



**PROXY**  
**STATEMENT**  
& 2013  
**ANNUAL**  
**REPORT**



## LETTER TO STOCKHOLDERS



**Jim Meyer**  
Chief Executive Officer  
SiriusXM



Dear Fellow Stockholders,

I am pleased to report that for SiriusXM, 2013 was another year of reaching major milestones, setting new records for growth, and building on successful launches of new programming and services. We look forward to delivering profitable growth in 2014 and more dynamic programming on our satellite and online platforms for subscribers nationwide.

For the third consecutive year, SiriusXM was the largest radio company in the world by revenue. In 2013, we achieved our highest revenue ever of \$3.8 billion, up 12 percent over 2012, and ended the year with a record 25.6 million subscribers, up 7 percent over 2012. Importantly, we achieved significant free cash flow of \$927 million — up 31% year-over-year. On a per share basis, free cash flow rose at an even faster 41% in 2013 as we reduced our share count by 520 million shares via stock repurchases. We also announced a doubling of our existing stock repurchase authorization from \$2 billion to \$4 billion, reflecting our Board's commitment to returning value to stockholders and its confidence in the long-term prospects of the business.

We are focused on delivering the best possible audio entertainment and in-car services to our customers. As we move forward, our superior content continues to drive our success and represents the core of our business. SiriusXM is the home of the best radio on radio, and we continue to refresh and renew our programming lineup across our unmatched array of sports, talk, music, entertainment and Latino channels. We launched new full-time channels including Entertainment Weekly Radio and Comedy Central Radio, two of the biggest brands in media and entertainment today, and we continue to offer our subscribers access to special live events such as exclusive live concerts with John Mayer, country music superstar Kenny Chesney, and metal icons Metallica. In 2013, we also launched SiriusXM NBA Radio, and earlier this year re-launched our SiriusXM PGA TOUR Radio channel with top pros, such as Ben Crenshaw. Our extensive live coverage of major

sports ensures that fans can follow their favorite teams and leagues in real-time, anywhere they go.

We've bolstered our position as the leader in music discovery, and we've held private concerts for our subscribers by emerging artists and several new artists who got their first airplay on SiriusXM, including Florida Georgia Line at the legendary Troubadour in Los Angeles. Our acclaimed Town Hall series is thriving with such recent guests as Katy Perry, Eminem, Lady Gaga, and Pearl Jam, all appearing in a format that allows our subscribers inches-away access to their favorite stars and enables the creation of truly exclusive programming for a national audience.

This great programming is now more available than ever to new and used car buyers. SiriusXM radios were installed in nearly 70% of new cars sold in the U.S. in 2013, driving sales of SiriusXM enabled vehicles to a record 10.7 million. As of the end of the year, approximately 60 million vehicles on the road had a factory installed satellite radio. By the end of 2017, we expect the satellite radio fleet to reach 100 million vehicles and continue growing. Many of these vehicles will be resold in the used car market, making our service easily available to millions of potential new subscribers. There are approximately 106 million car-owning households in the United States; 80% of those households have a previously-owned vehicle. The used car market is about three times the size of the new car market, and we now have a network of more than 11,000 auto dealers reporting sales of previously-owned SiriusXM enabled vehicles to us. We are well positioned to drive long-term growth in this segment.

In addition, we are focused on being a leader in the next generation of connected vehicles as we deliver to subscribers personalized services, advanced audio offerings and more seamless integration of satellite and IP streaming to vehicles. Last November, we significantly expanded our commitment to lead in this area by acquiring the connected vehicle services unit of Agero, Inc., which will be a core part of our long-term growth strategy in connected cars. This acquisition

enhances relationships with key Asian and European automakers and improves opportunities at several others. We are now a market leader in building the connected vehicle architecture and as a provider of state-of-the-art services to nine major car brands. We have a clearly-defined strategy to execute and win in this business. We've acquired a great team of professionals, who are accelerating development of our connected car architecture and services.

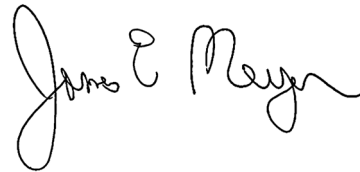
SiriusXM's subscription model has consistent and predictable cash flows, and looking to 2014 we expect to achieve further growth and success by continuing to leverage our competitive strengths. We expect our revenue to be over \$4 billion, with adjusted EBITDA of approximately \$1.38 billion and free cash flow approaching \$1.1 billion. These figures translate into strong double digit growth in adjusted EBITDA and free cash flow, and once again free cash flow per share will grow even faster as we retire shares via our share repurchase program.

Our achievements over the past year, and those to come in 2014, are made possible by our outstanding team of dedicated SiriusXM employees. Their

innovation and dedication have enabled SiriusXM to deliver the best service possible to help build our subscriber base and drive free cash flow growth to enhance value for all our stockholders. I thank them for their continued hard work.

This is an exciting time for SiriusXM as we execute on our growth plans and take the necessary steps to position our Company for continued long-term success. We are thankful for our tens of millions of subscribers and thrilled to be welcoming more into the SiriusXM family. In the year ahead, we look forward to continuing to provide the best radio on radio and to enhancing value for our stockholders. Thank you for your investment in SiriusXM.

Sincerely,

A handwritten signature in black ink, reading "Jim E Meyer". The signature is fluid and cursive, with a large initial "J" and "M".

Jim Meyer  
*Chief Executive Officer*  
SiriusXM



## NOTICE OF 2014 ANNUAL MEETING OF STOCKHOLDERS

- Time and Date:** 9:00 a.m., New York City time, on Monday, May 19, 2014
- Place:** The McGraw-Hill Building  
Auditorium  
1221 Avenue of the Americas  
New York, New York 10020
- Items of Business:**
1. To elect the thirteen director nominees listed herein;
  2. To approve, in a non-binding, advisory vote, the compensation paid to our named executive officers;
  3. To ratify the appointment of KPMG LLP as our independent registered public accountants for 2014; and
  4. To transact any other business properly coming before the annual meeting and any adjournments or postponements thereof.

**Who may Vote:** Stockholders of record at the close of business on March 28, 2014.

**Important Notice Regarding the Date of Availability of Proxy Materials for the Stockholder Meeting to be Held on Monday, May 19, 2014:** We are pleased to be using the Securities and Exchange Commission's rules that allow companies to furnish proxy materials to their stockholders over the Internet. In accordance with these rules, we first sent stockholders of record at the close of business on or about April 8, 2014, a Notice of Internet Availability of Proxy Materials (Notice). The Notice contains instructions on how to access our Proxy Statement and Annual Report for the year ended December 31, 2013 over the Internet and how to vote.

Whether or not you expect to attend in person, we urge you to vote your shares over the Internet, by phone, or by signing, dating, and returning a proxy card at your earliest convenience.

Voting over the Internet or by telephone is fast and convenient, and your vote is immediately confirmed and tabulated. By using the Internet or telephone, you help us reduce postage, printing and proxy tabulation costs.

By Order of the Board of Directors,

A handwritten signature in black ink that reads "Patrick L. Donnelly". The signature is written in a cursive, flowing style.

PATRICK L. DONNELLY  
*Executive Vice President, General Counsel and Secretary*

New York, New York  
April 8, 2014



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1221 Avenue of the Americas  
36th Floor  
New York, New York 10020

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## PROXY STATEMENT

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This proxy statement contains information related to the annual meeting of stockholders of Sirius XM Holdings Inc. to be held on Monday, May 19, 2014, beginning at 9:00 a.m., New York City time, in the Auditorium at The McGraw-Hill Building, 1221 Avenue of the Americas, New York, New York 10020, and at any adjournments or postponements thereof. This proxy statement is first being distributed or made available, as the case may be, to stockholders on or about April 8, 2014.

### ABOUT THE MEETING

#### What is the purpose of the annual meeting?

At our annual meeting, stockholders will act upon the following matters outlined in the Notice of 2014 Annual Meeting of Stockholders, including:

- Item 1 — the election of thirteen director nominees to our board (Joan L. Amble, Anthony J. Bates, George W. Bodenheimer, David J.A. Flowers, Eddy W. Hartenstein, James P. Holden, Gregory B. Maffei, Evan D. Malone, James E. Meyer, James F. Mooney, Carl E. Vogel, Vanessa A. Wittman and David M. Zaslav);
- Item 2 — the approval of, in a non-binding, advisory vote, the compensation paid to our named executive officers;
- Item 3 — the ratification of the appointment of KPMG LLP as our independent registered public accountants for 2014; and
- such other business that may properly be conducted at the annual meeting or any adjournments or postponements thereof.

At the annual meeting, management will also report on our performance and respond to appropriate questions from stockholders. On March 28, 2014 (the “Record Date”), 6,063,845,329 shares of our common stock were outstanding.

#### Is Sirius XM Holdings Inc. different from Sirius XM Radio Inc.?

On November 15, 2013, we reorganized our corporate structure (the “Reorganization”). As a result of the Reorganization, Sirius XM Radio Inc. became a direct, wholly-owned subsidiary of Sirius XM Holdings Inc. Delaware law permits the formation of a holding company without a vote of the stockholders of the constituent corporations.

In connection with the Reorganization, among other things:

- each share of common stock of Sirius XM Radio Inc. was converted automatically into the right to receive one validly issued, fully paid and non-assessable share of Sirius XM Holdings Inc. common stock, each share having the same designations, rights, powers and preferences, and the qualifications, limitations and restrictions thereof as the shares of Sirius XM Radio Inc. common stock;

- Sirius XM Holdings Inc. did not assume any of Sirius XM Radio Inc.’s existing debt obligations, except it became co-obligor of its 7% Exchangeable Senior Subordinated Notes due 2014 and such Notes became exchangeable for common stock of Sirius XM Holdings Inc. in lieu of Sirius XM Radio Inc. common stock;
- Sirius XM Holdings Inc. assumed and agreed to perform all of Sirius XM Radio Inc.’s obligations under its long-term incentive plans, including under various award and related agreements;
- Sirius XM Holdings Inc. assumed and agreed to perform all of Sirius XM Radio Inc.’s obligations under its existing warrants for the issuance of common stock, with the number of shares issuable upon exercise of such warrants, and the exercise price under such warrants, identical to the number of shares and the exercise price in effect immediately prior to the Reorganization; and
- the business, management and directors of Sirius XM Holdings Inc., immediately following the Reorganization were identical to the business, management and directors of Sirius XM Radio Inc. immediately prior to the Reorganization.

This summary description of the Reorganization and its effects are qualified in its entirety by reference to the documents and information that has been filed by us with the SEC. The terms “Sirius XM,” “we,” “us,” “our,” and “the company” as used herein and unless otherwise stated or indicated by context, refer to Sirius XM Radio Inc. and its consolidated subsidiaries prior to the Reorganization and to Sirius XM Holdings Inc. and its consolidated subsidiaries after the Reorganization.

#### **What are the voting rights of the holders of our common stock?**

Each holder of our common stock is entitled to one vote per share of common stock on all matters to be acted upon at the annual meeting.

#### **What vote is required to approve each item?**

Assuming the presence of a quorum, the directors will be elected by the holders of a plurality of the voting power of our common stock present in person or represented by proxy and entitled to vote. This means that the thirteen director nominees who receive the most votes cast by the holders of shares of our common stock will be elected. You may vote “For” or “Withhold” with respect to each nominee. Votes that are withheld will be excluded entirely from the vote with respect to the nominee from whom they are withheld. Votes that are withheld and broker non-votes (as described below) will not have any effect on the outcome of the election of the directors because directors are elected by plurality voting but they will be counted for the purpose of determining whether a quorum is present at the annual meeting.

The affirmative vote of the holders of a majority of the voting power of our common stock, present in person or represented by proxy, and entitled to vote on the matter is required for Item 2 (the approval of, in a non-binding, advisory vote, the compensation paid to our named executive officers) and Item 3 (the ratification of the appointment of KPMG LLP as our independent registered public accountants for 2014). You may vote “For,” “Against” or “Abstain” with respect to Items 2 and 3. For Items 2 and 3 an “Abstain” vote will have the same effect as a vote against the proposal. Items 2 and 3 are not binding on our board of directors or the Company.

#### **When will voting results be available?**

We will announce preliminary voting results at the annual meeting. We will report final results in a Current Report on Form 8-K filed with the SEC shortly after the annual meeting.

### **Who can attend the annual meeting?**

Subject to space availability, all stockholders as of the Record Date, or their duly appointed proxies, may attend the meeting. Since seating is limited, admission to the meeting will be on a first-come, first-served basis. Only persons who have proof of their stock ownership as of the Record Date will be allowed to enter the meeting. Proof of ownership will be any statement from their bank or broker showing the ownership of our common stock. Registration and seating will begin at 8:30 a.m., New York City time.

### **What constitutes a quorum?**

The presence, in person or by proxy, of the holders of a majority of the aggregate voting power of the issued and outstanding shares of our common stock entitled to vote at the annual meeting is necessary to constitute a quorum to transact business at the annual meeting. If a quorum is not present or represented at the annual meeting, the stockholders entitled to vote thereat, present in person or represented by proxy, may adjourn the annual meeting from time to time without notice or other announcement until a quorum is present or represented. Abstentions and broker non-votes are counted as present for purposes of determining a quorum.

### **What is a broker non-vote?**

A broker non-vote occurs if you hold shares in “street name” (that is, your shares are held on your behalf by a bank, broker or other nominee) and do not provide voting instructions to your broker on a proposal and your broker does not have the discretionary authority to vote on such proposal. A broker is entitled to vote shares held for a beneficial holder on routine matters, such as Item 3 (the ratification of the appointment of KPMG as our independent registered public accountants for 2014), without instructions from the beneficial holder of those shares. On the other hand, absent instructions from the beneficial holders of such shares, a broker will not be entitled to vote shares held for a beneficial holder on certain non-routine items, such as Item 1 (the election of directors) and Item 2 (the approval of, in a non-binding, advisory vote, the compensation paid to our named executive officers). **It is therefore important that you provide instructions to your broker if your shares are held by a broker so that your vote with respect to Items 1 and 2 are counted.**

### **What if I don’t return my proxy card and don’t attend the annual meeting?**

If you are a holder of record (that is, your shares are registered in your own name with our transfer agent) and you don’t vote your shares, your shares will not be voted.

If you are a beneficial owner, you hold your shares through your broker, bank or other nominee, and you do not provide voting instructions to your broker, bank or other nominee with respect to Item 1 (the election of directors) and Item 2 (the approval of, in a non-binding, advisory vote, the compensation paid to our named executive officers), your shares will be considered “broker non-votes” and will not be counted in determining the outcome of the vote. Broker non-votes will be counted for purposes of determining whether a quorum is present to hold the annual meeting.

### **How do I vote?**

Stockholders of record can vote as follows:

- *By Internet:* Stockholders may vote over the Internet at [www.envisionreports.com/SIRI](http://www.envisionreports.com/SIRI) by following the instructions included on your Notice. You will need the 15-digit Control Number included on the Notice to obtain your records and to create an electronic voting instruction form.
- *By Telephone:* Stockholders may vote by telephone 1-800-652-VOTE (8683) by following the instructions included with your Notice. You will need the 15-digit Control Number included on the Notice in order to vote by telephone.
- *At the Meeting:* If you attend the annual meeting, you may vote in person by ballot, even if you have previously returned a proxy card or otherwise voted.

Only your latest executed vote will count.

If your shares are held in “street name,” you may also submit voting instructions to your bank, broker or other nominee. In most instances, you will be able to do this over the Internet, by telephone or by mail. Please refer to information from your bank, broker or other nominee on how to submit voting instructions. The deadline for voting by telephone or electronically is 11:59 p.m., New York City time, on Friday, May 16, 2014. “Street name” stockholders who wish to vote in person at the meeting will need to obtain a proxy form from the institution that holds their shares.

### **What is householding?**

As permitted by the Securities Exchange Act of 1934, as amended (the “Exchange Act”), only one copy of this proxy statement and annual report or Notice is being delivered to stockholders residing at the same address, unless the stockholders have notified us of their desire to receive multiple copies of our proxy statement. This is known as householding.

We will promptly deliver, upon oral or written request, a separate copy of this proxy statement and annual report to any stockholder residing at an address to which only one copy was mailed. Requests for additional copies for this year’s or future years’ proxy materials should be directed to: Sirius XM Holdings Inc., Attention: Corporate Secretary, 1221 Avenue of the Americas, 36th Floor, New York, New York 10020. Requests can also be made by telephone by calling (212) 584-5100.

Stockholders of record residing at the same address and currently receiving multiple copies of this proxy statement may contact our Corporate Secretary (in writing or by phone at the contact information indicated above) to request that only a single copy of our proxy statement be mailed in the future.

### **How can I obtain a printed copy of the proxy materials?**

To receive free of charge a separate copy of the Notice and, if applicable, this proxy statement and our annual report, stockholders may write or call us at the following:

Investor Relations  
Sirius XM Holdings Inc.  
1221 Avenue of the Americas  
36th Floor  
New York, New York 10020  
(212) 584-5100

### **Can I change my vote or revoke my proxy?**

Yes. If you are a stockholder of record, you may change your vote or revoke your proxy at any time before your shares are voted at the annual meeting by:

- Notifying our Corporate Secretary in writing at Sirius XM Holdings Inc., 1221 Avenue of the Americas, 36th Floor, New York, New York 10020 that you are revoking your proxy;
- Executing and delivering a later-dated proxy card or submitting a later-dated vote by telephone or the Internet; or
- Attending the annual meeting, revoking your proxy and voting in person.

If you hold your shares in “street name,” you may submit new voting instructions by contacting your bank, broker or other nominee. You may also change your vote or revoke your proxy in person at the annual meeting if you obtain a signed proxy from the record holder (broker, bank or other nominee) giving you the right to vote the shares.

**Who will count the votes?**

A representative of Computershare will tabulate the votes and act as inspector of elections.

**What is a proxy?**

A proxy is a person you appoint to vote on your behalf. We are soliciting your vote so that all shares of our stock may be voted at the annual meeting.

**Whom am I designating as my proxy?**

You will be designating Patrick L. Donnelly, our Executive Vice President, General Counsel and Secretary, and Ruth A. Ziegler, our Senior Vice President and Deputy General Counsel, as your proxies. However, you may appoint a person (who need not be a stockholder) other than Patrick L. Donnelly and Ruth A. Ziegler to vote on your behalf at the meeting by completing another proper proxy.

**How will my proxy vote my shares?**

Your proxy will vote your shares according to your instructions. If you complete your proxy card but do not indicate how you would like your shares voted, your proxy will vote in accordance with the recommendation of our board of directors.

**Who is soliciting my proxy, and who will pay for the costs of the solicitation?**

Sirius XM Holdings Inc. is soliciting your proxy. The cost of soliciting proxies will be borne by Sirius XM, which has engaged MacKenzie Partners, Inc. to assist in the distribution and solicitation of proxies. We have agreed to pay MacKenzie \$10,000 and reimburse the firm for its reasonable out-of-pocket expenses. We will also reimburse brokerage firms, banks and other custodians for their reasonable out-of-pocket expenses for forwarding these proxy materials to you. Our directors, officers and employees may solicit proxies on our behalf by telephone or in writing, but will receive no additional compensation for their services.

**When, and how, do I submit a proposal for next year's annual meeting of stockholders?**

Under the SEC's rules and regulations, any stockholder desiring to submit a proposal to be included in our 2015 proxy statement must submit such proposal to us in writing at our principal executive offices located at: 1221 Avenue of the Americas, 36th Floor, New York, New York 10020, to the attention of the Corporate Secretary, no later than the close of business on December 9, 2014.

Our By-laws provide for advance notice provisions. The By-laws require the timely notice of certain information to be provided by any stockholder who proposes director nominations or any other business for consideration at a stockholders' meeting. Failure to deliver a proposal in accordance with the procedures discussed above and in the By-laws may result in the proposal not being deemed timely received. To be timely, notice of a director nomination or any other business for consideration at a stockholders' meeting must be received by our Corporate Secretary at our principal executive offices not less than 70 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting. Therefore, to be presented at our 2015 Annual Meeting of Stockholders, such a proposal must be received by the Corporate Secretary on or after February 20, 2015 but no later than March 12, 2015. In the event that the date of the 2015 Annual Meeting is advanced by more than 20 days, or delayed by more than 70 days, from the anniversary date of the 2014 Annual Meeting of Stockholders, notice must be delivered no earlier than the 90th day prior to the 2015 Annual Meeting and not later than the close of business on the later of the 70th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of the 2015 Annual Meeting of Stockholders is first made. In addition, for the purposes of the application of Rule 14a-4(c) of the Exchange Act, the date for timely notice specified in this paragraph shall be the earlier of the date calculated above or the date specified in paragraph (c)(1) of Rule 14a-4 of the Exchange Act.

## ITEM 1 — ELECTION OF DIRECTORS

Thirteen director nominees are standing for election at the annual meeting. The Nominating and Corporate Governance Committee of our board of directors has nominated the director nominees listed below after consideration of each individual's qualifications, contributions to the company and other reasons discussed in this proxy statement.

The Nominating and Corporate Governance Committee believes that a well-functioning board includes a diverse group of individuals who bring a variety of complementary skills and experiences. Although our board of directors does not have a formal policy with regard to the consideration of diversity in identifying director candidates, diversity is one of the factors that the Nominating and Corporate Governance Committee may, pursuant to its charter, take into account in identifying director candidates. The Nominating and Corporate Governance Committee generally considers each nominee in the broad context of the overall composition of our board of directors with a view toward constituting a board that, as a group, possesses the appropriate mix of skills and experience to oversee our business. The experience, qualifications, attributes, or skills that led the Nominating and Corporate Governance Committee to conclude that our nominees should serve on the board of directors are generally described in the biographical information below.

Set forth below are the nominees to be elected to serve until the 2015 annual meeting of stockholders or until their respective successors have been duly elected and qualified.

To be elected as a director, each nominee must receive a plurality of the votes cast by the holders of our common stock.

Should any nominee become unable or unwilling to accept election, the proxy holders may vote the proxies for the election, in his or her stead, of any other person our board of directors may nominate or designate. Each nominee has consented to serve as a director if elected.

**Biographical information about this year’s nominees:**

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
Joan L. Amble . . . . .	60	Ms. Amble has been a director since July 2008. From December 2006 until the closing of our merger with XM Satellite Radio Holdings Inc. (“XM”) in July 2008, Ms. Amble served as a director of XM. From May 2011 to December 2011, Ms. Amble was the Executive Vice President, Finance of the American Express Company and also served as its Executive Vice President and Corporate Comptroller from December 2003 until May 2011. Prior to joining American Express, Ms. Amble served as Chief Operating Officer and Chief Financial Officer of GE Capital Markets, a service business within GE Capital Services, Inc., overseeing securitizations, debt placement and syndication, as well as structured equity transactions. From 1994 to March 2003, Ms. Amble served as Vice President and Controller of GE Capital. Ms. Amble serves as a member of the board of directors of Booz Allen Hamilton Holding Corporation and Brown-Forman Corporation. Ms. Amble also served as a director at Broadcom Corporation during the last five years.

*Key Attributes, Experience and Skills:*

Ms. Amble has extensive experience in financial reporting, including experience with the rules and regulations of the SEC, based, in part, on her experience at Ernst & Young, The Financial Accounting Standards Board, the General Electric Company and American Express. Ms. Amble also has significant experience in the areas of financial controls; Sarbanes-Oxley Act compliance; operations; risk management; six sigma quality; and consumer-oriented subscription businesses.

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
Anthony J. Bates . . . . .	46	Mr. Bates has been a director since September 2013. From July 2013 until March 2014, Mr. Bates was the Executive Vice President, Business Development and Evangelism, of Microsoft Corporation. Prior to July 2013, he was the President of Microsoft’s Skype Division since its acquisition by Microsoft in 2011. Mr. Bates was the Chief Executive Officer of Skype, a leading provider of software applications and related internet communications products, since 2010. Before joining Skype, Mr. Bates spent fifteen years at Cisco Systems, Inc. where he had been Senior Vice President and General Manager of several business groups, including Enterprise, Commercial and Small Business, and Cisco’s core high-end router business.

*Key Attributes, Experience and Skills:*

Mr. Bates brings to the board of directors extensive executive leadership experience in the technology industry, including the management of worldwide operations, sales, service and support, areas that the board considers valuable given the evolving nature of the audio entertainment industry and the increasing competition we face.

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
George W. Bodenheimer . .	55	Mr. Bodenheimer has been a director since September 2013. Mr. Bodenheimer is Chairman Emeritus of ESPN, Inc., a multimedia, multinational sports entertainment company. He was Executive Chairman of ESPN, Inc. from January 2012 until December 2013. He served as Co-Chairman of Disney Media Networks from April 2004 until January 2012 and as President of ABC Sports from March 2003 until January 2012. Mr. Bodenheimer was named President of ESPN in November 1998, a position he held until January 2012. Mr. Bodenheimer joined ESPN in 1981 and served in a variety of senior sales and marketing positions prior to his appointment as President.

*Key Attributes, Experience and Skills:*

Mr. Bodenheimer has extensive experience in: acquiring rights to, as well as marketing, promoting and producing, sports and entertainment programming, including live major sporting events; identifying emerging sports properties; and assessing on-air and executive talent. The board of directors believes this experience is a significant asset to our company. Mr. Bodenheimer also has unique experience in evaluating and assessing the desirability of sports properties that are likely to be attractive to both the core demographics of our subscriber base and other segments of our existing and targeted customer base.

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
David J.A. Flowers . . . . .	59	Mr. Flowers has been a director since April 2009. Mr. Flowers has served as Senior Vice President and Managing Director, Alternative Investments, of Liberty Media Corporation (formerly known as Liberty Spinco, Inc.) since January 2013. He served as a Senior Vice President of Liberty Media Corporation (now known as Starz) from May 2007 to January 2013 and as Managing Director, Alternative Investments, from November 2011 to January 2013. He has served as a Senior Vice President of Liberty Interactive Corporation since October 2000 and as Managing Director, Alternative Investments, since November 2011. Mr. Flowers served as the Treasurer of Liberty Interactive Corporation from April 1997 to October 2011, and as a Vice President from June 1995 to October 2000. Previously, Mr. Flowers worked in various treasury positions at Toronto Dominion Bank and ended his career there as a Managing Director of Media Telecom. Mr. Flowers has served as a director of Interval Leisure Group, Inc. since August 2008.

*Key Attributes, Experience and Skills:*

Mr. Flowers brings to the board significant financial, investment and public company experience as a senior finance executive of large public companies. His extensive experience leading finance and business development initiatives in the technology, media and telecommunications areas is a significant asset to the board.



<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
Eddy W. Hartenstein . . .	63	Mr. Hartenstein has been a director since July 2008, has served as our lead independent director since April 2013 and served as the chairman of our board from November 2009 to April 2013. From May 2005 until the closing of the merger with XM in July 2008, Mr. Hartenstein served as a director of XM. Mr. Hartenstein has been Publisher and Chief Executive Officer of the Los Angeles Times, which is owned by the Tribune Company, since August 2008. In addition, Mr. Hartenstein served as Co-President of the Tribune Company from October 2010 to May 2011 and as President and Chief Executive Officer from May 2011 until January 2013. Since January 2013, he has also been a member of the board of directors of the Tribune Company. In December 2008, the Tribune Company filed for Chapter 11 bankruptcy protection and, under his leadership, emerged in December 2012. Mr. Hartenstein was Vice Chairman and a member of the board of directors of The DIRECTV Group, Inc. (formerly Hughes Electronics Corporation), a television service provider, from December 2003 until his retirement in December 2004. He served as Chairman and Chief Executive Officer of DIRECTV, Inc. from late 2001 through 2004 and as President of DIRECTV, Inc. from its inception in 1990 to 2001. Previously, Mr. Hartenstein served in various capacities for Hughes Communications, Inc., a provider of satellite-based communications, Equatorial Communications Services Company, a provider of telephony and data distribution services, and NASA's Jet Propulsion Laboratory, the lead U.S. center for robotic exploration of the solar system. Mr. Hartenstein also serves as a member of the board of directors of SanDisk Corporation and The City of Hope. Mr. Hartenstein also serves on the board of directors and as chairman of the compensation committee of Broadcom Corporation.

*Key Attributes, Experience and Skills:*

As the former Chief Executive Officer of DIRECTV, Inc., Mr. Hartenstein has extensive experience in building, managing, marketing and operating a satellite service. He brings direct and highly relevant expertise to the board in such areas as the construction and procurement of satellites, managing a large consumer subscriber base, consumer marketing, and the design and implementation of systems necessary to support a growing and dynamic consumer-oriented business.

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
James P. Holden . . . . .	62	Mr. Holden has been a director since August 2001. From October 1999 until November 2000, Mr. Holden was the President and Chief Executive Officer of DaimlerChrysler Corporation, one of the world's largest automakers. Prior to being appointed President in 1999, Mr. Holden held numerous senior positions within Chrysler Corporation during his 19-year career at that company. Mr. Holden is a director of Speedway MotorSports, Inc. and the Lead Director of Snap-On Incorporated. Mr. Holden also served as a director at Motors Liquidation Corporation and Meridian Automotive during the last five years.

*Key Attributes, Experience and Skills:*

Mr. Holden has spent his career in the automotive business, a key market for our services. Mr. Holden's perspective on, and knowledge of, the workings, business and product planning processes, and knowledge of individuals in the automotive industry are significant assets to the board.

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
Gregory B. Maffei . . . . .	53	Mr. Maffei has been a director since March 2009 and has served as the chairman of our board since April 2013. He has served as a director and the President and Chief Executive Officer of Liberty Media Corporation (formerly known as Liberty Spinco, Inc.) since August 2012. Mr. Maffei served as a director and the President and Chief Executive Officer of Liberty Media Corporation (now known as Starz) from May 2007 to January 2013. Mr. Maffei has served as the President and Chief Executive Officer of Liberty Interactive Corporation since February 2006 and as a director since November 2005. He also served as its CEO-Elect from November 2005 through February 2006. Prior thereto, Mr. Maffei served as President and Chief Financial Officer of Oracle Corporation during 2005, and as Chairman of 360networks Corporation from 2002 to 2011, Chief Executive Officer from 2000 to 2005 and as President from 2002 to 2005. Previously, Mr. Maffei was the Chief Financial Officer of Microsoft Corporation from 1997 to 2000. Mr. Maffei has served as (i) the Chairman of the Board of Starz since January 2013, (ii) the Chairman of the Board of TripAdvisor, Inc. since February 2013, (iii) the Chairman of the Board of Live Nation Entertainment, Inc. since March 2013 and a director since February 2011, (iv) a director of Electronic Arts, Inc. since June 2003, (v) a director of Zillow, Inc. since May 2005, and (vi) a director of Barnes & Noble, Inc. since September 2011. He served as a director of DIRECTV, Inc. from November 2009 to June 2010, and as a director of its predecessor, DIRECTV Group, Inc., from February 2008 to November 2009.

*Key Attributes, Experience and Skills:*

Mr. Maffei brings to the board significant financial and operational experience based on his senior policy-making positions at Liberty Media, Oracle, 360networks and Microsoft. He also provides the board with executive leadership perspective on the operations and management of large public companies, including companies in the technology, media and telecommunications space. The board also benefits from his extensive public company board experience.

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
Evan D. Malone . . . . .	43	Dr. Malone has been a director since May 2013. Dr. Malone has served as President of NextFab Studio, LLC, a high-tech workshop offering technical training, consulting, and product design and prototyping services, since June 2009 and has been an engineering consultant for over five years. Since January 2008, Dr. Malone has served as the owner and manager of a real estate property and management company, 1525 South Street LLC. During 2008, Dr. Malone also served as a post-doctoral research assistant at Cornell University and an engineering consultant with Rich Food Products, a food processing company. Dr. Malone has served as co-owner and director of Drive Passion PC Services, CC, an Internet café, telecommunications and document services company, in South Africa since 2007 and served as an applied physics technician for Fermi National Accelerator Laboratory, part of the national laboratory system of the Office of Science, U.S. Department of Energy, from 1999 until 2001. He also is a founding member of Jet Wine Bar, LLC, a start-up company in Philadelphia, which began operations in 2010. Dr. Malone has served as a director of Liberty Media Corporation (formerly known as Liberty Spinco, Inc.) since January 2013. He previously served as a director of Liberty Media Corporation (now known as Starz) from September 2011 until January 2013. Dr. Malone has served as a director of Liberty Interactive Corporation since August 2008.

*Key Attributes, Experience and Skills:*

Dr. Malone brings an applied science and engineering perspective to the board. Dr. Malone’s perspectives assist the board in adapting to technological changes facing the audio entertainment industry. His entrepreneurial experience also provides the board valuable insights in evaluating strategic opportunities in existing, new and emerging technologies.

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
James E. Meyer . . . . .	59	Mr. Meyer has served as our Chief Executive Officer since December 2012 and has been a director since January 2013. Previously, Mr. Meyer was our President, Operations and Sales. Prior to joining us in May 2004, Mr. Meyer was the President of Aegis Ventures, a general management consulting company. Before Aegis, he held a number of senior management positions in consumer electronics over a 25 year period, including as the Senior Executive Vice President of Digital Media Solutions of Thomson, a worldwide leader in consumer electronics. Prior to joining Thomson, Mr. Meyer held several senior management positions at General Electric and RCA. Mr. Meyer serves on the board of ROVI Corporation.

*Key Attributes, Experience and Skills:*

As our Chief Executive Officer, Mr. Meyer is responsible for setting and executing our goals and strategies. Mr. Meyer provides the board not only with a knowledge of our daily workings, but also with the essential experience, insight and expertise that can be provided only by a person who is intimately involved in running our business. His ability as director to share his views during the board’s deliberations is of significant benefit to the other members of the board of directors.

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
James F. Mooney . . . . .	59	Mr. Mooney has been a director since July 2003. Mr. Mooney is the Chief Executive Officer of Four Horsemen Consulting Group. Mr. Mooney was a director and chairman of the board of directors of Virgin Media Inc., a U.K. entertainment and communications business, from March 2003 until June 2013. From December 2004 to December 2007, Mr. Mooney was the chairman of the board of directors of RCN Corporation, a provider of bundled telephone, cable and high speed internet services. From April 2001 to September 2002, Mr. Mooney was the Executive Vice President and Chief Operating Officer of Nextel Communications Inc., a provider of wireless communications services. From January 2000 to January 2001, Mr. Mooney was the Chief Executive Officer and Chief Operating Officer of Tradeout Inc., an asset management firm owned jointly by General Electric Capital, Ebay Inc. and Benchmark Capital. From March 1999 to January 2000, Mr. Mooney was the Chief Financial Officer/Chief Operating Officer at Baan Company, a business management software provider. From 1980 until 1999, Mr. Mooney held a number of positions with IBM Corporation, including Chief Financial Officer of the Americas. Mr. Mooney was previously a member of the board of directors of Sidera Networks, LLC, a provider of high capacity communications services to carrier and enterprise customers.

*Key Attributes, Experience and Skills:*

Mr. Mooney has had a varied career in industries ranging from computer products to telecommunications, including relevant experience in subscriber-based businesses. His diverse experience is useful in our business and budget planning process, in analyzing subscriber growth and its trends and subscriber churn, assessing marketing opportunities, evaluating personnel and compensation, assessing financing alternatives, and assessing and evaluating our long-term business plans.

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
Carl E. Vogel . . . . .	56	<p>Mr. Vogel has been a director since April 2011. Mr. Vogel is a private investor and is also a senior advisor and operating partner with The Gores Group, a private equity firm, and affiliated with Bulldog Capital Partners, Inc. Mr. Vogel is also a member of the board of directors of Dish Network Corporation, a satellite television provider, and a senior advisor to its Chairman. He served as President of Dish Network Corporation from September 2006 until February 2008 and served as its Vice Chairman from June 2005 until March 2009. From October 2007 until March 2009, Mr. Vogel served as the Vice Chairman of the board of directors of, and as a Senior Advisor to, EchoStar Communications Corporation. From 2001 until 2005, Mr. Vogel served as the President and Chief Executive Officer of Charter Communications Inc., a cable television and broadband services provider. Prior to joining Charter, Mr. Vogel worked as an executive officer in various capacities for companies affiliated with Liberty Media. Mr. Vogel is a member of the boards of directors and audit committees of Shaw Communications, Inc., a diversified communications company providing broadband cable and direct-to-home satellite services in Canada, Universal Electronics, Inc., a provider of wireless control technology for connected homes, and is a member of the board of directors, audit committee, corporate governance and nominating committee and executive committee of Ascent Media Corporation. He is also a member of the board of directors, chairman of the audit committee, and a member of the compensation committee of AMC Networks, Inc., a provider of cable television programming. Mr. Vogel served on the board of directors of NextWave Wireless Inc., a wireless technology company that developed, produced and marketed mobile multimedia and consumer electronics solutions, during the past five years.</p>

*Key Attributes, Experience and Skills:*

Mr. Vogel brings executive level leadership experience in the communications industry as a result of his high level executive roles at Dish Network Corporation, Charter Communications Inc. and Liberty Media. Mr. Vogel also has extensive experience in reviewing financial statements as a result of his background as a certified public accountant and his role as a chief executive and senior finance executive of public companies.

