

SIRIUS XM HOLDINGS INC.
Form 10-Q
April 28, 2016

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, 2016
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 incorporation or organization) (I.R.S. Employer Identification No.)

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 26, 2016) |
|---------------------------------|---------------------------------------|
| COMMON STOCK, \$0.001 PAR VALUE | 4,958,140,435 SHARES |

Table of Contents

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

INDEX TO FORM 10-Q

Item No. Description

PART I - Financial Information

| | | |
|----------------|---|-----------|
| <u>Item 1.</u> | <u>Financial Statements (unaudited)</u> | |
| | <u>Consolidated Statements of Comprehensive Income for the three months ended March 31, 2016 and 2015</u> | <u>2</u> |
| | <u>Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015</u> | <u>3</u> |
| | <u>Consolidated Statement of Stockholders' (Deficit) Equity as of March 31, 2016</u> | <u>4</u> |
| | <u>Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015</u> | <u>5</u> |
| | <u>Notes to the Consolidated Financial Statements</u> | <u>7</u> |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>22</u> |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risks</u> | <u>35</u> |
| <u>Item 4.</u> | <u>Controls and Procedures</u> | <u>35</u> |

PART II - Other Information

| | | |
|-----------------|--|-----------|
| <u>Item 1.</u> | <u>Legal Proceedings</u> | <u>36</u> |
| <u>Item 1A.</u> | <u>Risk Factors</u> | <u>36</u> |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>37</u> |
| <u>Item 3.</u> | <u>Defaults Upon Senior Securities</u> | <u>37</u> |
| <u>Item 4.</u> | <u>Mine Safety Disclosures</u> | <u>37</u> |
| <u>Item 5.</u> | <u>Other Information</u> | <u>37</u> |
| <u>Item 6.</u> | <u>Exhibits</u> | <u>37</u> |
| | <u>Signatures</u> | <u>38</u> |

Table of Contents

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

| (in thousands, except per share data) | For the Three Months Ended March 31, | |
|---|---|------------|
| | 2016 | 2015 |
| Revenue: | | |
| Subscriber revenue | \$ 1,009,682 | \$ 911,470 |
| Advertising revenue | 31,541 | 26,873 |
| Equipment revenue | 27,121 | 24,841 |
| Other revenue | 132,666 | 117,806 |
| Total revenue | 1,201,010 | 1,080,990 |
| Operating expenses: | | |
| Cost of services: | | |
| Revenue share and royalties | 251,744 | 212,978 |
| Programming and content | 85,100 | 71,146 |
| Customer service and billing | 96,867 | 92,097 |
| Satellite and transmission | 23,538 | 21,304 |
| Cost of equipment | 9,779 | 8,845 |
| Subscriber acquisition costs | 132,449 | 122,260 |
| Sales and marketing | 88,726 | 78,744 |
| Engineering, design and development | 19,441 | 14,960 |
| General and administrative | 77,505 | 79,823 |
| Depreciation and amortization | 67,627 | 65,027 |
| Total operating expenses | 852,776 | 767,184 |
| Income from operations | 348,234 | 313,806 |
| Other income (expense): | | |
| Interest expense | (78,400) | (69,908) |
| Other income | 10,848 | 723 |
| Total other expense | (67,552) | (69,185) |
| Income before income taxes | 280,682 | 244,621 |
| Income tax expense | (109,343) | (138,929) |
| Net income | \$ 171,339 | \$ 105,692 |
| Foreign currency translation adjustment, net of tax | 449 | — |
| Total comprehensive income | \$ 171,788 | \$ 105,692 |
| Net income per common share: | | |
| Basic | \$ 0.03 | \$ 0.02 |
| Diluted | \$ 0.03 | \$ 0.02 |
| Weighted average common shares outstanding: | | |
| Basic | 5,065,319 | 5,570,748 |
| Diluted | 5,110,618 | 5,639,838 |

See accompanying notes to the unaudited consolidated financial statements.

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

| (in thousands, except per share data) | March 31, 2016 | December 31, 2015 |
|--|-------------------|----------------------|
| ASSETS | (unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | \$ 101,952 | \$ 111,838 |
| Receivables, net | 228,170 | 234,782 |
| Inventory, net | 21,755 | 22,295 |
| Related party current assets | 5,427 | 5,941 |
| Prepaid expenses and other current assets | 204,849 | 187,033 |
| Total current assets | 562,153 | 561,889 |
| Property and equipment, net | 1,400,755 | 1,415,401 |
| Intangible assets, net | 2,580,906 | 2,593,346 |
| Goodwill | 2,205,107 | 2,205,107 |
| Related party long-term assets | 6,695 | — |
| Deferred tax assets | 1,012,649 | 1,115,731 |
| Other long-term assets | 159,977 | 155,188 |
| Total assets | \$ 7,928,242 | \$ 8,046,662 |
| LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 606,744 | \$ 625,313 |
| Accrued interest | 89,882 | 91,655 |
| Current portion of deferred revenue | 1,799,491 | 1,771,915 |
| Current maturities of long-term debt | 5,501 | 4,764 |
| Related party current liabilities | 2,840 | 2,840 |
| Total current liabilities | 2,504,458 | 2,496,487 |
| Deferred revenue | 160,506 | 157,609 |
| Long-term debt | 5,709,319 | 5,443,614 |
| Related party long-term liabilities | 10,085 | 10,795 |
| Deferred tax liabilities | 6,508 | 6,681 |
| Other long-term liabilities | 101,310 | 97,967 |
| Total liabilities | 8,492,186 | 8,213,153 |
| Commitments and contingencies (Note 13) | | |
| Stockholders' (deficit) equity: | | |
| Common stock, par value \$0.001; 9,000,000 shares authorized; 4,993,936 and 5,153,451 shares issued; 4,989,436 and 5,147,647 outstanding at March 31, 2016 and December 31, 2015, respectively | 4,994 | 5,153 |
| Accumulated other comprehensive loss, net of tax | (53 |) (502 |
| Additional paid-in capital | 4,208,743 | 4,783,795 |
| Treasury stock, at cost; 4,500 and 5,804 shares of common stock at March 31, 2016 and December 31, 2015, respectively | (17,757 |) (23,727 |
| Accumulated deficit | (4,759,871 |) (4,931,210 |
| Total stockholders' (deficit) equity | (563,944 |) (166,491 |
| Total liabilities and stockholders' (deficit) equity | \$ 7,928,242 | \$ 8,046,662 |

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' (DEFICIT) EQUITY
(UNAUDITED)

| (in thousands) | Common Stock | | Accumulated Other Comprehensive (Loss) Income | Additional Paid-in Capital | Treasury Stock | | Accumulated Deficit | Total Stockholders' (Deficit) Equity |
|--|--------------|---------|---|----------------------------------|----------------|------------|------------------------|---|
| | Shares | Amount | | | Shares | Amount | | |
| Balance at December 31, 2015 | 5,153,451 | \$5,153 | \$ (502) | \$4,783,795 | 5,804 | \$(23,727) | \$(4,931,210) | \$(166,491) |
| Comprehensive income, net of tax | — | — | 449 | — | — | — | 171,339 | 171,788 |
| Share-based payment expense | — | — | — | 20,891 | — | — | — | 20,891 |
| Exercise of options and vesting of restricted stock units | 754 | 1 | — | (1) | — | — | — | — |
| Minimum withholding taxes on net share settlement of stock-based compensation | — | — | — | (1,652) | — | — | — | (1,652) |
| Common stock repurchased | — | — | — | — | 158,965 | (588,480) | — | (588,480) |
| Common stock retired | (160,269) | (160) | — | (594,290) | (160,269) | 594,450 | — | — |
| Balance at March 31, 2016 | 4,993,936 | \$4,994 | \$ (53) | \$4,208,743 | 4,500 | \$(17,757) | \$(4,759,871) | \$(563,944) |

See accompanying notes to the unaudited consolidated financial statements.

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

| (in thousands) | For the Three Months Ended March 31, | |
|---|---|------------|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net income | \$ 171,339 | \$ 105,692 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 67,627 | 65,027 |
| Non-cash interest expense, net of amortization of premium | 2,054 | 1,852 |
| Provision for doubtful accounts | 13,055 | 10,885 |
| Amortization of deferred income related to equity method investment | (694) | (694) |
| Gain on unconsolidated entity investments, net | (6,274) | — |
| Dividend received from unconsolidated entity investment | 3,386 | 3,778 |
| Share-based payment expense | 23,693 | 19,417 |
| Deferred income taxes | 103,081 | 136,294 |
| Other non-cash purchase price adjustments | — | (836) |
| Changes in operating assets and liabilities: | | |
| Receivables | (6,443) | (9,727) |
| Inventory | 540 | (3,540) |
| Related party, net | (3,310) | 695 |
| Prepaid expenses and other current assets | (18,545) | (19,102) |
| Other long-term assets | (956) | 215 |
| Accounts payable and accrued expenses | (18,239) | (27,918) |
| Accrued interest | (1,773) | (12,690) |
| Deferred revenue | 30,473 | 40,304 |
| Other long-term liabilities | 3,172 | 377 |
| Net cash provided by operating activities | 362,186 | 310,029 |
| Cash flows from investing activities: | | |
| Additions to property and equipment | (30,171) | (29,831) |
| Purchases of restricted and other investments | (3,798) | (3,966) |
| Net cash used in investing activities | (33,969) | (33,797) |
| Cash flows from financing activities: | | |
| Taxes paid in lieu of shares issued for stock-based compensation | (1,354) | (12,711) |
| Proceeds from long-term borrowings and revolving credit facility, net of costs | 330,000 | 1,263,745 |
| Repayment of long-term borrowings and revolving credit facility | (72,299) | (657,731) |
| Common stock repurchased and retired | (594,450) | (535,216) |
| Net cash (used in) provided by financing activities | (338,103) | 58,087 |
| Net (decrease) increase in cash and cash equivalents | (9,886) | 334,319 |
| Cash and cash equivalents at beginning of period | 111,838 | 147,724 |
| Cash and cash equivalents at end of period | \$ 101,952 | \$ 482,043 |

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

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

| (in thousands) | For the Three Months Ended March 31, | |
|---|--|----------|
| | 2016 | 2015 |
| Supplemental Disclosure of Cash and Non-Cash Flow Information | | |
| Cash paid during the period for: | | |
| Interest | \$76,315 | \$76,302 |
| Non-cash investing and financing activities: | | |
| Capital lease obligations incurred to acquire assets | \$6,647 | \$— |
| Treasury stock not yet settled | \$17,757 | \$24,858 |

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

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

(1) Business & Basis of Presentation

Business

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

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

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

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

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

Basis of Presentation

This Quarterly Report on Form 10-Q presents information for Sirius XM Holdings Inc. (“Holdings”). Holdings has no operations independent of its wholly-owned subsidiary Sirius XM Radio Inc. (“Sirius XM”).

