(128,682)	—	—	(128,682)
Common stock retired	—(24,500,000)	(24)	—	(81,045)	(24,500,000)	81,069	—	—	—
Balance at March 31, 2014	—	\$6,073,791,343	\$6,074	\$(190)	\$8,607,329	15,000,000	\$(47,613)	\$(5,840,187)	\$2,725,413

See accompanying notes to the unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in thousands)	For the Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$93,988	\$123,602
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	68,267	67,018
Non-cash interest expense, net of amortization of premium	5,231	5,442
Provision for doubtful accounts	10,634	11,410
Amortization of deferred income related to equity method investment	(694)	(694)
Gain on unconsolidated entity investments, net	(4,326)	(1,345)
Dividend received from unconsolidated entity investment	4,222	9,674
Loss on disposal of assets	196	124
Loss on change in value of derivatives	27,023	—
Share-based payment expense	18,240	14,518
Deferred income taxes	74,565	83,631
Other non-cash purchase price adjustments	(945)	(70,459)
Changes in operating assets and liabilities:		
Accounts receivable	(10,569)	(13,143)
Receivables from distributors	(511)	1,663
Inventory	(5,124)	5,242
Related party assets	654	26
Prepaid expenses and other current assets	(15,682)	(51,815)
Other long-term assets	522	1,730
Accounts payable and accrued expenses	(68,168)	(97,537)
Accrued interest	15,291	31,054
Deferred revenue	34,861	47,480
Related party liabilities	177	5,891
Other long-term liabilities	3,538	(4,597)
Net cash provided by operating activities	251,390	168,915
Cash flows from investing activities:		
Additions to property and equipment	(28,601)	(26,434)
Acquisition of business, net of cash acquired	1,144	—
Net cash used in investing activities	(27,457)	(26,434)
Cash flows from financing activities:		
Proceeds from exercise of stock options	259	10,946
Taxes paid in lieu of shares issued for stock-based compensation	(4,229)	—
Repayment of long-term borrowings and revolving credit facility	(152,528)	(1,933)
Common stock repurchased and retired	(81,069)	(465,712)
Net cash used in financing activities	(237,567)	(456,699)
Net decrease in cash and cash equivalents	(13,634)	(314,218)
Cash and cash equivalents at beginning of period	134,805	520,945
Cash and cash equivalents at end of period	\$121,171	\$206,727
See accompanying notes to the unaudited consolidated financial statements.		

Table of ContentsSIRIUS XM HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)
(UNAUDITED)

(in thousands)	For the Three Months Ended	
	March 31, 2014	2013
Supplemental Disclosure of Cash and Non-Cash Flow Information		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$30,687	\$2,928
Non-cash investing and financing activities:		
Capital lease obligations incurred to acquire assets	719	—
Conversion of Series B preferred stock to common stock	—	1,293
Treasury stock not yet settled	47,613	27,923
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.		

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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 March 31,	
(in thousands, except per share data)	2014	2013
Revenue:		
Subscriber revenue	\$851,436	\$783,342
Advertising revenue	22,214	20,211
Equipment revenue	23,978	18,156
Other revenue	100,083	75,689
Total revenue	997,711	897,398
Operating expenses:		
Cost of services:		
Revenue share and royalties	195,411	148,531
Programming and content	74,870	74,610
Customer service and billing	91,069	80,394
Satellite and transmission	21,380	19,695
Cost of equipment	7,804	7,027
Subscriber acquisition costs	123,022	116,111
Sales and marketing	76,327	65,899
Engineering, design and development	15,911	14,842
General and administrative	76,243	56,340
Depreciation and amortization	68,267	67,018
Total operating expenses	750,304	650,467
Income from operations	247,407	246,931
Other income (expense):		
Interest expense, net of amounts capitalized	(54,092)	(46,174)
Interest and investment income	4,349	1,638
Gain on change in fair value of debt instruments	89,110	—
Other income	95	247
Total other income (expense)	39,462	(44,289)
Income before income taxes	286,869	202,642
Income tax expense	(76,748)	(79,040)
Net income attributable to Sirius XM Radio Inc.'s sole stockholder	\$210,121	\$123,602
Foreign currency translation adjustment, net of tax	118	(172)
Total comprehensive income attributable to Sirius XM Radio Inc.'s sole stockholder	\$210,239	\$123,430

See accompanying notes to the unaudited consolidated financial statements.