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
Vanessa A. Wittman . . .	46	<p>Ms. Wittman has been a director since April 2011. Since May 2012, Ms. Wittman has been the Senior Vice President and Chief Financial Officer of Motorola Mobility, a subsidiary of Google. From September 2008 to March 2012, she served as Executive Vice President and Chief Financial Officer of Marsh &amp; McLennan Companies, Inc., a professional services company providing advice and solutions in the areas of risk, strategy, and human capital. Prior to joining Marsh &amp; McLennan, Ms. Wittman was Chief Financial Officer and Executive Vice President of Adelphia Communications Corp., a cable television company, from 2003 to 2007. Prior to Adelphia, Ms. Wittman served as Chief Financial Officer of 360networks, a wholesale provider of telecommunications services. She also has held positions with Microsoft, Metricom Inc. and Morgan Stanley &amp; Co. Incorporated. Ms. Wittman served as a director of kgb, an independent provider of directory assistance and enhanced information services, and Infospace, an internet search services company.</p>

*Key Attributes, Experience and Skills:*

Ms. Wittman has been the Chief Financial Officer of various public companies and has held senior positions in multi-national companies throughout her career. She also has been a director at several companies, including serving as audit committee chair for a public company.

<u>Name</u>	<u>Age</u>	<u>Position, Principal Occupation, Business Experience and Directorships</u>
David M. Zaslav . . . . .	54	Mr. Zaslav has been a director since May 2013. Mr. Zaslav has been the President, Chief Executive Officer and a director of Discovery Communications, Inc., one of the largest nonfiction media companies in the world, since September 2008. Mr. Zaslav has served as President and Chief Executive Officer of Discovery Communications, Inc. since January 2007. Mr. Zaslav served as President, Cable & Domestic Television and New Media Distribution of NBC Universal, Inc., a media and entertainment company, from May 2006 to December 2006. Mr. Zaslav served as Executive Vice President of NBC and President of NBC Cable, a division of NBC, from October 1999 to May 2006. Mr. Zaslav was a member of the board of TiVo Inc. through 2010.

*Key Attributes, Experience and Skills:*

Mr. Zaslav, as the Chief Executive Officer of Discovery Communications and through his prior work in television, has developed a deep understanding of the media and entertainment industry. This experience, together with his general management expertise, uniquely positions him as a valued presence on our board of directors to assist us in evaluating programming and marketing opportunities and further understand our diverse and growing subscriber base, including trends in the audio entertainment industry.

**The board of directors recommends a vote “FOR” the election of each of the nominees named above.**

**What are the responsibilities of the board of directors?**

The business and affairs of our company are managed under the direction of our board of directors. Our board oversees senior management selection and compensation, monitors overall corporate performance and ensures the integrity of our financial controls. Our board of directors also oversees our strategic and business planning processes.

**How are nominees for the board of directors selected?**

Our Nominating and Corporate Governance Committee reviews possible candidates to be directors and is responsible for overseeing matters of corporate governance, including the evaluation of performance and practices of the board of directors, the board’s committees, management succession plans and executive resources. The Nominating and Corporate Governance Committee considers suggestions from many sources, including stockholders, for possible directors. Such suggestions, together with appropriate biographical and other information required pursuant to our By-laws, should be submitted to our Corporate Secretary, Sirius XM Holdings Inc., 1221 Avenue of the Americas, 36th Floor, New York, New York 10020. Candidates who are suggested by our stockholders are evaluated by the Nominating and Corporate Governance Committee in the same manner as are other possible candidates to be directors.

During 2013, our board of directors retained Spencer Stuart, one of the world’s leading executive search consulting firms, to assist it in the process of identifying and evaluating potential nominees to be directors. Spencer Stuart worked with the Nominating and Corporate Governance Committee to evaluate the skills and experience of the members of the board of directors and discuss any perceived areas where the board could be improved by adding one or more directors with relevant expertise. Spencer Stuart conducted a search which identified Messrs. Bates and Bodenheimer as candidates for election to the board of directors.

In its assessment of each potential candidate, including those recommended by stockholders, the Nominating and Corporate Governance Committee takes into account all factors it considers appropriate, which may include (a) ensuring that the board of directors, as a whole, is diverse and consists of individuals with various and relevant career experience, relevant technical skills, industry knowledge and experience, financial

expertise (including expertise that could qualify a director as a “financial expert,” as that term is defined by the rules of the SEC), local or community ties, and (b) minimum individual qualifications, including strength of character, mature judgment, familiarity with our business and related industries, independence of thought and ability to work collegially. The Nominating and Corporate Governance Committee also may consider the extent to which a candidate would fill a present need on the board of directors. After conducting an initial evaluation of a candidate, the Nominating and Corporate Governance Committee will interview that candidate if it believes the candidate might be qualified to be a director and may ask the candidate to meet with other directors and management. If the Nominating and Corporate Governance Committee believes a candidate would be a valuable addition to the board of directors, it will recommend to the board that candidate’s nomination as a director.

### **What is the board’s leadership structure?**

Gregory B. Maffei is the Chairman of our board of directors. The Chairman of our board organizes the work of the board and ensures that the board has access to sufficient information to enable the board to carry out its functions, including monitoring our performance and the performance of management. The Chairman, among other things, presides over meetings of the board of directors, establishes the agenda for each meeting of the board in consultation with our Chief Executive Officer, oversees the distribution of information to directors, and performs other duties or assignments as agreed with either the board of directors or our Chief Executive Officer. The board of directors has determined that it is currently in our best interests to separate the Chairman of the board position and the Chief Executive Officer position because it allows the Chief Executive Officer to focus on our day-to-day business, including risk management, while allowing the Chairman of the board to lead the board and assist the board in its fundamental role of providing advice to, and oversight of, management. Further, the board recognizes that the Chief Executive Officer position requires a significant dedication of time, effort, and energy in the current business environment. Our *Corporate Governance Guidelines* (the “*Guidelines*”) do not establish this approach as a policy, but as a matter that is considered from time-to-time.

### **Does the board have a lead independent director?**

Liberty Media beneficially owns, directly and indirectly, over 50% of our outstanding common stock. In light of that control relationship, the board of directors believes it is appropriate, and a matter of good corporate governance, to designate a director to serve as the lead independent director. The board has designated Eddy W. Hartenstein, the former Chairman of our board of directors, to serve as the lead independent director. The lead independent director coordinates the activities of the other independent directors and performs such other duties and responsibilities as the board of directors determines.

### **Are all of the directors required to be independent?**

Liberty Media beneficially owns, directly and indirectly, over 50% of our outstanding common stock. As a result, we are exempt from certain corporate governance requirements of The NASDAQ Global Select Market (“NASDAQ”) Rules including, among other items, the requirement that our board of directors be comprised of a majority of independent directors and that we have independent director oversight over executive officer compensation and director nominations. We may, in the future, rely on these exemptions available to a controlled company. The controlled company exemption does not extend to the audit committee independence requirements. Accordingly, our audit committee will continue to be comprised solely of directors meeting the independence standards under the applicable NASDAQ listing standards, Section 10A(m)(3) of the Exchange Act and our *Guidelines*. References to Liberty Media in this proxy statement include Liberty Media Corporation and its predecessors, unless the context otherwise requires.

### **How does the board determine which directors are considered independent?**

Our board reviews the independence of our directors annually. The provisions of our *Guidelines* regarding director independence meet, and in some areas exceed, the listing standards of NASDAQ. A copy of the *Guidelines* is available on our website at <http://investor.siriusxm.com>.

The Nominating and Corporate Governance Committee undertook a review of director independence in March 2014. As part of this review, the committee reviewed with our Corporate Secretary written questionnaires submitted by directors. These questionnaires disclose transactions and relationships between each director or members of his immediate family, on one hand, and us, other directors, members of our senior management and our affiliates, on the other hand.

As a result of this review, the Nominating and Corporate Governance Committee determined that all of our directors and nominees are independent under the standards set forth in our *Guidelines* and applicable NASDAQ listing standards, with the exception of James E. Meyer, our Chief Executive Officer, Gregory B. Maffei, Mark D. Carleton, David J.A. Flowers and Robin S. Pringle, each of whom is an employee of Liberty Media, and Evan D. Malone, whose father is the Chairman of Liberty Media. Mark D. Carleton and Robin S. Pringle resigned as members of our board of directors in 2013. With respect to Joan L. Amble, the board evaluated ordinary course transactions during the last three fiscal years between us and the American Express Company, for which she served as an executive officer until December 2011, and found that the amount paid by us to American Express was less than 5% of American Express' consolidated gross revenues during each of its last three fiscal years. With respect to Vanessa A. Wittman, the board evaluated an ordinary course transaction that occurred during 2011 between us and an indirect wholly-owned subsidiary of Marsh & McLennan Companies, Inc. ("MMC"). Ms. Wittman served as an executive officer of MMC until March 2012. The board found that the amount we paid to this subsidiary of MMC was less than one tenth of one percent of MMC's reported consolidated revenues in the applicable year. Similarly, with respect to Anthony J. Bates and George W. Bodenheimer, the board evaluated the ordinary course transactions during the last three fiscal years between us and Microsoft and ESPN, respectively, for which each served as an executive officer during the last three years, and found that the amounts paid by us to Microsoft and ESPN was not material to either entity.

The board has determined that a majority of the members of the Compensation Committee meet the independence standards under the applicable NASDAQ listing standards and our *Guidelines* and qualify as "non-employee directors" for purposes of Rule 16b-3 of the Exchange Act and as "outside directors" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended. The board has determined that a majority of the members of the Nominating and Corporate Governance Committee meet the independence requirements mandated by the NASDAQ listing standards applicable to serving on the Nominating and Corporate Governance Committee and our *Guidelines*.

The board has also determined that all of the members of the Audit Committee are financially literate and meet the independence requirements mandated by the applicable NASDAQ listing standards, Section 10A(m)(3) of the Exchange Act and our *Guidelines*.

Our independent directors meet regularly in executive sessions.

### **What are the current standing committees of the board of directors and who are the members of these committees?**

Our board of directors has three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. From time to time the board may also form ad hoc committees. In 2012, our board of directors formed a Search Committee to evaluate candidates to be our Chief Executive Officer. In 2013, our board of directors also formed a Special Committee of independent directors to consider Liberty Media's proposal (as discussed further below. See "GOVERNANCE OF THE COMPANY — What is the relationship between Sirius XM and Liberty Media Corporation?"). The board of directors selected Joan L. Amble, James P. Holden and Eddy W. Hartenstein to serve on the Special Committee. The Special Committee is chaired by Mr. Hartenstein.

Copies of the charters for the Audit Committee and the Nominating and Corporate Governance Committee are available on our website at <http://investor.siriusxm.com>. The Compensation Committee has not adopted a charter.

The following table shows the current members and chair of each committee and the principal functions performed by each committee:

<u>Committee</u>	<u>Functions</u>
<p><b>Audit</b></p> <p>Members:</p> <p>Joan L. Amble*</p> <p>Eddy W. Hartenstein</p> <p>Vanessa A. Wittman</p>	<ul style="list-style-type: none"> <li>• Selects our independent registered public accounting firm</li> <li>• Reviews reports of our independent registered public accounting firm</li> <li>• Reviews and approves the scope and cost of all services, including all non-audit services, provided by the firm selected to conduct the audit</li> <li>• Monitors the effectiveness of the audit process</li> <li>• Reviews the adequacy of financial and operating controls</li> <li>• Monitors our corporate compliance program</li> <li>• Monitors our policies and procedures for enterprise risks</li> </ul>
<p><b>Compensation</b></p> <p>Members:</p> <p>George W. Bodenheimer</p> <p>David J.A. Flowers</p> <p>James P. Holden</p> <p>Carl E. Vogel*</p>	<ul style="list-style-type: none"> <li>• Reviews our executive compensation policies and strategies</li> <li>• Oversees and evaluates our overall compensation structure and programs</li> </ul>
<p><b>Nominating and Corporate Governance</b></p> <p>Members:</p> <p>Gregory B. Maffei</p> <p>James F. Mooney*</p> <p>Carl E. Vogel</p> <p>David M. Zaslav</p>	<ul style="list-style-type: none"> <li>• Develops and implements policies and practices relating to corporate governance</li> <li>• Reviews and monitors implementation of our policies and procedures related to the selection of director candidates</li> <li>• Assists in developing criteria for open positions as directors on the board of directors</li> <li>• Reviews background information on potential candidates for directors and makes recommendations to the board of directors</li> <li>• Makes recommendations to the board of directors with respect to committee assignments</li> </ul>

\* Chair

### **How often did the board and its committees meet during 2013?**

During 2013, there were ten meetings of our board of directors, seven Audit Committee meetings, eight Compensation Committee meetings and two Nominating and Corporate Governance Committee meetings. Each director nominee attended 75% or more of the total number of meetings of the board and meetings held by committees on which he or she served.

Directors are also encouraged to attend the annual meeting of stockholders. Eddy W. Hartenstein, Vanessa A. Wittman and David M. Zaslav attended our 2013 annual meeting of stockholders.

### **How can stockholders communicate with the board of directors?**

Stockholders may communicate directly with our board of directors, or specified individual directors, according to the procedures described on our website at <http://investor.siriusxm.com> under “Corporate Governance — Contact our Board.”



Our Corporate Secretary reviews all correspondence to our directors and forwards to the board a summary and/or copies of any such correspondence that, in the opinion of the Corporate Secretary, deals with the functions of the board or committees thereof or that he otherwise determines requires their attention. Directors may at any time review all correspondence received by us that is addressed to members of our board.

In addition, the Audit Committee has established procedures for the receipt, retention and treatment, on a confidential basis, of complaints received by us, our board of directors and the Audit Committee regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters. These procedures are available upon written request to our Corporate Secretary.

### Compensation Committee Interlocks and Insider Participation

Mr. Bodenheimer, Mr. Flowers, Mr. Holden, and Mr. Vogel were the members of the Compensation Committee during 2013. None of the members of the Compensation Committee is or has been an executive officer of our company, and no director who served on the Compensation Committee during 2013 had any relationships requiring disclosure by us under the SEC's rules requiring disclosure of certain relationships and related-party transactions. None of our executive officers served as a director or a member of a compensation committee (or other committee serving an equivalent function) of any other entity, the executive officers of which served as a director of our company or as a member of the Compensation Committee during 2013.

### Director Compensation Table for 2013

The following table provides compensation information for the year ended December 31, 2013 for each of our non-employee directors. Directors who are employees do not receive compensation for their services as directors.

Name	Fee Earned or Paid in Cash (\$)	Stock Awards(1) (\$)	Option Awards(2)(3) (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value of Non-Qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Joan L. Amble . . . . .	80,000	—	70,000	—	—	—	150,000
Anthony J. Bates(4) . . . . .	12,500	—	46,666	—	—	—	59,166
George W. Bodenheimer(4) . . .	12,500	—	46,666	—	—	—	59,166
David J.A. Flowers . . . . .	50,000	—	70,000	—	—	—	120,000
Eddy W. Hartenstein . . . . .	100,000	—	70,000	—	—	—	170,000
James P. Holden . . . . .	50,000	—	70,000	—	—	—	120,000
Gregory B. Maffei . . . . .	100,000	—	70,000	—	—	—	170,000
Evan D. Malone(5) . . . . .	25,000	—	70,000	—	—	—	95,000
James F. Mooney . . . . .	60,000	—	70,000	—	—	—	130,000
Carl E. Vogel . . . . .	70,000	—	70,000	—	—	—	140,000
Vanessa A. Wittman . . . . .	50,000	—	70,000	—	—	—	120,000
David M. Zaslav(5) . . . . .	25,000	—	70,000	—	—	—	95,000

(1) Non-employee directors were not awarded restricted stock units in 2013. At December 31, 2013, the aggregate number of unvested restricted stock units outstanding for Mr. Holden was 143,235 and for Mr. Mooney was 93,748. No other non-employee director holds any unvested restricted stock units. Messrs. Holden and Mooney acquired the restricted stock units as part of our former director compensation program. These restricted stock units will vest on the first anniversary of the date that Mr. Holden and Mr. Mooney cease to be directors.

- (2) The aggregate grant date fair values of stock option awards were computed in accordance with FASB ASC Topic 718 (excluding estimated forfeitures). The assumptions used in the valuation are discussed in Note 15 to our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013. On May 22, 2013, non-employee directors, excluding Mr. Bates and Mr. Bodenheimer, were each awarded 49,059 options at an exercise price of \$3.5150 per share with a grant date fair value of \$70,000. Upon joining our board of directors, on September 10, 2013, Mr. Bates and Mr. Bodenheimer were each awarded 28,540 options at an exercise price of \$3.80 per share with a fair value of \$46,666.
- (3) At December 31, 2013, the aggregate number of option awards outstanding for each non-employee director was as follows: Ms. Amble — 1,498,221; Mr. Bates — 28,540; Mr. Bodenheimer — 28,540; Mr. Flowers — 555,984; Mr. Hartenstein — 1,544,221; Mr. Holden — 367,719; Mr. Maffei — 555,984; Dr. Malone — 49,059; Mr. Mooney — 180,743; Mr. Vogel — 185,759; Ms. Wittman — 185,759; and Mr. Zaslav — 49,059.
- (4) Mr. Bates and Mr. Bodenheimer joined our board of directors on September 10, 2013.
- (5) Dr. Malone and Mr. Zaslav joined our board of directors on May 21, 2013, immediately following their election at the 2013 annual meeting of stockholders.

As Chairman of the board of directors, in 2013, Mr. Maffei received an annual cash retainer of \$100,000. Mr. Hartenstein as our lead independent director received an annual cash retainer of \$100,000. The other members of our board of directors each receive an annual cash retainer of \$50,000. Each director who serves as chair of a committee of the board of directors receives an additional annual cash retainer as follows: the audit committee chairwoman receives \$30,000; the compensation committee chairman receives \$20,000; and the nominating and corporate governance committee chairman receives \$10,000.

The members of the Special Committee formed to evaluate the Liberty Media proposal also each received an additional cash retainer of \$100,000 in 2014.

In addition, each member receives an award with a grant date value equal to \$70,000 in the form of options to purchase our common stock. The options are granted annually on the next business day following that year's annual meeting of stockholders. All options to purchase our common stock awarded to our non-employee directors vest over a four-year period, with 25% vesting on each anniversary of the date of grant. No options vest in a given year if, in the prior calendar year, the director failed to attend at least 75% of the meetings of the board.

Any director who fails to attend at least 75% of the meetings of the board of directors in any given year forfeits 25% of his or her compensation that is payable in cash. During 2013, all of our directors attended over 75% of the meetings of the board.

We also pay reasonable travel and accommodation expenses of directors in connection with their participation in meetings of the board.

## STOCK OWNERSHIP

### Who are the principal owners of our stock?

The following table sets forth information regarding beneficial ownership of our common stock as of March 17, 2014 by each person known by us to be the beneficial owner of more than 5% of our outstanding common stock. In general, “beneficial ownership” includes those shares a person has or shares the power to vote or transfer, and options to acquire our common stock that are exercisable currently or become exercisable within 60 days. Unless otherwise indicated, we believe that the beneficial owner of the common stock listed below, based on information furnished by this owner, has sole investment and voting power with respect to these shares.

<u>Name and Address of Beneficial Owner of Common Stock</u>	<u>Shares Beneficially Owned as of March 17, 2014</u>	
	<u>Number</u>	<u>Percent</u>
Liberty Media Corporation(1) . . . . . 12300 Liberty Boulevard Englewood, CO 80112	3,255,062,556	53.3%

(1) Based upon a Schedule 13D/A filed on March 17, 2014 by Liberty Media Corporation. The ownership percentage is based upon the information contained in a Schedule 13D/A filed on March 17, 2014 by Liberty Media Corporation and the number of shares outstanding as of March 17, 2014. Such shares include 5,974,509 shares of common stock issuable upon the exchange of \$11 million aggregate principal amount of our 7% Exchangeable Senior Subordinated Notes due 2014 beneficially owned by Liberty Media Corporation and 92,888,561 shares of common stock subject to the Share Repurchase Agreement, dated as of October 9, 2013, as amended, between Liberty Media Corporation and Sirius XM Holdings Inc.

### How much stock do our directors and executive officers own?

The following table shows the number of shares of common stock beneficially owned by each of our directors, each of our named executive officers and all of our directors and executive officers as a group as of February 28, 2014.

<u>Name of Beneficial Owner</u>	<u>Number of Shares of Common Stock Beneficially Owned(1)</u>	<u>Percent of Class</u>
Joan L. Amble . . . . .	1,336,111	*
Anthony J. Bates . . . . .	—	*
George W. Bodenheimer . . . . .	—	*
David J.A. Flowers(2) . . . . .	393,874	*
Eddy W. Hartenstein . . . . .	1,382,111	*
James P. Holden . . . . .	205,609	*
Gregory B. Maffei(2) . . . . .	393,874	*
Evan D. Malone(2) . . . . .	—	*
James F. Mooney(3) . . . . .	1,352,624	*
Carl E. Vogel . . . . .	49,152	*
Vanessa A. Wittman . . . . .	49,152	*
David M. Zaslav . . . . .	—	*
James E. Meyer . . . . .	10,504,237	*
Scott A. Greenstein . . . . .	2,364,729	*
Stephen R. Cook . . . . .	3,379,571	*
David J. Frear(4) . . . . .	9,077,946	*
Enrique Rodriguez . . . . .	212,500	*
All Executive Officers and Directors as a Group (20 persons) . . . . .	37,122,653	*%

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\* Less than 1% of our outstanding shares of common stock.

- (1) These amounts include shares of common stock, restricted shares of common stock and restricted stock units that the individuals hold. Also included are the following numbers of shares of common stock acquired under and held in the Sirius XM Radio Inc. 401(k) savings plan as of February 28, 2014: Mr. Meyer — 5,355 shares; Mr. Greenstein — 72,729 shares; Mr. Cook — 10,872 shares; Mr. Frear — 85,046 shares; Mr. Rodriguez — 0 shares; and all other executive officers not shown above — 72,215 shares.
- (2) Messrs. Flowers and Maffei are employees of Liberty Media, which beneficially owns 3,255,062,556 shares (or 53.3%) of our common stock, and they disclaim beneficial ownership of the shares owned by Liberty Media and its affiliates. Dr. Malone is a member of the board of directors of Liberty Media and also disclaims beneficial ownership of the shares owned by Liberty Media and its affiliates.
- (3) Includes 9,100 shares held as custodian for Mr. Mooney's child.
- (4) Includes 1,900 shares held by Mr. Frear's spouse.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Based solely upon a review of reports filed pursuant to Section 16(a) of the Exchange Act and written representations furnished to us during our most recent fiscal year, we know of no director, executive officer or beneficial owner of more than 10% of our common stock who failed to file on a timely basis reports of beneficial ownership of our common stock as required by Section 16(a) of the Exchange Act.

## **GOVERNANCE OF THE COMPANY**

### **How does the board of directors oversee our risk management process?**

The board executes its oversight responsibility for risk management directly and through its committees, as follows:

- The Audit Committee has primary responsibility for monitoring our internal audit, corporate, financial and risk management processes and overseeing our system of internal controls and financial reporting. The Audit Committee discusses specific risk areas throughout the year, including those that may arise from time to time and the measures taken by management to monitor and limit risks.
- The Audit Committee receives regular reports throughout the year on matters related to risk management. At each regularly scheduled meeting, the Audit Committee receives reports from our (i) external auditor on the status of audit activities and findings and (ii) executive in charge of internal audit (who reports directly to the Audit Committee) on the status of the internal audit plan, audit results and any corrective action taken in response to internal audit findings.
- We have a Compliance Officer who is in charge of our compliance with FCC related laws and regulations and training and monitoring compliance with those laws and regulations. Our Executive Vice President, General Counsel and Secretary reports to the Audit Committee throughout the year on calls to our compliance hotline and any changes or developments in compliance matters. Each quarter, our Chief Financial Officer reports to the board of directors on our performance and discusses how actual performance compares to our business plan and budget. Our executive officers report regularly to the board about the risks and exposures related to our business.
- The other committees of the board of directors oversee risks associated with their respective areas of responsibility. For example, the Compensation Committee assesses risks associated with our compensation policies and programs for executives.
- The committees report to the board of directors at every regular board meeting on the topics discussed and actions taken at the most recent committee meeting. Our board of directors discusses the risks and exposures, if any, involved in the matters or recommendations of the committees, as necessary.

- Our board of directors also considers specific risk topics throughout the year, including risks associated with our business plan, operational efficiency, government regulation, physical facilities, information technology infrastructure and capital structure, among many others. The board is informed about and regularly discusses our risk profile, including legal, regulatory and operational risks to our business.

### **What are our policies and procedures for related party transactions?**

We have adopted a written policy and written procedures for the review, approval and monitoring of transactions involving the Company or its subsidiaries and “related persons.” For the purposes of the policy, “related persons” include executive officers, directors or their immediate family members, or stockholders owning five percent or greater of our common stock.

Our related person transaction policy requires:

- that any transaction in which a related person has a material direct or indirect interest and which exceeds \$120,000 (such transaction referred to as a “related person” transaction) and any material amendment or modification to a related person transaction, be reviewed and approved or ratified by a committee of the board composed solely of independent directors who are disinterested or by the disinterested members of the board; and
- that any employment relationship or transaction involving an executive officer and the Company must be approved by the Compensation Committee or recommended by the Compensation Committee to the board for its approval.

In connection with the review and approval or ratification of a related person transaction, management must:

- disclose to the committee or disinterested directors, as applicable, the material terms of the related person transaction, including the approximate dollar value of the amount involved in the transaction, and all the material facts as to the related person’s direct or indirect interest in, or relationship to, the related person transaction;
- advise the committee or disinterested directors, as applicable, as to whether the related person transaction complies with the terms of our agreements governing our material outstanding indebtedness that limit or restrict our ability to enter into a related person transaction;
- advise the committee or disinterested directors, as applicable, as to whether the related person transaction will be required to be disclosed in our SEC filings. To the extent required to be disclosed, management must ensure that the related person transaction is disclosed in accordance with SEC rules; and
- advise the committee or disinterested directors, as applicable, as to whether the related person transaction constitutes a “personal loan” for purposes of Section 402 of the Sarbanes-Oxley Act of 2002.

In addition, the related person transaction policy provides that the Compensation Committee, in connection with any approval or ratification of a related person transaction involving a non-employee director or director nominee, should consider whether such transaction would compromise the director or director nominee’s status as an “independent,” “outside,” or “non-employee” director, as applicable, under the rules and regulations of the SEC, NASDAQ and Internal Revenue Code.

Except as described below, in 2013, there were no related party transactions that are required to be disclosed pursuant to the SEC rules and regulations.

### **What is the relationship between Sirius XM and Liberty Media Corporation?**

In February and March 2009, we entered into several transactions to borrow up to \$530 million from Liberty Media Corporation and its affiliates. All of these loans were repaid in cash in 2009.

As part of the transactions with Liberty Media, in February 2009, we entered into an investment agreement (the “Investment Agreement”) with Liberty Radio, LLC, an indirect wholly-owned subsidiary of Liberty Media. Pursuant to the Investment Agreement, we issued to Liberty Radio, LLC 12,500,000 shares of convertible preferred stock with a liquidation preference of \$0.001 per share in partial consideration for the loan investments. The preferred stock was convertible into approximately 40% of our outstanding shares of common stock (after giving effect to such conversion).

In September 2012, Liberty Radio, LLC converted 6,249,900 shares of its preferred stock into 1,293,467,684 shares of our common stock. In January 2013, the Federal Communications Commission granted Liberty Media approval to acquire de jure control of us and Liberty Radio, LLC converted its remaining preferred stock into 1,293,509,076 shares of our common stock. As a result of these conversions of preferred stock and additional purchases of our common stock, Liberty Media beneficially owned, directly and indirectly, over 50% of our outstanding common stock as of March 17, 2014.

Two current Liberty Media executives and one Liberty Media director are members of our board of directors. Gregory B. Maffei, the President and Chief Executive Officer of Liberty Media, is the Chairman of our board of directors.

As a result, Liberty Media has the ability to control our affairs, policies and operations, such as the appointment of management, future issuances of our common stock or other securities, the payment of dividends, if any, on our common stock, the incurrence of debt by us, amendments to our certificate of incorporation and bylaws and the entering into of extraordinary transactions, and their interests may not in all cases be aligned with the interests of other stockholders. In addition, Liberty Media can determine the outcome of all matters requiring general stockholder approval and has the ability to cause or prevent a change of control of our Company or a change in the composition of our board of directors and could preclude any unsolicited acquisition of our Company. The concentration of ownership could deprive stockholders of an opportunity to receive a premium for their common stock as part of a sale of our Company and might ultimately affect the market price of our common stock.

On October 9, 2013, we entered into an agreement with Liberty Media to repurchase \$500 million of our common stock from Liberty Media. Pursuant to that agreement with Liberty Media, we repurchased \$160 million of our common stock from Liberty Media as of December 31, 2013. On January 23, 2014, we entered into an amendment to the agreement with Liberty Media to defer the previously scheduled \$240 million repurchase of shares of our common stock from Liberty Media from January 27, 2014 to April 25, 2014, the date of the final purchase installment under the agreement. As a result of this deferral, we expect to repurchase \$340 million of our shares of common stock from Liberty Media on April 25, 2014 at a price of \$3.66 per share. We entered into this amendment at the request of the Special Committee of our board of directors that was formed to review and evaluate the Liberty Media proposal described below. That Special Committee was comprised of independent directors.

On January 3, 2014, our board of directors received a non-binding letter from Liberty Media proposing a transaction pursuant to which all outstanding shares of our common stock not owned by Liberty Media would be converted into the right to receive 0.0760 of a new share of Liberty Series C common stock, which would have no voting rights. Our board of directors formed a Special Committee of independent directors, consisting of Joan L. Amble, James P. Holden and Eddy W. Hartenstein, to consider the proposal. On March 13, 2014, Liberty Media announced that its proposal was no longer applicable.

### **Does Sirius XM have corporate governance guidelines and a code of ethics?**

Our board of directors adopted the *Guidelines* which set forth a flexible framework within which the board, assisted by its committees, directs our affairs. The *Guidelines* cover, among other things, the composition and functions of our board of directors, director independence, management succession and review, committee assignments and selection of new members of our board of directors.

Our board of directors has also adopted a *Code of Ethics*, which is applicable to all our directors and employees, including our chief executive officer, principal financial officer and principal accounting officer.

Our *Guidelines* and the *Code of Ethics* are available on our website at <http://investor.siriusxm.com> under “Corporate Governance” and in print to any stockholder who provides a written request for either document to our Corporate Secretary. If we amend or waive any provision of the *Code of Ethics* with respect to our directors, chief executive officer, principal financial officer or principal accounting officer, we will post the amendment or waiver at this location on our website.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### Introduction

This Compensation Discussion and Analysis, or “CD&A,” describes and analyzes our executive compensation program for our Chief Executive Officer, our Chief Financial Officer and our three other most highly compensated executive officers named in our Summary Compensation Table. We refer to these five officers throughout the CD&A and the accompanying tables as our “named executive officers.”

#### Executive Summary

The Compensation Committee is responsible for developing and maintaining a compensation program for our named executive officers. The Compensation Committee has strived to design this compensation program with great care, focusing first and foremost on the incentives that the program promotes. The Compensation Committee believes that our ability to recruit and retain top executive talent is essential to our long-term success. Accordingly, the Compensation Committee believes it has successfully balanced the sometimes competing obligations to make decisions which meet the needs of our company against a one size fits all approach.

Our executive compensation program consists primarily of three elements: base salary, performance-based annual bonus and long-term equity compensation. We believe that these three elements, when taken together, provide an optimum mix of fixed compensation and short- and long-term incentives, and serve as the most effective means of attracting, retaining and motivating a talented, entrepreneurial and creative team of executives with the skills and experience necessary to achieve our business goals and enhance stockholder value, and ensure stability in the senior management of our company while also avoiding unnecessary or excessive risk-taking. In addition, in connection with the extension of the term of executive agreements, we have, among other things, eliminated golden parachute excise tax gross ups and added clawback provisions.

At our annual meeting three years ago we held an advisory “say on pay” vote on the compensation of our named executive officers. In May 2011, our stockholders overwhelmingly approved the compensation of our named executive officers, with over 98% of the voting power casting votes in favor of our say-on-pay resolution. The Compensation Committee considered the strong support our stockholders expressed for our pay for performance compensation philosophy and has not made any changes to the core elements of our compensation programs since that vote. We have included an advisory “say on pay” vote on the compensation of our named executive officers in this proxy statement and intend to conduct such advisory vote every three years. Accordingly, the next such vote will be held at our 2017 annual meeting of stockholders.

#### *Fiscal Year 2013 Performance Summary*

We believe that our compensation program for the named executive officers was instrumental in helping us achieve strong financial and operating performance in 2013. In the face of increasing and intense competition for our products, our financial results exceeded our public guidance and our internal budget and business plan. The following highlights our financial and operating results for 2013:

- achieving adjusted EBITDA growth of 27% to \$1.17 billion in 2013;

- increasing our revenues by 12%;
- increasing our free cash flow by 31% to \$927 million;
- negotiating and consummating the acquisition of Agero, Inc.'s connected vehicle services business for \$530 million, establishing Sirius XM as one of the leading providers of telematics services;
- retiring on attractive terms \$1.5 billion of debt; and
- managing our stock buyback program.

In addition, 2013 was marked by key subscriber and content-based achievements and other measures that contributed to our growth and success, including:

- adding approximately 1.66 million net new subscribers, resulting in a total of approximately 25.6 million subscribers, an increase of almost 7% as compared to 2012;
- launching MySXM, an innovative feature allowing subscribers to personalize our existing commercial-free music and comedy channels to create a more tailored listening experience;
- expanding our relationships with automakers and large independent resellers, including surpassing 10,000 franchise and independent auto dealers nationwide that provide trial subscriptions to purchasers and lessees of pre-owned vehicles; and
- entering into an agreement with Ford to allow, for the first time, subscribers to have access to MySXM and SiriusXM On Demand in their vehicles by using voice commands, steering wheel or radio controls.

In this CD&A, we use certain financial performance measures that are not calculated and presented in accordance with generally accepted accounting principles in the United States of America (“Non-GAAP”). These Non-GAAP financial measures include adjusted EBITDA and free cash flow. We also use in this CD&A subscriber churn, a performance metric which management uses in measuring our business. We use these Non-GAAP financial measures and other performance metrics to manage our business, set operational goals and, in certain cases, as a basis for determining compensation for our employees. Please refer to the glossary contained in our Annual Report for the year ended December 31, 2013 which accompanies this proxy statement for a discussion of such Non-GAAP financial measures and reconciliations to the most directly comparable GAAP measure and a discussion of these other performance metrics.

## **Overall Program Objectives and Processes**

### ***Program Objectives***

We strive to attract, motivate and retain highly qualified executives with the skills and experience necessary to provide leadership for our success in dynamic and competitive markets and enhance stockholder value by providing total compensation that is largely performance-based and competitive with the various markets and industries in which we compete for talent. We strive to provide incentives to align the interests of our executives with those of our stockholders and deliver levels of compensation that we believe are commensurate with performance.

We achieve these objectives through three primary compensation elements:

- a base salary;
- a performance-based discretionary annual bonus that constitutes the short-term incentive element of our program; and
- equity-based awards that constitute the long-term incentive element of our program.