The accompanying unaudited consolidated financial statements of Holdings and its subsidiaries 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.

Certain numbers in our prior period consolidated financial statements have been reclassified to conform to our current period presentation. All significant intercompany transactions have been eliminated in consolidation. In the opinion of our management, all normal recurring adjustments necessary for a fair presentation of our unaudited consolidated financial statements as of March 31, 2016 and for the three months ended March 31, 2016 and 2015 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, 2015, which was filed with the SEC on February 2, 2016.

Public companies are required to disclose certain information about their reportable operating segments. Operating segments are defined as significant components of an enterprise for which separate financial information is available and is evaluated on a regular basis by the chief operating decision makers in deciding how to allocate resources to an individual segment and in assessing performance of the segment. We have determined that we have one reportable segment as our chief

7

Table of Contents

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

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

operating decision maker, our Chief Executive Officer, assesses performance and allocates resources based on the consolidated results of operations of our business.

We have evaluated events subsequent to the balance sheet date and prior to the filing of this Quarterly Report on Form 10-Q for the three months ended March 31, 2016. Refer to Note 13, Commitments and Contingencies - Legal Proceedings, for the subsequent event, the execution of a memorandum of understanding relating to the settlement of purported class action suits that allege violations of the Telephone Consumer Protection Act of 1991, which required adjustment to our unaudited consolidated financial statements as of March 31, 2016. No other events have occurred that would require adjustment to our unaudited consolidated financial statements. For a discussion of additional subsequent events that do not require adjustment to our unaudited consolidated financial statements refer to Note 15.

Use of Estimates

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

(2) Summary of Significant Accounting Policies

Fair Value Measurements

For assets and liabilities required to be reported at fair value, GAAP provides a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are based on unadjusted quoted prices in active markets for identical instruments. Level 2 inputs are inputs, other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. As of March 31, 2016 and December 31, 2015, the carrying amounts of cash and cash equivalents, receivables, and accounts payable approximated fair value due to the short-term nature of these instruments.

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

| | March 31, 2016 | | | Level 3 Value | December 31, 2015 | | | Level 3 Value |
|--|----------------|--------------|------------------|------------------|-------------------|--------------|------------------|------------------|
| | Level 1 | Level 2 | Total Fair Value | | Level 1 | Level 2 | Total Fair Value | |
| Assets: | | | | | | | | |
| Sirius XM Canada Holdings Inc. ("Sirius XM Canada") - investment ^(a) | \$ 168,863 | — | — | \$ 168,863 | \$ 141,850 | — | — | \$ 141,850 |
| Liabilities: | | | | | | | | |
| Debt ^(b) | — | \$ 5,945,992 | — | \$ 5,945,992 | — | \$ 5,649,173 | — | \$ 5,649,173 |

^(a) This amount approximates fair value. The carrying value of our investment in Sirius XM Canada was \$6,386 and \$0 as of March 31, 2016 and December 31, 2015, respectively.

The fair value for non-publicly traded instruments is based upon estimates from a market maker and brokerage firm. Refer to Note 10 for information related to the carrying value of our debt as of March 31, 2016 and December 31, 2015.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The areas for simplification in this update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities,

forfeiture calculations, and classification on the statement of cash flows. The amendments in this update are effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years, and early adoption is permitted. An entity that elects early adoption must adopt all

Table of Contents

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

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

of the amendments in the same period. We are currently evaluating the timing of adoption and the impact of this ASU on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU requires a company to recognize lease assets and liabilities arising from operating leases in the statement of financial position. This ASU does not significantly change the previous lease guidance for how a lessee should recognize the recognition, measurement, and presentation of expenses and cash flows arising from a lease. Additionally, the criteria for classifying a finance lease versus an operating lease are substantially the same as the previous guidance. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted. We plan to adopt this ASU on January 1, 2019. Companies are required to use a modified retrospective approach to adopt this ASU. We are currently evaluating the impact of the adoption of this ASU on our consolidated financial statements.

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

(3) Earnings per Share

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 (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, 2016 and 2015.

Common stock equivalents of 238,258 and 105,796 for the three months ended March 31, 2016 and 2015, respectively, were excluded from the calculation of diluted net income per common share as the effect would have been anti-dilutive.

| | For the Three Months Ended March 31, 2016 2015 | |
|---|--|-----------|
| Numerator: | | |
| Net income available to common stockholders for basic and diluted net income per common share | \$171,339 | \$105,692 |
| Denominator: | | |
| Weighted average common shares outstanding for basic net income per common share | 5,065,319 | 5,570,748 |

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| | | |
|---|-----------|-----------|
| Weighted average impact of dilutive equity instruments | 45,299 | 69,090 |
| Weighted average shares for diluted net income per common share | 5,110,618 | 5,639,838 |
| Net income per common share: | | |
| Basic | \$0.03 | \$0.02 |
| Diluted | \$0.03 | \$0.02 |

(4)Receivables, net

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

9

Table of Contents

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

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

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

Receivables from distributors primarily include billed and unbilled amounts due from OEMs for services included in the sale or lease price of vehicles, as well as billed amounts due from wholesale distributors of our satellite radios. Other receivables primarily include amounts due from manufacturers of our radios, modules and chipsets where we are entitled to subsidies and royalties based on the number of units produced. We have not established an allowance for doubtful accounts for our receivables from distributors or other receivables as we have historically not experienced any significant collection issues with OEMs or other third parties.

Receivables, net, consists of the following:

| | March 31, December 31, | |
|------------------------------------|------------------------|------------|
| | 2016 | 2015 |
| Gross customer accounts receivable | \$93,016 | \$ 98,740 |
| Allowance for doubtful accounts | (6,401) | (6,118) |
| Customer accounts receivable, net | \$86,615 | \$ 92,622 |
| Receivables from distributors | 118,691 | 120,012 |
| Other receivables | 22,864 | 22,148 |
| Total receivables, net | \$228,170 | \$ 234,782 |

(5) Inventory, net

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

| | March 31, December 31, | |
|----------------------------|------------------------|-----------|
| | 2016 | 2015 |
| Raw materials | \$ 10,767 | \$ 11,085 |
| Finished goods | 21,103 | 21,159 |
| Allowance for obsolescence | (10,115) | (9,949) |
| Total inventory, net | \$21,755 | \$ 22,295 |

(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 of our single reporting unit is performed as of the fourth quarter of each year, and an assessment is performed at other times if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset below its carrying value. If the

carrying value of goodwill exceeds its fair value, an impairment loss is recognized.

As of March 31, 2016, there were no indicators of impairment, and no impairment loss was recorded for goodwill during the three months ended March 31, 2016 and 2015. As of March 31, 2016, the cumulative balance of goodwill impairments

Table of Contents

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

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

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.

(7) Intangible Assets

Our intangible assets include the following:

| | | March 31, 2016 | | | December 31, 2015 | | |
|------------------------------------|-------------------------------------|----------------------------|-----------------------------|-----------------------|----------------------------|-----------------------------|-----------------------|
| | Weighted Average Useful Lives | Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| Indefinite life intangible assets: | | | | | | | |
| FCC licenses | Indefinite | \$2,083,654 | \$— | \$2,083,654 | \$2,083,654 | \$— | \$2,083,654 |
| Trademark | Indefinite | 250,000 | — | 250,000 | 250,000 | — | 250,000 |
| Definite life intangible assets: | | | | | | | |
| Subscriber relationships | 9 years | 380,000 | (344,109) | 35,891 | 380,000 | (336,822) | 43,178 |
| OEM relationships | 15 years | 220,000 | (35,444) | 184,556 | 220,000 | (31,778) | 188,222 |
| Licensing agreements | 12 years | 45,289 | (27,899) | 17,390 | 45,289 | (26,977) | 18,312 |
| Proprietary software | 8 years | 27,215 | (18,267) | 8,948 | 27,215 | (17,752) | 9,463 |
| Developed technology | 10 years | 2,000 | (1,533) | 467 | 2,000 | (1,483) | 517 |
| Leasehold interests | 7.4 years | 132 | (132) | — | 132 | (132) | — |
| Total intangible assets | | \$3,008,290 | \$(427,384) | \$2,580,906 | \$3,008,290 | \$(414,944) | \$2,593,346 |

Indefinite Life Intangible Assets

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

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

FCC satellite licenses Expiration year

| | |
|--------------|------|
| SIRIUS FM-1* | 2017 |
| SIRIUS FM-2* | 2017 |
| SIRIUS FM-3* | 2017 |
| SIRIUS FM-5 | 2025 |
| SIRIUS FM-6 | 2022 |
| XM-3 | 2021 |
| XM-4 | 2022 |
| XM-5 | 2018 |

* As of April 7, 2016, these satellites were no longer being used to transmit satellite radio. We plan to deorbit these satellites during 2016.