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SIRIUS XM RADIO INC. AND SUBSIDIARIES

(a wholly-owned subsidiary of Sirius XM Holdings Inc.)

CONSOLIDATED BALANCE SHEETS

	March 31, 2014	December 31, 2013
(in thousands, except share and per share data)		
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 121,171	\$ 134,805
Accounts receivable, net	103,872	103,937
Receivables from distributors	89,486	88,975
Inventory, net	18,987	13,863
Prepaid expenses	123,239	110,530
Related party current assets	126,295	15,861
Deferred tax asset	896,386	937,598
Other current assets	19,501	20,160
Total current assets	1,498,937	1,425,729
Property and equipment, net	1,571,460	1,594,574
Long-term restricted investments	5,718	5,718
Deferred financing fees, net	11,988	12,604
Intangible assets, net	2,685,978	2,700,062
Goodwill	2,203,409	2,204,553
Related party long-term assets	33,663	30,164
Long-term deferred tax asset	834,663	868,057
Other long-term assets	9,511	10,035
Total assets	\$ 8,855,327	\$ 8,851,496
LIABILITIES AND STOCKHOLDER EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 558,756	\$ 578,332
Accrued interest	45,654	42,085
Current portion of deferred revenue	1,623,668	1,586,611
Current portion of deferred credit on executory contracts	3,672	3,781
Current maturities of long-term debt	886,943	963,630
Current maturities of long-term related party debt	10,970	10,959
Related party current liabilities	4,811	4,618
Total current liabilities	3,134,474	3,190,016
Deferred revenue	146,830	149,026
Deferred credit on executory contracts	558	1,394
Long-term debt	2,943,202	3,093,821
Related party long-term liabilities	15,627	16,337
Other long-term liabilities	103,051	99,556
Total liabilities	6,343,742	6,550,150
Commitments and contingencies (Note 16)		
Stockholder equity:		
Preferred stock, undesignated, par value \$0.001 (liquidation preference of \$0.001 per share); 50,000,000 shares authorized and 0 shares issued and outstanding at March 31, 2014 and December 31, 2013	—	—
Common stock, par value \$0.001; 9,000,000,000 shares authorized and 1,000 shares issued and outstanding at March 31, 2014 and December 31, 2013	—	—

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Accumulated other comprehensive loss, net of tax	(190)	(308)
Additional paid-in capital	8,679,538	8,679,538
Accumulated deficit	(6,167,763)	(6,377,884)
Total stockholder equity	2,511,585	2,301,346
Total liabilities and stockholder equity	\$8,855,327	\$ 8,851,496

See accompanying notes to the unaudited consolidated financial statements.

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SIRIUS XM RADIO INC. AND SUBSIDIARIES

(a wholly-owned subsidiary of Sirius XM Holdings Inc.)

CONSOLIDATED STATEMENT OF STOCKHOLDER EQUITY

(UNAUDITED)

(in thousands, except share data)	Convertible Perpetual Preferred Stock, Series B-1		Common Stock		Accumulated Other Comprehensive Loss	Additional Paid-in Capital	Accumulated Deficit	Total Stockholder Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2013	—	\$—	1,000	\$—	\$ (308)	\$8,679,538	\$(6,377,884)	\$2,301,346
Comprehensive income, net of tax	—	—	—	—	118	—	210,121	210,239
Balance at March 31, 2014	—	\$—	1,000	\$—	\$ (190)	\$8,679,538	\$(6,167,763)	\$2,511,585

See accompanying notes to the unaudited consolidated financial statements.

