
SIRIUS XM RADIO INC.

(Exact name of company as specified in its charter)

QUARTERLY REPORT

For the Quarterly Period Ended September 30, 2021

Explanatory Note

Sirius XM Radio Inc. (“Sirius XM”) is furnishing this Quarterly Report for the quarterly period ended September 30, 2021 (the “Quarterly Report”) in order to comply with the reporting obligations in the indentures governing its 5.00% Senior Notes due 2027, 4.00% Senior Notes due 2028, 5.50% Senior Notes due 2029, 4.125% Senior Notes due 2030, 3.125% Senior Notes due 2026 and 3.875% Senior Notes due 2031 (collectively, the “Notes”).

Before making any investment decisions in Sirius XM or Sirius XM Holdings Inc. (“Holdings”), investors should read the following unaudited consolidated financial statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) of Sirius XM in conjunction with Holdings’ Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2021 and Holdings’ other reports available through the Securities and Exchange Commission website at www.sec.gov and our website at www.siriusxm.com, and with Sirius XM’s other reports available through our website. Holdings’ Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2021 is hereby incorporated by reference except for Section 9A and Exhibits 31.1, 31.2, 32.1 and 32.2 contained therein. Sirius XM is a wholly-owned subsidiary of Holdings and Holdings has no operations independent of Sirius XM. Refer to Note 1 to the unaudited consolidated financial statements included within this Quarterly Report for an explanation of differences between Sirius XM and Holdings’ unaudited consolidated financial statements.

The terms “Sirius XM,” “we,” “us,” “our,” and the “Company,” as used herein and unless otherwise stated or indicated by context, refer to Sirius XM Radio Inc. and its subsidiaries. “Pandora” refers to Sirius XM’s wholly owned subsidiary Pandora Media, LLC (the successor to Pandora Media, Inc.) and its subsidiaries.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
TABLE OF CONTENTS

Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2021 and 2020	2
Consolidated Balance Sheets as of September 30, 2021 and December 31, 2020	3
Consolidated Statements of Stockholder Equity (Deficit) for the three and nine months ended September 30, 2021 and 2020	4
Consolidated Statements of Cash Flows for the nine months ended September 30, 2021 and 2020	6
Notes to Consolidated Financial Statements	8
Management's Discussion and Analysis of Financial Condition and Results of Operations	32

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

<i>(in millions)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue:				
Subscriber revenue	\$ 1,666	\$ 1,594	\$ 4,918	\$ 4,757
Advertising revenue	451	345	1,235	866
Equipment revenue	41	47	149	113
Other revenue	40	39	113	115
Total revenue	2,198	2,025	6,415	5,851
Operating expenses:				
Cost of services:				
Revenue share and royalties	671	602	1,974	1,759
Programming and content	141	123	407	351
Customer service and billing	127	119	372	359
Transmission	54	46	155	129
Cost of equipment	4	5	12	13
Subscriber acquisition costs	71	110	245	257
Sales and marketing	269	222	725	664
Engineering, design and development	68	64	197	196
General and administrative	125	131	376	357
Depreciation and amortization	135	125	399	381
Impairment, restructuring and acquisition costs	(95)	—	13	24
Total operating expenses	1,570	1,547	4,875	4,490
Income from operations	628	478	1,540	1,361
Other (expense) income:				
Interest expense	(109)	(93)	(308)	(291)
Loss on extinguishment of debt	(83)	(40)	(83)	(40)
Other income	9	7	5	37
Total other (expense) income	(183)	(126)	(386)	(294)
Income before income taxes	445	352	1,154	1,067
Income tax expense	(90)	(72)	(155)	(230)
Net income attributable to Sirius XM Radio Inc.'s sole stockholder	\$ 355	\$ 280	\$ 999	\$ 837
Foreign currency translation adjustment, net of tax	(10)	7	2	(8)
Total comprehensive income attributable to Sirius XM Radio Inc.'s sole stockholder	\$ 345	\$ 287	\$ 1,001	\$ 829

See accompanying notes to the unaudited consolidated financial statements.

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

(in millions, except per share data)

ASSETS	September 30, 2021	December 31, 2020
	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 164	\$ 71
Receivables, net	652	672
Inventory, net	4	10
Related party current assets	10	20
Prepaid expenses and other current assets	206	194
Total current assets	1,036	967
Property and equipment, net	1,456	1,629
Intangible assets, net	3,225	3,340
Goodwill	3,135	3,107
Related party long-term assets	4,939	10,167
Deferred tax assets	122	122
Operating lease right-of-use assets	361	427
Other long-term assets	221	206
Total assets	\$ 14,495	\$ 19,965
LIABILITIES AND STOCKHOLDER EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,202	\$ 1,223
Accrued interest	80	174
Current portion of deferred revenue	1,500	1,721
Current maturities of debt	—	1
Operating lease current liabilities	50	48
Total current liabilities	2,832	3,167
Long-term deferred revenue	103	118
Long-term debt	8,870	8,544
Deferred tax liabilities	368	266
Operating lease liabilities	368	419
Other long-term liabilities	151	149
Total liabilities	12,692	12,663
Commitments and contingencies (Note 15)		
Stockholder equity:		
Common stock, par value \$0.001 per share; 9,000 shares authorized; 0.001 shares issued and outstanding at September 30, 2021 and December 31, 2020, respectively	—	—
Accumulated other comprehensive income, net of tax	17	15
Additional paid-in capital	2,180	8,680
Accumulated deficit	(394)	(1,393)
Total stockholder equity	1,803	7,302
Total liabilities and stockholder equity	\$ 14,495	\$ 19,965

See accompanying notes to the unaudited consolidated financial statements.

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

For the Nine Months Ended September 30, 2021

<i>(in millions)</i>	Common Stock		Accumulated Other Comprehensive Income	Additional Paid-in Capital	Accumulated Deficit	Total Stockholder Equity
	Shares	Amount				
Balance at December 31, 2020	—	\$ —	\$ 15	\$ 8,680	\$ (1,393)	\$ 7,302
Equity distribution	—	—	—	(6,500)	—	(6,500)
Comprehensive income, net of tax	—	—	2	—	999	1,001
Balance at September 30, 2021	—	\$ —	\$ 17	\$ 2,180	\$ (394)	\$ 1,803

For the Three Months Ended September 30, 2021

<i>(in millions)</i>	Common Stock		Accumulated Other Comprehensive Income	Additional Paid-in Capital	Accumulated Deficit	Total Stockholder Equity
	Shares	Amount				
Balance at June 30, 2021	—	\$ —	\$ 27	\$ 8,680	\$ (749)	\$ 7,958
Equity distribution	—	—	—	(6,500)	—	(6,500)
Comprehensive (loss) income, net of tax	—	—	(10)	—	355	345
Balance at September 30, 2021	—	\$ —	\$ 17	\$ 2,180	\$ (394)	\$ 1,803

See accompanying notes to the unaudited consolidated financial statements.

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

For the Nine Months Ended September 30, 2020

<i>(in millions)</i>	Common Stock		Accumulated Other Comprehensive Income (Loss)	Additional Paid-in Capital	Accumulated Deficit	Total Stockholder Equity
	Shares	Amount				
Balance at December 31, 2019	—	\$ —	\$ 8	\$ 8,680	\$ (1,552)	\$ 7,136
Comprehensive (loss) income, net of tax	—	—	(8)	—	837	829
Balance at September 30, 2020	—	\$ —	\$ —	\$ 8,680	\$ (715)	\$ 7,965

For the Three Months Ended September 30, 2020

<i>(in millions)</i>	Common Stock		Accumulated Other Comprehensive (Loss) Income	Additional Paid-in Capital	Accumulated Deficit	Total Stockholder Equity
	Shares	Amount				
Balance at June 30, 2020	—	\$ —	\$ (7)	\$ 8,680	\$ (995)	\$ 7,678
Comprehensive income, net of tax	—	—	7	—	280	287
Balance at September 30, 2020	—	\$ —	\$ —	\$ 8,680	\$ (715)	\$ 7,965

See accompanying notes to the unaudited consolidated financial statements.

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

<i>(in millions)</i>	For the Nine Months Ended September 30,	
	2021	2020
Cash flows from operating activities:		
Net income	\$ 999	\$ 837
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	399	381
Non cash impairment and restructuring costs	24	24
Non-cash interest expense, net of amortization of premium	10	9
Changes in fair value of contingent consideration	(17)	—
Provision for doubtful accounts	37	48
Amortization of deferred income related to equity method investment	—	(2)
Loss on extinguishment of debt	83	40
Loss on unconsolidated entity investments, net	11	8
Loss (gain) on fair value instrument	3	(27)
Dividend received from unconsolidated entity investment	1	1
Gain on other investments	(4)	(1)
Share-based payment expense	149	165
Deferred income tax expense	101	179
Amortization of right-of-use assets	46	42
Changes in operating assets and liabilities:		
Receivables	(22)	39
Inventory	6	(2)
Related party, net	(68)	(97)
Prepaid expenses and other current assets	(18)	(2)
Other long-term assets	(6)	14
Accounts payable and accrued expenses	(60)	(81)
Accrued interest	(94)	(76)
Deferred revenue	(236)	(147)
Operating lease liabilities	(47)	(39)
Other long-term liabilities	(5)	32
Net cash provided by operating activities	1,292	1,345
Cash flows from investing activities:		
Additions to property and equipment	(244)	(230)
Proceeds from insurance recoveries	225	—
Purchases of other investments	(3)	(8)
Acquisition of business, net of cash acquired	(14)	(28)
Investments in related parties and other equity investees	(16)	(89)
Repayment from related party	2	11
Net cash used in investing activities	(50)	(344)
Cash flows from financing activities:		
Intercompany financing activities	(1,357)	(1,021)
Revolving credit facility, net	(654)	—
Proceeds from long-term borrowings, net of costs	4,442	1,481
Principal payments of long-term borrowings	(3,503)	(1,506)
Payment of premiums on redemption of debt	(62)	(31)
Payment of contingent consideration for business acquisition	(19)	—
Net cash used in financing activities	(1,153)	(1,077)
Net increase (decrease) in cash, cash equivalents and restricted cash	89	(76)
Cash, cash equivalents and restricted cash at beginning of period ⁽¹⁾	83	120
Cash, cash equivalents and restricted cash at end of period ⁽¹⁾	\$ 172	\$ 44

See accompanying notes to the unaudited consolidated financial statements.

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

<i>(in millions)</i>	<u>For the Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>
Supplemental Disclosure of Cash and Non-Cash Flow Information		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$ 390	\$ 357
Income taxes paid	\$ 57	\$ 26
Non-cash investing and financing activities:		
Accumulated other comprehensive income (loss), net of tax	\$ 2	\$ (8)

- (1) The following table reconciles cash, cash equivalents and restricted cash per the statement of cash flows to the balance sheet. The restricted cash balances are primarily due to letters of credit which have been issued to the landlords of leased office space. The terms of the letters of credit primarily extend beyond one year.

<i>(in millions)</i>	<u>September 30, 2021</u>	<u>December 31, 2020</u>	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Cash and cash equivalents	\$ 164	\$ 71	\$ 33	\$ 106
Restricted cash included in Other long-term assets	8	12	11	14
Total cash, cash equivalents and restricted cash at end of period	<u>\$ 172</u>	<u>\$ 83</u>	<u>\$ 44</u>	<u>\$ 120</u>

See accompanying notes to the unaudited consolidated financial statements.

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

(1) Business & Basis of Presentation

Business

We operate two complementary audio entertainment businesses - our Sirius XM business and our Pandora business.

Sirius XM

Our Sirius XM business features music, sports, entertainment, comedy, talk, news, traffic and weather channels and other content, as well as podcasts and infotainment services, in the United States on a subscription fee basis. Sirius XM bundles include live, curated and certain exclusive and on demand programming. The Sirius XM service is distributed through our two proprietary satellite radio systems and streamed via applications for mobile devices, home devices and other consumer electronic equipment. Satellite radios are primarily distributed through automakers, retailers and our website. Our Sirius XM service is also available through our user interface, which we call “360L,” that combines our satellite and streaming services into a single, cohesive in-vehicle entertainment experience.

The primary source of revenue from our Sirius XM business is subscription fees, with most of our customers subscribing to monthly, quarterly, semi-annual or annual plans. We also derive revenue from advertising on select non-music channels, which is sold under the SXM Media brand, direct sales of our satellite radios and accessories, and other ancillary services. As of September 30, 2021, our Sirius XM business had approximately 34.3 million subscribers.

In addition to our audio entertainment businesses, we provide connected vehicle services to several automakers. These services are designed to enhance the safety, security and driving experience of consumers. We also offer a suite of data services that includes graphical weather, fuel prices, sports schedules and scores and movie listings, a traffic information service that includes information as to road closings, traffic flow and incident data to consumers with compatible in-vehicle navigation systems, and real-time weather services in vehicles, boats and planes.

In May 2020, we terminated the Automatic Labs Inc. (“Automatic”) service, which was part of our connected vehicle services business. Automatic operated a service for consumers and auto dealers and offered an install-it-yourself adapter and mobile application, which transformed older vehicles into connected vehicles. During the nine months ended September 30, 2020, we recorded \$24 of restructuring expenses in our unaudited consolidated statements of comprehensive income related to this termination of the service. Refer to Note 4 for more information.

Sirius XM also holds a 70% equity interest and 33% voting interest in Sirius XM Canada Holdings Inc. (“Sirius XM Canada”). Sirius XM Canada's subscribers are not included in our subscriber count or subscriber-based operating metrics.

Pandora

Our Pandora business operates a music, comedy and podcast streaming discovery platform, offering a personalized experience for each listener wherever and whenever they want to listen, whether through mobile devices, car speakers or connected devices. Pandora enables listeners to create personalized stations and playlists, discover new content, hear artist- and expert-curated playlists, podcasts and select Sirius XM content as well as search and play songs and albums on-demand. Pandora is available as (1) an ad-supported radio service, (2) a radio subscription service (Pandora Plus) and (3) an on-demand subscription service (Pandora Premium). As of September 30, 2021, Pandora had approximately 6.5 million subscribers.

The majority of revenue from our Pandora business is generated from advertising on our Pandora ad-supported radio service which is sold under the SXM Media brand. We also derive subscription revenue from our Pandora Plus and Pandora Premium subscribers.

Our Pandora business also sells advertising on audio platforms and in podcasts unaffiliated with us. Pandora has an arrangement with SoundCloud Holdings, LLC (“SoundCloud”) to be its exclusive US ad sales representative. Through this arrangement, Pandora is able to offer advertisers the ability to execute campaigns in the US across the Pandora and SoundCloud listening platforms. We also have arrangements to serve as the ad sales representative for certain podcasts. In addition, through AdWizz Inc., Pandora provides a comprehensive digital audio and programmatic advertising technology platform, which

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
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connects audio publishers and advertisers with a variety of ad insertion, campaign trafficking, yield optimization, programmatic buying, marketplace and podcast monetization solutions.

On February 10, 2020, Sirius XM invested \$75 in SoundCloud. SoundCloud is a next-generation music entertainment company, powered by an ecosystem of artists, listeners, and curators on the pulse of what's new, now and next in culture. SoundCloud's platform enables its users to upload, promote, share and create audio entertainment. The minority investment complements the existing ad sales relationship between SoundCloud and Pandora. Refer to Note 11 for more information on this investment.

On June 16, 2020, Sirius XM acquired Simplecast for \$28 in cash. Simplecast is a podcast management and analytics platform. Refer to Note 3 for more information on this acquisition.

On October 16, 2020, Sirius XM acquired certain assets and liabilities of Stitcher from The E.W. Scripps Company and certain of its subsidiaries ("Scripps") for total consideration of \$302, which included \$266 in cash and \$36 related to the acquisition date fair value of contingent consideration. As of September 30, 2021, we will potentially make up to \$30 in additional payments to Scripps related to the contingent consideration based on Stitcher's achievement of certain financial metrics in 2021. During the three and nine months ended September 30, 2021, we recognized a \$17 benefit related to the change in fair value of the 2021 portion of the contingent consideration. The acquisition of Stitcher, in conjunction with Simplecast, created a full-service platform for podcast creators, publishers and advertisers. Refer to Note 3 for more information on this acquisition.