The Compensation Committee believes that a program comprised principally of the above-described three elements is consistent with programs adopted by companies with which we compete for executive talent. The



program is structured to meet the requirements of the intensely competitive and rapidly changing environment in which we operate, while ensuring that we maintain continuity in our senior management, and that the named executive officers are compensated in a manner that advances both the short- and long-term interests of our stockholders and avoids unnecessary or excessive risk-taking.

A high proportion of the compensation for our named executive officers also involves pay that is “at risk” — namely, the annual bonus and equity-based awards. The Compensation Committee uses “at risk” compensation to motivate the named executive officers to achieve goals and objectives that support our business plan and align our executives’ interests with those of our stockholders. The Compensation Committee further believes that delivering compensation in the form of, or based on the value of, our common stock promotes alignment between executive performance and stockholder interests. Accordingly, the value of equity-based compensation represents a large portion of our executives’ total compensation, including through grants of equity-based awards.

### ***Processes and Compensation Decisions***

The Compensation Committee regularly reviews our practices to assess whether our existing compensation structure properly enhances stockholder value. In 2013, the Compensation Committee received advice from an independent compensation consultant regarding trends in general compensation practices, including trends in equity-based awards. The members of the Compensation Committee also relied on their significant experience, general industry knowledge and informed judgment in making compensation decisions as to our named executive officers’ base salaries, annual bonuses and equity-based awards.

The Compensation Committee does not attempt to set compensation levels for each named executive officer within a particular range related to levels provided by peers. The Compensation Committee relies on the general business and industry knowledge and experience of its members and occasionally uses informal market comparisons as one of many factors in making compensation decisions. Other factors considered when making individual executive compensation decisions include individual contribution and performance, reporting structure, historical compensation, internal pay equity, complexity and importance of roles and responsibilities, expected future contributions, leadership and growth potential and our performance. The Compensation Committee also believes that it is in our stockholders’ interests, and consistent with industry practice, to enter into arrangements with our named executive officers in order to provide stability for our senior executives. Further, any compensation or equity awards provided to the named executive officers are subject to clawback as may be required pursuant to any law or regulation.

In determining compensation element levels, including the annual grants of equity-based awards, if any, for each named executive officer (other than the Chief Executive Officer), the Compensation Committee also consults with and considers the recommendations and input of our Chief Executive Officer.

### ***Total Compensation for Named Executive Officers***

The Compensation Committee’s goal is to award compensation that incentivizes our named executive officers to enhance value for our stockholders without encouraging the taking of inappropriate business risks, and is not considered excessive when all elements of potential compensation are considered. In making decisions with respect to any single element of a named executive officer’s compensation, the Compensation Committee considers the officer’s level of responsibility, experience and contributions, internal pay equity and the total compensation that may be awarded to the officer, including salary, annual bonus, long-term incentives, perquisites and other benefits. In addition, the Compensation Committee considers the other benefits to which the officer is entitled under his employment agreement, including compensation payable upon termination of employment. (Each named executive officers is employed pursuant to agreements described under “Potential Payments upon Termination or Change-in-Control — Employment Agreements” below.)

### *Executive Compensation Elements*

Our practices with respect to the key compensation elements identified above, as well as other elements of compensation, are described below, followed by a discussion of the specific factors considered in determining the levels of these compensation elements for the named executive officers for 2013.

#### *Base Salary*

Base salaries for the named executive officers are determined consistent with the terms of their employment agreements. The minimum amount of base salaries set forth in the employment agreements and any increases over these amounts are determined by the Compensation Committee based on a variety of factors, including:

- the nature and responsibility of the position and, to the extent available and deemed relevant, salary trends for persons in similar positions at comparable companies;
- the expertise, demonstrated leadership and management ability, and past performance of the individual executive;
- the executive's salary history and total compensation, including other cash bonus and stock-based awards;
- the competitiveness of the market for the executive's services; and
- the recommendations of our Chief Executive Officer (except as to his own compensation).

In setting base salaries, the Compensation Committee also considers the amount of base salary as a percentage of total compensation with the goal that a substantial percentage of each executive officer's total compensation should be variable.

#### *Annual Bonus*

The Compensation Committee may award annual bonuses in cash, restricted stock, restricted stock units, stock options or a combination thereof. The Compensation Committee believes that bonuses should take into consideration all factors relevant to the Company's and an executive's performance, including numerous financial and operational metrics, without being limited by a purely formulaic approach. None of our named executive officers are entitled to a guaranteed or minimum bonus.

Consistent with prior years, the bonuses approved by the Compensation Committee for 2013 were intended to achieve two principal objectives:

- to link compensation with performance that enhances stockholder value; and
- to reward our named executive officers based on individual performance and contributions to our success.

To guide the Compensation Committee in determining bonus amounts for the named executive officers, in 2013, the Compensation Committee adopted a bonus plan that generally measures our performance using various criteria, such as increases in subscribers, revenue, adjusted EBITDA and free cash flow. This plan does not require the Compensation Committee to provide a guaranteed bonus or a minimum bonus to any of the named executive officers. Rather, this plan is used by the Compensation Committee as one set of factors, along with other financial and operational metrics that the Compensation Committee deems relevant, in evaluating and benchmarking bonus amounts for the named executive officers.

The bonus awards to our named executive officers are described below under "Fiscal Year 2013 Pay Implications — Payment of Performance-Based Discretionary Annual Bonuses for 2013" and are reflected in the Summary Compensation Table.

### *Long-term Incentive Compensation*

The Compensation Committee grants long-term incentive awards to directly align compensation for our named executive officers over a multi-year period with the interests of our stockholders by motivating and rewarding actions that enhance long-term stockholder value, while also ensuring the continued retention of our named executive officers. The Compensation Committee determines the level of long-term incentive compensation in conjunction with total compensation provided to named executive officers and the objectives of the above-described compensation program. Long-term incentive awards have historically represented a significant portion of our named executive officers' compensation, thus ensuring that our executives have a continuing stake in our success, aligning their interests with that of our stockholders and supporting the goal of retention through vesting requirements and forfeiture provisions.

In previous years, long-term compensation was granted solely in the form of stock options. Stock options have an exercise price equal to the market price on the date of grant, and therefore provide value to the executives if the executives create value for our stockholders. In 2013, the Compensation Committee determined that in light of current market conditions, long-term compensation for our named executive officers would consist of both stock options and restricted stock units ("RSUs"). The value of RSUs increases or decreases in conjunction with the price of our common stock, and also creates incentives for performance and further aligns the executives' interests with those of our stockholders. Stock options generally vest over a period of three or four years in equal annual installments and RSUs vest on varying schedules. Both stock options and RSUs will generally vest subject to the executive's continued employment, which incentivizes the executives to sustain increases in stockholder value over extended periods of time. The specific number of options and RSUs granted is determined either as part of the employment agreement or by the Compensation Committee with the assistance of our Chief Executive Officer (other than in the case of any equity awards to himself) and by using their informed judgment, taking into account the executive's role and responsibilities and our overall performance and the performance of our common stock, and is not based on any specific quantitative or qualitative factors. As part of the process, the Compensation Committee also considered the value and structure of the awards as a retention tool.

### *Retirement and Other Employee Benefits*

We maintain broad-based benefits for all employees, including health and dental insurance, life and disability insurance and a 401(k) savings plan, including a matching component for that plan. Our named executive officers are eligible to participate in all of our employee benefit plans on the same basis as other employees. We do not sponsor or maintain any other retirement or deferred compensation plans for any of our named executive officers in addition to our Sirius XM Radio Inc. 401(k) savings plan.

### *Perquisites and Other Benefits for Named Executive Officers*

The Compensation Committee supports providing other benefits to named executive officers that are almost identical to those offered to our other full time employees and are provided to similarly situated executives at companies with which we compete for executive talent.

In limited circumstances, a named executive officer may receive certain tailored benefits. As part of Mr. Meyer's previous employment agreement, we reimbursed Mr. Meyer for the reasonable costs of an apartment in the New York metropolitan area and other incidental living expenses, up to a maximum of \$5,000 per month for rent. We also reimbursed Mr. Meyer for the reasonable costs of coach class air-fare from his homes to our offices in New York City. Further, we paid Mr. Meyer an additional amount to hold him harmless as a result of any federal, state or New York City income taxes imputed in respect of the expenses for which he received reimbursement. The costs of these benefits for Mr. Meyer constituted less than 10% of his total compensation. These arrangements terminated and Mr. Meyer's current employment agreement does not include any obligation to reimburse him for living expenses or the costs of travel from his homes or to gross up any payments we make to him. Mr. Rodriguez, due to his principal residence being in the State of Washington, is

reimbursed for the reasonable costs of coach class air-fare from his home to our various offices, along with reasonable hotel and meal expenses. The costs of these benefits for Mr. Rodriguez constitute less than 10% of his total compensation.

#### *Payments to Named Executive Officers Upon Termination or Change-in-Control*

The employment agreements with our named executive officers provide for severance payments upon an involuntary termination of employment without “cause” or for “good reason” (as each term is defined in their employment agreement). These arrangements vary from executive to executive due to individual negotiations based on each executive’s history and individual circumstances. None of the employment agreements for the named executive officers provide for any special payments solely due to a change-in-control. Under the terms of the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan (the “Plan”), if the employment of any of our named executive officers is terminated by us without cause, or by the executive for good reason, within two years following a change-in-control, then in accordance with the Plan, their equity awards are subject to accelerated vesting.

We believe that these severance arrangements mitigate some of the risk that exists for executives working in our highly competitive industry. These arrangements are intended to attract and retain qualified executives who could have other job alternatives that may appear to them, in the absence of these arrangements, to be less risky, and such arrangements allow the executives to focus exclusively on our interests.

### **Fiscal Year 2013 Pay Implications**

#### *2013 Base Salary Decisions*

We have entered into employment agreements with each of our named executive officers.

In December 2012, we entered into an amendment to our then-existing employment agreement with Mr. Meyer, pursuant to which he was appointed as our Chief Executive Officer. In connection with his appointment, Mr. Meyer’s base salary was reinstated from \$1,100,000 to \$1,300,000, the amount that Mr. Meyer was scheduled to receive under the terms of his then-existing employment agreement and that he had previously waived. In April 2013, we entered into a new employment agreement with Mr. Meyer in connection with his appointment as our Chief Executive Officer on a non-interim basis. In connection with this employment agreement his base salary was increased from \$1,300,000 to \$1,550,000.

In February 2013, Mr. Greenstein’s base salary was restored from \$1,000,000 to \$1,250,000, the amount that he was entitled to receive in 2012 under the terms of his then-existing employment agreement and that he had waived.

In connection with his appointment as our Executive Vice President, Operations and Products, from Group Vice President in August 2013, we entered into a new employment agreement with Mr. Rodriguez pursuant to which the Compensation Committee approved an increase in his base salary from \$475,000 to \$625,000.

In connection with his appointment as our Executive Vice President, Sales and Automotive, from Group Vice President, General Manager, Automotive Division, in August 2013, we entered into a new employment agreement with Mr. Cook pursuant to which the Compensation Committee approved an increase in his base salary from \$450,000 to \$600,000.

There was no base salary increase in 2013 for Mr. Frear.

#### *Payment of Performance-Based Discretionary Annual Bonuses for 2013*

In 2013, the Compensation Committee again adopted, under the Plan, a bonus program designed to qualify as “performance-based compensation” within the meaning of Section 162(m) (the “NEO Bonus Plan”). Pursuant

to the NEO Bonus Plan, a bonus pool was established for our Chief Executive Officer and the other named executive officers, other than our Chief Financial Officer, consisting of 2.75% of our EBITDA. The maximum bonus that a named executive officer could receive under the NEO Bonus Plan was limited to a percentage of the bonus pool (which percentages were not changed during the performance year); and could not exceed the cash equivalent of 120 million shares of our common stock (based on our closing share price as of the last trading day of 2013). In addition, no amounts could be paid under the NEO Bonus Plan unless a threshold amount of EBITDA was achieved for 2013.

Following the end of 2013, the Compensation Committee met to consider bonuses for our named executive officers with respect to 2013 and whether to consider bonuses for other employees. The Compensation Committee carefully reviewed our performance against key metrics in our budget and business plan for 2013, including the generation of EBITDA, as required by the NEO Bonus Plan, our efforts to increase subscribers, revenue, adjusted EBITDA and free cash flow.

Following its review of our 2013 performance, which the Compensation Committee determined to be exceptional, the Compensation Committee:

- approved a cash bonus pool to be divided among our employees, other than the named executive officers;
- reviewed the NEO Bonus Plan pool and exercised its negative discretion and approved the individual bonus amounts granted to each of the named executive officers under the NEO Bonus Plan as well as other executive officers; and
- reviewed and approved the payment to our Chief Financial Officer whose bonus, pursuant to Section 162(m), is not included in the NEO Bonus Plan.

The actual amount of the bonus paid to each named executive officer was based on a combination of factors, including our 2013 corporate performance, their individual contributions and performance in their functional areas of responsibility and, with respect to all named executive officers other than himself, recommendations made by Mr. Meyer. Various specific factors taken into consideration in determining the bonus amounts for the named executive officers are set forth below. The annual bonuses for Mr. Meyer is discussed below under the heading “Related Policies and Considerations — Compensation of our Chief Executive Officer.”

Mr. Greenstein was awarded a bonus for his contributions during the year, including his role in the continued enhancement of our programming, such as the expansion of our channel lineup to include new music, sports and comedy channels, including a new Entertainment Weekly Radio channel focusing on pop culture, celebrities and entertainment and a National Basketball Association channel focusing exclusively on the NBA; securing and creating additional compelling and exclusive content, such as extending our agreement with Fox News to include the Fox Business Network; reducing the costs of certain programming; streamlining and introducing efficiencies into our programming operations; the sale of advertisements on our non-music channels; and understanding and analyzing customer satisfaction levels as they relate to our programming and content offerings.

Mr. Cook was awarded a bonus for his contributions during the year, including his role in analyzing, evaluating and managing our subscriber churn and new vehicle conversion rate; maintaining, nurturing and expanding our relationships with automakers and large independent auto resellers, including surpassing 10,000 franchise and independent auto dealers nationwide that provide trial subscriptions to purchasers and lessees of pre-owned vehicles; and entering into an arrangement with Ford to permit subscribers to access to MySXM and SiriusXM On Demand in their vehicles by using voice commands, steering wheel or radio controls.

Mr. Frear was awarded a bonus for his contributions during the year, including his regular on-going contributions as our Chief Financial Officer and his role in managing our fixed and variable costs; overseeing our investor relations efforts; refinancing \$1.5 billion of debt; managing our stock buyback program; overseeing our

investment in Sirius XM Canada; managing the construction and launch of our FM-6 satellite; and his efforts in the continued integration of our legacy operations, particularly in the area of information technology.

Mr. Rodriguez was awarded a bonus for his contributions during the year, including his role in integrating and managing our newly acquired connected vehicle services business; reducing subscriber acquisition costs; overseeing the development of our transmission and radio technology; and launching MySXM, an innovative personalization feature.

Based on the foregoing, the Compensation Committee approved the specific bonus amounts set forth in the Summary Compensation Table under the “Bonus” column for each of the above named executive officers.

#### *Long-Term Equity Grants for 2013*

In 2013, in connection with Messrs. Meyer, Greenstein, Rodriguez and Cook entering new employment agreements, we granted stock options and RSUs to each of them. The specific number of options and RSUs granted was determined by the Compensation Committee with the assistance of our Chief Executive Officer (other than in the case of any equity awards to himself), and are identified in the Grants of Plan-Based Awards in 2013 table and also discussed below under “Potential Payments or Benefits Upon Termination or Change-in-Control — Employment Agreements.” The stock options and RSUs are generally subject to the named executive officers’ continued employment through the vesting period, which enhances the retention value of the award and incentivizes the officers to create and sustain long-term value for our stockholders. These awards are expected to be the officers’ primary long-term incentive compensation over a multi-year period.

There were no long-term equity grants to Mr. Frear in 2013.

#### *Fiscal Year 2014 Considerations*

The Compensation Committee expects to review our executive compensation program in 2014 with a view to ensuring that it continues to provide the correct incentives and is properly sized given the scope and complexity of our business and the competition we face. The Compensation Committee may employ the same process, or may adopt a modified or wholly different process, in making future bonus decisions.

The Compensation Committee has again adopted a bonus program which is intended to comply with Section 162(m) for our Chief Executive Officer and the other named executive officers (except for our Chief Financial Officer) under the Plan that is designed to promote the achievement of our key financial goals for 2014. This bonus program provides for a bonus pool which is based on a percentage of EBITDA. No bonus amount is payable under such program if we do not achieve a specified level of EBITDA.

The Compensation Committee expects that our executive compensation program will continue to respond to changes in economic conditions and our business with flexibility, as needed, to advance our objectives of motivating, attracting and retaining highly qualified executives with the skills and experience necessary to achieve our key business objectives and increase stockholder value.

#### **Related Policies and Considerations**

##### *Compensation of our Chief Executive Officer*

The material terms of Mr. Meyer’s employment agreement are described below under “Potential Payments or Benefits Upon Termination or Change-in-Control — Employment Agreements — James E. Meyer.”

The terms of Mr. Meyer’s employment were established by negotiations between Mr. Meyer and the Chairman of our board of directors in consultation with the other members of the ad hoc committee created to direct the chief executive officer search. This ad hoc search committee concluded that, in its business judgment,

Mr. Meyer's qualifications and prior experience as our President, Operations and Sales, were well suited to our needs, and that his compensation, including the base salary and equity components, was, taken as a whole, appropriate under the circumstances. As part of the process, the Compensation Committee reviewed the proposed compensation of Mr. Meyer and ratified the recommendation of the ad hoc search committee.

In February 2014, Mr. Meyer was awarded a cash bonus of \$4,720,000 in recognition of his performance and our corporate performance in 2013, including:

- increasing our net subscriber additions by approximately 1.66 million, resulting in a total of nearly 25.6 million subscribers, an increase of 7% as compared to 2012;
- achieving adjusted EBITDA growth of 27% to \$1.17 billion;
- increasing our 2013 revenue by 12%;
- increasing free cash flow by 31% to \$927 million;
- retiring \$1.5 billion of debt;
- negotiating and consummating the acquisition of Agero, Inc.'s connected vehicle services business for \$530 million, establishing Sirius XM as one of the leading providers of telematics services;
- launching MySXM;
- continuing to expand our ability to identify and acquire subscribers in certified pre-owned and used vehicles and managing our investment in infrastructure in this area;
- adding compelling content to our services while managing programming expenses;
- continuing to improve our customer care experience, including through further enhancements to our Internet-based self-care functionality and Internet-based chat services;
- creating a corporate culture that fosters quality, creativity, diversity, integrity and innovation to differentiate our content and services; and
- maintaining Sirius XM as one of the largest subscription-based media companies in the United States.

***Policy with Respect to Internal Revenue Code Section 162(m)***

As described above under "Fiscal Year 2014 Considerations," in 2014 the Compensation Committee again adopted a bonus plan which is intended to comply with Section 162(m) for our Chief Executive Officer and the other named executive officers, except for our Chief Financial Officer. The Committee anticipates that this plan will result in tax deductibility for any compensation we pay to such executive officers that exceeds \$1 million in 2014. However, the Compensation Committee may from time to time approve compensation that is not deductible under Section 162(m) if it determines that it is in our best interest to do so.

**Compensation Committee Report**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based on such review and discussion, we recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference into our annual report on Form 10-K for the year ended December 31, 2013.

Compensation Committee

CARL E. VOGEL, *Chairman*

GEORGE W. BODENHEIMER

DAVID J.A. FLOWERS

JAMES P. HOLDEN

## Summary Compensation Table

The following table provides information concerning total compensation earned by or paid to our Chief Executive Officer, our Chief Financial Officer and our three other most highly compensated executive officers who served in such capacities as of December 31, 2013 for services rendered to us during each of the past three fiscal years. These five officers are referred to herein as the “named executive officers.”

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary</u> <u>\$</u>	<u>Bonus</u> <u>\$</u>	<u>Stock</u> <u>Awards(1)</u> <u>\$</u>	<u>Option</u> <u>Awards(1)</u> <u>\$</u>	<u>All Other</u> <u>Compensation(2)</u> <u>\$</u>	<u>Total</u> <u>\$</u>
James E. Meyer Chief Executive Officer	2013	1,468,590	4,720,000	3,249,998	13,568,656	58,063	23,065,307
	2012	1,107,692	2,000,000	—	—	205,295	3,312,987
	2011	1,100,000	1,750,000	—	—	236,221	3,086,221
Scott A. Greenstein President and Chief Content Officer	2013	1,224,520	1,700,000	1,000,002	6,500,000	7,650	10,432,172
	2012	1,000,000	1,375,000	—	—	7,500	2,382,500
	2011	1,000,000	1,250,000	—	—	7,350	2,257,350
Stephen R. Cook(3) Executive Vice President, Sales and Automotive	2013	518,583	950,000	1,000,000	4,400,000	7,650	6,876,233
	2012	450,000	475,000	—	923,904	7,500	1,856,404
	2011	434,536	430,000	—	846,635	7,350	1,718,521
David J. Frear Executive Vice President and Chief Financial Officer	2013	850,000	1,450,000	—	—	7,650	2,307,650
	2012	850,000	1,200,000	—	—	7,500	2,057,500
	2011	795,833	1,100,000	—	18,895,552	7,350	20,798,735
Enrique Rodriguez(4) Executive Vice President, Operations and Products	2013	531,827	950,000	1,000,000	4,400,000	47,987	6,929,814
	2012	93,782	200,000	—	1,099,512	—	1,393,294
	2011	—	—	—	—	—	—

(1) The aggregate grant date fair value of stock option and restricted stock unit awards were computed in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) Topic 718 (excluding estimated forfeitures). The assumptions used in the valuation are discussed in Note 15 to our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013.

(2) For each named executive officer, with the exception of Mr. Rodriguez, the amount in the “All Other Compensation” column for 2013 reflects \$7,650 of matching contributions by us under the Sirius XM Radio Inc. 401(k) savings plan.

In addition to \$7,650 of matching contributions by us under the Sirius XM Radio Inc. 401(k) savings plan, “All Other Compensation” for Mr. Meyer includes amounts reimbursed for temporary living and travel expenses, all of which were reimbursed based upon receipts. In 2013, Mr. Meyer was paid \$20,000 for rent, \$7,256 for travel, and \$637 for utilities. Travel-related expenses include airfare, taxi/car services, and other incidental travel-related costs. In addition, in 2013 “All Other Compensation” for Mr. Meyer includes \$22,520 for reimbursement of taxes associated with these expenditures in accordance with his previous employment agreement. Mr. Meyer entered into a new employment agreement in 2013 which eliminated our obligation to reimburse him for the reasonable costs of an apartment in the New York metropolitan area and other incidental living expenses, and for the reasonable costs of coach class airfare from his homes to our offices in New York City. That agreement also released us from our future obligation to pay Mr. Meyer an additional amount to hold him harmless as a result of any federal, state or New York City income taxes imputed in respect of the expenses for which he receives reimbursement.

“All Other Compensation” for Mr. Rodriguez also includes amounts reimbursed for travel expenses, meals and lodging, all of which were reimbursed based upon receipts. In 2013, Mr. Rodriguez was reimbursed \$39,580 for travel and \$8,407 for meals and lodging. Travel-related expenses include airfare, taxi and car services, and other incidental travel-related costs.

(3) Mr. Cook became an executive officer in August 2013 upon his promotion to Executive Vice President, Sales and Automotive.



- (4) Mr. Rodriguez became an executive officer in August 2013 upon his promotion to Executive Vice President, Operations and Products.

### Grants of Plan-Based Awards in 2013

The following table provides information with respect to equity grants made during fiscal year 2013 to the named executive officers.

<u>Name</u>	<u>Grant Date</u>	<u>All Other Stock Awards: Number of Shares of Stock or Units (#)(1)</u>	<u>All Other Option Awards: Number of Securities Underlying Options (#)(2)</u>	<u>Exercise or Base Price of Option Awards (\$/Sh)(3)</u>	<u>Grant Date Fair Value of Stock and Option Awards \$(4)</u>
James E. Meyer . . . . .	05/02/2013	—	10,128,894	3.3000	13,568,656
	05/02/2013	984,848	—	—	3,249,998
Scott A. Greenstein . . . . .	07/26/2013	—	5,499,340	3.7550	6,500,000
	07/26/2013	266,312	—	—	1,000,002
Stephen R. Cook . . . . .	08/15/2013	—	2,761,018	3.6950	4,400,000
	08/15/2013	270,636	—	—	1,000,000
Enrique Rodriguez . . . . .	08/15/2013	—	2,761,018	3.6950	4,400,000
	08/15/2013	270,636	—	—	1,000,000

- (1) The restricted stock units granted to the named executive officers were in connection with the extension and/or execution of new employment agreements by each of them. The restricted stock units granted to Mr. Meyer will vest on October 30, 2015. The restricted stock units granted to Mr. Greenstein will vest on July 22, 2016. The restricted stock units granted to Mr. Cook will vest on August 13, 2017. The restricted stock units granted to Mr. Rodriguez will vest on August 15, 2017.
- (2) All grants were made under the Plan. The stock option awards granted to Mr. Meyer vest on October 30, 2015 and have a term of ten years. The stock option awards granted to Mr. Greenstein vest in equal installments on each of July 22, 2014, 2015 and 2016 and have a term of ten years. The stock option awards granted to Mr. Cook vest in equal annual installments over four years from August 13, 2013 and have a term of ten years. The stock option awards granted to Mr. Rodriguez vest in equal annual installments over four years from August 15, 2013 and have a term of ten years. The options may be subject to earlier vesting upon certain qualifying terminations of employment and a change of control transaction.
- (3) The exercise price of the options granted to each of the named executive officers was equal to the closing price of our common stock on the date of grant.
- (4) The aggregate grant date fair value of stock option and restricted stock unit awards were computed in accordance with FASB ASC Topic 718 (excluding estimated forfeitures). The assumptions used in the valuation are discussed in Note 15 to our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013.

## Outstanding Equity Awards at Fiscal Year-End 2013

The following table provides information with respect to the status at December 31, 2013 of all unexercised options and unvested restricted stock units awarded to each of the named executive officers.

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units that have not Vested (#)	Market Value of Shares or Units of Stock that have not Vested(1) (\$)
James E. Meyer(2)	1,350,000	—	5.49	2/2/2016	—	—
	512,000	—	3.65	2/1/2017	—	—
	707,000	—	2.82	1/23/2018	—	—
	830,500	—	0.6235	8/31/2019	—	—
	6,296,246	—	0.5252	10/14/2019	—	—
	—	10,128,894	3.30	5/02/2023	—	—
	—	—	—	—	984,848	3,437,120
Scott A. Greenstein(3)	1,250,000	—	6.552	8/8/2015	—	—
	435,000	—	3.65	2/1/2017	—	—
	607,000	—	2.82	1/23/2018	—	—
	—	5,499,340	3.755	7/25/2023	—	—
	—	—	—	—	266,312	929,429
Stephen R. Cook(4)	460,000	—	4.74	2/18/2014	—	—
	1,108,000	—	0.6235	8/31/2019	—	—
	631,350	210,450	0.99	8/09/2020	—	—
	425,000	425,000	1.64	8/23/2021	—	—
	212,500	637,500	2.48	8/14/2022	—	—
	—	2,761,018	3.695	8/14/2023	—	—
	—	—	—	—	270,636	944,520
David J. Frear(5)	700,000	—	6.56	8/10/2015	—	—
	307,000	—	3.65	2/1/2017	—	—
	483,000	—	2.82	1/23/2018	—	—
	1,500,000	—	3.05	2/12/2018	—	—
	—	561,200	0.99	8/9/2020	—	—
	6,000,000	8,000,000	2.13	7/21/2021	—	—
Enrique Rodriguez(6)	212,500	637,500	2.87	10/22/2022	—	—
	—	2,761,018	3.695	08/14/2023	—	—
	—	—	—	—	270,636	944,520

- (1) Market value of shares or units of stock that have not vested were calculated based on the closing price on the NASDAQ Global Select Market of our common stock on December 31, 2013 of \$3.49. The restricted stock units are valued at (a) the closing price of the stock on December 31, 2013 multiplied by (b) the number of shares of restricted stock units that have not vested. The awards may be subject to earlier vesting upon certain qualifying terminations of employment and a change of control transaction.
- (2) Outstanding equity awards for Mr. Meyer vest as follows: options granted at an exercise price of \$5.49 vested in four equal annual installments from the date of grant on February 2, 2006; options granted at an exercise price of \$3.65 vested in four equal annual installments from the date of grant on February 1, 2007; options granted at an exercise price of \$2.82 vested in four equal annual installments from the date of grant on January 23, 2008; options granted at an exercise price of \$0.6235 vested in four equal annual installments from the date of grant on August 31, 2009; options granted at an exercise price of \$0.5252 vested in four equal annual installments from the date of grant on October 14, 2009; and options granted at an exercise price of \$3.30 vest on October 30, 2015. The restricted stock units granted to Mr. Meyer cliff vest on October 30, 2015.

- (3) Outstanding equity awards for Mr. Greenstein vest as follows: options granted at an exercise price of \$6.552 vested in three equal annual installments from the date of grant on August 8, 2005; options granted at an exercise price of \$3.65 vested in four equal annual installments from the date of grant on February 1, 2007; options granted at an exercise price of \$2.82 vested in four equal annual installments from the date of grant on January 23, 2008; and options granted at an exercise price of \$3.755 vest in three annual installments from July 22, 2013. The restricted stock units granted to Mr. Greenstein cliff vest on July 22, 2016.
- (4) Outstanding equity awards for Mr. Cook vest as follows: options granted at an exercise price of \$4.74 vested in three equal annual installments from the date of grant on February 18, 2004; options granted at an exercise price of \$0.6235 vested in four equal annual installments from the date of grant on August 31, 2009; options granted at an exercise price of \$0.99 vest in four equal annual installments from the date of grant on August 9, 2010; options granted at an exercise price of \$1.64 vest in four equal annual installments from the date of grant on August 23, 2011; options granted at exercise price of \$2.48 vest in four equal installments from the date of grant of August 14, 2012; and options granted at an exercise price of \$3.695 vest in four equal installments from August 13, 2013. The restricted stock units granted to Mr. Cook cliff vest on August 13, 2017.
- (5) Outstanding equity awards for Mr. Frear vest as follows: options granted at an exercise price of \$6.56 vested in three equal annual installments from the date of grant on August 10, 2005; options granted at an exercise price of \$3.65 vested in four equal annual installments from the date of grant on February 1, 2007; options granted at an exercise price of \$2.82 vested in four equal annual installments from the date of grant on January 23, 2008; options granted at an exercise price of \$3.05 vested in three equal annual installments from the date of grant on February 12, 2008; options granted at an exercise price of \$0.99 vest in four equal annual installments from the date of grant on August 9, 2010; and options granted at an exercise price of \$2.13 vest in four equal annual installments from the date of grant on July 21, 2011.
- (6) Outstanding equity awards for Mr. Rodriguez vest as follows: options granted at an exercise price of \$2.87 vest in four equal installments from the date of grant of October 22, 2012; and options granted at exercise price of \$3.695 vest in four equal installments from the date of grant of August 15, 2013. The restricted stock units granted to Mr. Rodriguez cliff vest on August 15, 2017.

### Option Exercises and Stock Vested in 2013

The following table provides information with respect to option exercises and restricted stock units that vested during 2013.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)(1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
James E. Meyer . . . . .	—	—	—	—
Scott A. Greenstein . . . . .	7,942,034	23,439,292	—	—
Stephen R. Cook . . . . .	105,000	213,150	—	—
David J. Frear . . . . .	3,114,950	6,785,500	—	—
Enrique Rodriguez . . . . .	—	—	—	—

- (1) Value realized on exercise is based on the gain equal to the difference between the closing price on the NASDAQ Global Select Market of the stock acquired upon exercise on the exercise date less the exercise price, multiplied by the number of options exercised.

### Non-Qualified Deferred Compensation and Pension Benefits

We do not offer non-qualified deferred compensation or pension benefits to our named executive officers.

## **Potential Payments or Benefits Upon Termination or Change-in-Control**

### *Employment Agreements*

We have entered into employment agreements with each of our named executive officers that contain provisions regarding payments or benefits upon a termination of employment. We do not have any provisions in any of our employment agreements for the named executive officers that provide for any special payments solely in the event of a change-in-control. Under the terms of the Plan, if the employment of any of our named executive officers is terminated by us without cause, or by the executive for good reason, within two years following a change-in-control, then in accordance with the Plan, their equity awards shall be subject to accelerated vesting.

#### *James E. Meyer*

On December 18, 2012, Mr. Meyer was appointed our Chief Executive Officer on an interim basis. In connection with this appointment, we entered into an amendment to our existing employment agreement with Mr. Meyer that extended the term of his employment agreement to October 31, 2013, and restored his base salary to \$1,300,000 from \$1,100,000, the amount that Mr. Meyer was scheduled to receive under the terms of his existing employment agreement and that he had previously waived.

In April 2013, in connection with Mr. Meyer's appointment as our Chief Executive Officer on a non-interim basis, we entered into a new employment agreement with Mr. Meyer to continue to serve as our Chief Executive Officer through October 31, 2015. The employment agreement provided for an increase in Mr. Meyer's base salary from \$1,300,000 to \$1,550,000, subject to approved increases, and obligates us to offer Mr. Meyer a three-year consulting agreement upon the expiration of his employment agreement on October 31, 2015. Mr. Meyer is also entitled to participate in any bonus plans generally offered to our executive officers, with an annual target bonus opportunity of 200% of his annual base salary.

If Mr. Meyer's employment is terminated without "cause" or he terminates his employment for "good reason" (each as described in his employment agreement), then subject to his execution of a release of claims and his compliance with certain restrictive covenants, we are obligated to continue his health benefits for 18 months and his life insurance benefits for one year, and pay him on the 60th day following the termination of his employment a lump sum payment equal to Mr. Meyer's annual base salary plus the amount of \$6,600,000 as consideration for a consulting agreement for a period of three years, and the greater of (x) a bonus equal to 60% of his then annual base salary or (y) the prior year's bonus actually paid to him. We are also obligated to pay Mr. Meyer any earned but unpaid bonus for the year prior to the year of his termination, and a prorated bonus for the year in which his employment is terminated.

#### *Scott A. Greenstein*

In July 2013, we entered into a new employment agreement with Scott A. Greenstein to continue to serve as our President and Chief Content Officer through July 22, 2016. The employment agreement provides for an annual base salary of \$1,250,000, subject to approved increases. Mr. Greenstein is also entitled to participate in any bonus plans generally offered to our executive officers, with an annual target bonus opportunity of 150% of his annual base salary.

In the event Mr. Greenstein's employment is terminated by us without "cause" or he terminates his employment for "good reason" (each as described in his employment agreement), subject to his execution of a release of claims and his compliance with certain restrictive covenants, we are obligated to pay him a lump sum payment equal to his then annual base salary and the cash value of the bonus last paid or payable to him in respect of the fiscal year preceding the fiscal year in which the termination occurs, and to continue his health and life insurance benefits for one year.

*Stephen R. Cook*

In August 2013, we entered into a new employment agreement with Stephen R. Cook to serve as our Executive Vice President, Sales and Automotive, with an annual base salary of \$600,000, subject to approved increases. Mr. Cook is also entitled to participate in any bonus plans generally offered to our executive officers, with an annual target bonus opportunity of 150% of his annual base salary.

In the event Mr. Cook's employment is terminated by us without "cause" or he terminates his employment for "good reason" (each as described in his employment agreement), subject to his execution of a release of claims and his compliance with certain restrictive covenants, we are obligated to pay Mr. Cook a lump sum equal to his annual base salary as of the date of the termination and the bonus last paid or payable to him in respect of the fiscal year preceding the fiscal year in which the termination occurs, and to continue his health insurance benefits for one year.

*David J. Frear*

In July 2011, we entered into an employment agreement with David J. Frear to continue to serve as our Executive Vice President and Chief Financial Officer through July 20, 2015. The employment agreement provides for an annual base salary of \$850,000, subject to approved increases.