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

	For the Three Months Ended March 31,	
(in thousands)	2014	2013
Cash flows from operating activities:		
Net income	\$210,121	\$123,602
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	68,267	67,018
Non-cash interest expense, net of amortization of premium	5,231	5,442
Provision for doubtful accounts	10,634	11,410
Amortization of deferred income related to equity method investment	(694)	(694)
Gain on unconsolidated entity investments, net	(4,326)	(1,345)
Dividend received from unconsolidated entity investment	4,222	9,674
Loss on disposal of assets	196	124
Gain on change in fair value of debt instruments	(89,110)	—
Share-based payment expense	18,240	14,518
Deferred income taxes	74,566	83,631
Other non-cash purchase price adjustments	(945)	(70,459)
Changes in operating assets and liabilities:		
Accounts receivable	(10,569)	(13,143)
Receivables from distributors	(511)	1,663
Inventory	(5,124)	5,242
Related party assets	(132,022)	26
Prepaid expenses and other current assets	(15,682)	(51,815)
Other long-term assets	522	1,730
Accounts payable and accrued expenses	(20,532)	(97,537)
Accrued interest	15,291	31,054
Deferred revenue	34,861	47,480
Related party liabilities	177	5,891
Other long-term liabilities	3,538	(4,597)
Net cash provided by operating activities	166,351	168,915
Cash flows from investing activities:		
Additions to property and equipment	(28,601)	(26,434)
Acquisition of business, net of cash acquired	1,144	—
Net cash used in investing activities	(27,457)	(26,434)
Cash flows from financing activities:		
Proceeds from exercise of stock options	—	10,946
Repayment of long-term borrowings and revolving credit facility	(152,528)	(1,933)
Common stock repurchased and retired	—	(465,712)
Net cash used in financing activities	(152,528)	(456,699)
Net decrease in cash and cash equivalents	(13,634)	(314,218)
Cash and cash equivalents at beginning of period	134,805	520,945
Cash and cash equivalents at end of period	\$121,171	\$206,727
See accompanying notes to the unaudited consolidated financial statements.		

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SIRIUS XM RADIO INC. AND SUBSIDIARIES

(a wholly-owned subsidiary of Sirius XM Holdings Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)
(UNAUDITED)

(in thousands)	For the Three Months Ended	
	March 31, 2014	2013
Supplemental Disclosure of Cash and Non-Cash Flow Information		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$30,687	\$2,928
Non-cash investing and financing activities:		
Capital lease obligations incurred to acquire assets	719	—
Conversion of Series B preferred stock to common stock	—	1,293
Conversion of 7% Exchangeable Notes to common stock, net of debt issuance and deferred financing costs	—	45,097
See accompanying notes to the unaudited consolidated financial statements.		

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(Dollar amounts in thousands, unless otherwise stated)

(1) Business & Basis of Presentation

Business

This Quarterly Report on Form 10-Q presents information for Sirius XM Holdings Inc. (“Holdings”) and also contains the financial results of Sirius XM Radio Inc. (“Sirius XM”) on a combined basis. The terms “we,” “us,” “our,” and “our company” as used herein and unless otherwise stated or indicated by context, refers to Sirius XM Radio Inc. and its subsidiaries prior to the corporate reorganization described below and to Sirius XM Holdings Inc. and its subsidiaries after such corporate reorganization.

Sirius XM Holdings Inc.

Effective November 15, 2013, we completed a corporate reorganization. As part of the reorganization, Holdings replaced Sirius XM as our publicly held corporation and Sirius XM became a wholly-owned subsidiary of Holdings. Holdings was incorporated in the State of Delaware on May 21, 2013. Holdings has no operations independent of its subsidiary Sirius XM.

Liberty Media Corporation beneficially owns, directly and indirectly, over 50% of the outstanding shares of our common stock. 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., its interests in Charter Communications, Live Nation Entertainment and minority equity investments in Time Warner Inc., Time Warner Cable and Viacom.

Sirius XM Radio Inc.

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 campaigns 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.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)

(Dollar amounts in thousands, unless otherwise stated)

Basis of Presentation

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

Our financial statements include the consolidated accounts for Holdings and subsidiaries and the accompanying consolidated financial statements of Sirius XM and subsidiaries, whose operating results and financial position are consolidated into Holdings. The unaudited consolidated balance sheets and unaudited consolidated statements of comprehensive income for Holdings, and combined footnotes, are essentially identical to the unaudited consolidated balance sheets and unaudited consolidated statements of comprehensive income for Sirius XM, with the following exceptions:

The fair value of the remaining obligations under the share repurchase agreement with Liberty Media is recorded in Holdings' unaudited consolidated balance sheets, with changes in fair value recorded in Holdings' unaudited statements of comprehensive income. Refer to Note 14 for additional information related to the share repurchase agreement.

The fair value in excess of the carrying amount associated with the conversion feature for the 7% Exchangeable Senior Subordinated Notes due 2014 is recorded in Sirius XM's unaudited consolidated balance sheets, with changes in fair value recorded in Sirius XM's unaudited statements of comprehensive income. This 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.

With the exception of the items noted above, all significant intercompany transactions and balances between Holdings and Sirius XM and their respective consolidated subsidiaries are eliminated in both sets of unaudited consolidated financial statements. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of our unaudited consolidated financial statements as of March 31, 2014 and for the three months ended March 31, 2014 have been made.