Liberty Media

As of September 30, 2021, Liberty Media Corporation ("Liberty Media") beneficially owned, directly and indirectly, approximately 79% of the outstanding shares of Holdings' common stock. As a result, Holdings is a "controlled company" for the purposes of the NASDAQ corporate governance requirements.

Basis of Presentation

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

The unaudited consolidated financial statements for Sirius XM for the quarterly period ended September 30, 2021 are essentially identical to the unaudited consolidated financial statements included in Holdings' Form 10-Q for the quarterly period ended September 30, 2021, filed with the SEC on October 28, 2021, with the following exceptions:

- As a result of our corporate reorganization effective November 15, 2013, all of the outstanding shares of Sirius XM's common stock were converted, on a share for share basis, into identical shares of common stock of Holdings and all equity-related transactions, including repurchases of Holdings' common stock, dividend payments on shares of Holdings' common stock, the issuance of equity related to stock-based compensation to Sirius XM employees, Holdings' directors and third parties, and the issuance of Holdings' common stock related to the Pandora Acquisition have been reported as related party transactions within Sirius XM's unaudited consolidated financial statements. Refer to Note 11 for additional information related to related party transactions.
- As a result of the Pandora Acquisition effective February 1, 2019, we assumed Pandora's 1.75% Convertible Senior Notes due 2023 (the "Pandora 2023 Notes"). Upon the occurrence of certain events, the Pandora 2023 Notes can be convertible into shares of Holdings' common stock. Holdings allocates the principal amount of the Pandora 2023 Notes between liability and equity components. We have elected to measure the Pandora 2023 Notes at fair value with changes in fair value recorded within Sirius XM's consolidated statements of operations. Refer to Note 12 for more information regarding the Pandora 2023 Notes.

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

In the opinion of our management, all normal recurring adjustments necessary for a fair presentation of our unaudited consolidated financial statements as of September 30, 2021 and for the three and nine months ended September 30, 2021 and 2020 have been made.

Interim results are not necessarily indicative of the results that may be expected for a full year. This Quarterly Report should be read together with our Annual Report for the year ended December 31, 2020, which is available on our website at <http://investor.siriusxm.com/investoroverview/default.aspx#dividend-tab2>, and with Holdings' Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the SEC on February 2, 2021.

Public companies, including our parent Holdings, are required to disclose certain information about their reportable operating segments. Operating segments are defined as significant components of an enterprise for which separate financial information is available and is evaluated on a regular basis by the chief operating decision maker in deciding how to allocate resources to an individual segment and in assessing performance of the segment. We have determined that we have two reportable segments as our chief operating decision maker, our Chief Executive Officer, assesses performance and allocates resources based on the financial results of these segments. Refer to Note 17 for information related to our segments.

We have evaluated events subsequent to the balance sheet date and prior to the furnishing of this Quarterly Report for the three and nine months ended September 30, 2021 and have determined that no events have occurred that would require adjustment to our unaudited consolidated financial statements. For a discussion of subsequent events that do not require adjustment to our unaudited consolidated financial statements refer to Note 18.

Use of Estimates

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

(2) Summary of Significant Accounting Policies

Fair Value Measurements

For assets and liabilities required to be reported at fair value, GAAP provides a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are based on unadjusted quoted prices in active markets for identical instruments. Level 2 inputs are inputs, other than quoted market prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. As of September 30, 2021 and December 31, 2020, the carrying amounts of cash and cash equivalents, receivables and accounts payable approximated fair value due to the short-term nature of these instruments.

Our liabilities measured at fair value were as follows:

	September 30, 2021				December 31, 2020			
	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:								
Debt ^(a)	—	\$ 9,132	—	\$ 9,132	—	\$ 9,011	—	\$ 9,011

(a) The fair value for non-publicly traded debt is based upon estimates from a market maker and brokerage firm. Refer to Note 12 for information related to the carrying value of our debt as of September 30, 2021 and December 31, 2020.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
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Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income of \$17 was primarily comprised of the cumulative foreign currency translation adjustments related to our investment in and loan to Sirius XM Canada (refer to Note 12 for additional information). During the three and nine months ended September 30, 2021, we recorded foreign currency translation adjustment (loss) income of \$(10) and \$2, respectively, net of tax benefit (expense) of \$3 and \$(1), respectively. During the three and nine months ended September 30, 2020, we recorded foreign currency translation adjustment income (loss) of \$7 and \$(8), respectively, net of a tax (expense) benefit of \$(2) and \$3, respectively.

(3) Acquisitions

Stitcher

On October 16, 2020, Sirius XM acquired certain assets and liabilities of Stitcher from Scripps for \$266 in cash, which amount includes net working capital adjustments. The total purchase consideration of \$302 includes \$36 related to the acquisition date fair value of the contingent consideration. As of September 30, 2021, we will potentially make up to \$30 in additional payments to Scripps related to the contingent consideration based on Stitcher's achievement of certain financial metrics in 2021. During the three and nine months ended September 30, 2021, we recognized a \$17 benefit related to the change in fair value of the 2021 portion of the contingent consideration in Impairment, restructuring and acquisition costs on our unaudited consolidated statements of comprehensive income. The fair value of the contingent consideration was determined using a probability-weighted cash flow model and will be remeasured to fair value at each subsequent reporting period. Stitcher is included in our Pandora reporting unit.

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

Acquired Assets:	
Receivables, net	\$ 21
Prepaid expenses and other current assets	16
Property and equipment	8
Intangible assets	38
Goodwill	224
Operating lease right-of-use assets	11
Total assets	318
Assumed Liabilities:	
Accounts payable and accrued expenses	4
Deferred revenue	1
Operating lease current liabilities	2
Operating lease liabilities	9
Total liabilities	16
Total consideration	\$ 302

The Stitcher acquisition was accounted for using the acquisition method of accounting and was financed through borrowings under our Credit Facility.

Simplecast

On June 16, 2020, Sirius XM acquired Simplecast for \$28 in cash. Simplecast is a podcast management and analytics platform. Simplecast complements AdsWizz's advertising technology platform, allowing the company to offer podcasters of all sizes a powerful, comprehensive solution for publishing, analytics, distribution and advertising sales, and is included in the Pandora reporting unit. The Simplecast acquisition was accounted for using the acquisition method of accounting. We recognized goodwill of \$17, amortizable intangible assets of \$12, other assets of less than \$1 and deferred tax liabilities of \$1.

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

Other acquisitions

On April 23, 2021, we completed a small acquisition for total consideration of \$27 which includes \$20 in cash, a \$3 deferred cash payment and \$4 in restricted stock units. We recognized goodwill of \$22 and other assets of \$5.

Acquisition related costs of \$3 were recognized for the nine months ended September 30, 2021.

(4) Restructuring Costs

During the nine months ended September 30, 2021, we evaluated our office space needs and, as a result of such analysis, surrendered certain office leases primarily in New York, New York and Oakland, California. We assessed the recoverability of the carrying value of the operating lease right of use assets related to these locations. Based on that assessment, the carrying values of the assets were not recoverable and we recorded an impairment of \$18 to reduce the carrying value of the assets to their fair values. Additionally, we accrued expenses of \$6 for which we will not recognize any future economic benefits and wrote off leasehold improvements of \$1. The fair values of the assets were determined using a discounted cash flow model based on management's assumptions regarding the ability to sublease the locations and the remaining term of the leases. The total charge of \$25 was recorded to Impairment, restructuring and acquisition costs in our unaudited consolidated statement of comprehensive income for the nine months ended September 30, 2021. There were no restructuring charges recorded during the three months ended September 30, 2021.

In May 2020, we terminated the Automatic service, which was part of our connected services business. During the nine months ended September 30, 2020, we recorded \$24 of restructuring expenses primarily related to the write down of property and equipment, definite lived intangible assets and certain other assets in Acquisition and restructuring costs in our unaudited consolidated statements of comprehensive income. We did not record any restructuring expenses during the three months ended September 30, 2020. The termination of the Automatic service does not meet the requirements to be reported as a discontinued operation in our unaudited consolidated statements of comprehensive income because the termination of the service does not represent a strategic shift that will have a major effect on our operations and financial results.

(5) Receivables, net

Receivables, net, includes customer accounts receivable, receivables from distributors and other receivables. We do not have any customer receivables that individually represent more than ten percent of our receivables.

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

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

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

Receivables, net, consists of the following:

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Gross customer accounts receivable	\$ 587	\$ 574
Allowance for doubtful accounts	(10)	(15)
Customer accounts receivable, net	<u>\$ 577</u>	<u>\$ 559</u>
Receivables from distributors	48	73
Other receivables	27	40
Total receivables, net	<u><u>\$ 652</u></u>	<u><u>\$ 672</u></u>

(6) Inventory, net

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

Inventory, net, consists of the following:

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Finished goods	\$ 7	\$ 13
Allowance for obsolescence	(3)	(3)
Total inventory, net	<u><u>\$ 4</u></u>	<u><u>\$ 10</u></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 of our two reporting units 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 a reporting unit below its carrying amount. ASC 350, *Intangibles - Goodwill and Other*, states that an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value.

As of September 30, 2021, there were no indicators of impairment, and no impairment losses were recorded for goodwill during the three and nine months ended September 30, 2021 and 2020. As of September 30, 2021, the cumulative balance of goodwill impairments recorded was \$5,722, of which \$4,766 was recognized during the year ended December 31, 2008 and is included in the carrying amount of the goodwill allocated to our Sirius XM reporting unit and \$956 was recognized during the year ended December 31, 2020 and is included in the carrying amount of the goodwill allocated to our Pandora reporting unit.

As of September 30, 2021, the carrying amount of goodwill for our Sirius XM and Pandora reporting units was \$2,290 and \$860, respectively. During the nine months ended September 30, 2021, we recorded \$6 of goodwill related to purchase accounting adjustments for the acquisition of Stitcher and \$22 of goodwill related to a small acquisition which was recorded to our Pandora reporting unit. As of December 31, 2020, the carrying amount of goodwill for our Sirius XM and Pandora reporting units was \$2,290 and \$832, respectively.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

(8) Intangible Assets

Our intangible assets include the following:

	Weighted Average Useful Lives	September 30, 2021			December 31, 2020		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Indefinite life intangible assets:							
FCC licenses	Indefinite	\$ 2,084	\$ —	\$ 2,084	\$ 2,084	\$ —	\$ 2,084
Trademarks	Indefinite	250	—	250	250	—	250
Definite life intangible assets:							
OEM relationships	15 years	220	(116)	104	220	(105)	115
Licensing agreements	12 years	45	(45)	—	45	(45)	—
Software and technology	7 years	31	(18)	13	31	(16)	15
Due to Pandora and Stitcher Acquisitions:							
Indefinite life intangible assets:							
Trademarks	Indefinite	311	—	311	311	—	311
Definite life intangible assets:							
Customer relationships	8 years	441	(149)	292	441	(104)	337
Software and technology	5 years	373	(202)	171	373	(145)	228
Total intangible assets		<u>\$ 3,755</u>	<u>\$ (530)</u>	<u>\$ 3,225</u>	<u>\$ 3,755</u>	<u>\$ (415)</u>	<u>\$ 3,340</u>

Indefinite Life Intangible Assets

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

We hold FCC licenses to operate our satellite digital audio radio service and provide ancillary services. Each of the FCC licenses authorizes us to use radio spectrum, a reusable resource that does not deplete or exhaust over time.

Our annual impairment assessment of our identifiable indefinite lived intangible assets is performed as of the fourth quarter of each year. An assessment is performed at other times if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset below its carrying value. If the carrying value of the intangible assets exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. As of September 30, 2021, there were no indicators of impairment, and no impairment loss was recognized for intangible assets with indefinite lives during the three and nine months ended September 30, 2021. During the nine months ended September 30, 2020, we recognized an impairment loss of less than \$1 for intangible assets with indefinite lives related to the termination of the Automatic service. No impairment loss was recognized during the three months ended September 30, 2020.

Definite Life Intangible Assets

Amortization expense for all definite life intangible assets was \$38 and \$37 for the three months ended September 30, 2021 and 2020, respectively, and \$115 and \$113 for the nine months ended September 30, 2021 and 2020, respectively. There were retirements of definite lived intangible assets of \$17, which included a loss of \$4, due to the termination of the Automatic service, during the nine months ended September 30, 2020. There were no retirements of definite lived intangible assets during the nine months ended September 30, 2021.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

The expected amortization expense for each of the fiscal years 2021 through 2025 and for periods thereafter is as follows:

Years ending December 31,	Amount
2021 (remaining)	\$ 38
2022	154
2023	141
2024	75
2025	69
Thereafter	103
Total definite life intangible assets, net	<u>\$ 580</u>

(9) Property and Equipment

Property and equipment, net, consists of the following:

	September 30, 2021	December 31, 2020
Satellite system	\$ 1,848	\$ 1,587
Terrestrial repeater network	105	105
Leasehold improvements	109	111
Broadcast studio equipment	108	100
Capitalized software and hardware	1,418	1,372
Satellite telemetry, tracking and control facilities	63	96
Furniture, fixtures, equipment and other	91	92
Land	38	38
Building	63	63
Construction in progress	288	510
Total property and equipment	4,131	4,074
Accumulated depreciation	(2,675)	(2,445)
Property and equipment, net	<u>\$ 1,456</u>	<u>\$ 1,629</u>

Construction in progress consists of the following:

	September 30, 2021	December 31, 2020
Satellite system	\$ 49	\$ 429
Terrestrial repeater network	11	8
Capitalized software and hardware	195	52
Other	33	21
Construction in progress	<u>\$ 288</u>	<u>\$ 510</u>

Depreciation and amortization expense on property and equipment was \$97 and \$88 for the three months ended September 30, 2021 and 2020, respectively, and \$284 and \$268 for the nine months ended September 30, 2021 and 2020, respectively. We retired property and equipment of \$47 and \$54 during the three and nine months ended September 30, 2021, respectively. Property and equipment of \$65, which included a loss of \$13 related to the termination of the Automatic service, was retired during the nine months ended September 30, 2020. There were no retirements of property and equipment during the three months ended September 30, 2020.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

We capitalize a portion of the interest on funds borrowed to finance the construction and launch of our satellites. Capitalized interest is recorded as part of the asset's cost and depreciated over the satellite's useful life. Capitalized interest costs were and \$1 and \$5 for the three months ended September 30, 2021 and 2020, respectively, and \$6 and \$14 for the nine months ended September 30, 2021 and 2020, respectively, which related to the construction of our SXM-8 satellite. We also capitalize a portion of share-based compensation related to employee time for capitalized software projects. Capitalized share-based compensation costs were \$4 for each of the three months ended September 30, 2021 and 2020 and \$10 and \$13 for the nine months ended September 30, 2021 and 2020, respectively.

Satellites

As of September 30, 2021, we operated a fleet of six satellites. Each satellite requires an FCC license, and prior to the expiration of each license, we are required to apply for a renewal of the FCC satellite license. The renewal and extension of our licenses is reasonably certain at minimal cost, which is expensed as incurred. The chart below provides certain information on our satellites as of September 30, 2021:

Satellite Description	Year Delivered	Estimated End of Depreciable Life	FCC License Expiration Year
SIRIUS FM-5	2009	2024	2025
SIRIUS FM-6	2013	2028	2022
XM-3	2005	2020	2026
XM-4	2006	2021	2022
XM-5	2010	2025	2026
SXM-8	2021	2036	2029

On December 13, 2020, our SXM-7 satellite was launched and in-orbit testing of SXM-7 began on January 4, 2021. During in-orbit testing of SXM-7, events occurred which caused failures of certain SXM-7 payload units. The evaluation of SXM-7 concluded that the satellite will not function as intended, which we considered to be a triggering event prompting the assessment as to whether the asset's carrying value of \$220 was recoverable. In determining recoverability of SXM-7, we compared the asset's carrying value to the undiscounted cash flows derived from the satellite. SXM-7 was determined to be a total loss and therefore, we determined that the carrying value of the satellite is not recoverable and an impairment charge of \$220 was recorded to Impairment, restructuring and acquisition costs in our unaudited consolidated statements of comprehensive income for the nine months ended September 30, 2021. SXM-7 remains in-orbit at its assigned orbital location, but is not being used to provide satellite radio service.