If Mr. Frear's employment is terminated without "cause" or he terminates his employment for "good reason" (each as described in his employment agreement), subject to his execution of a release of claims and his compliance with certain restrictive covenants, we are obligated to pay him a lump sum equal to his annual salary as of the date of the termination and the cash value of the bonus last paid or payable to him in respect of the preceding fiscal year and to continue his health and life insurance benefits for one year.

In the event that any payment we make, or benefit we provide, to Mr. Frear would require him to pay an excise tax under Section 280G of the Internal Revenue Code, we have agreed to pay Mr. Frear the amount of such tax and such additional amount as may be necessary to place him in the exact same financial position that he would have been in if the excise tax was not imposed.

*Enrique Rodriguez*

In August 2013, we entered into a new employment agreement with Enrique Rodriguez to serve as our Executive Vice President, Operations and Products, with an annual base salary of \$625,000, subject to approved increases. Mr. Rodriguez is also entitled to participate in any bonus plans generally offered to our executive officers, with an annual target bonus opportunity of 150% of his annual base salary.

In the event Mr. Rodriguez's employment is terminated by us without "cause" or he terminates his employment for "good reason" (each as described in his employment agreement), subject to his execution of a release of claims and his compliance with certain restrictive covenants, we are obligated to pay him his annual base salary for one year and an amount equal to the bonus last paid or payable to him in respect of the fiscal year preceding the fiscal year in which the termination occurs, and to continue his health insurance benefits for one year.

***2003 Long-Term Stock Incentive Plan***

Messrs. Meyer, Greenstein and Frear also have outstanding options as of December 31, 2013 that were granted under our 2003 Long-Term Stock Incentive Plan. Under the 2003 Long-Term Stock Incentive Plan, the outstanding equity awards granted to these named executive officers are subject to potential accelerated vesting upon a change of control. In addition, Mr. Frear's award agreements relating to options and restricted stock units granted to him in February 2008 under the 2003 plan provide that such equity awards are subject to potential accelerated vesting upon his death and disability. All of the outstanding options granted under the 2003 plan were vested as of December 31, 2013, and, therefore, are not included in the table of potential payments and benefits below.

## 2009 Long-Term Stock Incentive Plan

All of our named executive officers have outstanding equity awards as of December 31, 2013 that were granted under the Plan. Under the terms of the Plan, the outstanding equity awards granted to the named executive officers are subject to potential accelerated vesting upon termination without cause by the company or termination by the executive for good reason during a two year period following a change of control, to the extent outstanding awards granted under the Plan are either assumed, converted or replaced by the resulting entity in the event of a change of control.

### Potential Payments and Benefits

The following table describes the potential payments and benefits under the named executive officers' agreements and our stock incentive plans to which they would have been entitled if a termination of employment or change-in-control had occurred as of December 31, 2013:

Name	Triggering Event	Lump Sum Severance Payment (\$)	Accelerated Equity Vesting(1) (\$)	Continuation of Insurance Benefits(2) (\$)	Excise Tax Gross-Up (\$)	Total (\$)
James E. Meyer(3) . . . . .	Termination due to death or disability	6,600,000	5,361,609	—	—	11,961,609
	Termination without cause or for good reason	10,150,000	5,361,609	35,055	—	15,546,664
Scott A. Greenstein . . . . .	Termination due to death or disability	—	929,429	—	—	929,429
	Termination without cause or for good reason	2,625,000	929,429	23,646	—	3,578,075
Stephen R. Cook . . . . .	Termination due to death or disability	—	944,520	—	—	944,520
	Termination without cause or for good reason	1,075,000	944,520	22,954	—	2,042,474
	Termination without cause or for good reason following change-in-control	1,075,000	2,900,770	22,954	—	3,998,724
David J. Frear . . . . .	Termination due to death or disability	—	10,880,000	—	—	10,880,000
	Termination without cause or for good reason	2,050,000	10,880,000	23,646	—	12,953,646
	Termination without cause or for good reason following change-in-control	2,050,000	12,283,000	23,646	—	14,356,646
Enrique Rodriguez . . . . .	Termination due to death or disability	—	944,520	—	—	944,520
	Termination without cause or for good reason	825,000	944,520	22,954	—	1,792,474
	Termination without cause or for good reason following change-in-control	825,000	1,339,770	22,954	—	2,187,724

- (1) Amounts were calculated based on the closing price on the NASDAQ Global Select Market of our common stock on December 31, 2013 of \$3.49. The accelerated vesting of options is valued at (a) the difference between the closing price and the exercise price of the options multiplied by (b) the number of shares of common stock underlying the options. The accelerated vesting of restricted stock units is valued at the closing price times the number of shares of restricted stock units.
- (2) Assumes that health benefits would be continued under COBRA for up to 18 months at current rates. Assumes that life insurance would be continued at rate of two times current employer cost.
- (3) Mr. Meyer is also eligible to receive a prorated bonus for the year in which his employment is terminated. Payment is based on actual performance for such year, and payable at such time as the bonuses for such year are paid to other senior executives. This potential payment is not reflected in the table above.

## ITEM 2 — ADVISORY VOTE TO APPROVE EXECUTIVE OFFICER COMPENSATION

We provide stockholders with the opportunity to cast an advisory vote to approve the compensation of our named executive officers every three years as disclosed pursuant to the SEC's compensation disclosure rules (which disclosure includes the Compensation Discussion and Analysis, the compensation tables, and the narrative disclosures that accompany the compensation tables) (a "say-on-pay proposal"). We believe it is appropriate to seek and take into account the views of stockholders on the design and effectiveness of our executive compensation program.

Our goal for our executive compensation program is to attract, motivate, and retain a talented, entrepreneurial and creative team of executives who will provide leadership for success in the dynamic and highly competitive markets in which we operate. We seek to accomplish this goal in a way that rewards performance and is aligned with our stockholders' long-term interests. We believe our executive compensation program, which emphasizes long-term equity awards, satisfies this goal and is strongly aligned with the long-term interests of stockholders.

At our 2011 annual meeting of stockholders, approximately 98% of the votes cast supported the say-on-pay proposal. We encourage our stockholders to evaluate our executive compensation program over a multi-year horizon and to review our named executive officers' compensation over the past three years as reported in the Summary Compensation Table on page 32. We have in the past been, and will in the future continue to be, engaged with our stockholders on a number of topics and in a number of forums. We view the advisory vote on executive compensation as an additional, but not exclusive, opportunity for our stockholders to communicate with us regarding their views on executive compensation. Our executive compensation program has not changed materially year-to-year and is designed to operate over a period of several years and to enhance long-term performance.

The Compensation Discussion and Analysis, beginning on page 23 of this proxy statement, describes our executive compensation program and the decisions made by the Compensation Committee in 2013 in more detail.

In accordance with the requirements of Section 14A of the Exchange Act and the related rules of the SEC, we will request that stockholders vote to approve the following resolution at the annual meeting:

RESOLVED, that the compensation paid to the named executive officers, as disclosed in this proxy statement pursuant to the SEC's executive compensation disclosure rules (which disclosure includes the Compensation Discussion and Analysis, the compensation tables, and the narrative disclosures that accompany the compensation tables), is hereby approved.

As an advisory vote, this proposal is not binding on us, our board of directors or the Compensation Committee, and will not be construed as overruling a decision by our board of directors or the Compensation Committee or creating or implying any additional fiduciary duty for us, our board of directors or the Compensation Committee. However, the Compensation Committee and our board of directors values the opinions expressed by stockholders in their vote on this proposal and will consider the outcome of the vote when making future compensation decisions regarding named executive officers.

Our current policy is to provide stockholders with an opportunity to approve the compensation of the named executive officers every three years at the annual meeting of stockholders. It is expected that the next such vote will occur at our 2017 annual meeting of stockholders.

This vote is not intended to address any specific item of compensation, but rather our executive compensation as disclosed in this proxy statement. Accordingly, your vote will not directly affect or otherwise limit any existing compensation or award arrangement of any of our named executive officers.

**The board of directors recommends that stockholders vote "FOR" this proposal.**

### ITEM 3 — RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

The Audit Committee has selected KPMG LLP (“KPMG”) as our independent registered public accountants for 2014. As such, KPMG will audit and report on our financial statements for the year ending December 31, 2014 and on the effectiveness of internal control over financial reporting as of December 31, 2014. KPMG has served as our independent registered public accountants since September 2008. The Audit Committee and the board are requesting, as a matter of policy, that stockholders ratify the selection of KPMG. The Audit Committee and the board are not required to take any action as a result of the outcome of the vote on this proposal.

Representatives of KPMG are expected to be present at the annual meeting. They will have an opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

**The board of directors recommends a vote “FOR” the ratification of KPMG LLP as our independent registered public accountants for 2014.**

#### Principal Accountant Fees and Services

The following table sets forth the fees billed to us by KPMG as of and for the years ended December 31, 2013 and 2012:

	For the Years Ended December 31,	
	2013	2012
Audit fees(1) . . . . .	\$1,997,222	\$1,857,649
Audit-related fees(2) . . . . .	377,000	78,000
Tax fees(3) . . . . .	—	48,018
All other fees(4) . . . . .	15,000	—
	<u>\$2,389,222</u>	<u>\$1,983,667</u>

- (1) Audit fees billed by KPMG related to the financial statement audit, quarterly reviews, audit of internal control over financial reporting, accounting consultations with KPMG’s National Office, comfort letters, SEC comment letters, audit services that are normally provided by independent auditors in connection with regulatory filings or engagements and statutory audits. The amount also includes reimbursement for direct out-of-pocket expenses.
- (2) Audit-related fees billed by KPMG related to audits of employee benefit plans, financial due diligence services, and other attestation services required by contract.
- (3) Tax fees billed by KPMG were for services relating to state and local tax consulting.
- (4) All other fees billed by KPMG related to seminars purchased by us.

#### Pre-Approval Policy for Services of Independent Auditor

It is the Audit Committee’s responsibility to review and consider, and ultimately pre-approve, all audit and permitted non-audit services to be performed by our independent registered public accounting firm. In accordance with its charter, the Audit Committee’s pre-approval policies with respect to audit and permitted non-audit services to be provided by our independent registered public accounting firm are as follows:

- The independent registered public accounting firm is not permitted to perform consulting, legal, book-keeping, valuation, internal audit, management functions, or other prohibited services, under any circumstances;
- The engagement of our independent registered public accounting firm, including related fees, with respect to the annual audits and quarterly reviews of our consolidated financial statements is specifically approved by the Audit Committee on an annual basis;



- The Audit Committee reviews and pre-approves a detailed list of other audit and audit-related services annually or more frequently, if required. Such services generally include services performed under the audit and attestation standards established by regulatory authorities or standard setting bodies and include services related to SEC filings, employee benefit plan audits and subsidiary audits;
- The Audit Committee reviews and pre-approves a detailed list of permitted non-audit services annually or more frequently, if required; and
- The Audit Committee pre-approves each proposed engagement to provide services not previously included in the approved list of audit and non-audit services and for fees in excess of amounts previously pre-approved.

The Audit Committee has delegated to the chair of the Audit Committee the authority to approve permitted services by the independent registered public accounting firm so long as he or she reports decisions to the Audit Committee at its next meeting.

All of the services covered under the captions “Audit Fees”, “Audit-Related Fees” and “Tax Fees” were pre-approved by the Audit Committee.

#### **Who is the Audit Committee’s financial expert?**

Our board of directors has determined that Joan L. Amble, the chairwoman of the Audit Committee and an independent director, is qualified as an “audit committee financial expert” within the meaning of SEC regulations and that she is financially sophisticated within the meaning of the NASDAQ listing standards.

### **REPORT OF THE AUDIT COMMITTEE**

As described more fully in its charter, the purpose of the Audit Committee is to assist our board of directors in its general oversight of our financial reporting, internal control and audit functions. Management is responsible for the preparation, presentation and integrity of our consolidated financial statements; accounting and financial reporting principles; and internal controls and procedures designed to ensure compliance with accounting standards, applicable laws and regulations. KPMG LLP, our independent registered public accounting firm, is responsible for performing an independent audit of our consolidated financial statements and the effectiveness of internal control over financial reporting in accordance with auditing standards of the Public Company Accounting Oversight Board (United States).

In the performance of its oversight function, the Audit Committee reviewed and discussed our audited financial statements with management and with our independent registered public accounting firm. The Audit Committee also discussed with the independent registered public accounting firm the matters required to be discussed by the statement on Auditing Standards No. 16, “Communications with Audit Committees”, as adopted by the Public Company Accounting Oversight Board. In addition, the Audit Committee received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm’s communications with the Audit Committee concerning independence, and discussed with the independent registered public accounting firm their independence.

Based upon the review and discussions described in the preceding paragraph, the Audit Committee recommended to the board of directors that our audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC.

Audit Committee

JOAN L. AMBLE, *Chairwoman*

EDDY W. HARTENSTEIN

VANESSA A. WITTMAN

## OTHER MATTERS

Our board of directors does not intend to present, or have any reason to believe others will present, any other items of business. If other matters are properly brought before the annual meeting, the persons named in the accompanying proxy will vote the shares represented by it in accordance with the recommendation of our board of directors.

### IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 19, 2014

This proxy statement and our annual report for the year ended December 31, 2013 are available for you to view online at <http://www.envisionreports.com/SIRI>.

By Order of the Board of Directors,



Patrick L. Donnelly  
*Executive Vice President,  
General Counsel and Secretary*

New York, New York  
April 8, 2014

**We make available, free of charge on our website, all of our filings that are made electronically with the SEC, including Forms 10-K, 10-Q and 8-K. To access these filings, go to our website, [www.siriusxm.com](http://www.siriusxm.com), and click on “Reports & Filings” and then on “SEC Filings” under the “Investor Relations” heading. Copies of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, including financial statements and schedules thereto, are also available without charge to stockholders upon written request addressed to:**

**Investor Relations  
Sirius XM Holdings Inc.  
1221 Avenue of the Americas  
36th Floor  
New York, New York 10020**



**2013 ANNUAL REPORT**



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

### **Special Note About Forward-Looking Statements**

We have made various statements in this Annual Report that may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may also be made in our other reports filed with or furnished to the SEC, in our press releases and in other documents. In addition, from time to time, we, through our management, may make oral forward-looking statements. Forward-looking statements are subject to risks and uncertainties, including those identified above, which could cause actual results to differ materially from such statements. The words “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimated,” “believe,” “intend,” “plan,” “may,” “should,” “could,” “would,” “likely,” “projection,” “outlook” and similar expressions are intended to identify forward-looking statements. We caution you that the risk factors described above are not exclusive. There may also be other risks that we are unable to predict at this time that may cause actual results to differ materially from those in forward-looking statements. New factors emerge from time to time, and it is not possible for us to predict which will arise or to assess with any precision the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statements, except as required by law.

### **Sirius XM Holdings Inc.**

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

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

*(All dollar amounts referenced in this section are in thousands, unless otherwise stated)*

#### **Executive Summary**

We broadcast music, sports, entertainment, comedy, talk, news, traffic and weather channels, as well as infotainment services, in the United States on a subscription fee basis through our two proprietary satellite radio systems. Subscribers can also receive music and other channels, plus features such as SiriusXM On Demand and MySXM, over the Internet, including through applications for mobile devices.

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

As of December 31, 2013, we had 25,559,310 subscribers of which 21,081,817 were self-pay subscribers and 4,477,493 were paid promotional subscribers. Our subscriber totals include subscribers under our regular pricing plans; discounted pricing plans; subscribers that have prepaid, including payments either made or due from automakers for subscriptions included in the sale or lease price of a vehicle; subscribers to our Internet services who do not also have satellite radio subscriptions; and certain subscribers to our weather, traffic, data and Backseat TV services.

Our primary source of revenue is subscription fees, with most of our customers subscribing on an annual, semi-annual, quarterly or monthly basis. We offer discounts for prepaid and longer term subscription plans as well as discounts for

multiple subscriptions. We also derive revenue from activation and other fees, the sale of advertising on select non-music channels, the direct sale of satellite radios and accessories, and other ancillary services, such as our weather, traffic, data and Backseat TV services.

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

We are also a leader in providing connected vehicle applications and services. Our connected vehicle services are designed to enhance the safety, security and driving experience for vehicle owners while providing marketing and operational benefits to automakers and their dealers. Subscribers to our connected vehicle services are not included in our subscriber count.

Liberty Media Corporation beneficially owns, directly and indirectly, over 50% of the outstanding shares of our common stock. Liberty Media owns interests in a broad range of media, communications and entertainment businesses, including its subsidiaries, Atlanta National League Baseball Club, Inc. and TruePosition, Inc., its interests in Charter Communications, Live Nation Entertainment and Barnes & Noble, and minority equity investments in Time Warner Inc., Time Warner Cable, and Viacom.

We also have a 38% equity interest in Sirius XM Canada which offers satellite radio services in Canada. Subscribers to the Sirius XM Canada service are not included in our subscriber count.

## Results of Operations

Set forth below are our results of operations for the year ended December 31, 2013 compared with the year ended December 31, 2012 and the year ended December 31, 2012 compared with the year ended December 31, 2011.

	For the Years Ended December 31,			2013 vs 2012 Change		2012 vs 2011 Change	
	2013	2012	2011	Amount	%	Amount	%
Revenue:							
Subscriber revenue	\$3,284,660	\$2,962,665	\$2,595,414	\$ 321,995	11%	\$ 367,251	14%
Advertising revenue	89,288	82,320	73,672	6,968	8%	8,648	12%
Equipment revenue	80,573	73,456	71,051	7,117	10%	2,405	3%
Other revenue	344,574	283,599	274,387	60,975	22%	9,212	3%
Total revenue	3,799,095	3,402,040	3,014,524	397,055	12%	387,516	13%
Operating expenses:							
Cost of services:							
Revenue share and							
royalties	677,642	551,012	471,149	126,630	23%	79,863	17%
Programming and content	290,323	278,997	281,234	11,326	4%	(2,237)	(1)%
Customer service and							
billing	320,755	294,980	259,719	25,775	9%	35,261	14%
Satellite and transmission	79,292	72,615	75,902	6,677	9%	(3,287)	(4)%
Cost of equipment	26,478	31,766	33,095	(5,288)	(17)%	(1,329)	(4)%
Subscriber acquisition costs	495,610	474,697	434,482	20,913	4%	40,215	9%
Sales and marketing	291,024	248,905	222,773	42,119	17%	26,132	12%
Engineering, design and							
development	57,969	48,843	53,435	9,126	19%	(4,592)	(9)%
General and administrative	262,135	261,905	238,738	230	—%	23,167	10%
Depreciation and amortization	253,314	266,295	267,880	(12,981)	(5)%	(1,585)	(1)%
Total operating expenses	2,754,542	2,530,015	2,338,407	224,527	9%	191,608	8%
Income from operations	1,044,553	872,025	676,117	172,528	20%	195,908	29%
Other income (expense):							
Interest expense, net of							
amounts capitalized	(204,671)	(265,321)	(304,938)	60,650	23%	39,617	13%
Loss on extinguishment of debt							
and credit facilities, net	(190,577)	(132,726)	(7,206)	(57,851)	(44)%	(125,520)	nm
Interest and investment							
income	6,976	716	73,970	6,260	874%	(73,254)	(99)%
Loss on change in value of							
derivatives	(20,393)	—	—	(20,393)	nm	—	nm
Other income (loss)	1,204	(226)	3,252	1,430	633%	(3,478)	(107)%
Total other expense	(407,461)	(397,557)	(234,922)	(9,904)	(2)%	(162,635)	(69)%
Income before income taxes	637,092	474,468	441,195	162,624	34%	33,273	8%
Income tax (expense) benefit	(259,877)	2,998,234	(14,234)	(3,258,111)	(109)%	3,012,468	nm
Net income	\$ 377,215	\$3,472,702	\$ 426,961	\$(3,095,487)	(89)%	\$3,045,741	713%

nm — not meaningful

Our results of operations discussed below include Sirius XM Connected Vehicle Services Inc. activity from the acquisition date, November 4, 2013, as well as the impact of purchase price accounting adjustments associated with the acquisition and the Merger. The purchase price accounting adjustments include: (i) the elimination of deferred revenue associated with the investment in XM Canada, (ii) recognition of deferred subscriber revenues not recognized in purchase price accounting, and (iii) elimination of the benefit of deferred credits on executory contracts, which are primarily attributable to third party arrangements with an OEM and programming providers. The deferred credits on executory contracts attributable to third party arrangements with an OEM included in revenue share and royalties, subscriber acquisition costs, and sales and marketing concluded with the expiration of the acquired contract during 2013. The impact of these purchase price accounting adjustments is detailed in our Adjusted Revenues and Operating Expenses tables on pages 19 through 25 of our glossary.

### ***Total Revenue***

*Subscriber Revenue* includes subscription, activation and other fees.

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, subscriber revenue was \$3,284,660 and \$2,962,665, respectively, an increase of 11%, or \$321,995. The increase was primarily attributable to a 9% increase in the daily weighted average number of subscribers, the impact of the increase in certain of our subscription rates beginning in January 2012 as more subscribers migrated to the higher rates, and an increase in subscriptions to premium services, premier channels and Internet streaming, as well as the inclusion of connected vehicle subscription revenue in 2013. These increases were partially offset by subscription discounts offered through customer acquisition and retention programs, and an increasing number of lifetime subscription plans that have reached full revenue recognition.
- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, subscriber revenue was \$2,962,665 and \$2,595,414, respectively, an increase of 14%, or \$367,251. The increase was primarily attributable to a 9% increase in daily weighted average number of subscribers, the increase in certain of our subscription rates beginning in January 2012, and an increase in subscriptions to premium services, including premier channels, data services and Internet streaming. The increase was partially offset by subscription discounts offered through customer acquisition and retention programs.

We expect subscriber revenues to increase based on the growth of our subscriber base, including connected vehicle subscribers, promotions, subscription plan mix, and identification of additional revenue streams from subscribers. We increased certain of our subscription rates beginning January 2014.

*Advertising Revenue* includes the sale of advertising on certain non-music channels, net of agency fees. Agency fees are based on a contractual percentage of the gross advertising revenue.

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, advertising revenue was \$89,288 and \$82,320, respectively, an increase of 8%, or \$6,968. The increase was primarily due to a greater number of advertising spots sold and broadcast, as well as increases in rates charged per spot.
- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, advertising revenue was \$82,320 and \$73,672, respectively, an increase of 12%, or \$8,648. The increase was primarily due to a greater number of advertising spots sold and broadcast, as well as increases in rates charged per spot.

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

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

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, equipment revenue was \$80,573 and \$73,456, respectively, an increase of 10%, or \$7,117. The increase was driven by royalties from higher OEM production, the mix of royalty eligible radios and, to a lesser extent, improved aftermarket subsidies.



- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, equipment revenue was \$73,456 and \$71,051, respectively, an increase of 3%, or \$2,405. The increase was driven by royalties from higher OEM production, offset by lower direct to consumer sales.

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

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

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, other revenue was \$344,574 and \$283,599, respectively, an increase of 22%, or \$60,975. The increase was driven by revenues from the U.S. Music Royalty Fee as the number of subscribers increased and subscribers on the 12.5% rate increased, and higher royalty revenue from Sirius XM Canada.
- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, other revenue was \$283,599 and \$274,387, respectively, an increase of 3%, or \$9,212. The increase was driven by revenues from the U.S. Music Royalty Fee as the number of subscribers increased, and higher royalty revenue from Sirius XM Canada.

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

### ***Operating Expenses***

*Revenue Share and Royalties* include distribution and content provider revenue share, advertising revenue share, and broadcast and web streaming royalties. Advertising revenue share is recognized in revenue share and royalties in the period in which the advertising is broadcast.

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, revenue share and royalties were \$677,642 and \$551,012, respectively, an increase of 23%, or \$126,630, and increased as a percentage of total revenue. The increase was primarily attributable to greater revenues subject to royalty and/or revenue sharing arrangements and a 12.5% increase in the statutory royalty rate for the performance of sound recordings as well as a decrease in the benefit to earnings from the amortization of deferred credits on executory contracts initially recognized in purchase price accounting associated with the Merger.
- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, revenue share and royalties were \$551,012 and \$471,149, respectively, an increase of 17%, or \$79,863, and increased as a percentage of total revenue. The increase was primarily attributable to greater revenues subject to royalty and/or revenue sharing arrangements and a 7% increase in the statutory royalty rate for the performance of sound recordings, partially offset by an increase in the benefit to earnings from the amortization of deferred credits on executory contracts initially recognized in purchase price accounting associated with the Merger.

We expect our revenue share and royalty costs to increase as our revenues grow, our royalty rates increase and as a result of the above noted discontinued deferred credits on executory contracts associated with the Merger. As determined by the Copyright Royalty Board's decision, we paid royalties of 9.0%, 8.0% and 7.5% of gross revenues, subject to certain exclusions, for the years ended December 31, 2013, 2012 and 2011, respectively, and will pay 9.5% in 2014.

*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.

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, programming and content expenses were \$290,323 and \$278,997, respectively, an increase of 4%, or \$11,326, but decreased as a percentage

of total revenue. The increase was primarily due to reductions in the benefit to earnings from purchase price accounting adjustments associated with the Merger attributable to the amortization of the deferred credit on acquired programming executory contracts and increased personnel costs.

- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, programming and content expenses were \$278,997 and \$281,234, respectively, a decrease of 1%, or \$2,237, and decreased as a percentage of total revenue. The decrease was primarily due to savings in content agreements, partially offset by increases in personnel costs and reductions in the benefit to earnings from purchase price accounting adjustments associated with the Merger attributable to the amortization of the deferred credit on acquired programming executory contracts.

Excluding the impact from purchase accounting adjustments, based on our current programming offerings, we expect our programming and content expenses to fluctuate as we offer additional programming, and renew or replace expiring agreements. The impact of purchase price accounting adjustments associated with the Merger attributable to the amortization of the deferred credit on acquired programming executory contracts will continue to decline, in absolute amount and as a percentage of reported programming and content costs, through 2015. Substantially all of the deferred credits on executory contracts were amortized by the end of 2013.

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

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, customer service and billing expenses were \$320,755 and \$294,980, respectively, an increase of 9%, or \$25,775, but remained flat as a percentage of total revenue. The increase was primarily due to efforts to improve our customer service experience, resulting in higher spend on customer service agents, staffing and training, higher subscriber volume driving increased subscriber contacts, increased bad debt expense and higher technology costs.
- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, customer service and billing expenses were \$294,980 and \$259,719, respectively, an increase of 14%, or \$35,261, but remained flat as a percentage of total revenue. The increase was primarily due to longer average handle time per call and higher subscriber volume driving increased subscriber contacts and higher technology costs.

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

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

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, satellite and transmission expenses were \$79,292 and \$72,615, respectively, an increase of 9%, or \$6,677, but remained flat as a percentage of total revenue. The increase was primarily due to increased costs associated with our Internet streaming operations.
- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, satellite and transmission expenses were \$72,615 and \$75,902, respectively, a decrease of 4%, or \$3,287, and decreased as a percentage of total revenue. The decrease was primarily due to a reduction of satellite in-orbit insurance expense as we elected not to renew insurance policies on certain satellites.

We expect overall satellite and transmission expenses to increase as we enhance our Internet-based service and add functionality, expand our terrestrial repeater network, and incur in-orbit insurance 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.

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, cost of equipment was \$26,478 and \$31,766, respectively, a decrease of 17%, or \$5,288, and decreased as a percentage of equipment revenue. The decrease was primarily due to lower average cost per product sold and lower inventory reserves, partially offset by higher direct to consumer volume compared to prior year periods.
- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, cost of equipment was \$31,766 and \$33,095, respectively, a decrease of 4%, or \$1,329, and decreased as a percentage of equipment revenue. The decrease was primarily due to lower direct to consumer sales, partially offset by higher inventory reserves.

We expect cost of equipment to vary with changes in sales, supply chain management and inventory valuations.

*Subscriber Acquisition Costs* include hardware subsidies paid to radio manufacturers, distributors and automakers, including subsidies paid to automakers who include a satellite radio and subscription to our service in the sale or lease price of a new vehicle; subsidies paid for chip sets and certain other components used in manufacturing radios; device royalties for certain radios and chip sets; commissions paid to automakers as incentives to purchase, install and activate satellite radios; product warranty obligations; freight; and provisions for inventory allowances attributable to inventory consumed in our OEM and retail distribution channels. The majority of subscriber acquisition costs are incurred and expensed in advance of, or concurrent with, acquiring a subscriber. Subscriber acquisition costs do not include advertising, marketing, loyalty payments to distributors and dealers of satellite radios or revenue share payments to automakers and retailers of satellite radios.

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, subscriber acquisition costs were \$495,610 and \$474,697, respectively, an increase of 4%, or \$20,913, but decreased as a percentage of total revenue. The increase was primarily a result of higher subsidies related to increased OEM installations and lower benefit to earnings from the amortization of the deferred credit for acquired executory contracts recognized in purchase price accounting associated with the Merger, partially offset by improved OEM subsidy rates per vehicle.
- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, subscriber acquisition costs were \$474,697 and \$434,482, respectively, an increase of 9%, or \$40,215, but decreased as a percentage of total revenue. The increase was primarily a result of higher subsidies related to increased OEM installations occurring in advance of acquiring the subscriber, partially offset by improved OEM subsidy rates per vehicle and increases in the benefit to earnings from the amortization of the deferred credit for acquired executory contracts recognized in purchase price accounting associated with the Merger.

We expect total subscriber acquisition costs to decrease as a result of the expiration of the acquired executory contracts noted above. The decrease will be partially offset by increases in OEM installations and gross subscriber additions. Changes in contractual OEM subsidy rates and the cost of subsidized radio components will also impact total subscriber acquisition costs. We intend to continue to offer subsidies, commissions and other incentives to acquire subscribers.

*Sales and Marketing* includes costs for advertising, media and production, including promotional events and sponsorships; cooperative marketing; customer acquisition and retention, and personnel. Cooperative marketing costs include fixed and variable payments to reimburse retailers and automakers for the cost of advertising and other product awareness activities performed on our behalf. Customer acquisition and retention costs include expenses related to direct mail, outbound telemarketing and email communications.

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, sales and marketing expenses were \$291,024 and \$248,905, respectively, an increase of 17%, or \$42,119, and increased as a percentage of

total revenue. The increase was primarily due to additional subscriber communications and retention programs associated with a greater number of subscribers and promotional trials.

- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, sales and marketing expenses were \$248,905 and \$222,773, respectively, an increase of 12%, or \$26,132, and 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, and higher OEM cooperative marketing.

We anticipate that sales and marketing expenses will increase as changes in certain contractual marketing agreements become effective and as we expand programs to retain our existing subscribers, win back former subscribers, and attract new subscribers. We expect the increase in sales and marketing costs to be partially offset by the impact of the expiration of the acquired executory contracts noted above.

*Engineering, Design and Development* includes costs to develop chip sets and new products and services, research and development for broadcast information systems and costs associated with the incorporation of our radios into new vehicles manufactured by automakers.

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, engineering, design and development expenses were \$57,969 and \$48,843, respectively, an increase of 19%, or \$9,126, but remained flat as a percentage of total revenue. The increase was driven primarily by higher product development costs, costs related to enhanced subscriber features and functionality for our service, and by the reversal of certain non-recurring engineering charges that were recorded in the second quarter of 2012.
- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, engineering, design and development expenses were \$48,843 and \$53,435, respectively, a decrease of 9%, or \$4,592, and decreased as a percentage of total revenue. The decrease was driven primarily by a reversal of certain non-recurring engineering charges, partially offset by higher product development costs, costs related to the development of enhanced subscriber features and functionality for our service and higher personnel costs.

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

*General and Administrative* includes executive management, rent and occupancy, finance, legal, human resources, information technology, and insurance costs.

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, general and administrative expenses were \$262,135 and \$261,905, respectively, an increase of less than 1%, or \$230, but decreased as a percentage of total revenue. The increase was primarily due to higher information technology costs, offset by lower legal costs.
- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, general and administrative expenses were \$261,905 and \$238,738, respectively, an increase of 10%, or \$23,167, but remained flat as a percentage of total revenue. The increase was primarily due to higher personnel costs, including share-based payment expenses, office rent expenses and professional fees, partially offset by lower litigation settlement charges.

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

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

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, depreciation and amortization expense was \$253,314 and \$266,295, respectively, a decrease of 5%, or \$12,981, and decreased as a

percentage of total revenue. The decrease was driven by certain satellites reaching the end of their estimated service lives, partially offset by additional assets placed in-service.

- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, depreciation and amortization expense was \$266,295 and \$267,880, respectively, a decrease of 1%, or \$1,585, and decreased as a percentage of total revenue. The decrease was driven by reductions in the amortization of subscriber relationships and depreciation recognized on assets placed in-service as certain assets reached the end of their estimated service lives.

We expect depreciation expense to decrease in future periods due to reduced amortization associated with the stepped-up basis in assets acquired in the Merger (including intangible assets, satellites, property and equipment) through the end of their estimated service lives, principally through 2017. These decreases will be partially offset by increased depreciation resulting from our FM-6 satellite being placed into service.

### ***Other Income (Expense)***

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

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, interest expense was \$204,671 and \$265,321, respectively, a decrease of 23%, or \$60,650. The decrease was primarily due to lower average interest rates resulting from the redemption or repayment of \$2,535,500 of higher interest rate debt throughout 2012 and 2013, which was replaced with \$2,650,000 of lower interest rate debt.
- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, interest expense was \$265,321 and \$304,938, respectively, a decrease of 13%, or \$39,617. The decrease was primarily due to a lower average outstanding debt balance and a mix of outstanding debt with lower interest rates.

We expect interest expense to increase in future periods as total debt outstanding increases and we cease to capitalize interest associated with satellite construction.

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

- *2013 vs. 2012:* For the year ended December 31, 2013, loss on extinguishment of debt and credit facilities, net, was \$190,577. The loss in 2013 was recorded on the repayment and redemption of our 7.625% Senior Notes due 2018 and our 8.75% Senior Notes due 2015. During the year ended December 31, 2012, a \$132,726 loss was recorded on the repayment of our 13% Senior Notes due 2013 and our 9.75% Senior Secured Notes due 2015.
- *2012 vs. 2011:* For the year ended December 31, 2012, loss on extinguishment of debt and credit facilities, net, was \$132,726. The loss was recorded on the repayment of our 13% Senior Notes due 2013 and our 9.75% Senior Secured Notes due 2015. During the year ended December 31, 2011, a \$7,206 loss was recorded on the repayment of our 11.25% Senior Secured Notes due 2013 and our 3.25% Convertible Notes due 2011.

*Interest and Investment Income* includes realized gains and losses, interest income, and our share of the income of Sirius XM Canada.

- *2013 vs. 2012:* For the year ended December 31, 2013, interest and investment income was \$6,976 compared to \$716 in 2012. The interest and investment income for 2013 and 2012 was primarily due to our share of Sirius XM Canada's net income, partially offset by the amortization expense related to our equity method intangible assets.
- *2012 vs. 2011:* For the year ended December 31, 2012, interest and investment income was \$716 compared to \$73,970 in 2011. The interest and investment income for 2012 was primarily due to interest

on our investments and our share of Sirius XM Canada's net income, partially offset by the amortization expense related to our equity method intangible assets. The interest and investment income for 2011 was primarily due to income from our interests in Sirius XM Canada due to the realized net gain from the XM Canada and Sirius Canada merger in the second quarter of 2011.

*Loss on change in value of derivatives* represents the change in fair value of the commitments under the share repurchase agreement with Liberty Media, which are accounted for as a derivative.

- *2013 vs. 2012:* For the year ended December 31, 2013, net loss on change in value of derivatives was \$20,393 which resulted from the change in value of the shares to be repurchased under the share repurchase agreement with Liberty Media. We expect to repurchase approximately 92,889,000 shares of common stock from Liberty Media on April 25, 2014 at a price of \$3.66 per share. The value of the derivative will fluctuate based on the movement of our stock price. For the years ended December 31, 2012 and 2011, we did not record any losses on change in value of derivatives.

### ***Income Taxes***

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

- *2013 vs. 2012:* For the year ended December 31, 2013, income tax expense was \$259,877 compared to income tax benefit of \$2,998,234 for 2012. Our annual effective tax rate for the year ending December 31, 2013 was 41% primarily as a result of \$9,545 of non-deductible expenses related to the loss on change in value of derivatives. For the year ended December 31, 2012, we released \$3,195,651 of valuation allowance due to the cumulative positive evidence that it is more likely than not that our deferred tax assets will be realized.
- *2012 vs. 2011:* For the year ended December 31, 2012, income tax benefit was \$2,998,234 compared to income tax expense of \$14,234 for 2011. For the year ended December 31, 2012, we released \$3,195,651 of valuation allowance due to the cumulative positive evidence that it is more likely than not that our deferred tax assets will be realized.