Prior to expiration of our FCC licenses, we are required to apply for a renewal of our FCC licenses. The renewal and extension of our licenses is reasonably certain at minimal cost, which is expensed as incurred. Each of the FCC licenses authorizes us to use the radio spectrum, which is a renewable, reusable resource that does not deplete or

exhaust over time.

Our annual impairment assessment of our identifiable 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

11

Table of Contents

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

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

value, an impairment loss is recognized. As of March 31, 2016, there were no indicators of impairment, and no impairment loss was recorded for intangible assets with indefinite lives during the three months ended March 31, 2016 and 2015.

Definite Life Intangible Assets

Amortization expense for all definite life intangible assets was \$12,440 and \$13,223 for the three months ended March 31, 2016 and 2015, respectively. Expected amortization expense for the remaining period in 2016, each of the fiscal years 2017 through 2020 and for periods thereafter is as follows:

| Years ending December 31, | Amount |
|--|-----------|
| 2016 (remaining) | \$36,105 |
| 2017 | 34,882 |
| 2018 | 19,463 |
| 2019 | 19,026 |
| 2020 | 18,446 |
| Thereafter | 119,330 |
| Total definite life intangible assets, net | \$247,252 |

(8)Property and Equipment

Property and equipment, net, consists of the following:

| | March 31, 2016 | December 31, 2015 |
|--|-------------------|----------------------|
| Satellite system | \$2,388,000 | \$2,388,000 |
| Terrestrial repeater network | 115,235 | 117,127 |
| Leasehold improvements | 49,516 | 49,407 |
| Broadcast studio equipment | 72,638 | 70,888 |
| Capitalized software and hardware | 487,169 | 466,464 |
| Satellite telemetry, tracking and control facilities | 75,684 | 75,440 |
| Furniture, fixtures, equipment and other | 75,936 | 81,871 |
| Land | 38,411 | 38,411 |
| Building | 60,598 | 60,487 |
| Construction in progress | 123,617 | 101,324 |
| Total property and equipment | 3,486,804 | 3,449,419 |
| Accumulated depreciation and amortization | (2,086,049) | (2,034,018) |
| Property and equipment, net | \$1,400,755 | \$1,415,401 |

Construction in progress consists of the following:

| | March 31, 2016 | December 31, 2015 |
|------------------------------|-------------------|----------------------|
| Satellite system | \$12,912 | \$12,912 |
| Terrestrial repeater network | 30,013 | 25,578 |
| Capitalized software | 53,669 | 37,064 |
| Other | 27,023 | 25,770 |
| Construction in progress | \$123,617 | \$101,324 |

Depreciation expense on property and equipment was \$55,187 and \$51,804 for the three months ended March 31, 2016 and 2015, respectively. We retired property and equipment of \$3,160 and \$4,571 during the three months ended March 31, 2016 and 2015, respectively.

Table of Contents

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

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

Satellites

As of March 31, 2016, we owned a fleet of eight operating satellites. In March 2016, we de-orbited XM-1, a satellite that was no longer in use and had also reached the end of its operational life. The chart below provides certain information on our operating satellites as of March 31, 2016:

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

* Satellite was fully depreciated and was still in operation as of March 31, 2016. As of April 7, 2016, these satellites were no longer being used to transmit satellite radio. We plan to deorbit these satellites during 2016.

(9) Related Party Transactions

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

Liberty Media

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

Sirius XM Canada

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

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

| | March 31, December 31, | |
|-------------------------------------|------------------------|-----------|
| | 2016 | 2015 |
| Related party current assets | \$ 5,427 | \$ 5,941 |
| Related party long-term assets | \$ 6,695 | \$ — |
| Related party current liabilities | \$ 2,840 | \$ 2,840 |
| Related party long-term liabilities | \$ 10,085 | \$ 10,795 |

Our related party current asset balances primarily consist of activation fees and programming and chipset costs for which we are reimbursed. Our related party long-term asset balance as of March 31, 2016 primarily included our investment balance in Sirius XM Canada. Our related party liabilities as of March 31, 2016 and December 31, 2015 included \$2,776 for the current portion of deferred revenue and \$9,945 and \$10,639, respectively, for the long-term portion of deferred revenue recorded as of the Merger date related to agreements with XM Canada, now Sirius XM Canada. These costs are being amortized on a straight line basis through 2020.

Table of Contents

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

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

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

| | For the Three Months Ended March 31, 2016 2015 | |
|--------------------------------------|---|----------|
| Revenue ^(a) | \$9,911 | \$13,517 |
| Other income | | |
| Share of net earnings ^(b) | \$6,274 | \$— |
| Dividends ^(c) | \$3,575 | \$976 |

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

We recognize our proportionate share of earnings or losses of Sirius XM Canada as they occur as a component of Other income in our unaudited consolidated statements of comprehensive income on a one month lag.

Sirius XM Canada paid gross dividends to us of \$3,575 and \$3,977 during the three months ended March 31, 2016 and 2015, respectively. These dividends were first recorded as a reduction to our investment balance in Sirius XM Canada to the extent a balance existed and then as Other income for the remaining portion.

(10)Debt

Our debt as of March 31, 2016 and December 31, 2015 consisted of the following:

| Issuer / Borrower | Issued | Debt | Maturity Date | Interest Payable | Carrying value ^(a) at | | |
|----------------------|-------------------|---|--------------------|--|---|-------------------|----------------------|
| | | | | | Principal Amount at March 31, 2016 | March 31, 2016 | December 31, 2015 |
| Sirius XM (b) | May 2013 | 4.25% Senior Notes (the "4.25% Notes") | May 15, 2020 | semi-annually on May 15 and November 15 | \$ 500,000 | \$496,475 | \$ 496,282 |
| Sirius XM (b) | September 2013 | 5.875% Senior Notes (the "5.875% Notes") | October 1, 2020 | semi-annually on April 1 and October 1 | 650,000 | 644,961 | 644,720 |
| Sirius XM (b) | August 2013 | 5.75% Senior Notes (the "5.75% Notes") | August 1, 2021 | semi-annually on February 1 and August 1 | 600,000 | 595,883 | 595,720 |
| Sirius XM (b) | May 2013 | 4.625% Senior Notes (the "4.625% Notes") | May 15, 2023 | semi-annually on May 15 and November 15 | 500,000 | 495,727 | 495,602 |
| Sirius XM (b) | May 2014 | 6.00% Senior Notes (the "6.00% Notes") | July 15, 2024 | semi-annually on January 15 and July 15 | 1,500,000 | 1,485,528 | 1,485,196 |

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| | | | | | | | |
|--|---------------|--|-----------------|--|-----------|-------------|-------------|
| Sirius XM (b) | March 2015 | 5.375% Senior Notes (the "5.375% Notes") | April 15, 2025 | semi-annually on April 15 and October 15 | 1,000,000 | 989,665 | 989,446 |
| Sirius XM (b)(c) | August 2012 | 5.25% Senior Secured Notes (the "5.25% Notes") | August 15, 2022 | semi-annually on February 15 and August 15 | 400,000 | 395,811 | 395,675 |
| Sirius XM (d) | December 2012 | Senior Secured Revolving Credit Facility (the "Credit Facility") | June 16, 2020 | variable fee paid quarterly | 1,750,000 | 600,000 | 340,000 |
| Sirius XM | Various | Capital leases | Various | n/a | n/a | 17,701 | 12,892 |
| Total Debt | | | | | | 5,721,751 | 5,455,533 |
| Less: total current maturities | | | | | | 5,501 | 4,764 |
| Less: total deferred financing costs for Notes | | | | | | 6,931 | 7,155 |
| Total long-term debt | | | | | | \$5,709,319 | \$5,443,614 |

(a) The carrying value of the obligations is net of any remaining unamortized original issue discount.

Table of Contents

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

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

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

(c) The liens securing the 5.25% Notes are equal and ratable to the liens granted to secure the Credit Facility.

In December 2012, Sirius XM entered into a five-year Credit Facility with a syndicate of financial institutions for \$1,250,000. In June 2015, Sirius XM entered into an amendment to increase the total borrowing capacity under the Credit Facility to \$1,750,000 and to extend the maturity to June 2020. Sirius XM's obligations under the Credit Facility are guaranteed by certain of its material domestic subsidiaries and are secured by a lien on substantially all of Sirius XM's assets and the assets of its material domestic subsidiaries. Interest on borrowings is payable on a

(d) monthly basis and accrues at a rate based on LIBOR plus an applicable rate. Sirius XM is also required to pay a variable fee on the average daily unused portion of the Credit Facility which is payable on a quarterly basis. The variable rate for the unused portion of the Credit Facility was 0.30% per annum as of March 31, 2016. As of March 31, 2016, \$1,150,000 was available for future borrowing under the Credit Facility. Sirius XM's 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.