We procured insurance for SXM-7 to cover the risks associated with the satellite's launch and first year of in-orbit operation. The aggregate coverage under the insurance policies with respect to SXM-7 is \$225. During the nine months ended September 30, 2021, we collected \$225 of insurance recoveries. Of this amount, \$80 and \$220 have been recorded as a reduction to Impairment, restructuring and acquisition costs during the three and nine months ended September 30, 2021, respectively. The remaining \$5 has been recorded in Other income during the three and nine months ended September 30, 2021.

Our SXM-8 satellite was successfully launched into a geostationary orbit on June 6, 2021 and was placed into service on September 8, 2021 following the completion of in-orbit testing. The SXM-8 satellite replaced the XM-3 satellite, which remains available as an in-orbit spare along with XM-5.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

(10) Leases

We have operating and finance leases for offices, terrestrial repeaters, data centers and certain equipment. Our leases have remaining lease terms of less than 1 year to 17 years, some of which may include options to extend the leases for up to 5 years, and some of which may include options to terminate the leases within 1 year. We elected the practical expedient to account for the lease and non-lease components as a single component. Additionally, we elected the practical expedient to not recognize right-of-use assets or lease liabilities for short-term leases, which are those leases with a term of twelve months or less at the lease commencement date.

The components of lease expense were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Operating lease cost	\$ 18	\$ 20	\$ 60	\$ 61
Finance lease cost	—	—	—	1
Sublease income	(2)	—	(4)	(1)
Total lease cost	\$ 16	\$ 20	\$ 56	\$ 61

During the nine months ended September 30, 2021, we ceased using certain leased locations and recorded an impairment charge of \$18 to write down the carrying value of the right-of-use assets for these locations to their estimated fair values. Refer to Note 4 for additional information.

(11) Related Party Transactions

In the normal course of business, we enter into transactions with related parties such as Sirius XM Canada and SoundCloud.

Liberty Media

As of September 30, 2021, Liberty Media beneficially owned, directly and indirectly, approximately 79% of the outstanding shares of Holdings' common stock. Liberty Media has three of its executives and one of its directors on our board of directors. Gregory B. Maffei, the President and Chief Executive Officer of Liberty Media, is the Chairman of our board of directors.

Sirius XM Holdings

Sirius XM is a wholly-owned subsidiary of Holdings. Holdings has no operations independent of Sirius XM. All equity-related transactions, including repurchases of Holdings' common stock, dividend payments on shares of Holdings' common stock, the issuance of equity related to share-based compensation for Sirius XM employees, Holdings' directors and third parties and the issuance of Holdings' common stock related to the recapitalization of Sirius XM Canada and the Pandora Acquisition have been reported as related party transactions within our unaudited consolidated financial statements. The share-based compensation for Sirius XM employees, Holdings' directors and third parties has been recorded in our unaudited consolidated financial statements. The Related party long-term assets balance as of September 30, 2021 and December 31, 2020 of Sirius XM includes \$4,404 and \$9,636 respectively, primarily for net amounts due from Holdings in connection with these equity-related transactions. During the three months ended September 30, 2021, we completed a \$6,500 equity distribution to Holdings to settle certain intercompany balances. The equity distribution was recognized as a reduction to Additional paid in capital.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

During the nine months ended September 30, 2021, we used \$1,357 of our cash for the purchase and retirement of shares of Holdings' common stock under Holdings' repurchase program and payment of a cash dividend on Holdings' common stock. This amount is included in our Related party long-term asset balance as a receivable due from Holdings.

Sirius XM Canada

We hold a 70% equity interest and 33% voting interest in Sirius XM Canada, a privately held corporation. We own 591 shares of preferred stock of Sirius XM Canada, which has a liquidation preference of one Canadian dollar per share. Sirius XM also made a loan to Sirius XM Canada in the aggregate amount of \$131. The loan is denominated in Canadian dollars and is considered a long-term investment with any unrealized gains or losses reported within Accumulated other comprehensive (loss) income. During the nine months ended September 30, 2021 and 2020, Sirius XM Canada repaid \$2 and \$11 of the principal amount of the loan, respectively.

We also entered into a Services Agreement and an Advisory Services Agreement with Sirius XM Canada. Each agreement has a thirty-year term. Pursuant to the Services Agreement, Sirius XM Canada currently pays Sirius XM 25% of its gross revenues on a monthly basis, and pursuant to the Advisory Services Agreement, Sirius XM Canada pays Sirius XM 5% of its gross revenues on a monthly basis.

Sirius XM Canada is accounted for as an equity method investment, and its results are not consolidated in our unaudited consolidated financial statements. Sirius XM Canada does not meet the requirements for consolidation as we do not have the ability to direct the most significant activities that impact Sirius XM Canada's economic performance.

Our related party long-term assets as of September 30, 2021 and December 31, 2020 included the carrying value of our investment balance in Sirius XM Canada of \$338 and \$332, respectively, and, as of September 30, 2021 and December 31, 2020, also included \$121 and \$123, respectively, for the long-term value of the outstanding loan to Sirius XM Canada.

Sirius XM Canada paid gross dividends to us of less than \$1 during each of the three months ended September 30, 2021 and 2020, and \$1 during each of the nine months ended September 30, 2021 and 2020. Dividends are first recorded as a reduction to our investment balance in Sirius XM Canada to the extent a balance exists and then as Other (expense) income for any remaining portion.

We recorded revenue from Sirius XM Canada as Other revenue in our unaudited consolidated statements of comprehensive income of \$25 for each of the three months ended September 30, 2021 and 2020, and \$76 and \$73 for the nine months ended September 30, 2021 and 2020, respectively.

SoundCloud

In February 2020, we completed a \$75 investment in SoundCloud's Series G Membership Units ("Series G Units"). The Series G Units are convertible at the option of the holders at any time into shares of ordinary membership units of SoundCloud at a ratio of one ordinary membership unit for each Series G Unit. The investment in SoundCloud is accounted for as an equity method investment which is recorded in Related party long-term assets in our unaudited consolidated balance sheets. Sirius XM has appointed two individuals to serve on SoundCloud's nine-member board of managers. Our share of SoundCloud's net (loss) income was \$(1) and less than \$1 for the three months ended September 30, 2021 and 2020, respectively, and \$(1) for each of the nine months ended September 30, 2021 and 2020, which was recorded in Other income (expense) in our unaudited consolidated statement of comprehensive income.

In addition to our investment in SoundCloud, Pandora has an agreement with SoundCloud to be its exclusive US ad sales representative. Through this arrangement, Pandora offers advertisers the ability to execute campaigns in the US across the Pandora and SoundCloud listening platforms. We recorded revenue share expense of \$15 and \$13 for the three months ended September 30, 2021 and 2020, respectively, and \$42 and \$36 for the nine months ended September 30, 2021 and 2020, respectively. We also had related party liabilities of \$19 as of September 30, 2021 related to this agreement.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

(12) Debt

Our debt as of September 30, 2021 and December 31, 2020 consisted of the following:

Issuer / Borrower	Issued	Debt	Maturity Date	Interest Payable	Principal Amount at September 30, 2021	Carrying value ^(a) at	
						September 30, 2021	December 31, 2020
Sirius XM (b) (f)	July 2017	3.875% Senior Notes	August 1, 2022	semi-annually on February 1 and August 1	\$ —	\$ —	\$ 997
Pandora (c) (d)	June 2018	1.75% Convertible Senior Notes	December 1, 2023	semi-annually on June 1 and December 1	193	218	215
Sirius XM (b) (f)	July 2019	4.625% Senior Notes	July 15, 2024	semi-annually on January 15 and July 15	—	—	1,488
Sirius XM (b) (f)	May 2016	5.375% Senior Notes	July 15, 2026	semi-annually on January 15 and July 15	—	—	993
Sirius XM (b) (g)	August 2021	3.125% Senior Notes	September 1, 2026	semi-annually on March 1 and September 1	1,000	989	—
Sirius XM (b)	July 2017	5.00% Senior Notes	August 1, 2027	semi-annually on February 1 and August 1	1,500	1,491	1,490
Sirius XM (b)	June 2021	4.00% Senior Notes	July 15, 2028	semi-annually on January 15 and July 15	2,000	1,978	—
Sirius XM (b)	June 2019	5.500% Senior Notes	July 1, 2029	semi-annually on January 1 and July 1	1,250	1,239	1,237
Sirius XM (b)	June 2020	4.125% Senior Notes	July 1, 2030	semi-annually on January 1 and July 1	1,500	1,485	1,484
Sirius XM (b) (g)	August 2021	3.875% Senior Notes	September 1, 2031	semi-annually on March 1 and September 1	1,500	1,483	—
Sirius XM (e)	December 2012	Senior Secured Revolving Credit Facility (the "Credit Facility")	August 31, 2026	variable fee paid quarterly	—	—	649
Sirius XM	Various	Finance leases	Various	n/a	n/a	—	1
Total Debt						8,883	8,554
Less: total current maturities (g)						—	1
Less: total deferred financing costs						13	9
Total long-term debt						\$ 8,870	\$ 8,544

- (a) The carrying value of the obligations is net of any remaining unamortized original issue discount.
- (b) All material domestic subsidiaries, including Pandora and its subsidiaries, that guarantee the Credit Facility have guaranteed these notes.
- (c) Holdings has unconditionally guaranteed all of the payment obligations of Pandora under these notes.
- (d) We acquired \$193 in principal amount of the 1.75% Convertible Senior Notes due 2023 as part of the acquisition of Pandora Media, Inc. in 2019. We elected to record the 1.75% Convertible Senior Notes due 2023 at fair value which will be remeasured each reporting period. The changes in fair value will be recorded in our consolidated statements of comprehensive income. The 1.75% Convertible Senior Notes due 2023 were not convertible into Holdings' common stock and not redeemable as of September 30, 2021. As a result, we have classified the debt as Long-term within our unaudited consolidated balance sheets.
- (e) In August 2021, we entered into an amendment to extend the maturity of the \$1,750 Credit Facility to August 31, 2026. Our obligations under the Credit Facility are guaranteed by certain of our material domestic subsidiaries, including Pandora and its subsidiaries, and are secured by a lien on substantially all of our assets and the assets of our material domestic subsidiaries. Interest on borrowings is payable on a monthly basis and accrues at a rate based on LIBOR plus an applicable rate. We are also required to pay a variable fee on the average daily unused portion of the Credit Facility which is payable on a quarterly basis. The variable rate for the unused portion of the Credit Facility was 0.25% per annum as of September 30, 2021. Our outstanding borrowings under the Credit

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

Facility are classified as Long-term debt within our unaudited consolidated balance sheets due to the long-term maturity of this debt. Additionally, the amount available for future borrowing under the Credit Facility is reduced by letters of credit issued for the benefit of Pandora, which were \$1 as of September 30, 2021.

- (f) On August 2, 2021, we redeemed \$1,000 in outstanding principal amount of the 3.875% Senior Notes due 2022 for an aggregate purchase price, including interest, of \$1,019. On August 16, 2021, we redeemed \$1,500 in outstanding principal amount of the 4.625% Senior Notes due 2024 for an aggregate purchase price, including premium and interest, of \$1,541. On September 2, 2021, we redeemed \$1,000 in outstanding principal amount of the 5.375% Senior Notes due 2026 for an aggregate purchase price, including premium and interest, of \$1,034. During the three and nine months ended September 30, 2021, we recognized \$83 to Loss on extinguishment of debt, consisting primarily of redemption premiums of \$62, unamortized discount and unamortized deferred financing fees, as a result of these redemptions.
- (g) On August 16, 2021, we issued \$1,000 aggregate principal amount of the 3.125% Senior Notes due 2026 and \$1,500 aggregate principal amount of the 3.875% Senior Notes due 2031 with a net original issuance discount and deferred financing costs in aggregate of \$13 and \$19, respectively.

Retired Debt

On July 9, 2020, we redeemed \$500 of our then outstanding 4.625% Senior Notes due 2023 for an aggregate purchase price, including premium and interest, of \$507. On July 9, 2020, we also redeemed \$1,000 of our then outstanding 5.375% Senior Notes due 2025 for an aggregate purchase price, including premium and interest, of \$1,039. During the three and nine months ended September 30, 2020, we recognized \$40 to Loss on extinguishment of debt, consisting primarily of redemption premiums, unamortized discount and deferred financing fees, as a result of these redemptions.

Covenants and Restrictions

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

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

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

The indenture governing the Pandora 2023 Notes (as defined below) contains covenants that limit Pandora's ability to merge or consolidate and provides for customary events of default, which include nonpayment of principal or interest, breach of covenants, payment defaults or acceleration of other indebtedness and certain events of bankruptcy.

At September 30, 2021 and December 31, 2020, we were in compliance with our debt covenants.

Pandora Convertible Notes

Pandora's 1.75% Convertible Senior Notes due 2023 (the "Pandora 2023 Notes") are unsecured, senior obligations of Pandora. Holdings has guaranteed the payment and performance obligations of Pandora under the Pandora 2023 Notes and the indenture governing the Pandora 2023 Notes.

The Pandora 2023 Notes will mature on December 1, 2023, unless earlier repurchased or redeemed by Pandora or converted in accordance with their terms. As of September 30, 2021, the conversion rate applicable to the Pandora 2023 Notes

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

was 153.7797 shares of Holdings' common stock per one thousand principal amount of the Pandora 2023 Notes plus carryforward adjustments not yet effected pursuant to the terms of the indenture governing the Pandora 2023 Notes.

(13) Stockholder Equity

Common Stock, par value \$0.001 per share

We are authorized to issue up to 9,000 shares of common stock. There were 0.001 shares of common stock of Sirius XM issued and outstanding on September 30, 2021 and December 31, 2020, which were owned by Holdings.

Preferred Stock, par value \$0.001 per share

We are authorized to issue up to 50 shares of undesignated preferred stock with a liquidation preference of \$0.001 per share. There were no shares of preferred stock issued or outstanding as of September 30, 2021 and December 31, 2020.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

(14) Benefit Plans

We recognized share-based payment expense of \$51 and \$58 for the three months ended September 30, 2021 and 2020, respectively, and \$149 and \$165 for the nine months ended September 30, 2021 and 2020, respectively.

2015 Long-Term Stock Incentive Plan

In May 2015, our stockholders approved the Sirius XM Holdings Inc. 2015 Long-Term Stock Incentive Plan (the “2015 Plan”). Employees, consultants and members of our board of directors are eligible to receive awards under the 2015 Plan. The 2015 Plan provides for the grant of stock options, restricted stock awards, restricted stock units and other stock-based awards that the Compensation Committee of Holdings' Board of Directors deems appropriate. Stock-based awards granted under the 2015 Plan are generally subject to a graded vesting requirement, which is generally three to four years from the grant date. Stock options generally expire ten years from the date of grant. Restricted stock units include performance-based restricted stock units (“PRSUs”), the vesting of which are subject to the achievement of performance goals and the employee's continued employment and generally cliff vest on the third anniversary of the grant date. Each restricted stock unit entitles the holder to receive one share of common stock upon vesting. As of September 30, 2021, 128 shares of common stock were available for future grants under the 2015 Plan.

In February 2021, the Compensation Committee of Holdings' Board of Directors approved a modification to the design of our long-term equity compensation program for our senior management. The Compensation Committee intends to award equity-based compensation to our senior management in the form of: 25% stock options, which awards will vest in installments on the first three anniversaries of the date of grant; 25% restricted stock units, which awards will vest in installments on the first three anniversaries of the date of grant; 25% PRSUs, which will cliff vest on the third anniversary of the date of grant after a two-year performance period if the free cash flow target established by the Compensation Committee is achieved; and 25% PRSUs, which will cliff vest after a three-year performance period based on the performance of our common stock relative to the companies included in the S&P 500 Index. We refer to this performance measure as a relative “TSR” or “total stockholder return” metric. PRSUs based on the relative total stockholder return metric will only vest if our performance achieves at least the 25th percentile, with a target payout requiring performance at the 50th percentile. The settlement of PRSUs earned in respect of the applicable three-year performance period will be generally subject to the executive's continued employment with us through the date the total stockholder return performance is certified by the Compensation Committee.