## Subscriber Data

The following table contains subscriber data for the years ended December 31, 2013, 2012 and 2011, respectively. Subscribers to our connected vehicle services are not included in our subscriber count:

	Unaudited		
	For the Years Ended December 31,		
	2013	2012	2011
Beginning subscribers	23,900,336	21,892,824	20,190,964
Gross subscriber additions	10,136,381	9,617,771	8,696,020
Deactivated subscribers	(8,477,407)	(7,610,259)	(6,994,160)
Net additions	1,658,974	2,007,512	1,701,860
Ending subscribers	25,559,310	23,900,336	21,892,824
Self-pay	21,081,817	19,570,274	17,908,742
Paid promotional	4,477,493	4,330,062	3,984,082
Ending subscribers	25,559,310	23,900,336	21,892,824
Self-pay	1,511,543	1,661,532	1,221,943
Paid promotional	147,431	345,980	479,917
Net additions	1,658,974	2,007,512	1,701,860
Daily weighted average number of subscribers	24,886,300	22,794,170	20,903,908
Average self-pay monthly churn	1.8%	1.9%	1.9%
New vehicle consumer conversion rate	44%	45%	45%

Note: See pages 19 through 25 for glossary.

*Subscribers.* At December 31, 2013, we had 25,559,310 subscribers, an increase of 1,658,974 subscribers, or 7%, from the 23,900,336 subscribers as of December 31, 2012.

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, net additions were 1,658,974 and 2,007,512, respectively, a decrease of 17%, or 348,538. The increase in gross subscriber additions was primarily due to increases in new car sales and new subscriptions in previously owned vehicles. These increases were offset in part by a change from a paid trial to an unpaid trial in the fourth quarter of 2013 pursuant to an agreement with an OEM. The increase in deactivated subscribers was due to an increase in paid promotional trial deactivations driven by the growth of paid trial expirations, along with an increase in self-pay deactivations due to an increase in the subscriber base.
- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, net additions were 2,007,512 and 1,701,860, respectively, an increase of 18%, or 305,652. The improvement was due to the increase in gross subscriber additions, primarily resulting from higher new vehicle shipments and light vehicle sales, as well as an increase in the number of conversions from unpaid promotional trials and returning subscriber activations, including consumers in previously owned vehicles. This increase in gross additions was partially offset by an increase in deactivations. The increase in deactivations was primarily due to paid promotional trial deactivations stemming from the growth of paid trials and increased self-pay deactivations from our larger subscriber base.

*Average Self-pay Monthly Churn* is derived by dividing the monthly average of self-pay deactivations for the period divided by the average number of self-pay subscribers for the period. (See accompanying glossary on pages 19 through 25 for more details.)

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, our average self-pay monthly churn rate was 1.8% and 1.9%, respectively. The decrease was due to a higher mix of existing subscribers migrating to paid trials in new vehicles which are not included in average self-pay churn.

- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, our average self-pay monthly churn rate was 1.9%.

*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 19 through 25 for more details).

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, the new vehicle consumer conversion rate was 44% and 45%, respectively. The decrease in the new vehicle consumer conversion rate for the twelve month period was primarily due to the mix of sales by OEMs.
- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, the new vehicle consumer conversion rate was 45%.

## **Adjusted Results of Operations**

In this section, we present certain financial performance measures that are not calculated and presented in accordance with generally accepted accounting principles in the United States (“Non-GAAP”). These Non-GAAP financial measures include: average monthly revenue per subscriber, or ARPU; customer service and billing expenses, per average subscriber; subscriber acquisition cost, or SAC, per gross subscriber addition; free cash flow; and adjusted EBITDA. These measures exclude the impact of certain purchase price accounting adjustments. 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.

The purchase price accounting adjustments include the elimination of the earnings benefit of deferred revenue associated with our investment in Sirius XM Canada, the recognition of subscriber revenues not recognized in purchase price accounting and the elimination of the earnings benefit of deferred credits on executory contracts, which are primarily attributable to third party arrangements with an OEM and certain programming providers.

We believe the exclusion of share-based payment expense from functional operating expenses is useful given the significant variation in expense that can result from changes in the fair value as determined by the Black-Scholes-Merton model, which varies based on assumptions used for the expected life, expected stock price volatility and risk-free interest rates, the effect of which is unrelated to the operational conditions that give rise to variations in the components of our operating costs.

Free cash flow is a metric that our management and board of directors use to evaluate the cash generated by our operations, net of capital expenditures and other investment activity. In a capital intensive business, with significant investments in satellites, we look at our operating cash flow, net of these investing cash outflows, to determine cash available for future subscriber acquisition and capital expenditures, to repurchase or retire debt, to acquire other companies and to evaluate our ability to return capital to stockholders. We 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 audited consolidated statements of cash flows. Free cash flow should be used in conjunction with other GAAP financial performance measures and may not be comparable to free cash flow measures presented by other companies. Free cash flow should be viewed as a supplemental measure rather than an alternative measure of cash flows from operating activities, as determined in accordance with GAAP. Free cash flow is limited and does not represent remaining cash flows available for discretionary expenditures due to the fact that the measure does not deduct the payments required for debt maturities. We believe free cash flow provides useful supplemental information to investors regarding our current and projected cash flow, along with other GAAP measures (such as cash flows from operating and investing activities), to determine our financial condition, and to compare our operating performance to other communications, entertainment and media companies.



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

These Non-GAAP financial measures should be viewed in addition to, and not as an alternative for or superior to, our reported results prepared in accordance with GAAP. In addition, these Non-GAAP financial measures may not be comparable to similarly-titled measures by other companies. Please refer to the glossary (pages 19 through 25) for a further discussion of such Non-GAAP financial measures and reconciliations to the most directly comparable GAAP measure.

The following table contains our key operating metrics based on our adjusted results of operations for the years ended December 31, 2013, 2012 and 2011, respectively:

	<b>Unaudited Adjusted</b>		
	<b>For the Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<i>(in thousands, except for per subscriber amounts)</i>			
ARPU .....	\$ 12.27	\$ 12.00	\$ 11.58
SAC, per gross subscriber addition .....	\$ 50	\$ 54	\$ 55
Customer service and billing expenses, per average subscriber .....	\$ 1.07	\$ 1.07	\$ 1.03
Free cash flow .....	\$ 927,496	\$709,446	\$415,742
Adjusted EBITDA .....	\$1,166,140	\$920,343	\$731,018

Note: See pages 19 through 25 for a reconciliation to GAAP in the accompanying glossary.

*ARPU* is derived from total earned subscriber revenue, net advertising revenue and other subscription-related revenue, net of purchase price accounting adjustments, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. (For a reconciliation to GAAP see the accompanying glossary on pages 19 through 25 for more details.)

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, ARPU was \$12.27 and \$12.00, respectively. The increase was driven primarily by the contribution of the U.S. Music Royalty Fee, the impact of the increase in certain of our subscription rates beginning in January 2012, and an increase in subscriptions to premium services, partially offset by subscription discounts offered through customer acquisition and retention programs, and lifetime subscription plans that have reached full revenue recognition.
- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, ARPU was \$12.00 and \$11.58, respectively. The increase was driven primarily by the increase in certain of our subscription rates beginning in January 2012, and an increase in subscriptions to premium services, partially offset by subscription discounts offered through customer acquisition and retention programs and a decrease in the contribution from the U.S. Music Royalty Fee.

*SAC, Per Gross Subscriber Addition,* is derived from subscriber acquisition costs and margins from the sale of radios, components and accessories, excluding share-based payment expense and purchase price accounting adjustments, divided by the number of gross subscriber additions for the period. (For a reconciliation to GAAP see the accompanying glossary on pages 19 through 25 for more details.)

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, SAC, per gross subscriber addition, was \$50 and \$54, respectively. The decrease was primarily due to lower subsidies per vehicle.

- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, SAC, per gross subscriber addition, was \$54 and \$55, respectively. The decrease was primarily due to improved OEM subsidy rates per vehicle, partially offset by higher subsidies related to increased OEM installations occurring in advance of acquiring a subscriber.

*Customer Service and Billing Expenses, Per Average Subscriber,* is derived from total customer service and billing expenses, excluding 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 19 through 25 for more details.)

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, customer service and billing expenses, per average subscriber, were \$1.07.
- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, customer service and billing expenses, per average subscriber, were \$1.07 and \$1.03, respectively. The increase was primarily due to longer average handle time per call and higher technology costs.

*Free Cash Flow* includes the net cash provided by operations, additions to property and equipment, and restricted and other investment activity. (For a reconciliation to GAAP see the accompanying glossary on pages 19 through 25 for more details.)

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, free cash flow was \$927,496 and \$709,446, respectively, an increase of \$218,050. The increase was primarily driven by higher net cash provided by operating activities from improved operating performance, lower interest payments, and higher collections from subscribers and distributors, partially offset by payments related to the launch of our FM-6 satellite and the purchase of certain long-lead parts for a future satellite.
- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, free cash flow was \$709,446 and \$415,742, respectively, an increase of \$293,704. The increase was primarily driven by higher net cash provided by operating activities from improved operating performance and higher collections from subscribers and distributors, as well as a decrease in capital expenditures resulting from lower satellite and related launch vehicle construction costs.

*Adjusted EBITDA.* EBITDA is defined as net income before interest and investment income (loss); interest expense, net of amounts capitalized; income tax benefit (expense) and depreciation and amortization. Adjusted EBITDA removes the impact of other income and expense, losses on extinguishment of debt, loss on change in value of derivatives as well as certain other charges, such as goodwill impairment, certain purchase price accounting adjustments and share-based payment expense. (For a reconciliation to GAAP see the accompanying glossary on pages 19 through 25 for more details.)

- *2013 vs. 2012:* For the years ended December 31, 2013 and 2012, adjusted EBITDA was \$1,166,140 and \$920,343, respectively, an increase of 27%, or \$245,797. The increase was primarily due to increases in adjusted revenues, partially offset by increases in expenses included in adjusted EBITDA. The increase in adjusted revenues was primarily due to the increase in our subscriber base and certain of our subscription rates. The increase in expenses was primarily driven by higher revenue share and royalties expenses associated with growth in revenues, sales and marketing costs related to subscriber communications and retention marketing, customer service and billing costs related to increased agent training and staffing as well as subscriber volume and subscriber acquisition costs.
- *2012 vs. 2011:* For the years ended December 31, 2012 and 2011, adjusted EBITDA was \$920,343 and \$731,018, respectively, an increase of 26%, or \$189,325. The increase was primarily due to increases in adjusted revenues, partially offset by increases in expenses included in adjusted EBITDA. The increase in adjusted revenues was primarily due to the increase in our subscriber base and in certain of our subscription rates. The increase in expenses was primarily driven by higher revenue share and royalties expenses associated with growth in revenues, subscriber acquisition costs related to increased gross

subscriber additions and subsidies related to increased OEM installations, customer service and billing costs related to longer average handle times and higher subscriber volume, and sales and marketing costs related to subscriber communications and cooperative marketing, partially offset by lower programming and content costs.

## Liquidity and Capital Resources

*Cash Flows for the Year Ended December 31, 2013 Compared with the Year Ended December 31, 2012 and Year Ended December 31, 2012 Compared with the Year Ended December 31, 2011.*

As of December 31, 2013 and December 31, 2012, we had \$134,805 and \$520,945, respectively, of cash and cash equivalents. The following table presents a summary of our cash flow activity for the periods set forth below:

	<u>For the Years Ended December 31,</u>			<u>2013 vs. 2012</u>	<u>2012 vs. 2011</u>
	<u>2013</u>	<u>2012</u>	<u>2011</u>		
Net cash provided by operating activities . . . . .	\$1,102,832	\$ 806,765	\$ 543,630	\$ 296,067	\$ 263,135
Net cash used in investing activities . . . . .	(700,688)	(97,319)	(127,888)	(603,369)	30,569
Net cash used in financing activities . . . . .	(788,284)	(962,491)	(228,443)	174,207	(734,048)
Net (decrease) increase in cash and cash equivalents . . . . .	(386,140)	(253,045)	187,299	(133,095)	(440,344)
Cash and cash equivalents at beginning of period . . . . .	520,945	773,990	586,691	(253,045)	187,299
Cash and cash equivalents at end of period . . . . .	<u>\$ 134,805</u>	<u>\$ 520,945</u>	<u>\$ 773,990</u>	<u>\$(386,140)</u>	<u>\$(253,045)</u>

### *Cash Flows Provided by Operating Activities*

Cash flows provided by operating activities increased by \$296,067 to \$1,102,832 for the year ended December 31, 2013 from \$806,765 for the year ended December 31, 2012.

Our largest source of cash provided by operating activities is generated by subscription and subscription-related revenues. We also generate cash from the sale of advertising on certain non-music channels and the sale of satellite radios, components and accessories. Our primary uses of cash from operating activities include revenue share and royalty payments to distributors and content providers, and payments to radio manufacturers, distributors and automakers. 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 provided by operating activities consists of net income adjusted for certain non-cash items, including depreciation, amortization, loss on extinguishment of debt, share-based payment expense, deferred income taxes and other non-cash purchase price adjustments.

The adjustments for the non-cash items increased from the year ended December 31, 2012 to the year ended December 31, 2013 due to the \$3,195,651 non-cash change in deferred tax valuation allowance reversal during 2012.

### *Cash Flows Used in Investing Activities*

Cash flows used in investing activities consists of capital expenditures for property and equipment, as well as the investment in the connected vehicle business purchased from Agero, Inc. We expect to continue to incur

significant costs to improve our terrestrial repeater network and broadcast and administrative infrastructure. Our FM-6 satellite was launched during the fourth quarter of 2013.

The increase in cash flows used in investing activities was primarily due to the investment in Sirius XM Connected Vehicle Services Inc., satellite launch-related payments, an increase in spending to enhance our terrestrial repeater network, and the purchase of certain long-lead parts for a future satellite.

#### *Cash Flows Used in Financing Activities*

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

Cash flows used in financing activities in 2013 were primarily due to the repurchase of approximately 520,257,866 shares of common stock under our share repurchase program for approximately \$1,762,360, and the redemption of \$800,000 of our 8.75% Senior Notes due 2015 and \$700,000 of our 7.625% Senior Notes due 2018. In 2013, we issued \$650,000 aggregate principal amount of 5.875% Senior Notes due 2020, \$600,000 aggregate principal amount of 5.75% Senior Notes due 2021, \$500,000 aggregate principal amount of 4.25% Senior Notes due 2020, and \$500,000 aggregate principal amount of 4.625% Senior Notes due 2023. Cash flows used in financing activities during 2012 were due to the repayment of the remaining balances of \$778,500 of our 13% Senior Notes due 2013 and \$257,000 of our 9.75% Senior Secured Notes due 2015, partially offset by the issuance \$400,000 aggregate principal amount of 5.25% Senior Notes due 2022 and the proceeds received from the exercise of stock options.

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

Based upon our current business plans, we expect to fund operating expenses, capital expenditures, working capital requirements, interest payments, taxes and scheduled maturities of our debt with existing cash, cash flow from operations and borrowings under our Credit Facility. We believe that we have sufficient cash and cash equivalents as well as debt capacity to cover our estimated short-term and long-term funding needs, stock repurchases and strategic opportunities.

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

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

#### *Stock Repurchase Program*

Since December 2012, our board of directors has approved \$4,000,000 for repurchases 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 and in privately negotiated transactions, including transactions with Liberty Media and its affiliates.

On October 9, 2013, we entered into an agreement with Liberty Media to repurchase \$500 million of our common stock from Liberty Media. Pursuant to the agreement with Liberty Media, we repurchased \$160 million of our common stock from Liberty Media as of December 31, 2013. On January 23, 2014, we entered into an amendment to the agreement with Liberty Media to defer the previously scheduled \$240 million repurchase of shares of our common stock from Liberty Media from January 27, 2014 to April 25, 2014, the date of the final purchase installment under the agreement. As a result of this deferral, we expect to repurchase \$340 million of our shares of common stock from Liberty Media on April 25, 2014 at a price of \$3.66 per share. We entered into this amendment at the request of the Special Committee of our board of directors formed to review and evaluate the Liberty Media proposal.

During the year ended December 31, 2013, we repurchased 520,257,866 shares of our common stock for \$1,762,360, including fees and commissions, on the open market and in privately negotiated transactions, including transactions with Liberty Media. All common stock repurchases were settled and retired as of December 31, 2013. As of December 31, 2013, \$2,237,640 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.

#### ***Debt Covenants***

Our indentures and the agreement governing our Credit Facility include restrictive covenants. As of December 31, 2013, we were in compliance with the indentures and the agreement governing our Credit Facility. For a discussion of our “Debt Covenants,” refer to Note 13 to our consolidated financial statements in this Annual Report.

#### ***Off-Balance Sheet Arrangements***

We do not have any significant off-balance sheet arrangements other than those disclosed in Note 16 to our consolidated financial statements in this Annual Report that are reasonably likely to have a material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

#### ***Contractual Cash Commitments***

For a discussion of our “Contractual Cash Commitments,” refer to Note 16 to our consolidated financial statements in this Annual Report.

#### ***Related Party Transactions***

For a discussion of “Related Party Transactions,” refer to Note 11 to our consolidated financial statements in this Annual Report.

#### ***Critical Accounting Policies and Estimates***

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

*Goodwill.* Goodwill represents the excess of the purchase price over the estimated fair value of net tangible and identifiable intangible assets acquired in business combinations. Our annual impairment assessment of our single reporting unit is performed as of the fourth quarter of each year. Assessments are performed at other times if events or circumstances indicate it is more likely than not that the asset is impaired. Step one of the impairment assessment compares the fair value of the entity to its carrying value and if the fair value exceeds its carrying value, goodwill is not impaired. If the carrying value exceeds the fair value, the implied fair value of goodwill is compared to the carrying value of goodwill; an impairment loss will be recorded for the amount the carrying value exceeds the implied fair value. At the date of our annual assessment for 2013, the fair value of our single reporting unit substantially exceeded its carrying value and therefore was not at risk of failing step one of ASC 350-20, *Goodwill*. Subsequent to our annual evaluation of the carrying value of goodwill, there were no events or circumstances that triggered the need for an interim evaluation for impairment. As a result, there were no impairment charges to our goodwill during the years ended December 31, 2013 or 2012.

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

Our annual impairment assessment of indefinite-lived assets, our FCC licenses and XM trademark, is performed as of the fourth quarter of each year and an assessment is made at other times if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. ASU 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*, establishes an option to first perform a qualitative assessment to determine whether it is more likely than not that an asset is impaired. If the qualitative assessment supports that it is more likely than not that the fair value of the asset exceeds its carrying value, a company is not required to perform a quantitative impairment test. If the qualitative assessment does not support the fair value of the asset, then a quantitative assessment is performed. During the fourth quarter of 2013, a qualitative impairment analysis was performed and we determined that the fair value of our FCC licenses and trademark substantially exceeded the carrying value and therefore was not at risk of impairment. Our qualitative assessment includes the consideration of our long-term financial projections, current and historical weighted average cost of capital and liquidity factors, legal and regulatory issues and industry and market pressures. Subsequent to our annual evaluation of the carrying value of our long-lived assets, there were no events or circumstances that triggered the need for an impairment evaluation.

There were no changes in the carrying value of our indefinite life intangible assets during the years ended December 31, 2013 and 2012.

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

We operate five in-orbit Sirius satellites, FM-1, FM-2, FM-3, FM-5 and FM-6. Our FM-1 and FM-2 satellites were launched in 2000 and reached the end of their depreciable lives in 2013, but are still in operation. We estimate that our FM-3, FM-5 and FM-6 satellites, launched in 2000, 2009 and 2013, respectively, will operate effectively through the end of their depreciable lives in 2015, 2024 and 2028, respectively. We operate five in-orbit XM satellites, XM-1, XM-2, XM-3, XM-4 and XM-5, three of which function as in-orbit spares. Our XM-1 and XM-2 in-orbit spare satellites launched in 2001 reached the end of their depreciable lives in 2013 and are expected to be removed from orbit in 2014. We estimate that our third in-orbit spare satellite, XM-5, launched in 2010 and our two other XM satellites, XM-3, launched in 2005, and XM-4, launched in 2006, will meet their 15-year estimated depreciable lives.

Certain of our in-orbit satellites have experienced circuit failures on their solar arrays. We continue to monitor the operating condition of our in-orbit satellites. If events or circumstances indicate that the depreciable lives of our in-orbit satellites have changed, we will modify the depreciable life accordingly. If we were to revise our estimates, our depreciation expense would change. For example, a 10% decrease in the expected depreciable lives of satellites and spacecraft control facilities during 2013 would have resulted in approximately \$24,395 of additional depreciation expense.

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

As of December 31, 2013, we had a valuation allowance of \$7,831 relating to deferred tax assets that are not likely to be realized due to certain state net operating loss limitations.

### *Glossary*

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

Adjusted EBITDA has certain limitations in that it does not take into account the impact to our statements of comprehensive income of certain expenses, including share-based payment expense and certain purchase price

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

	<b>Unaudited</b>		
	<b>For the Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Net income (GAAP):	\$ 377,215	\$ 3,472,702	\$ 426,961
Add back items excluded from Adjusted EBITDA:			
Purchase price accounting adjustments:			
Revenues (see pages 21-23)	7,251	7,479	10,910
Operating expenses (see pages 21-23)	(207,854)	(289,278)	(277,258)
Share-based payment expense, net of purchase price accounting adjustments	68,876	63,822	53,369
Depreciation and amortization (GAAP)	253,314	266,295	267,880
Interest expense, net of amounts capitalized (GAAP)	204,671	265,321	304,938
Loss on extinguishment of debt and credit facilities, net (GAAP)	190,577	132,726	7,206
Interest and investment (income) (GAAP)	(6,976)	(716)	(73,970)
Loss on change in value of derivatives (GAAP)	20,393	—	—
Other (income) loss (GAAP)	(1,204)	226	(3,252)
Income tax expense (benefit) (GAAP)	259,877	(2,998,234)	14,234
Adjusted EBITDA	<u>\$1,166,140</u>	<u>\$ 920,343</u>	<u>\$ 731,018</u>



**Adjusted Revenues and Operating Expenses** — We define this Non-GAAP financial measure as our actual revenues and operating expenses adjusted to exclude the impact of certain purchase price accounting adjustments and share-based payment expense. We use this Non-GAAP financial measure to manage our business, to set operational goals and as a basis for determining performance-based compensation for our employees. The following tables reconcile our actual revenues and operating expenses to our adjusted revenues and operating expenses for the years ended December 31, 2013, 2012 and 2011:

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

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

**Unaudited For the Year Ended December 31, 2012**

<i>(in thousands)</i>	<u>As Reported</u>	<u>Purchase Price Accounting Adjustments</u>	<u>Allocation of Share-based Payment Expense</u>	<u>Adjusted</u>
<b>Revenue:</b>				
Subscriber revenue . . . . .	\$2,962,665	\$ 228	\$ —	\$2,962,893
Advertising revenue . . . . .	82,320	—	—	82,320
Equipment revenue . . . . .	73,456	—	—	73,456
Other revenue . . . . .	283,599	7,251	—	290,850
<b>Total revenue . . . . .</b>	<u><u>\$3,402,040</u></u>	<u><u>\$ 7,479</u></u>	<u><u>\$ —</u></u>	<u><u>\$3,409,519</u></u>
<b>Operating expenses</b>				
<b>Cost of services:</b>				
Revenue share and royalties . . . . .	\$ 551,012	\$146,601	\$ —	\$ 697,613
Programming and content . . . . .	278,997	37,346	(6,120)	310,223
Customer service and billing . . . . .	294,980	—	(1,847)	293,133
Satellite and transmission . . . . .	72,615	—	(3,329)	69,286
Cost of equipment . . . . .	31,766	—	—	31,766
Subscriber acquisition costs . . . . .	474,697	90,503	—	565,200
Sales and marketing . . . . .	248,905	14,828	(10,310)	253,423
Engineering, design and development . . . . .	48,843	—	(6,238)	42,605
General and administrative . . . . .	261,905	—	(35,978)	225,927
Depreciation and amortization (a) . . . .	266,295	—	—	266,295
Share-based payment expense . . . . .	—	—	63,822	63,822
<b>Total operating expenses . . . . .</b>	<u><u>\$2,530,015</u></u>	<u><u>\$289,278</u></u>	<u><u>\$ —</u></u>	<u><u>\$2,819,293</u></u>

(a) Purchase price accounting adjustments included above exclude the incremental depreciation and amortization associated with the \$785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for December 31, 2012 was \$53,000.

**Unaudited For the Year Ended December 31, 2011**

<i>(in thousands)</i>	<u>As Reported</u>	<u>Purchase Price Accounting Adjustments</u>	<u>Allocation of Share-based Payment Expense</u>	<u>Adjusted</u>
<b>Revenue:</b>				
Subscriber revenue . . . . .	\$2,595,414	\$ 3,659	\$ —	\$2,599,073
Advertising revenue . . . . .	73,672	—	—	73,672
Equipment revenue . . . . .	71,051	—	—	71,051
Other revenue . . . . .	274,387	7,251	—	281,638
<b>Total revenue . . . . .</b>	<u><u>\$3,014,524</u></u>	<u><u>\$ 10,910</u></u>	<u><u>\$ —</u></u>	<u><u>\$3,025,434</u></u>
<b>Operating expenses</b>				
<b>Cost of services:</b>				
Revenue share and royalties . . . . .	\$ 471,149	\$126,941	\$ —	\$ 598,090
Programming and content . . . . .	281,234	49,172	(6,212)	324,194
Customer service and billing . . . . .	259,719	18	(1,502)	258,235
Satellite and transmission . . . . .	75,902	313	(2,678)	73,537
Cost of equipment . . . . .	33,095	—	—	33,095
Subscriber acquisition costs . . . . .	434,482	85,491	—	519,973
Sales and marketing . . . . .	222,773	15,233	(8,193)	229,813
Engineering, design and development . . . . .	53,435	31	(4,851)	48,615
General and administrative . . . . .	238,738	59	(29,933)	208,864
Depreciation and amortization (a) . . . .	267,880	—	—	267,880
Share-based payment expense (b) . . . .	—	—	53,369	53,369
<b>Total operating expenses . . . . .</b>	<u><u>\$2,338,407</u></u>	<u><u>\$277,258</u></u>	<u><u>\$ —</u></u>	<u><u>\$2,615,665</u></u>

(a) Purchase price accounting adjustments included above exclude the incremental depreciation and amortization associated with the \$785,000 stepped up basis in property, equipment and intangible assets as a result of the Merger. The increased depreciation and amortization for the year ended December 31, 2011 was \$59,000.

(b) Amounts related to share-based payment expense included in operating expenses were as follows:

Programming and content . . . . .	\$ 6,185	\$ 27	\$—	\$ 6,212
Customer service and billing . . . . .	1,484	18	—	1,502
Satellite and transmission . . . . .	2,659	19	—	2,678
Sales and marketing . . . . .	8,166	27	—	8,193
Engineering, design and development . . . . .	4,820	31	—	4,851
General and administrative . . . . .	29,874	59	—	29,933
<b>Total share-based payment expense . . .</b>	<u><u>\$53,188</u></u>	<u><u>\$181</u></u>	<u><u>\$—</u></u>	<u><u>\$53,369</u></u>

**ARPU** — is derived from total earned subscriber revenue, advertising revenue and other subscription-related revenue, net of purchase price accounting adjustments, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. Other subscription-related revenue includes the U.S. Music Royalty Fee. Purchase price accounting adjustments include the recognition of deferred subscriber revenues not recognized in purchase price accounting associated with the Merger. ARPU is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited		
	For the Years Ended December 31,		
	2013	2012	2011
Subscriber revenue (GAAP) . . . . .	\$ 3,284,660	\$ 2,962,665	\$ 2,595,414
Add: advertising revenue (GAAP) . . . . .	89,288	82,320	73,672
Add: other subscription-related revenue (GAAP) . . . . .	290,895	237,868	231,902
Add: purchase price accounting adjustments . . . . .	—	228	3,659
	<u>\$ 3,664,843</u>	<u>\$ 3,283,081</u>	<u>\$ 2,904,647</u>
Daily weighted average number of subscribers . . . . .	<u>24,886,300</u>	<u>22,794,170</u>	<u>20,903,908</u>
ARPU . . . . .	<u>\$ 12.27</u>	<u>\$ 12.00</u>	<u>\$ 11.58</u>

**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 share-based payment expense and purchase price accounting adjustments associated with the Merger, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. We believe the exclusion of share-based payment expense in our calculation of customer service and billing expenses, per average subscriber, is useful given the significant variation in expense that can result from changes in the fair market value of our common stock, the effect of which is unrelated to the operational conditions that give rise to variations in the components of our customer service and billing expenses. Customer service and billing expenses, per average subscriber, is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited		
	For the Years Ended December 31,		
	2013	2012	2011
Customer service and billing expenses (GAAP) . . . . .	\$ 320,755	\$ 294,980	\$ 259,719
Less: share-based payment expense, net of purchase price accounting adjustments . . . . .	(2,219)	(1,847)	(1,502)
Add: purchase price accounting adjustments . . . . .	—	—	18
	<u>\$ 318,536</u>	<u>\$ 293,133</u>	<u>\$ 258,235</u>
Daily weighted average number of subscribers . . . . .	<u>24,886,300</u>	<u>22,794,170</u>	<u>20,903,908</u>
Customer service and billing expenses, per average subscriber . . . . .	<u>\$ 1.07</u>	<u>\$ 1.07</u>	<u>\$ 1.03</u>

**Free cash flow** — is derived from cash flow provided by operating activities, capital expenditures and restricted and other investment activity. Free cash flow is calculated as follows (in thousands):

	Unaudited		
	For the Years Ended December 31,		
	2013	2012	2011
<b>Cash Flow information</b>			
Net cash provided by operating activities .....	\$1,102,832	\$ 806,765	\$ 543,630
Net cash used in investing activities .....	\$ (700,688)	\$ (97,319)	\$(127,888)
Net cash used in financing activities .....	\$ (788,284)	\$(962,491)	\$(228,443)
<b>Free Cash Flow</b>			
Net cash provided by operating activities .....	\$1,102,832	\$ 806,765	\$ 543,630
Additions to property and equipment .....	(173,617)	(97,293)	(137,429)
Purchases of restricted and other investments .....	(1,719)	(26)	9,541
Free cash flow .....	<u>\$ 927,496</u>	<u>\$ 709,446</u>	<u>\$ 415,742</u>

**New vehicle consumer conversion rate** — is defined as the percentage of owners and lessees of new vehicles that receive our 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. Promotional periods generally include the period of trial service plus 30 days to handle the receipt and processing of payments. 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 gross subscriber addition** — or SAC, per gross subscriber addition, is derived from subscriber acquisition costs and margins from the sale of radios and accessories, excluding purchase price accounting adjustments, divided by the number of gross subscriber additions for the period. Purchase price accounting adjustments associated with the Merger include the elimination of the benefit of amortization of deferred credits on executory contracts recognized at the Merger date attributable to an OEM. SAC, per gross subscriber addition, is calculated as follows (in thousands, except for subscriber and per subscriber amounts):

	Unaudited		
	For the Years Ended December 31,		
	2013	2012	2011
Subscriber acquisition costs (GAAP) .....	\$ 495,610	\$ 474,697	\$ 434,482
Less: margin from direct sales of radios and accessories (GAAP) .....	(54,095)	(41,690)	(37,956)
Add: purchase price accounting adjustments .....	64,365	90,503	85,491
	<u>\$ 505,880</u>	<u>\$ 523,510</u>	<u>\$ 482,017</u>
Gross subscriber additions .....	<u>10,136,381</u>	<u>9,617,771</u>	<u>8,696,020</u>
SAC, per gross subscriber addition .....	<u>\$ 50</u>	<u>\$ 54</u>	<u>\$ 55</u>

## Supplementary discussion for Sirius XM:

The consolidated statements of comprehensive income of Sirius XM are essentially identical to the consolidated statements of comprehensive income of Holdings, except for the following:

	For the Years Ended December 31,		
	2013	2012	2011
Net income attributable to Holdings .....	\$ 377,215	\$3,472,702	\$426,961
Loss on change in value of derivative for forward contract with Liberty Media included in Holdings' consolidated statements of comprehensive income (a) .....	23,106	—	—
Loss on change in fair value of 7% Exchangeable Senior Subordinated Notes due 2014 included in Sirius XM's consolidated statements of comprehensive income (b) ....	(466,815)	—	—
Net income attributable to Sirius XM's sole stockholder ....	<u>\$ (66,494)</u>	<u>\$3,472,702</u>	<u>\$426,961</u>

- (a) The fair value of the Share Repurchase Agreement with Liberty Media is recorded in Holdings' consolidated balance sheet, with changes in fair value recorded in Holdings' statements of comprehensive income. The impact of the Share Repurchase Agreement is excluded from Sirius XM's financial statements as the publicly traded common stock being repurchased by Liberty Media resides at Holdings, effective November 15, 2013.
- (b) The additional fair value in excess of the carrying amount associated with the 7% Exchangeable Senior Subordinated Notes due 2014 is recorded in Sirius XM's consolidated balance sheet, with changes in fair value recorded in Sirius XM's statements of comprehensive income. This is eliminated in Holdings' consolidated balance sheets and statements of comprehensive income.

For a discussion and analysis of Sirius XM's financial condition and results, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Section.

## ISSUER PURCHASES OF EQUITY SERVICES

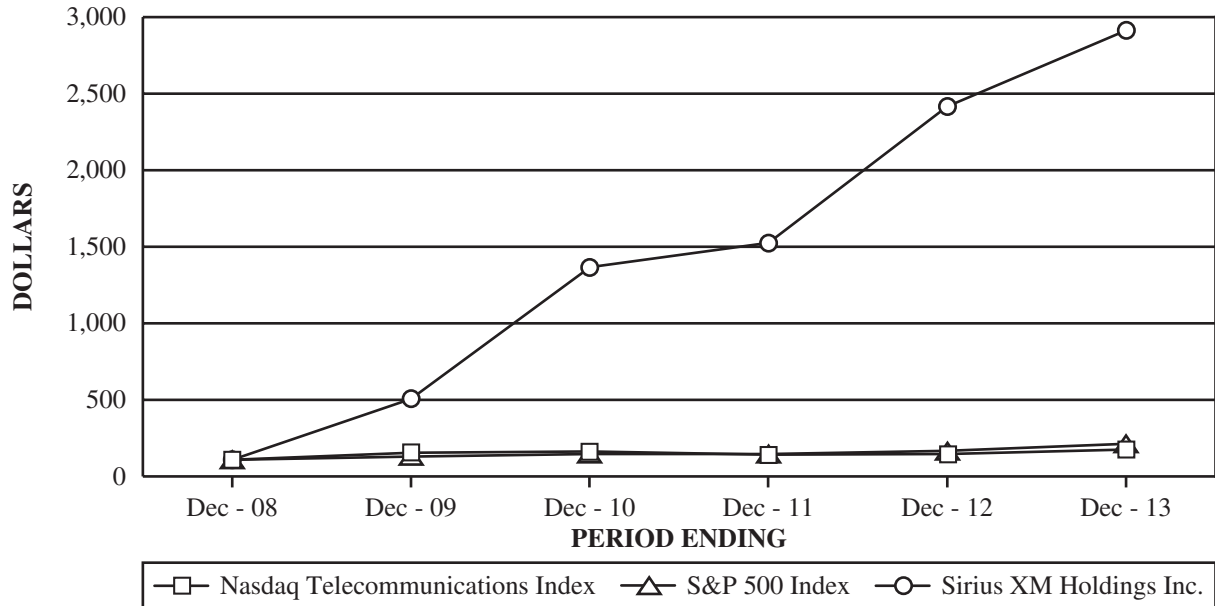
The following table provides information about our purchases of equity securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, during the quarter ended December 31, 2013:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share (1)</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)</u>
October 1, 2013 — October 31, 2013 .....	—	\$ —	—	\$2,397,639,899
November 1, 2013 — November 30, 2013 .....	43,712,265	\$3.66	43,712,265	\$2,237,639,895
December 1, 2013 — December 31, 2013 .....	—	\$ —	—	\$2,237,639,895
Total .....	<u>43,712,265</u>	<u>\$3.66</u>	<u>43,712,265</u>	<u>\$2,237,639,895</u>

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

**COMPARISON OF CUMULATIVE TOTAL RETURNS**

Set forth below is a graph comparing the cumulative performance of our common stock with the Standard & Poor’s Composite-500 Stock Index, or the S&P 500, and the NASDAQ Telecommunications Index from December 31, 2008 to December 31, 2013. The graph assumes that \$100 was invested on December 31, 2008 in each of our common stock, the S&P 500 and the NASDAQ Telecommunications Index. A dividend with respect to our common stock was declared in 2012 only.