Covenants and Restrictions

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

The indentures governing Sirius XM's notes restrict Sirius XM's non-guarantor subsidiaries' ability to create, assume, incur or guarantee additional indebtedness without such non-guarantor subsidiary guaranteeing each such series of notes on a pari passu basis. The indentures governing the notes also contain covenants that, among other things, limit Sirius XM's ability and the ability of its subsidiaries to create certain liens; enter into sale/leaseback transactions; and merge or consolidate.

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

At March 31, 2016 and December 31, 2015, we were in compliance with our debt covenants.

(11) Stockholders' Equity

Common Stock, par value \$0.001 per share

We are authorized to issue up to 9,000,000 shares of common stock. There were 4,993,936 and 5,153,451 shares of common stock issued and 4,989,436 and 5,147,647 shares outstanding on March 31, 2016 and December 31, 2015, respectively.

As of March 31, 2016, common stock of 350,551 shares were reserved for issuance in connection with incentive stock based awards and common stock to be granted to members of our board of directors, employees and third parties.

Stock Repurchase Program

Since December 2012, our board of directors has approved for repurchase an aggregate of \$8,000,000 of our common stock. Our board of directors did not establish an end date for this stock repurchase program. Shares of common

stock may be purchased from time to time on the open market, pursuant to pre-set trading plans meeting the requirements of Rule 10b5-1 under the Exchange Act, in privately negotiated transactions, including transactions with Liberty Media and its affiliates, or otherwise. As of March 31, 2016, our cumulative repurchases since December 2012 under our stock repurchase program totaled 1,942,462 shares for \$6,889,619, and \$1,110,381 remained available under our stock repurchase program.

15

Table of Contents

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

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

The following table summarizes our share repurchase activity for the three months ended:

| | March 31, 2016 | | March 31, 2015 | |
|----------------------------|----------------|-----------|----------------|-----------|
| Share Repurchase Type | Shares | Amount | Shares | Amount |
| Open Market ^(a) | 158,965 | \$588,480 | 143,717 | \$534,040 |
| Total Repurchases | 158,965 | \$588,480 | 143,717 | \$534,040 |

As of March 31, 2016, \$17,757 of common stock repurchases had not settled, nor been retired, and were recorded (a) as Treasury stock within our unaudited consolidated balance sheets and unaudited consolidated statements of stockholders' (deficit) equity.

Preferred Stock, par value \$0.001 per share

We are authorized to issue up to 50,000 shares of undesignated preferred stock with a liquidation preference of \$0.001 per share. There were no shares of preferred stock issued or outstanding as of March 31, 2016 and December 31, 2015.

Warrants

As of March 31, 2016, there were no warrants outstanding. Except for an insignificant amount of warrant expense associated with the extension of the warrants during the three months ended March 31, 2015, we did not incur warrant related expenses during the three months ended March 31, 2016 and 2015. Approximately 16,667 of outstanding warrants were included in our calculation of diluted net income per common share for the three months ended March 31, 2015 as the effect was dilutive.

(12) Benefit Plans

We recognized share-based payment expense of \$23,693 and \$19,417 for the three months ended March 31, 2016 and 2015, respectively.

2015 Long-Term Stock Incentive Plan

In May 2015, our stockholders approved the Sirius XM Holdings Inc. 2015 Long-Term Stock Incentive Plan (the "2015 Plan"). Employees, consultants and members of our board of directors are eligible to receive awards under the 2015 Plan. The 2015 Plan provides for the grant of stock options, restricted stock awards, restricted stock units and other stock-based awards that the compensation committee of our board of directors deem appropriate. Vesting and other terms of stock-based awards are set forth in the agreements with the individuals receiving the awards. Stock-based awards granted under the 2015 Plan are generally subject to a vesting requirement. Stock options generally expire ten years from the date of grant. Each restricted stock unit entitles the holder to receive one share of common stock upon vesting. As of March 31, 2016, 242,942 shares of common stock were available for future grants under the 2015 Plan.

Other Plans

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

The following table summarizes the weighted-average assumptions used to compute the fair value of options granted to employees:

| | For the Three Months Ended March 31, 2016 |
|---------------------------------|--|
| Risk-free interest rate | 1.0% |
| Expected life of options — year | 3.76 |
| Expected stock price volatility | 24% |
| Expected dividend yield | 0% |

Table of Contents

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

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

There were no options granted to members of our board of directors or third parties during the three months ended March 31, 2016 and 2015, or employees during the three months ended March 31, 2015. We do not intend to pay regular dividends on our common stock. Accordingly, the dividend yield used in the Black-Scholes-Merton option value was zero for all periods.

The following table summarizes stock option activity under our share-based plans for the three months ended March 31, 2016:

| | Options | Weighted-Average Exercise Price Per Share | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|-------------------------------------|----------|---|---|---------------------------|
| Outstanding as of December 31, 2015 | 338,481 | \$ 3.29 | | |
| Granted | 4,327 | \$ 3.62 | | |
| Exercised | (2,230) | \$ 1.80 | | |
| Forfeited, cancelled or expired | (6,295) | \$ 4.72 | | |
| Outstanding as of March 31, 2016 | 334,283 | \$ 3.28 | 7.39 | \$ 226,265 |
| Exercisable as of March 31, 2016 | 116,131 | \$ 2.43 | 5.52 | \$ 176,113 |

The weighted average grant date fair value per share of options granted during the three months ended March 31, 2016 was \$0.74. The total intrinsic value of stock options exercised during the three months ended March 31, 2016 and 2015 was \$4,470 and \$30,952, respectively. During the three months ended March 31, 2016, the number of net settled shares which were issued as a result of stock option exercises was 754.

We recognized share-based payment expense associated with stock options of \$19,039 and \$16,691 for the three months ended March 31, 2016 and 2015, respectively.

The following table summarizes the restricted stock unit and stock award activity under our share-based plans for the three months ended March 31, 2016:

| | Shares | Grant Date Fair Value Per Share |
|-----------------------------------|--------|---------------------------------|
| Nonvested as of December 31, 2015 | 16,088 | \$ 3.73 |
| Granted | 293 | \$ 3.63 |
| Vested | — | \$ — |
| Forfeited | (113) | \$ 3.68 |
| Nonvested as of March 31, 2016 | 16,268 | \$ 3.72 |

The total intrinsic value of restricted stock units and stock awards vesting during the three months ended March 31, 2016 and 2015 was \$0.

We recognized share-based payment expense associated with restricted stock units and stock awards of \$4,654 and \$2,726 during the three months ended March 31, 2016 and 2015, respectively.

Total unrecognized compensation costs related to unvested share-based payment awards for stock options and restricted stock units granted to employees, members of our board of directors and third parties at March 31, 2016 and December 31, 2015, net of estimated forfeitures, were \$227,370 and \$261,628, respectively. The total unrecognized compensation costs at March 31, 2016 are expected to be recognized over a weighted-average period of 2.6 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

Table of Contents

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

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

pre-tax salary up to a maximum of 3% of eligible compensation. We may also make additional discretionary matching, true-up matching and non-elective contributions to the Sirius XM Plan. Employer matching contributions under the Sirius XM Plan vest at a rate of 33.33% for each year of employment and are fully vested after three years of employment for all current and future contributions. Our cash employer matching contributions are not used to purchase shares of our common stock on the open market, unless the employee elects our common stock as their investment option for this contribution. We recognized \$1,691 and \$3,027 in expense during three months ended March 31, 2016 and 2015, respectively, to the Sirius XM Plan in fulfillment of our matching obligation.

Sirius XM Holdings Inc. Deferred Compensation Plan

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

As of March 31, 2016, the fair value of the investments in the trust was \$4,004, which is included in Other long-term assets in our unaudited consolidated balance sheets and is classified as trading securities. Trading gains and losses associated with the trust are recorded in Other income within our unaudited consolidated statements of comprehensive income. The associated liability is recorded within Other long-term liabilities in our unaudited consolidated balance sheets, and any increase or decrease in the liability is recorded in General and administration expense within our unaudited consolidated statements of comprehensive income. For the three months ended March 31, 2016, we recorded an immaterial amount of unrealized gains on investments held in the trust.

(13) Commitments and Contingencies

The following table summarizes our expected contractual cash commitments as of March 31, 2016:

| | 2016 | 2017 | 2018 | 2019 | 2020 | Thereafter | Total |
|------------------------------|-----------|-----------|-----------|-----------|-------------|-------------|-------------|
| Debt obligations | \$4,143 | \$5,485 | \$4,477 | \$3,169 | \$1,750,427 | \$4,000,000 | \$5,767,701 |
| Cash interest payments | 223,735 | 300,417 | 300,286 | 300,187 | 280,788 | 736,188 | 2,141,601 |
| Satellite and transmission | 7,092 | 3,193 | 4,204 | 4,184 | 3,882 | 8,998 | 31,553 |
| Programming and content | 170,946 | 226,718 | 205,084 | 187,907 | 163,482 | 298,650 | 1,252,787 |
| Marketing and distribution | 16,042 | 13,878 | 12,444 | 10,130 | 4,646 | 4,600 | 61,740 |
| Satellite incentive payments | 9,421 | 13,296 | 14,302 | 10,652 | 7,918 | 35,609 | 91,198 |
| Operating lease obligations | 32,399 | 43,967 | 42,578 | 38,110 | 35,577 | 179,603 | 372,234 |
| Other | 80,231 | 21,129 | 6,771 | 702 | 360 | 40 | 109,233 |
| Total ⁽¹⁾ | \$544,009 | \$628,083 | \$590,146 | \$555,041 | \$2,247,080 | \$5,263,688 | \$9,828,047 |

⁽¹⁾ The table does not include our reserve for uncertain tax positions, which at March 31, 2016 totaled \$4,281, 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

Table of Contents

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

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

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.