In connection with our February 2019 acquisition of Pandora, we assumed all shares available for issuance (including any shares that later become available for issuance in accordance with the terms of the applicable plans) under each of the 2014 Stock Incentive Plan of AdsWizz Inc., the Pandora Media, Inc. 2011 Equity Incentive Plan, the Pandora Media, Inc. 2004 Stock Plan and the TheSavageBeast.com, Inc. 2000 Stock Incentive Plan, which were previously approved by stockholders of Pandora or the applicable adopting entity. All shares available under these stock plans became additional shares available for grant pursuant to the terms of the 2015 Plan (as adjusted, to the extent appropriate, to reflect the application of the exchange ratio). Subject to certain limitations set forth in the 2015 Plan, such shares may be used for awards under the 2015 Plan.

Other Plans

We maintain six share-based benefit plans in addition to the 2015 Plan — the Sirius XM Radio Inc. 2009 Long-Term Stock Incentive Plan, the Amended and Restated Sirius Satellite Radio 2003 Long-Term Stock Incentive Plan, the 2014 Stock Incentive Plan of AdsWizz Inc., the Pandora Media, Inc. 2011 Equity Incentive Plan, the Pandora Media, Inc. 2004 Stock Plan and the TheSavageBeast.com, Inc. 2000 Stock Incentive Plan. Excluding dividend equivalent units granted as a result of a declared dividend, no further awards may be made under these plans.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Risk-free interest rate	0.5%	0.2%	0.6%	1.3%
Expected life of options — years	3.83	3.79	6.06	3.82
Expected stock price volatility	32%	34%	33%	25%
Expected dividend yield	0.9%	0.9%	1.0%	0.7%

The following table summarizes stock option activity under our share-based plans for the nine months ended September 30, 2021:

	Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2020	184	\$ 4.73		
Granted	54	\$ 6.14		
Exercised	(63)	\$ 3.96		
Forfeited, cancelled or expired	(5)	\$ 6.72		
Outstanding as of September 30, 2021	170	\$ 5.40	5.85	\$ 144
Exercisable as of September 30, 2021	99	\$ 4.80	4.79	\$ 142

The weighted average grant date fair value per stock option granted during the nine months ended September 30, 2021 was \$1.77. The total intrinsic value of stock options exercised during the nine months ended September 30, 2021 and 2020 was \$149 and \$53, respectively.

We recognized share-based payment expense associated with stock options of \$10 and \$11 for the three months ended September 30, 2021 and 2020, respectively, and \$32 and \$34 for the nine months ended September 30, 2021 and 2020, respectively.

The following table summarizes the restricted stock unit, including PRSU, activity under our share-based plans for the nine months ended September 30, 2021:

	Shares	Grant Date Fair Value Per Share
Nonvested as of December 31, 2020	75	\$ 6.06
Granted	39	\$ 6.35
Vested	(24)	\$ 6.02
Forfeited	(8)	\$ 6.09
Nonvested as of September 30, 2021	82	\$ 6.21

The total intrinsic value of restricted stock units, including PRSUs, vesting during the nine months ended September 30, 2021 and 2020 was \$154 and \$168, respectively. During the nine months ended September 30, 2021, we granted 7 PRSUs to certain employees. We believe it is probable that the performance target applicable to these PRSUs will be achieved.

In connection with the cash dividends paid during the nine months ended September 30, 2021, we granted less than 1 restricted stock units, including PRSUs, in accordance with the terms of existing award agreements. These grants did not result in any additional incremental share-based payment expense being recognized during the nine months ended September 30, 2021.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

We recognized share-based payment expense associated with restricted stock units, including PRSUs, of \$41 and \$47 for the three months ended September 30, 2021 and 2020, respectively, and \$117 and \$131 for the nine months ended September 30, 2021 and 2020, respectively.

Total unrecognized compensation costs related to unvested share-based payment awards for stock options and restricted stock units, including PRSUs, granted to employees, members of our board of directors and third parties at September 30, 2021 and December 31, 2020 was \$513 and \$385, respectively. The total unrecognized compensation costs at September 30, 2021 are expected to be recognized over a weighted-average period of 2.6 years.

401(k) Savings Plans

Sirius XM Radio Inc. 401(k) Savings Plan

We sponsor the Sirius XM Radio Inc. 401(k) Savings Plan (the “Sirius XM Plan”) for eligible employees. The Sirius XM Plan allows eligible employees to voluntarily contribute from 1% to 50% of their pre-tax eligible earnings, subject to certain defined limits. We match 50% of an employee’s voluntary contributions per pay period on the first 6% of an employee’s pre-tax salary up to a maximum of 3% of eligible compensation. We may also make additional discretionary matching, true-up matching and non-elective contributions to the Sirius XM Plan. Employer matching contributions under the Sirius XM Plan vest at a rate of 33.33% for each year of employment and are fully vested after three years of employment for all current and future contributions. Our cash employer matching contributions are not used to purchase shares of Holdings’ common stock on the open market, unless the employee elects Holdings’ common stock as their investment option for this contribution. In October 2020, the Pandora Media, LLC 401(k) Profit Sharing Plan and Trust merged with the Sirius XM Plan.

We recognized expenses of \$4 for each of the three months ended September 30, 2021 and 2020, and \$17 and \$12 for the nine months ended September 30, 2021 and 2020, respectively, in connection with the Sirius XM and Pandora Plans.

Sirius XM Holdings Inc. Deferred Compensation Plan

The Sirius XM Holdings Inc. Deferred Compensation Plan (the “DCP”) allows members of Holdings’ board of directors and certain eligible employees to defer all or a portion of their base salary, cash incentive compensation and/or board of directors’ cash compensation, as applicable. Pursuant to the terms of the DCP, Holdings or any of its subsidiaries may elect to make additional contributions beyond amounts deferred by participants, but is under no obligation to do so. Holdings has established a grantor (or “rabbi”) trust to facilitate the payment of its obligations under the DCP.

Contributions to the DCP, net of withdrawals, were less than \$1 and \$1 for the three months ended September 30, 2021 and 2020, respectively, and \$3 and \$8 for the nine months ended September 30, 2021 and 2020, respectively. As of September 30, 2021 and December 31, 2020, the fair value of the investments held in the trust were \$53 and \$46, respectively, which is included in Other long-term assets in our unaudited consolidated balance sheets and classified as trading securities. Trading gains and losses associated with these investments are recorded in Other (expense) income within our unaudited consolidated statements of comprehensive income. The associated liability is recorded within Other long-term liabilities in our unaudited consolidated balance sheets, and any increase or decrease in the liability is recorded in General and administrative expense within our unaudited consolidated statements of comprehensive income. We recorded (losses) gains on investments held in the trust of less than \$(1) and \$2 for the three months ended September 30, 2021 and 2020, respectively, and \$4 and \$1 for the nine months ended September 30, 2021 and 2020, respectively.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

(15) Commitments and Contingencies

The following table summarizes our expected contractual cash commitments as of September 30, 2021:

	2021	2022	2023	2024	2025	Thereafter	Total
Debt obligations	\$ —	\$ —	\$ 193	\$ —	\$ —	\$ 8,750	\$ 8,943
Cash interest payments	3	392	383	379	379	1,357	2,893
Satellite and transmission	11	3	2	2	2	10	30
Programming and content	114	416	329	193	128	197	1,377
Sales and marketing	13	48	14	4	3	6	88
Satellite incentive payments	2	7	7	8	7	23	54
Operating lease obligations	13	73	64	50	47	136	383
Royalties, minimum guarantees and other	100	287	605	21	7	—	1,020
Total ⁽¹⁾	<u>\$ 256</u>	<u>\$ 1,226</u>	<u>\$ 1,597</u>	<u>\$ 657</u>	<u>\$ 573</u>	<u>\$ 10,479</u>	<u>\$ 14,788</u>

(1) The table does not include our reserve for uncertain tax positions, which at September 30, 2021 totaled \$26.

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

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

Satellite and transmission. We have entered into agreements with a third party to design and build two new satellites, SXM-9 and SXM-10. We also have entered into agreements with third parties to operate and maintain satellite telemetry, tracking and control facilities and certain components of our terrestrial repeater networks.

Programming and content. We have entered into various programming and content agreements. Under the terms of these agreements, our obligations include fixed payments, advertising commitments and revenue sharing arrangements. In certain of these agreements, the 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.

Sales and marketing. We have entered into various marketing, sponsorship and distribution agreements to promote our brands and are obligated to make payments to sponsors, retailers, automakers, radio manufacturers and other third parties under these agreements. Certain programming and content agreements also require us to purchase advertising on properties owned or controlled by the licensors.

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

Maxar Technologies (formerly Space Systems/Loral), the manufacturer of certain of our in-orbit satellites, may be entitled to future in-orbit performance payments upon XM-5, SIRIUS FM-5, SIRIUS FM-6, and SXM-8 meeting their fifteen-year design life, which we expect to occur.

Operating lease obligations. We have entered into both cancelable and non-cancelable operating leases for office space, terrestrial repeaters, data centers and equipment. 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.

Royalties, Minimum Guarantees and Other. We have entered into music royalty arrangements that include fixed payments. Certain of our content agreements also contain minimum guarantees. During the nine months ended September 30, 2021, we prepaid \$5 in content costs related to minimum guarantees. As of September 30, 2021, we had future fixed minimum guarantee commitments of \$576, of which \$172 will be paid in 2021 and the remainder will be paid thereafter. On a quarterly

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

basis, we record the greater of the cumulative actual content costs incurred or the cumulative minimum guarantee based on forecasted usage for the minimum guarantee period. The minimum guarantee period is the period of time that the minimum guarantee relates to, as specified in each agreement, which may be annual or a longer period. The cumulative minimum guarantee, based on forecasted usage, considers factors such as listening hours, revenue, subscribers and other terms of each agreement that impact our expected attainment or recoupment of the minimum guarantees based on the relative attribution method.

Several of our content agreements also include provisions related to the royalty payments and structures of those agreements relative to other content licensing arrangements, which, if triggered, cause our payments under those agreements to escalate. In addition, record labels, publishers and performing rights organizations (“PROs”) with whom we have entered into direct license agreements have the right to audit our content payments, and such audits often result in disputes over whether we have paid the proper content costs.

We have also entered into various agreements with third parties for general operating purposes. The cost of Holdings' common stock acquired in our capital return program but not paid for as of September 30, 2021 was also included in this category.

In addition to the minimum contractual cash commitments described above, we have entered into other variable cost arrangements. These future costs are dependent upon many factors and are difficult to anticipate; however, these costs may be substantial. We may enter into additional programming, distribution, marketing and other agreements that contain similar variable cost provisions. We also have a surety bond of approximately \$45 primarily used as security against non-performance in the normal course of business. We do not have any other significant off-balance sheet financing arrangements that are reasonably likely to have a material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Legal Proceedings

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

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

Pre-1972 Sound Recording Litigation. On October 2, 2014, Flo & Eddie Inc. filed a class action suit against Pandora in the federal district court for the Central District of California. The complaint alleges a violation of California Civil Code Section 980, unfair competition, misappropriation and conversion in connection with the public performance of sound recordings recorded prior to February 15, 1972 (which we refer to as, “pre-1972 recordings”). On December 19, 2014, Pandora filed a motion to strike the complaint pursuant to California’s Anti-Strategic Lawsuit Against Public Participation (“Anti-SLAPP”) statute, which following denial of Pandora’s motion was appealed to the Ninth Circuit Court of Appeals. In March 2017, the Ninth Circuit requested certification to the California Supreme Court on the substantive legal questions. The California Supreme Court accepted certification. In May 2019, the California Supreme Court issued an order dismissing consideration of the certified questions on the basis that, following the enactment of the Orrin G. Hatch-Bob Goodlatte Music Modernization Act, Pub. L. No. 115-264, 132 Stat. 3676 (2018) (the “MMA”), resolution of the questions posed by the Ninth Circuit Court of Appeals was no longer “necessary to . . . settle an important question of law.”

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

The MMA grants a potential federal preemption defense to the claims asserted in the aforementioned lawsuits. In July 2019, Pandora took steps to avail itself of this preemption defense, including making the required payments under the MMA for certain of its uses of pre-1972 recordings. Based on the federal preemption contained in the MMA (along with other considerations), Pandora asked the Ninth Circuit to order the dismissal of the *Flo & Eddie, Inc. v. Pandora Media, Inc.* case. On October 17, 2019, the Ninth Circuit Court of Appeals issued a memorandum disposition concluding that the question of whether the MMA preempts Flo and Eddie's claims challenging Pandora's performance of pre-1972 recordings "depends on various unanswered factual questions" and remanded the case to the District Court for further proceedings.

In October 2020, the District Court denied Pandora's renewed motion to dismiss the case under California's anti-SLAPP statute, finding the case no longer qualified for anti-SLAPP due to intervening changes in the law, and denied Pandora's renewed attempt to end the case. Alternatively, the District Court ruled that the preemption defense likely did not apply to Flo & Eddie's claims, in part because the District Court believed that the MMA did not apply retroactively. Pandora promptly appealed the District Court's decision to the Ninth Circuit, and moved to stay appellate briefing pending the appeal of a related case against Sirius XM. On January 13, 2021, the Ninth Circuit issued an order granting the stay of appellate proceedings pending the resolution of a related case against Sirius XM.

On August 23, 2021, the United States Court of Appeals for the Ninth Circuit issued an Opinion in a related case, *Flo & Eddie Inc. v. Sirius XM Radio Inc.* The related case also concerned a class action suit brought by Flo & Eddie Inc. regarding the public performance of pre-1972 recordings under California law. Relying on California's copyright statute, Flo & Eddie argued that California law gave it the "exclusive ownership" of its pre-1972 songs, including the right of public performance. The Ninth Circuit reversed the District Court's grant of partial summary judgment to Flo & Eddie Inc. The Ninth Circuit held that the District Court in this related case erred in concluding that "exclusive ownership" under California's copyright statute included the right of public performance. The Ninth Circuit remanded the case for entry of judgment consistent with the terms of the parties' contingent settlement agreement, and on October 6, 2021, the parties to the related case stipulated to its dismissal with prejudice.

Following issuance of the *Flo & Eddie Inc. v. Sirius XM Radio Inc.* opinion, on September 3, 2021, the Ninth Circuit lifted the stay of appellate proceedings in *Flo & Eddie, Inc. v. Pandora Media, LLC*. The *Flo & Eddie Inc. v. Sirius XM Radio Inc.* decision is precedential in the Ninth Circuit, and therefore we believe substantially narrows the claims that Flo & Eddie may continue to assert against Pandora. We believe we have substantial defenses to the remaining claims asserted in this action, and we intend to defend this action vigorously.

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

(16) Income Taxes

For the three months ended September 30, 2021 and 2020, income tax expense was \$90 and \$72, respectively, and \$155 and \$230 for the nine months ended September 30, 2021 and 2020, respectively.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

Our effective tax rate for the three months ended September 30, 2021 and 2020 was 20.2% and 20.5%, respectively. Our effective tax rate for the nine months ended September 30, 2021 and 2020 was 13.4% and 21.6%, respectively. The effective tax rate for the three months ended September 30, 2021 was primarily impacted by the recognition of excess tax benefits related to share-based compensation. The effective tax rate for the nine months ended September 30, 2021 was primarily impacted by a \$95 benefit associated with a state tax audit settlement and the recognition of excess tax benefits related to share-based compensation. The effective tax rates for the three and nine months ended September 30, 2020 were primarily impacted by federal and state tax credits and the recognition of excess tax benefits related to share-based compensation. We estimate our effective tax rate for the year ending December 31, 2021 will be approximately 16%.

As of September 30, 2021 and December 31, 2020, we had a valuation allowance related to deferred tax assets of \$76 and \$54, respectively, that were not likely to be realized due to the timing of certain federal and state net operating loss limitations.

Holdings is participating in the Compliance Assurance Process of the U.S. Internal Revenue Service ("IRS") for 2021 which is expected to conclude during 2022. This program allows Holdings to work with the IRS to identify and resolve potential U.S. Federal tax issues before the filing of tax returns. We are continuously audited by various taxing jurisdictions. There are no material assessments which we believe are probable at this time.

On February 1, 2021, Holdings entered into a tax sharing agreement with Liberty Media governing the allocation of consolidated U.S. income tax liabilities and setting forth agreements with respect to other tax matters.