**Stockholder Return Performance Table**

	NASDAQ Telecommunications Index	S&P 500 Index	Sirius XM Holdings Inc.
December 31, 2008 .....	\$100.00	\$100.00	\$ 100.00
December 31, 2009 .....	\$148.24	\$123.45	\$ 500.00
December 31, 2010 .....	\$154.06	\$139.23	\$1,358.33
December 31, 2011 .....	\$134.62	\$139.23	\$1,516.67
December 31, 2012 .....	\$137.31	\$157.90	\$2,408.33
December 31, 2013 .....	\$170.29	\$204.63	\$2,908.33

## Equity Compensation Plan Information

<i>(shares in thousands)</i> <u>Plan Category</u>	<u>Column (a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Column (b) Weighted- Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Column (c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding Securities Reflected in Column (a))</u>
Equity compensation plans approved by security holders .....	282,694	\$2.43	82,806
Equity compensation plans not approved by security holders .....	—	—	—
Total .....	<u>282,694</u>	<u>\$2.43</u>	<u>82,806</u>

### SELECTED FINANCIAL DATA

The operating and balance sheet data included in the following selected financial data for 2013 have been derived from the audited consolidated financial statements of Holdings and Sirius XM. Historical operating and balance sheet data included within the following selected financial data for Holdings and Sirius XM from 2009 through 2012 is derived from the audited consolidated financial statements of Sirius XM. This selected financial data should be read in conjunction with the audited Consolidated Financial Statements of Holdings and Sirius XM and related notes thereto included in this Annual Report and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this Annual Report.

	Sirius XM Holdings Inc.				
	As of and for the Years Ended December 31,				
	2013 (1)	2012 (2)	2011	2010	2009 (3)
<i>(in thousands, except per share data)</i>					
<b>Statements of Comprehensive Income</b>					
<b>Data:</b>					
Total revenue .....	\$3,799,095	\$3,402,040	\$3,014,524	\$2,816,992	\$2,472,638
Net income (loss) .....	\$ 377,215	\$3,472,702	\$ 426,961	\$ 43,055	\$ (538,226)
Net income (loss) per share — basic .....	\$ 0.06	\$ 0.55	\$ 0.07	\$ 0.01	\$ (0.15)
Net income (loss) per share — diluted .....	\$ 0.06	\$ 0.51	\$ 0.07	\$ 0.01	\$ (0.15)
Weighted average common shares					
outstanding — basic .....	6,227,646	4,209,073	3,744,606	3,693,259	3,585,864
Weighted average common shares					
outstanding — diluted .....	6,384,791	6,873,786	6,500,822	6,391,071	3,585,864
Cash dividends per share .....	\$ —	\$ 0.05	\$ —	\$ —	\$ —
<b>Balance Sheet Data:</b>					
Cash and cash equivalents .....	\$ 134,805	\$ 520,945	\$ 773,990	\$ 586,691	\$ 383,489
Restricted investments .....	\$ 5,718	\$ 3,999	\$ 3,973	\$ 3,396	\$ 3,400
Total assets .....	\$8,844,780	\$9,054,843	\$7,495,996	\$7,383,086	\$7,322,206
Long-term debt, net of current portion .....	\$3,093,821	\$2,430,986	\$3,012,351	\$3,021,763	\$3,063,281
Stockholders’ equity .....	\$2,745,742	\$4,039,565	\$ 704,145	\$ 207,636	\$ 95,522

- (1) The selected financial data for 2013 includes the balances and approximately two months of activity related to the acquisition of the connected vehicle business of Agero, Inc. in November 2013.
- (2) A special cash dividend was paid during 2012.
- (3) The 2009 results and balances reflect the adoption of ASU 2009-15, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing*.



**Sirius XM Radio Inc.**

As of and for the Years Ended December 31,

	2013 (1) (2)	2012 (3)	2011	2010	2009 (4)
<i>(in thousands, except per share data)</i>					
<b>Statements of Comprehensive Income</b>					
<b>Data:</b>					
Total revenue . . . . .	\$3,799,095	\$3,402,040	\$3,014,524	\$2,816,992	\$2,472,638
Net (loss) income attributable to Sirius XM					
Radio Inc.'s stockholder . . . . .	\$ (66,494)	\$3,472,702	\$ 426,961	\$ 43,055	\$ (538,226)
Cash dividends per share . . . . .	\$ —	\$ 0.05	\$ —	\$ —	\$ —
<b>Balance Sheet Data:</b>					
Cash and cash equivalents . . . . .	\$ 134,805	\$ 520,945	\$ 773,990	\$ 586,691	\$ 383,489
Restricted investments . . . . .	\$ 5,718	\$ 3,999	\$ 3,973	\$ 3,396	\$ 3,400
Total assets . . . . .	\$8,851,496	\$9,054,843	\$7,495,996	\$7,383,086	\$7,322,206
Long-term debt, net of current portion . . . . .	\$3,093,821	\$2,430,986	\$3,012,351	\$3,021,763	\$3,063,281
Stockholder equity . . . . .	\$2,301,346	\$4,039,565	\$ 704,145	\$ 207,636	\$ 95,522

- (1) The selected financial data for 2013 includes the balances and approximately two months of activity related to the acquisition of the connected vehicle business of Agero, Inc. in November 2013 and the fair value adjustments for debt and equity related instruments.
- (2) Net income per share for Sirius XM is not presented since Sirius XM is a wholly-owned subsidiary of Holdings.
- (3) A special cash dividend was paid during 2012.
- (4) The 2009 results and balances reflect the adoption of ASU 2009-15, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing*.

***QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK***

As of December 31, 2013, we did not hold or issue any free-standing derivatives. We hold investments in marketable securities consisting of money market funds, certificates of deposit and investments in debt and equity securities of other entities. We classify our investments in marketable securities as available-for-sale. 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. Our borrowings under the Senior Secured Revolving Credit Facility (the "Credit Facility") carry a variable interest rate based on LIBOR plus an applicable rate based on our debt to operating cash flow ratio. Under our current policies, we do not use interest rate derivative instruments to manage our exposure to interest rate fluctuations.

***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE***

None.

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## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Sirius XM Holdings Inc. and subsidiaries:

We have audited the accompanying consolidated balance sheets of Sirius XM Holdings Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule listed in Item 15(2). These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sirius XM Holdings Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sirius XM Holdings Inc. and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 4, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

New York, New York  
February 4, 2014

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Sirius XM Holdings Inc. and subsidiaries:

We have audited Sirius XM Holdings Inc. and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Sirius XM Holdings Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Sirius XM Holdings Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sirius XM Holdings Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013, and our report dated February 4, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York  
February 4, 2014

## **Report of Independent Registered Public Accounting Firm**

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

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Sirius XM Radio Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, stockholder equity, and cash flows for each of the years in the three-year period ended December 31, 2013, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sirius XM Radio Inc. and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013 in accordance with U.S. generally accepted accounting principles.

/s/ KPMG LLP

New York, New York  
February 4, 2014

**SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<u>For the Years Ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
<i>(in thousands, except per share data)</i>			
Revenue:			
Subscriber revenue	\$3,284,660	\$2,962,665	\$2,595,414
Advertising revenue	89,288	82,320	73,672
Equipment revenue	80,573	73,456	71,051
Other revenue	344,574	283,599	274,387
Total revenue	<u>3,799,095</u>	<u>3,402,040</u>	<u>3,014,524</u>
Operating expenses:			
Cost of services:			
Revenue share and royalties	677,642	551,012	471,149
Programming and content	290,323	278,997	281,234
Customer service and billing	320,755	294,980	259,719
Satellite and transmission	79,292	72,615	75,902
Cost of equipment	26,478	31,766	33,095
Subscriber acquisition costs	495,610	474,697	434,482
Sales and marketing	291,024	248,905	222,773
Engineering, design and development	57,969	48,843	53,435
General and administrative	262,135	261,905	238,738
Depreciation and amortization	253,314	266,295	267,880
Total operating expenses	<u>2,754,542</u>	<u>2,530,015</u>	<u>2,338,407</u>
Income from operations	1,044,553	872,025	676,117
Other income (expense):			
Interest expense, net of amounts capitalized	(204,671)	(265,321)	(304,938)
Loss on extinguishment of debt and credit facilities, net	(190,577)	(132,726)	(7,206)
Interest and investment income	6,976	716	73,970
Loss on change in value of derivatives	(20,393)	—	—
Other income (loss)	1,204	(226)	3,252
Total other expense	<u>(407,461)</u>	<u>(397,557)</u>	<u>(234,922)</u>
Income before income taxes	637,092	474,468	441,195
Income tax (expense) benefit	<u>(259,877)</u>	<u>2,998,234</u>	<u>(14,234)</u>
Net income	<u>\$ 377,215</u>	<u>\$3,472,702</u>	<u>\$ 426,961</u>
Realized loss on XM Canada investment foreign currency translation adjustment	—	—	6,072
Foreign currency translation adjustment, net of tax	(428)	49	(140)
Total comprehensive income	<u>\$ 376,787</u>	<u>\$3,472,751</u>	<u>\$ 432,893</u>
Net income per common share:			
Basic	<u>\$ 0.06</u>	<u>\$ 0.55</u>	<u>\$ 0.07</u>
Diluted	<u>\$ 0.06</u>	<u>\$ 0.51</u>	<u>\$ 0.07</u>
Weighted average common shares outstanding:			
Basic	<u>6,227,646</u>	<u>4,209,073</u>	<u>3,744,606</u>
Diluted	<u>6,384,791</u>	<u>6,873,786</u>	<u>6,500,822</u>

See accompanying notes to the consolidated financial statements.

**SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	<b>As of December 31,</b>	
	<b>2013</b>	<b>2012</b>
<i>(in thousands, except share and per share data)</i>		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 134,805	\$ 520,945
Accounts receivable, net .....	103,937	106,142
Receivables from distributors .....	88,975	104,425
Inventory, net .....	13,863	25,337
Prepaid expenses .....	110,530	122,157
Related party current assets .....	9,145	13,167
Deferred tax asset .....	937,598	923,972
Other current assets .....	20,160	12,037
Total current assets .....	1,419,013	1,828,182
Property and equipment, net .....	1,594,574	1,571,922
Long-term restricted investments .....	5,718	3,999
Deferred financing fees, net .....	12,604	38,677
Intangible assets, net .....	2,700,062	2,519,610
Goodwill .....	2,204,553	1,815,365
Related party long-term assets .....	30,164	44,954
Long-term deferred tax asset .....	868,057	1,219,256
Other long-term assets .....	10,035	12,878
Total assets .....	\$ 8,844,780	\$ 9,054,843
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses .....	\$ 578,333	\$ 587,652
Accrued interest .....	42,085	33,954
Current portion of deferred revenue .....	1,586,611	1,474,138
Current portion of deferred credit on executory contracts .....	3,781	207,854
Current maturities of long-term debt .....	496,815	4,234
Current maturities of long-term related party debt .....	10,959	—
Related party current liabilities .....	20,320	6,756
Total current liabilities .....	2,738,904	2,314,588
Deferred revenue .....	149,026	159,501
Deferred credit on executory contracts .....	1,394	5,175
Long-term debt .....	3,093,821	2,222,080
Long-term related party debt .....	—	208,906
Related party long-term liabilities .....	16,337	18,966
Other long-term liabilities .....	99,556	86,062
Total liabilities .....	6,099,038	5,015,278
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Convertible perpetual preferred stock, series B-1, par value \$0.001 (liquidation preference of \$0.001 per share); 50,000,000 authorized and 0 and 6,250,100 shares issued and outstanding at December 31, 2013 and 2012, respectively .....	—	6
Common stock, par value \$0.001; 9,000,000,000 shares authorized at December 31, 2013 and 2012; 6,096,220,526 and 5,262,440,085 shares issued and outstanding at December 31, 2013 and 2012, respectively .....	6,096	5,263
Accumulated other comprehensive (loss) income, net of tax .....	(308)	120
Additional paid-in capital .....	8,674,129	10,345,566
Accumulated deficit .....	(5,934,175)	(6,311,390)
Total stockholders' equity .....	2,745,742	4,039,565
Total liabilities and stockholders' equity .....	\$ 8,844,780	\$ 9,054,843

See accompanying notes to the consolidated financial statements.

**SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

	Convertible Preferred Stock, Series B-1		Common Stock		Accumulated Other Comprehensive Income (Loss)	Additional Paid-in Capital	Treasury Stock		Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			Shares	Amount		
<i>(in thousands, except share data)</i>										
Balance at January 1, 2011	12,500,000	\$ 13	3,933,195,112	\$3,933	\$(5,861)	\$10,420,604	—	\$—	\$(10,211,053)	\$ 207,636
Comprehensive income, net of tax	—	—	—	—	5,932	—	—	—	426,961	432,893
Issuance of common stock to employees and employee benefit plans, net of forfeitures	—	—	1,882,801	2	—	3,480	—	—	—	3,482
Share-based payment expense	—	—	—	—	—	48,581	—	—	—	48,581
Exercise of options and vesting of restricted stock units	—	—	13,401,048	13	—	11,540	—	—	—	11,553
Issuance of common stock upon exercise of warrants	—	—	7,122,951	7	—	(7)	—	—	—	—
Return of shares under share borrow agreements	—	—	(202,399,983)	(202)	—	202	—	—	—	—
Balance at December 31, 2011	12,500,000	\$ 13	3,753,201,929	\$3,753	\$ 71	\$10,484,400	—	\$—	\$(9,784,092)	\$ 704,145
Comprehensive income, net of tax	—	—	—	—	49	—	—	—	3,472,702	3,472,751
Issuance of common stock to employees and employee benefit plans, net of forfeitures	—	—	1,571,175	2	—	3,521	—	—	—	3,523
Share-based payment expense	—	—	—	—	—	60,299	—	—	—	60,299
Exercise of options	—	—	214,199,297	214	—	125,695	—	—	—	125,909
Cash dividends paid on common shares (\$0.05)	—	—	—	—	—	(262,387)	—	—	—	(262,387)
Cash dividends paid on preferred shares on as-converted basis	—	—	—	—	—	(64,675)	—	—	—	(64,675)
Conversion of preferred stock to common stock	(6,249,900)	(7)	1,293,467,684	1,294	—	(1,287)	—	—	—	—
Balance at December 31, 2012	6,250,100	\$ 6	5,262,440,085	\$5,263	\$ 120	\$10,345,566	—	\$—	\$(6,311,390)	\$ 4,039,565
Comprehensive income, net of tax	—	—	—	—	(428)	—	—	—	377,215	376,787
Share-based payment expense	—	—	—	—	—	68,876	—	—	—	68,876
Exercise of options and vesting of restricted stock units	—	—	32,841,381	32	—	19,396	—	—	—	19,428
Minimum withholding taxes on net share settlement of stock-based compensation	—	—	—	—	—	(46,342)	—	—	—	(46,342)
Conversion of preferred stock to common stock	(6,250,100)	(6)	1,293,509,076	1,293	—	(1,287)	—	—	—	—
Conversion of Exchangeable Notes to common stock	—	—	27,687,850	28	—	45,069	—	—	—	45,097
Common stock repurchased	—	—	(520,257,866)	(520)	—	(1,764,449)	520,257,866	(1,764,969)	—	(1,764,969)
Common stock retired	—	—	—	—	—	7,300	(520,257,866)	1,764,969	—	7,300
Initial fair value of forward contract	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2013	—	\$—	6,096,220,526	\$6,096	\$ (308)	\$ 8,674,129	—	\$—	\$(5,934,175)	\$ 2,745,742

See accompanying notes to the consolidated financial statements.



**SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>For the Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<i>(in thousands)</i>			
Cash flows from operating activities:			
Net income	\$ 377,215	\$ 3,472,702	\$ 426,961
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	253,314	266,295	267,880
Non-cash interest expense, net of amortization of premium	21,698	35,924	39,515
Provision for doubtful accounts	39,016	34,548	33,164
Amortization of deferred income related to equity method investment	(2,776)	(2,776)	(2,776)
Loss on extinguishment of debt and credit facilities, net	190,577	132,726	7,206
Gain on merger of unconsolidated entities	—	—	(75,768)
(Gain) loss on unconsolidated entity investments, net	(5,865)	420	6,520
Dividend received from unconsolidated entity investment	22,065	1,185	—
Loss on disposal of assets	351	657	269
Loss on change in value of derivative	20,393	—	—
Share-based payment expense	68,876	63,822	53,190
Deferred income taxes	259,787	(3,001,818)	8,264
Other non-cash purchase price adjustments	(207,854)	(289,050)	(275,338)
Distribution from investment in unconsolidated entity	—	—	4,849
Changes in operating assets and liabilities:			
Accounts receivable	(36,189)	(38,985)	(13,211)
Receivables from distributors	20,944	(19,608)	(17,241)
Inventory	11,474	11,374	(14,793)
Related party assets	2,031	9,523	30,036
Prepaid expenses and other current assets	16,788	647	8,525
Other long-term assets	2,973	22,779	36,490
Accounts payable and accrued expenses	(44,009)	46,043	(32,010)
Accrued interest	8,131	(36,451)	(2,048)
Deferred revenue	73,593	101,311	55,336
Related party liabilities	(1,991)	(7,545)	(1,542)
Other long-term liabilities	12,290	3,042	152
Net cash provided by operating activities	1,102,832	806,765	543,630
Cash flows from investing activities:			
Additions to property and equipment	(173,617)	(97,293)	(137,429)
Purchases of restricted and other investments	(1,719)	(26)	(826)
Acquisition of business, net of cash acquired	(525,352)	—	—
Release of restricted investments	—	—	250
Return of capital from investment in unconsolidated entity	—	—	10,117
Net cash used in investing activities	(700,688)	(97,319)	(127,888)
Cash flows from financing activities:			
Proceeds from exercise of stock options	21,968	123,369	11,553
Taxes paid in lieu of shares issued for stock-based compensation	(46,342)	—	—
Proceeds from long-term borrowings and revolving credit facility, net of costs	3,156,063	383,641	—
Payment of premiums on redemption of debt	(175,453)	(100,615)	(5,020)
Repayment of long-term borrowings and revolving credit facility	(1,782,160)	(915,824)	(234,976)
Repayment of related party long-term borrowings	(200,000)	(126,000)	—
Common stock repurchased and retired	(1,762,360)	—	—
Dividends paid	—	(327,062)	—
Net cash used in financing activities	(788,284)	(962,491)	(228,443)
Net (decrease) increase in cash and cash equivalents	(386,140)	(253,045)	187,299
Cash and cash equivalents at beginning of period	520,945	773,990	586,691
Cash and cash equivalents at end of period	\$ 134,805	\$ 520,945	\$ 773,990

See accompanying notes to the consolidated financial statements.

**SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)**

<i>(in thousands)</i>	<b>For the Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Supplemental Disclosure of Cash and Non-Cash Flow Information</b>			
Cash paid during the period for:			
Interest, net of amounts capitalized .....	\$169,781	\$262,039	\$258,676
Income taxes paid .....	2,783	4,935	—
Acquisition related costs .....	2,902	—	—
Non-cash investing and financing activities:			
Capital lease obligations incurred to acquire assets .....	11,966	12,781	—
Conversion of Series B preferred stock to common stock .....	1,293	1,294	—
Common stock issuance upon exercise of warrants .....	—	—	7
Conversion of 7% Exchangeable Notes to common stock, net of debt issuance and deferred financing costs .....	45,097	—	—
Performance incentive payments .....	16,900	—	—
Goodwill reduced for the exercise and vesting of certain stock awards .....	274	19,491	—

See accompanying notes to the consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

<i>(in thousands, except per share data)</i>	<b>For the Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Revenue:			
Subscriber revenue .....	\$3,284,660	\$2,962,665	\$2,595,414
Advertising revenue .....	89,288	82,320	73,672
Equipment revenue .....	80,573	73,456	71,051
Other revenue .....	344,574	283,599	274,387
Total revenue .....	3,799,095	3,402,040	3,014,524
Operating expenses:			
Cost of services:			
Revenue share and royalties .....	677,642	551,012	471,149
Programming and content .....	290,323	278,997	281,234
Customer service and billing .....	320,755	294,980	259,719
Satellite and transmission .....	79,292	72,615	75,902
Cost of equipment .....	26,478	31,766	33,095
Subscriber acquisition costs .....	495,610	474,697	434,482
Sales and marketing .....	291,024	248,905	222,773
Engineering, design and development .....	57,969	48,843	53,435
General and administrative .....	262,135	261,905	238,738
Depreciation and amortization .....	253,314	266,295	267,880
Total operating expenses .....	2,754,542	2,530,015	2,338,407
Income from operations .....	1,044,553	872,025	676,117
Other income (expense):			
Interest expense, net of amounts capitalized .....	(204,671)	(265,321)	(304,938)
Loss on extinguishment of debt and credit facilities, net .....	(190,577)	(132,726)	(7,206)
Interest and investment income .....	6,976	716	73,970
Loss on fair value of debt and equity instruments .....	(464,102)	—	—
Other income (loss) .....	1,204	(226)	3,252
Total other expense .....	(851,170)	(397,557)	(234,922)
Income before income taxes .....	193,383	474,468	441,195
Income tax (expense) benefit .....	(259,877)	2,998,234	(14,234)
Net (loss) income attributable to Sirius XM Radio Inc.'s sole stockholder .....	\$ (66,494)	\$3,472,702	\$ 426,961
Realized loss on XM Canada investment foreign currency translation adjustment .....	—	—	6,072
Foreign currency translation adjustment, net of tax .....	(428)	49	(140)
Total comprehensive (loss) income attributable to Sirius XM Radio Inc.'s sole stockholder .....	\$ (66,922)	\$3,472,751	\$ 432,893

See accompanying notes to the consolidated financial statements.

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

	<b>As of December 31,</b>	
	<b>2013</b>	<b>2012</b>
<i>(in thousands, except share and per share data)</i>		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 134,805	\$ 520,945
Accounts receivable, net	103,937	106,142
Receivables from distributors	88,975	104,425
Inventory, net	13,863	25,337
Prepaid expenses	110,530	122,157
Related party current assets	15,861	13,167
Deferred tax asset	937,598	923,972
Other current assets	20,160	12,037
Total current assets	1,425,729	1,828,182
Property and equipment, net	1,594,574	1,571,922
Long-term restricted investments	5,718	3,999
Deferred financing fees, net	12,604	38,677
Intangible assets, net	2,700,062	2,519,610
Goodwill	2,204,553	1,815,365
Related party long-term assets	30,164	44,954
Long-term deferred tax asset	868,057	1,219,256
Other long-term assets	10,035	12,878
Total assets	\$ 8,851,496	\$ 9,054,843
<b>LIABILITIES AND STOCKHOLDER EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 578,332	\$ 587,652
Accrued interest	42,085	33,954
Current portion of deferred revenue	1,586,611	1,474,138
Current portion of deferred credit on executory contracts	3,781	207,854
Current maturities of long-term debt	963,630	4,234
Current maturities of long-term related party debt	10,959	—
Related party current liabilities	4,618	6,756
Total current liabilities	3,190,016	2,314,588
Deferred revenue	149,026	159,501
Deferred credit on executory contracts	1,394	5,175
Long-term debt	3,093,821	2,222,080
Long-term related party debt	—	208,906
Related party long-term liabilities	16,337	18,966
Other long-term liabilities	99,556	86,062
Total liabilities	6,550,150	5,015,278
Commitments and contingencies (Note 16)		
Stockholder equity:		
Convertible perpetual preferred stock, series B-1, par value \$0.001 (liquidation preference of \$0.001 per share); 0 and 50,000,000 authorized and 0 and 6,250,100 shares issued and outstanding at December 31, 2013 and 2012, respectively	—	6
Common stock, par value \$0.001; 1,000 and 9,000,000,000 shares authorized and 1,000 and 5,262,440,085 shares issued and outstanding at December 31, 2013 and 2012, respectively	—	5,263
Accumulated other comprehensive (loss) income, net of tax	(308)	120
Additional paid-in capital	8,679,538	10,345,566
Accumulated deficit	(6,377,884)	(6,311,390)
Total stockholder equity	2,301,346	4,039,565
Total liabilities and stockholder equity	\$ 8,851,496	\$ 9,054,843

See accompanying notes to the consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF STOCKHOLDER EQUITY**

	Convertible Perpetual Series B-1		Common Stock		Accumulated Other Comprehensive Income (Loss)	Additional Paid-in Capital	Treasury Stock		Accumulated Deficit	Total Stockholder Equity
	Shares	Amount	Shares	Amount			Shares	Amount		
<i>(in thousands, except share data)</i>										
Balance at January 1, 2011	12,500,000	\$13	3,933,195,112	\$ 3,933	\$(5,861)	\$10,420,604	—	—	\$(10,211,053)	\$ 207,636
Comprehensive income, net of tax	—	—	—	—	5,932	—	—	—	426,961	432,893
Issuance of common stock to employees and employee benefit plans, net of forfeitures	—	—	1,882,801	2	—	3,480	—	—	—	3,482
Share-based payment expense	—	—	—	—	—	48,581	—	—	—	48,581
Exercise of options and vesting of restricted stock units	—	—	13,401,048	13	—	11,540	—	—	—	11,553
Issuance of common stock upon exercise of warrants	—	—	7,122,951	7	—	(7)	—	—	—	—
Return of shares under share borrow agreements	—	—	(202,399,983)	(202)	—	202	—	—	—	—
Balance at December 31, 2011	12,500,000	\$13	3,753,201,929	\$ 3,753	\$ 71	\$10,484,400	—	—	\$ (9,784,092)	\$ 704,145
Comprehensive income, net of tax	—	—	—	—	49	—	—	—	3,472,702	3,472,751
Issuance of common stock to employees and employee benefit plans, net of forfeitures	—	—	1,571,175	2	—	3,521	—	—	—	3,523
Share-based payment expense	—	—	—	—	—	60,299	—	—	—	60,299
Exercise of options	—	—	214,199,297	214	—	125,695	—	—	—	125,909
Cash dividends paid on common shares (\$0.05)	—	—	—	—	—	(262,387)	—	—	—	(262,387)
Cash dividends paid on preferred shares	—	—	—	—	—	(64,675)	—	—	—	(64,675)
Conversion of preferred stock to common stock on as-converted basis	(6,249,900)	(7)	1,293,467,684	1,294	—	(1,287)	—	—	—	—
Balance at December 31, 2012	6,250,100	\$ 6	5,262,440,085	\$ 5,263	\$ 120	\$10,345,566	—	—	\$ (6,311,390)	\$ 4,039,565
Comprehensive income, net of tax	—	—	—	—	(428)	—	—	—	(66,494)	(66,922)
Share-based payment expense	—	—	—	—	—	58,903	—	—	—	58,903
Exercise of options and vesting of restricted stock units	—	—	29,157,786	28	—	19,249	—	—	—	19,277
Minimum withholding taxes on net share settlement of stock-based compensation	—	—	—	—	—	(31,941)	—	—	—	(31,941)
Conversion of preferred stock to common stock	(6,250,100)	(6)	1,293,509,076	1,293	—	(1,287)	—	—	—	—
Conversion of Exchangeable Notes to common stock	—	—	27,687,850	28	—	45,069	—	—	—	45,097
Common stock repurchased	—	—	(520,257,866)	(520)	—	(1,764,449)	520,257,866	(1,764,969)	—	(1,764,969)
Common stock retired	—	—	—	—	—	—	(520,257,866)	1,764,969	—	—
Transfer of common stock to Sirius XM Holdings Inc.	—	—	(6,092,536,931)	(6,092)	—	6,092	—	—	—	—
Transfer of forward contract to Sirius XM Holdings Inc.	—	—	—	—	—	(4,964)	—	—	—	(4,964)
Initial value of forward contract	—	—	—	—	—	7,300	—	—	—	7,300
Common stock issued by Sirius XM Radio Inc. to Sirius XM Holdings Inc.	—	—	1,000	—	—	—	—	—	—	—
Balance at December 31, 2013	—	\$—	1,000	\$—	\$ (308)	\$ 8,679,538	—	—	\$ (6,377,884)	\$ 2,301,346

See accompanying notes to the consolidated financial statements.

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

	<b>For the Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<i>(in thousands)</i>			
Cash flows from operating activities:			
Net income	\$ (66,494)	\$ 3,472,702	\$ 426,961
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	253,314	266,295	267,880
Non-cash interest expense, net of amortization of premium	21,698	35,924	39,515
Provision for doubtful accounts	39,016	34,548	33,164
Amortization of deferred income related to equity method investment	(2,776)	(2,776)	(2,776)
Loss on extinguishment of debt and credit facilities, net	190,577	132,726	7,206
Gain on merger of unconsolidated entities	—	—	(75,768)
(Gain) loss on unconsolidated entity investments, net	(5,865)	420	6,520
Dividend received from unconsolidated entity investment	22,065	1,185	—
Loss on disposal of assets	351	657	269
Loss on fair value of debt and equity instruments	464,102	—	—
Share-based payment expense	58,903	63,822	53,190
Deferred income taxes	259,787	(3,001,818)	8,264
Other non-cash purchase price adjustments	(207,854)	(289,050)	(275,338)
Distribution from investment in unconsolidated entity	—	—	4,849
Changes in operating assets and liabilities:			
Accounts receivable	(36,189)	(38,985)	(13,211)
Receivables from distributors	20,944	(19,608)	(17,241)
Inventory	11,474	11,374	(14,793)
Related party assets	(2,246)	9,523	30,036
Prepaid expenses and other current assets	16,788	647	8,525
Other long-term assets	2,973	22,779	36,490
Accounts payable and accrued expenses	(44,009)	46,043	(32,010)
Accrued interest	8,131	(36,451)	(2,048)
Deferred revenue	73,593	101,311	55,336
Related party liabilities	(1,991)	(7,545)	(1,542)
Other long-term liabilities	12,290	3,042	152
Net cash provided by operating activities	1,088,582	806,765	543,630
Cash flows from investing activities:			
Additions to property and equipment	(173,617)	(97,293)	(137,429)
Purchases of restricted and other investments	(1,719)	(26)	(826)
Acquisition of business, net of cash acquired	(525,352)	—	—
Release of restricted investments	—	—	250
Return of capital from investment in unconsolidated entity	—	—	10,117
Net cash used in investing activities	(700,688)	(97,319)	(127,888)
Cash flows from financing activities:			
Proceeds from exercise of stock options	21,817	123,369	11,553
Taxes paid in lieu of shares issued for stock-based compensation	(31,941)	—	—
Proceeds from long-term borrowings and revolving credit facility, net of costs	3,156,063	383,641	—
Payment of premiums on redemption of debt	(175,453)	(100,615)	(5,020)
Repayment of long-term borrowings and revolving credit facility	(1,782,160)	(915,824)	(234,976)
Repayment of related party long-term borrowings	(200,000)	(126,000)	—
Common stock repurchased and retired	(1,762,360)	—	—
Dividends paid	—	(327,062)	—
Net cash used in financing activities	(774,034)	(962,491)	(228,443)
Net (decrease) increase in cash and cash equivalents	(386,140)	(253,045)	187,299
Cash and cash equivalents at beginning of period	520,945	773,990	586,691
Cash and cash equivalents at end of period	\$ 134,805	\$ 520,945	\$ 773,990

See accompanying notes to the consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)**

<i>(in thousands)</i>	<b>For the Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Supplemental Disclosure of Cash and Non-Cash Flow Information</b>			
<b>Cash paid during the period for:</b>			
Interest, net of amounts capitalized . . . . .	\$169,781	\$262,039	\$258,676
Income taxes paid . . . . .	2,783	4,935	—
Acquisition related costs . . . . .	2,902	—	—
<b>Non-cash investing and financing activities:</b>			
Capital lease obligations incurred to acquire assets . . . . .	11,966	12,781	—
Conversion of Series B preferred stock to common stock . . . . .	1,293	1,294	—
Common stock issuance upon exercise of warrants . . . . .	—	—	7
Conversion of 7% Exchangeable Notes to common stock, net of debt issuance and deferred financing costs . . . . .	45,097	—	—
Performance incentive payments . . . . .	16,900	—	—
Goodwill reduced for the exercise and vesting of certain stock awards . . . . .	274	19,491	—

See accompanying notes to the consolidated financial statements.

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

**(1) Business & Basis of Presentation**

These are the notes to the financial statements of Sirius XM Holdings Inc. (“Holdings”) and Sirius XM Radio Inc. (“Sirius XM”). The terms “we,” “us,” “our,” and “our company” as used herein and unless otherwise stated or indicated by context, refer to Sirius XM Radio Inc. and its subsidiaries prior to the corporate reorganization described below and to Sirius XM Holdings Inc. and its subsidiaries after such corporate reorganization.

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

***Business***

We broadcast music, sports, entertainment, comedy, talk, news, traffic and weather channels, as well as infotainment services, in the United States on a subscription fee basis through our two proprietary satellite radio systems. Subscribers can also receive music and other channels, plus features such as SiriusXM On Demand and MySXM, over the Internet, including through applications for mobile devices.

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

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

Our satellite radios are primarily distributed through automakers; retail locations nationwide; and through our website. Satellite radio services are also offered to customers of certain rental car companies.

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

We are also a leader in providing connected vehicle applications and services. Our connected vehicle services are designed to enhance the safety, security and driving experience for vehicle owners while providing marketing and operational benefits to automakers and their dealers. Subscribers to our connected vehicle services are not included in our subscriber count.

Liberty Media Corporation beneficially owns, directly and indirectly, over 50% of the outstanding shares of our common stock. Liberty Media owns interests in a broad range of media, communications and entertainment businesses, including its subsidiaries, Atlanta National League Baseball Club, Inc. and TruePosition, Inc., its interests in Charter Communications, Live Nation Entertainment and Barnes & Noble, and minority equity investments in Time Warner Inc., Time Warner Cable, and Viacom.



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

***Recent Development***

On January 3, 2014, Holdings' Board of Directors received a non-binding letter from Liberty Media proposing a transaction pursuant to which all outstanding shares of common stock of Holdings not owned by Liberty Media would be converted into the right to receive 0.0760 of a new share of Liberty Series C common stock, which would have no voting rights. Liberty Media indicated that immediately prior to such conversion, Liberty Media intends to distribute, on a 2 to 1 basis, shares of such Series C common stock to all holders of record of Liberty Media's Series A and B common stock. Upon the completion of the proposed transaction, Liberty Media indicated that it expects that Holdings' public stockholders would own approximately 39% of Liberty Media's then-outstanding common stock.

Holdings' Board of Directors has formed a Special Committee of independent directors to consider Liberty Media's proposal. The Board of Directors has selected Joan L. Amble, James P. Holden and Eddy W. Hartenstein to serve on the Special Committee. The Special Committee is chaired by Mr. Hartenstein.

The Special Committee has retained Evercore Group L.L.C. to act as its financial advisor and Weil, Gotshal & Manges LLP to act as its legal counsel to assist and advise it in connection with its evaluation of Liberty Media's proposal.

Liberty Media's proposal noted that the transaction will be conditioned on the approval of both the Special Committee and a majority of the public stockholders of Holdings, other than Liberty Media. Liberty Media also noted that the approval by the Liberty Media stockholders of the issuance of the Series C common shares in the proposed transaction would also be required under applicable Nasdaq Stock Market requirements.

The letter provides that no legally binding obligation with respect to any transaction exists unless and until mutually acceptable definitive documentation is executed and delivered with respect thereto. There can be no assurance that the transaction proposed by Liberty Media or any related transaction will be completed or, if completed, will have any specified terms, including with respect to pricing or timing.