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

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

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

Other. We have entered into various agreements with third parties for general operating purposes. In addition to the minimum contractual cash commitments described above, we have entered into agreements with other variable cost arrangements. These future costs are dependent upon many factors and are difficult to anticipate; however, these costs may be substantial. We may enter into additional programming, distribution, marketing and other agreements that contain similar variable cost provisions. The cost of our stock acquired but not paid for as of March 31, 2016 is also included in this category.

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

Legal Proceedings

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

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

Telephone Consumer Protection Act Suits. We are a defendant in several purported class action suits that allege that we, or call center vendors acting on our behalf, made calls which violate provisions of the Telephone Consumer Protection Act of 1991 (the "TCPA"). The plaintiffs in these actions allege, among other things, that we called mobile phones using an automatic telephone dialing system without the consumer's prior consent or, alternatively, after the

consumer revoked his or her prior consent. In one of the actions, the plaintiff also alleges that we violated the TCPA's call time restrictions and, in one of the other actions, the plaintiff also alleges that we violated the TCPA's do not call restrictions. These purported class action cases are titled Erik Knutson v. Sirius XM Radio Inc., No. 12-cv-0418-AJB-NLS (S.D. Cal.), Francis W. Hooker v. Sirius XM Radio

Table of Contents

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

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

Inc., No. 4:13-cv-3 (E.D. Va.), Yefim Elikman v. Sirius XM Radio Inc. and Career Horizons, Inc., No. 1:15-cv-02093 (N.D. Ill.), and Anthony Parker v. Sirius XM Radio Inc., No. 8:15-cv-01710-JSM-EAJ (M.D. Fla), and are described in Item 3., Legal Proceedings, in our Annual Report on Form 10-K for the year ended December 31, 2015.

On April 5, 2016, we entered into a memorandum of understanding to settle these purported class action suits. The settlement is expected to resolve the claims of consumers beginning in February 2008 relating to telemarketing calls to their mobile telephones. As part of this settlement, we will agree to pay \$35,000 in cash (from which notice, administration and other costs and attorneys' fees will be paid), to offer participating class members the option of receiving three months of our Select service for no charge, and to enter into agreements to make modifications to the system architecture of certain call center vendors. The memorandum of understanding is subject to the execution of a definitive settlement agreement and court approval, neither of which can be assured.

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

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

This matter is titled SoundExchange, Inc. v. Sirius XM Radio, Inc., No.13-cv-1290-RJL (D.D.C.), and Determination of Rates and Terms for Preexisting Subscription Services and Satellite Digital Audio Radio Services, United States Copyright Royalty Board, No. 2006-1 CRB DSTRA. Information concerning the action is publicly available in filings under the docket numbers. The outcome of this matter is inherently unpredictable and subject to significant uncertainties, many of which are beyond our control. No provision was made for losses to the extent such are not probable and estimable. We believe we have substantial defenses to the claims asserted, and intend to defend this action vigorously.

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

(14)Income Taxes

We file a consolidated federal income tax return for all of our wholly-owned subsidiaries, including Sirius XM. Income tax expense for the three months ended March 31, 2016 and 2015 was \$109,343 and \$138,929, respectively. We estimate our annual effective tax rate for the year ending December 31, 2016 will be 37.9%. Our effective tax rate for the three months ended March 31, 2016 was 39.0%. Our effective tax rate for the three months ended March 31, 2015 was 56.8% primarily due to the effect of a tax law change in the District of Columbia which will reduce our future taxes. As a result of this 2015 tax law change, we will use less of certain net operating losses in the future which resulted in a \$44,392 increase in our valuation allowance.

As of March 31, 2016 and December 31, 2015, we had a valuation allowance related to deferred tax assets of \$47,773 and \$49,095, respectively, that were not likely to be realized due to certain net operating loss limitations and acquired net operating losses that we were not more likely than not going to utilize.

Table of Contents

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

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

(15) Subsequent Events

Stock Repurchase Program

For the period from April 1, 2016 to April 26, 2016, we repurchased 31,500 shares of our common stock on the open market for an aggregate purchase price of \$123,260, including fees and commissions.

21

Table of Contents

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
2. OPERATIONS

All amounts referenced in this Item 2 are in thousands, except per subscriber and per installation amounts, unless otherwise stated.

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

Special Note Regarding Forward-Looking Statements

The following cautionary statements identify important factors that could cause our actual results to differ materially from those projected in forward-looking statements made in this Quarterly Report on Form 10-Q and in other reports and documents published by us from time to time. Any statements about our beliefs, plans, objectives, expectations, assumptions, future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "intend," "plan," "projection" and "outlook." Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Quarterly Report on Form 10-Q 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 our Annual Report on Form 10-K for the year ended December 31, 2015 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein and in Part II, Item 7, of our Annual Report on Form 10-K for the year ended December 31, 2015.

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;
- consumer protection laws and their enforcement could damage our business;
- the unfavorable outcome of pending or future litigation;
- the market for music rights is changing and is subject to significant uncertainties;
- our business depends in large part upon the auto industry;
- general economic conditions can affect our business;
- if we fail to protect the security of personal information about our customers, we could be subject to costly government enforcement actions and private litigation and our reputation could suffer;
- other existing or future government laws and regulations could harm 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;
- we may not realize the benefits of acquisitions or other strategic initiatives;
- rapid technological and industry changes could adversely impact our services;
- failure of third parties to perform could adversely affect our business;
- our service may experience harmful interference from new and existing wireless operations;
- failure to comply with FCC requirements could damage our business;
- we may from time to time modify our business plan, and these changes could adversely affect us and our financial condition;
- we have a significant amount of indebtedness, and our revolving credit facility contains certain covenants that restrict our current and future operations;

Table of Contents

- our studios, terrestrial repeater networks, satellite uplink facilities or other ground facilities could be damaged by natural catastrophes or terrorist activities;
- our principal stockholder has significant influence, including over actions requiring stockholder approval, and its interests may differ from the interests of other holders of our common stock;
- we are a “controlled company” within the meaning of the NASDAQ listing rules and, as a result, qualify for, and rely on, exemptions from certain corporate governance requirements; 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 transmit music, sports, entertainment, comedy, talk, news, traffic and weather channels, as well as infotainment services, in the United States on a subscription fee basis through our two proprietary satellite radio systems. Subscribers can also receive music and other channels, plus features such as SiriusXM On Demand and MySXM, over our Internet radio service, including through applications for mobile devices. We are also a leader in providing connected vehicle services. Our connected vehicle services are designed to enhance the safety, security and driving experience for vehicle operators while providing marketing and operational benefits to automakers and their dealers.

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

As of March 31, 2016, we had nearly 30.1 million subscribers of which approximately 24.6 million were self-pay subscribers and approximately 5.4 million were paid promotional subscribers. Our subscriber totals include subscribers under our regular pricing plans; discounted pricing plans; subscribers that have prepaid, including payments either made or due from automakers for subscriptions included in the sale or lease price of a vehicle; subscribers to our Internet services who do not also have satellite radio subscriptions; and certain subscribers to our weather, traffic, and data services who do not also have satellite radio subscriptions. Subscribers and subscription related revenues and expenses associated with our connected vehicle services are not included in our subscriber count or subscriber-based operating metrics.

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

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

Liberty Media beneficially owns, directly and indirectly, over 50% of the outstanding shares of our common stock. As a result, we are a “controlled company” for the purposes of the NASDAQ corporate governance requirements. Liberty Media owns interests in a range of media, communications and entertainment businesses. We also have an approximate 37% equity interest in Sirius XM Canada which offers satellite radio services in Canada. Subscribers to the Sirius XM Canada service are not included in our subscriber count.

Table of Contents

Results of Operations

Set forth below are our results of operations for the three months ended March 31, 2016 compared with the three months ended March 31, 2015.

| | Unaudited | | 2016 vs 2015 | | |
|-------------------------------------|---|---|---------------|----------|----|
| | For the Three Months Ended March 31, 2016 | For the Three Months Ended March 31, 2015 | Change Amount | Change % | |
| Revenue: | | | | | |
| Subscriber revenue | \$1,009,682 | \$911,470 | \$98,212 | 11 | % |
| Advertising revenue | 31,541 | 26,873 | 4,668 | 17 | % |
| Equipment revenue | 27,121 | 24,841 | 2,280 | 9 | % |
| Other revenue | 132,666 | 117,806 | 14,860 | 13 | % |
| Total revenue | 1,201,010 | 1,080,990 | 120,020 | 11 | % |
| Operating expenses: | | | | | |
| Cost of services: | | | | | |
| Revenue share and royalties | 251,744 | 212,978 | 38,766 | 18 | % |
| Programming and content | 85,100 | 71,146 | 13,954 | 20 | % |
| Customer service and billing | 96,867 | 92,097 | 4,770 | 5 | % |
| Satellite and transmission | 23,538 | 21,304 | 2,234 | 10 | % |
| Cost of equipment | 9,779 | 8,845 | 934 | 11 | % |
| Subscriber acquisition costs | 132,449 | 122,260 | 10,189 | 8 | % |
| Sales and marketing | 88,726 | 78,744 | 9,982 | 13 | % |
| Engineering, design and development | 19,441 | 14,960 | 4,481 | 30 | % |
| General and administrative | 77,505 | 79,823 | (2,318) | (3) | %) |
| Depreciation and amortization | 67,627 | 65,027 | 2,600 | 4 | % |
| Total operating expenses | 852,776 | 767,184 | 85,592 | 11 | % |
| Income from operations | 348,234 | 313,806 | 34,428 | 11 | % |
| Other income (expense): | | | | | |
| Interest expense | (78,400) | (69,908) | (8,492) | (12) | %) |
| Other income | 10,848 | 723 | 10,125 | 1,400 | % |
| Total other expense | (67,552) | (69,185) | 1,633 | 2 | % |
| Income before income taxes | 280,682 | 244,621 | 36,061 | 15 | % |
| Income tax expense | (109,343) | (138,929) | 29,586 | 21 | % |
| Net income | \$171,339 | \$105,692 | \$65,647 | 62 | % |

Total Revenue

Subscriber Revenue includes subscription, activation and other fees.