Under the Internal Revenue Code, two corporations may form a consolidated tax group, and file a consolidated federal income tax return, if one corporation owns stock representing at least 80% of the voting power and value of the outstanding capital stock of the other corporation. As of September 30, 2021, Liberty Media beneficially owned, directly and indirectly, approximately 79% of the outstanding shares of our common stock. We expect that Liberty Media could beneficially own, directly and indirectly, over 80% of the outstanding shares of our common stock at some time in 2021, and Holdings and Liberty Media would then become members of the same consolidated tax group. Should that happen, the tax sharing agreement would govern certain matters related to the resulting consolidated federal income tax returns, as well as state and local returns filed on a consolidated or combined basis.

The tax sharing agreement contains provisions that Holdings believes are customary for tax sharing agreements between members of a consolidated group. The tax sharing agreement and our inclusion in Liberty Media's consolidated tax group is not expected to have any material adverse effect on us.

(17) Segments and Geographic Information

In accordance with FASB ASC Topic 280, *Segment Reporting*, we disaggregate our operations into two reportable segments: Sirius XM and Pandora. The financial results of these segments are utilized by the chief operating decision maker, who is our Chief Executive Officer, for evaluating segment performance and allocating resources. We report our segment information based on the "management" approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of our reportable segments. For additional information on our segments refer to Note 1.

Segment results include the revenues and cost of services which are directly attributable to each segment. There are no indirect revenues or costs incurred that are allocated to the segments. There are planned intersegment advertising campaigns which will be eliminated. We had less than \$1 of intersegment advertising revenue during each of the three and nine months ended September 30, 2021 and 2020.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

Segment revenue and gross profit were as follows during the period presented:

	For the Three Months Ended September 30, 2021		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	\$ 1,532	\$ 134	\$ 1,666
Advertising revenue	47	404	451
Equipment revenue	41	—	41
Other revenue	40	—	40
Total revenue	1,660	538	2,198
Cost of services ^(a)	(645)	(341)	(986)
Segment gross profit	\$ 1,015	\$ 197	\$ 1,212

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

	For the Three Months Ended September 30, 2021
Segment Gross Profit	\$ 1,212
Subscriber acquisition costs	(71)
Sales and marketing ^(a)	(254)
Engineering, design and development ^(a)	(59)
General and administrative ^(a)	(109)
Depreciation and amortization	(135)
Share-based payment expense	(51)
Impairment, restructuring and acquisition costs	95
Total other (expense) income	(183)
Consolidated income before income taxes	\$ 445

- (a) Share-based payment expense of \$11 related to cost of services, \$15 related to sales and marketing, \$9 related to engineering, design and development and \$16 related to general and administrative has been excluded.

	For the Three Months Ended September 30, 2020		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	\$ 1,462	\$ 132	\$ 1,594
Advertising revenue	39	306	345
Equipment revenue	47	—	47
Other revenue	39	—	39
Total revenue	1,587	438	2,025
Cost of services ^(b)	(610)	(274)	(884)
Segment gross profit	\$ 977	\$ 164	\$ 1,141

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

	For the Three Months Ended September 30, 2020
Segment Gross Profit	\$ 1,141
Subscriber acquisition costs	(110)
Sales and marketing ^(b)	(205)
Engineering, design and development ^(b)	(53)
General and administrative ^(b)	(112)
Depreciation and amortization	(125)
Share-based payment expense	(58)
Total other (expense) income	(126)
Consolidated income before income taxes	\$ 352

(b) Share-based payment expense of \$11 related to cost of services, \$17 related to sales and marketing, \$11 related to engineering, design and development and \$19 related to general and administrative has been excluded.

	For the Nine Months Ended September 30, 2021		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	\$ 4,521	\$ 397	\$ 4,918
Advertising revenue	135	1,100	1,235
Equipment revenue	149	—	149
Other revenue	113	—	113
Total revenue	4,918	1,497	6,415
Cost of services ^(c)	(1,916)	(971)	(2,887)
Segment gross profit	\$ 3,002	\$ 526	\$ 3,528

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

	For the Nine Months Ended September 30, 2021
Segment Gross Profit	\$ 3,528
Subscriber acquisition costs	(245)
Sales and marketing ^(c)	(682)
Engineering, design and development ^(c)	(171)
General and administrative ^(c)	(329)
Depreciation and amortization	(399)
Share-based payment expense	(149)
Impairment, restructuring and acquisition costs	(13)
Total other (expense) income	(386)
Consolidated income before income taxes	\$ 1,154

(c) Share-based payment expense of \$33 related to cost of services, \$43 related to sales and marketing, \$26 related to engineering, design and development and \$47 related to general and administrative has been excluded.

SIRIUS XM RADIO INC. AND SUBSIDIARIES
(a wholly-owned subsidiary of Sirius XM Holdings Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(UNAUDITED)
(Dollars and shares in millions, except per share amounts)

	For the Nine Months Ended September 30, 2020		
	Sirius XM	Pandora	Total
Revenue			
Subscriber revenue	\$ 4,372	\$ 385	\$ 4,757
Advertising revenue	108	758	866
Equipment revenue	113	—	113
Other revenue	115	—	115
Total revenue	4,708	1,143	5,851
Cost of services ^(d)	(1,796)	(783)	(2,579)
Segment gross profit	<u>\$ 2,912</u>	<u>\$ 360</u>	<u>\$ 3,272</u>

The reconciliation between reportable segment gross profit to consolidated income before income tax is as follows:

	For the Nine Months Ended September 30, 2020
Segment Gross Profit	\$ 3,272
Subscriber acquisition costs	(257)
Sales and marketing ^(d)	(614)
Engineering, design and development ^(d)	(165)
General and administrative ^(d)	(305)
Depreciation and amortization	(381)
Share-based payment expense	(165)
Impairment, restructuring and acquisition costs	(24)
Total other (expense) income	(294)
Consolidated income before income taxes	<u>\$ 1,067</u>

(d) Share-based payment expense of \$32 related to cost of services, \$50 related to sales and marketing, \$31 related to engineering, design and development and \$52 related to general and administrative has been excluded.

A measure of segment assets is not currently provided to the Chief Executive Officer and has therefore not been provided.

As of September 30, 2021, long-lived assets were predominantly located in the United States. No individual foreign country represented a material portion of our consolidated revenue during the three and nine months ended September 30, 2021 and 2020.

(18) Subsequent Events

Holdings' Capital Return Program

For the period from October 1, 2021 to October 26, 2021 we repurchased \$115 of Holdings' common stock on the open market, including fees and commissions.

On October 25, 2021, Holdings' board of directors declared a quarterly dividend on Holdings' common stock in the amount of \$0.0219615 per share of Holdings' common stock payable on November 29, 2021 to Holdings' stockholders of record as of the close of business on November 5, 2021.

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and related notes included elsewhere in this Quarterly Report and with Holdings' Annual Report on Form 10-K for the year ended December 31, 2020.

Special Note Regarding Forward-Looking Statements

The following cautionary statements identify important factors that could cause our actual results to differ materially from those projected in forward-looking statements made in this Quarterly Report and in other reports and documents published by us from time to time. Any statements about our beliefs, plans, objectives, expectations, assumptions, future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "intend," "plan," "projection" and "outlook." Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Quarterly Report and in other reports and documents published by us from time to time, including the risk factors described under "Risk Factors" in Part I, Item 1A, of Holdings' Quarterly Report on Form 10-Q, the risk factors described under "Risk Factors" in Part I, Item 1A, of Holdings' Annual Report on Form 10-K for the year ended December 31, 2020 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein and in Part II, Item 7, of Holdings' Annual Report on Form 10-K for the year ended December 31, 2020.

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

- We face substantial competition and that competition is likely to increase over time
- Our business depends in part upon the auto industry; vehicle production and sales are dependent on many factors, including the availability of consumer credit, general economic conditions, consumer confidence, fuel costs and component supply shortages
- If our efforts to attract and retain subscribers and listeners, or convert listeners into subscribers, are not successful, our business will be adversely affected
- We engage in extensive marketing efforts and the continued effectiveness of those efforts is an important part of our business
- We rely on third parties for the operation of our business, and the failure of third parties to perform could adversely affect our business
- We may not realize the benefits of acquisitions or other strategic investments and initiatives
- A substantial number of our Sirius XM service subscribers periodically cancel their subscriptions and we cannot predict how successful we will be at retaining customers
- Our ability to profitably attract and retain subscribers to our Sirius XM service as our marketing efforts reach more price-sensitive consumers is uncertain
- The impact of COVID-19, including its variant strains, on our business
- Failure of our satellites would significantly damage our business
- Our Sirius XM service may experience harmful interference from wireless operations
- Our Pandora ad-supported business has suffered a substantial and consistent loss of monthly active users, which may adversely affect our Pandora business
- Our failure to convince advertisers of the benefits of our Pandora ad-supported service could harm our business
- If we are unable to maintain revenue growth from our advertising products, particularly in mobile advertising, our results of operations will be adversely affected
- Changes to mobile operating systems and browsers may hinder our ability to sell advertising and market our services
- If we fail to accurately predict and play music, comedy or other content that our Pandora listeners enjoy, we may fail to retain existing and attract new listeners
- Privacy and data security laws and regulations may hinder our ability to market our services, sell advertising and impose legal liabilities
- Consumer protection laws and our failure to comply with them could damage our business
- Failure to comply with FCC requirements could damage our business
- If we fail to protect the security of personal information about our customers, we could be subject to costly government enforcement actions and private litigation and our reputation could suffer

- Interruption or failure of our information technology and communications systems could impair the delivery of our service and harm our business
- The market for music rights is changing and is subject to significant uncertainties
- Our Pandora services depend upon maintaining complex licenses with copyright owners, and these licenses contain onerous terms
- The rates we must pay for “mechanical rights” to use musical works on our Pandora service have increased substantially and these rates may adversely affect our business
- Our use of pre-1972 sound recordings on our Pandora service could result in additional costs
- Failure to protect our intellectual property or actions by third parties to enforce their intellectual property rights could substantially harm our business and operating results
- Some of our services and technologies may use “open source” software, which may restrict how we use or distribute our services or require that we release the source code subject to those licenses
- Rapid technological and industry changes and new entrants could adversely impact our services
- We have a significant amount of indebtedness, and our debt contains certain covenants that restrict our operations
- Holdings is a “controlled company” within the meaning of the NASDAQ listing rules and, as a result, qualify for, and rely on, exemptions from certain corporate governance requirements
- While Holdings currently pays a quarterly cash dividend to holders of Holdings' common stock, Holdings may change its dividend policy at any time
- Holdings' principal stockholder has significant influence, including over actions requiring stockholder approval, and its interests may differ from the interests of other holders of Holdings' common stock
- If we are unable to attract and retain qualified personnel, our business could be harmed
- Our facilities could be damaged by natural catastrophes or terrorist activities
- The unfavorable outcome of pending or future litigation could have an adverse impact on our operations and financial condition
- We may be exposed to liabilities that other entertainment service providers would not customarily be subject to
- Our business and prospects depend on the strength of our brands
- We face supply chain risks as a result of the global semiconductor supply shortage.

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

Executive Summary

We operate two complementary audio entertainment businesses - our Sirius XM business and our Pandora business.

Sirius XM

Our Sirius XM business features music, sports, entertainment, comedy, talk, news, traffic and weather channels and other content, as well as podcasts and infotainment services, in the United States on a subscription fee basis. Sirius XM's bundles include live, curated and certain exclusive and on demand programming. The Sirius XM service is distributed through our two proprietary satellite radio systems and streamed via applications for mobile devices, home devices and other consumer electronic equipment. Satellite radios are primarily distributed through automakers, retailers and our website. Our Sirius XM service is also available through our user interface, which we call “360L,” that combines our satellite and streaming services into a single, cohesive in-vehicle entertainment experience.

The primary source of revenue from our Sirius XM business is subscription fees, with most of our customers subscribing to monthly, quarterly, semi-annual or annual plans. We also derive revenue from advertising on select non-music channels, which is sold under the SXM Media brand, direct sales of our satellite radios and accessories, and other ancillary services. As of September 30, 2021, our Sirius XM business had approximately 34.3 million subscribers.

In addition to our audio entertainment businesses, we provide connected vehicle services to several automakers. These services are designed to enhance the safety, security and driving experience of consumers. We also offer a suite of data services that includes graphical weather, fuel prices, sports schedules and scores and movie listings, a traffic information service that includes information as to road closings, traffic flow and incident data to consumers with compatible in-vehicle navigation systems, and real-time weather services in vehicles, boats and planes.

Sirius XM also holds a 70% equity interest and 33% voting interest in Sirius XM Canada Holdings Inc. (“Sirius XM Canada”). Sirius XM Canada's subscribers are not included in our subscriber count or subscriber-based operating metrics.

Pandora

Our Pandora business operates a music, comedy and podcast streaming discovery platform, offering a personalized experience for each listener wherever and whenever they want to listen, whether through mobile devices, car speakers or connected devices. Pandora enables listeners to create personalized stations and playlists, discover new content, hear artist- and expert-curated playlists, podcasts and select Sirius XM content as well as search and play songs and albums on-demand. Pandora is available as (1) an ad-supported radio service, (2) a radio subscription service (Pandora Plus) and (3) an on-demand subscription service (Pandora Premium). As of September 30, 2021, Pandora had approximately 6.5 million subscribers.

The majority of revenue from our Pandora business is generated from advertising on our Pandora ad-supported radio service which is sold under the SXM Media brand. We also derive subscription revenue from our Pandora Plus and Pandora Premium subscribers.

Our Pandora business also sells advertising on audio platforms and in podcasts unaffiliated with us. Pandora is the exclusive US ad sales representative for SoundCloud. Through this arrangement, Pandora offers advertisers the ability to execute campaigns in the US across the Pandora and SoundCloud listening platforms. We also have arrangements to serve as the ad sales representative for certain podcasts. In addition, through AdsWizz, Pandora provides a comprehensive digital audio advertising technology platform, which connects audio publishers and advertisers with a variety of ad insertion, campaign trafficking, yield optimization, programmatic buying, marketplace and podcast monetization solutions. As of September 30, 2021, our Pandora business had approximately 52.6 million monthly active users.

In February 2020, Sirius XM completed a \$75 investment in SoundCloud. SoundCloud is a next-generation music entertainment company, powered by an ecosystem of artists, listeners, and curators on the pulse of what's new, now and next in culture. SoundCloud's platform enables its users to upload, promote, share and create audio entertainment. The minority investment complements the existing ad sales relationship between SoundCloud and Pandora.

In June 2020, Sirius XM acquired Simplecast for \$28 in cash. Simplecast is a podcast management and analytics platform. Refer to Note 3 to our unaudited consolidated financial statements for more information on this acquisition.

In October 2020, Sirius XM acquired the assets of Stitcher from The E.W. Scripps Company and certain of its subsidiaries (“Scripps”) for total consideration of \$302, which included \$266 in cash and \$36 related to contingent consideration. As of September 30, 2021, we will potentially make up to \$30 in additional payments to Scripps related to the contingent consideration based on Stitcher's achievement of certain financial metrics in 2021. During each of the three and nine months ended September 30, 2021, we recognized a \$17 benefit related to the change in fair value of the 2021 portion of the contingent consideration. The acquisition of Stitcher, in conjunction with Simplecast, creates a full-service platform for podcast creators, publishers and advertisers. Refer to Note 3 to our unaudited consolidated financial statements for more information on this acquisition.

Liberty Media

As of September 30, 2021, Liberty Media beneficially owned, directly and indirectly, approximately 79% of the outstanding shares of Holdings' common stock. As a result, Holdings is a “controlled company” for the purposes of the NASDAQ corporate governance requirements.