***Basis of Presentation***

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

- Besides the shares which settled in November, the fair value of the share repurchase agreement with Liberty Media is recorded in Holdings' consolidated balance sheet, with changes in fair value recorded in Holdings' statements of comprehensive income.
- The additional fair value in excess of the carrying amount associated with the conversion feature for the 7% Exchangeable Senior Subordinated Notes due 2014 is recorded in Sirius XM's consolidated balance sheet, with changes in fair value recorded in Sirius XM's statements of comprehensive income. This is eliminated in Holdings' consolidated balance sheets and statements of comprehensive income.
- As a result of our corporate reorganization effective November 15, 2013, all of the outstanding shares of Sirius XM's common stock were converted, on a share for share basis, into identical shares of common stock of Holdings.

Our financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The combined notes to the consolidated financial statements relate to Holdings and Sirius

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

XM, which, except as noted, are essentially identical. Certain numbers in our prior period consolidated financial statements have been reclassified to conform to our current period presentation. All significant intercompany transactions and balances between Holdings and Sirius XM and their respective consolidated subsidiaries are eliminated in both sets of consolidated financial statements. Intercompany transactions between Holdings and Sirius XM do not eliminate in the Sirius XM consolidated financial statements, but do eliminate in the Holdings consolidated financial statements.

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

**(2) Acquisitions**

On November 4, 2013, we purchased all of the outstanding shares of the capital stock of the connected vehicle business of Agero, Inc. (“Agero”) for \$525,352, net of acquired cash of \$1,966. Agero’s connected vehicle business provides services to several automakers, including Acura, BMW, Honda, Hyundai, Infiniti, Lexus, Nissan and Toyota. The final working capital calculation associated with this transaction is still in negotiation.

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

<b>Acquired Assets:</b>	
Cash and cash equivalents	\$ 1,966
Other current assets	8,669
Property and equipment	26,251
Intangible assets subject to amortization	230,663
Goodwill	389,462
Other assets	2,695
Total assets	<u>\$ 659,706</u>
<b>Assumed Liabilities:</b>	
Deferred revenue	\$ (28,404)
Deferred income tax liabilities, net	(78,127)
Other liabilities	(25,857)
Total liabilities	<u>\$(132,388)</u>
Total consideration	<u>\$ 527,318</u>

The transaction was accounted for using the acquisition method of accounting. The initial purchase price allocation is subject to change upon receipt of the final valuation analysis for the connected vehicle business of Agero. The fair value assessed for the majority of the assets acquired and liabilities assumed equaled their carrying value. The excess purchase price over identifiable net tangible assets of \$389,462 has been recorded to Goodwill in our consolidated balance sheets as of December 31, 2013. A total of \$230,663 has been allocated to identifiable intangible assets subject to amortization and relates to the assessed fair value of the acquired OEM relationships and proprietary software and is being amortized over the estimated weighted average useful lives of 15 and 10 years, respectively.

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

We recognized acquisition related costs of \$2,902 that was expensed in General and administrative expenses in our consolidated statements of comprehensive income during the year ended December 31, 2013. Pro forma financial information related to this acquisition has not been provided as it is not material to our consolidated results of operations.

**(3) Summary of Significant Accounting Policies**

*Cash and Cash Equivalents*

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

*Equity Method Investments*

We hold equity method investments in Sirius XM Canada and M-Way Solutions GmbH.

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

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

*Property and Equipment*

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

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

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

We review long-lived assets, such as property and equipment, and purchased intangibles subject to amortization for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds the estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the fair value of the asset. We did not record any impairments in 2013, 2012 or 2011.

***Goodwill and Other Intangible Assets***

Goodwill represents the excess of the purchase price over the estimated fair value of net tangible and identifiable intangible assets acquired in business combinations. Our annual impairment assessment of our single reporting unit is performed during the fourth quarter of each year, and an assessment is performed at other times if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset below its carrying value. Step one of the impairment assessment compares the fair value to its carrying value and if the fair value exceeds its carrying value, goodwill is not impaired. If the carrying value exceeds the fair value, the implied fair value of goodwill is compared to the carrying value of goodwill. If the implied fair value exceeds the carrying value then goodwill is not impaired; otherwise, an impairment loss will be recorded by the amount the carrying value exceeds the implied fair value. We did not record any impairments in 2013, 2012 or 2011.

The impairment test for other intangible assets not subject to amortization consists of a comparison of the fair value of the intangible asset with its carrying value. This test is performed during the fourth quarter of each year, and an assessment is performed at other times if events or circumstances indicate it is more likely than not that the asset is impaired. Our indefinite life intangibles include our FCC licenses and XM trademark. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

ASU 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*, established an option to first perform a qualitative assessment to determine whether it is more likely than not that an asset is impaired. If the qualitative assessment supports that it is more likely than not that the fair value of the asset exceeds its carrying value, a quantitative impairment test is not required. If the qualitative assessment does not support the fair value of the asset, then a quantitative assessment is performed. We completed qualitative assessments during the fourth quarter of 2013 and 2012 and no impairments were recorded. We used independent appraisals in 2011 to determine the fair value of our FCC licenses and trademark using the Income and Relief from Royalty approaches, respectively, and no impairment was recorded.

Other intangible assets with finite lives consists primarily of customer relationships, OEM relationships and proprietary software acquired in business combinations, licensing agreements, and certain information technology related costs. These assets are amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment under the provisions of ASC 360-10-35, *Property, Plant and Equipment/Overall/Subsequent Measurement*. We review intangible assets subject to amortization for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected cash flows, undiscounted and without interest, is less than the carrying amount of the asset, an impairment loss is recognized as the amount by which the carrying amount of the asset exceeds its fair value. No impairment was recorded to our intangible assets with finite lives in 2013, 2012 or 2011.

***Revenue Recognition***

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

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

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

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

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

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

***Revenue Share***

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

***Programming Costs***

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

***Advertising Costs***

Media is expensed when aired and advertising production costs are expensed as incurred. Market development funds consist of fixed and variable payments to reimburse retailers for the cost of advertising and other product awareness activities. Fixed market development funds are expensed over the periods specified in the applicable agreement; variable costs are expensed when the media is aired and production costs are expensed as incurred. During the years ended December 31, 2013, 2012 and 2011, we recorded advertising costs of \$178,364, \$139,830 and \$116,694, respectively. These costs are reflected in Sales and marketing expense in our consolidated statements of comprehensive income.

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

***Subscriber Acquisition Costs***

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

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

We record product warranty obligations in accordance with ASC 460, *Guarantees*, which requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee. We warrant that certain products sold through our retail and direct to consumer distribution channels will perform in all material respects in accordance with specifications in effect at the time of the purchase of the products by the customer. The product warranty period on our products is 90 days from the purchase date for repair or replacement of components and/or products that contain defects of material or workmanship. We record a liability for costs that we expect to incur under our warranty obligations when the product is shipped from the manufacturer. Factors affecting the warranty liability include the number of units sold, historical experience, anticipated rates of claims and costs per claim. We periodically assess the adequacy of our warranty liability based on changes in these factors.

***Research & Development Costs***

Research and development costs are expensed as incurred and primarily include the cost of new product development, chip set design, software development and engineering. During the years ended December 31, 2013, 2012 and 2011, we recorded research and development costs of \$50,564, \$42,605 and \$48,574, respectively. These costs are reported as a component of Engineering, design and development expense in our consolidated statements of comprehensive income.

***Share-Based Compensation***

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

Fair value as determined using the Black-Scholes-Merton model varies based on assumptions used for the expected life, expected stock price volatility and risk-free interest rates. In 2013, 2012 and 2011, we estimated

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

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

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

***Income Taxes***

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

As of December 31, 2013 and 2012, we maintained a valuation allowance of \$7,831 and \$9,835, respectively, relating to deferred tax assets that are not likely to be realized due to certain state net operating loss limitations and acquired net operating losses that we are not more likely than not going to be able to utilize.

ASC 740 requires a company to first determine whether it is more likely than not that a tax position will be sustained based on its technical merits as of the reporting date, assuming that taxing authorities will examine the position and have full knowledge of all relevant information. A tax position that meets this more likely than not threshold is then measured and recognized at the largest amount of benefit that is greater than fifty percent likely to be realized upon effective settlement with a taxing authority. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We record interest and penalties related to uncertain tax positions in Income tax (expense) benefit in our consolidated statements of comprehensive income.

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

***Fair Value of Financial Instruments***

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants. As of December 31, 2013 and 2012, the carrying amounts of cash and cash equivalents, accounts and other receivables, and accounts payable approximated fair value due to the short-term nature of these instruments. ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy for input into valuation techniques as follows:

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

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

- ii. Level 2 input — observable market data for the same or similar instrument but not Level 1, including quoted prices for identical or similar assets or liabilities in markets that are active or not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- iii. Level 3 input — unobservable inputs developed using management's assumptions about the inputs used for pricing the asset or liability.

Level 2 inputs were utilized to fair value our 7% Exchangeable Senior Subordinated Notes due 2014 by using a binomial lattice model with inputs derived from observable market data. As of December 31, 2013, \$466,815 was recorded to Sirius XM's consolidated balance sheet in Current maturities of long-term debt for the fair value of our 7% Exchangeable Senior Subordinated Notes due 2014 in excess of the carrying amount, as the notes are exchangeable into shares of Holdings' common stock. Changes in fair value are recorded in Loss on fair value of debt and equity instruments within Sirius XM's consolidated statements of comprehensive income. We recognized \$466,815 in Loss on fair value of debt and equity instruments during the year ended December 31, 2013. The additional fair value in excess of the carrying amount of this instrument is eliminated in Holdings' consolidated balance sheets and statements of comprehensive income.

We used Level 2 observable inputs, including the U.S. spot LIBOR curve and other available market data, to fair value the derivative associated with the share repurchase agreement with Liberty Media. The fair value of the derivative associated with the share repurchase agreement with Liberty Media was \$15,702 as of December 31, 2013 and is recorded in Holdings' consolidated balance sheet in Related party current liabilities, with changes in fair value recorded to Holdings' statements of comprehensive income. For a further discussion of this derivative, refer to Note 14.

We used Level 3 inputs to fair value the 8% convertible unsecured subordinated debentures issued by Sirius XM Canada. For a further discussion of this derivative, refer to Note 11.

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

The fair value for publicly traded instruments is determined using quoted market prices while the fair value for non-publicly traded instruments is based upon estimates from a market maker and brokerage firm. As of December 31, 2013 and 2012, the carrying value of our debt at Holdings' was \$3,601,595 and \$2,435,220, respectively, and the fair value approximated \$4,066,755 and \$3,055,076, respectively. This excludes the additional fair value of our 7% Exchangeable Senior Subordinated Notes due 2014 recorded in Sirius XM's consolidated balance sheet as discussed above. The carrying value of our investment in Sirius XM Canada was \$26,972 and \$37,983 as of December 31, 2013 and 2012, respectively; the fair value approximated \$432,200 and \$290,900 as of December 31, 2013 and 2012, respectively.

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

Accumulated other comprehensive loss of \$308 at December 31, 2013 was primarily comprised of the cumulative foreign currency translation adjustments related to our interest in Sirius XM Canada. During the years ended December 31, 2013, 2012 and 2011 we recorded a foreign currency translation adjustment of \$(428), \$49 and \$(140) which is recorded net of taxes of \$200, \$48 and \$11, respectively. In addition, during the year ended December 31, 2011, we recorded a loss on our XM Canada investment from the Canada Merger due to a foreign currency translation adjustment of \$6,072.



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

***Recent Accounting Pronouncements***

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220), Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, to require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. An entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. This standard was effective for interim and annual periods beginning after December 15, 2012 and is to be applied on a prospective basis. We adopted ASU 2013-02 and will disclose significant amounts reclassified out of accumulated other comprehensive income as such transactions arise. ASU 2013-02 affects financial statement presentation only and has no impact on our results of operations or consolidated financial statements.

**(4) Earnings per Share**

***Holdings***

We utilize the two-class method in calculating basic net income per common share, as our Series B Preferred Stock was considered to be participating securities through January 18, 2013. On January 18, 2013, Liberty Media converted its remaining 6,250,100 outstanding shares of Series B Preferred Stock into 1,293,509,076 shares of common stock. Basic net income per common share is calculated by dividing the income available to common stockholders by the weighted average common shares outstanding during each reporting period. Diluted net income per common share adjusts the weighted average number of common shares outstanding for the potential dilution that could occur if common stock equivalents (convertible debt, preferred stock, warrants, stock options, restricted stock awards and restricted stock units) were exercised or converted into common stock, calculated using the treasury stock method.

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

Common stock equivalents of approximately 365,177,000, 147,125,000 and 419,752,000 for the years ended December 31, 2013, 2012 and 2011, respectively, were excluded from the calculation of diluted net income per common share as the effect would have been anti-dilutive.

<i>(in thousands, except per share data)</i>	<b>For the Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Numerator:</b>			
Net income .....	\$ 377,215	\$ 3,472,702	\$ 426,961
Less:			
Allocation of undistributed income to Series B Preferred Stock .....	(3,825)	(1,084,895)	(174,449)
Dividends paid to preferred stockholders .....	—	(64,675)	—
Net income available to common stockholders for basic net income per common share .....	<u>\$ 373,390</u>	<u>\$ 2,323,132</u>	<u>\$ 252,512</u>
Add back:			
Allocation of undistributed income to Series B Preferred Stock .....	3,825	1,084,895	174,449
Dividends paid to preferred stockholders .....	—	64,675	—
Effect of interest on assumed conversions of convertible debt .....	—	38,500	—
Net income available to common stockholders for diluted net income per common share .....	<u>\$ 377,215</u>	<u>\$ 3,511,202</u>	<u>\$ 426,961</u>
<b>Denominator:</b>			
Weighted average common shares outstanding for basic net income per common share .....	6,227,646	4,209,073	3,744,606
Weighted average impact of assumed Series B Preferred Stock conversion .....	63,789	2,215,900	2,586,977
Weighted average impact of assumed convertible debt .....	—	298,725	—
Weighted average impact of other dilutive equity instruments .....	<u>93,356</u>	<u>150,088</u>	<u>169,239</u>
Weighted average shares for diluted net income per common share .....	<u>6,384,791</u>	<u>6,873,786</u>	<u>6,500,822</u>
<b>Net income per common share:</b>			
Basic .....	<u>\$ 0.06</u>	<u>\$ 0.55</u>	<u>\$ 0.07</u>
Diluted .....	<u>\$ 0.06</u>	<u>\$ 0.51</u>	<u>\$ 0.07</u>

***Sirius XM***

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

**(5) Accounts Receivable, net**

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

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

Accounts receivable, net, consists of the following:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Gross accounts receivable .....	\$113,015	\$117,853
Allowance for doubtful accounts .....	(9,078)	(11,711)
Total accounts receivable, net .....	<u>\$103,937</u>	<u>\$106,142</u>

Receivables from distributors include billed and unbilled amounts due from OEMs for services included in the sale or lease price of vehicles, as well as billed amounts due from retailers. We have not established an allowance for doubtful accounts for our receivables from distributors as we have historically not experienced any significant collection issues with OEMs. Receivables from distributors consist of the following:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Billed .....	\$38,532	\$ 53,057
Unbilled .....	50,443	51,368
Total .....	<u>\$88,975</u>	<u>\$104,425</u>

**(6) Inventory, net**

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

Inventory, net, consists of the following:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Raw materials .....	\$ 12,358	\$ 17,717
Finished goods .....	15,723	23,779
Allowance for obsolescence .....	(14,218)	(16,159)
Total inventory, net .....	<u>\$ 13,863</u>	<u>\$ 25,337</u>

**(7) Goodwill**

Goodwill represents the excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired in business combinations. Our annual impairment assessment 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. At the date of our annual assessment for 2013 and 2012, the fair value of our single reporting unit substantially exceeded its

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

carrying value and therefore was not at risk of failing step one of ASC 350-20, *Goodwill*. As a result of the acquisition of the connected vehicle business of Agero in November 2013, we recorded additional goodwill of \$389,462 during the year ended December 31, 2013. No indicators of impairment were noted subsequent to our annual impairment assessment.

As of December 31, 2013, there were no indicators of impairment, and no impairment loss was recorded for goodwill during the years ended December 31, 2013, 2012 and 2011. As of December 31, 2013, the cumulative balance of goodwill impairments recorded since the Merger was \$4,766,190, which was recognized during the year ended December 31, 2008.

During the years ended December 31, 2013 and 2012, we reduced goodwill by \$274 and \$19,491, respectively, related to the subsequent exercise of certain stock options and vesting of certain restricted stock units that were recorded at fair value in connection with the Merger.

**(8) Intangible Assets**

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

	Weighted Average Useful Lives	December 31, 2013			December 31, 2012		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
<b>Due to the Merger:</b>							
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	(271,372)	108,628	380,000	(233,317)	146,683
Licensing agreements . . . . .	9.1 years	45,289	(19,604)	25,685	78,489	(44,161)	34,328
Proprietary software . . . . .	6 years	16,552	(13,384)	3,168	16,552	(12,777)	3,775
Developed technology . . . . .							
	10 years	2,000	(1,083)	917	2,000	(883)	1,117
Leasehold interests . . . . .	7.4 years	132	(96)	36	132	(79)	53
<b>Due to connected vehicle business of Agero:</b>							
Definite life intangible assets:							
OEM relationships . . . . .	15 years	\$ 220,000	\$ (2,444)	\$ 217,556	\$ —	\$ —	\$ —
Proprietary software . . . . .	10 years	10,663	(245)	10,418	—	—	—
Total intangible assets . . . . .		<u>\$3,008,290</u>	<u>\$(308,228)</u>	<u>\$2,700,062</u>	<u>\$2,810,827</u>	<u>\$(291,217)</u>	<u>\$2,519,610</u>

***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.

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

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

<u>FCC satellite licenses</u>	<u>Expiration year</u>
SIRIUS FM-1 .....	2017
SIRIUS FM-2 .....	2017
SIRIUS FM-3 .....	2017
SIRIUS FM-5 .....	2017
SIRIUS FM-6 (1)	
XM-1 .....	2014
XM-2 .....	2014
XM-3 .....	2021
XM-4 .....	2014
XM-5 .....	2018

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

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

In connection with the Merger, \$250,000 of the purchase price was allocated to the XM trademark. As of December 31, 2013, there were no legal, regulatory or contractual limitations associated with the XM trademark.

Our annual impairment assessment of our indefinite intangible assets is performed as of the fourth quarter of each year. An assessment is performed at other times if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset below its carrying value. If the carrying value of the intangible assets exceeds its fair value, an impairment loss is recognized. As of the date of our annual assessment for 2013, our qualitative impairment assessment of fair value of our indefinite intangible assets indicated that such assets substantially exceeded their carrying value and therefore was not at risk of impairment.

There were no indicators of impairment, and no impairment loss was recorded for intangible assets with indefinite lives during the years ended December 31, 2013, 2012 and 2011.

***Definite Life Intangible Assets***

Subscriber relationships are amortized on an accelerated basis over 9 years, which reflects the estimated pattern in which the economic benefits will be consumed. Other definite life intangible assets include certain licensing agreements, which are amortized over a weighted average useful life of 9.1 years on a straight-line basis. The fair value of the OEM relationships and proprietary software acquired in November 2013 are being amortized over their estimated weighted average useful lives of 15 and 10 years, respectively.

Amortization expense for all definite life intangible assets was \$50,011, \$53,620 and \$59,050 for the years ended December 31, 2013, 2012 and 2011, respectively. In 2013, we retired \$33,200 in gross carrying value of definite life intangible assets related to licensing agreements that were fully amortized.

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

Expected amortization expense for each of the fiscal years 2014 through 2018 and for periods thereafter is as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2014 .....	\$ 55,016
2015 .....	51,700
2016 .....	48,545
2017 .....	34,882
2018 .....	19,463
Thereafter .....	<u>156,802</u>
Total definite life intangible assets, net .....	<u>\$366,408</u>

**(9) Interest Costs**

We capitalized a portion of the interest on funds borrowed as part of the cost of constructing our satellites and related launch vehicles. We capitalized interest associated with our FM-6 satellite and related launch vehicle during 2011 through its placement into operation in the fourth quarter 2013. We also incurred interest costs on our debt instruments and on our satellite incentive agreements. The following is a summary of our interest costs:

	<u>For the Years Ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Interest costs charged to expense .....	\$204,671	\$265,321	\$304,938
Interest costs capitalized .....	<u>26,445</u>	<u>31,982</u>	<u>33,522</u>
Total interest costs incurred .....	<u>\$231,116</u>	<u>\$297,303</u>	<u>\$338,460</u>

Included in interest costs incurred is non-cash interest expense, consisting of amortization related to original issue discounts, premiums and deferred financing fees of \$21,698, \$35,924 and \$39,515 for the years ended December 31, 2013, 2012 and 2011, respectively.

**(10) Property and Equipment**

Property and equipment, net, consists of the following:

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Satellite system .....	\$ 2,407,423	\$ 1,943,537
Terrestrial repeater network .....	109,367	112,482
Leasehold improvements .....	46,173	44,938
Broadcast studio equipment .....	59,020	55,823
Capitalized software and hardware .....	298,267	232,753
Satellite telemetry, tracking and control facilities .....	63,944	62,734
Furniture, fixtures, equipment and other .....	67,275	76,028
Land .....	38,411	38,411
Building .....	58,662	57,816
Construction in progress .....	<u>103,148</u>	<u>417,124</u>
Total property and equipment .....	3,251,690	3,041,646
Accumulated depreciation and amortization .....	<u>(1,657,116)</u>	<u>(1,469,724)</u>
Property and equipment, net .....	<u>\$ 1,594,574</u>	<u>\$ 1,571,922</u>

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

Construction in progress consists of the following:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Satellite system .....	\$ 11,879	\$376,825
Terrestrial repeater network .....	30,078	17,224
Capitalized software .....	39,924	18,083
Other .....	<u>21,267</u>	<u>4,992</u>
Construction in progress .....	<u>\$103,148</u>	<u>\$417,124</u>

Depreciation expense on property and equipment was \$203,303, \$212,675 and \$208,830 for the years ended December 31, 2013, 2012 and 2011, respectively. We retired property and equipment of \$16,039, \$5,251 and \$12,158 and recognized a loss on the disposal of assets of \$351, \$657 and \$269 during the years ended December 31, 2013, 2012 and 2011, respectively.

***Satellites***

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

<u>Satellite Designation</u>	<u>Year Delivered</u>	<u>Estimated End of Depreciable Life</u>
FM-1* .....	2000	2013
FM-2* .....	2000	2013
FM-3 .....	2000	2015
FM-5 .....	2009	2024
FM-6 .....	2013	2028
XM-1* .....	2001	2013
XM-2* .....	2001	2013
XM-3 .....	2005	2020
XM-4 .....	2006	2021
XM-5 .....	2010	2025

\* Satellite was fully depreciated as of December 31, 2013 but is still in operation.

We own five orbiting satellites for use in the Sirius system and five orbiting satellites for use in the XM system. Four of these satellites were manufactured by Boeing Satellite Systems International, Inc., and six were manufactured by Space Systems/Loral.

During the years ended December 31, 2013, 2012 and 2011, we capitalized expenditures, including interest, of \$87,061, \$32,893 and \$81,189, respectively, related to the construction of our FM-6 satellite and related launch vehicle, which was launched and placed into operation in the fourth quarter of 2013.

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

**(11) Related Party Transactions**

We had the following related party balances at December 31, 2013 and 2012:

	Related party current assets		Related party long-term assets		Related party current liabilities		Related party long-term liabilities		Related party debt	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Liberty Media . . . . .	\$ 278	\$ —	\$ —	\$ 757	\$15,766	\$3,980	\$ —	\$ —	\$10,959	\$208,906
Sirius XM										
Canada . . . . .	8,867	13,167	27,619	44,197	4,554	2,776	16,337	18,966	—	—
M-Way . . . . .	—	—	2,545	—	—	—	—	—	—	—
Total . . . . .	<u>\$9,145</u>	<u>\$13,167</u>	<u>\$30,164</u>	<u>\$44,954</u>	<u>\$20,320</u>	<u>\$6,756</u>	<u>\$16,337</u>	<u>\$18,966</u>	<u>\$10,959</u>	<u>\$208,906</u>

***Liberty Media***

In February and March 2009, we entered into several transactions to borrow up to \$530,000 from Liberty Media Corporation and its affiliates. All of these loans were repaid in 2009.

As part of the transactions with Liberty Media, in February 2009, we entered into an investment agreement (the “Investment Agreement”) with Liberty Radio, LLC, an indirect wholly-owned subsidiary of Liberty Media. Pursuant to the Investment Agreement, we issued to Liberty Radio, LLC 12,500,000 shares of our Convertible Perpetual Preferred Stock, Series B-1 (the “Series B Preferred Stock”) with a liquidation preference of \$0.001 per share in partial consideration for the loan investments. The Series B Preferred Stock was convertible into approximately 40% of our outstanding shares of common stock (after giving effect to such conversion).

In September 2012, Liberty Radio, LLC converted 6,249,900 shares of the Series B Preferred Stock into 1,293,467,684 shares of our common stock. In January 2013, the Federal Communications Commission granted Liberty Media approval to acquire de jure control of us, and Liberty Radio, LLC converted its remaining Series B Preferred Stock into 1,293,509,076 shares of our common stock. In addition, Liberty Media, indirectly through its subsidiaries, purchased an additional 50,000,000 shares of our common stock. As a result of these conversions of Series B Preferred Stock and additional purchases of shares of our common stock, Liberty Media beneficially owned, directly and indirectly, over 50% of our outstanding common stock as of December 31, 2013.

Two current Liberty Media executives and one Liberty Media director are members of our board of directors. Gregory B. Maffei, the President and Chief Executive Officer of Liberty Media, is the Chairman of our board of directors.

On October 9, 2013, we entered into an agreement with Liberty Media to repurchase \$500,000 of our common stock from Liberty Media. Pursuant to that agreement with Liberty Media, we repurchased \$160,000 of our common stock from Liberty Media as of December 31, 2013. On January 23, 2014, we entered into an amendment to the agreement with Liberty Media to defer the previously scheduled \$240,000 repurchase of shares of our common stock from Liberty Media from January 27, 2014 to April 25, 2014, the date of the final purchase installment under the agreement. As a result of this deferral, we expect to repurchase \$340,000 of our shares of common stock from Liberty Media on April 25, 2014 at a price of \$3.66 per share. We entered into this amendment at the request of the Special Committee of our board of directors that has been formed to review and evaluate the Liberty Media proposal. See “Note 1 — Recent Developments.”

On January 3, 2014, Holdings’ Board of Directors received a non-binding letter from Liberty Media proposing a transaction pursuant to which all outstanding shares of common stock of Holdings not owned by



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

Liberty Media would be converted into the right to receive 0.0760 of a new non-voting share of Liberty Series C common stock. Holdings' Board of Directors has formed a Special Committee to consider Liberty Media's proposal.

Liberty Media has advised us that as of December 31, 2013 and 2012 it also owned the following:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
7% Exchangeable Senior Subordinated Notes due 2014 .....	\$11,000	\$ 11,000
8.75% Senior Notes due 2015 .....	—	150,000
7.625% Senior Notes due 2018 .....	—	50,000
Total principal debt .....	11,000	211,000
Less: discounts .....	41	2,094
Total carrying value of debt .....	<u>\$10,959</u>	<u>\$208,906</u>

During the year ended December 31, 2013, we redeemed \$150,000 of our 8.75% Senior Notes due 2015 and \$50,000 of our 7.625% Senior Notes due 2018 held by Liberty Media as part of the redemption of these Notes in their entirety.

As of December 31, 2013 and 2012, we recorded \$64 and \$3,980, respectively, related to accrued interest with Liberty Media to Related party current liabilities. We recognized Interest expense associated with debt held by Liberty Media of \$13,514, \$30,931 and \$35,681 for the years ended December 31, 2013, 2012 and 2011, respectively. The fair value of the derivative associated with the share repurchase agreement with Liberty Media was \$15,702 as of December 31, 2013 and is recorded in Holdings' consolidated balance sheet in Related party current liabilities, with changes in fair value recorded to Holdings' statements of comprehensive income.

***Sirius XM Canada***

In June 2011, Canadian Satellite Radio Holdings Inc., the former parent company of XM Canada, and Sirius Canada completed a transaction to combine their operations ("the Canada Merger"). In January 2013, Canadian Satellite Radio Holdings Inc. changed its name to Sirius XM Canada Holdings Inc. The combined company operates as Sirius XM Canada.

We own approximately 46,700,000 Class A shares on a converted basis of Sirius XM Canada Holdings Inc. representing a 37.5% equity interest and a 25.0% voting interest.

We had the following Related party current asset balances attributable to Sirius XM Canada at December 31, 2013 and 2012:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Deferred programming costs and accrued interest .....	\$2,782	\$ 4,350
Dividends receivable .....	—	6,176
Chip set and other services reimbursement .....	2,387	2,641
Fair value of host contract of debenture .....	3,641	—
Fair value of embedded derivative of debenture .....	57	—
Total .....	<u>\$8,867</u>	<u>\$13,167</u>

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

We provide Sirius XM Canada with chip sets and other services and we are reimbursed for these costs. Sirius XM Canada declared dividends of \$6,176 during the year ended December 31, 2012 which were not paid until 2013.

We hold an investment in CAD \$4,000 face value of 8% convertible unsecured subordinated debentures issued by Sirius XM Canada for which the embedded conversion feature is bifurcated from the host contract. As of December 31, 2013, the debentures are classified as a Related party current asset since they are expected to be redeemed by Sirius XM Canada during the first quarter of 2014. The host contract is accounted for at fair value as an available-for-sale security with changes in fair value recorded to Accumulated other comprehensive income (loss), net of tax. The embedded conversion feature is accounted for at fair value as a derivative with changes in fair value recorded in earnings as Interest and investment income.

Related party long-term asset balances attributable to Sirius XM Canada consisted of the following:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Non-interest bearing note, principal .....	\$ 376	\$ 404
Fair value of host contract of debenture .....	—	3,877
Fair value of embedded derivative of debenture .....	—	9
Investment balance* .....	26,972	37,983
Deferred programming costs and other receivables .....	271	1,924
Total .....	<u>\$27,619</u>	<u>\$44,197</u>

\* The investment balance included equity method goodwill and intangible assets of \$26,161 and \$27,615 as of December 31, 2013 and 2012, respectively.

We hold a non-interest bearing note issued by Sirius XM Canada. Our interest in Sirius XM Canada is accounted for under the equity method. The excess of the cost of our ownership interest in the equity of Sirius XM Canada over our share of the net assets is recognized as goodwill and intangible assets and is included in the carrying amount of our investment. Equity method goodwill is not amortized. We periodically evaluate this investment to determine if there has been an other than temporary decline below carrying value. Equity method intangible assets are amortized over their respective useful lives, which is recorded in Interest and investment income.

Sirius XM Canada declared quarterly dividends of \$16,796 and \$7,749 during the years ended December 31, 2013 and 2012, respectively, which were recorded as a reduction to our investment balance in Sirius XM Canada.

Related party liabilities attributable to Sirius XM Canada consisted of the following:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Deferred revenue for NHL licensing fees .....	\$ 1,500	\$ —
Carrying value of deferred revenue .....	18,966	21,742
Deferred revenue for software licensing fees and other .....	425	—
Total .....	<u>\$20,891</u>	<u>\$21,742</u>

In 2005, XM entered into agreements to provide XM Canada, now Sirius XM Canada, with the right to offer XM satellite radio service in Canada. The agreements have an initial ten-year term, and Sirius XM Canada has the unilateral option to extend the agreements for an additional five-year term. We receive a 15% royalty for all subscriber fees earned by XM Canada each month for its basic service and an activation fee for each gross

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

activation of an XM Canada subscriber on XM’s system. Sirius XM Canada is obligated to pay us a total of \$70,300 for the rights to broadcast and market National Hockey League (“NHL”) games for a ten-year term. We recognize these payments on a gross basis as a principal obligor pursuant to the provisions of ASC 605, *Revenue Recognition*. The estimated fair value of deferred revenue from XM Canada as of the Merger date was approximately \$34,000, which is amortized on a straight-line basis through 2020, the end of the expected term of the agreements.

We recorded the following revenue from Sirius XM Canada as Other revenue in our consolidated statements of comprehensive income:

	<b>For the Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011*</b>
Royalty income . . . . .	\$35,411	\$31,368	\$13,735
Amortization of Sirius XM Canada deferred income . . . . .	2,776	2,776	1,388
Licensing fee revenue . . . . .	5,012	4,500	3,000
Advertising and other reimbursements . . . . .	3,001	833	417
Streaming revenue . . . . .	2,735	—	—
Total revenue from Sirius XM Canada . . . . .	<b>\$48,935</b>	<b>\$39,477</b>	<b>\$18,540</b>

\* Sirius XM Canada commenced operations in June 2011.

Our share of net earnings or losses of Sirius XM Canada are recorded to Interest and investment income in our consolidated statements of comprehensive income on a one month lag. Our share of Sirius XM Canada’s net income was \$7,319, \$554 and \$1,081 for the years ended December 31, 2013, 2012 and 2011, respectively. We recorded amortization expense related to the equity method intangible assets of \$1,454, \$974 and \$1,556 for the years ended December 31, 2013, 2012 and 2011, respectively.

***Sirius Canada***

We had an equity interest of 49% in Sirius Canada until June 21, 2011 when the Canada Merger closed.

In 2005, we entered into a license and services agreement with Sirius Canada. Pursuant to such agreement, we were reimbursed for certain costs incurred to provide Sirius Canada service, including certain costs incurred for the production and distribution of radios, as well as information technology support costs. In consideration for the rights granted pursuant to this license and services agreement, we had the right to receive a royalty equal to a percentage of Sirius Canada’s gross revenues based on subscriber levels (ranging between 5% and 15%) and the number of Canadian-specific channels made available to Sirius Canada.

We recorded the following revenue from Sirius Canada. Royalty income is included in Other revenue and dividend income is included in Interest and investment income in our consolidated statements of comprehensive income:

	<b>For the Year Ended December 31,</b>
	<b>2011 *</b>
Royalty income . . . . .	\$ 9,945
Dividend income . . . . .	460
Total revenue from Sirius Canada . . . . .	<b>\$10,405</b>

\* Sirius Canada combined with XM Canada in June 2011.

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

Receivables from royalty and dividend income were utilized to absorb a portion of our share of net losses generated by Sirius Canada. Total costs reimbursed by Sirius Canada were \$5,253 for the year ended December 31, 2011.

Our share of net earnings or losses of Sirius Canada was recorded to Interest and investment income in our consolidated statements of comprehensive income on a one month lag. Our share of Sirius Canada's net loss was \$9,717 for the year ended December 31, 2011. The payments received from Sirius Canada in excess of carrying value were \$6,748 for the year ended December 31, 2011.

***XM Canada***

We had an equity interest of 21.5% in XM Canada until June 21, 2011 when the Canada Merger closed.

We recorded the following revenue from XM Canada as Other revenue in our consolidated statements of comprehensive income:

	<b>For the Year Ended December 31,</b>
	<b>2011 *</b>
Amortization of XM Canada deferred income .....	\$ 1,388
Subscriber and activation fee royalties .....	5,483
Licensing fee revenue .....	3,000
Advertising reimbursements .....	833
Total revenue from XM Canada .....	<b>\$10,704</b>

\* XM Canada combined with Sirius Canada in June 2011.

Our share of net earnings or losses of XM Canada was recorded to Interest and investment income in our consolidated statements of comprehensive income on a one month lag. Our share of XM Canada's net loss was \$6,045 for the year ended December 31, 2011.

***M-Way***

As part of the acquisition of the connected vehicle business of Agero in November 2013, we acquired a 30% ownership in M-Way Solutions GmbH ("M-Way"), a German mobile software solutions provider, which is accounted for utilizing the equity method of accounting. We have recorded a \$2,545 investment in M-Way in Related party long-term assets on our consolidated balance sheet. We also acquired an option to purchase the remaining 70% ownership of M-Way which expires in 2017.

**(12) Investments**

***Long Term Restricted Investments***

Restricted investments relate to reimbursement obligations under letters of credit issued for the benefit of lessors of our office space. As of December 31, 2013 and 2012, our Long-term restricted investments were \$5,718 and \$3,999, respectively. During the year ended December 31, 2013, a new letter of credit for \$1,719 associated with additional office space was issued for the benefit of a lessor.