For the three months ended March 31, 2016 and 2015, subscriber revenue was \$1,009,682 and \$911,470, respectively, an increase of 11%, or \$98,212. The increase was primarily attributable to a 9% increase in the daily weighted average number of subscribers and increases in certain of our self-pay subscription rates, partially offset by subscription discounts and limited channel plans offered in customer acquisition and retention plans.

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

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

Table of Contents

For the three months ended March 31, 2016 and 2015, advertising revenue was \$31,541 and \$26,873, respectively, an increase of 17%, or \$4,668. The increase was primarily due to a greater number of advertising spots sold and transmitted as well as increased rates per spot.

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

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

For the three months ended March 31, 2016 and 2015, equipment revenue was \$27,121 and \$24,841, respectively, an increase of 9%, or \$2,280. The increase was driven by higher sales to distributors and increased royalties from OEM production, partially offset by lower royalty rates.

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

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

For the three months ended March 31, 2016 and 2015, other revenue was \$132,666 and \$117,806, respectively, an increase of 13%, or \$14,860. The increase was driven by revenues from the U.S. Music Royalty Fee due to higher subscriber volumes on the rate which was increased in the first quarter of 2015 as well as an increase in subscribers.

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

Operating Expenses

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

For the three months ended March 31, 2016 and 2015, revenue share and royalties were \$251,744 and \$212,978, respectively, an increase of 18%, or \$38,766, and increased as a percentage of total revenue. The increase was due, in part, to greater revenues subject to royalty and revenue sharing arrangements, the inclusion of certain pre-1972 sound recordings, based on the Capitol Records settlement in 2015, and a 5% 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, as the statutory royalty rate applicable to post-1972 sound recordings increase and as a result of our settlement of litigation associated with our use of pre-1972 recordings. For the remainder of 2016 and in 2017, we expect to recognize \$30,083 and \$43,442, respectively, in expense related to the settlement for the use of pre-1972 sound recordings. As determined by the Copyright Royalty Board, we have paid or will pay royalties for the use of certain post-1972 sound recordings on our satellite radio service of 10.0%, 10.5% and 11% in 2015, 2016 and 2017, respectively.

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

For the three months ended March 31, 2016 and 2015, programming and content expenses were \$85,100 and \$71,146, respectively, an increase of 20%, or \$13,954, and increased as a percentage of total revenue. The increase was primarily due to renewed programming licenses as well as increased consulting and personnel related costs.

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

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

For the three months ended March 31, 2016 and 2015, customer service and billing expenses were \$96,867 and \$92,097, respectively, an increase of 5%, or \$4,770, but decreased as a percentage of total revenue. The increase was primarily

Table of Contents

due to costs associated with a higher subscriber base driving increased call center costs, transaction fees, and bad debt expense.

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

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

For the three months ended March 31, 2016 and 2015, satellite and transmission expenses were \$23,538 and \$21,304, respectively, an increase of 10%, or \$2,234, but remained flat as a percentage of total revenue. The increase was primarily due to transmission costs associated with our connected vehicle services.

We expect satellite and transmission expenses to increase as a result of connected vehicle services costs; partially offset by decreases in Internet streaming 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 March 31, 2016 and 2015, cost of equipment was \$9,779 and \$8,845, respectively, an increase of 11%, or \$934, and increased as a percentage of equipment revenue. The increase was primarily due to higher sales to distributors.

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

Subscriber Acquisition Costs include hardware subsidies paid to radio manufacturers, distributors and automakers; subsidies paid for chipsets and certain other components used in manufacturing radios; device royalties for certain radios and chipsets; commissions paid to automakers and retailers; product warranty obligations; freight; and provisions for inventory allowances attributable to inventory consumed in our OEM and retail distribution channels.

The majority of subscriber acquisition costs are incurred and expensed in advance of, or concurrent with, acquiring a subscriber. Subscriber acquisition costs do not include advertising costs, marketing, loyalty payments to distributors and dealers of satellite radios or revenue share payments to automakers and retailers of satellite radios.

For the three months ended March 31, 2016 and 2015, subscriber acquisition costs were \$132,449 and \$122,260, respectively, an increase of 8%, or \$10,189, but decreased as a percentage of total revenue. Increased costs related to a larger number of satellite radio installations in new vehicles were partially offset by improved OEM and chipset subsidy rates per vehicle.

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

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

For the three months ended March 31, 2016 and 2015, sales and marketing expenses were \$88,726 and \$78,744, respectively, an increase of 13%, or \$9,982, but remained flat as a percentage of total revenue. The increase was primarily due to additional subscriber communications and retention programs associated with a greater number of subscribers and promotional trials as well as higher personnel costs.

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

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

Table of Contents

For the three months ended March 31, 2016 and 2015, engineering, design and development expenses were \$19,441 and \$14,960, respectively, an increase of 30%, or \$4,481, and increased as a percentage of total revenue. The increase was driven primarily by higher personnel related costs.

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

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

For the three months ended March 31, 2016 and 2015, general and administrative expenses were \$77,505 and \$79,823, respectively, a decrease of 3%, or \$2,318, and decreased as a percentage of total revenue. The decrease was primarily driven by lower litigation costs and personnel-related costs partially offset by higher consulting expenses.

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 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 March 31, 2016 and 2015, depreciation and amortization expense was \$67,627 and \$65,027, respectively, an increase of 4%, or \$2,600, but decreased as a percentage of total revenue. The increase was driven by additional software placed in-service, partially offset by a reduction of amortization associated with the stepped-up basis in assets acquired in the July 2008 merger between our wholly owned subsidiary, Vernon Merger Corporation, and XM Satellite Radio Holdings Inc. (the "Merger") (including intangible assets, property and equipment) through the end of their estimated service lives and certain satellites reaching the end of their estimated service lives.

Other Income (Expense)

Interest Expense includes interest on outstanding debt.

For the three months ended March 31, 2016 and 2015, interest expense was \$78,400 and \$69,908, respectively, an increase of 12%, or \$8,492. The increase was primarily due to higher average debt during the three months ended March 31, 2016 compared to the three months ended March 31, 2015.

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

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

For the three months ended March 31, 2016 and 2015, interest and investment income was \$10,848 and \$723, respectively. The income for the three months ended March 31, 2016 was driven by our share of Sirius XM Canada's net income and by the dividends received from Sirius XM Canada in excess of our investment. The income for the three months ended March 31, 2015 was driven by the dividends received from Sirius XM Canada in excess of our investment.

Income Taxes

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

For the three months ended March 31, 2016 and 2015, income tax expense was \$109,343 and \$138,929, respectively.

Our effective tax rate for the three months ended March 31, 2016 was 39.0%. Our effective tax rate for the three months ended March 31, 2015 was 56.8% primarily due to the effect of a tax law change in the District of Columbia which will reduce our future taxes. As a result of this 2015 tax law change, we will use less of certain net operating losses in the future which resulted in a \$44,392 increase in our valuation allowance. We estimate our annual effective tax rate for the year ending December 31, 2016 will be 37.9%.

Table of Contents

Key Operating Metrics

In this section, we present certain financial and operating performance measures that are not calculated and presented in accordance with generally accepted accounting principles in the United States (“Non-GAAP”). These metrics include: average monthly revenue per subscriber, or ARPU; customer service and billing expenses, per average subscriber; subscriber acquisition cost, or SAC, per installation; free cash flow; and adjusted EBITDA. These measures exclude the impact of share-based payment expense and certain purchase price accounting adjustments related to the Merger, which include the elimination of deferred revenue associated with the investment in XM Canada, and elimination of the benefit of deferred credits on executory contracts, which are primarily attributable to third party arrangements with programming providers. Additionally, when applicable, our adjusted EBITDA and free cash flow metrics exclude the effect of any significant items that do not relate to the on-going performance of our business. 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 capital expenditures and other investment activity and significant items that do not relate to the on-going performance of our business. In a capital intensive business, with significant investments in satellites, we look at our operating cash flow, net of these investing 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 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, adjusted for any significant legal settlements. Free cash flow should be used in conjunction with other GAAP financial performance measures and may not be comparable to free cash flow measures presented by other companies. Free cash flow should be viewed as a supplemental measure rather than an alternative measure of cash flows from operating activities, as determined in accordance with GAAP. Free cash flow is limited and does not represent remaining cash flows available for discretionary expenditures due to the fact that the measure does not deduct the payments required for debt maturities. We believe free cash flow provides useful supplemental information to investors regarding our current and projected cash flow, along with other GAAP measures (such as cash flows from operating and investing activities), to determine our financial condition, and to compare our operating performance to other communications, entertainment and media companies.