Results of Operations

Set forth below are our results of operations for the three and nine months ended September 30, 2021 compared with the three and nine months ended September 30, 2020. The results of operations are presented for each of our reporting segments for revenue and cost of services and on a consolidated basis for all other items.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		2021 vs 2020 Change				
	2021	2020	2021	2020	Three Months		Nine Months		
					Amount	%	Amount	%	
<i>Revenue</i>									
Sirius XM:									
Subscriber revenue	\$ 1,532	\$ 1,462	\$ 4,521	\$ 4,372	\$ 70	5 %	\$ 149	3 %	
Advertising revenue	47	39	135	108	8	21 %	27	25 %	
Equipment revenue	41	47	149	113	(6)	(13)%	36	32 %	
Other revenue	40	39	113	115	1	3 %	(2)	(2)%	
Total Sirius XM revenue	1,660	1,587	4,918	4,708	73	5 %	210	4 %	
Pandora:									
Subscriber revenue	134	132	397	385	2	2 %	12	3 %	
Advertising revenue	404	306	1,100	758	98	32 %	342	45 %	
Total Pandora revenue	538	438	1,497	1,143	100	23 %	354	31 %	
Total consolidated revenue	2,198	2,025	6,415	5,851	173	9 %	564	10 %	
<i>Cost of services</i>									
Sirius XM:									
Revenue share and royalties	378	369	1,144	1,100	9	2 %	44	4 %	
Programming and content	129	114	373	330	15	13 %	43	13 %	
Customer service and billing	106	99	309	291	7	7 %	18	6 %	
Transmission	39	33	108	90	6	18 %	18	20 %	
Cost of equipment	4	5	12	13	(1)	(20)%	(1)	(8)%	
Total Sirius XM cost of services	656	620	1,946	1,824	36	6 %	122	7 %	
Pandora:									
Revenue share and royalties	293	233	830	659	60	26 %	171	26 %	
Programming and content	12	9	34	21	3	33 %	13	62 %	
Customer service and billing	21	20	63	68	1	5 %	(5)	(7)%	
Transmission	15	13	47	39	2	15 %	8	21 %	
Total Pandora cost of services	341	275	974	787	66	24 %	187	24 %	
Total consolidated cost of services	997	895	2,920	2,611	102	11 %	309	12 %	
Subscriber acquisition costs	71	110	245	257	(39)	(35)%	(12)	(5)%	
Sales and marketing	269	222	725	664	47	21 %	61	9 %	
Engineering, design and development	68	64	197	196	4	6 %	1	1 %	
General and administrative	125	131	376	357	(6)	(5)%	19	5 %	
Depreciation and amortization	135	125	399	381	10	8 %	18	5 %	
Impairment, restructuring and acquisition costs	(95)	—	13	24	(95)	nm	(11)	(46)%	
Total operating expenses	1,570	1,547	4,875	4,490	23	1 %	385	9 %	
Income from operations	628	478	1,540	1,361	150	31 %	179	13 %	
Other (expense) income:									
Interest expense	(109)	(93)	(308)	(291)	(16)	(17)%	(17)	(6)%	
Loss on extinguishment of debt	(83)	(40)	(83)	(40)	(43)	(108)%	(43)	(108)%	
Other income	9	7	5	37	2	29 %	(32)	(86)%	
Total other (expense) income	(183)	(126)	(386)	(294)	(57)	(45)%	(92)	(31)%	
Income before income taxes	445	352	1,154	1,067	93	26 %	87	8 %	
Income tax expense	(90)	(72)	(155)	(230)	(18)	(25)%	75	33 %	
Net income	\$ 355	\$ 280	\$ 999	\$ 837	\$ 75	27 %	\$ 162	19 %	

Sirius XM Revenue

Sirius XM Subscriber Revenue includes fees charged for self-pay and paid promotional subscriptions, U.S. Music Royalty Fees and other ancillary fees.

For the three months ended September 30, 2021 and 2020, subscriber revenue was \$1,532 and \$1,462, respectively, an increase of 5%, or \$70. For the nine months ended September 30, 2021 and 2020, subscriber revenue was \$4,521 and \$4,372, respectively, an increase of 3% or \$149. The increases were primarily driven by growth in our self-pay subscriber base of 5% driving higher self-pay revenue and U.S. Music Royalty Fees, partially offset by lower revenue generated from automakers offering paid promotional subscriptions.

We expect subscriber revenues to increase based on increases in the average price charged and the sale of additional services to subscribers.

Sirius XM Advertising Revenue includes the sale of advertising on Sirius XM's non-music channels.

For the three months ended September 30, 2021 and 2020, advertising revenue was \$47 and \$39, respectively, an increase of 21%, or \$8. For the nine months ended September 30, 2021 and 2020, advertising revenue was \$135 and \$108, respectively, an increase of 25% or \$27. The increases were due to higher advertising primarily on news and sports channels as we continue to recover to pre-COVID-19 levels.

We expect our Sirius XM advertising revenue to grow as we continue to offer a broader set of channels.

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

For the three months ended September 30, 2021 and 2020, equipment revenue was \$41 and \$47, respectively, a decrease of 13%, or \$6. For the nine months ended September 30, 2021 and 2020, equipment revenue was \$149 and \$113, respectively, an increase of 32% or \$36. The decrease for the three month period was primarily driven by semiconductor supply shortages, automaker plant closings during the quarter due to COVID-19, and lower sales of components and accessories. The increase for the nine month period was driven by higher royalty revenue from new vehicle production as automakers pushed to get back to pre-COVID-19 manufacturing levels during the first half of 2021 and due to our transition to a new generation of chipsets, partially offset by semiconductor supply shortages in the third quarter of 2021.

We expect equipment revenue to increase as the volume of chipsets sold and revenue per unit sold [increases](#).

Sirius XM Other Revenue includes service and advisory revenue from Sirius XM Canada, our connected vehicle services, and ancillary revenues.

For the three months ended September 30, 2021 and 2020, other revenue was \$40 and \$39, respectively, an increase of 3%, or \$1. For the nine months ended September 30, 2021 and 2020, other revenue was \$113 and \$115, respectively, a decrease of 2% or \$2. The increase for the three month period was primarily driven by higher revenue generated by our connected vehicle services and Sirius XM Canada, partially offset by lower revenue generated by rental car arrangements. The decrease for the nine month period was primarily driven by lower revenue generated by rental car arrangements.

We expect other revenue to remain relatively flat.

Pandora Revenue

Pandora Subscriber Revenue includes fees charged for Pandora Plus and Pandora Premium subscriptions as well as Stitcher podcast subscriptions.

For the three months ended September 30, 2021 and 2020, Pandora subscriber revenue was \$134 and \$132, respectively, an increase of 2%, or \$2. For the nine months ended September 30, 2021 and 2020, Pandora subscriber revenue was \$397 and \$385, respectively, an increase of 3% or \$12. The increases were primarily driven by the inclusion of Stitcher and growth in Pandora's subscriber base.

We expect Pandora subscriber revenues to remain relatively flat.

Pandora Advertising Revenue is generated primarily from audio, display and video advertising from on-platform and off-platform advertising.

For the three months ended September 30, 2021 and 2020, Pandora advertising revenue was \$404 and \$306, respectively, an increase of 32%, or \$98. For the nine months ended September 30, 2021 and 2020, Pandora advertising revenue was \$1,100 and \$758, respectively, an increase of 45% or \$342. The increases were primarily due to growth in Pandora owned and operated revenue from higher sell-through, increases in the price of advertising sold, the inclusion of Stitcher as well as increased revenue from AdsWizz.

We expect our advertising revenue to increase due to growth of Stitcher and AdsWizz.

Total Consolidated Revenue

Total Consolidated Revenue for the three months ended September 30, 2021 and 2020, was \$2,198 and \$2,025, respectively, an increase of 9%, or \$173. Total Consolidated Revenue for the nine months ended September 30, 2021 and 2020, was \$6,415 and \$5,851, respectively, an increase of 10% or \$564.

Sirius XM Cost of Services

Sirius XM Cost of Services includes revenue share and royalties, programming and content, customer service and billing, transmission and equipment expenses.

Sirius XM Revenue Share and Royalties include royalties for transmitting content, including streaming royalties, as well as automaker, content provider and advertising revenue share.

For the three months ended September 30, 2021 and 2020, revenue share and royalties were \$378 and \$369, respectively, an increase of 2%, or \$9, but decreased as a percentage of total Sirius XM revenue. For the nine months ended September 30, 2021 and 2020, revenue share and royalties were \$1,144 and \$1,100, respectively, an increase of 4% or \$44, but decreased as a percentage of total Sirius XM revenue. The increases were driven by overall greater revenues subject to music royalties and revenue share.

We expect our Sirius XM revenue share and royalty costs to increase as our revenues grow.

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

For the three months ended September 30, 2021 and 2020, programming and content expenses were \$129 and \$114, respectively, an increase of 13%, or \$15, and increased as a percentage of total Sirius XM revenue. For the nine months ended September 30, 2021 and 2020, programming and content expenses were \$373 and \$330, respectively, an increase of 13% or \$43, and increased as a percentage of total Sirius XM revenue. The increases were driven by higher content licensing costs.

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

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

For the three months ended September 30, 2021 and 2020, customer service and billing expenses were \$106 and \$99, respectively, an increase of 7%, or \$7, and increased as a percentage of total Sirius XM revenue. For the nine months ended September 30, 2021 and 2020, customer service and billing expenses were \$309 and \$291, respectively, an increase of 6%, or \$18, and increased as a percentage of total Sirius XM revenue. The increase for the three month period was driven by higher transaction costs, bad debt expense, consulting, and personnel-related costs, partially offset by lower call center expenses. The increase for the nine month period was driven by higher transaction costs, consulting, and personnel-related cost; partially offset by lower bad debt expense and lower call center expenses.

We expect our Sirius XM customer service and billing expenses to increase as bad debt expense grows tied to higher expected non-pay rates.

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

For the three months ended September 30, 2021 and 2020, transmission expenses were \$39 and \$33, respectively, an increase of 18%, or \$6, and increased as a percentage of total Sirius XM revenue. For the nine months ended September 30, 2021 and 2020, transmission expenses were \$108 and \$90, respectively, an increase of 20%, or \$18, and increased as a percentage of total Sirius XM revenue. The increases were primarily driven by higher cloud hosting and wireless costs associated with our 360L platform, streaming content and our connected vehicle services.

We expect our Sirius XM transmission expenses to increase as costs associated with our 360L platform and investments in internet streaming grow.

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

For the three months ended September 30, 2021 and 2020, cost of equipment was \$4 and \$5, respectively, a decrease of 20% or \$1, and decreased as a percentage of total Sirius XM revenue. For the nine months ended September 30, 2021 and 2020, cost of equipment was \$12 and \$13, respectively, a decrease of 8% or \$1, and decreased as a percentage of total Sirius XM revenue. The decreases were driven by lower component and accessories sales.

We expect our Sirius XM cost of equipment to fluctuate with the sales of our satellite radios.

Pandora Cost of Services

Pandora Cost of Services includes revenue share and royalties, programming and content, customer service and billing, and transmission expenses.

Pandora Revenue Share and Royalties includes licensing fees paid for streaming music or other content to our subscribers and listeners as well as revenue share paid to third party ad servers. We make payments to third party ad servers for the period the advertising impressions are delivered or click-through actions occur, and accordingly, we record this as a cost of service in the related period.

For the three months ended September 30, 2021 and 2020, revenue share and royalties were \$293 and \$233, respectively, an increase of 26%, or \$60, and increased as a percentage of total Pandora revenue. For the nine months ended September 30, 2021 and 2020, revenue share and royalties were \$830 and \$659, respectively, an increase of 26%, or \$171, but decreased as a percentage of total Pandora revenue. The increases were primarily due to higher royalty rates and owned and operated revenue as well as higher AdsWizz revenue, the inclusion of Stitcher and the growth in other off-platform revenue.

We expect our Pandora revenue share to increase as off-platform revenue grow and our royalty costs to increase due to higher music royalty rates.

Pandora Programming and Content includes costs to produce live listener events and promote content.

For the three months ended September 30, 2021 and 2020, programming and content expenses were \$12 and \$9, respectively, an increase of 33%, or \$3, and increased as a percentage of total Pandora revenue. For the nine months ended September 30, 2021 and 2020, programming and content expenses were \$34 and \$21, respectively, an increase of 62%, or \$13, and increased as a percentage of total Pandora revenue. The increases were primarily attributable to higher license, production and personnel-related costs driven by the inclusion of Stitcher.

We expect our Pandora programming and content costs to increase as we offer additional programming and continue to produce live listener events and promotions.

Pandora Customer Service and Billing includes transaction fees on subscription purchases through mobile app stores, and bad debt expense.

For the three months ended September 30, 2021 and 2020, customer service and billing expenses were \$21 and \$20, respectively, an increase of 5% or \$1, but decreased as a percentage of total Pandora revenue. For the nine months ended September 30, 2021 and 2020, customer service and billing expenses were \$63 and \$68, respectively, a decrease of 7%, or \$5, and decreased as a percentage of total Pandora revenue. The increase for the three month period was primarily driven by higher transaction fees and bad debt expense. The decrease for the nine month period was primarily driven by lower bad debt expense, partially offset by higher transaction fees.

We expect our Pandora customer service and billing costs to increase as our advertising revenue grows.

Pandora Transmission includes costs associated with content streaming, maintaining our streaming radio and on-demand subscription services and creating and serving advertisements through third-party ad servers.

For the three months ended September 30, 2021 and 2020, transmission expenses were \$15 and \$13, respectively, an increase of 15%, or \$2, but decreased as a percentage of total Pandora revenue. For the nine months ended September 30, 2021 and 2020, transmission expenses were \$47 and \$39, respectively, an increase of 21%, or \$8, but decreased as a percentage of total Pandora revenue. The increases were driven by higher streaming costs.

We expect our Pandora transmission costs to fluctuate with changes in listener hours.

Operating Costs

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

For the three months ended September 30, 2021 and 2020, subscriber acquisition costs were \$71 and \$110, respectively, a decrease of 35%, or \$39, and decreased as a percentage of total revenue. For the nine months ended September 30, 2021 and 2020, subscriber acquisition costs were \$245 and \$257, respectively, a decrease of 5%, or \$12, and decreased as a percentage of total revenue. The decrease for the three month period was driven by lower OEM installations as a result of factory shutdowns during the three months ended September 30, 2021 as well as the semiconductor supply shortages and lower subsidies from contract improvements with certain automakers. The decrease for the nine month period was driven by lower subsidies from contract improvements with certain automakers as well as lower costs resulting from the semiconductor supply shortages during the three months ended September 30, 2021, partially offset by higher OEM installations following factory shutdowns in the second quarter of 2020 associated with the COVID-19 pandemic.

We expect subscriber acquisition costs to grow as the semiconductor supply shortages abate and production returns to normal levels. We intend to continue to offer subsidies and other incentives to induce OEMs to include our technology in their vehicles.

Sales and Marketing includes costs for marketing, advertising, media and production, including promotional events and sponsorships; cooperative and artist marketing; and personnel related costs including salaries, commissions, and sales support. Marketing costs include expenses related to direct mail, outbound telemarketing, email communications, social media, television and digital performance media.

For the three months ended September 30, 2021 and 2020, sales and marketing expenses were \$269 and \$222, respectively, an increase of 21%, or \$47, and increased as a percentage of total revenue. For the nine months ended September 30, 2021 and 2020, sales and marketing expenses were \$725 and \$664, respectively, an increase of 9%, or \$61, but decreased as a percentage of total revenue. The increases were primarily due to higher streaming and trial-related direct marketing costs as well as higher personnel-related costs.

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

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

For the three months ended September 30, 2021 and 2020, engineering, design and development expenses were \$68 and \$64, respectively, an increase of 6%, or \$4, but decreased as a percentage of total revenue. For the nine months ended September 30, 2021 and 2020, engineering, design and development expenses were \$197 and \$196, respectively, an increase of 1%, or \$1, but decreased as a percentage of total revenue. The increases were driven by higher personnel-related costs partially offset by lower research and development costs.

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

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

For the three months ended September 30, 2021 and 2020, general and administrative expenses were \$125 and \$131, respectively, a decrease of 5%, or \$6, and decreased as a percentage of total revenue. For the nine months ended September 30, 2021 and 2020, general and administrative expenses were \$376 and \$357, respectively, an increase of 5%, or \$19, but decreased as a percentage of total revenue. The decrease for the three month period was driven by lower personnel-related costs. The increase for the nine month period was primarily driven by higher personnel-related costs, the closure of a sales and use tax audit in 2020 which resulted in lower tax expense during the nine months ended September 30, 2020, and increased performance on our deferred compensation investments during the nine months ended September 30, 2021 compared to deferred compensation investments during the nine months ended September 30, 2020 as well as higher consulting and technology related costs, partially offset by lower legal and rent expense.

We expect our general and administrative expenses to increase to support the growth of our business.