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

**(13) Debt**

Sirius XM is the sole issuer of all of our debt, other than our 7% Exchangeable Senior Subordinated Notes due 2014. Our debt as of December 31, 2013 and 2012 consisted of the following:

Issuer	Issued	Debt	Maturity Date	Interest Payable	Principal Amount	Carrying balance at December 31,	
						2013	2012(h)
Sirius XM and Holdings (a)(b) . . . . .	August 2008	7% Exchangeable Senior Subordinated Notes (the "Exchangeable Notes")	December 1, 2014	semi-annually on June 1 and December 1	\$ 502,370	\$ 500,481	\$ 545,888
Sirius XM (a)(c)(d) . . . . .	March 2010	8.75% Senior Notes (the "8.75% Notes")	April 1, 2015	semi-annually on April 1 and October 1	800,000	—	792,944
Sirius XM (a)(c)(e) . . . . .	October 2010	7.625% Senior Notes (the "7.625% Notes")	November 1, 2018	semi-annually on May 1 and November 1	700,000	—	690,353
Sirius XM (a)(c) . . . . .	May 2013	4.25% Senior Notes (the "4.25% Notes")	May 15, 2020	semi-annually on May 15 and November 15	500,000	494,809	—
Sirius XM (a)(c) . . . . .	September 2013	5.875% Senior Notes (the "5.875% Notes")	October 1, 2020	semi-annually on April 1 and October 1	650,000	642,914	—
Sirius XM (a)(c) . . . . .	August 2013	5.75% Senior Notes (the "5.75% Notes")	August 1, 2021	semi-annually on February 1 and August 1	600,000	594,499	—
Sirius XM (a)(c) . . . . .	August 2012	5.25% Senior Notes (the "5.25% Notes")	August 15, 2022	semi-annually on February 15 and August 15	400,000	394,648	394,174
Sirius XM (a)(c) . . . . .	May 2013	4.625% Senior Notes (the "4.625% Notes")	May 15, 2023	semi-annually on May 15 and November 15	500,000	494,653	—
Sirius XM (f) . . . . .	December 2012	Senior Secured Revolving Credit Facility (the "Credit Facility")	December 5, 2017	variable fee paid quarterly	1,250,000	460,000	—
Sirius XM . . . . .	Various	Capital leases	Various	n/a	n/a	19,591	11,861
Total Debt . . . . .						3,601,595	2,435,220
Less: total current maturities (g) . . . . .						507,774	4,234
Total long-term . . . . .						3,093,821	2,430,986
Less: long-term related party . . . . .						—	208,906
Total long-term, excluding related party . . . . .						\$3,093,821	\$2,222,080

- (a) The carrying balance of the Notes are net of the remaining unamortized original issue discount.
- (b) The Exchangeable Notes are senior subordinated obligations and rank junior in right of payment to our existing and future senior debt and equally in right of payment with our existing and future senior subordinated debt. Substantially all of our domestic wholly-owned subsidiaries guarantee our obligations under these Notes on a senior subordinated basis. The Exchangeable Notes are exchangeable at any time at the option of the holder into shares of our common stock at an exchange rate of 543.1372 shares of common stock per \$1,000 principal amount of the notes, which is equivalent to an approximate exchange price of \$1.841 per share of common stock. In connection with the fundamental change that occurred on January 17, 2013 and the subsequent offer that was made to each holder of the Exchangeable Notes on February 1, 2013, \$47,630 in principal amount of the Exchangeable Notes were converted resulting in the issuance of 27,687,850 shares of our common stock. As a result of this conversion, we retired \$47,630 in principal amount of the Exchangeable Notes and recognized a proportionate share of unamortized discount and deferred financing fees of \$2,533 to Additional paid-in capital for the year ended December 31, 2013. No loss was recognized as a result of the conversion. During the year ended December 31, 2013, the common stock reserved for conversion in connection with the Exchangeable Notes were considered to be anti-dilutive in our calculation of diluted net income per share. During the year ended 2012, the Exchangeable Notes were considered to be dilutive.

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

- (c) Substantially all of our domestic wholly-owned subsidiaries have guaranteed these notes.
- (d) During the year ended December 31, 2013, we purchased \$800,000 in aggregate principal amount of the 8.75% Notes for an aggregate purchase price, including premium and interest, of \$927,860. We recognized an aggregate loss on the extinguishment of the 8.75% Notes of \$104,818 during the year ended December 31, 2013, consisting primarily of unamortized discount, deferred financing fees and repayment premium, to Loss on extinguishment of debt and credit facilities, net.
- (e) During the year ended December 31, 2013, we purchased \$700,000 in aggregate principal amount of the 7.625% Notes for an aggregate purchase price, including premium and interest, of \$797,830. We recognized an aggregate loss on the extinguishment of the 7.625% Notes of \$85,759 during the year ended December 31, 2013, consisting primarily of unamortized discount, deferred financing fees and repayment premium, to Loss on extinguishment of debt and credit facilities, net.
- (f) In December 2012, Sirius XM entered into a five-year Credit Facility with a syndicate of financial institutions for \$1,250,000. 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. Borrowings under the Credit Facility are used for working capital and other general corporate purposes, including dividends, financing of acquisitions and share repurchases. Interest on borrowings is payable on a quarterly basis and accrues at a rate based on LIBOR plus an applicable rate. Sirius XM is also required to pay a variable fee on the average daily unused portion of the Credit Facility which is currently 0.35% per annum and is payable on a quarterly basis. As of December 31, 2013, \$790,000 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 consolidated balance sheet as of December 31, 2013 due to the long-term maturity of this debt.
- (g) This balance includes \$10,959 in related party current maturities as of December 31, 2013.
- (h) During the year ended December 31, 2012, we purchased \$257,000 of our then outstanding 9.75% Senior Secured Notes due 2015 (the "9.75% Notes") for an aggregate purchase price, including interest, of \$281,698. We recognized an aggregate loss on the extinguishment of the 9.75% Notes of \$22,184 during the year ended December 31, 2012, consisting primarily of unamortized discount, deferred financing fees and repayment premium, to Loss on extinguishment of debt and credit facilities, net. During the year ended December 31, 2012, we purchased \$778,500 of our then outstanding 13% Senior Notes due 2013 (the "13% Notes") for an aggregate purchase price, including interest, of \$879,133. We recognized an aggregate loss on the extinguishment of these 13% Notes of \$110,542 during the year ended December 31, 2012, consisting primarily of unamortized discount, deferred financing fees and repayment premium, to Loss on extinguishment of debt and credit facilities, net.

The following table reconciles total current debt held at Holdings to the total current and long-term debt held at Sirius XM as of December 31, 2013:

	<b>Carrying amount at December 31, 2013</b>
Total current debt at Holdings . . . . .	\$ 507,774
Additional fair value associated with the Exchangeable Notes (a) . . . . .	466,815
Total current debt at Sirius XM . . . . .	\$ 974,589
Total long-term debt . . . . .	\$3,093,821
Total debt at Sirius XM . . . . .	\$4,068,410

- (a) In connection with our corporate reorganization in November 2013, the Exchangeable Notes were amended such that the settlement of the conversion feature is into shares of Holdings' common stock and Holdings and Sirius XM became co-obligors with respect to the Exchangeable Notes. As of December 31, 2013, \$466,815 was recorded to Sirius XM's consolidated balance sheet in Current maturities of long-term debt for the fair value of the Exchangeable Notes in excess of the carrying amount. Changes in fair value are recorded in Loss on fair value of debt and equity instruments within

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

Sirius XM's consolidated statements of comprehensive income. We recognized \$466,815 in Loss on fair value of debt and equity instruments during the year ended December 31, 2013. The additional fair value in excess of the carrying amount of this instrument is eliminated in Holdings' consolidated balance sheets and statements of comprehensive income.

***Covenants and Restrictions***

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

Under the Credit Facility, Sirius XM must comply with a maintenance covenant that it not exceed a total leverage ratio, calculated as total consolidated debt to consolidated operating cash flow, of 5.0 to 1.0. The Credit Facility and the 5.25% Notes generally require 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 4.25% Notes, 4.625% Notes, 5.75% Notes and 5.875% Notes are subject to 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. In addition, each of these indentures restricts 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.

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

At December 31, 2013 and 2012, we were in compliance with our debt covenants.

**(14) Stockholders' Equity**

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

As a result of our corporate reorganization in November 2013, all of the outstanding shares of Sirius XM's common stock were converted, on a share for share basis, into identical shares of common stock of Holdings. The certificate of incorporation, the bylaws, the executive officers and the board of directors of Holdings are the same as those of Sirius XM in effect immediately prior to the reorganization.

We were authorized to issue up to 9,000,000,000 shares of common stock as of December 31, 2013 and 2012. There were 6,096,220,526 and 5,262,440,085 shares of common stock issued and outstanding as of December 31, 2013 and 2012, respectively.

As of December 31, 2013, approximately 562,534,000 shares of common stock were reserved for issuance in connection with outstanding convertible debt, warrants, incentive stock awards and common stock to be granted to third parties upon satisfaction of performance targets.

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

*Stock Repurchase Program*

Since December 2012, our board of directors has approved \$4,000,000 for repurchases 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 and in privately negotiated transactions, including transactions with Liberty Media and its affiliates.

On October 9, 2013, we entered into an agreement with Liberty Media to repurchase \$500,000 of our common stock from Liberty Media. Pursuant to the agreement with Liberty Media, we repurchased \$160,000 of our common stock from Liberty Media as of December 31, 2013. On January 23, 2014, we entered into an amendment to the agreement with Liberty Media to defer the previously scheduled \$240,000 repurchase of shares of our common stock from Liberty Media from January 27, 2014 to April 25, 2014, the date of the final purchase installment under the agreement. As a result of this deferral, we expect to repurchase \$340,000 of our shares of common stock from Liberty Media on April 25, 2014 at a price of \$3.66 per share. We entered into this amendment at the request of the Special Committee of our board of directors that has been formed to review and evaluate the Liberty Media proposal. See “Note 1 — Recent Developments.”

The share repurchase agreement was transferred from Sirius XM to Holdings’ effective November 15, 2013. Commitments under the share repurchase agreement are accounted for at fair value as a derivative, with changes in fair value recorded in Loss on change in value of derivatives within Holdings’ consolidated statements of comprehensive income. Prior to November 15, 2013, changes in fair value were recorded to Loss on fair value of debt and equity instruments in Sirius XM’s consolidated statements of comprehensive income.

We recognized \$20,393 to Loss on change in value of derivatives in Holdings’ consolidated statement of comprehensive income during the year ended December 31, 2013 for the share repurchase agreement, net of a \$2,713 gain recognized to Loss on fair value of debt and equity instruments in Sirius XM’s consolidated statements of comprehensive income.

During the year ended December 31, 2013, we repurchased 520,257,866 shares of our common stock for \$1,762,360, including fees and commissions, on the open market and in privately negotiated transactions, including transactions with Liberty Media. All common stock repurchases were settled and retired as of December 31, 2013.

As of December 31, 2013, \$2,237,640 remained available for purchase under our stock repurchase program.

*Share Lending Arrangements*

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

We recorded interest expense related to the amortization of the costs associated with the share lending arrangement and other issuance costs for our Exchangeable Notes of \$12,745, \$12,402 and \$11,189 for the years ended December 31, 2013, 2012 and 2011, respectively. As of December 31, 2013, the unamortized balance of the debt issuance costs was \$12,701, with \$12,423 recorded in Other current assets and \$278 recorded in Related party current assets in our consolidated balance sheet. As of December 31, 2012, the unamortized balance of the debt issuance costs was \$27,652, with \$27,099 recorded in Deferred financing fees, net, and \$553 recorded in Long-term related party assets. These costs will continue to be amortized until the debt is terminated. A portion of the unamortized debt issuance costs was recognized during the year ended December 31, 2013 in connection with conversions of the Exchangeable Notes.



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

***Common Stock, Sirius XM, par value \$0.001 per share***

Due to our corporate reorganization in November 2013, 1,000 shares of common stock were authorized, issued and outstanding, and are owned by Holdings as of December 31, 2013.

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

We were authorized to issue up to 50,000,000 shares of undesignated preferred stock as of December 31, 2013 and 2012, respectively.

There were 6,250,100 shares of Series B Preferred Stock issued and outstanding as of December 31, 2012 held by Liberty Media. In January 2013, Liberty Media converted its remaining shares of the Series B Preferred Stock into 1,293,509,076 shares of our common stock.

***Warrants***

We have issued warrants to purchase shares of our common stock in connection with distribution, programming and satellite purchase agreements. As of December 31, 2013 and 2012, approximately 18,455,000 warrants to acquire an equal number of shares of common stock were outstanding and fully vested. Warrants were included in our calculation of diluted net income per common share as the effect was dilutive for the year ended December 31, 2013. The warrants expire at various times through 2015. At December 31, 2013 and 2012, the weighted average exercise price of outstanding warrants was \$2.55 per share. We did not incur warrant related expenses during the years ended December 31, 2013, 2012 or 2011.

	Average Exercise Price	Expiration Date	Number of Warrants Outstanding	
			December 31,	
			2013	2012
<i>(warrants in thousands)</i>				
NFL . . . . .	\$2.50	March 2015	16,667	16,667
Other distributors and programming providers . . . . .	\$3.00	June 2014	1,788	1,788
Total . . . . .			18,455	18,455

In October 2012, 4,000,000 warrants held by a distributor expired.

**(15) Benefit Plans**

We recognized share-based payment expense of \$68,876, \$63,822 and \$51,622 for the years ended December 31, 2013, 2012 and 2011, respectively.

***2009 Long-Term Stock Incentive Plan***

In May 2009, our stockholders approved the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan (the “2009 Plan”). Employees, consultants and members of our board of directors are eligible to receive awards under the 2009 Plan. The 2009 Plan provides for the grant of stock options, restricted stock awards, restricted stock units and other stock-based awards that the compensation committee of our board of directors may deem appropriate. Vesting and other terms of stock-based awards are set forth in the agreements with the individuals receiving the awards. Stock-based awards granted under the 2009 Plan are generally subject to a vesting requirement. Stock-based awards generally expire ten years from the date of grant. Each restricted stock unit entitles the holder to receive one share of common stock upon vesting. As of December 31, 2013, approximately 82,806,000 shares of common stock were available for future grants under the 2009 Plan.

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

***Other Plans***

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

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

	<b>For the Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Risk-free interest rate . . . . .	1.4%	0.8%	1.1%
Expected life of options — years . . . . .	4.73	5.06	5.27
Expected stock price volatility . . . . .	47%	49%	68%
Expected dividend yield . . . . .	0%	0%	0%

We do not intend to pay regular dividends on our common stock. Accordingly, the dividend yield percentage used in the Black-Scholes-Merton option value is zero for all periods.

There were no options granted to third parties, other than non-employee members of our board of directors, during the years ended December 31, 2013, 2012 and 2011.

The following table summarizes stock option activity under our share-based plans for the years ended December 31, 2013, 2012 and 2011 (options in thousands):

	<b>Options</b>	<b>Weighted-Average Exercise Price (1)</b>	<b>Weighted-Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at the beginning of January 1, 2011 . . . . .	401,870	\$1.32		
Granted . . . . .	77,450	\$1.80		
Exercised . . . . .	(13,300)	\$0.87		
Forfeited, cancelled or expired . . . . .	<u>(26,440)</u>	\$4.15		
Outstanding as of December 31, 2011 . . . . .	439,580	\$1.25		
Granted . . . . .	58,626	\$2.53		
Exercised . . . . .	(214,199)	\$0.59		
Forfeited, cancelled or expired . . . . .	<u>(9,495)</u>	\$3.09		
Outstanding as of December 31, 2012 . . . . .	274,512	\$1.92		
Granted . . . . .	57,228	\$3.59		
Exercised . . . . .	(61,056)	\$1.31		
Forfeited, cancelled or expired . . . . .	<u>(6,445)</u>	\$2.02		
Outstanding as of December 31, 2013 . . . . .	<u>264,239</u>	\$2.42	7.12	\$327,398
Exercisable as of December 31, 2013 . . . . .	<u>114,278</u>	\$2.26	5.29	\$179,549

(1) The weighted-average exercise price for options outstanding as of December 28, 2012 were adjusted in 2012 to reflect the reduction to the exercise price related to the December 2012 special cash dividend.

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

The weighted average grant date fair value of options granted during the years ended December 31, 2013, 2012 and 2011 was \$1.48, \$1.09 and \$1.04, respectively. The total intrinsic value of stock options exercised during the years ended December 31, 2013, 2012 and 2011 was \$142,491, \$399,794 and \$13,408, respectively. In July 2013, we transitioned to a net-settlement method from a cashless option exercise method for stock options. During the year ended December 31, 2013, the number of shares which were issued in the market as a result of stock option exercises was 32,649,857.

We recognized share-based payment expense associated with stock options of \$66,231, \$60,299 and \$48,038 for the years ended December 31, 2013, 2012 and 2011, respectively.

The following table summarizes the nonvested restricted stock award and restricted stock unit activity under our share-based plans for the years ended December 31, 2013, 2012 and 2011 (shares in thousands):

	<u>Shares</u>	<u>Grant Date Fair Value</u>
Nonvested as of January 1, 2011 .....	2,397	\$2.57
Granted .....	—	\$ —
Vested restricted stock awards .....	(1,854)	\$3.30
Vested restricted stock units .....	(101)	\$3.08
Forfeited .....	<u>(21)</u>	\$3.05
Nonvested as of December 31, 2011 .....	421	\$1.46
Granted .....	8	\$ —
Vested restricted stock awards .....	—	\$ —
Vested restricted stock units .....	—	\$ —
Forfeited .....	<u>—</u>	\$ —
Nonvested as of December 31, 2012 .....	429	\$3.25
Granted .....	6,873	\$3.59
Vested restricted stock units .....	(192)	\$3.27
Forfeited .....	<u>(126)</u>	\$3.61
Nonvested as of December 31, 2013 .....	<u>6,984</u>	\$3.58

The total intrinsic value of restricted stock and restricted stock units that vested during the years ended December 31, 2013, 2012 and 2011 was \$605, \$0 and \$3,178, respectively. The weighted average grant date fair value of restricted stock units granted during the year ended December 31, 2013 was \$3.59.

We recognized share-based payment expense associated with restricted stock awards and restricted stock units of \$2,645, \$0 and \$543 during the years ended December 31, 2013, 2012 and 2011, respectively.

No restricted stock awards or restricted stock units were granted in 2011. In connection with the special cash dividend paid in December 2012, we granted 8,000 incremental restricted stock units to prevent the economic dilution of the holders of our restricted stock units. This grant did not result in any additional incremental share-based payment expense being recognized in 2012. There were no restricted stock units granted to third parties during the years ended December 31, 2013, 2012 and 2011.

Total unrecognized compensation costs related to unvested share-based payment awards for stock options, restricted stock awards, restricted stock units and shares granted to employees and members of our board of

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

directors at December 31, 2013 and 2012, net of estimated forfeitures, were \$164,292 and \$129,010, respectively. The total unrecognized compensation costs at December 31, 2013 are expected to be recognized over a weighted-average period of 3 years.

**401(k) Savings Plan**

We sponsor the Sirius XM Holdings 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, up to 6% of an employee’s pre-tax salary, in cash which is used to purchase shares of our common stock on the open market. 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. During the year ended December 31, 2013 we contributed \$4,181 to the Sirius XM Plan in fulfillment of our matching obligation. During the years ended December 31, 2012 and 2011, employer matching contributions were made in the form of shares of our common stock, resulting in share-based payment expense of \$3,523 and \$3,041, respectively.

**(16) Commitments and Contingencies**

The following table summarizes our expected contractual cash commitments as of December 31, 2013:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Thereafter</u>	<u>Total</u>
Debt obligations . . . . .	\$ 509,663	\$ 7,359	\$ 4,140	\$460,799	\$ —	\$2,650,000	\$3,631,961
Cash interest payments . . . . .	187,905	152,440	152,255	152,699	138,063	399,813	1,183,175
Satellite and transmission . . . . .	37,849	13,993	4,321	3,404	3,992	16,524	80,083
Programming and content . . . . .	245,069	218,373	96,737	72,837	60,150	108,333	801,499
Marketing and distribution . . . . .	32,578	15,332	9,951	6,700	6,173	6,639	77,373
Satellite incentive payments . . . . .	11,511	11,439	12,290	13,212	14,212	55,398	118,062
Operating lease obligations . . . . .	38,181	43,053	36,860	30,475	28,825	221,626	399,020
Other . . . . .	41,021	9,989	3,209	851	367	—	55,437
Total (1) . . . . .	<u>\$1,103,777</u>	<u>\$471,978</u>	<u>\$319,763</u>	<u>\$740,977</u>	<u>\$251,782</u>	<u>\$3,458,333</u>	<u>\$6,346,610</u>

(1) The table does not include our reserve for uncertain tax positions, which at December 31, 2013 totaled \$1,432, as the specific timing of any cash payments cannot be projected with reasonable certainty.

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

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

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

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

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

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

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

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

*Operating lease obligations.* We have entered into both cancelable and non-cancelable operating leases for office space, equipment and terrestrial repeaters. These leases provide for minimum lease payments, additional operating expense charges, leasehold improvements and rent escalations that have initial terms ranging from one to fifteen years, and certain leases have options to renew. The effect of the rent holidays and rent concessions are recognized on a straight-line basis over the lease term, including reasonably assured renewal periods. Total rent recognized in connection with leases for the years ended December 31, 2013, 2012 and 2011 was \$39,228, \$37,474 and \$34,143, respectively.

*Other.* We have entered into various agreements with third parties for general operating purposes. In addition to the minimum contractual cash commitments described above, we have entered into agreements with other variable cost arrangements. These future costs are dependent upon many factors, including subscriber growth, and are difficult to anticipate; however, these costs may be substantial. We may enter into additional programming, distribution, marketing and other agreements that contain similar variable cost provisions.

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

***Legal Proceedings***

*State Consumer Investigations.* A Multistate Working Group of 32 State Attorneys General, led by the Attorney General of the State of Ohio, is investigating certain of our consumer practices. The investigation

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

focuses on practices relating to the cancellation of subscriptions; automatic renewal of subscriptions; charging, billing, collecting, and refunding or crediting of payments from consumers; and soliciting customers.

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

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

**(17) Income Taxes**

**Holdings**

There is no current U.S. federal income tax provision, as all federal taxable income was offset by utilizing U.S. federal net operating loss carryforwards. The current state income tax provision is primarily related to taxable income in certain states that have suspended the ability to use net operating loss carryforwards. The current foreign income tax provision is primarily related to a reimbursement of foreign withholding taxes on royalty income between us and our Canadian affiliate.

Holdings files a consolidated federal income tax return with its wholly-owned subsidiaries. Income tax expense (benefit) attributable to Holdings consisted of the following:

	<u>For the Years Ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current taxes:			
Federal .....	\$ —	\$ —	\$ —
State .....	5,359	1,319	3,229
Foreign .....	(5,269)	2,265	2,741
Total current taxes .....	<u>90</u>	<u>3,584</u>	<u>5,970</u>
Deferred taxes:			
Federal .....	211,044	(2,729,823)	3,991
State .....	48,743	(271,995)	4,273
Total deferred taxes .....	<u>259,787</u>	<u>(3,001,818)</u>	<u>8,264</u>
Total income tax expense (benefit) .....	<u>\$259,877</u>	<u>\$(2,998,234)</u>	<u>\$14,234</u>

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

The following table indicates the significant elements contributing to the difference between the federal tax expense (benefit) at the statutory rate and at our effective rate:

	<b>For the Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Federal tax expense, at statutory rate . . . . .	\$222,982	\$ 166,064	\$ 154,418
State income tax expense, net of federal benefit . . . . .	19,031	16,606	15,751
State income rate changes . . . . .	8,666	2,251	3,851
Non-deductible expenses . . . . .	9,545	477	457
Change in valuation allowance . . . . .	(4,228)	(3,195,651)	(166,452)
Other, net . . . . .	3,881	12,019	6,209
Income tax expense (benefit) . . . . .	<u>\$259,877</u>	<u>\$(2,998,234)</u>	<u>\$ 14,234</u>

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

	<b>For the Years Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Deferred tax assets:		
Net operating loss carryforwards . . . . .	\$ 2,207,583	\$ 2,493,239
GM payments and liabilities . . . . .	1,984	80,742
Deferred revenue . . . . .	606,430	511,700
Severance accrual . . . . .	388	46
Accrued bonus . . . . .	25,830	23,798
Expensed costs capitalized for tax . . . . .	22,679	26,569
Loan financing costs . . . . .	664	428
Investments . . . . .	45,078	39,915
Stock based compensation . . . . .	71,794	64,636
Other . . . . .	31,735	34,705
Total deferred tax assets . . . . .	<u>3,014,165</u>	<u>3,275,778</u>
Deferred tax liabilities:		
Depreciation of property and equipment . . . . .	(188,675)	(185,007)
FCC license . . . . .	(778,152)	(772,550)
Other intangible assets . . . . .	(233,983)	(165,227)
Total deferred tax liabilities . . . . .	<u>(1,200,810)</u>	<u>(1,122,784)</u>
Net deferred tax assets before valuation allowance . . . . .	1,813,355	2,152,994
Valuation allowance . . . . .	(7,831)	(9,835)
Total net deferred tax asset . . . . .	<u>\$ 1,805,524</u>	<u>\$ 2,143,159</u>

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences can be carried forward under tax law. Management's evaluation of the realizability of deferred tax assets considers both positive and negative evidence, including

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

historical financial performance, scheduled reversal of deferred tax assets and liabilities, projected taxable income and tax planning strategies in making this assessment. The weight given to the potential effects of positive and negative evidence is based on the extent to which it can be objectively verified. The net deferred tax assets are primarily related to gross net operating loss carryforwards of approximately \$5,828,461. In addition to the gross book net operating loss carryforwards, we have \$702,187 of excess share-based compensation deductions that will not be realized until we utilize the \$5,828,461 of net operating losses, resulting in an approximate gross operating loss carryforward on our tax return of \$6,530,648.

For the year ended December 31, 2012, our deferred tax asset valuation allowance decreased by \$3,350,905 in response to cumulative positive evidence in 2012 which outweighed the historical negative evidence from our emergence from cumulative losses in recent years and updated assessments regarding that it was more likely than not that our deferred tax assets will be realized. As of December 31, 2013, the deferred tax asset valuation allowance of \$7,831 relates to deferred tax assets that are not likely to be realized due to certain state net operating loss limitations and acquired net operating losses that we are not more likely than not going to utilize. These net operating loss carryforwards expire on various dates beginning in 2017 and ending in 2028.

As a result of the acquisition of the connected vehicle business of Agero, we established net current deferred tax assets of \$767 and net non-current deferred tax liabilities of \$78,127. The net non-current deferred tax liabilities are primarily due to intangible assets and the acquired separate return limitation year net operating losses of \$4,340; of which \$2,224 remain fully valued.

As of December 31, 2013 and 2012, the gross liability for income taxes associated with uncertain state tax positions was \$1,432. If recognized, \$1,432 of unrecognized tax benefits would affect the effective tax rate. This liability is recorded in Other long-term liabilities. No penalties have been accrued for. We do not currently anticipate that our existing reserves related to uncertain tax positions as of December 31, 2013 will significantly increase or decrease during the twelve-month period ending December 31, 2014; however, various events could cause our current expectations to change in the future. Should our position with respect to the majority of these uncertain tax positions be upheld, the effect would be recorded in our consolidated statements of comprehensive income as part of the income tax provision. Our policy is to recognize interest and penalties accrued on uncertain tax positions as part of income tax expense. We have recorded interest expense of \$40 and \$55 for the years ended December 31, 2013 and 2012, respectively, related to our unrecognized tax benefits presented below.

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

	<u>2013</u>	<u>2012</u>
Balance, beginning of year . . . . .	\$1,432	\$1,432
Additions for tax positions from prior years . . . . .	—	—
Balance, end of year . . . . .	<u>\$1,432</u>	<u>\$1,432</u>

We have federal and certain state income tax audits pending. We do not expect the ultimate disposition of these audits to have a material adverse affect on our financial position or results of operations.

The increased ownership in us by Liberty Media to over 50% of our outstanding common stock did not create a change of control under Section 382 of the Internal Revenue Code.



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

**Sirius XM**

Sirius XM and its wholly-owned subsidiaries are included in the consolidated federal income tax returns of Holdings. However, due to the differences in the Income before income taxes balances between Holdings and Sirius XM in our consolidated statements of comprehensive income, the following table shows the significant elements contributing to the difference between the federal tax expense (benefit) at the statutory rate and at Sirius XM's effective rate:

	<b>For the Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Federal tax expense, at statutory rate . . . . .	\$ 67,684	\$ 166,064	\$ 154,418
State income tax expense, net of federal benefit . . . . .	4,467	16,606	15,751
State income rate changes . . . . .	8,666	2,251	3,851
Non-deductible expenses . . . . .	699	477	457
Change in valuation allowance . . . . .	(4,228)	(3,195,651)	(166,452)
Fair value of debt instrument . . . . .	178,704	—	—
Other, net . . . . .	3,885	12,019	6,209
Income tax expense (benefit) . . . . .	<u>\$259,877</u>	<u>\$(2,998,234)</u>	<u>\$ 14,234</u>

**(18) Quarterly Financial Data — Unaudited**

Our quarterly results of operations are summarized below:

	<b>Sirius XM Holdings Inc.</b>			
	<b>For the Three Months Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
<b>2013</b>				
Total revenue . . . . .	\$ 897,398	\$ 940,110	\$ 961,509	\$1,000,078
Cost of services . . . . .	\$(330,257)	\$(331,465)	\$(336,464)	\$(396,304)
Income from operations . . . . .	\$ 246,931	\$ 267,736	\$ 284,529	\$ 245,357
Net income . . . . .	\$ 123,602	\$ 125,522	\$ 62,894	\$ 65,197
Net income per common share — basic (1) . . . .	\$ 0.02	\$ 0.02	\$ 0.01	\$ 0.01
Net income per common share — diluted (1) . . .	\$ 0.02	\$ 0.02	\$ 0.01	\$ 0.01
<b>2012</b>				
Total revenue . . . . .	\$ 804,722	\$ 837,543	\$ 867,360	\$ 892,415
Cost of services . . . . .	\$(292,309)	\$(293,975)	\$(314,204)	\$(328,882)
Income from operations . . . . .	\$ 199,238	\$ 227,942	\$ 231,749	\$ 213,096
Net income . . . . .	\$ 107,774	\$3,134,170	\$ 74,514	\$ 156,244
Net income per common share — basic (1) . . . .	\$ 0.02	\$ 0.49	\$ 0.01	\$ 0.02
Net income per common share — diluted (1) . . .	\$ 0.02	\$ 0.48	\$ 0.01	\$ 0.02

(1) The sum of quarterly net income per share applicable to common stockholders (basic and diluted) does not necessarily agree to the net income per share for the year due to the timing of common stock issuances.

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

	Sirius XM Radio Inc.			
	For the Three Months Ended			
	March 31	June 30	September 30	December 31
2013 (1)				
Total revenue .....	\$ 897,398	\$ 940,110	\$ 961,509	\$1,000,078
Cost of services .....	\$(330,257)	\$ (331,465)	\$(336,464)	\$ (396,304)
Income from operations .....	\$ 246,931	\$ 267,736	\$ 284,529	\$ 245,357
Net income (loss) attributable to Sirius XM's sole stockholder .....	\$ 123,602	\$ 125,522	\$ 62,894	\$ (378,512)
2012 (1)				
Total revenue .....	\$ 804,722	\$ 837,543	\$ 867,360	\$ 892,415
Cost of services .....	\$(292,309)	\$ (293,975)	\$(314,204)	\$ (328,882)
Income from operations .....	\$ 199,238	\$ 227,942	\$ 231,749	\$ 213,096
Net income attributable to Sirius XM's sole stockholder .....	\$ 107,774	\$3,134,170	\$ 74,514	\$ 156,244

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

**SIRIUS XM HOLDINGS INC. & SUBSIDIARIES**

**Schedule II — Schedule of Valuation & Qualifying Accounts**

**Holdings and Sirius XM:**

<i>(in thousands)</i>	<u>Balance</u>	<u>Charged to</u>	<u>Write-offs/</u>	<u>Balance</u>
<u>Description</u>	<u>January 1,</u>	<u>Expenses</u>	<u>Payments/</u>	<u>December 31,</u>
		<u>(Benefit)</u>	<u>Other</u>	
2011				
Allowance for doubtful accounts . . . . .	\$ 10,222	33,164	(33,454)	\$ 9,932
Deferred tax assets — valuation allowance . . . . .	\$3,551,288	(166,452)	(24,096)	\$3,360,740
2012				
Allowance for doubtful accounts . . . . .	\$ 9,932	34,548	(32,769)	\$ 11,711
Deferred tax assets — valuation allowance . . . . .	\$3,360,740	(3,195,651)	(155,254)	\$ 9,835
2013				
Allowance for doubtful accounts . . . . .	\$ 11,711	39,016	(41,649)	\$ 9,078
Deferred tax assets — valuation allowance . . . . .	\$ 9,835	(4,228)	2,224	\$ 7,831

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# Corporate Information

## Management

**James E. Meyer**

Chief Executive Officer

**Scott A. Greenstein**

President and Chief Content Officer

**Dara F. Altman**

Executive Vice President and Chief Administrative Officer

**Stephen R. Cook**

Executive Vice President,  
Sales and Automotive

**Patrick L. Donnelly**

Executive Vice President, General Counsel and Secretary

**David J. Frear**

Executive Vice President and Chief Financial Officer

**Enrique Rodriguez**

Executive Vice President,  
Operations and Products

**Katherine Kohler Thomson**

Executive Vice President,  
Chief Marketing Officer

## Board of Directors

**Gregory B. Maffei**

Chairman of the Board of  
Sirius XM Holdings Inc.  
President and CEO  
Liberty Media Corporation

**Eddy W. Hartenstein**

Lead Independent Director of  
Sirius XM Holdings Inc.  
Publisher and CEO  
Los Angeles Times

**Joan L. Amble**

Director  
Executive Vice President and  
Corporate Comptroller (Retired)  
American Express Company

**Anthony J. Bates**

Director

**George W. Bodenheimer**

Director  
Chairman Emeritus  
ESPN, Inc.

**David J.A. Flowers**

Director  
Senior Vice President  
Liberty Media Corporation

**James P. Holden**

Director  
President and CEO (Retired)  
Chrysler Corporation

**Dr. Evan D. Malone**

Director  
President  
NextFab Studio, LLC

**James E. Meyer**

Director  
Chief Executive Officer  
Sirius XM Holdings Inc.

**James F. Mooney**

Director  
Chief Executive Officer  
Four Horsemen Consulting Group

**Carl E. Vogel**

Director  
Private Investor

**Vanessa A. Wittman**

Director  
Senior Vice President and CFO  
Motorola Mobility

**David M. Zaslav**

Director  
President and Chief Executive Officer  
Discovery Communications, Inc.

## Executive Offices

**Sirius XM Holdings Inc.**

1221 Avenue of the Americas  
36th Floor  
New York, New York 10020  
212.584.5100  
www.siriusxm.com

# Stockholder Information

## Annual Stockholders Meeting

The annual meeting of Sirius XM stockholders is scheduled for 9:00 a.m., New York City time, on Monday, May 19, 2014 in the Auditorium at The McGraw Hill Building 1221 Avenue of the Americas New York, New York 10020

## Transfer Agent and Registrar

The transfer agent and registrar for the Company's common stock is:

### Computershare

Shareholder correspondence should be mailed to:  
Computershare  
P.O. BOX 30170  
College Station, TX 77842-3170  
1-877-268-1949 (toll free)  
201-680-6685 (international callers)  
800-231-5469 (hearing impaired TDD phone)

### Shareholder website

[www.computershare.com/investor](http://www.computershare.com/investor)

### Shareholder online inquiries

<https://www-us.computershare.com/investor/Contact>

Sirius XM common stock is listed on The NASDAQ Global Select Market under the symbol "SIRI".

## Independent Registered Public Accounting Firm

KPMG LLP  
345 Park Avenue  
New York, New York 10154