We 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.

Table of Contents

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 33 through 35) 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 months ended March 31, 2016 and 2015. Subscribers and subscription related revenues and expenses associated with our connected vehicle services are not included in our subscriber count or subscriber-based operating metrics:

| | Unaudited | | |
|---|----------------------|-----------|---|
| | For the Three Months | | |
| | Ended March 31, | | |
| | 2016 | 2015 | |
| Self-pay subscribers | 24,636 | 22,917 | |
| Paid promotional subscribers | 5,423 | 4,826 | |
| Ending subscribers ^(a) | 30,059 | 27,742 | |
| Self-pay subscribers | 348 | 394 | |
| Paid promotional subscribers | 117 | 37 | |
| Net additions | 465 | 431 | |
| Daily weighted average number of subscribers | 29,767 | 27,406 | |
| Average self-pay monthly churn | 1.9 | % 1.8 | % |
| New vehicle consumer conversion rate | 38 | % 40 | % |
| ARPU | \$12.66 | \$12.26 | |
| SAC, per installation | \$34 | \$33 | |
| Customer service and billing expenses, per average subscriber | \$1.01 | \$1.01 | |
| Free cash flow | \$328,217 | \$276,232 | |
| Adjusted EBITDA | \$441,367 | \$399,227 | |

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

Subscribers. At March 31, 2016, we had nearly 30.1 million subscribers, an increase of approximately 2.3 million subscribers, or 8%, from the approximate 27.7 million subscribers as of March 31, 2015.

For the three months ended March 31, 2016 and 2015, net additions were 465 thousand and 431 thousand, respectively, an increase of 8%. The increase in subscribers was primarily due to increases in original and subsequent owner trial conversions, as well as increases in shipments of vehicles by OEMs offering paid trials and activations of inactive radios, partially offset by higher deactivations largely for vehicle related reasons.

Average Self-pay Monthly Churn is derived by dividing the monthly average of self-pay deactivations for the period by the average number of self-pay subscribers for the period. (See accompanying glossary on pages 33 through 35 for more details.)

For the three months ended March 31, 2016 and 2015, our average self-pay monthly churn rate was 1.9% and 1.8%, respectively. The increase was due to increases in vehicle related and voluntary churn.

New Vehicle Consumer Conversion Rate is the percentage of owners and lessees of new vehicles that receive our service and convert to become self-paying subscribers after an initial promotional period. The metric excludes rental and fleet vehicles. (See accompanying glossary on pages 33 through 35 for more details).

For the three months ended March 31, 2016 and 2015, our new vehicle consumer conversion rate was 38% and 40%, respectively. The decrease in the new vehicle consumer conversion rate was primarily due to an increased vehicle penetration rate as well as lower conversion of first-time buyers and lessees of satellite enabled cars.

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, 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 33 through 35 for more details.)

Table of Contents

For the three months ended March 31, 2016 and 2015, ARPU was \$12.66 and \$12.26, respectively. The increase was driven primarily by increases in certain of our subscription rates, partially offset by growth in subscription discounts offered through customer acquisition and retention programs.

SAC, Per Installation, is derived from subscriber acquisition costs and margins from the sale of radios, components and accessories, 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 33 through 35 for more details.)

For the three months ended March 31, 2016 and 2015, SAC, per installation, was \$34 and \$33, respectively. The increase was primarily due to lower aftermarket production, partially offset by improvements in contractual OEM and technology 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 33 through 35 for more details.)

For the three months ended March 31, 2016 and 2015, customer service and billing expenses, per average subscriber, was \$1.01.

Free Cash Flow includes cash provided by operations, net of additions to property and equipment, and restricted and other investment activity. (For a reconciliation to GAAP see the accompanying glossary on pages 33 through 35 for more details.)

For the three months ended March 31, 2016 and 2015, free cash flow was \$328,217 and \$276,232, respectively, an increase of \$51,985, or 19%. The increase was primarily driven by higher net cash provided by operating activities from improved operating performance and higher collections from subscribers.

Adjusted EBITDA. EBITDA is defined as net income before interest expense, income tax expense and depreciation and amortization. Adjusted EBITDA excludes the impact of other income as well as certain other non-cash charges, such as certain purchase price accounting adjustments and share-based payment expense. (For a reconciliation to GAAP see the accompanying glossary on pages 33 through 35 for more details.)

For the three months ended March 31, 2016 and 2015, adjusted EBITDA was \$441,367 and \$399,227, respectively, an increase of 11%, or \$42,140. The increase was due to growth in revenues primarily as a result of the increase in our subscriber base and certain of our subscription rates, partially offset by higher costs associated with the growth in our revenues and subscriber base.

Liquidity and Capital Resources

Cash Flows for the three months ended March 31, 2016 compared with the three months ended March 31, 2015 As of March 31, 2016 and December 31, 2015, we had \$101,952 and \$111,838, respectively, of cash and cash equivalents. The following table presents a summary of our cash flow activity for the periods set forth below:

| | Unaudited For the Three Months Ended March 31, | | |
|--|---|-----------|-----------------|
| | 2016 | 2015 | 2016 vs 2015 |
| Net cash provided by operating activities | \$362,186 | \$310,029 | \$52,157 |
| Net cash used in investing activities | (33,969) | (33,797) | (172) |
| Net cash (used in) provided by financing activities | (338,103) | 58,087 | (396,190) |
| Net (decrease) increase in cash and cash equivalents | (9,886) | 334,319 | (344,205) |
| Cash and cash equivalents at beginning of period | 111,838 | 147,724 | (35,886) |
| Cash and cash equivalents at end of period | \$101,952 | \$482,043 | \$(380,091) |

Cash Flows Provided by Operating Activities

Cash flows provided by operating activities increased by \$52,157 to \$362,186 for the three months ended March 31, 2016 from \$310,029 for the three months ended March 31, 2015.

Table of Contents

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

Cash Flows Used in Investing Activities

Cash flows used in investing activities are primarily due to additional spending to improve our terrestrial repeater network and for capitalized software. In 2015, our cash flows used in investing activities also included an increase to our letters of credit issued for the benefit of lessors of certain of our office space.

Cash Flows (Used in) Provided by Financing Activities

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

Cash flows provided by financing activities in the first quarter of 2016 were due to borrowings under the Credit Facility. Cash flows used in financing activities in the first quarter of 2016 were primarily due to the purchase and retirement of shares of our common stock under our repurchase program for \$594,450 and repayments under the Credit Facility. Cash flows provided by financing activities in the first quarter of 2015 were due to the issuance of \$1,000,000 aggregate principal amount of 5.375% Senior Notes due 2025 and borrowings under the Credit Facility. Cash flows used in financing activities in the first quarter of 2015 were primarily due to the purchase and retirement of shares of our common stock under our repurchase program for \$535,216 and repayments under the Credit Facility.

Future Liquidity and Capital Resource Requirements

Based upon our current business plans, we expect to fund operating expenses, capital expenditures, working capital requirements, legal settlements, interest payments, taxes and scheduled maturities of our debt with existing cash, cash flow from operations and borrowings under our Credit Facility. As of March 31, 2016, \$1,150,000 was available for future borrowing under our Credit Facility. We believe that we have sufficient cash and cash equivalents as well as debt capacity to cover our estimated short-term and long-term funding needs, as well as fund stock repurchases and any strategic opportunities.

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

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

Stock Repurchase Program

Since December 2012, our board of directors has approved for repurchase an aggregate of \$8,000,000 of our common stock. Our board of directors did not establish an end date for this stock repurchase program. Shares of common stock may be purchased from time to time on the open market, pursuant to pre-set trading plans meeting the requirements of Rule 10b5-1 under the Exchange Act, in privately negotiated transactions, including transactions with Liberty Media and its affiliates, or otherwise.

As of March 31, 2016, our cumulative repurchases since December 2012 under our stock repurchase program totaled 1,942,462 shares for \$6,889,619, and \$1,110,381 remained available under our stock repurchase program. We expect to fund future repurchases through a combination of cash on hand, cash generated by operations and future borrowings.

Table of Contents

Debt Covenants

The indentures governing Sirius XM's senior notes, and the agreement governing the Credit Facility include restrictive covenants. As of March 31, 2016, we were in compliance with such covenants. For a discussion of our "Debt Covenants," refer to Note 10 to our unaudited consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

We do not have any significant off-balance sheet arrangements other than those disclosed in Note 13 to our unaudited consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q 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 13 to our unaudited consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q.

Related Party Transactions

For a discussion of "Related Party Transactions," refer to Note 9 to our unaudited consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q.

Critical Accounting Policies and Estimates

For a discussion of our "Critical Accounting Policies and Estimates," refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2015. There have been no material changes to our critical accounting policies and estimates since December 31, 2015.