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

For the three months ended September 30, 2021 and 2020, depreciation and amortization expense was \$135 and \$125, respectively. For the nine months ended September 30, 2021 and 2020, depreciation and amortization expense was \$399 and \$381, respectively. The increases were primarily driven by developed software and our SXM-8 satellite being placed in service.

Impairment, Restructuring and Acquisition Costs represents impairment charges, net of insurance recoveries, associated with the carrying amount of an asset exceeding the asset's fair value, restructuring expenses associated with the abandonment of certain leased office spaces and acquisition costs.

For the three months ended September 30, 2021, impairment, restructuring and acquisition costs were \$(95). For the three months ended September 30, 2020, we did not record any impairment, restructuring and acquisition costs. For the nine months ended September 30, 2021 and 2020, impairment, restructuring and acquisition costs were \$13 and \$24, respectively. During the three months ended September 30, 2021, we recorded insurance recoveries related to our SXM-7 satellite of \$80 as well as the reversal of a liability related to the Stitcher acquisition. During the nine month period ended September 30, 2021, we recorded restructuring costs of \$25 resulting from the termination of leased office space, partially offset by the reversal of a liability related to the Stitcher acquisition. During the nine months ended September 30, 2020, we recorded costs of \$24 associated with the termination of the Automatic service and costs associated with the acquisition of Simplecast.

Other (Expense) Income

Interest Expense includes interest on outstanding debt.

For the three months ended September 30, 2021 and 2020, interest expense was \$109 and \$93, respectively. For the nine months ended September 30, 2021 and 2020, interest expense was \$308 and \$291, respectively. The increases were primarily driven by a higher average outstanding debt balance due to the issuance of Sirius XM's 4.00% Senior Notes due 2028, 3.125% Senior Notes due 2026, and 3.875% Senior Notes due 2031 as well as lower capitalized interest, partially offset by lower interest rates.

Loss on Extinguishment of Debt, includes losses incurred as a result of the redemption of certain debt.

For the three and nine months ended September 30, 2021, we recorded a \$83 loss on extinguishment of debt. The loss on extinguishment of debt recorded in 2021 was due to the redemption of \$1,000 principal amount of Sirius XM's 3.875% Senior Notes due 2022, \$1,500 of principal amount of Sirius XM's 4.625% Senior Notes due 2024, and \$1,000 of principal amount of Sirius XM's 5.375% Senior Notes due 2026. For the three and nine months ended September 30, 2020, we recorded \$40 loss on extinguishment of debt. The loss on extinguishment of debt recorded in 2020 was due to the redemption of \$500 principal amount of Sirius XM's 4.625% Senior Notes due 2023 and \$1,000 principal amount of Sirius XM's 5.375% Senior Notes due 2025.

Other Income primarily includes realized and unrealized gains and losses from our Deferred Compensation Plan and other investments, interest and dividend income, our share of the income or loss from equity investments in Sirius XM Canada and SoundCloud, and transaction costs related to non-operating investments.

For the three months ended September 30, 2021 and 2020, other income was \$9 and \$7, respectively. For the nine months ended September 30, 2021 and 2020, other income was \$5 and \$37, respectively. For the three months ended September 30, 2021, the \$9 was primarily due to a gain on the fair value of Pandora's 1.75% Convertible Senior Notes due 2023, partially offset by losses on other investments. For the nine months ended September 30, 2021, the \$5 was primarily due to gains from our Deferred Compensation Plan. For the three and nine months ended September 30, 2020, we recorded gains on the fair value of Pandora's 1.75% Convertible Senior Notes due 2023. During the nine months ended September 30, 2020, we also recorded a one-time lawsuit settlement of \$7.

Income Taxes

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

For the three months ended September 30, 2021 and 2020, income tax expense was \$90 and \$72, respectively. For the nine months ended September 30, 2021 and 2020, income tax expense was \$155 and \$230, respectively.

Our effective tax rate for the three months ended September 30, 2021 and 2020 was 20.2% and 20.5%, respectively. Our effective tax rate for the nine months ended September 30, 2021 and 2020 was 13.4% and 21.6%, respectively. The effective tax rate for the three months ended September 30, 2021 was primarily impacted by the recognition of excess tax benefits related to share-based compensation. The effective tax rate for the nine months ended September 30, 2021 was primarily impacted by a \$95 benefit associated with a state tax audit settlement and the recognition of excess tax benefits related to share-based compensation. The effective tax rates for the three and nine months ended September 30, 2020 were primarily impacted by federal and state tax credits and the recognition of excess tax benefits related to share-based compensation. We estimate our effective tax rate for the year ending December 31, 2021 will be approximately 16%.

Key Financial and Operating Performance Metrics

In this section, we present certain financial performance measures some of which are presented as Non-GAAP items, which include free cash flow and adjusted EBITDA. We also present certain operating performance measures. Our adjusted EBITDA excludes the impact of share-based payment expense and certain purchase price accounting adjustments related to the merger of Sirius and XM ("XM Merger") and our February 2019 acquisition of Pandora ("the Pandora Acquisition"). Additionally, when applicable, our adjusted EBITDA metric excludes the effect of significant items that do not relate to the ongoing performance of our business. We use these Non-GAAP financial and operating performance measures to manage our business, to set operational goals and as a basis for determining performance-based compensation for our employees. See the accompanying glossary on pages 48 through 51 for more details and for the reconciliation to the most directly comparable GAAP measure (where applicable).

We believe these Non-GAAP financial and operating performance measures provide useful information to investors regarding our financial condition and results of operations. We believe these Non-GAAP financial and operating performance measures may be useful to investors in evaluating our core trends because they provide a more direct view of our underlying costs. We believe investors may use our adjusted EBITDA to estimate our current enterprise value and to make investment decisions. We believe free cash flow provides useful supplemental information to investors regarding our cash available for

future subscriber acquisitions and capital expenditures, to repurchase or retire debt, to acquire other companies and our ability to return capital to stockholders. By providing these Non-GAAP financial and operating performance measures, together with the reconciliations to the most directly comparable GAAP measure (where applicable), we believe we are enhancing investors' understanding of our business and our results of operations.

Our 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, our Non-GAAP financial measures may not be comparable to similarly-titled measures by other companies. Please refer to the glossary (pages 48 through 51) for a further discussion of such Non-GAAP financial and operating performance measures and reconciliations to the most directly comparable GAAP measure (where applicable). Subscribers and subscription related revenues and expenses associated with our connected vehicle services and Sirius XM Canada are not included in Sirius XM's subscriber count or subscriber-based operating metrics.

Set forth below are our subscriber balances as of September 30, 2021 compared to September 30, 2020.

<i>(subscribers in thousands)</i>	As of September 30,		2021 vs 2020 Change	
	2021	2020	Amount	%
Sirius XM				
Self-pay subscribers	31,985	30,480	1,505	5 %
Paid promotional subscribers	2,280	3,955	(1,675)	(42)%
Ending subscribers	34,265	34,435	(170)	— %
Traffic users	8,886	9,430	(544)	(6)%
Sirius XM Canada subscribers	2,262	2,612	(350)	(13)%
Pandora				
Monthly active users - all services	52,618	58,583	(5,965)	(10)%
Self-pay subscribers	6,452	6,344	108	2 %
Paid promotional subscribers	71	60	11	18 %
Ending subscribers	6,523	6,404	119	2 %

The following table contains our Non-GAAP financial and operating performance measures which are based on our adjusted results of operations for the three and nine months ended September 30, 2021 and 2020.

<i>(subscribers in thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		2021 vs 2020 Change			
	2021	2020	2021	2020	Three Months		Nine Months	
					Amount	%	Amount	%
Sirius XM								
Self-pay subscribers	616	169	1,097	502	447	264 %	595	119 %
Paid promotional subscribers	(828)	17	(1,547)	(975)	(845)	(4,971)%	(572)	(59)%
Net additions	(212)	186	(450)	(473)	(398)	(214)%	23	(5)%
Weighted average number of subscribers	34,372	34,330	34,435	34,480	42	— %	(45)	— %
Average self-pay monthly churn	1.5 %	1.7 %	1.6 %	1.7 %	(0.2)%	(12)%	(0.1)%	(6)%
ARPU ⁽¹⁾	\$ 14.84	\$ 14.15	\$ 14.57	\$ 14.02	\$ 0.69	5 %	\$ 0.55	4 %
SAC, per installation	\$ 13.66	\$ 20.98	\$ 13.14	\$ 20.49	\$ (7.32)	(35)%	\$ (7.35)	(36)%
Pandora								
Self-pay subscribers	(59)	99	172	179	(158)	(160)%	(7)	(4)%
Paid promotional subscribers	4	3	9	11	1	(33)%	(2)	18 %
Net additions	(55)	102	181	190	(157)	(154)%	(9)	5 %
Weighted average number of subscribers	6,554	6,376	6,486	6,281	178	3 %	205	3 %
ARPU	\$ 6.70	\$ 6.83	\$ 6.68	\$ 6.79	\$ (0.13)	(2)%	\$ (0.11)	(2)%
Ad supported listener hours (in billions)	2.89	3.12	8.78	9.53	(0.23)	(7)%	(0.75)	(8)%
Advertising revenue per thousand listener hours (RPM)	\$109.02	\$ 84.46	\$ 98.44	\$ 68.83	\$ 24.56	29 %	\$ 29.61	43 %
Licensing costs per thousand listener hours (LPM)	\$ 51.08	\$ 40.16	\$ 46.93	\$ 38.11	\$ 10.92	27 %	\$ 8.82	23 %
Licensing costs per paid subscriber (LPU)	\$ 4.16	\$ 4.19	\$ 4.18	\$ 4.12	\$ (0.03)	(1)%	\$ 0.06	1 %
Total Company								
Adjusted EBITDA	\$ 719	\$ 661	\$ 2,101	\$ 1,915	\$ 58	9 %	\$ 186	10 %
Free cash flow	\$ 588	\$ 361	\$ 1,349	\$ 1,212	\$ 227	63 %	\$ 137	11 %

(1) ARPU for Sirius XM excludes subscriber revenue from our connected vehicle services of \$49 and \$44 for the three months ended September 30, 2021 and 2020, respectively, and \$141 and \$130 for the nine months ended September 30, 2021 and 2020, respectively.

Sirius XM

Subscribers. At September 30, 2021, Sirius XM had approximately 34,265 subscribers, a decrease of 170, from the approximately 34,435 subscribers as of September 30, 2020. The decrease was due to the decrease in paid promotional subscribers generated by automakers driven by a shift to shorter paid trials and unpaid trials, partially offset by the growth in our self-pay subscriber base as a result of vehicle sales growth, lower churn rate, and higher new vehicle penetration rate.

For the three months ended September 30, 2021 and 2020, net subscriber additions were (212) and 186, respectively. For the nine months ended September 30, 2021 and 2020, net subscriber additions were (450) and (473), respectively. Paid promotional subscribers decreased due to a shift to shorter paid or free trials at certain automakers, and to a lesser extent, lower vehicle shipments due to semiconductor supply shortages. Self-pay net additions increased driven by higher new vehicle conversion resulting from vehicle sales growth during the first half of 2021 and automakers shift to shorter trial periods than 2020 which drove higher conversion opportunities.

Traffic Users. We offer services that provide graphic information as to road closings, traffic flow and incident data to consumers with compatible in-vehicle navigation systems. At September 30, 2021, Sirius XM had approximately 8,886 traffic users, a decrease of 544 users, or 6%, from the approximately 9,430 traffic users as of September 30, 2020.

Sirius XM Canada Subscribers. At September 30, 2021, Sirius XM Canada had approximately 2,262 subscribers, a decrease of 350, or 13%, from the approximately 2,612 Sirius XM Canada subscribers as of September 30, 2020.

Average Self-pay Monthly Churn is derived by dividing the monthly average of self-pay deactivations for the period by the average number of self-pay subscribers for the period. (See accompanying glossary on pages 48 through 51 for more details.)

For the three months ended September 30, 2021 and 2020, our average self-pay monthly churn rate was 1.5% and 1.7%, respectively. For the nine months ended September 30, 2021 and 2020, our average self-pay monthly churn rate was 1.6% and 1.7%, respectively. The decrease for the three month period was driven by lower vehicle related churn. The decrease for the nine month period was driven by lower non-pay churn and voluntary churn.

ARPU is derived from total earned Sirius XM subscriber revenue (excluding revenue derived from our connected vehicle services) and net advertising revenue, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. (See the accompanying glossary on pages 51 through 54 for more details.)

For the three months ended September 30, 2021 and 2020, subscriber ARPU - Sirius XM was \$14.84 and \$14.15, respectively. For the nine months ended September 30, 2021 and 2020, subscriber ARPU - Sirius XM was \$14.57 and \$14.02, respectively. The increases were driven by an increase in certain subscription rates and the U.S. Music Royalty Fee and the decline in paid trials as well as higher advertising revenue as we continue to recover to pre-COVID-19 levels.

SAC, Per Installation, is derived from subscriber acquisition costs and margins from the sale of radios, components and accessories (excluding connected vehicle services), divided by the number of satellite radio installations in new vehicles and shipments of aftermarket radios for the period. (See the accompanying glossary on pages 48 through 51 for more details.)

For the three months ended September 30, 2021 and 2020, SAC, per installation, was \$13.66 and \$20.98, respectively. For the nine months ended September 30, 2021 and 2020, SAC, per installation, was \$13.14 and \$20.49, respectively. The decreases were driven by reductions to OEM hardware subsidy rates.

Pandora

Monthly Active Users. At September 30, 2021, Pandora had approximately 52,618 monthly active users, a decrease of 5,965 monthly active users, or 10%, from the 58,583 monthly active users as of September 30, 2020. The decrease in monthly active users was driven by a decline in the number of new users.

Subscribers. At September 30, 2021, Pandora had approximately 6,523 subscribers, an increase of 119, or 2%, from the approximately 6,404 subscribers as of September 30, 2020.

For the three months ended September 30, 2021 and 2020, net subscriber additions were (55) and 102, respectively. For the nine months ended September 30, 2021 and 2020, net subscriber additions were 181 and 190, respectively. The decreases were driven by a decline in trial starts, partially offset by lower churn.

ARPU is defined as average monthly revenue per paid subscriber on our Pandora subscription services. (See the accompanying glossary on pages 48 through 51 for more details.)

For the three months ended September 30, 2021 and 2020, subscriber ARPU - Pandora was \$6.70 and \$6.83, respectively. For the nine months ended September 30, 2021 and 2020, subscriber ARPU - Pandora was \$6.68 and \$6.79, respectively. The decreases in subscriber ARPU were primarily due to a change in the mix of Pandora's premium plans.

Ad supported listener hours are a key indicator of our Pandora business and the engagement of our Pandora listeners. We include ad supported listener hours related to Pandora's non-radio content offerings in the definition of listener hours.

For the three months ended September 30, 2021 and 2020, ad supported listener hours were 2,890 and 3,120, respectively. For the nine months ended September 30, 2021 and 2020, ad supported listener hours were 8,780 and 9,530, respectively. The decreases in ad supported listener hours were primarily driven by the decline in monthly active users, partially offset by higher hours per active user.

RPM is a key indicator of our ability to monetize advertising inventory created by our listener hours on the Pandora services. Ad RPM is calculated by dividing advertising revenue by the number of thousands of listener hours of our Pandora advertising-based service.

For the three months ended September 30, 2021 and 2020, RPM was \$109.02 and \$84.46, respectively. For the nine months ended September 30, 2021 and 2020, RPM was \$98.44 and \$68.83, respectively. The increases were the result of higher sell-through and pricing increases in advertising implemented by Pandora.

LPM is tracked for our non-subscription, ad-supported service across all Pandora delivery platforms. The content acquisition costs included in our ad LPM calculations are based on the rates set by our license agreements with record labels, performing rights organizations and music publishers or the applicable rates set by the Copyright Royalty Board if we have not entered into a license agreement with the copyright owner of a particular sound recording.

For the three months ended September 30, 2021 and 2020, LPM was \$51.08 and \$40.16, respectively. For the nine months ended September 30, 2021 and 2020, LPM was \$46.93 and \$38.11, respectively. The increases were primarily due to the provisions of certain direct licenses between Pandora and the owners of copyrights in sound recordings which require Pandora, under certain circumstances, to pay royalties on the greater of a percentage of its applicable revenue or a per play per consumer basis as well as higher statutory webcasting royalty rates.