Interim results are not necessarily indicative of the results that may be expected for a full year. This Quarterly Report on Form 10-Q should be read together with our Annual Report on Form 10-K for the year ended December 31, 2013, which was filed with the SEC on February 4, 2014.

We have evaluated events subsequent to the balance sheet date and prior to the filing of this Quarterly Report on Form 10-Q for the three months ended March 31, 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 refer to Note 18.

Use of Estimates

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

(2) 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 three months ended March 31, 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. As of March 31, 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.

Table of ContentsCOMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)

(Dollar amounts in thousands, unless otherwise stated)

(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 March 31, 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.

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

	March 31, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	Total Fair Value
Assets:								
Sirius XM Canada Holdings Inc. ("Sirius XM Canada") - investment (a)	\$369,800	—	—	\$369,800	\$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)	\$—	3,905,871	—	\$3,905,871	\$—	4,066,755	—	\$4,066,755
Share Repurchase Agreement (d)	\$—	42,725	—	\$42,725	\$—	15,702	—	\$15,702

(a) This amount approximates fair value. The carrying value of our investment in Sirius XM Canada was \$30,691 and \$26,972 as of March 31, 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 13 for information related to the carrying value of debt as of March 31, 2014 and December 31, 2013.

(d) The fair value of the share repurchase agreement is determined using observable inputs, including the U.S. spot LIBOR curve and other available market data. The fair value of the derivative associated with the share repurchase agreement with Liberty Media is recorded in Holdings' unaudited consolidated balance sheets in Related party current liabilities, with changes in fair value recorded to Holdings' unaudited statements of comprehensive income.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive loss of \$190 at March 31, 2014 was primarily comprised of the cumulative foreign currency translation adjustments related to our interest in Sirius XM Canada. During the three months ended March 31, 2014, we recorded a foreign currency translation adjustment of \$118. In addition, during the three months

ended March 31, 2014, upon the redemption and conversion of the 8% convertible unsecured subordinated debentures issued by Sirius XM Canada, we reclassified \$223, net of tax, of previously recognized foreign translation losses out of Accumulated other comprehensive loss and into Interest and investment income.

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(UNAUDITED)

(Dollar amounts in thousands, unless otherwise stated)

(4) Earnings per Share

Holdings

Basic net income per common share is calculated by dividing the income available to common stockholders by the weighted average common shares outstanding during each reporting period. Diluted net income per common share adjusts the weighted average number of common shares outstanding for the potential dilution that could occur if common stock equivalents (convertible debt, warrants, stock options and restricted stock units) were exercised or converted into common stock, calculated using the treasury stock method. We had no participating securities during the three months ended March 31, 2014. In 2013, we utilized the two-class method in calculating basic net income per common share, as our Series B Preferred Stock was considered to be participating securities through January 18, 2013. On January 18, 2013, Liberty Media converted its remaining 6,250,100 outstanding shares of Sirius XM Series B Preferred Stock into 1,293,509,076 shares of common stock.

Common stock equivalents of approximately 386,975,000 and 349,681,000 for the three months ended March 31, 2014 and 2013, respectively, were excluded from the calculation of diluted net income per common share as the effect would have been anti-dilutive.

(in thousands, except per share data)	For the Three Months Ended March	
	31, 2014	2013
Numerator:		
Net income	\$93,988	\$123,602
Less:		
Allocation of undistributed income to Series B Preferred Stock	—	(4,905)
Net income available to common stockholders for basic net income per common share	\$93,988	\$118,697
Add back:		
Allocation of undistributed income to Series B Preferred Stock	—	4,905
Net income available to common stockholders for diluted net income per common share	\$93,988	\$123,602
Denominator:		
Weighted average common shares outstanding for basic net income per common share	6,094,784	6,259,803
Weighted average impact of assumed Series B Preferred Stock conversion	—	258,702
Weighted average impact of other dilutive equity instruments	79,064	87,771
Weighted average shares for diluted net income per common share	6,173,848	6,606,276
Net income per common share:		
Basic	\$0.02	\$0.02
Diluted	\$0.02	\$0.02

Sirius XM

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

(5) Accounts Receivable, net

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.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
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(Dollar amounts in thousands, unless otherwise stated)

Accounts receivable, net, consists of the following:

	March 31, 2014	December 31, 2013
Gross accounts receivable	\$111,315	\$113,015