Table of Contents

Glossary

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

Adjusted EBITDA has certain limitations in that it does not take into account the impact to our statements of comprehensive income of certain expenses, including share-based payment expense and certain purchase price accounting for the Merger. We endeavor to compensate for the limitations of the Non-GAAP measure presented by also providing the comparable GAAP measure with equal or greater prominence and descriptions of the reconciling items, including quantifying such items, to derive the Non-GAAP measure. Investors that wish to compare and evaluate our operating results after giving effect for these costs, should refer to net income as disclosed in our 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:

| | Unaudited For the Three Months Ended March 31, | |
|---|---|------------|
| | 2016 | 2015 |
| Net income: | \$ 171,339 | \$ 105,692 |
| Add back items excluded from Adjusted EBITDA: | | |
| Purchase price accounting adjustments: | | |
| Revenues | 1,813 | 1,813 |
| Operating expenses | — | (836) |
| Share-based payment expense | 23,693 | 19,417 |
| Depreciation and amortization | 67,627 | 65,027 |
| Interest expense | 78,400 | 69,908 |
| Other income | (10,848) | (723) |
| Income tax expense | 109,343 | 138,929 |

Adjusted EBITDA

\$441,367 \$399,227

33

Table of Contents

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

| | Unaudited For the Three Months Ended March 31, | |
|---|--|-------------|
| | 2016 | 2015 |
| Subscriber revenue, excluding connected vehicle | \$984,984 | \$888,381 |
| Add: advertising revenue | 31,541 | 26,873 |
| Add: other subscription-related revenue | 114,071 | 92,654 |
| | \$1,130,596 | \$1,007,908 |
| Daily weighted average number of subscribers | 29,767 | 27,406 |
| ARPU | \$12.66 | \$12.26 |

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

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

| | Unaudited For the Three Months Ended March 31, | |
|--|---|----------|
| | 2016 | 2015 |
| Customer service and billing expenses, excluding connected vehicle | \$91,171 | \$84,061 |
| Less: share-based payment expense | (806) | (695) |
| | \$90,365 | \$83,366 |
| Daily weighted average number of subscribers | 29,767 | 27,406 |
| Customer service and billing expenses, per average subscriber | \$1.01 | \$1.01 |

Free cash flow - is derived from cash flow provided by operating activities, net of additions to property and equipment, restricted and other investment activity and the return of capital from investment in unconsolidated entity. Free cash flow is calculated as follows:

| | Unaudited For the Three Months Ended March 31, | |
|---|--|-------------|
| | 2016 | 2015 |
| Cash Flow information | | |
| Net cash provided by operating activities | \$362,186 | \$310,029 |
| Net cash used in investing activities | \$(33,969) | \$(33,797) |
| Net cash (used in) provided by financing activities | \$(338,103) | \$58,087 |
| Free Cash Flow | | |
| Net cash provided by operating activities | \$362,186 | \$310,029 |
| Additions to property and equipment | (30,171) | (29,831) |
| Purchases of restricted and other investments | (3,798) | (3,966) |
| Free cash flow | \$328,217 | \$276,232 |

Table of Contents

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, divided by the number of satellite radio installations in new vehicles and shipments of aftermarket radios for the period. SAC, per installation, is calculated as follows:

| | Unaudited Three Months Ended March 31, | |
|--|--|-----------|
| | 2016 | 2015 |
| Subscriber acquisition costs | \$132,449 | \$122,260 |
| Less: margin from direct sales of radios and accessories | (17,342) | (15,996) |
| | \$115,107 | \$106,264 |
| Installations | 3,430 | 3,221 |
| SAC, per installation | \$34 | \$33 |

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

As of March 31, 2016, we did not hold or issue any free-standing derivatives. We hold investments in money market funds and certificates of deposit. These securities are consistent with the objectives contained within our investment policy. The basic objectives of our investment policy are the preservation of capital, maintaining sufficient liquidity to meet operating requirements and maximizing yield.

Our debt includes fixed rate instruments and the fair market value of our debt is sensitive to changes in interest rates. Sirius XM's borrowings under the Credit Facility carry a variable interest rate based on LIBOR plus an applicable rate based on its debt to operating cash flow ratio. We currently do not use interest rate derivative instruments to manage our exposure to interest rate fluctuations.

ITEM 4. CONTROLS AND PROCEDURES**Controls and Procedures**

We maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act of 1934, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. The design of any disclosure controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives.

As of March 31, 2016, an evaluation was performed under the supervision and with the participation of our management, including James E. Meyer, our Chief Executive Officer, and David J. Frear, our Senior Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as that term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of March 31, 2016.

There has been no change in our internal control over financial reporting (as that term is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the quarter ended March 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

Telephone Consumer Protection Act Suits. We are a defendant in several purported class action suits that allege that we, or call center vendors acting on our behalf, made calls which violate provisions of the Telephone Consumer Protection Act of 1991 (the “TCPA”). The plaintiffs in these actions allege, among other things, that we called mobile phones using an automatic telephone dialing system without the consumer’s prior consent or, alternatively, after the consumer revoked his or her prior consent. In one of the actions, the plaintiff also alleges that we violated the TCPA’s call time restrictions and, in one of the other actions the plaintiff, also alleges that we violated the TCPA’s do not call restrictions. These purported class action cases are titled Erik Knutson v. Sirius XM Radio Inc., No.

12-cv-0418-AJB-NLS (S.D. Cal.), Francis W. Hooker v. Sirius XM Radio Inc., No. 4:13-cv-3 (E.D. Va.), Yefim Elikman v. Sirius XM Radio Inc. and Career Horizons, Inc., No. 1:15-cv-02093 (N.D. Ill.), and Anthony Parker v. Sirius XM Radio Inc., No. 8:15-cv-01710-JSM-EAJ (M.D. Fla), and are described in Item 3., Legal Proceedings, in our Annual Report on Form 10-K for the year ended December 31, 2015.

On April 5, 2016, we entered into a memorandum of understanding to settle these purported class action suits. The settlement is expected to resolve the claims of consumers beginning in February 2008 relating to telemarketing calls to their mobile telephones. As part of this settlement, we will agree to pay \$35 million in cash (from which notice, administration and other costs and attorneys’ fees will be paid), to offer participating class members the option of receiving three months of our Select service for no charge, and to enter into agreements to make modifications to the system architecture of certain call center vendors. The memorandum of understanding is subject to the execution of a definitive settlement agreement and court approval, neither of which can be assured.

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

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

This matter is titled SoundExchange, Inc. v. Sirius XM Radio, Inc., No.13-cv-1290-RJL (D.D.C.), and Determination of Rates and Terms for Preexisting Subscription Services and Satellite Digital Audio Radio Services, United States Copyright Royalty Board, No. 2006-1 CRB DSTRA. Information concerning the action is publicly available in filings under the docket numbers. The outcome of this matter is inherently unpredictable and subject to significant uncertainties, many of which are beyond our control. No provision was made for losses to the extent such are not probable and estimable. We believe we have substantial defenses to the claims asserted, and intend to defend this action vigorously.

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

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in response to Part 1, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2015.

Table of Contents

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Since December 2012, our board of directors has approved for repurchase an aggregate of \$8.0 billion of our common stock. Our board of directors did not establish an end date for this stock repurchase program. Shares of common stock may be purchased from time to time on the open market, pursuant to pre-set trading plans meeting the requirements of Rule 10b5-1 under the Exchange Act, in privately negotiated transactions, including transactions with Liberty Media and its affiliates, or otherwise. As of March 31, 2016, our cumulative repurchases since December 2012 under our stock repurchase program totaled 1.9 billion shares for \$6.9 billion, and \$1.1 billion remained available under our stock repurchase program. The size and timing of these purchases will be based on a number of factors, including price and business and market conditions.

The following table provides information about our purchases of equity securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, during the quarter ended March 31, 2016:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share (a) | Total | Approximate |
|--------------------------------------|---|--|---|---|
| | | | Number of Shares Purchased Publicly Announced Plans or Programs | Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (a) |
| January 1, 2016 - January 31, 2016 | 51,883,478 | \$ 3.74 | 51,883,478 | \$1,504,733,481 |
| February 1, 2016 - February 29, 2016 | 65,582,001 | \$ 3.55 | 65,582,001 | \$1,272,124,003 |
| March 1, 2016 - March 31, 2016 | 41,500,000 | \$ 3.90 | 41,500,000 | \$1,110,380,603 |
| Total | 158,965,479 | \$ 3.70 | 158,965,479 | |

(a) These amounts include fees and commissions associated with the shares repurchased.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

See Exhibit Index attached hereto, which is incorporated herein by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 28th day of April 2016.

SIRIUS XM HOLDINGS INC.

By: /s/ DAVID J. FREAR
David J. Frear
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Table of Contents

EXHIBIT INDEX

Exhibit Description

10.1* Amendment to the Employment Agreement between Sirius XM Radio Inc. and James A. Cady, dated as of February 23, 2016 (filed herewith).

31.1 Certificate of James E. Meyer, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

31.2 Certificate of David J. Frear, Senior Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

32.1 Certificate of James E. Meyer, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

- Certificate of
David J. Frear,
Senior Executive
Vice President
and Chief
Financial Officer,
pursuant to
- 32.2 18 U.S.C. Section
1350, as adopted
pursuant to
Section 906 of the
Sarbanes-Oxley
Act of 2002
(furnished
herewith).
- 101.1 The following
financial
information from
our Quarterly
Report on
Form 10-Q for the
quarter ended
March 31, 2016
formatted in
eXtensible
Business
Reporting
Language
(XBRL):
(i) Consolidated
Statements of
Comprehensive
Income
(Unaudited) for
the three months
ended March 31,
2016 and 2015;
(ii) Consolidated
Balance Sheets as
of March 31,
2016 (Unaudited)
and December 31,
2015;
(iii) Consolidated
Statements of
Stockholders'
(Deficit) Equity
for the three
months ended

March 31, 2016
(Unaudited);
(iv) Consolidated
Statements of
Cash Flows
(Unaudited) for
the three months
ended March 31,
2016 and 2015;
and (v) Notes to
Consolidated
Financial
Statements
(Unaudited).

*This document has been identified as a management contract or compensatory plan or arrangement.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.