LPU is defined as average monthly licensing costs per paid subscriber on our Pandora subscription services. LPU is a key measure of our ability to manage costs for our subscription services.

For the three months ended September 30, 2021 and 2020, LPU was \$4.16 and \$4.19, respectively. For the nine months ended September 30, 2021 and 2020, LPU was \$4.18 and \$4.12, respectively. The decrease for the three month period was driven by lower publisher rates. The increase for the nine month period was due to lower minimum guarantees during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2021.

Total Company

Adjusted EBITDA. Adjusted EBITDA is defined as net income before interest expense, income tax expense and depreciation and amortization. Adjusted EBITDA excludes the impact of other expense (income), loss on extinguishment of debt, other non-cash charges, such as certain purchase price accounting adjustments, share-based payment expense, legal settlements and reserves, and impairment, restructuring and acquisition costs (if applicable). (See the accompanying glossary on pages 48 through 51 for a reconciliation to GAAP and for more details.)

For the three months ended September 30, 2021 and 2020, adjusted EBITDA was \$719 and \$661, respectively, an increase of 9%, or \$58. For the nine months ended September 30, 2021 and 2020, adjusted EBITDA was \$2,101 and \$1,915, respectively, an increase of 10%, or \$186. The increases were driven by higher advertising and subscriber revenue as well as lower subscriber acquisition costs, partially offset by higher revenue share and royalties, sales and marketing, programming, and personnel-related costs.

Free Cash Flow includes cash provided by operations, net of additions to property and equipment, and restricted and other investment activity. (See the accompanying glossary on pages 48 through 51 for a reconciliation to GAAP and for more details.)

For the three months ended September 30, 2021 and 2020, free cash flow was \$588 and \$361, respectively, an increase of \$227, or 63%. For the nine months ended September 30, 2021 and 2020, free cash flow was \$1,349 and \$1,212, respectively, an increase of \$137 or 11%. The increases were primarily driven by satellite insurance recoveries and growth in cash generated by operations, partially offset by higher spending on property and equipment and a decrease in deferred revenue driven by a shift to shorter term self-pay and trial subscriptions as well as a shift to free trials at certain automakers.

Liquidity and Capital Resources

Cash Flows for the nine months ended September 30, 2021 compared with the nine months ended September 30, 2020.

The following table presents a summary of our cash flow activity for the periods set forth below:

	For the Nine Months Ended September 30,		2021 vs 2020
	2021	2020	Amount
Net cash provided by operating activities	\$ 1,292	\$ 1,345	(53)
Net cash used in investing activities	(50)	(344)	294
Net cash used in financing activities	(1,153)	(1,077)	(76)
Net increase (decrease) in cash, cash equivalents and restricted cash	89	(76)	165
Cash, cash equivalents and restricted cash at beginning of period	83	120	(37)
Cash, cash equivalents and restricted cash at end of period	\$ 172	\$ 44	\$ 128

Cash Flows Provided by Operating Activities

Cash flows provided by operating activities decreased by \$53 to \$1,292 for the nine months ended September 30, 2021 from \$1,345 for the nine months ended September 30, 2020.

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

Cash Flows Used in Investing Activities

Cash flows used in investing activities in the nine months ended September 30, 2021 were primarily due to spending primarily for capitalized software and hardware, and to construct a replacement satellite, partially offset by proceeds collected from satellite insurance policies associated with SXM-7. Cash flows used in investing activities in the nine months ended September 30, 2020 were primarily due to our \$75 investment in SoundCloud, the acquisition of Simplecast for \$28, spending for capitalized software and hardware, and to construct replacement satellites. We spent \$172 and \$167 on capitalized software and hardware as well as \$39 and \$36 to construct replacement satellites during the nine months ended September 30, 2021 and 2020, respectively.

Cash Flows Used in Financing Activities

Cash flows used in financing activities consists of the issuance and repayment of long-term debt, the purchase of common stock under our share repurchase program, the payment of cash dividends and taxes paid in lieu of shares issued for stock-based compensation. Proceeds from long term debt have been used to fund our operations, construct and launch new satellites, invest in other infrastructure improvements and purchase shares of our common stock.

Cash flows used in financing activities in the nine months ended September 30, 2021 were primarily due to the redemptions of our 3.875% Senior Notes due 2022 for \$1,019, 4.625% Senior Notes due 2024 for \$1,541 and 5.375% Senior Notes due 2026 for \$1,034, the purchase and retirement of shares of Holdings' common stock under Holdings' repurchase program for \$1,174, the payment of cash dividends of \$180 on Holdings' common stock, and the repayment of borrowings under our Credit Facility of \$654; partially offset by the issuance of \$2,000 in aggregate principal amount of 4.00% Senior Notes due 2028, \$1,000 in aggregate principal amount of the 3.125% Senior Notes due 2026, and \$1,500 in aggregate principal

amount of the 3.875% Senior Notes due 2031. Cash flows used in financing activities in the nine months ended September 30, 2020 were primarily due to the redemption of our 4.625% Senior Notes due 2023 in the aggregate amount of \$507 and our 5.375% Senior Notes due 2025 in the aggregate amount of \$1,039, the purchase and retirement for \$870 of shares of Holdings' common stock under Holdings' repurchase program and the payment of cash dividends of \$175 on Holdings' common stock; partially offset by the issuance of \$1,481 in aggregate principal amount of Sirius XM's 4.125% Senior Notes due 2030, net of costs.

Future Liquidity and Capital Resource Requirements

Based upon our current business plans, we expect to fund operating expenses, capital expenditures, including the construction of replacement satellites, 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. As of September 30, 2021, no amounts were outstanding under our Credit Facility. As the amount available for future borrowing is reduced by \$1 related to letters of credit issued for the benefit of Pandora, \$1,749 was available for future borrowing under our Credit Facility. We believe that we have sufficient cash and cash equivalents, as well as debt capacity, to cover our estimated short-term and long-term funding needs, including amounts to construct, launch and insure replacement satellites, as well as fund Holdings' future stock repurchases, future dividend payments on Holdings' common stock and to pursue 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 development and introduction of new features or services; significant new or enhanced distribution arrangements; investments in infrastructure, such as satellites, equipment or radio spectrum; and acquisitions and investments, including acquisitions and investments that are not directly related to our existing business.

We may from time to time purchase our outstanding debt through open market purchases, privately negotiated transactions or otherwise. Purchases or retirement of debt, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Holdings' Capital Return Program

As of September 30, 2021, Holdings' board of directors had authorized for repurchase an aggregate of \$18,000 of Holdings' common stock. As of September 30, 2021, Holdings' cumulative repurchases since December 2012 under Holdings' stock repurchase program totaled \$15,576, and \$2,424 remained available for additional repurchases under Holdings' existing stock repurchase program authorization.

Shares of common stock may be purchased from time to time on the open market and in privately negotiated transactions, including in accelerated stock repurchase transactions and transactions with Liberty Media and its affiliates. We intend to fund the additional repurchases through a combination of cash on hand, cash generated by operations and future borrowings. The size and timing of any purchases will be based on a number of factors, including price and business and market conditions.

On October 25, 2021, Holdings' board of directors declared a quarterly dividend on Holdings' common stock in the amount of \$0.0219615 per share of Holdings' common stock payable on November 29, 2021 to Holdings' stockholders of record as of the close of business on November 5, 2021. Holdings' board of directors expects to declare regular quarterly dividends, in an aggregate annual amount of \$0.087846 per share of Holdings' common stock.

Debt Covenants

The indentures governing our senior notes and Pandora's convertible notes and the agreement governing the Credit Facility include restrictive covenants. As of September 30, 2021, we were in compliance with such covenants. For a discussion of our "Debt Covenants," refer to Note 12 to our unaudited consolidated financial statements in this Quarterly Report.

Off-Balance Sheet Arrangements

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

Contractual Cash Commitments

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

Related Party Transactions

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

On February 1, 2021, Holdings entered into a tax sharing agreement with Liberty Media governing the allocation of consolidated U.S. income tax liabilities and setting forth agreements with respect to other tax matters. The tax sharing agreement was negotiated and approved by a special committee of Holdings’ board of directors, all of whom are independent of Liberty Media.

Under the Internal Revenue Code, two corporations may form a consolidated tax group, and file a consolidated federal income tax return, if one corporation owns stock representing at least 80% of the voting power and value of the outstanding capital stock of the other corporation. As of September 30, 2021, Liberty Media beneficially owned, directly and indirectly, approximately 79% of the outstanding shares of our common stock. We expect that Liberty Media could beneficially own, directly and indirectly, over 80% of the outstanding shares of our common stock in the fourth quarter of 2021, and Holdings and Liberty Media would then become members of the same consolidated tax group. Should that happen, the tax sharing agreement would govern certain matters related to the resulting consolidated federal income tax returns, as well as state and local returns filed on a consolidated or combined basis.

The tax sharing agreement contains provisions that Holdings believes are customary for tax sharing agreements between members of a consolidated group. The tax sharing agreement and our inclusion in Liberty Media’s consolidated tax group is not expected to have any material adverse effect on us.

Critical Accounting Policies and Estimates

For a discussion of our “Critical Accounting Policies and Estimates,” refer to “Management's Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report for the year ended December 31, 2020. There have been no material changes to our critical accounting policies and estimates since December 31, 2020.

Glossary

Monthly active users - the number of distinct registered users on the Pandora services, including subscribers, which have consumed content within the trailing 30 days to the end of the final calendar month of the period. The number of monthly active users on the Pandora services may overstate the number of unique individuals who actively use our Pandora service, as one individual may use multiple accounts. To become a registered user on the Pandora services, a person must sign-up using an email address or phone number, or access our service using a device with a unique identifier, which we use to create an account for our service.

Average self-pay monthly churn - the Sirius XM monthly average of self-pay deactivations for the period divided by the average number of self-pay subscribers for the period.

Adjusted EBITDA - EBITDA is defined as net income before interest expense, income tax expense and depreciation and amortization. We adjust EBITDA to exclude the impact of other expense (income) as well as certain other charges discussed below. Adjusted EBITDA is a Non-GAAP financial measure that excludes or adjusts for (if applicable): (i) certain adjustments as a result of the purchase price accounting for the XM Merger and the Pandora Acquisition, (ii) share-based payment expense, (iii) impairment, restructuring and acquisition costs, (iv) legal settlements/reserves and (v) other significant operating expense (income) that do not relate to the on-going performance of our business. 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 capital structure and purchase price accounting.

We believe investors find this Non-GAAP financial measure useful when analyzing our past operating performance with our current performance and comparing our operating performance to the performance of other communications, entertainment and media companies. We believe investors use adjusted EBITDA to estimate our current enterprise value and to make investment decisions. As a result of large capital investments in our satellite radio system, our results of operations reflect significant charges for depreciation expense. We believe the exclusion of share-based payment expense is useful as it is not directly related to the operational conditions of our business. We also believe the exclusion of the legal settlements and reserves, impairment, restructuring and acquisition related costs, and loss on extinguishment of debt, to the extent they occur during the period, is useful as they are significant expenses not incurred as part of our normal operations for the period.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income:	\$ 355	\$ 280	\$ 999	\$ 837
Add back items excluded from Adjusted EBITDA:				
Legal settlements and reserves	—	—	—	(16)
Impairment, restructuring and acquisition costs	(95)	—	13	24
Share-based payment expense ⁽¹⁾	51	58	149	165
Depreciation and amortization	135	125	399	381
Interest expense	109	93	308	291
Loss on extinguishment of debt	83	40	83	40
Other income	(9)	(7)	(5)	(37)
Income tax expense	90	72	155	230
Purchase price accounting adjustments:				
Revenues	—	2	—	6
Operating expenses	—	(2)	—	(6)
Adjusted EBITDA	\$ 719	\$ 661	\$ 2,101	\$ 1,915

(1) Allocation of share-based payment expense:

(in millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Programming and content	\$ 8	\$ 9	\$ 24	\$ 24
Customer service and billing	2	1	5	4
Transmission	1	1	4	4
Sales and marketing	15	17	43	50
Engineering, design and development	9	11	26	31
General and administrative	16	19	47	52
Total share-based payment expense	\$ 51	\$ 58	\$ 149	\$ 165

Free cash flow - is derived from cash flow provided by operating activities plus insurance recoveries on our satellites, net of additions to property and equipment and purchases of other investments. 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 exclude from free cash flow certain items that do not relate to the on-going performance of our business, such as cash flows related to acquisitions, strategic and short-term investments, and net loan activity with related parties and other equity investees. We believe free cash flow is an indicator of the long-term financial stability of our business. Free cash flow, which is reconciled to “Net cash provided by operating activities,” is a Non-GAAP financial measure. This measure can be calculated by deducting amounts under the captions “Additions to property and equipment” and deducting or adding Restricted and other investment activity from “Net cash provided by operating activities” from the unaudited consolidated statements of cash flows. 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 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. Free cash flow is calculated as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Cash Flow information				
Net cash provided by operating activities	\$ 409	\$ 390	\$ 1,292	\$ 1,345
Net cash used in investing activities	123	(79)	(50)	(344)
Net cash used in financing activities	(1,492)	(2,048)	(1,153)	(1,077)
Free Cash Flow				
Net cash provided by operating activities	409	390	1,292	1,345
Equity-related transactions for Holdings ^(a)	51	53	79	105
Additions to property and equipment	(80)	(81)	(244)	(230)
Purchases of other investments	—	(1)	(3)	(8)
Satellite insurance recoveries	208	—	225	—
Free cash flow	<u>\$ 588</u>	<u>\$ 361</u>	<u>\$ 1,349</u>	<u>\$ 1,212</u>

- (a) Subsequent to our corporate reorganization in November 2013, certain equity-related transactions are reported as related party transactions within our unaudited consolidated statements of cash flows. For the nine months ended September 30, 2021, this included \$88 for taxes paid in lieu of shares issued for stock-based compensation, \$6 for the change in treasury shares, proceeds of \$6 of proceeds from the exercise of stock options, and deferred equity consideration related to a small acquisition of \$(3). For the nine months ended September 30, 2020, this included payments of \$81 for taxes paid in lieu of shares issued for stock-based compensation and \$(24) for the change in treasury shares. These equity-related transactions are classified as Cash flows used in financing activities within Holdings' consolidated statements of cash flows, and therefore, are adjusted to reflect free cash flow at Sirius XM.

ARPU - Sirius XM ARPU is derived from total earned subscriber revenue (excluding revenue associated with our connected vehicle services) and advertising revenue, divided by the number of months in the period, divided by the daily weighted average number of subscribers for the period. Pandora ARPU is defined as average monthly subscriber revenue per paid subscriber on our Pandora subscription services.

Subscriber acquisition cost, per installation - or SAC, per installation, is derived from subscriber acquisition costs less margins from the sale of radios and accessories (excluding connected vehicle services), divided by the number of satellite radio installations in new vehicles and shipments of aftermarket radios for the period. SAC, per installation, is calculated as follows:

	For the Three Months Ended September		For the Nine Months Ended September	
	2021	2020	2021	2020
Subscriber acquisition costs, excluding connected vehicle services	\$ 71	\$ 110	\$ 245	\$ 257
Less: margin from sales of radios and accessories, excluding connected vehicle services	(37)	(43)	(137)	(101)
	\$ 34	\$ 67	\$ 108	\$ 156
Installations	2,446	3,212	8,237	7,615
SAC, per installation ^(a)	\$ 13.66	\$ 20.98	\$ 13.14	\$ 20.49

(a) Amounts may not recalculate due to rounding.

Ad supported listener hours - is based on the total bytes served over our Pandora advertising supported platforms for each track that is requested and served from our Pandora servers, as measured by our internal analytics systems, whether or not a listener listens to the entire track. For non-music content such as podcasts, episodes are divided into approximately track-length parts, which are treated as tracks. To the extent that third-party measurements of advertising hours are not calculated using a similar server-based approach, the third-party measurements may differ from our measurements.

RPM - is calculated by dividing advertising revenue, excluding AdsWizz and other off-platform revenue, by the number of thousands of listener hours on our Pandora advertising-based service.

LPM - is calculated by dividing advertising licensing costs by the number of thousands of listener hours on our Pandora advertising-based service.

LPU - is calculated by dividing subscriber licensing costs by the number of paid subscribers on our Pandora subscription services.